QUALITY Ⓐ
made by AAREAL

In motion.
By conviction.

Annual Report 2015

Aareal Bank Group

Aareal Bank Group in 60 seconds

Antje Krutinat, Facility Management

We are a leading international provider of financing solutions and services, with a special focus on the property industry. We support our clients with tailor-made and flexible solutions for financing their international property investments – in particular, office buildings, hotels, shopping centres, logistics and residential properties – in North America, Asia and Europe. Moreover, we offer state-of-the-art banking and software solutions and innovative digital services that help them manage and run their European properties more efficiently, enabling them with greater focus on their own clients, while enhancing integration of property management with adjoining sectors.

The secret to our success is global expertise combined with a long-standing, close cooperation with the industry, local experts and our clients. We look beyond the traditional banking business, and this allows us to reliably assess important trends, risks and opportunities at an early stage. As a medium-sized enterprise, we are able to react quickly to new developments.

2,861

employees from over 30 countries

51.9

€ bn consolidated total assets

QUALITY Ⓐ made by AAREAL

In motion.
By conviction.

To produce convincing quality in a world of change requires continuous improvement: you need to recognise your clients' latest needs, keep moving, and act quickly. You need to understand trends, pick up stimuli and quickly implement new developments. That is the way we work. The motto for our 2015 Annual Report is therefore ”In motion. By conviction“.

We are an agile enterprise, with dedicated employees searching for an even better solution every day, who understand maximum quality as a promise to their clients – each and every day. With smartly-connected, tailor-made solutions and dynamic action, we can seize opportunities and set standards. Evidence of our innovative strength comes through new products, new services, the use of digitalisation and increasingly more efficient structures.

Our strength lies in being in motion, and we foster this strength. By conviction.

Our newly-designed online annual report is available on www.ar2015.aareal-bank.com

Contents

Aareal Bank Group – Key Indicators

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Results		
Operating profit (€ mn)	470	436
Consolidated net income (€ mn)	374	335
Consolidated net income allocated to ordinary shareholders (€ mn)[1]	339	292
Cost/income ratio (%)[2]	43.2	36.2
Dividend per share (€)[3]	1.65	1.20
Earnings per ordinary share (€)[1]	5.66	4.87
RoE before taxes (%)	18.6	18.5
RoE after taxes (%)	14.7	14.1

	31 Dec 2015	31 Dec 2014
Statement of financial position		
Property finance (€ mn)[4]	30,894	28,987
of which: international (€ mn)	25,243	22,894
Equity (€ mn)	3,044	2,723
Total assets (€ mn)	51,948	49,557
Regulatory indicators[5]		
Risk-weighted assets (€ mn)	16,709	15,492
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
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	13.1	12.9
Employees	2,861	2,548

	31 Dec 2015	31 Dec 2014
Ratings		
Fitch Ratings, London		
long-term[6]	BBB+ (Outlook: stable)	A- (Outlook: negative)
short-term[6]	F2	F1
Fitch Pfandbrief ratings	AAA	AAA
Sustainability[7]		
oekom	prime (C)	prime (C)
Sustainalytics	68	61

[1] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
[2] Structured Property Financing segment only
[3] Proposal to be submitted to the Annual General Meeting
[4] Excluding € 1.5 billion in private client business and € 0.6 billion in local authority lending business by Westdeutsche ImmobilienBank AG (WestImmo).
[5] The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of profits for the financial year 2015. The appropriation of profits is subject to approval by the Annual General Meeting.
[6] 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 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+ 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.
[7] Please refer to our Sustainability Report for more details.

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

An interview 〉〉〉〉〉〉〉〉〉

”We seize ***opportunities.“***

Hermann J. Merkens on the future of Aareal Bank Group

01 Mr Merkens, what does Aareal Bank Group stand for?
We are a company with a mid-sized structure and two strong segments. On the one hand, our Structured Property Financing segment provides clients from the commercial property industry with financing solutions that precisely fit their needs. And the Consulting / Services segment on the other hand provides clients from the property industry – in particular from the housing and commercial property industries – with payment transaction solutions and IT services, the latter via our subsidiary Aareon AG. In both segments, we are determined to be the best provider, both in terms of quality and in terms of client focus.

Aareal Bank Group also stands for solidity, reliability and predictability – on the inside, to our employees, and on the outside, with regard to the capital markets. This is evident not least in our promise to shareholders. We want them to participate in the Bank's economic success, on a sustainable basis, by paying an attractive dividend.

02 What will define, what will shape the future of Aareal Bank Group?

The banking sector as a whole – including Aareal Bank, of course – is operating in a challenging environment, marked by several trends: competition has intensified and increased pressure on margins. Then there is technological change, which also changes the needs of our clients. The level of volatility prevailing in the financial markets remains high, and there are more and more geo-political conflicts. And, last but not least, we need to cope with historically low interest rates and further tightened regulation. The challenge is dealing with all of these imponderabilities and uncertainty factors at the same time – this is what we need to be prepared for. In this highly dynamic environment, it is all the more important that we pay attention to our tried-and-tested risk management approach, which will continue to define the guiding lines for our business in the future.

03 Sounds like quite a challenge...

It is, but it is not only the environment shaping our future, but also us defining our future in this environment. We believe that where there are challenges, there are opportunities – at least for those organisations that are willing to change and know how to play to their strengths.

Aareal Bank is that kind of organisation. We are in a robust shape, as shown, amongst other things, with another set of excellent results in the past financial year. We are powerful and fully capable of taking strategic action.

Our sustainable business model provides a strong foundation. It has allowed us to assume leadership positions for both of our segments over recent years. What is just as important as a strong business model, however, are the people. We are fortunate enough to work with a team that knows how to spot opportunities – and is ready to seize them when they present themselves. A team that is willing to change, and able to deliver the highest quality for our clients, and our shareholders.

That is why I am confident that, even in a more challenging environment, we will continue to be successful and seize the opportunities that will arise in the years ahead.

›››

04 How are you planning to seize the opportunities that lie ahead?

First of all, we already are a very successful company! And our "Aareal 2020 – Adjust. Advance. Achieve." programme for the future will help us ensure that we will continue to be successful.

But we also know that, against the background I just described, it is not going to be easy. However, that does not mean that we need to reinvent ourselves. Instead, our programme will develop our business model further. We want to leverage digitalisation and seize the opportunities this trend entails for our business and for our clients. We will unlock new growth potential in attractive markets, in particular for Aareon, our IT subsidiary. And although we already are fast and efficient, we will continue to improve our structures and processes, and shift gear going forward.

With Aareal 2020, we are safeguarding the success of our Bank in the future – in the interests of our employees, our clients, and – of course – our shareholders. With a return on equity of approximately 12 % – a mark we are even aiming to slightly exceed in the long term – and a dynamic distribution policy, Aareal Bank will continue to be an attractive investment. For the coming years, we are planning to gradually increase dividends and distribution ratios, provided that the economic environment does not deteriorate drastically – or offer such big opportunities that would require us to increase investments in our own business in order to create value for our shareholders.

05 What are your plans for both segments in the coming years?

As I said, there is no need to reinvent ourselves. With Aareal 2020, we will hold on to what makes us strong and at the same time leverage new potential in the environment of both segments.

In our Structured Property Financing segment, for example, we aim at reinforcing its expansion in growing markets that offer an attractive risk-return profile, managing our portfolio more actively, and gaining balance sheet relief through increasing placements. We also plan *to create new digital business opportunities. The goal of these measures is to ensure that the Structured Property Financing segment remains the Group's solid foundation.*

In our Consulting/Services segment, we want to leverage the solid foundation it has built over recent years for future growth – through increased cross-border sales activity, additional products for ERP systems and digital offerings for the housing industry. The business with utilities, which we have been building quite successfully for some time now, is set for expansion. The Consulting/Services segment will be developed as the growth driver of our Group.

06 What are your coordinates for digitalisation in the Structured Property Financing segment?

Digitalisation is a buzz word, often meaning everything or nothing at all. We are monitoring the effects of digital trends very closely – how they affect society, but also the banking sector and our own business. Digitalisation should not be an end in itself, and that is why the question we ask ourselves is not one of technical feasibility, but of sense: what makes sense for our clients, and for our processes?

Bearing this in mind, digitalisation may mean very different things for us as well. Our take on commercial property finance, for instance, is usually a highly specialised and customised solution for a particular case, based on specific expertise. This requires intensive discussions and negotiations with the client – on a personal, not a digital level. Still, when interacting with a client, digitalisation may be a good opportunity to increase efficiency for both sides. And digital solutions may help us generate additional commission income as we apply our specific know-how to new offerings along the financing value chain.

07 What about the Consulting/Services segment?

Things are different here. In this segment, digitalisation is part of our DNA. Here it is more about promoting digital developments – with issues such as managing the handover of flats, smart metering, or services covering electronic billing and payment transactions.

Our goal is to leverage the benefits of digitalisation to support our clients in streamlining internal processes, whilst enhancing and broadening connectivity with their customers. This means creating benefits and optimising our own processes. Overall, with "Aareal 2020", we want to leverage the Group's excellent foundation for future growth, to generate new business opportunities and unlock fresh revenue potential.

08 Where do you see Aareal Bank Group in five years' time?

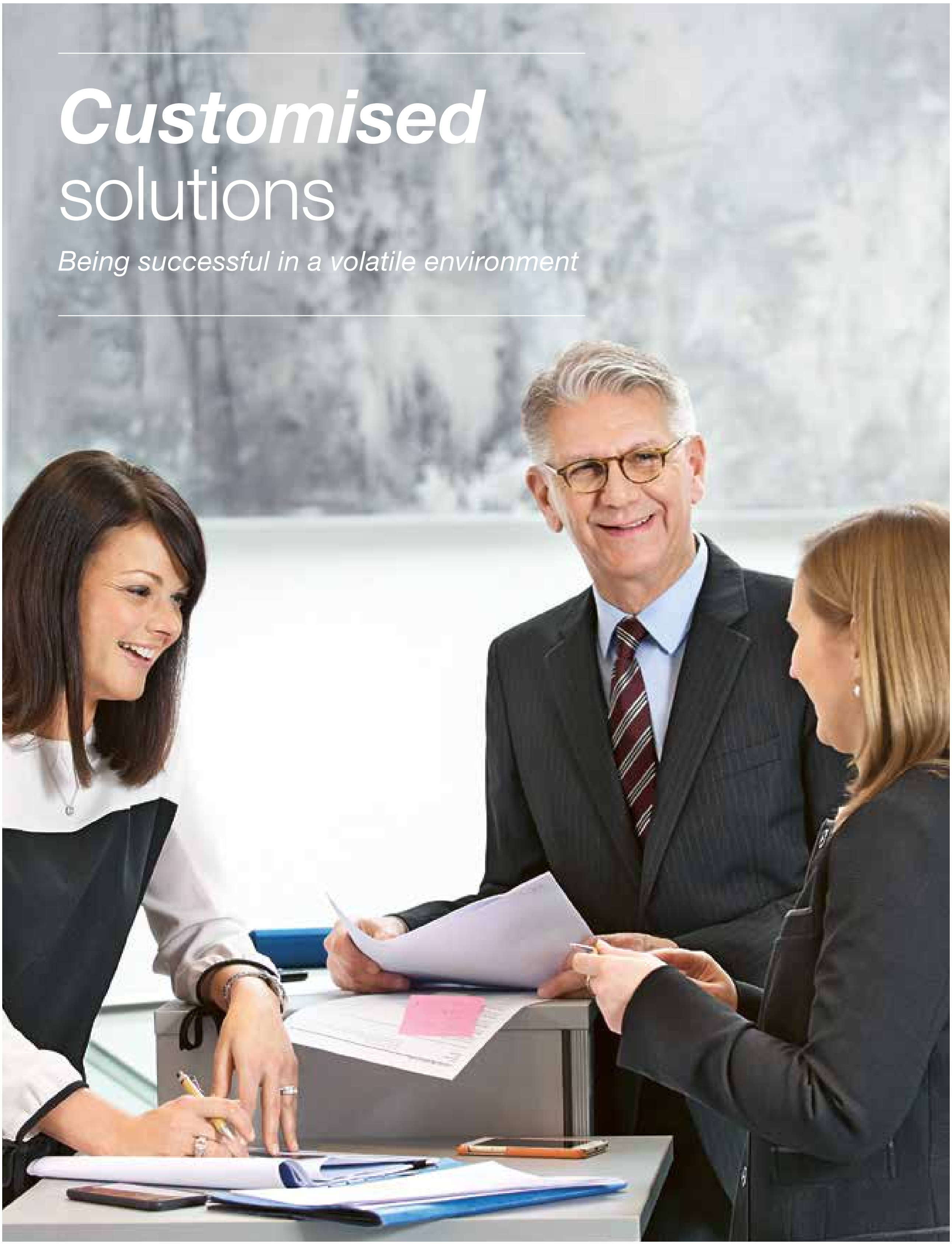
Our goal is clear: we want to continue writing the success story for Aareal Bank. Nothing more, and nothing less. And with the record results of the past years, a consistent client focus – which has helped us gain our leadership position in the market – and the "Aareal 2020" programme for the future, we have created ideal preconditions for achieving that goal.

I am convinced that by the time 2020 comes around, the general outline of Aareal Bank Group will not have changed. But it will be a more innovative Bank, even more agile than it is today – because we see change as creating opportunity. And – as we have consistently done in the past – we shall pursue those opportunities as and when they present themselves. This year's Annual Report outlines how we want to leverage the strong foundation of our two business segments to go forward. And we invite you to join us on this journey.

A video interview with Hermann J. Merkens on this topic can be found under www.ar2015.aareal-bank.com

Customised solutions

Being successful in a volatile environment



Bettina Graef-Parker, Special Property Finance; Ulf Ekelius, Credit Management; Beate Wunderlich, Business & Syndication Management

”Our local presence helps us understand the property markets in North America, Asia, and Europe. Being familiar with local conditions, and possessing extensive industry experience, together enable us to reliably assess risks, and to structure loans in a flexible manner.“

Bettina Graef-Parker, Special Property Finance

”Our mid-sized structure allows fast decision-making. Our tailor-made financing solutions thus allow our clients to exploit opportunities anywhere in the world – as soon as they arise.“

Ulf Ekelius, Credit Management

”We understand our clients’ needs, delivering solutions for a market environment becoming ever more volatile and shaped by regulation. Our partnership does not end when things get difficult.“

Beate Wunderlich, Business & Syndication Management

Quality has many faces.

We are committed to improvement, and strive to get better every day. This requires being agile, in many ways.

Openness and dialogue. We are driven by our clients‘ needs. To constantly improve our understanding of what they need, we maintain a continuous, intensive dialogue with them, building on many years of trusting support across different cycles. The results are customised financing concepts, solutions tailored to each client‘s specific needs, and advice provided face to face.

Curiosity and innovative strength. We look beyond the traditional banking business, and identify important trends, risks and opportunities early on. To make the most out of this, for our clients, staff and shareholders – this is our task.

Flexibility and speed. As a business with mid-sized structures, we are flexible and have the ability to quickly adapt our products, services and business processes, in order to respond to changed client needs and market developments at an early stage.

Sector expertise. Our financing experts know the sectors they cover inside out – be it hotels, logistics properties, or shopping centres. They have a proven track record in assessing and valuing the location and sustainable quality of a property.

International know-how. We have a deep understanding of the markets in which we are active. In Europe, North America and Asia, we focus on developed markets with a favourable risk/return profile.

Risk awareness. Close attention to opportunities and risks, combined with local market expertise and extensive sector know-how – this is how we ensure a comprehensive assessment of a property, or a financing.

Zest for new directions. We make fast decisions, acting swiftly – with the courage to seek new directions.

Customised solutions 〉〉〉〉〉〉〉〉〉

Joining forces to win

Expertise and flexibility are decisive

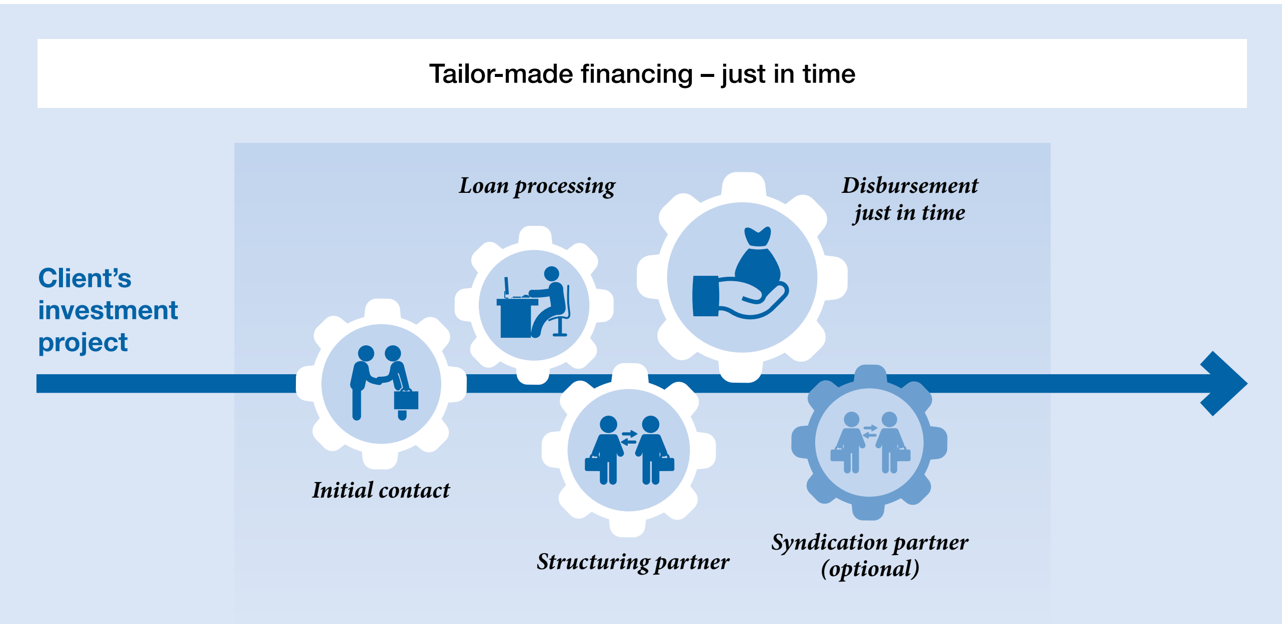
Our special structuring expertise is our unique selling proposition.

Markets are changing at an ever-increasing pace. This is why financing properties and portfolios is more than just granting a loan: our clients' success crucially depends upon their ability to gain an edge in their respective market. We help them exploit opportunities in a timely fashion because we understand their business, and by leveraging our broad-based expertise in order to come up with the solution they need – just in time.

What sets us apart is our structuring expertise. This comprises:

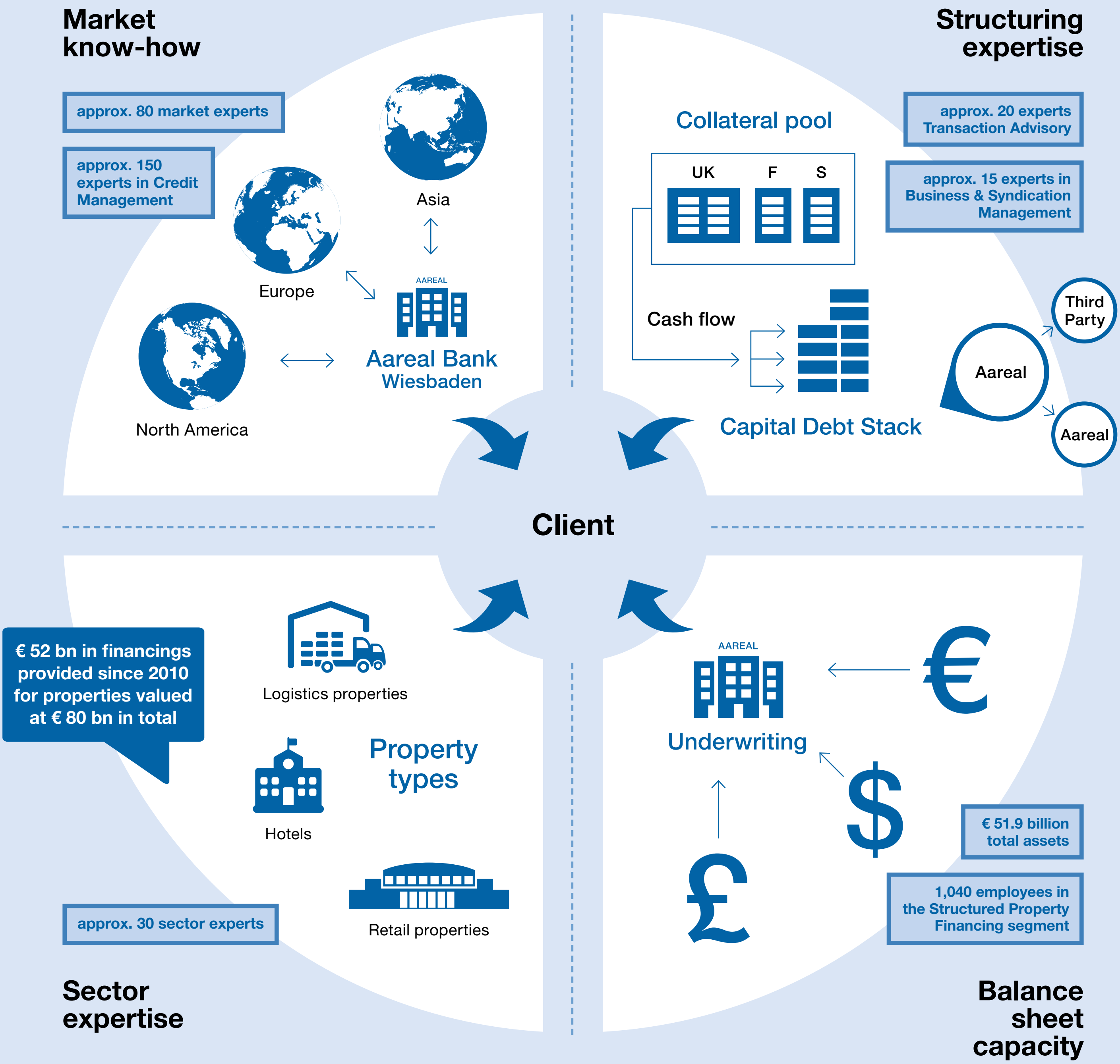
- **management solutions;**
- **portfolio financings;**
- **cross-border financings;**
- **multi-currency financings; and**
- **our underwriting capacity.**

We have many years of experience in structuring financings. By coordinating these factors in line with our clients' needs – in terms of timing and content – we are strong in execution, predictable and powerful. These unique qualities ensure that commercial property finance will remain the robust foundation of our Group in the future: by expanding into markets offering growth potential, exploring new digital business opportunities with our clients, creating additional offers along the value creation chain in commercial property finance, and by further expanding our syndication activities.



Aareal Bank Group

Structured Property Financing segment



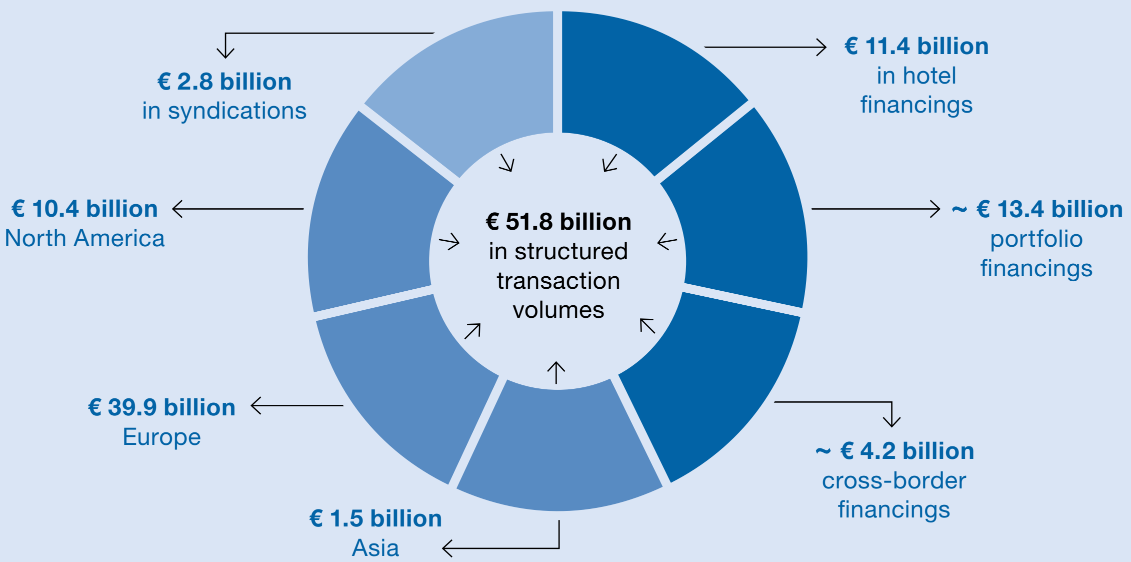
Success for our clients – how we use our expertise in a powerful manner

The ”North Star” transaction was a good example of our structuring expertise: with a volume of € 630 million, this transaction was not only one of the largest syndicated loans provided by banks and institutional investors in Europe – it was one of the largest financings to date extended by a German insurance company in this market segment. Yet structuring this loan was particularly challenging – not least given the different requirements of the partners involved, in terms of regulatory issues, the funding base, and the collateralisation concept. Nonetheless, we completed this complex, cross-border transaction within just three months.

Flexibility and extensive expertise were also critical for the ”Prime Europe Hotels” project, a cross-border financing of four premium hotels in prime locations. Specifically, the project included a complex collateralisation structure covering three different jurisdictions as well as an extensive renovation programme designed to further enhance the quality, long-term profitability, and competitiveness of the hotels. All this called for our extensive structuring expertise.

Aareal Bank also demonstrated efficiency, speed, and structuring expertise with the tailor-made financing for the ”Noda” office building in Issy-les-Moulineaux (Paris first ring). We provided the financing within a very short period of time, syndicating a part of the facility to a renowned German bank after closing the transaction – once again showcasing the quality of the financing and Aareal Bank’s placement power as a syndicating bank.

Aareal Bank Group’s new business and structured transaction volume (2010-2015)



Facts on international projects

1

Borrower: NorthStar Realty Finance Corp

Project: financing a pan-European portfolio of 11 office properties in important cities of seven of the most important European markets (Brussels, Belgium; Hamburg, Germany; Paris, France; London, UK; Milan, Italy; Amsterdam and Rotterdam, Netherlands; Gothenburg, Sweden).

Total value: € 1.1 billion

Loan: € 630 million. Syndicated share: € 365 million to Allianz Real Estate

Role of Aareal Bank: arranger, agent and lender

2

Borrower: Prime Europe Hotels (Benson Elliot Capital Management LLC, Walton Street Capital Management LLP, Algonquin SA)

Project: financing a portfolio of four hotels in top locations with a total of 1,000 rooms – in Milan, Venice, Paris and Nuremberg

Loan: € 215 million

Role of Aareal Bank: arranger, agent and lender

3

Borrower: SCI NODA

Project: financing an office building in Issy-les-Moulineaux (Paris first ring), for the account of a Primonial Reim fund

Loan: € 80.2 million. Syndicated share: € 40.1 million to a renowned German bank

Role of Aareal Bank: arranger, agent und lender

More information about our deals can be found under www.aareal-bank-deals.com

Smart networking › › › › › › › › › ›

Smart networking

Digital solutions that add value for each client group

Dr Peter Schaffner, Managing Director Housing Industry division; Christian Brückner, CEO Deutsche Bau- und Grundstücks-AG; Lars Ernst, Managing Director Consulting & Services; Sabine Fischer, Member of the Management Board Aareon AG; Dr Christian Fahrner, Managing Director Strategy & Development Consulting/Services

"Digitalisation provides us with great opportunities to keep growing with new, client-focused products."

Sabine Fischer, Member of the Management Board Aareon AG

"Our approach of networking the property management industry with other sectors has set new standards."

Dr Peter Schaffner, Managing Director
Housing Industry division

"We recognise new market trends – and their importance for our clients – ahead of our competitors."

Christian Brückner, CEO Deutsche Bau- und Grundstücks-AG

Exploiting the potential of digitalisation

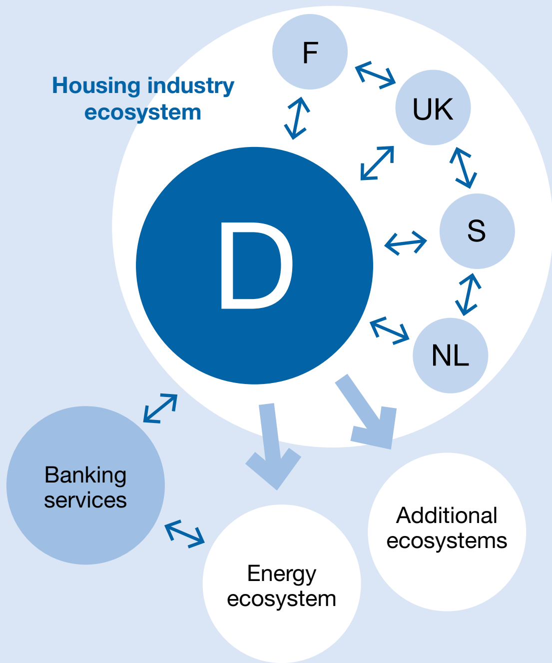
Connected living has increasingly become an aspect of everyday life, and the property industry is no exception, benefiting from digital solutions such as tenant portals, maintenance services or the mobile handover. Such offers not only streamline processes, enhancing efficiency of communications – they also make for satisfied tenants.

Aareal Bank Group enjoys a leading position in the digitalisation and networking of processes – combined with a deep understanding of our clients' needs. One of these is the wish for simplification, in a banking and IT environment becoming ever more complex. That is why we package banking and IT services from our portfolio, as complete solutions targeting specific client groups. In this way, we provide property advice, software and services – from a one-stop shop. Clients benefit from integrated systems seamlessly fitting into their own digital ecosystems, helping them to optimise their processes.

The focus of our business to date – the German housing, property and utility industries – has provided us with a strong foundation for further growth. We provide our clients in Germany with an integrated, ground-breaking portfolio of products and services, with our expertise in payment transactions, electronic banking and process-optimisation as the core element of this range. We are raising our international profile as a specialist provider to various client groups.

The next steps will be to develop our range of payment transaction services and IT products further, to also include smaller housing companies and managers, and to expand existing platform products facilitating management tasks of housing companies. We also plan to expand our "Housing Industry Ecosystem" – which we intend to use to expedite cross-border sales activity, or to develop additional products for ERP systems, as well as new digital product offers.

Housing industry ecosystem: blueprint for further growth



F = France, UK = United Kingdom, S = Scandinavia, NL = Netherlands

Smart networking 〉〉〉〉〉〉〉〉〉

Our ***Smart World*** for digital business processes

More comfort for housing companies, their business partners, and for tenants

Pioneering digital solutions for the property industry

Digitalisation offers immense potential for housing companies in particular. An increasing number of tenants use mobile services for quick and simple communications. They also expect their landlord to follow this trend – which we have addressed through a solutions system: the Smart World offered by Aareal Bank Group.

We are redesigning all housing-related processes with this digital, connected ecosystem, comprising advice, software and services. Our applications help property companies reduce costs; they facilitate new business models, and provide more comfort in the dialogue between tenants and staff members of housing industry companies. All key business processes – such as letting, customer service, or maintenance – are supported digitally and are available using mobile devices, via the exclusive Aareon Cloud. Moreover, the Smart World supports connectivity to numerous third-party applications.

All of these services and products are bundled with Aareal Bank Group, and are accessible for our clients from a single source. They include the development of IT solutions for property management, general property administration and the management of residential housing for the housing industry, offering a wide range of services that culminate in payment transaction solutions to optimise systems and business processes.

This creates marked efficiency gains for our housing industry clients – significantly enhancing service levels for their tenants. Examples for this include the option to report damages via mobile devices, 24 hours a day, or simple, comfortable mobile solutions for handling handover certificates and deposits when handing over apartments. Aareal Bank Group's Smart World makes life simpler.

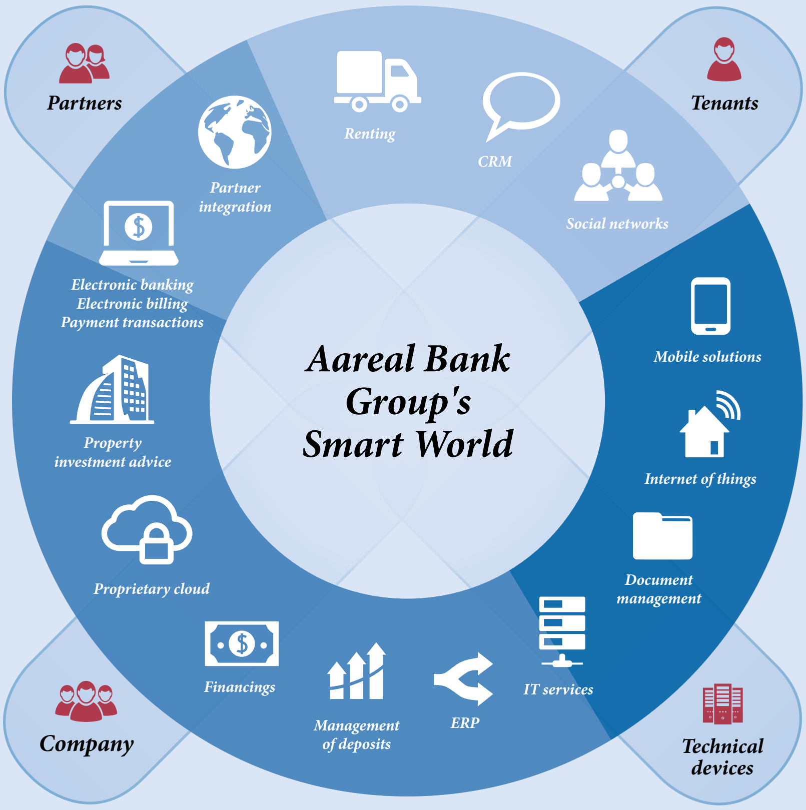
In future, we want to further expand our interfaces to other housing-related business partners. Moreover, we are determined to leverage our international presence to acquire additional know-how from the countries we are active in, and to integrate this into our portfolio of solutions.

Aareal Bank Group's Smart World: our range of solutions for process optimisation and networking of industries

Aareal Bank Group

Consulting/Services segment

Aareon Group	Aareal Bank Bank division Housing Industry
Consultancy and systems house to the European property industry	**Banking services** for the German housing and property industries, and for the energy utility and waste disposal industries



> 2,800 clients

> 1,300 employees

(Preliminary) **sales revenues of € 186.9 mn** (2015)

29 locations across Europe

Residential units managed by clients **> 10 mn**

> 3,200 clients

150 employees

€ 9.0 bn in deposits (2015 average)

Residential units managed by clients **> 7 mn**

Membership dues from cooperative members
Ancillary costs Rents
100 million postings per year
Wages Cash deposits
Rental deposits
Building management fees

Smart networking 〉〉〉〉〉〉〉〉〉

Innovative solutions for energy utilities

For a long time, energy suppliers had to account for costly customisation when providing electronic billing. We have now developed a ground-breaking package of e-business solutions, comprising invoicing, payments and posting, which we will offer to various client groups internationally.

This packages includes various modules:

The BK 01 payment management module handles incoming and outgoing payments electronically, using automated processes. Besides the correct posting of individual items, the system also encompasses downstream accounting process steps.

BK 01 immoconnect connects property companies and utilities, with a specific focus on automating the flow of data generated for the billing of electricity, gas, and water. We support this through differentiated payment processing cycles, whereby payments can be directly assigned to individual buildings or delivery types within a housing company's IT system.

BK 01 eConnect to digitalise and automate the process of electronic billing, front to back. This is a particularly complex task: each company has its own requirements for electronic invoices: different content and presentation, file formats, and communication channels. With BK 01 eConnect, all these parameters are set up once, for each customer of the eConnect user – the basis for highly customised yet automated invoicing.

The central, standardised Aareon Invoicing Service portal connects invoicing parties – such as utilities and waste disposal companies, municipalities, or energy metering companies – with housing companies, thus facilitating a digital, fully-automated billing services with a full audit track.

Through phi-Consulting, we offer mid-sized energy utilities consultancy and development services in the SAP® environment, in line with their needs.

With this comprehensive solution, we once again set new standards for our industry – and will now be offering this solution internationally as well. In this we are helped by our strong network, and the ability to implement decisions quickly.

More about BK 01 eConnect under
www.ar2015.aareal-bank.com

Aareal Bank Group offers a constantly growing range of products and services for energy utilities

Aareal

Aareal Bank	Aareon – WE MANAGE IT FOR YOU	phi-Consulting – Ein Unternehmen der Aareon Gruppe
Advisory services and payment transaction services	**Services and software solutions**	**Advisory services**

Existing products …

Payment transactions	Aareon Invoicing Service for the housing industry	Optimising systems procedures and business processes in the SAP environment
Banking products		Market processes of energy utilities
BK 01 immoconnect		
BK 01 eConnect		
BK 01 payments management		

… are being developed further

BK 01 handover management	Tenant handover processes, vacancy management	User eXperience with SAP HANA Cloud
	Linking up tradesmen	Digitalisation
	IT services	
	Smart metering, smart building	

Essay › › › › › › › › › ›

Building blocks of the ***good kind***

An essay from business journalist and book author Wolf Lotter

When it comes to future or innovation, we're all in it, every one of us. But how do we actually think about these concepts? How do you explain what you don't know yet, how do you describe something that isn't there yet? And is it even possible to shape the future, and drive innovation – meaning renewal? Who knows what's next? Does anybody?

Wolf Lotter

Sure, ancient soothsayers made a living out of it. Modern fortune-tellers still do. But quite often their secret to success lies in the merciful memory of those who surround them, rather than in the accuracy of their prophecies. The mists of forgetting are merciful, putting even the highest expectations into perspective. Mark Twain warned about the perils of prediction: "It is difficult to make predictions, especially about the future."

All this may be true, but it is not what we mean, when we speak of the future and innovation. **Perhaps we should take one step back and look at what future and innovation actually mean.**

The old notion of future was that of a time in which everything is possible – yet still predictable. Just take a look at the word itself, derived from Old French futur "to come". What was to come – what people were waiting for – was God himself, and with Him, Judgement Day. The present was a mere waiting hall for the apocalypse, with people behaving accordingly, i.e. humbly, submissively, abjectly. They avoided the experiment of formation and invention. No shaping of the future, since the future was predestined. There was nothing you could do about it. Trying to take destiny into your hands by having ideas of your own with which to make life on earth more beautiful, more comfortable – or simply better – did not make any sense. What could be better than Paradise – which was, after all, to come? Hence, the Middle Ages was not a time for innovation. Classical knowledge was locked away, often deliberately because it could have tackled the predominating world view of a godly plan that was not to be messed with. In this world, those who strived for renewal were seen as challenging God.

But the times were changing – bit by bit. Even before the Middle Ages drew to a close, a more self-confident class of city-dwelling citizens began to build cathedrals, at that time the highest buildings known to men. These cathedrals were more than places of worship. On weekdays, they were a place for citizens to meet and discuss, for example what you could improve in the city and its institutions. Building these cathedrals, however, took a long time. It is an example of emergence into the modern age; the start of a long path leading to the Enlightenment. **Nowadays, the future is no destiny, but a place to be shaped by (and for) everyone. Everyone willing and able to participate is welcome to do so.**

According to the teachings of the Enlightenment and modernity, future is not only not predestined, but a journey to a final destination with many a staging post – and we do have our say in navigating. We have a choice. We have to decide. These staging posts may be to eradicate poverty and hunger, achieve educational standards, improve housing and living conditions or public health, or provide high-quality consumer goods.

These utopias, as positive visions of the future are called, are filled with the endless endeavour of advancement, never settling, never content, but always striving for improvement. Where improvement is not enough, re-think from scratch. Hannah Arendt, a German-American author, said that true revolutions were always characterised by the will to begin anew. This means that everything has to be re-thought – not just the details.

The future belongs to those who like to think and shape.

With this, we arrive at true innovation.

Renewals, the English word for innovations, arise from productive, creative knowledge and curiosity. They demand the basic virtues of this knowledge society. Today's society is no longer about the same old songs – improved, but still the same – but about creating new tunes, opening up new ways, through research, development and a culture of change.

Innovations are the building blocks of the future. The future is made from them. These building blocks – innovations – are far more than inventions or new ideas, methods or processes that never existed before. As the great economist Joseph A. Schumpeter taught us, they have the power to spark far-reaching change, to trigger "creative destruction", as he phrased it in 1911 – a process that is all natural in arts.

Newer science has adopted this term as "disruption", but both mean the same thing: innovations are more than improvements, more than the simple optimisation of habits. They are game-changers, with the power to change a whole culture. **Innovations are a brand-new house. It's a lot more than just changing the wallpaper.**

Sometimes, however, the Middle Ages come knocking, and the future is again seen as predestined, innovation as immoral. In the early years of affluent society, words such as future, innovation and progress had a positive connotation to them. Futurists such as the mighty Herman Kahn, one of the founders of the US-based Hudson Institute, were consultants to the most powerful men of their times. But with affluence came doubts – and concerns that manoeuvres perceived as too bold might put that newly found prosperity at risk. In a place where everybody has (and gets) more and more, future loses its allure, innovation becomes an empty word. 30 years ago, German sociologist Ulrich Beck wrote about a "risk society" in which positive utopias are replaced by dystopias, negative visions of the future. Of course, unlimited faith in the future – as displayed after WWII, coupled with an "anything goes" mentality – disregarded many problems. Unwanted side effects were pushed away, into tomorrow. The future became a lumber room for everything you did not want to be bothered with today. Today was all that mattered. But what that meant, again, was: no future.

There is nothing wrong with living in the present, but it is naïve to believe that that would be enough. If we want to maintain prosperity, we need to develop. No one put it better than Italian author Giuseppe Tomasi di Lampedusa, when he wrote that **"everything needs to change, so everything can stay the same".**

That's the big challenge for all societies and companies in this current transformation – think an optimistic, shapeable future, recognise true innovation and foster a culture based on the core virtues of the knowledge society. No fear, no satiety, with zest for shaping a world in which there may be endless problems, but even more solutions and chances. Computer pioneer Alan Kay put it simply: "The best way to predict the future is to invent it." And Joseph Schumpeter had a simple but clear name for such people: entrepreneurs.

To our Shareholders

In motion. By conviction.

DAGMAR KNOPEK
Member of the Management Board

HERMANN J. MERKENS
Chairman of the Management Board

THOMAS ORTMANNS
Member of the Management Board

Letter from the Management Board › › › › › › › › ›

Dear shareholders,
business associates and staff members,

2015 was another remarkable year for the banking sector as a whole, and for Aareal Bank in particular. In a highly volatile market environment, shaped by geopolitical risks and volatility on the capital markets, as well as an increasingly demanding competitive and regulatory environment, we succeeded in expanding our market position again and generated another set of record results. By acquiring and integrating Westdeutsche ImmobilienBank AG(WestImmo) we further strengthened our position, and with our recently announced strategic agenda "Aareal 2020 – Adjust. Advance. Achieve." we laid the groundwork for sustainable future development of Aareal Bank Group.

I am therefore delighted to be able to share with you our annual report, which testifies to the past financial year and takes a look at what we have committed ourselves to in the years to come.

We earned a record € 470 million in consolidated operating profit in the 2015 financial year, and clearly exceeded the previous year's record figure. When adjusted for € 150 million in negative goodwill arising from the acquisition of WestImmo, consolidated operating profit still amounted to an exceptional € 320 million. Consolidated net income was also significantly above the previous year's already high figure, at € 374 million. Return on equity before taxes, excluding negative goodwill from the acquisition of WestImmo, improved further, to 12.1 per cent, and was thus in line with our medium-term target – despite an environment that is expected to remain adverse for some time. On an adjusted basis, RoE before taxes was 10 per cent, another very good level.

We see the positive business development in 2015 as further proof of the fundamental strength of Aareal Bank Group – strength that draws on outstanding expertise, a sustainably viable business model, and the leading positions we have developed in our Structured Property Financing and Consulting / Services segments. And we see ourselves well-positioned to keep writing our success story in the future.

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During the year, we remained true to our business policy of making prudent decisions and exploiting opportunities. The volume of new business originated in the Structured Property Financing segment totalled € 9.6 billion. Although this fell short of last year's exceptionally high volume, it clearly exceeded our original target range of between € 6 billion and € 7 billion. The main reason for the outperformance was higher-than-expected loan repayments in a very dynamic transaction environment: this enabled us to expand our new loan origination during the course of the year. We increasingly succeeded in compensating for the margin pressure caused by a highly competitive environment by shifting our new business to attractive markets.

Net interest income in the Structured Property Finance segment was € 783 million, exceeding the previous year's figure by almost € 100 million. Unexpectedly high non-recurring income from early loan repayments had a positive effect on net interest income, as did low funding costs and an increase in lending volume following the acquisition of WestImmo. However, net interest income continues to be burdened by a lack of attractive investment opportunities, due to the persistent low interest rate environment.

In the Consulting/Services segment, our subsidiary Aareon continued to execute its profitable growth strategy during 2015. Two acquisitions – one in Germany, another in the Netherlands – helped to further strengthen Aareon's market position. Aareon benefits from core technical trends in the housing industry, as it provides pioneering products that lay the groundwork for further growth. Aareon Smart World is but one example of innovative solutions for the property industry, developed by our subsidiary in response to the challenges that have arisen in the wake of digitalisation. In the year under review Aareon increased its sales revenues by € 9 million, to reach € 187 million. Nonetheless, we concluded the year with another negative operating profit in this segment. This was due to the persistently low interest rate environment, which has impacted segment reporting.

As the European Central Bank remains committed to its expansive monetary policies, and notwithstanding the first positive signs for higher interest rates in the US, we will continue to have to cope with pressure on the margins in the deposit-taking business in 2016 and the low interest rate level. Yet for Aareal Bank, deposits from the housing industry are a strategically important additional source of funding for the property financing business, and one that is largely independent of developments on the capital markets. In addition to the German Pfandbrief and unsecured bonds, they represent an important pillar in the Bank's long-term funding mix. in view of this, we are pleased to have reached a high average level of deposits – € 9.0 billion – again during the year under review. Given the strategic importance of these deposits for our funding mix, we plan to increase this level even further in the future.

Aareal Bank continues to enjoy an excellent reputation as an issuer on the capital market. Accordingly, we were able to implement our funding activities during 2015 as planned, raising total funding of € 1.4 billion, including € 0.8 billion in Mortgage Pfandbriefe.

The acquisition of WestImmo notwithstanding, Aareal Bank maintained a comfortable liquidity base and remained very solidly financed. Our Tier 1 ratio was 17.2 per cent as at 31 December 2015, which is comfortable on an international level. Assuming full implementation of Basel III, the Bank's Common Equity Tier 1 (CET1) ratio would still be 13.1 per cent.

We would like you, dear shareholders, to participate appropriately in these excellent results. The Management Board and the Supervisory Board will therefore propose to the Annual General Meeting of Aareal Bank AG, to be held on 25 May 2016, a 38 per cent increase in the dividend per share, from € 1.20 to € 1.65. This equals a distribution ratio, adjusted for negative goodwill from the acquisition of WestImmo, of 52 per cent.

Moreover, in February 2016, we announced plans to enhance our dividend policy. For the financial years 2016 until 2018, we are currently planning to add a supplementary dividend of up to 30 per cent of consolidated net income to the ordinary dividend payment of 50 per cent.

This change in dividend policy is related to our strategic agenda "Aareal 2020 – Adjust. Advance. Achieve.", It is our response to the manifold challenges ahead – and to the opportunities which will nevertheless arise in a challenging environment.

We do not expect the benefits of tailwind for our business activities in the coming years. In fact, the environment is bound to remain difficult. We expect competition to remain intense, resulting in increased margin pressure. We will have to continue to deal with a volatile market environment and the impact of geopolitical conflicts in an increasingly agitated world. And, last but not least, the historically low interest rates and unremitting burden of regulation will be with us for the foreseeable future too. Technological transformation poses new challenges for us as a bank, and changes the needs of our clients. However, these changes and challenges also entail opportunities, and it is up to us to seize them.

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Aareal Bank Group is in robust shape, powerful, and fully capable of taking action in every respect. This strong condition, together with our sustainably viable business model and leadership positions in our segments, is something we can build on in the medium and the long term, to ensure a successful future for Aareal Bank.

Against this background, we are confident that we are preparing Aareal Bank for the challenges that lie ahead – and for exploiting opportunities arising in this environment in the best way possible, safeguarding the success of your Bank in the long term. We will not have to reinvent ourselves for that. Aareal Bank Group does not need to be fundamentally restructured – it is more about enhancing a successful model in such a way that it can continue to be successful, even in a changed environment.

The "Aareal 2020" programme for the future is aimed at optimising organisational structure, the Bank's IT and processes, as well as its deployment of equity on the one hand – and at further developing the business models pursued by its two segments on the other hand. This is not only about enhancing the way we leverage our outstanding market positions – it also involves expanding our portfolio via ground-breaking activities.

For instance, in our Structured Property Financing segment – which will continue to be the Group's solid foundation – we aim to reinforce its expansion in markets that offer an attractive risk-return profile, manage our portfolio more actively and gain balance sheet relief through increasing placements. Another part of the segment's strategic development is the realisation of new, digital business opportunities. In our Consulting/Services segment, which will be developed as the growth driver of our Group, for example, we want to leverage the solid foundation it has built over recent years for future growth – through cross-border sales activity, additional products for ERP systems, digital offerings for the housing industry, and by expanding the utilities business.

The overall goal of these and other measures is to solidify return on equity before taxes between now and 2018 at around 12 per cent. In the long term, we may even slightly exceed this figure. For these goals to be reached, however, the future environment must allow for excess capital to be invested profitably or distributed amongst the Bank's shareholders. Together with our enhanced dividend policy, we will thus ensure that Aareal Bank continues to be an attractive, profitable investment.

We expect the market and competitive environment to remain very challenging during the current financial year. Despite ongoing uncertainty in the markets and growing global risks, we are generally confident that our positive development will continue in the 2016 financial year. All in all, we see good opportunities to achieve consolidated operating profit of between € 300 million and € 330 million. The upper end of this range slightly exceeds the record level of the past year, as adjusted for negative goodwill from the acquisition of WestImmo.

2015 marked another record year in Aareal Bank's history. While the future of our industry continues to hold many challenges, we are looking forward to tackling them – we are determined, and well-prepared. Our "Aareal 2020 – Adjust. Advance. Achieve." programme will help us to not only achieve our financial goals, but also to strengthen our innovative strength and our willingness to adapt, leading Aareal Bank into a bright future. We count on your support along this path.

Yours sincerely,

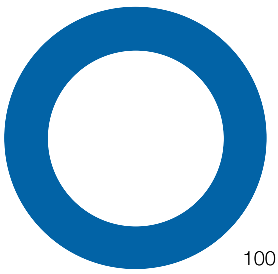
Hermann Merkens
Chairman of the Management Board

Aareal Bank **share**

A quality investment

Shareholder structure[1)]

■ 100 % Free float



[1)] since 3 February 2015

Key data and indicators of the Aareal Bank share

	2015	2014
Share price (€)[1)]		
Year-end price	29.140	33.290
High	40.905	36.490
Low	28.380	26.670
Book value per share (€)	41.80	36.44
Dividends per share (€)[3)]	1.65	1.20
Earnings per ordinary share (€)[4)]	5.66	4.87
Price / earnings ratio[2)]	5.15	6.84
Dividend yield (%)[2)]	5.66	3.60
Market capitalisation (€ mn)[2)]	1.744	1.993

ISIN	DE 000 540 811 6
WKN	540 811
ID codes	
Deutsche Börse	ARL
Bloomberg (Xetra)	ARL GY
Reuters (Xetra)	ARL.DE
Issue share capital (number bearer unit shares)	59,857,221

[1)] XETRA® closing prices;
[2)] Based on XETRA® year-end closing prices;
[3)] Proposal to be submitted to the Annual General Meeting;
[4)] The methodology to calculate the ratio was changed as at 31 December 2014. The comparative figure was adjusted accordingly.

Investor Relations activities

As a listed public limited company included in the MDAX® index, Aareal Bank is subject to numerous disclosure obligations. Aareal Bank sees these as an opportunity, not an obligation – an opportunity to enter into open dialogue with analysts, investors and clients, as well as with the media.

This dialogue, greatly valued by Aareal Bank, is pursued consistently and intensively, regardless of the economic environment, and is a prerequisite for its long-term success as a publicly listed company. Only when current developments are discussed in a timely, open and transparent manner can market participants evaluate potential opportunities and risks that may result from market developments as well as from regulatory changes, and discuss them with Aareal Bank.

To this end, two conferences are held, among other things, in Frankfurt each year for analysts and the media, at which the Management Board presents the results of the financial year under review in great detail, and also provides a strategic outlook for the future, comprising the current financial year as well as the medium-term horizon. Aareal Bank also uses the quarterly results presentation as an opportunity to inform analysts, investors and the media about current Group developments.

Overall, market communications thus remained at a high level throughout 2015. In the course of the financial year under review, the Investor Relations team took part in eight international capital markets conferences and conducted more than 200 one-on-one meetings with more than 300 investors and analysts during 15 roadshows in Europe and the US. Investors greatly appreciate the fact that Management Board members also regularly attend conferences and roadshows in order to be available for personal meetings.

In order to ensure access to timely, open and transparent information of relevance to the capital markets, Aareal Bank provides shareholders and analysts with detailed information on Aareal Bank Group and its two segments Structured Property Financing and Consulting/Services on its website at www.aareal-bank.com. Furthermore, published ad-hoc disclosures and press releases, financial reports, as well as current Investor Relations presentations, are available for download from our Investor Relations portal. The financial calendar offers an overview of the most important dates in the company calendar. In the 2016 financial year, we will maintain our proactive communication with capital markets in order to strengthen shareholders' confidence in the sustainable success of Aareal Bank Group's business model.

Analysts' opinions

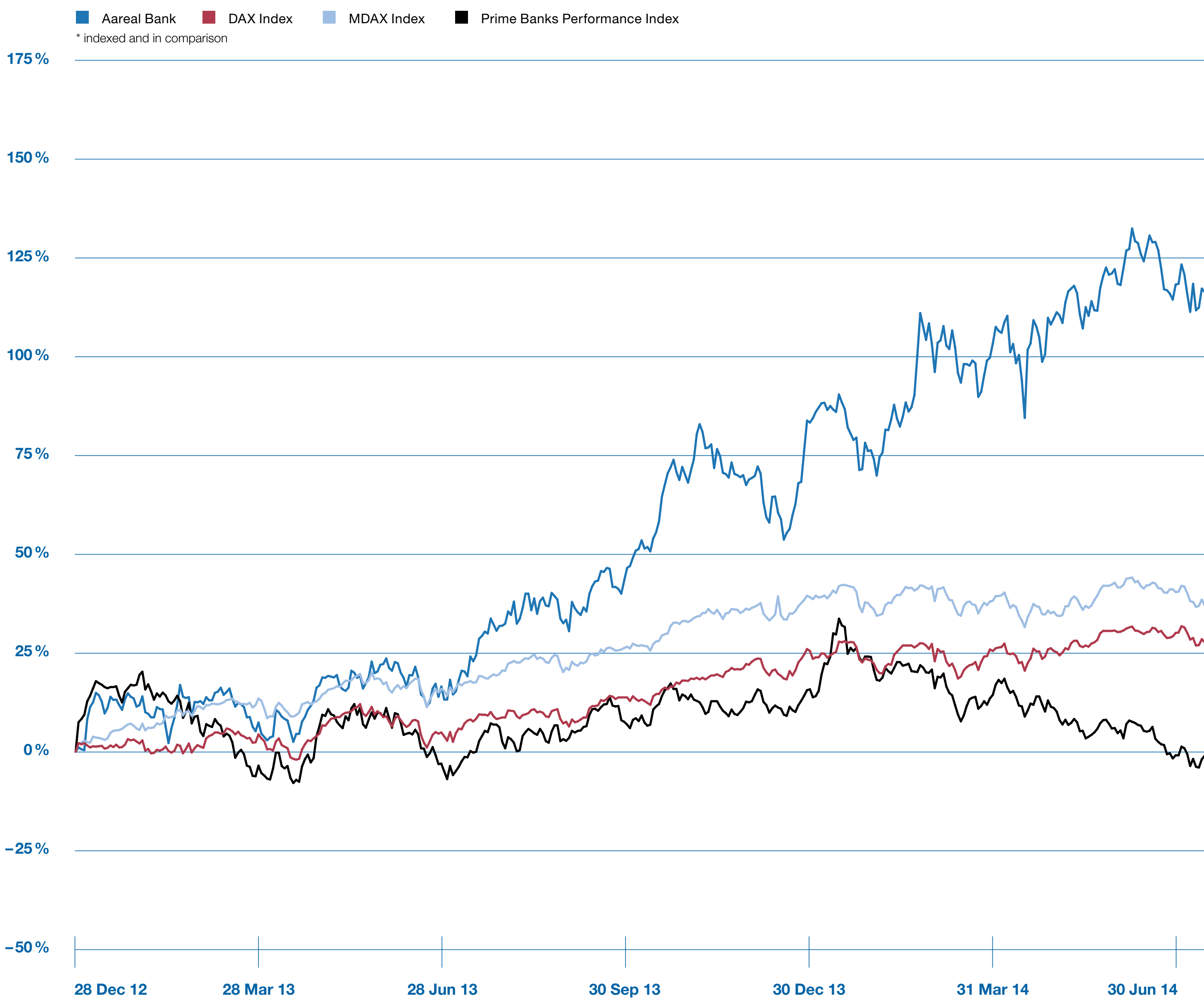
Since the beginning of last year, an additional analyst firm initiated coverage of Aareal Bank Group, whilst two firms stopped their coverage. At present, 13 analyst firms regularly publish independent studies and comments on the development of Aareal Bank Group.

Having finished the 2014 financial year on a positive note, in 2015 Aareal Bank also had to meet market and analyst expectations. The Bank fulfilled these high expectations, with currently ten "buy" recommendations and two "neutral" recommendations, compared with three "sell" recommendations.

We regularly update and publish the analysts' recommendations on our website www.aareal-bank.com on the investor relations page.

Aareal Bank ***Share***

Relative Performance 2013 – 2015



(1) **3 February 2015:** Aareal Holding GmbH successfully places a 28.9 % stake in Aareal Bank AG

(2) **22 February 2015:** Aareal Bank Group acquires Westdeutsche ImmobilienBank AG

(3) **25 February 2015:** Aareal Bank Group posts record results for the 2014 financial year – proposes dividend increase from € 0.75 to € 1.20 per share

(4) **27 March 2015:** Aareal Bank Group publishes its Annual Report for the 2014 financial year

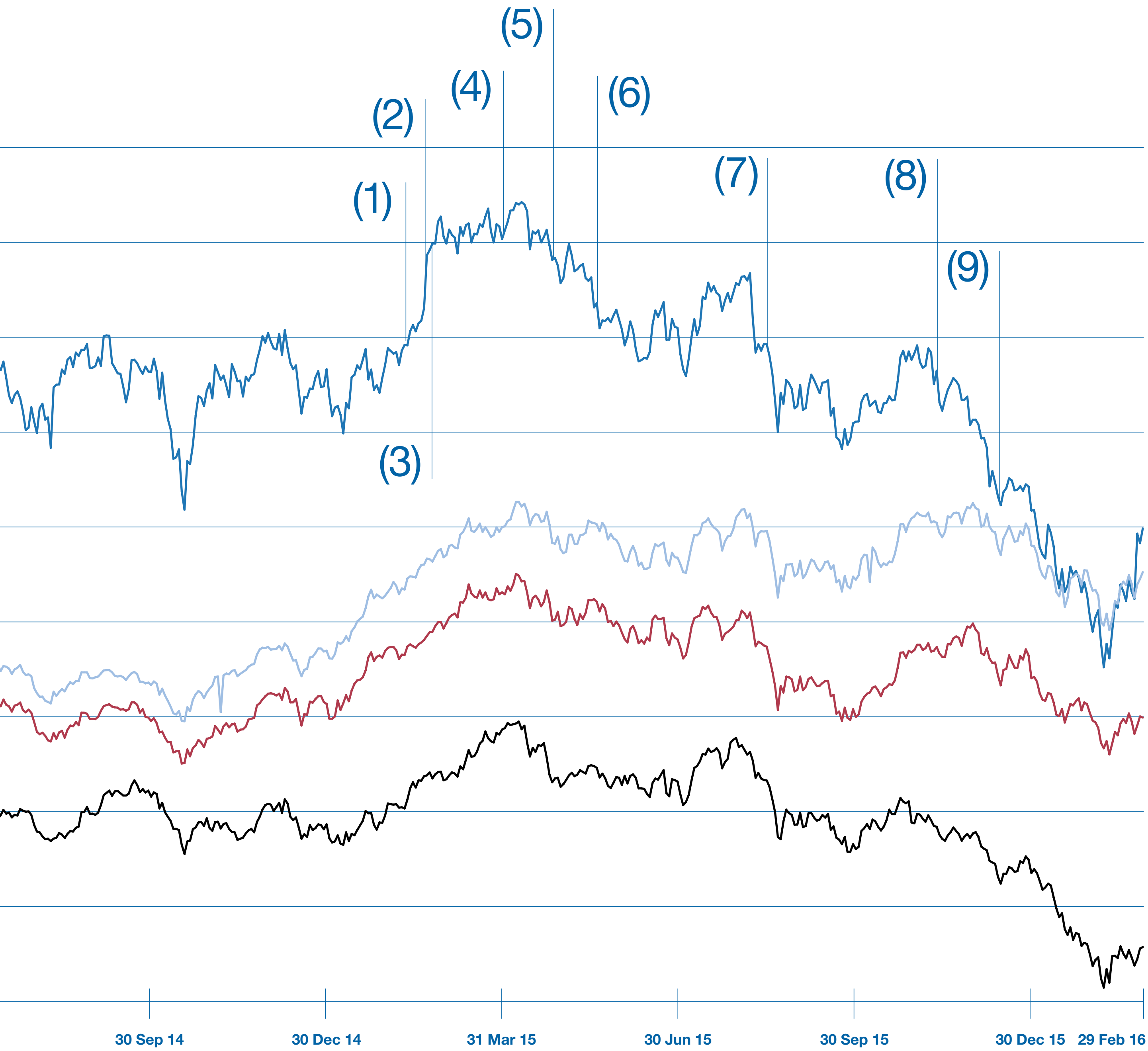
(5) **7 May 2015:** Aareal Bank Group enjoyed a good start into the 2015 financial year

(6) **20 May 2015:** Aareal Bank AG's Annual General Meeting resolves to pay a dividend of € 1.20 per share for the 2014 financial year

(7) **11 August 2015:** Aareal Bank Group remains successfully on track during the second quarter of 2015

(8) **10 November 2015:** Aareal Bank again posts very good results for the third quarter; consolidated operating profit forecast raised for the full year 2015

(9) **8 December 2015:** Aareal Bank sells property company in Sweden – guidance for 2015's full-year consolidated operating profit raised slightly due to the positive impact on earnings



Aareal Bank Group is a leading international property specialist. It is active in more than 20 countries across three continents – in Europe, North America and Asia.

Group Management Report

Group Management Report

Aareal Bank Group is a leading international property specialist. It is active in more than 20 countries across three continents – in Europe, North America and Asia.

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 its 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 its 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/Service

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 BK 01 software which is the leading procedure for automated mass payments in the German housing and property industries. Thanks to BK 01 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 I ratio (CET1 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 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.

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

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

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

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

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.

Annual rate of change in real gross domestic product

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

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 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

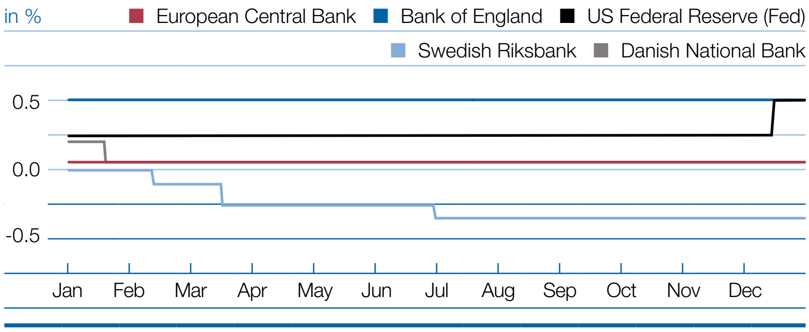
[1] Based on the ten-year government bond yields for all the countries listed
[2] Each in comparison with 10-year German government bonds
[3] Based on the 10-year swap rate
[4] Calculated on the basis of the 3-month Euribor/LIBOR, or comparable rates (depending on the currency)

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

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.

in December 2015, to between 0.25 % and 0.50 %, in response to positive economic development and declining unemployment.

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 (by way of the 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.

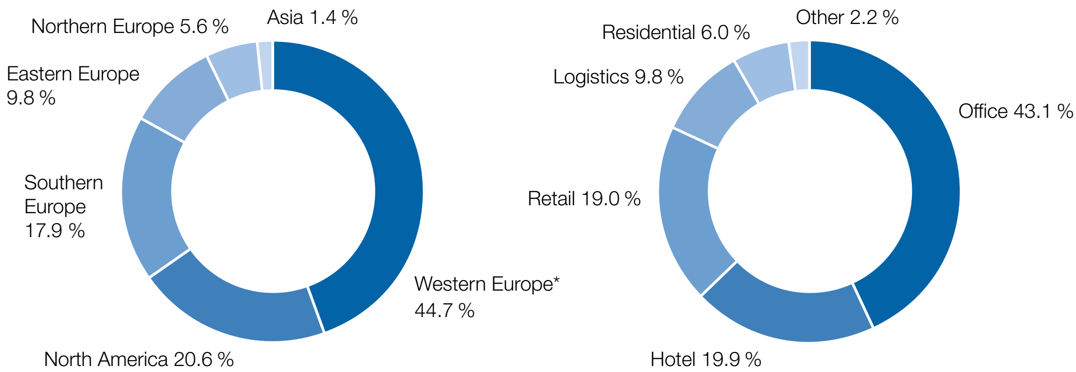
When assessing the description of fundamental market trends below, it should be noted that commercial property markets do not represent homogeneous markets. Individual properties differ – even within a regional market or for a given property type – with regard to the factors that determine their value 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.

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

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

New business 2015

by region | by type of property



* incl. Germany

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

[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.

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 %).

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 Immobilien-Bank AG (WestImmo)

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. Further information is included in the section "Reporting entity structure" in the notes to the consolidated financial statements.

Within the scope of the acquisition, loans and advances to clients in the amount of € 6.8 billion and financial assets in the amount of € 1.0 billion were acquired. The acquisition resulted in negative goodwill of € 150 million, which was recognised in income. WestImmo's operative results have been included in Aareal Bank Group's consolidated income statement with effect from 1 June 2015. Excluding negative goodwill, WestImmo's contribution to consolidated operating profit for the period under review amounted to € 36 million (after consolidation and including integration expenses). 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 former 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.

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 average € 9 .0 billion 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.

Financial position and performance

Financial performance

Group

Consolidated operating profit in the 2015 financial year amounted to € 470 million. Adjusted for the negative goodwill from the initial consolidation of WestImmo in the amount of € 150 Mio. € million, operating profit (€ 320 million) was clearly above last year's figure (€ 282 million), which was adjusted for the goodwill from the initial consolidation of former Corealcredit in the amount of € 154 million. Besides the negative goodwill, positive development of net interest income was a particular contributor to the profit increase, compared to the previous year. Thus, consolidated operating profit was considerably higher than the forecast range at the beginning of the 2015 financial year (€ 400 million to € 430 million).

Net interest income was € 781 million (2014: € 688 million). The increase over the previous year was therefore higher than originally expected (€ 720 million to € 760 million). Unexpectedly high non-recurring income from early loan repayments had a positive effect, as did low funding costs and a marked increase in lending volume. It was burdened on the other hand by a lack of attractive investment opportunities for the liquidity stock, due to the persistent low interest rate environment.

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Net interest income	781	688
Allowance for credit losses	128	146
Net interest income after allowance for credit losses	**653**	**542**
Net commission income	175	164
Net result on hedge accounting	8	5
Net trading income/expenses	13	2
Results from non-trading assets	-17	2
Results from investments accounted for using the equity method	0	0
Administrative expenses	553	439
Net other operating income/expenses	41	6
Negative goodwill from acquisitions	150	154
Operating profit	**470**	**436**
Income taxes	96	101
Consolidated net income	**374**	**335**
Consolidated net income attributable to non-controlling interests	19	19
Consolidated net income attributable to shareholders of Aareal Bank AG	355	316

Allowance for credit losses was € 128 million (2014: € 146 million) and therefore within the forecast range of € 100 million to € 150 million for the 2015 financial year. Net additions to specific allowance for credit losses in the amount of € 166 million were partly offset by reversals of portfolio-based allowance for credit losses and portfolio-based provisions for off-balance sheet risks from the lending business in an amount of € 52 million.

Net commission income at € 175 million was stable compared to the previous year (€ 164 million). It was within the forecast range of € 170 million to € 180 million for the full financial year.

The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets of € 4 million resulted largely from the measurement and reversal of derivatives used to hedge interest rate and currency risk.

At € 553 million (2014: € 439 million), administrative expenses were slightly higher than the forecast range of € 520 million to € 550 million for the financial year. The main driving factors for the significant increase compared to the previous year were, among other factors, the integration and running costs at former Corealcredit and WestImmo, higher expenses for the bank levy as well as compensation payments in connection with the changes on the Management Board.

Net other operating income/expenses include non-recurring income from the completed sale of a property and the announced sale of another as well as the reversal of provisions recognised for risk protection in connection with the acquisition of Corealcredit; these provisions are no longer required.

The negative goodwill (day-one gain) in the amount of € 150 million was a result of the acquisition of WestImmo. It represents the difference between the purchase price paid and the higher net balance of assets and liabilities acquired (= net assets), measured at fair value. Further information is included in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

Overall, consolidated operating profit for the 2015 financial year was € 470 million (2014: € 436 million). Taking into consideration income tax expenses of € 96 million and non-controlling interest income of € 19 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 355 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 339 million (2014: € 292 million).

Structured Property Financing segment

At € 493 million, the operating profit achieved in the Structured Property Financing segment was markedly higher than the figure for the previous year (€ 456 million).

Net interest income was € 783 million (2014: € 687 million). The increase over the previous year was therefore higher than originally expected (€ 720 million to € 760 million). Unexpectedly high non-recurring income from early loan repayments had a positive effect, as did low funding costs and a marked increase in lending volume. It was burdened, however, by a lack of attractive investment opportunities for the liquidity stock, due to the persistent low interest rate environment.

Allowance for credit losses was € 128 million (2014: € 146 million) and therefore within the forecast range of € 100 million to € 150 million for the 2015 financial year. Net additions to specific allowance for credit losses in the amount of € 166 million were partly offset by reversals of portfolio-based allowance for credit losses and portfolio-based provisions for off-balance sheet risks from the lending business in an amount of € 52 million.

The € 4 million aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets, resulted largely from the measurement and reversal of derivatives used to hedge interest rate and currency risk.

Structured Property Financing segment result

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Net interest income	783	687
Allowance for credit losses	128	146
Net interest income after allowance for credit losses	**655**	**541**
Net commission income	6	4
Net result on hedge accounting	8	5
Net trading income/expenses	13	2
Results from non-trading assets	-17	2
Results from investments accounted for using the equity method	0	0
Administrative expenses	359	255
Net other operating income/expenses	37	3
Negative goodwill from acquisitions	150	154
Operating profit	**493**	**456**
Income taxes	106	109
Segment result	**387**	**347**

At € 359 million (2014: € 255 million), administrative expenses exceeded the previous year's level. The main driving factors for the significant increase compared to the previous year were, among other factors, the integration and running costs at former Corealcredit and WestImmo, higher expenses for the bank levy as well as compensation payments in connection with the changes on the Management Board.

Net other operating income/expenses include non-recurring income from the completed sale of a property and the announced sale of another as well as the reversal of provisions recognised for risk protection in connection with the acquisition of Corealcredit; these provisions are no longer required.

The negative goodwill (day-one gain) in the amount of € 150 million was a result of the acquisition of WestImmo. It represents the difference between the purchase price paid and the higher net balance of assets and liabilities acquired (= net assets), measured at fair value. Further information is included in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

Operating profit in the Structured Property Financing segment totalled € 493 million. Taking into consideration income taxes of € 106 million, the segment result amounted to € 387 million (2014: € 347 million).

Consulting/Services segment

At € -23 million, the operating profit achieved in the Consulting/Services segment was lower than the figure for the previous year (€ -20 million). Aareon made a slightly higher contribution to Aareal Bank Group's consolidated operating profit, at € 27 million. Low margins from the deposit-taking business with the housing industry, due to the persistent low interest rate levels, clearly burdened the segment result.

Sales revenues amounted to € 193 million in the 2015 financial year (2014: € 185 million), driven by sales revenues at Aareon increasing by € 9 million to € 187 million (2014: € 178 million).

Staff expenses of € 139 million were higher than the previous year's level, since the number of staff rose and Aareon acquired additional entities.

Consulting/Services segment result

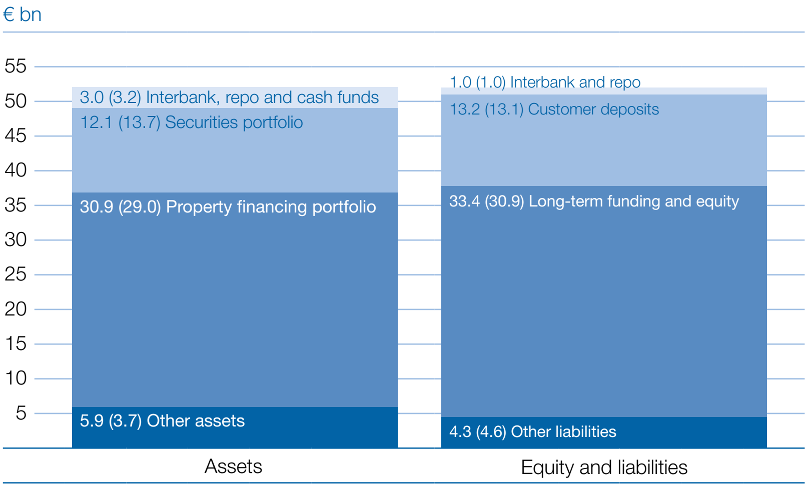
€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Sales revenue	193	185
Own work capitalised	4	5
Changes in inventory	0	0
Other operating income	9	8
Cost of materials purchased	24	22
Staff expenses	139	131
Depreciation, amortisation and impairment losses	12	14
Results from investments accounted for using the equity method	0	0
Other operating expenses	54	51
Interest and similar income/expenses	0	0
Operating profit	**-23**	**-20**
Income taxes	-10	-8
Segment result	**-13**	**-12**

On balance, the Consulting/Services segment generated operating profit of € -23 million (2014: € -20 million). Taking into consideration taxes of € -10 million, the segment result amounted to € -13 million (2014: € -12 million).

Financial position

Consolidated total assets of Aareal Bank Group as at 31 December 2015 amounted to € 51,9 billion, after € 49,6 billion as at 31 December 2014.

Asset/liability structure as at 31 Dec 2015 (31 Dec 2014)



Interbank deposits, repos, and cash funds

Interbank deposits, repos, and cash funds comprise short-term investments of surplus liquidity. As at 31 December 2015, this comprised predominantly money-market receivables from other banks, deposits with central banks, and receivables from reverse repo transactions.

Property financing portfolio

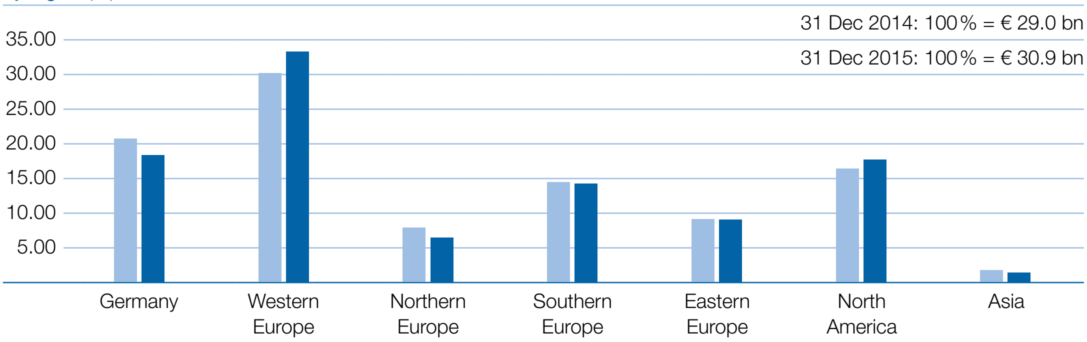
Portfolio structure

The volume of Aareal Bank Group's property financing portfolio stood at € 30.9 billion as at 31 December 2015, an increase of approximately 6.6 % over the 2014 year-end figure of € 29.0 billion. The development during the year was marked mainly by the acquisition of WestImmo, and high unscheduled repayments in the credit portfolio. As at 31 December 2015, the commercial property financing portfolio increased by € 1.9 billion as a result of these opposing effects. On this basis, the international share of the portfolio increased slightly to 81.7 % (31 December 2014: 79.4 %).

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

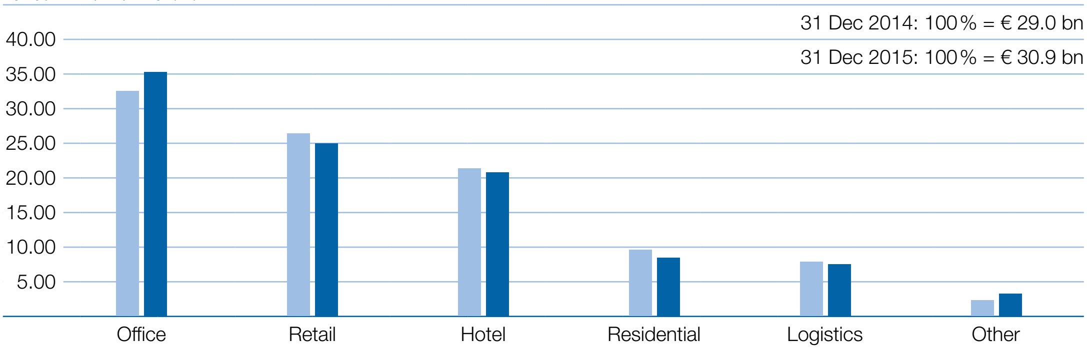
Property financing volume[1] (amounts drawn)

by region (%)



Property financing volume[1] (amounts drawn)

by type of property (%)



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

The portfolio breakdown by region and continent, compared with the end of the previous year, changed as a result of the acquisition of WestImmo and the origination of new business. Whilst the portfolio share of exposures in Western Europe rose by approx. 3 %, and increased slowly in North America by 1.3 %, it declined slightly in Germany and Northern Europe. However, it remained almost stable for all other regions.

The breakdown of the portfolio by property type changed during the reporting period, due to the acquisition of WestImmo: the share of office property financings rose, while the share of financings for residential property, for hotels and for logistics and retail property all declined slightly. The share of other financings in the overall portfolio increased only slightly.

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

Securities portfolio

Aareal Bank holds a portfolio of high-quality securities, used as economic and regulatory liquidity reserve as well as for the cover management of Pfandbriefe.

As at 31 December 2015, the nominal volume of the consolidated securities portfolio[1][2] was € 10.2 billion (31 December 2014: € 11.3 billion).

Key aspects taken into account for portfolio management are good credit quality and the related value stability, as well as a high degree of liquidity, particularly with regard to Basel III criteria. The securities portfolio comprises four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS).

98 % of the overall portfolio is denominated in euro. 98 % of the portfolio has an investment grade rating.[3] More than 70 % of the portfolio fulfils the requirements of "High Quality Liquid Assets" (as defined by the CRR) in the Liquidity Coverage Ratio (LCR).

Public-sector borrowers are the largest asset class held, accounting for a share of approx. 87 %. These include securities and promissory note loans that qualify as ordinary cover for Public Sector Pfandbriefe. 99 % of these issuers are headquartered in the EU. Some 79 % are rated AAA or AA, and a further 3 % are rated single-A. Overall, 98 % have an investment grade rating.

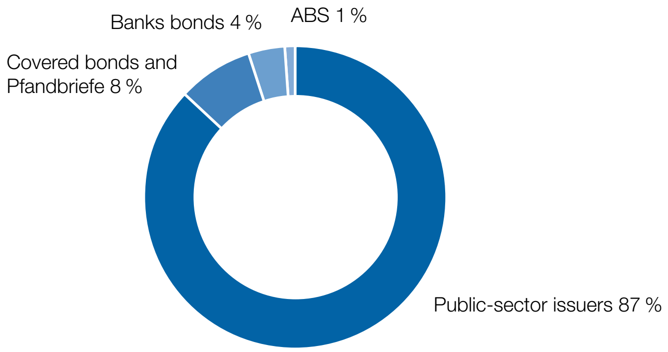
The share of Pfandbriefe and covered bonds at year-end was 8 %. 94 % consists of European covered bonds, with the remainder invested in Canadian covered bonds. All Pfandbriefe and covered bonds were rated AAA or AA.

The bank bond asset class is made up predominantly of European issuers with high credit quality. The share of this asset class was approx. 4 % at year-end. Overall, 89 % have an investment grade rating.[3]

The securities portfolio also contains ABS securities that account for a share of approx. 1 %. Of this amount, European mortgage-backed securities account for approx. 86 %. The asset class comprises 74 % RMBS, 12 % CMBS, and 14 % asset-based securities on student loans.

Securities portfolio as at 31 December 2015

% Total volume (nominal): € 10.2 bn



Financial position

Interbank and repo business

Generally, in addition to customer deposits, Aareal Bank Group 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 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 (2014: € 8.3 billion). Deposits from institutional investors amounted to € 4.8 billion as at 31 December 2015 (2014: € 4.8 billion).

[1] As at 31 December 2015, the securities portfolio was carried at € 12.1 billion (31 December 2014: € 13.7 billion).
[2] Details based on the nominal volume
[3] The rating details are based on the composite ratings.

Long-term funding and equity

Funding structure

Aareal Bank Group'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, Additional Tier I (AT I) issues, and trust preferred securities.

As at 31 December 2015, the long-term debt portfolio amounted to € 30.9 billion. Of this amount, Mortgage Pfandbriefe accounted for € 15.8 billion, Public-Sector Pfandbriefe for € 3.4 billion, unsecured long-term refinancing for € 9.7 billion and subordinated long-term refinancing for € 2.0 billion.

Thus, Mortgage Pfandbriefe accounted for a total share of 51 % of long-term refinancing.

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.

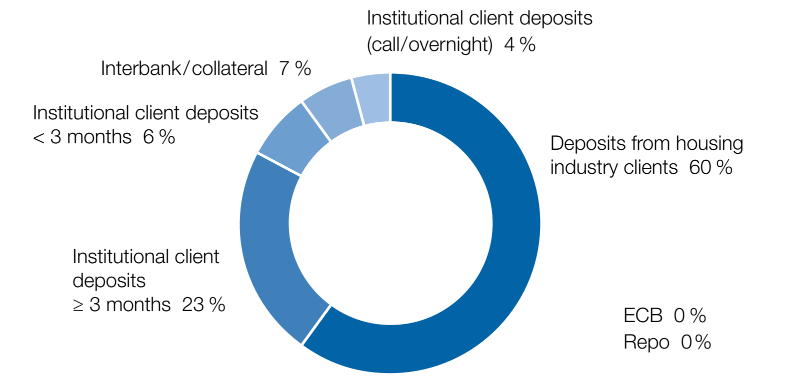
Given the good market conditions for Mortgage Pfandbriefe, the Bank was able to place the first USD-denominated benchmark Pfandbrief on the international capital markets in March 2015. The four-year, USD 500 million issue will mature on 1 April 2019.

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.

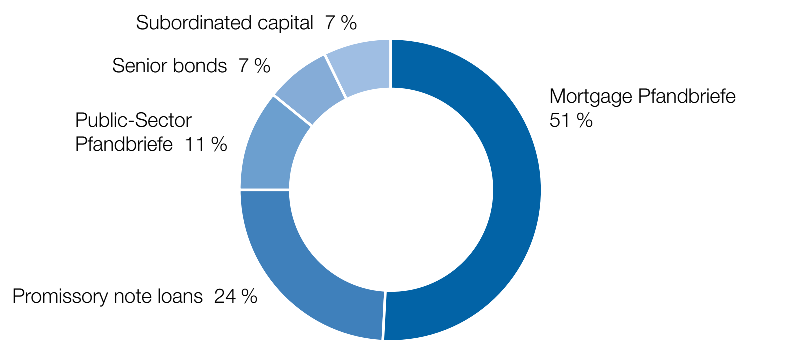
Money market funding mix as at 31 December 2015

% Total volume: € 14.2 bn

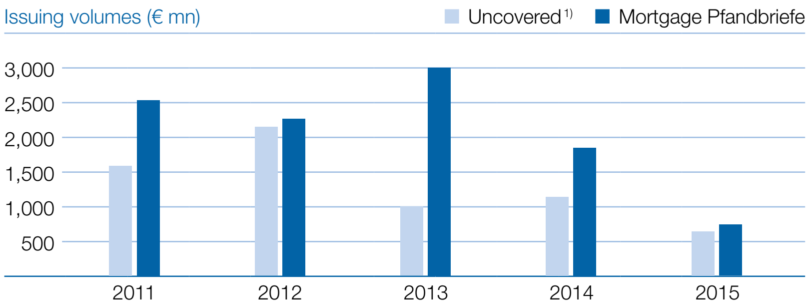


Capital market funding mix as at 31 December 2015

in % Total volume: € 30.9 bn



Issuing activities – 2011 to 2015



1) excluding SoFFin-guaranteed issues and subordinated capital

Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 3,044 million as at 31 December 2015 (2014: € 2,723 million), comprising € 300 million in the Additional Tier 1 (AT1) bond and € 242 million in non-controlling interests.

Regulatory capital[1)]

	30 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

Our Employees

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.

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.

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.
2) After confirmation of the 2015 financial statements of Aareal Bank AG. The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of net profit for the financial year 2015. The appropriation of profits is subject to approval by the Annual General Meeting.

Employee 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 %	
No. of years 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%

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 continuous 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 ”Aareal Academy” internal corporate university, which are available to 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 segments 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. It offers vocational training in various careers: office management, IT applications developer, IT system integrator. Furthermore, Aareon offers the dual course of study: "Business Administration – Property Manager", in cooperation with the College of Advanced Vocational Studies in Leipzig. 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 on responsibilities at an early stage. 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 employees in achieving compatibility between 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, part-time work or the possibility to incorporate home working into their working hours – provided the respective position allows it. During the year under review, 207 employees (20.5 %) worked part-time (2014: 183, 20.7 %), and 65 employees (6.4 %) worked from home during parts of their working hours (2014: 38, 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 – even beyond the Wiesbaden location. 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 activities 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. At the same time, AGG training is held for all employees. In the US, the employee manual contains anti-harassment rules to avoid harassment and discrimination in the workplace.

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 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 Corealcredit's banking operations were transferred to Aareal Bank AG during 2015.

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

Risk management – scope of application and areas of responsibility

Aareal Bank Group's 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. Risks in the Consulting/Services segment differ fundamentally from those in the banking business; they are taken into account as part of investment risk. Specific risk monitoring methods have been developed and deployed to suit the relevant risk exposure at the respective subsidiaries. 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.

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 has adopted a dual management approach whereby its risk management is primarily based on the assumption of a going concern. This approach ensures that risk positions are only established to an extent that the institution's continued existence will not be threatened should the risks materialise. A secondary management process ensures that risk positions are only established to an extent that even in the event of liquidation there will still be sufficient potential risk cover in order to service all liabilities (the "gone concern" approach). The statements below relate to the going-concern approach which the Bank has implemented as a primary management process.

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the Capital Requirements Regulation (CRR). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a Tier I ratio (calculated in accordance with the CRR) equivalent to 8 % of forecast risk-weighted assets (RWA), plus buffer.

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 %**

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 I ratio of 8 % of RWA, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The table above summarises the Group's overall risk-bearing capacity as at 31 December 2015.

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

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

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.

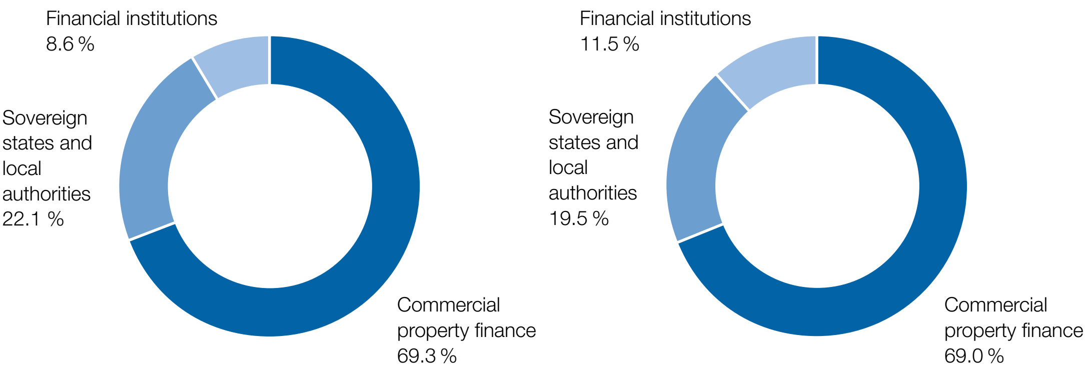
Actively managing client relationships is crucially important in this context: approaching clients in time to jointly develop a solution to any problems which may arise. Where necessary, we muster the support of experts from the independent restructuring and recovery functions.

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 custom-

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.

ised 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.

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.

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.

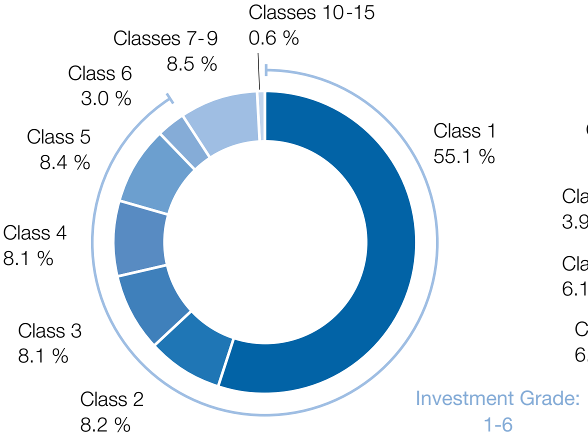
The expected loss (EL) in the event of default of an exposure is determined as the product of PD and LGD. As a risk parameter related to the financing, EL is used as an input factor for the tools used to manage the property financing business.

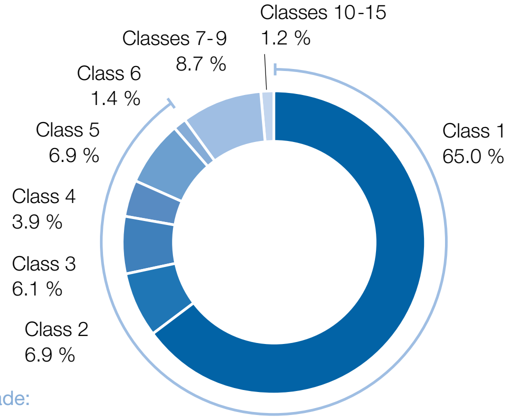
The following diagrams depict the distribution of lending volume by EL classes as at 31 December 2014 and 31 December 2015, based on the maximum current or future drawdown. The distribution excludes exposures for which no rating has been concluded, or which are in default (as defined under the CRR).

Large-sized commercial property finance

by internal expected loss classes

as at 31 Dec 2015 | as at 31 Dec 2014





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.

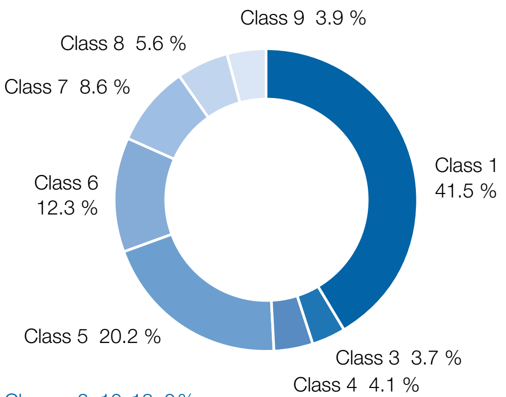
Sovereign states and local authorities

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

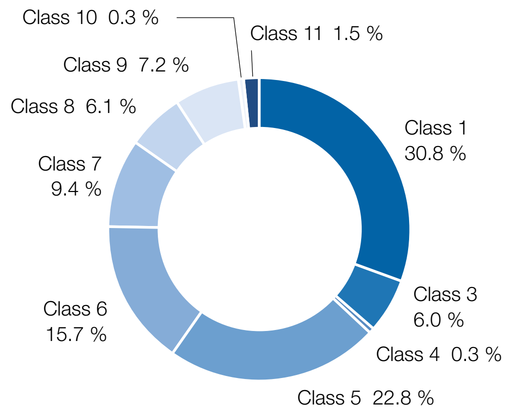
Financial institutions

by rating class

as at 31 Dec 2015 | as at 31 Dec 2014



Classes 2, 10-18: 0%

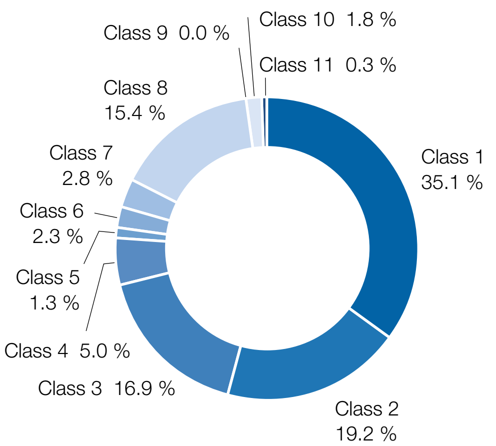


Classes 2, 12-18: 0%

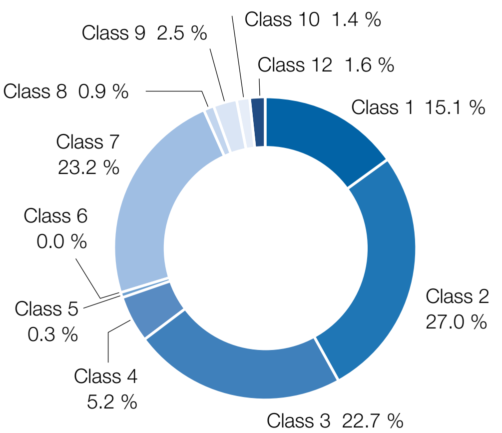
Sovereign states and local authorities

by rating class

as at 31 Dec 2015 | as at 31 Dec 2014



Classes 12-20: 0%



Classes 11, 13-20: 0%

Consolidated Financial Statements
Transparency

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.

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 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 submarkets 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.

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

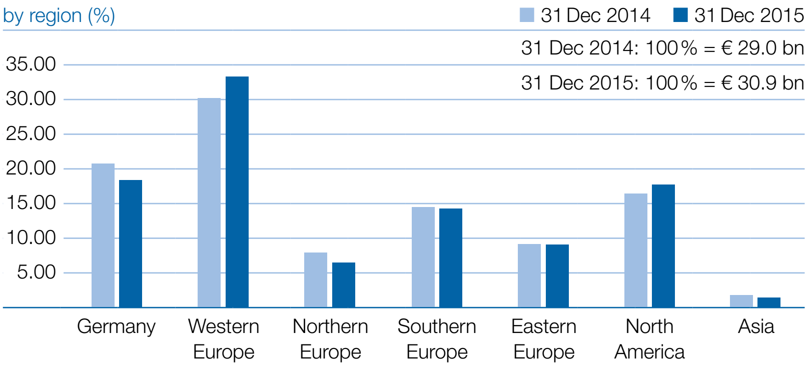
The Bank accepts various types of collateral to reduce default risk exposure. This includes impersonal collateral, such as liens on immobile (property) and mobile assets; liens on receivables, such as rents; and third-party undertakings, such as guarantees.

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

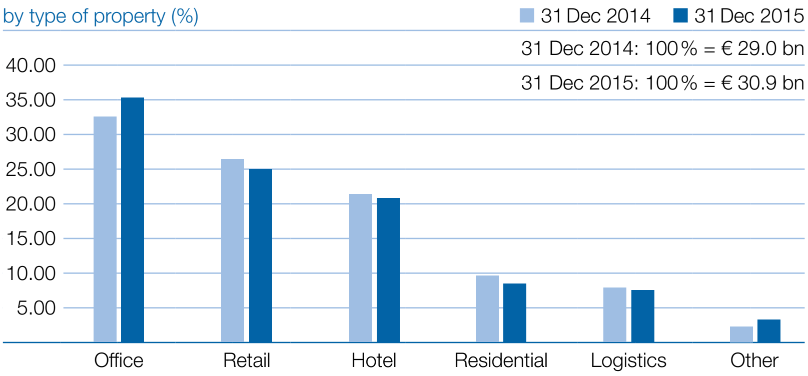
Property financing volume[1)] (amounts drawn)

by region (%)



Property financing volume[1)] (amounts drawn)

by type of property (%)



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

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.

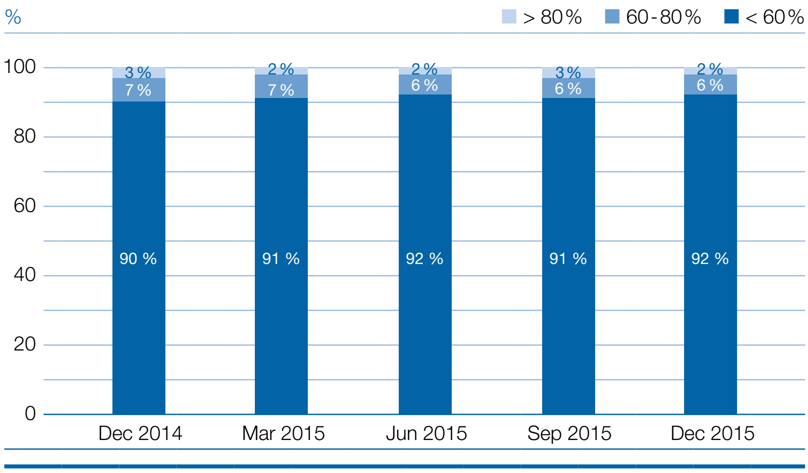
The credit processes provide for the regular review of collateral value. The risk classification is adjusted in the event of material changes in collateral value, and other measures taken as deemed appropriate. An extraordinary review of collateral is carried out where the Bank becomes aware of information 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.

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.

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 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.

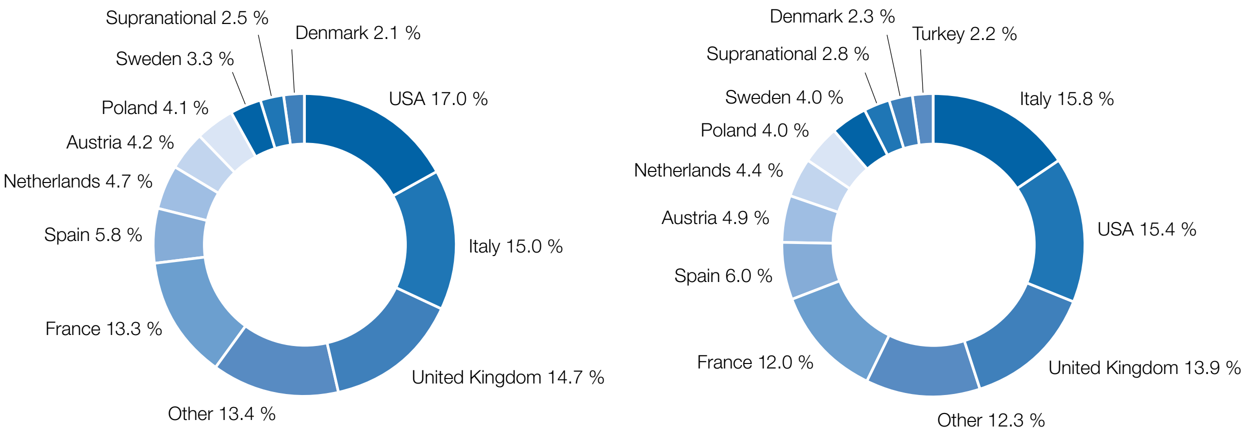
Country risk measurement and monitoring

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, as at year-end. In the property financing business, country exposures are allocated by location of the property used as collateral. For exposures not

Breakdown of country exposure in the international business

% 31 Dec 2015 | 31 Dec 2014



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.

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 countermeasures take effect. Since this is a statistical approach, the forecast for the potential loss that may be incurred within a specific period of time is for a given confidence interval only.

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

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

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

When interpreting the VaR figures stated below, it should be taken into account that these refer to the overall portfolio. 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 ImmobilienBank AG into Aareal Bank Group. No limit breaches were detected even after this re-calibration.

The expected 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

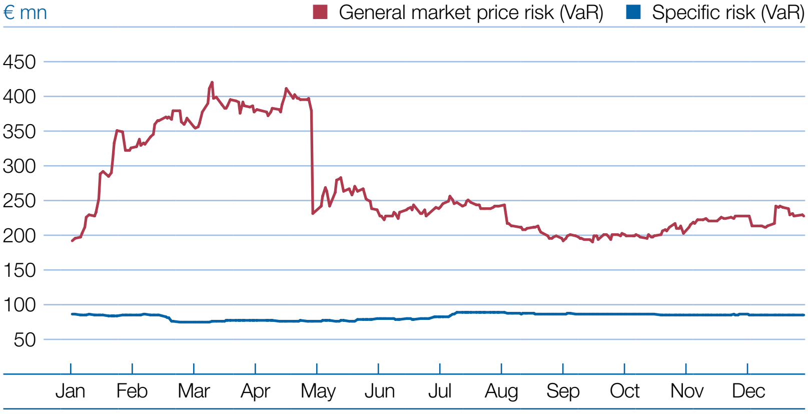
The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss 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.

Stress testing

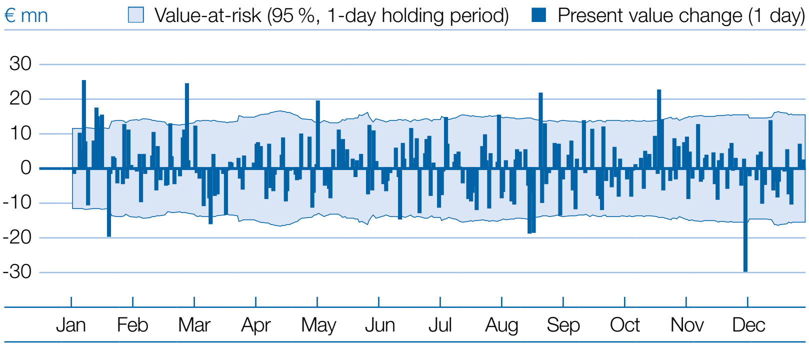
Although VaR has become a standard tool, the concept may fail to adequately project the actual risk in extreme situations – for example, the end-2008 phase of the financial markets crisis. For this reason, the VaR projection is supplemented by simulating stress scenarios on a monthly basis.

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).

General market price risk and specific risk during 2015



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



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 chart on page 79 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.

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

c) Funding profile

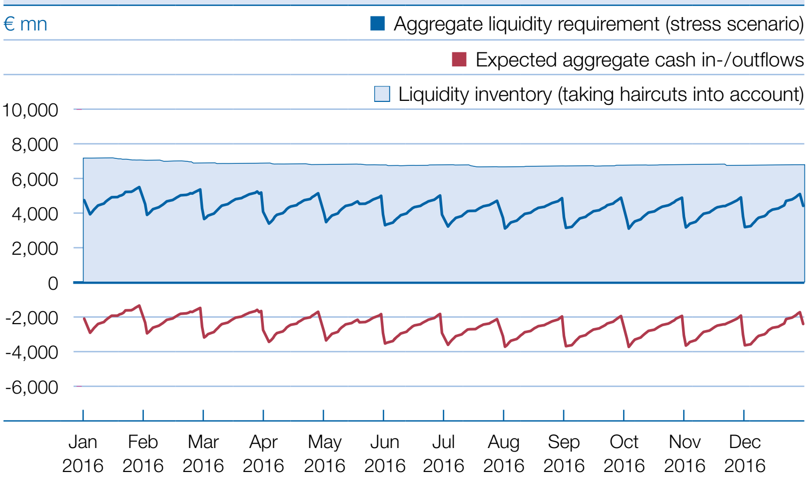
Diversifying the Bank's refinancing profile by type of investor, and by product, represents a further key aspect of our approach to liquidity risk management. Core sources of funding such as customer deposits and funds invested by institutional clients – alongside covered and uncovered bond issues –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

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.

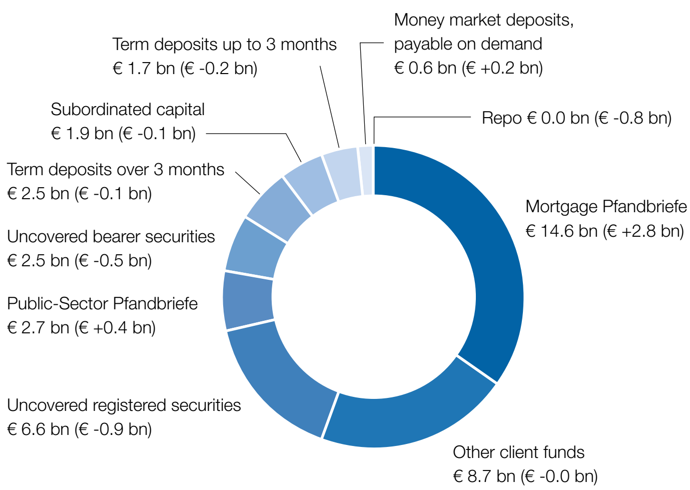
We generally consider the withdrawal of customers' current account balances as the most significant scenario. Even in this stress scenario, liquidity is sufficient to cover the expected liquidity needs under stress conditions.

Liquidity



Refinancing portfolio diversification by product

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



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.

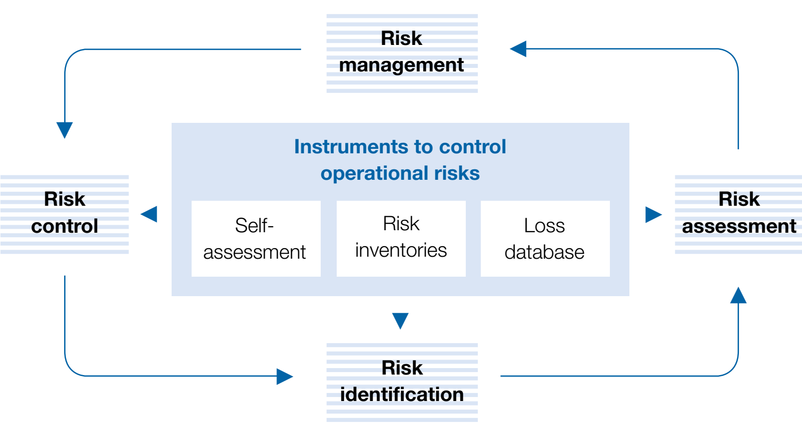
CD-Legal also compiles all information concerning any legal disputes involving Aareal Bank Group, whether in or out of court. To this extent, the involvement of the legal department is based on corresponding Group-wide guidelines. The Bank's decentralised operating legal entities, as well as the legal 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.

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.

Management of operational risks



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.

Aareon AG

Aareon AG has introduced a Group risk management system (which includes early-warning features on the basis of the R2C_risk to chance standard software) in order to monitor and control company risk. This risk management system requires the regular recording and assessment of risks (but not opportunities) by those individuals holding responsibility for divisions, shareholdings and projects, and provides for the conception of active risk management measures. In this context, risks are assessed separately in terms of their impact and their probability. In principle, risk is viewed on a net basis, using the residual risk after taking into account adequate measures taken. The risk reports prepared in this manner are consolidated by the Group Legal and Risk Management divisions and by the Compliance Office; they form the basis for quarterly risk reporting which is regularly discussed during meetings of the Bank's corporate bodies and committees. The reports are also incorporated into the quarterly reporting package submitted to Aareon AG's Supervisory Board. Aareon's risk reporting system creates transparency regarding the company's risk situation, providing a basis for decisions regarding any measures to be taken by senior management. The measures, proposed by those individuals responsible for risk, regarding the top ten risks perceived during the current quarter are documented within the scope of risk reporting, provided that the expected value of such risks (calculated as a function of impact and probability of occurrence) exceeds a defined threshold. The same applies to measures taken to counter the perceived top ten risks in one of the three preceding quarters, to review the effectiveness of such measures. Furthermore, Aareon AG's Management Board as well as senior management of Aareon Deutschland GmbH take action with respect to any risks the expected value of which exceeds a further defined threshold.

Aareon's Internal Audit carries out checks of the risk management system. This includes an oversight of compliance with legal requirements and Group-wide guidelines, which are documented in the Risk Management Manual. Moreover, within the scope of an internal audit, a responsible auditor examines the effectiveness of the internal controls established within the risk management system.

Aareon's risk categories include financial and market risks, management and organisational risks, environmental/business risks, and production risks. The financial risk category includes liquidity, cost and revenue risks. Market risks comprise client risks, competition risks, as well as the risks emanating from the views of opinion leaders in industry associations and advisory boards, as well as supplier risks. Management and organisational risks include risks related to human resources, communications, corporate culture and company planning, as well as risks from internal processes. The environmental/business risk category covers legal risks as well as political and regulatory risks. Production risks comprise product-specific risks, project risks, and IT security risks. Cross-relationships exist between individual risks. On a risk category level, Aareon does not determine an aggregate risk value.

Instead, by using categories and sub-categories, a harmonised "risk map" is created first. This risk map – which also facilitates a standardised assessment – provides an overview of the risks the various divisions or entities are exposed to, and the corresponding risk indicators.

The Head of Legal, Risk Management and Compliance informs the risk manager about any material changes to the organisation, strategy or business policy resolved during meetings of corporate bodies and committees. The risk manager will then adapt the risk map to the changed situation. Individuals responsible for risk may also submit proposals for the inclusion of risks into the risk map, or for their removal. Following review and approval by central risk management, the risk map will be updated and the affected individuals responsible for risk informed accordingly.

Based on the average of quarterly risk assessments, risk exposure during 2015 was assessed at a slightly higher overall level compared to the previous year.

Overall, there were no risks which would have jeopardised the continued existence, or which would have had a material impact on the financial position and performance of Aareon AG.

Aareal First Financial Solutions AG

Aareal First Financial Solutions AG develops innovative products and services for account maintenance and payments for the housing sector and operates the respective systems. The material risks resulting from this business consist of operational risks regarding the further development and the operation of systems, as well as an indirect market risk, which is due in particular to the close relationship with Aareal Bank AG, which is responsible for the distribution of banking products.

The risk arising from developing software with respect to the initial and continued development of BK 01 software solutions largely relates to the potential inability to complete such developments with the required quality, within the planned timeframe, or within budgeted costs. Internally, Aareal First Financial Solutions AG counters such risks by deploying a uniform development process and regular management reporting. This is complemented by a uniform, high-quality process for licensing BK 01 products, established vis-à-vis development cooperation partners; this is designed to satisfy our quality requirements on a sustained basis, and to ensure a high degree of transparency. BK 01 products have been adapted, and the migration of BK 01 users to SEPA payments completed.

Development partnerships with ERP providers of institutional housing or utility software that do not comply with these stringent quality requirements will not be extended, or will be terminated.

Aareal First Financial Solutions AG has offered Aareal Bank's clients a browser-based online access since the beginning of 2015, via the Aareal EBICS platform. Aareal First Financial Solutions AG complies with regulatory requirements for this new risk class (in accordance with BaFin's Minimum Requirements for the Security of Internet Payments – "MaSI"): strong client authentication and multi-level security procedures are strictly adhered to; external risk analyses have been commissioned, and application-related access tests are being carried out.

The further development of the BK@1 accounting system based on the current Release 18.01 which is currently productive (Release 19.01 scheduled from approx. 11/2015) does not represent any material risk. SEPA procedures which are applicable at present have been fully implemented; those procedures which are as yet unsupported will be gradually implemented into BK@1, in accordance with the SEPA Roadmap. The integration of WestImmo as well as former Corealcredit into the payment systems (PTS) was completed smoothly, and on time. Risk exposure resulting from the operation of the BK@1 and PTS software solutions is sufficiently covered through the regular operational processes.

The company's Management Board applies a standardised project risk management methodology, whereby risks are assessed monthly on a qualitative level, in order to identify any risks at an early stage and take appropriate counter-measures. Monthly project status reports are assessed by the management bodies identified within the framework of Aareal First Financial Solutions AG's project management system. This allows for continuous monitoring, facilitating swift counteraction if necessary.

Company management receives comprehensive monthly reports covering the level of rendered and responsible production, which includes the provision and maintenance of applications and products, the hotline, and the provision of support services for operations.

A standardised procedure for the management of operational risks is being consistently applied.

Aareal First Financial Solutions AG acts on behalf of Aareal Bank, within the scope of agency agreements in place. Aareal First Financial Solutions AG has outsourced its print server and archiving system, as well as host and server platform operations, to Aareon AG. Regular discussions are held with both contracting parties on the topics of request management, change management, and active control of outsourced activities.

Aareal First Financial Solutions AG regularly reviews the emergency scenarios it considers relevant; contingency plans are verified using BCP testing.

The market risk regarding utilisation of BK 01 solutions was mitigated by developing interfaces to third-party systems, such as SAP or platforms developed by other software providers to the commercial housing sector, alongside connectivity to Aareon' AG's systems. These interfaces are refined on an ongoing basis.

Deutsche Bau- und Grundstücks-Aktiengesellschaft

Deutsche Bau- und Grundstücks Aktiengesellschaft ("BauGrund") looks back on a track record – either directly or through its subsidiaries – covering about eight decades in the property management sector. The business focus is on commercial and technical property management, primarily for residential property, but also for commercial and special property. BauGrund also manages properties on behalf of third parties according to the Residential Property Act (Wohnungseigentumsgesetz – "WEG").

BauGrund manages properties on behalf of the German federal government, institutional investors and companies, and for private investors including home owners' associations. The company's key risk factors are developments in the German property market, particularly regarding residential property investments, which in turn influence the behaviour of BauGrund's private, institutional and public-sector clients. In light of the low interest rate environment and the greater interest shown in tangible assets as a result of the sovereign debt crisis, we can expect a comparatively stable development on the German residential and commercial property market for the time being. Accordingly, the demand for property management services is likely to be stable or to slightly rise. Given the increasingly systematic workflows employed by the majority of market participants and the ongoing efficiency enhancements of all process steps (in an industrial business environment), service quality demands are set to rise further. However, clients are not expected to accept corresponding price increases.

Going forward however, there is a distinct expectation that property managers who fail to deliver the service standards demanded by clients stand to be replaced in the near future. This offers BauGrund potential for acquisitions. This potential materialised, for example, at the beginning of 2015, when BauGrund acquired a large management contract generating revenues of € 1.4 million p.a. The company was able to retain virtually all of its existing contracts during 2015, as in the previous years. However, the level of fees was lower, due to scheduled as well as unscheduled sales of portfolio properties.

To counter the risk of shrinkage in the managed portfolio, the activities were focused on stabilising and securing these portfolios. In addition, the company has revised its sales concept in order to originate further attractive follow-up orders from existing clients, targeting both institutional investors as well as private customers. BauGrund plans further investments, especially to enhance efficiency, in order to sharpen the company's profile as a quality provider with nationwide coverage.

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. 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, covering all entities of Aareal Bank Group. 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.

Aareal Bank prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs). The Finance division controls Group accounting processes and is responsible for ensuring compliance of Group accounting with legal requirements, as well as with any further internal and external provisions. Based on the IFRSs, the Finance division establishes accounting-related requirements that have to be applied consistently throughout the Group. These requirements are set out in the IFRS Group accounting manual.

Aareal Bank Group entities prepare an IFRS package as at the relevant balance sheet date. This includes financial statements prepared under IFRSs and in accordance with the IFRS Group accounting manual, as well as the notes and consolidation information (intercompany balances). All packages are recorded by the Finance division in a consolidation software and aggregated for the purpose of preparing the consolidated financial statements. The number of employees within Aareal Bank'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 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 auditing and consulting services which are designed to optimise Aareal Bank'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. Any detected weaknesses regarding the identification, evaluation and reduction of risks are reported and addressed within the context of specific action plans.

Internal Audit also performs Group audit functions for Aareal Bank's subsidiaries, within the context of the Group's risk management. The audit activities of Internal Audit comprise all of the Group's operational and business processes, and are carried out using a risk-based approach. 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. To perform its tasks, Internal Audit has full and unrestricted information rights with respect to activities, processes and IT systems of Aareal Bank AG and its subsidiaries. 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 Group. The audit activities of Internal Audit comprise all of the Group's operational and business processes, and are carried out using a risk-based approach.

Components of the accounting-related ICS and RMS

Within Aareal Bank, various measures related to the Bank's organisational structures and workflows help to fulfil the monitoring duties 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'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 consolidated and the single-entity 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 and 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. Uniform accounting policies are guaranteed through guidelines applicable throughout the Group. The requirements of these Group-wide guidelines substantiate legal provisions, and are adjusted on an ongoing basis to take current standards into account. The valuation techniques used, as well as the underlying parameters, are controlled regularly, and adjusted if necessary. 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 Group accounting IT systems for material transactions, this has been integrated and documented in the manual process workflows.

Adherence of Group 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 consolidated 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. Adequate control processes have been implemented for both manual and automated accounting transactions.

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 Group uses both standard and customised software. The consolidation software provides technical support to the reconciliation of Group-internal relationships, in a clearly-defined process. The data of the units included is reported using a uniform standardised chart of accounts. The Group'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 manipulation of data by unauthorised parties. Authorisations are allocated to responsible employees, reviewed regularly, and adjusted if necessary in accordance with internal criteria.

Aareal Bank 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 Group structure, to the business model, or new legal requirements.

Aareal Bank 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 macroeconomic 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

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

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; 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.

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.

Group targets

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 for 2016 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 expected 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 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 fully phased-in Common Equity Tier 1 (CET1) ratio of at least 13 % (including a 2.25 % management buffer) to be appropriate. The Liquidity Coverage Ratio (LCR) is expected to be at least 100 %.

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.

This 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 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 the multiple-year target is now 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 consolidated 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 of the Management Board on Takeover Disclosures in Accordance with section 315 (4) of the German Commercial Code (Handelsgesetzbuch – HGB)

Composition of subscribed capital, and rights and obligations attached to shares

The composition of Aareal Bank AG's subscribed capital is shown in Note 61 ("Equity") to the consolidated 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 the 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 Note 97 to the consolidated 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. 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 – to the extent permitted by law – 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 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

The Annual General Meeting held on 21 May 2014 resolved to authorise the Management Board to issue, on one or more occasions, profit-participation rights with a total nominal amount of up to € 1,000,000,000, with a limited or an unlimited term, for contribution in cash or in kind. This authorisation will expire on 20 May 2019. 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 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. Such purchases may be effected via stock exchanges or public purchase offers made to all shareholders, taking into account the prices as specified in the respective Annual General Meeting's resolution, which are in turn based on the Company's stock exchange share price. The authorisation may be exercised on one or more occasions, covering partial amounts or the maximum amount.

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 consolidated financial statements.

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

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Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement

€ mn	Notes	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Interest income		1,013	1,010
Interest expenses		232	322
Net interest income	27	**781**	**688**
Allowance for credit losses	28	128	146
Net interest income after allowance for credit losses		**653**	**542**
Commission income		204	193
Commission expenses		29	29
Net commission income	29	**175**	**164**
Net result on hedge accounting	30	8	5
Net trading income/expenses	31	13	2
Results from non-trading assets	32	-17	2
Results from investments accounted for using the equity method	33	0	0
Administrative expenses	34	553	439
Net other operating income/expenses	35	41	6
Negative goodwill from acquisitions	36	150	154
Operating profit		**470**	**436**
Income taxes	37	96	101
Consolidated net income		**374**	**335**
Consolidated net income attributable to non-controlling interests		19	19
Consolidated net income attributable to shareholders of Aareal Bank AG		355	316
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG[1]		355	294
of which: allocated to ordinary shareholders[2]		339	292
of which: allocated to AT1 investors[2]		16	2
Earnings per ordinary share (in €)[3]		5.66	4.87
Earnings per AT1 unit (in €)[4]		0.16	0.02

[1] SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 31 December 2014 (€ 22 million) in the EpS (earnings per share) calculation.

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

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

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

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Consolidated net income	**374**	**335**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	**15**	**-55**
Remeasurements	22	-79
Taxes	-7	24
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**13**	**65**
Gains and losses on remeasuring AfS financial instruments	25	90
Reclassifications to the income statement	-6	-1
Taxes	-6	-24
Changes in hedging reserves	**14**	**16**
Profit/loss from derivatives used to hedge future cash flows	21	18
Reclassifications to the income statement	–	4
Taxes	-7	-6
Changes in currency translation reserves	**3**	**2**
Profit/loss from translating foreign operations' financial statements	3	2
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**45**	**28**
Total comprehensive income	**419**	**363**
Allocation of total comprehensive income		
Total comprehensive income attributable to non-controlling interests	19	19
Total comprehensive income attributable to shareholders of Aareal Bank AG	400	344

Statement of Financial Position

€ mn	Notes	31 Dec 2015	31 Dec 2014
Assets			
Cash funds	7, 38	1,282	184
Loans and advances to banks	8, 39	1,893	3,178
Loans and advances to customers	9, 40	34,566	30,549
Allowance for credit losses	10, 41	-528	-480
Positive market value of derivative hedging instruments	11, 42	2,498	2,565
Trading assets	12, 43	638	467
Non-trading assets	13, 44	10,507	12,002
Investments accounted for using the equity method	14, 45	1	1
Intangible assets	15, 46	126	110
Property and equipment	16, 47	267	96
Income tax assets	48	20	35
Deferred tax assets	17, 49	239	240
Other assets	18, 50	439	610
Total		**51,948**	**49,557**
Equity and liabilities			
Liabilities to banks	19, 51	1,898	1,807
Liabilities to customers	20, 52	30,360	27,483
Certificated liabilities	21, 53	10,819	11,483
Negative market value of derivative hedging instruments	11, 54	2,720	2,928
Trading liabilities	12, 55	663	659
Provisions	22, 56	783	713
Income tax liabilities	57	102	124
Deferred tax liabilities	17, 58	34	21
Other liabilities	23, 59	114	127
subordinated liabilities	24, 60	1,411	1,489
Equity	25, 61		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,633	1,357
AT1 bond		300	300
Other reserves		-32	-77
Silent participation by SoFFin		–	–
Non-controlling interests		242	242
Total equity		3,044	2,723
Total		**51,948**	**49,557**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Total	Non-controlling interests	Equity
Equity as at 1 Jan 2015	**180**	**721**	**1,357**	**300**	**-95**	**15**	**-1**	**4**	**2,481**	**242**	**2,723**
Total comprehensive income for the period			355		15	13	14	3	**400**	19	**419**
Payments to non-controlling interests										-19	**-19**
Dividends			-72						**-72**		**-72**
AT1 coupon			-7						**-7**		**-7**
Other changes											
Equity as at 31 Dec 2015	**180**	**721**	**1,633**	**300**	**-80**	**28**	**13**	**7**	**2,802**	**242**	**3,044**

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bonds	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interests	Equity
Equity as at 1 Jan 2014	**180**	**721**	**1,112**	**–**	**-40**	**-50**	**-17**	**2**	**300**	**2,208**	**242**	**2,450**
Total comprehensive income for the period			316		-55	65	16	2		**344**	19	**363**
Payments to non-controlling interests											-19	**-19**
Dividends			-45							**-45**		**-45**
Issue of AT1 bond				300						**300**		**300**
Issue costs of AT1 bond			-2							**-2**		**-2**
Silent participation by SoFFin									-300	**-300**		**-300**
Costs associated with the silent participation by SoFFin			-22							**-22**		**-22**
Other changes			-2							**-2**		**-2**
Equity as at 31 Dec 2014	**180**	**721**	**1,357**	**300**	**-95**	**15**	**-1**	**4**	**–**	**2,481**	**242**	**2,723**

Statement of Cash Flows

€ mn	Cash flows 1 Jan-31 Dec 2015	Cash flows 1 Jan-31 Dec 2014
Consolidated net income	**374**	**335**
Write-downs, valuation allowances and write-ups on loans and advances	138	166
Additions to and reversals of loan loss provisions, net	-2	3
Amortisation, depreciation, impairment and write-ups of non-current assets	27	21
Other non-cash changes	131	170
Gains/losses on the disposal of non-current assets	10	-3
Other adjustments	-376	-304
Subtotal	**302**	**388**
Changes in loans and advances to banks	1,657	-83
Changes in loans and advances to customers	2,975	-440
Changes in trading assets	112	146
Changes in other assets from operating activities	118	14
Changes in liabilities to banks	-1,255	-1,397
Changes in liabilities to customers	-3,085	-617
Changes in certificated liabilities	-1,259	-150
Changes in trading liabilities	-165	-37
Changes in provisions	-105	-86
Changes in other liabilities from operating activities	-267	-169
Income taxes paid/income tax refunds	-66	-77
Interest received	616	987
Interest paid	-115	-514
Dividends received	–	–
Cash flow from operating activities	**-537**	**-2,035**
Proceeds from the disposal of non-trading assets and investments accounted for using the equity method	2,602	1,249
Payments for the acquisition of non-trading assets and investments accounted for using the equity method	-372	-220
Proceeds from the disposal of property and equipment, intangible assets and investment properties	0	1
Payments for the acquisition of property and equipment, intangible assets and investment properties	-35	-14
Effect of changes in reporting entity structure	-337	-346
Changes due to other investing activities	–	–
Cash flow from investing activities	**1,858**	**670**
Dividends and AT1 coupon paid	-79	-45
Changes in subordinated capital	-94	424
Changes due to other funding activities	-50	-52
Cash flow from financing activities	**-223**	**327**
Cash and cash equivalents as at 1 January	**184**	**1,222**
Cash flow from operating activities	-537	-2,035
Cash flow from investing activities	1,858	670
Cash flow from financing activities	-223	327
Cash and cash equivalents as at 31 December	**1,282**	**184**

Notes
Basis of Accounting

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

As a listed public limited company, Aareal Bank AG has prepared its consolidated financial statements for the financial year ended on 31 December 2015 in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). The reporting currency is the euro (€).

The Management Board approved the consolidated financial statements for publication on 2 March 2016.

Accounting Policies

(1) Accounting standards

Recognition and measurement within Aareal Bank Group are based on accounting policies applied consistently throughout the Group. The consolidated financial statements are prepared on a going concern basis.

We generally apply accounting policies – and the presentation of financial statements – consistently, in order to ensure the comparability of financial statements over time.

Information is presented in accordance with the principle of materiality. Minor differences may occur regarding the figures stated, due to rounding.

The Bank observes the general prohibition of setting off assets against liabilities. To the extent that the criteria of IAS 12.74 are met, deferred tax assets and deferred tax liabilities are offset. If the requirements set out in IAS 32.42 are met, financial assets and liabilities are reported on a net basis.

Income and expenses are recognised on an accrual basis and recorded in the income statement in the period to which they relate.

Interest income and expenses are recognised using the effective interest method. It is no longer recorded if the cash inflow from interest payments is no longer deemed likely. Expenses for negative interest from deposits are reported as a reduction of interest income.

Dividend income is recognised when there is a corresponding legal title.

Commission income and expenses are recognised either on the basis of the accounting method used for the related financial instruments, or the purpose. Commissions for services provided over a specific time period are deferred over the period in which services are performed.

Revenue received in connection with consulting projects, training, license and maintenance agreement and hosting or outsourcing services, is recorded when services have been performed or when goods or products have been delivered. The recognition of revenue from implementation services within the framework of projects is based on the percentage-of-completion method. License revenue is deemed to be realised when there is an agreement signed by both parties without a right of rescission, the product has been delivered in its entirety, the license fee is fixed, and payment is probable. Maintenance services are realised proportionately over the contractual performance period.

In the preparation of the financial statements, assets and liabilities were primarily measured using amortised cost or fair value. Which measurement method will actually be used for a particular item is defined by the applicable accounting standard. Financial instruments are accounted for in accordance with the classification and measurement principles as defined in IAS 39. Derivative hedging instruments are accounted for on the basis of the provisions for hedge accounting.

The presentation of the financial position and the financial performance in the consolidated financial statements depends on the recognition and measurement methods underlying the preparation of the financial statements, as well as on assumptions made by the management in relation to uncertain future events. Any assessments required for recognition and measurement are in line with the relevant accounting standards. Estimates and assumptions are based on historical experience and other factors, such as planning and current expectations and forecasts with respect to the occurrence of future events. The estimates and assessments themselves as well as the underlying assessment factors and estimation techniques are reviewed regularly and compared with actual outcome. In our view, the parameters used are relevant and reasonable.

The most significant estimates and assumptions of the management primarily refer to the calculation of provisions, allowances for credit losses and provisions in the lending business, the measurement of goodwill, property and tax assets and liabilities. We refer to the item-specific disclosures in this section for information related to the estimates and assumptions actually made within the context of recognition and measurement.

An asset is recognised in the statement of financial position when it is probable that an associated future economic benefit will flow to the Company and the asset can be measured reliably.

A liability is recognised if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when the settlement amount of the liability can be measured with sufficient reliability.

(2) Changes in accounting policies

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

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

- **IFRIC 21**
  IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and states that a company only recognises levies imposed by government once the activity that gives rise to a levy by law has occurred. After a change to the original date for first-time application, the standard is now required to be applied for companies within the EU for financial years beginning on or after 17 June 2014.

These amendments do not have any material consequences for the consolidated financial statements of Aareal Bank Group.

Until 31 December 2015, the following financial reporting standards (IASs/IFRSs) and interpretations (SICs and IFRICs) had been published by the International Accounting Standards Board (IASB) and adopted by the EU Commission:

New International Financial Reporting Standards/Interpretations		Issued	Endorsed	Effective Date
IFRS 14	Regulatory Deferral Accounts	January 2014	No endorsement by the EU planned	Financial years beginning on or after 1 January 2016
IFRS 15	Revenue from Contracts with Customers Effective Date of IFRS 15	May 2014 September 2015		Financial years beginning on or after 1 January 2018
IFRS 9	Financial Instruments	July 2014		Financial years beginning on or after 1 January 2018

Revised International Financial Reporting Standards		Issued	Endorsed	Effective Date
IAS 19	Defined Benefit Plans: Employee Contribution	November 2013	December 2014	Financial years beginning on or after 1 February 2015
	Annual Improvements Cycle 2010-2012	December 2013	December 2014	Financial years beginning on or after 1 February 2015
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	May 2014	November 2015	Financial years beginning on or after 1 January 2016
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	May 2014	December 2015	Financial years beginning on or after 1 January 2016
IAS 16 and IAS 41	Agriculture: Bearer Plants	June 2014	November 2015	Financial years beginning on or after 1 January 2016
IAS 27	Equity Method in Separate Financial Statements	August 2014	December 2015	Financial years beginning on or after 1 January 2016
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture Effective Date of Amendments to IFRS 10 and IAS 28	September 2014 December 2015		Date of first-time application delayed for the time being
	Annual Improvements Cycle 2012-2014	September 2014	December 2015	Financial years beginning on or after 1 January 2016
IAS 1	Disclosure Initiative	December 2014	December 2015	Financial years beginning on or after 1 January 2016
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	December 2014		Financial years beginning on or after 1 January 2016

- **IFRS 14 Regulatory Deferral Accounts**
  The rules set out in IFRS 14 permit a first-time adopter of IFRS pursuant to IFRS 1 First-time Adoption of International Financial Reporting Standards to account for regulatory deferral accounts in its IFRS financial statements that it previously recognised based on the previous local GAAP in connection with rate-regulated activities and continue to use previous local GAAP.

- **IFRS 15 Revenue from Contracts with Customers**
  IFRS 15 governs the recognition of revenue from contracts with customers based on a uniform model. The standard supersedes the current revenue recognition provisions set out in IAS 11 and IAS 18 as well as the related interpretations. IFRS 15 has to be applied by all companies that enter into contracts with customers for the delivery of goods or the provision of services unless these contracts are within the scope of other standards. Accordingly, amongst other things, financial instruments and other contractual rights or obligations within the scope of IAS 39 or IFRS 9 are excluded from the scope of IFRS 15. The core principle of IFRS 15 for revenue recognition is that an entity has to recognise revenue when the performance obligations assumed are satisfied, i.e. when control over the goods and services has been transferred. Revenue has to be recognised in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. IFRS 15 introduces a 5-step model based on which the amount and the timing of revenue recognition are determined. In addition, the standard requires additional disclosures, including, amongst other things, a disaggregation of total revenue, performance obligations, a reconciliation of opening and closing balances of contractual net assets and liabilities as well as significant judgements and estimates.
  In September 2015, the IASB issued "Effective Date of IFRS 15", thus delaying the date of first-time application of IFRS 15 to financial years beginning on or after 1 January 2018. In July 2015, additional adjustments and clarifications to the standard were proposed. The changes are the result of discussions within the Transition Resource Group (TRG). The TRG is an advisory body established jointly by the IASB and the FASB addresses issues in relation to the implementation of IFRS 15. Aareal Bank Group is currently reviewing the effects of the new standard on the consolidated financial statements. A final assessment is not yet possible due to the fact that the provisions have not been finalised. However, significant effects on the overall Group are not expected.

- **IFRS 9 Financial Instruments**
  IFRS 9 Financial Instruments introduces new rules for the accounting of financial instruments, and will generally replace IAS 39 Financial Instruments: Recognition and Measurement. The development of IFRS 9 was structured in three phases: "Classification and Measurement", "Impairment" and "Hedge Accounting". In July 2014, the final rules of IFRS 9 were published, the stated date for mandatory first-time application was 1 January 2018. After finalising the standard, the endorsement process was started by EFRAG in September 2014. EFRAG's final endorsement advice to the European Commission was issued on 15 September 2015. Endorsement is expected to occur in the second half of 2016.

  The classification and measurement section of the new standard sets out a new model for the classification and measurement of financial assets. Subsequent measurement of financial assets will be based in future on three categories with different measurement methods and different recognition methods related to changes in value. Apart from the measurement category "Financial assets measured at amortised cost using the effective interest method", there will be in future the following categories: "Financial assets at fair value through profit or loss" as well as "Financial assets at fair value through other comprehensive income". The classification to the measurement categories is based on the criteria of business model and cash flow characteristics of the financial assets. The structure and allocation of financial instruments to the business models is in the responsibility of the management. Any associated transition effects are recognised in equity.

  There are special rules for equity instruments as there is an option to measure these either through other comprehensive income or through profit or loss. The accounting rules for financial liabilities do not result in any material changes. An exception to this is the inclusion of changes from own credit risk in case of financial liabilities measured at fair value through profit or loss. These changes may not be recognised through profit or loss, but through other comprehensive income.

The new rules for impairment (expected loss model) will replace the previous incurred loss model. The objective of this is an early (expected) measurement and recognition of allowances for credit losses. IFRS 9 prescribes three stages which are used to determine the amount of the losses to be recognised and the recognition of interest. Upon initial recognition of an asset, expected losses are recognised using the present value of a 12-month expected credit loss (Stage 1). If the credit risk increases significantly, the allowance for credit losses is increased to the total amount of lifetime expected credit losses (Stage 2). If there is objective evidence of impairment in relation to a financial asset, a specific valuation allowance has to be recognised and interest revenue has to be recognised based on the net carrying amount (Stage 3). The impairment model set out in IFRS 9 has to be applied to financial assets of the categories "Measured at amortised cost" and "Measured at fair value through other comprehensive income" as well as to loan commitments and financial guarantees. In addition, lease receivables and trade receivables are covered by the new impairment rules. We expect an increase of valuation allowances primarily in Stage 2, which will be recognised in equity at the date of transition.

The third phase of IFRS 9 introduced new rules for hedge accounting. The standard simplifies the hedge accounting rules by establishing a better relationship between the entity's risk management strategy, the reasons for entering into hedging transactions and the recognition of hedging relationships in the entity's financial statements. In future, non-financial items may also be recognised under hedge accounting rules, and single risk components may be designated for hedge accounting to a larger extent. Generally, groups and net positions will be eligible for hedge accounting. A voluntary discontinuation of hedge accounting – so-called de-designation – is no longer permitted under the new regulations. Hedging relationships may only be discontinued when the objective of risk management has been changed. In contrast, the new IFRS 9 allows for an adjustment of hedging relationships if this is necessary (rebalancing). The requirements regarding effectiveness have been simplified: only qualitative assessments of effectiveness and prospective effectiveness tests have to be performed. Due to the separation of the macro hedge accounting project from IFRS 9 and its postponement, the application of the new hedge accounting rules in IFRS 9 allows for the continued application of special rules for fair value hedge accounting for portfolio hedges of interest rate risks in IAS 39. IFRS 9 also comprises comprehensive disclosure requirements; the numerous new requirements affect, above all, impairment. The disclosures on financial instruments continue to be based on IFRS 7, which was amended and extended in the context of the publication of IFRS 9.

The Bank has initiated measures to ensure a timely implementation of IFRS 9 and to review the effects and strategic implications of IFRS 9.

- **IAS 19 Defined Benefit Plans: Employee Contribution**
  The amendments to IAS 19 include a clarification regarding the recognition of employer's contributions made to defined benefit plans contributed by the employees themselves for service elements. Contributions by employees or third parties reduce the ultimate costs of benefit commitments and are therefore accounted for on the basis of accounting policies for benefit commitments.

- **Annual Improvements Cycle 2010 - 2012**
  Within the scope of the Annual Improvements Cycle, the IASB publishes clarifications and minor changes to various existing standards.

- **IFRS 11 Accounting for Acquisitions of Interest in Joint Operations**
  The amendments to IFRS 11 govern the recognition of acquisitions of interests in joint operations in which the activity constitutes a business within the meaning of IFRS 3 Business Combinations. In such cases, the acquirer has to apply the principles on business combinations accounting set out in IFRS 3. Moreover, disclosure requirements of IFRS 3 apply in these cases. In addition, the amendment clarifies that, in the context of the acquisition of additional interests, previously held interests in a joint operation are not remeasured if joint control is retained.

- **IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**
  The amendment includes guidance for determining an acceptable method of depreciation and amortisation. The amendment clarifies that depreciation of property, plant and equipment on the basis of revenue from the goods produced by such property, plant and equipment is not appropriate. In addition, rules are introduced pursuant to which future reductions in the selling price of goods and services are an indication of their economic obsolescence and, therefore, an indication for the decline of potential future economic benefits of the assets required for the production of such goods or services.

- **IAS 16 and IAS 41 Agriculture: Bearer Plants**
  In accordance with the amendments, bearer plants – such as grape vines, rubber trees and oil palms –, which are used to harvest the produce of biological assets over several accounting periods, without being sold as agricultural produce, have to be accounted for like property, plant and equipment pursuant to IAS 16 since their use is similar. However, the produce growing on bearer plants continues to be accounted for in accordance with IAS 41 in future.

- **IAS 27 Equity Method in Separate Financial Statements**
  As a result of the amendment, the equity method is re-introduced as an accounting option for interests in subsidiaries, joint ventures and associates in separate financial statements of an investor. The existing options for measurement at cost or in accordance with IAS 39/IFRS 9 continue to apply.

- **IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments relate to a situation where assets are sold or contributed to an associate or a joint venture. In future, any gain or loss resulting from the loss of control of a subsidiary which is contributed to a joint venture or an associate, has to be recognised in full by the investor when the transaction concerns a business within the meaning of IFRS 3 Business Combinations. However, if the transaction refers to assets which are not a business, only the pro-rata gain or loss (in the amount of the share held by the other investors) is recognised. In December 2015, the IASB delayed the date for the first-time application of these amendments for the time being since the issue is expected to be re-addressed within the scope of a research project in relation to the equity method.

- **Annual Improvements Cycle 2012-2014**
  Within the scope of the Annual Improvements Cycles, the IASB publishes clarifications and minor changes to various existing standards.

- **Amendments to IAS 1: Disclosure Initiative**
  The amendments refer to clarifications of the concept of materiality in relation to the presentation of items in the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity as well as regarding the notes. Immaterial disclosures are not required to be made. This also applies when the disclosure is explicitly required

pursuant to other standards. In addition, rules for the presentation of subtotals, the systematic ordering or grouping of the Notes, as well as the disclosures of accounting policies, have been added to IAS 1, and previous requirements have been clarified. Moreover, the amendment clarifies the separate presentation of the share of investments accounted for using the equity method in other comprehensive income in the statement of comprehensive income by items that are subsequently reclassified to the income statement and those which are not reclassified to the income statement.

- **Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception**
  The amendments clarify a number of issues. Firstly, it is clarified that exemption from the requirement to prepare consolidated financial statements in accordance with IFRS 10.4(a) also applies to a parent company that itself is a subsidiary of another investment entity. In addition, the standard setter clarifies that an investment entity has to measure at fair value a subsidiary which itself meets the criteria of an investment entity even if the subsidiary provides investment-related services. Finally, it is clarified that a non-investment entity that includes in its consolidated financial statements an investment entity as an associate or a joint venture using the equity method, may continue to use the fair value measurement of subsidiaries applied by the associate or the joint venture.

Aareal Bank Group did not opt for early application of these standards in 2015, which are required to be applied in future financial years.

Aareal Bank Group is currently reviewing the effects of the application of the new and amended financial reporting standards on the consolidated financial statements.

(3) Consolidation

Consolidation principles

The consolidated financial statements of Aareal Bank Group include all subsidiaries which are controlled directly or indirectly by Aareal Bank AG. Aareal Bank controls an investee when it has the power to direct the investee's relevant activities, has an exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of such returns. If control is exercised via voting rights, Aareal Bank assumes that a parent-subsidiary relationship exists if more than half of the voting rights are held directly or indirectly. In cases where voting rights are not conclusive in determining control relationships, other factors are used to assess whether Aareal Bank Group has the power over the company. For this purpose, an assessment is made of the following: purpose and design of an investee, what are the relevant activities of the company, what is the decision-making process in relation to these relevant activities and whether Aareal Bank, by virtue of its rights, currently has the ability to direct these relevant activities. In addition, we assess whether Aareal Bank Group exercises control as principal or as agent or whether a third party acts as agent for the Group. If the assessment shows that Aareal Bank has the sole power over an investee and additionally has the ability to use its power over the investee to affect the amount of the investor's returns, the investee is included in the consolidated financial statements. Currently, all subsidiaries included in the reporting entity structure of Aareal Bank are controlled through a majority of voting rights.

Consolidation of a subsidiary begins from the date the Group obtains significant influence (full consolidation). Subsidiaries are deconsolidated when there is no longer the ability to exercise significant influence.

Any non-controlling interests resulting from full consolidation are shown in the statement of financial position, as a separate item of equity. Further information is included in Note (61) "Equity".

Initial consolidation of entities is based on the purchase method, in accordance with IFRS 3, whereby remeasured amounts must be used when recognising assets and liabilities (including any hidden reserves and hidden encumbrances) of an entity to be consolidated. This may lead to the recognition of new assets and liabilities that were previously not reported in the statement of financial position of the company to be consolidated. Any excess of acquisition cost over the Group's interest in the fair value of net assets is recognised as (positive) goodwill. Any negative goodwill determined during this comparison is charged against income.

Intragroup transactions, balances, and profits on transactions between Group entities are eliminated. Accounting policies applied by subsidiaries were amended for the purpose of preparing consolidated financial statements to the extent required to ensure consistent accounting throughout the Group.

Joint arrangements are defined as contractual arrangements where two or more parties carry out business activities that are subject to joint control. Joint control only exists when the decisions about the relevant activities require unanimous consent of the parties sharing control. In general, a distinction is made between joint operations and joint ventures. The parties to a joint operation that have joint control have the rights to the assets, and the obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Interests in joint ventures are measured using the equity method.

Associates are companies in which the Group has an equity interest and may exercise significant influence, without having control. Significant influence is deemed to exist when an investor holds 20 %-50 % of the voting rights of a company. Associates are also measured using the equity method.

In accordance with the equity method, the Group's share in the profit or loss of associates and joint ventures is recognised in the consolidated income statement from the date of acquisition and is included in the carrying amount of the equity investment, taking into account interim distributions. Further information on investments accounted for using the equity method is included in Note (45).

Associates and joint ventures are no longer accounted for using the equity method from the date when Aareal Bank loses significant influence over the company or when joint control ends.

As at the reporting date, Aareal Bank was not exposed to material limitations as regards the access to, or use of, assets of the Group and as regards the liabilities of the Group.

Reporting entity structure

As at 31 December 2015, the reporting entity structure comprised 82 companies (2014: 90), including Aareal Bank AG as well as 72 (2014: 79) subsidiaries, two joint arrangements (2014: three) as well as seven associates (2014: seven).

GEV GmbH, Wiesbaden, a subsidiary of Aareal Bank AG, acquired all of the shares of Westdeutsche ImmobilienBank AG (WestImmo), Mainz, which specialises in commercial property financing. A corresponding sale and purchase agreement was concluded on 22 February 2015 with the previous owner, Erste Abwicklungsanstalt (EAA). The purchase price paid in cash amounts to € 337 million. The closing of the transaction was completed following approval from the respective authorities as at 31 May 2015. Accordingly, Aareal Bank Group obtained control over WestImmo and included the acquired company in the consolidated financial statements of Aareal Bank Group for the first time as at 31 May 2015 (date of initial consolidation).

Aareal Bank has effected a targeted investment in its core Structured Property Financing business by acquiring WestImmo, further expanding its strong position as one of the leading specialists on key target markets. The reasons for the business combination also include optimising the allocation of equity capital, as well as realising potential synergies which result from the combination of both companies, due to their very similar business models.

In accordance with IFRS 3, all identifiable assets and liabilities of the acquired entity have to be measured at their fair value at the time of acquisition (closing). These fair values also represent the amounts recognised upon initial consolidation. The difference between the purchase price paid and the higher net balance of assets and liabilities acquired and measured at fair value is recognised as negative goodwill in the income statement, and directly increases the equity of Aareal Bank Group. This income amounts to € 150 million and is reported in the statement of comprehensive income in a separate item. This income primarily results from the utilisation of a favourable market environment for such transactions. Apart from favourable price-to-book valuations and attractive asset and liability spreads, limited investor interest in the European corporate property banking sector contributed to this favourable environment.

The determination of the fair value for the assets acquired and liabilities assumed, which is required for the purchase price allocation in accordance with IFRS 3, is subject to judgements, in particular with regard to cash flows and discount rates. The purchase price allocation was completed as at 31 December 2015. The completion of the purchase price allocation did not lead to any material adjustments.

The following overview shows the purchase price allocation in accordance with IFRS 3 as at the time of acquisition:

€ mn	Fair value as at 31 May 2015
Cash funds	4
Loans and advances to banks	337
Loans and advances to customers	6,842
Allowance for credit losses (portfolio-based)	-19
Positive market value of derivative hedging instruments and trading assets	892
Non-trading assets	1,035
Intangible assets	2
Property and equipment	20
Income tax assets	0
Deferred tax assets	52
Other assets	8
Total assets acquired	**9,173**

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€ mn	Fair value as at 31 May 2015
Liabilities to banks	1,049
Liabilities to customers	6,454
Certificated liabilities	662
Negative market value of derivative hedging instruments and trading liabilities	376
Provisions	109
Income tax liabilities	5
Other liabilities	14
Subordinated capital	17
Total liabilities assumed	**8,686**
Total net assets acquired	**487**
Purchase price paid	337
Negative goodwill	**150**

Taking into account the purchase price paid in the amount of € 337 million, the transaction led to an increase in total net assets, as shown in the consolidated statement of financial position, in the amount of the negative goodwill (€ 150 million).

Within the scope of the acquisition of WestImmo, Aareal Bank assumed credit risks and, to a minor extent, legal and tax risks. These risks were considered within the context of the purchase price allocation by recognising allowances for credit losses and provisions. In connection with the assumed legal and tax risks, there are claims for reimbursement towards the seller, so that Aareal Bank AG is largely exempt from future obligations.

The costs associated with the business combination amounted to € 7 million and were recognised as administrative expenses, predominantly in the 2015 financial year.

The fair value of the accounts receivable acquired as part of the business combination amounted to € 7.2 billion as at 31 May 2015, comprising € 6.8 billion in loans and advances to customers and € 0.4 billion in loans and advances to banks. The gross amount of these receivables' contractually agreed cash flows amounted to € 7.6 billion, comprising € 7.2 billion in loans and advances to customers and €0.4 billion in loans and advances to banks. € 85 million of contractually-agreed cash flows from these loans and advances to customers are considered uncollectable.

The effects upon the income statement of the present interim consolidated financial statements are € 75 million in interest income and € 36 million in operating profit, both of which are attributable to WestImmo. If the business combination had taken effect at the beginning of the period under review, Aareal Bank Group would probably have reported additional interest income in the amount of approximately € 54 million as well as additional operating profit of approximately € 26 million.

There were no other material changes to the reporting entity structure during the period under review. Note 102 "List of Shareholdings" includes an overview of the Group companies.

(4) Currency translation

Individual line items in the financial statements of each Group entity are measured on the basis of the currency of the primary economic environment the respective entity operates in ("functional currency"). The consolidated financial statements are prepared in euro, being both the functional and the reporting currency.

Monetary assets and liabilities denominated in a foreign currency, unsettled cash market/spot transactions and non-monetary items measured at fair value are all translated to the functional currency on the basis of the ECB reference rate prevailing on the balance sheet date. Non-monetary items measured at amortised cost are translated using historical rates. Foreign exchange forward transactions are measured at the forward exchange rate prevailing on the balance sheet date.

Currency translation adjustments on monetary assets and liabilities must be recognised in income. Depending on the relevant measurement category, currency translation adjustments on non-monetary items are either recognised directly in equity (in the currency translation reserves), or recognised in the income statement (in net trading income).

Financial statements of consolidated subsidiaries, which are presented in a currency other than the euro, are translated at the ECB reference rate prevailing at the reporting date. Translation differences are recognised in equity, in the currency translation reserves.

(5) Determination of fair value

The determination of fair value is governed by IFRS 13 and applies to financial instruments and non-financial assets or liabilities. In accordance with IFRS 13.9, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The determination of the fair value is based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Another factor to be taken into account is whether Aareal Bank can enter into a transaction for the relevant asset or liability at the price in that market at the measurement date. The principal market is the market with the greatest volume and the highest level of activity for the asset or liability to which Aareal Bank has access. In the absence of a principal market for the financial instrument, the most advantageous market is used to determine the fair value. The most advantageous market is the market that maximises the amount that would be received to sell the asset, or minimises the amount that would be paid to transfer the liability.

In accordance with IFRS 13.72 et seqq., the fair value determination is based on the fair value hierarchy pursuant to which the inputs used are classified into various hierarchy levels on the basis of their respective market proximity and objectivity. The fair value of assets and liabilities is allocated to Level 1 of the fair value hierarchy if it is determined on the basis of unadjusted quoted prices in active markets for identical assets or liabilities. Fair values determined using inputs other than quoted prices included within Level 1 that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of the fair value hierarchy. Fair values determined using valuation techniques where one or more material inputs are not based on observable market data are assigned to Level 3 of the fair value hierarchy. The estimation uncertainties as regards fair value measurement increase the higher the level is.

As a rule, the transaction price equals the fair value at initial recognition. In contrast, there can be differences between the initial fair value determined using a valuation technique and the transaction price. These so-called day-one gains or losses may only be recognised immediately when all the inputs on which the valuation parameters are based are observable in the market. Otherwise, the difference has to be amortised through profit or loss over the term of the transaction. Adjustments for specific counterparty risks (CVA and DVA) are not taken into account for the determination of the present value of derivatives at Aareal Bank, as they are deemed immaterial. Since the derivatives are part of highly effective collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives Transactions) which are each subject to a master collateralisation agreement, measurement adjustments to reflect any potential counterparty credit risk or own credit risk are not required. The Bank uses the overnight interest rate swap curve (OIS curve) for the measurement of derivatives secured by cash collateral.

(6) Recognition and measurement of financial instruments

Pursuant to IAS 32, a financial instrument is any contract that gives rise to a financial asset at one contracting party and a financial liability or equity instrument at another contracting party.

Recognition

Financial instruments (including derivative financial instruments) must be recognised if the reporting entity has become a party to the contractual provisions of such financial instruments. Trade date and settlement date are not the same for regular way purchases and sales of financial assets. Such regular way purchases and sales may be accounted for either at trade date or at settlement date. At Aareal Bank Group, financial instruments classified as held for trading are recognised at the trade date, while all other financial instruments are recognised at the settlement date.

Financial assets are derecognised upon final maturity or when substantially all risks or rewards are transferred, or control over the contractual rights from such assets are transferred. If only a portion of risks and rewards is transferred and a portion of control is retained, the financial asset is recognised only to the extent of its continuing involvement. The extent of the continuing involvement corresponds to the extent to which the Company is exposed to changes in the value of the financial asset. A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged.

Measurement

In accordance with IAS 39, financial instruments are measured at fair value at initial recognition. Generally, fair value equals the transaction price at initial recognition, i.e. the amount of the consideration received (see Note (5) ”Determination of fair value”). Transaction costs that are directly attributable to the acquisition or issuance are recorded as incidental purchase costs, unless financial instruments are measured at fair value through profit or loss. All financial assets and financial liabilities have to be allocated to one of the measurement categories at initial recognition pursuant to IAS 39. Subsequent measurement is based on the measurement category to which the financial instruments were allocated.

Measurement categories in accordance with IAS 39

Loans and receivables (LaR)

The "Loans and receivables" category used within Aareal Bank Group comprises non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. A financial instrument is deemed quoted on an active market when quoted prices are readily and regularly available and these prices represent actual and regular market transactions. Financial instruments classified as loans and receivables are measured subsequently at amortised cost. Premiums and discounts are amortised over their term using relevant effective interest rates.

Assets of the category "Loans and receivables" are reviewed as at each balance sheet date as to whether there is objective evidence for impairment. The criteria for reviewing property loans for impairment are strong indications for a decline of the borrower's credit quality, arrears with respect to the loan receivable, as well as further indications that not all interest and principal payments can be made as contractually agreed. In this context, meeting one of the criteria is sufficient for a review of objective evidence for impairment. An impairment has occurred if the present value of the estimated future cash flows is below the carrying amount of a receivable. The amount of the impairment loss incurred for a financial asset of the category "Loans and receivables" is determined as being the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted using the original effective interest rate applicable upon first-time recognition (taking into account the marketability of collateral provided). Collateral is largely provided in the form of land charges or mortgages; these are measured at fair value based on either the income capitalisation approach or the discounted cash flow method. If the asset is subject to variable interest, the current contractually agreed reference interest rate has to be used as the discount rate. The impairment is recognised in the income statement. Where reasons for impairment lapse subsequently, the necessary reversals of impairments (write-backs) are generally recognised in income. The carrying amount after the reversal of an impairment loss may not exceed the asset's (amortised) cost.

In the context of assets measured at amortised cost and not subject to specific allowances for credit losses, portfolio-based allowances for credit losses 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 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. The LIP factor is 1 for all exposure classes.

Assets where contractual modifications have been made due to financial difficulties on the part of the counterparty are tested for impairment and continuously monitored. The counterparty's financial difficulties and the change in the credit quality also affect the level of the probability of default for the contracting party. This is taken into account in the amount of the portfolio-based valuation allowance, to the extent that an impairment has not yet been recorded. Concessions made to a counterparty due to financial difficulties are actions that may be initiated within the lending business to secure repayment of the receivable. Above all, such concessions comprise temporary suspension of redemption payments, adjustment of contractual interest rates and prolongation of the credit term. Such contractual modifications are not used in the other business units of Aareal Bank.

Held to maturity (HtM)

Financial instruments allocated to the category "Held to maturity" within Aareal Bank Group are non-derivative financial assets with fixed or determinable payments and fixed maturity, and for which the Bank has the positive intention and ability to hold these financial instruments to maturity. Financial instruments classified as held-to-maturity instruments are measured subsequently at amortised cost. Premiums and discounts are amortised over their term using relevant effective interest rates. The rules for determining any impairment correspond to those used for the category "Loans and receivables".

Financial assets or liabilities at fair value through profit or loss (FVtPL)

A further differentiation is made within the category "Financial assets at fair value through profit or loss" into held for trading (HfT) and designated as at fair value through profit or loss (dFVtPL).

Financial instruments are classified as "Held for trading" if they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, or if they are derivatives not designated within the scope of a recognised hedging relationship.

Entities have the option, subject to certain conditions, to irrevocably designate financial instruments as at fair value, irrespective of any intention to trade (fair value option). In the past, Aareal Bank Group has used the fair value option for certain structured financial instruments that comprise one or more embedded derivatives. The fair value option has only been exercised with respect to the measurement of financial assets, but not to the measurement of financial liabilities.

Financial instruments allocated to the measurement category "Financial assets or financial liabilities at fair value through profit or loss" are measured subsequently at fair value through profit or loss (see Note (5) "Determination of fair value").

Available for sale (AfS)

The "Available for sale" category used at Aareal Bank Group comprises all financial assets which cannot be classified under any of the preceding categories, or that are held for an unspecified period of time and may be sold if there is a need of liquidity or market conditions have changed. They are measured subsequently at fair value through other comprehensive income (see Note (5) for information on the determination of fair value).

Aareal Bank Group reviews at any balance sheet date whether there is objective evidence of impairment for financial assets of the AfS category. Criteria were defined for this purpose which – if such criteria are met – trigger a review to determine whether there is objective evidence of impairment. If there is objective evidence and a negative impact on the future cash flows generated from the financial asset can be expected as a result of the loss event, impairment losses are recognised.

For debt securities held, such a criterion is, for example, a downgrade of an external credit rating to "BB+ or worse", arrears with respect to interest and principal payments, the discontinuance of an active market for bonds of a particular issuer due to significant financial difficulties of such issuer or an increased likelihood of the issuer's insolvency. The relevant criteria for equity instruments are either a price decrease by more than 20% below the average acquisition costs or when the price of the equity instrument concerned at the valuation date has been below the average acquisition costs for more than one year. If an impairment of a financial asset of the "Available for sale" category has been identified, the amount of the impairment is calculated as the difference between the asset's (amortised) cost and its current fair value. In the event of such impairment, the accumulated losses previously recognised directly in equity in the revaluation surplus are reclassified to the income statement. If the reasons for impairment cease to exist, a reversal of the impairment loss (up to amortised cost) is recognised in income for debt securities. Amounts exceeding amortised cost as well as reversals of impairment losses of equity instruments are always recognised directly in equity in the revaluation surplus.

Financial liabilities measured at amortised cost (LaC)

At Aareal Bank Group, all financial liabilities not designated as at fair value through profit or loss are allocated to the category "Financial liabilities measured at amortised cost". Financial liabilities so allocated are measured subsequently at amortised cost. Premiums and discounts are amortised over their term using relevant effective interest rates.

Determination of the fair value of financial instruments

Aareal Bank Group determines the fair value of financial instruments based on the hierarchy used for the determination of the fair value.

The existence of observable quoted prices in an active market is the best evidence of fair value, and when they exist they are used to measure the financial asset or financial liability involved. In order to determine the quoted market price of a financial instrument in an active market, a transaction involving the financial instrument concerned on the reporting date or the last trade date must be used as the basis. If no transaction has occurred in the financial instrument on the reporting date, the Bank shall rely on transaction prices applicable shortly before the reporting date.

Exchange-traded financial instruments (such as equities, bonds, or other debt securities) as well as exchange-traded derivatives are generally measured on the basis of applicable market prices if there is an active market.

If the market for a financial instrument is not (or no longer) active, the fair values of these products are established by using valuation techniques. In this context, the fair values are derived from market prices of recent transactions in the corresponding financial instrument or currently observable market prices of comparable financial instruments using a particular valuation technique.

If past or comparable market prices are not available for certain products, the Bank uses proven valuation models for pricing financial instruments. Pricing using proven valuation models is based on parameters observable in the market (such as interest rates, volatilities, credit spreads). Cash flows are determined on the basis of the contractual arrangements until the expected end of the term and discounted using the interest rate curve of the relevant market, taking into account mark-ups based on credit quality and liquidity, if applicable.

Financial instruments are measured within Aareal Bank Group by units which are independent from Trading. These units are responsible for controlling and monitoring the relevant valuation processes. Measurement procedures are reviewed on a regular basis as to their applicability on the various different financial instruments. The pricing data and parameters used in the valuation models are critically reviewed and developed on an ongoing basis. Current market developments are continuously monitored; if necessary valuation adjustments are made.

Structured products

Structured products involve a derivative which is embedded in a non-derivative financial instrument. In accordance with IAS 39, the embedded derivative has to be recognised separately from the non-derivative financial instrument if certain criteria are met. If the separation requirement as set out in IAS 39.11 applies, the host contract is accounted in line with the rules applicable for the relevant measurement category, while the separated derivative is accounted for separately as part of the trading portfolio. If the separation criteria are not met, the hybrid financial instrument is measured in its entirety based on the rules for the measurement category to which the financial instrument was allocated.

Hedging relationships

Aareal Bank Group uses hedge accounting to hedge risks from changes in the fair value or the cash flows associated with non-trading items. In this context, the risks from hedged items are intended to be hedged by entering into hedging instruments where the fair value changes or the changes in the cash flows have the opposite direction as those of the hedged item. IAS 39 sets out different types of hedging relationships.

The purpose of a fair value hedge is to hedge the fair value changes of hedged items. The derivatives used for hedging are accounted for at fair value through profit or loss. The offsetting fair value changes of the hedged item resulting from the hedged risk are also recognised through profit or loss. The proportion of the fair value changes of the hedged item not attributable to the hedged risk is accounted for in line with the classification of the hedged item. A fully effective hedging relationship results in offsetting measurement results. The hedging relationship may result in adjustments in the carrying amount of the underlying transaction. Such adjustments will only be recognised in income at the end of the transaction term.

Derivatives used as hedging instruments for the purposes of a cash flow hedge serve to hedge future cash flows against changes in interest payments and exchange rate fluctuations. The effective portion of measurement gains or losses from the derivative is recorded in equity, in the revaluation surplus. The ineffective portion of these measurement gains or losses is recorded directly in income. When the hedging relationship ceases to exist, the amounts recorded in the other reserves are transferred to the income statement at the same time as profits or losses on the former underlying transaction are recognised in income. The underlying transaction is recognised in line with the rules for the measurement category to which the underlying transaction has been allocated.

Hedges of a net investment in a foreign operation are used to hedge currency risks arising on the translation of the net assets of foreign Group companies. The effective portion of measurement gains or losses from the hedging instruments is recognised directly in equity in the currency translation reserve. The ineffective portion of the hedging instrument's fair value changes have to be recognised in the income statement. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity shall be recognised in profit or loss on disposal of the foreign operation. Any translation differences resulting from the translation of an entity with a different functional currency into the Group currency also have to be recognised directly in equity in the currency translation reserve; they will be reclassified to the income statement upon disposal of the foreign operation.

(7) Cash funds

Cash funds include cash on hand and balances with central banks. The cash funds are allocated to the measurement category "Loans and receivables" (LaR).

(8) Loans and advances to banks

Loans and advances to banks consist of money market receivables, promissory note loans and other loans and advances to banks, including deferred interest. Loans and advances to banks are allocated to the measurement category "Loans and receivables" (LaR).

(9) Loans and advances to customers

Loans and advances to customers comprise property loans, money market receivables, promissory note loans and other loans and advances to customers, including deferred interest. Loans and advances to customers are allocated to the measurement category "Loans and receivables" (LaR).

(10) Allowance for credit losses

The allowance for credit losses includes specific valuation allowances, flat-rate specific valuation allowances and portfolio-based valuation allowances recorded for risks associated with recognised items.

Specific allowances for credit losses are recognised for significant exposures where estimated future cash flows fall below the carrying amount of a loan receivable. This is reviewed if there is objective evidence that not all interest and principal payments will be made as contractually agreed. The estimated recoverable amount is determined on the basis of the present values of expected future cash flows from the asset (taking into account the marketability of collateral provided). Cash flows determined in this way are discounted over the estimated marketing period, using the original effective interest rate. Collateral is largely provided in the form of land charges or mortgages and measured at fair value based on rents agreed, or on prevailing market rents and management costs. Methods used for determining fair value include the income capitalisation approach or the discounted cash flow method. The interest rates used can be derived from the type and location of the property as well as from the current market situation. Time for reletting as well as structural vacancies are taken into account as appropriate. Valuation is normally based on estimates prepared by in-house experts. It is subject to several uncertainties and often requires significant estimates made by the management in relation to various factors such as local economic conditions, financial position and development of the counterparty, and the value of collateral held for which there is no easily accessible market.

Flat-rate specific allowances for credit losses are recognised for insignificant exposures. If there is objective evidence for an impairment of such exposures, an impairment amount is determined for homogenous groups of exposures on the basis of mathematical-statistical parameters in the calculation of the expected loss.

In the context of assets measured at amortised cost and not subject to specific valuation allowances, 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 II parameters used in the Advanced IRB Approach: expected loss given default (LGD), probability of default (PD) and the LIP factor. The LIP factor is a correction factor to adjust the one-year probability of default (used in Basel II) to the estimated time period, between the date the loss is incurred and the identification of the actual loss. The LIP factor is 1 for all exposure classes. The formula-based procedures are also subject to various assumptions and estimates.

Recognition and release of allowances for credit losses are directly reflected in income. The balance of allowances for credit losses is shown in an allowance account, separately from the related exposures. The increase of the present value over time of an impaired loan or advance (so-called unwinding) leads to a corresponding change of the allowance account, which change is recognised as interest income. Interest income is calculated using the original effective interest rate of the loan / advance concerned.

Uncollectable loans and advances are derecognised against specific provisions recognised previously, or written off directly. Payments on loans previously written off are recognised in income.

(11) Positive market value of derivative hedging instruments/negative market value of derivative hedging instruments

The items "Positive market value of derivative hedging instruments" and "Negative market value of derivative hedging instruments" include derivatives with positive or negative market values from fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation, including deferred interest.

The bulk of Aareal Bank Group's portfolio of derivative financial instruments (derivatives) have been entered into in order to hedge interest rate and currency risk exposures.

The use of derivatives as hedging instruments (and corresponding hedge accounting) involves extensive documentation requirements, and the hedging relationship has to be tested for effectiveness on a quarterly basis at least, i.e. at each reporting date.

Hedge accounting is based on clean fair values.

A distinction is made for derivatives used as hedging instruments whether these are part of a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation (see Note 6 for information on hedging relationships).

(12) Trading assets and trading liabilities

Trading assets and liabilities of Aareal Bank Group comprise positive and negative market values of derivative financial instruments which are not part of recognised hedging relationships. They are mainly used to hedge economic market price risks. The derivatives are classified under the measurement category "At fair value through profit or loss". Results from the measurement and the termination of the derivatives are reported in net trading income. Interest received or paid in connection with these derivatives is also recorded generally in net trading income. Interest received or paid for derivatives entered into for hedging purposes which, however, do not meet the formal criteria of hedge accounting is reported in net interest income, together with interest from the hedged items. Effects from the measurement of these derivatives are reported in net trading income, together with the effects from the measurement of the hedged risk.

(13) Non-trading assets

Non-trading assets include securities in the form of bonds and other fixed-income securities as well as equities and other non-fixed income securities. In addition, this item includes investments in companies over which Aareal Bank AG neither has economic control nor may exercise any significant influence.

All assets included in non-trading assets are recognised at cost, plus attributable transaction costs.

Debt and other fixed-income securities reported in non-trading assets are allocated to the measurement categories "Available for sale" (AfS), "Loans and receivables" (LaR) and "Held to maturity" (HtM). Equities and other non-fixed income securities as well as equity investments are classified as "Available for sale" or "Designated as at fair value through profit or loss" (dFVtPL).

Premiums and discounts are amortised over the term of the respective asset. Interest and dividends from these assets are reported in net interest income.

(14) Investments accounted for using the equity method

Investments accounted for using the equity method include shares in companies where Aareal Bank Group can exercise significant influence (associates) as well as shares in joint ventures.

Investments in associates included in this item are recognised at cost when the significant influence arises, and subsequently carried at amortised cost whereby, in particular, the share of results of operations of any financial year is recognised in income.

The equity method applied to the major associates was based on the most recent available financial statements prepared under local GAAP.

(15) Intangible assets

The item "Intangible assets" consists of proprietary software, goodwill and other intangible assets such as purchased software and licenses.

Intangible assets (except goodwill) are carried at cost, less accumulated amortisation and any impairment losses.

Research costs incurred in connection with software development are expensed as they are incurred. Development costs are capitalised from the time when the software development can be regarded as completed from a technical perspective, and several other conditions are fulfilled. Borrowing costs directly attributable to software development are also part of the cost. They are amortised on a straight-line basis, using an estimated economic life of ten years. Purchased software is also deemed to have a limited useful life. The procedure followed for the determination of amortisation of purchased software is the same as the procedure used for proprietary software. Amortisation is recognised in administrative expenses.

Goodwill is defined as the excess of the cost of acquisition over the fair value of the Group's interest in the net assets of an acquired entity, at the time of acquisition (positive difference). Goodwill is carried at historical cost less accumulated impairments. Any negative goodwill (badwill) arising upon acquisition is immediately charged against income.

In case the annual impairment test shows that there are indications of impairment of intangible assets (as set out in IAS 36) and that the recoverable amount is lower than the carrying amount of the asset concerned, the asset is written down through profit or loss, to the estimated recoverable amount.

If it is impossible to estimate the recoverable amount for a specific asset, the recoverable amount of the cash-generating unit that the asset belongs to must be determined. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Aareal Bank Group defines cash-generating units either on the basis of a single subsidiary or on product level. The recoverable amount of an asset or a cash-generating unit is the higher of fair value less costs to sell and value in use. (Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or cash-generating unit.) Future cash flows are determined based on medium-term projections. The present value of the future cash flows is determined using discount factors which are in line with the risks involved. Accordingly, the recognition of intangible assets and the impairment test is also subject to estimation uncertainties.

(16) Property and equipment

Property and equipment includes owner-occupied land and buildings as well as office furniture and equipment. Property and equipment is measured at cost, less accumulated depreciation and impairment losses. Amortisation is reported in administrative expenses.

Owner-occupied buildings reported under property and equipment are depreciated on a straight-line basis, over a period of 25 to 50 years. Owner-occupied land is not depreciated. Please refer to the explanations in the notes on other assets for the accounting method to be applied for land and buildings which are not owner-occupied. Office furniture and equipment items are depreciated using the straight-line method, applying the following periods:

	Depreciation period
Other property and equipment	
IT equipment	3-7 years
Other office furniture and equipment	5-13 years

Tenant improvements are depreciated based on the principles applicable for the relevant building. For details on recognising impairments as defined in IAS 36, please refer to the explanations in Note (15) "Intangible assets" in this section.

Gains and losses upon disposal of property and equipment are recognised in income (in net other operating income / expenses).

The costs to purchase property and equipment in the amount of up to € 150.00 (low-value assets) are expensed as they are incurred.

Any items of property and equipment with a cost of more than € 150.00, but not exceeding € 1,000.00, are combined in a collective account for the year, which is then depreciated on a straight-line basis over a period of five years.

(17) Deferred tax assets/deferred tax liabilities

Deferred taxes are reported in the items "Deferred tax assets" and "Deferred tax liabilities".

Deferred tax assets are only recognised to the extent that we deem it probable that future taxable profits will be available against which the temporary differences and tax loss carryforwards can be utilised. Deferred taxes are calculated on the basis of country- and company-specific tax rates expected to apply at the time of the realisation of temporary differences and set-off against loss carryforwards.

Deferred tax assets and deferred tax liabilities are offset in accordance with IAS 12.74 when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or tax group.

(18) Other assets

The item "Other assets" includes properties, trade receivables and miscellaneous assets. Properties reported under other assets are intended for short-term disposal, though the IFRS 5 criteria are not met. They are measured at the lower of cost or net realisable value, in accordance with IAS 2, and therefore are subject to estimation uncertainties. Trade receivables are allocated to the measurement category "Loans and receivables" (LaR).

(19) Liabilities to banks

The item "Liabilities to banks" comprises money market liabilities, registered mortgage Pfandbriefe, registered public sector Pfandbriefe, promissory note loans and other liabilities to banks, including deferred interest. Liabilities to banks are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(20) Liabilities to customers

The item "Liabilities to customers" comprises money market liabilities, registered mortgage Pfandbriefe, registered public sector Pfandbriefe, promissory note loans and other liabilities to customers, including deferred interest. Liabilities to customers are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(21) Certificated liabilities

The item "Certificated liabilities" includes bearer mortgage Pfandbriefe, bearer public sector Pfandbriefe and other bonds, including deferred interest. Certificated liabilities are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(22) Provisions

The item "Provisions" comprises provisions for pensions and similar obligations, provisions for staff expenses and non-staff operating costs, provisions for risks related to unrecognised items in the lending business, provisions for legal or tax risks, as well as other provisions. Provisions are recognised when there is a present legal or constructive obligation towards third parties arising from a past event, the outflow of resources to meet this obligation is probable and the amount of the obligation can be reliably estimated. Provisions are measured on the basis of the best estimate of expenditure required to settle the obligation, in accordance with IAS 37.36. In the context of acquisitions in accordance with IFRS 3, contingent liabilities were also recognised at their expected value. These are released when the reasons for their recognition cease to exist.

Measurement is subject to several uncertainties and often requires significant estimates made by the management in relation to various factors that may not apply subsequently. The final amount of the liabilities may deviate significantly from the measurement previously made in accounting. For example, the outcome of individual legal proceedings may not be predicted with certainty.

If utilisation in the short term, i.e. within twelve months, from the obligation is not expected, the provision will be recognised at present value.

Provisions for pensions and similar obligations

Aareal Bank Group maintains various pension plans as defined in IAS 19. For the purpose of reporting pension obligations, IAS 19 makes a distinction between defined contribution plans and defined benefit plans.

Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or a fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions paid to the statutory pension insurance scheme are also classified as defined contribution plans. The contributions paid to a defined contribution plan are recorded as staff expenses.

Defined benefit obligations are all pension obligations that do not meet the criteria of a defined contribution obligation. The amount of obligations usually depends on one or several factors, including age, length of service, and salary.

The Group's obligations under defined benefit plans are recognised as a provision in the consolidated statement of financial position. These are based on general works agreements on an employee pension scheme, individual agreements with executive staff as well as individual agreements concluded with the members of the Company's senior management. Projected economic and demographic developments as well as salary trends must be applied to the calculations of the provisions. Calculating the amount of provisions in the Group is based on actuarial opinions which are prepared by external actuaries on the basis of Aareal Bank-specific and Group-wide standardised parameters.

Provisions for pensions and similar obligations under defined benefit plans are determined in accordance with IAS 19 on the basis of the projected unit credit method; the various defined benefit plans are measured separately. The fair value of the plan assets is deducted from the present value of the pension obligation, taking into account, if applicable, the rules for the asset ceiling in relation to a surplus of plan assets over the benefit obligation. The resulting amount represents the net defined benefit liability (provision) or the net defined benefit asset. The net interest expense in the financial year is determined by applying the discount factor calculated at the beginning of the financial year to the net liability calculated as at that date. The discount rate used to determine the present value of the obligation is based on the capital market rate of high quality corporate bonds at the reporting date. Determination is based on the Global-Rate:Link method by Willis Towers Watson. The data basis consists of corporate bonds recorded by Bloomberg which have a rating of at least "AA" and are denominated in the same currency as the underlying pension obligation. Actuarial gains and losses (remeasurements), which – in connection of the amount of obligations – arise on changes in expectations regarding life expectancy, pension increases, salary development, discount rate compared to the estimation made at the beginning of the period or compared to the actual trend during the period, are recorded in other comprehensive income in the item "Changes in the reserve from remeasurements of defined benefit plans". Actuarial gains and losses (remeasurements) recorded in other comprehensive income may not be reclassified subsequently to profit or loss (recycling). Differences between the expected return on plan assets, determined at the beginning of the period using the then applicable discount rate, and the actual return on plan assets (remeasurement) at the end of the period are also recognised in other comprehensive income. Actuarial gains and losses as well as the difference between expected and actual return on plan assets are included in other reserves. They are reported separately in the statement of changes in equity. Accordingly, the recognition of pension obligations is also subject to estimation uncertainties.

Share-based payment

Aareal Bank Group maintains share-based payment plans subject to cash settlement in accordance with IFRS 2. We refer to the remuneration report as part of the Notes to the consolidated financial statements, which includes a detailed description of the plans and their scope as well as information on the valuation model applied and the effects of share-based payments on the Group's financial position and performance.

Provisions for obligations arising from share-based remuneration plans have been recognised under administrative expenses, in the amount of the fair value of the relevant obligation at the reporting date.

(23) Other liabilities

Other liabilities include, among other items, liabilities from outstanding invoices, trade payables, as well as liabilities from other taxes.

(24) Subordinated capital

The item ”Subordinated capital” consists of subordinated liabilities, profit-participation certificates and contributions by silent partners. Items of subordinated capital are allocated to the measurement category ”Liabilities measured at amortised cost” (LaC).

(25) Equity

Equity comprises subscribed capital, capital reserves, retained earnings and other reserves. Other reserves include the reserve from remeasurements of defined benefit plans, the revaluation surplus, hedging reserves and currency translation reserves. In addition, the item ”Equity” includes non-controlling interests as well as the so-called Additional Tier 1 bond (AT1 bond). The AT1 bond is classified as equity since there is neither an obligation to repay the bond nor is there an obligation for ongoing debt service (payment of a dividend). The transaction costs directly attributable to the issue of the AT1 bond as well as dividends paid are deducted directly from equity, net of taxes.

(26) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when due. A guarantor recognises a financial guarantee contract as a liability at the date of addition, using the fair value of the guarantee obligation. The obligation is subsequently measured at the greater of a provision recorded in accordance with IAS 37 and the original amount, less any accumulated amortisation. Within Aareal Bank Group, financial guarantee contracts are presented based on the present value of the claim resulting from the future premium payments of the holder, and offset with the obligation for the guarantee (net basis).

Notes to the Statement of Comprehensive Income

(27) Net interest income

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Interest income from		
Property loans	867	829
Public-sector loans	12	14
Other lending and money market operations	77	76
Debt and other fixed-income securities	57	91
Current dividend income	–	0
Total interest income	**1,013**	**1,010**
Interest expenses for		
Bonds issued	69	99
Registered mortgage bonds	22	31
Promissory note loans	61	77
Subordinated capital	34	33
Money market transactions	33	60
Other interest expenses	13	22
Total interest expenses	**232**	**322**
Total	**781**	**688**

Interest income from property loans includes income from impaired loans (so-called unwinding) in the amount of € 22 million (2014: € 14 million). Interest income and expenses include, to a minor extent, negative interest from deposits and borrowing as well as money market and securities lending transactions.

(28) Allowance for credit losses

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Additions	183	194
Reversals	69	32
Direct write-offs	21	7
Recoveries on loans and advances previously written off	7	23
Total	**128**	**146**

The additions to the allowance for credit losses comprise specific valuation allowances and individually recognised provisions for risks in the lending business associated with unrecognised items in a total amount of € 183 million (2014: € 126 million). Additions to portfolio-based valuation allowances and provisions recognised on a portfolio level for off-balance sheet risks in the lending business were not made in the reporting period (2014: € 68 million). In the previous year, € 35 million of this portfolio-based allowance for credit losses was due to a change in individual measurement parameters, and thus non-recurring. Reversals of allowances for credit losses include € 17 million (2014: € 32 million) for specific valuation allowances and individually recognised provisions for off-balance sheet risks within the lending business as well as € 52 million (2014: –) for portfolio-based valuation allowances and provisions recognised on a portfolio level for off-balance sheet risks in the lending business.

(29) Net commission income

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Commission income from		
Consulting and other services	184	175
Trustee loans and administered loans	3	2
Securities transactions	–	–
Other lending and money market operations	8	8
Other commission income	9	8
Total commission income	**204**	**193**
Commission expenses for		
Consulting and other services	22	21
Trustee loans and administered loans	–	–
Securities transactions	1	1
Securitisation transactions	–	1
Other lending and money market transactions	1	2
Other commission expenses	5	4
Total commission expenses	**29**	**29**
Total	**175**	**164**

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

The net amount of commission income and commission expenses from financial assets and financial liabilities not measured at fair value amounts to € 6 million (2014: € 4 million).

(30) Net result on hedge accounting

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Ineffective portion of fair value hedges	7	1
Ineffective portion of cash flow hedges	1	4
Ineffective portion of net investment hedges	0	0
Total	**8**	**5**

This item contains the measurement gains or losses from hedging instruments and the associated hedged items in the context of hedging relationships.

(31) Net trading income/expenses

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Net income/expenses from positions held for trading	19	13
Currency translation	-6	-11
Total	**13**	**2**

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

(32) Results from non-trading assets

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Result from debt securities and other fixed-income securities	-17	–
of which: Loans and receivables (LaR)	-9	–
Held to maturity (HtM)	-5	–
Available for sale (AfS)	-3	–
Result from equities and other non-fixed income securities	0	2
of which: Available for sale (AfS)	0	2
Designated as at fair value through profit or loss (dFVtPL)	0	0
Results from equity investments (AfS)	0	0
Total	**-17**	**2**

(33) Results from investments accounted for using the equity method

In the past financial year, there were no material expenses resulting from investments accounted for using the equity method (2014: € 0 million).

(34) Administrative expenses

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Staff expenses	332	261
Other administrative expenses	201	157
Depreciation, amortisation and impairment of property and equipment and intangible assets	20	21
Total	**553**	**439**

Staff expenses include contributions to defined contribution plans in the amount of € 15 million (2014: € 14 million).

Other administrative expenses include administrative costs for research and development not eligible for capitalisation in the amount of € 5 million (2014: € 10 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the financial year 2015, which consists of the following sub-items:

€ 000's	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Auditing fees	4,252	3,563
Other assurance services	561	327
Tax advisory services	255	73
Other services	3,948	3,211
Total	**9,016**	**7,174**

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.

(35) Net other operating income / expenses

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Income from properties	55	16
Income from the reversal of provisions	16	2
Income from goods and services	3	3
Miscellaneous	35	34
Total other operating income	**109**	**55**
Expenses for properties	45	19
Write-downs of trade receivables	0	0
Expenses for other taxes	3	4
Miscellaneous	20	26
Total other operating expenses	**68**	**49**
Total	**41**	**6**

Net other operating income / expenses include non-recurring income from the completed sale of a property and the announced sale of another as well as the reversal of provisions recognised for risk protection in connection with the acquisition of Corealcredit; these provisions are no longer required.

(36) Negative goodwill from acquisitions

Further information is included in the section ”Reporting entity structure“ in the Notes to the consolidated financial statements.

(37) Income taxes

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Current income taxes	53	68
Deferred taxes	43	33
Total	**96**	**101**

The differences between calculated and reported income taxes are presented in the following reconciliation:

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Operating profit (before income taxes)	470	436
Expected tax rate	31.4 %	31.4 %
Calculated income taxes	**148**	**137**
Reconciliation to reported income taxes		
Different foreign tax burden	6	-1
Tax attributable to tax-exempt income	-47	-63
Tax attributable to non-deductible expenses	9	2
Remeasurement of deferred taxes	11	3
Taxes for previous years	-26	27
Effect of changes in tax rates	–	–
Non-controlling interests	-6	-6
Other tax effects	1	2
Reported income taxes	**96**	**101**
Effective tax rate	20 %	23 %

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).

Notes to the Statement of Financial Position

(38) Cash funds

€ mn	31 Dec 2015	31 Dec 2014
Cash on hand	0	0
Balances with central banks	1,282	184
Total	**1,282**	**184**

(39) Loans and advances to banks

€ mn	31 Dec 2015	31 Dec 2014
Money market receivables	1,509	1,737
Promissory note loans	192	120
Securities repurchase agreements	150	1,284
Other loans and advances	42	37
Total	**1,893**	**3,178**

(40) Loans and advances to customers

€ mn	31 Dec 2015	31 Dec 2014
Property loans [1]	29,344	27,856
Promissory note loans	1,457	1,584
Other loans and advances	3,765	1,109
Total	**34,566**	**30,549**

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

The increase in loans and advances to customers mainly results from the consolidation of WestImmo. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section ”Reporting entity structure“ in the Notes to the consolidated financial statements.

(41) Allowance for credit losses

31 December 2015

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**333**	**147**	**480**	**18**	**498**
Additions	183	–	**183**	0	**183**
Write-downs	68	–	**68**	1	**69**
Reversals	17	50	**67**	2	**69**
Unwinding	22	-	**22**	–	**22**
Reclassifications	–	–	**–**	-1	**-1**
Changes in basis of consolidation	–	19	**19**	–	**19**
Currency adjustments	3	0	**3**	0	**3**
Balance as at 31 December	**412**	**116**	**528**	**14**	**542**

31 December 2014

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**296**	**65**	**361**	**10**	**371**
Additions	126	64	**190**	4	**194**
Write-downs	45	–	**45**	2	**47**
Reversals	31	–	**31**	1	**32**
Unwinding	14	–	**14**	–	**14**
Reclassifications	–	–	**–**	–	–
Changes in basis of consolidation	–	18	**18**	7	**25**
Currency adjustments	1	0	**1**	0	**1**
Balance as at 31 December	**333**	**147**	**480**	**18**	**498**

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

The increase in the balance of portfolio-based valuation allowances (changes in basis of consolidation) results from the initial consolidation of WestImmo as at 31 May 2015. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(42) Positive market value of derivative hedging instruments

€ mn	31 Dec 2015	31 Dec 2014
Positive market value of fair value hedges	2,159	2,251
Positive market value of cash flow hedges	26	9
Pro rata interest receivable	313	305
Total	**2,498**	**2,565**

(43) Trading assets

€ mn	31 Dec 2015	31 Dec 2014
Positive market value of trading assets	638	467
Total	**638**	**467**

The increase in trading assets mainly results from the consolidation of WestImmo. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(44) Non-trading assets

€ mn	31 Dec 2015	31 Dec 2014
Debt and other fixed-income securities	10,499	11,992
of which: Loans and receivables (LaR)	3,630	4,313
Held to maturity (HtM)	604	833
Available for sale (AfS)	6,265	6,846
Equities and other non-fixed income securities	7	8
of which: Available for sale (AfS)	7	8
Designated as at fair value through profit or loss (dFVtPL)	–	–
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	1	2
Total	**10,507**	**12,002**

The item "Debt and other fixed-income securities" mainly consists of public-sector bonds as well as asset-covered bonds (Pfandbriefanleihen) and bank bonds. In addition, the item includes asset-backed securities in a nominal amount of € 124 million (2014: € 143 million).

Carrying amounts of negotiable non-trading assets:

	Listed		Unlisted	
	2015	2014	2015	2014
€ mn				
Debt securities and other fixed-income securities	9,863	11,954	–	7
Equities and other non-fixed income securities	–	–	–	–
Total	**9,863**	**11,954**	**–**	**7**

(45) Investments accounted for using the equity method

Aareal Bank holds interests in seven associates and two joint arrangements that are accounted for using the equity method. During the year under review and the previous year, interests in associates and jointly controlled entities were insignificant for the Group.

The sum total of the carrying amounts of the equity investments that are immaterial on an individual basis amounted to € 1 million (31 December 2014: € 1 million). The sum total of the Group's share in the total comprehensive income of companies accounted for using the equity method amounted to € 0 million in the year under review (1 January-31 December 2014: € 0 million).

(46) Intangible assets

	31 Dec 2015	31 Dec 2014
€ mn		
Goodwill	75	66
Proprietary software	19	17
Other intangible assets	32	27
Total	**126**	**110**

Goodwill completely refers to the Aareon sub-group (Consulting/Services segment) and can be allocated to the following business divisions defined as cash-generating units:

€ mn	31 Dec 2015 Goodwill	31 Dec 2014 Goodwill
Business divisions		
Germany	31	26
International Business	44	40
Total	**75**	**66**

Goodwill is generally tested for impairment in the fourth quarter of each year. The basis for the valuation is the present value of future cash flows (value in use), which are determined using medium-term projections. In this context, the projected pre-tax cash flows – determined on the basis of the three-year plan adopted by Aareon AG's Management Board and approved by the Supervisory Board – are used. Accordingly, there is an individual planning of revenue and expense items within the first three years. The parameters underlying the major assumptions are based on internal and external factors as well as on past experience. The major basis is the previous year's planning. Revenue projections are largely subject to assumptions in relation to migration plans, new business, as well as renewals of contracts and follow-up business with existing customers. At the same time, these represent the key sources for estimation uncertainty. Regular sales revenues, such as maintenance and fees from transactions with existing customers, are normally not subject to estimation uncertainty. The projections for cost of materials is derived from revenue projections. The personnel cost projections predominantly take into account the number of employees, as well as wage and salary trends. Other costs are projected based on the previous year's figures, taking into account known one-off effects. Estimation uncertainties in relation to costs arise as a result of unplanned price increases or unforeseeable one-off effects. In principle, estimation uncertainty increases if assumptions are made further into the future. Cash flows beyond the three-year horizon are determined by way of a perpetual annuity. The present values of future cash flows were determined consistently throughout the Group on the basis of a risk-adequate discount factor of 6.3 % before taxes. The discount factor is calculated based on a risk-free basic interest rate of 1.5 % plus a company-specific risk premium of 6 %, multiplied with a beta factor of 0.8. Due to the uncertainties surrounding the planning beyond the three-year horizon, we assume constant values, i.e. no further growth, to reflect our cautious view of the market environment. The recoverable amounts show a significant excess compared to the carrying amounts, which means that a deficit is not considered possible, even if the above-mentioned assumptions change dramatically. To that extent, even a likely increase of the risk-adequate discount factor by 1.0 % as well as a reduction in EBIT included in the cash flows by 5.0 % does not result in an impairment loss in the reporting period. There was no need to recognise impairment losses in the year under review.

Intangible assets developed as follows:

€ mn	2015 Goodwill	2015 Proprietary software	2015 Other intangible assets	2015 Total	2014 Goodwill	2014 Proprietary software	2014 Other intangible assets	2014 Total
Cost								
Balance at 1 January	**123**	**77**	**77**	**277**	**123**	**69**	**71**	**263**
Additions	9	5	10	**24**	0	6	3	**9**
Transfers	–	–	0	**0**	0	2	2	**4**
Disposals	–	0	6	**6**	0	0	1	**1**
Changes in basis of consolidation	–	–	2	**2**	–	–	2	**2**
Currency translation differences	0	0	1	**1**	0	0	0	**0**
Balance as at 31 December	**132**	**82**	**84**	**298**	**123**	**77**	**77**	**277**
Amortisation and impairment losses								
Balance at 1 January	**57**	**60**	**50**	**167**	**57**	**56**	**43**	**156**
Amortisation and impairment losses	–	3	7	**10**	–	6	6	**12**
of which: impairment losses	–	–	–	**–**	–	–	–	**–**
Write-ups	–	–	–	**–**	–	–	–	**–**
Transfers	–	–	–	**–**	–	-2	2	**0**
Disposals	–	0	5	**5**	0	0	1	**1**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	0	–	0	**0**	0	–	0	**0**
Balance as at 31 December	**57**	**63**	**52**	**172**	**57**	**60**	**50**	**167**
Carrying amount as at 1 January	**66**	**17**	**27**	**110**	**66**	**13**	**28**	**107**
Carrying amount as at 31 December	**75**	**19**	**32**	**126**	**66**	**17**	**27**	**110**

(47) Property and equipment

€ mn	31 Dec 2015	31 Dec 2014
Land and buildings and construction in progress	245	75
Office furniture and equipment	22	21
Total	**267**	**96**

The increase in property and equipment results from the reclassification of a property from other assets to property and equipment as well as from the consolidation of WestImmo. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

Property and equipment:

	2015			2014		
€ mn	Land and buildings and construction in progress	Office furniture and equipment	Total	Land and buildings and construction in progress	Office furniture and equipment	Total
Cost						
Balance at 1 January	**103**	**64**	**167**	**102**	**63**	**165**
Additions	4	8	**12**	1	4	**5**
Transfers	151	0	**151**	0	0	**0**
Disposals	0	4	**4**	0	4	**4**
Changes in basis of consolidation	34	0	**34**	–	1	**1**
Currency translation differences	0	0	**0**	0	0	**0**
Balance as at 31 December	**292**	**68**	**360**	**103**	**64**	**167**
Amortisation and impairment losses						
Balance at 1 January	**28**	**43**	**71**	**25**	**42**	**67**
Amortisation and impairment losses	5	6	**11**	3	6	**9**
of which: impairment losses	–	–	**–**	–	0	**–**
Write-ups	–	–	**–**	–	–	**–**
Transfers	–	–	**–**	–	0	**0**
Disposals	–	3	**3**	0	5	**5**
Changes in basis of consolidation	14	–	**14**	–	–	**–**
Currency translation differences	0	0	**0**	0	0	**0**
Balance as at 31 December	**47**	**46**	**93**	**28**	**43**	**71**
Carrying amount as at 1 January	**75**	**21**	**96**	**77**	**21**	**98**
Carrying amount as at 31 December	**245**	**22**	**267**	**75**	**21**	**96**

(48) Income tax assets

Income tax assets in a total amount of € 20 million as at 31 December 2015 (2014: € 35 million) include € 4 million (2014: € 5 million) expected to be realised after a period of more than twelve months.

(49) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 722 million (2014: € 805 million).

Deferred tax assets were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2015	31 Dec 2014
Loans and advances to banks/to customers	0	0
Positive and negative market value of derivative hedging instruments	30	43
Trading assets and trading liabilities	93	139
Non-trading assets	–	–
Intangible assets	1	1
Property and equipment	–	5
Other assets/liabilities	1	1
Liabilities to banks/to customers, and certificated liabilities	678	683
Provisions	117	130
Subordinated capital	22	27
Tax loss carryforwards	19	16
Deferred tax assets	**961**	**1,045**

Of the deferred taxes on loss carryforwards, an amount of € 18 million (2014: € 12 million) is attributable to foreign subsidiaries and permanent establishments. The existing loss carryforwards may be carried forward for an unlimited period. Deferred taxes on losses carried forward were recognised to the extent that they are expected to be realised within the next five years.

Unrecognised deferred tax assets amount to € 43 million (2014: € 33 million) and relate entirely to tax loss carryforwards that are neither recognised nor subjected to valuation adjustments.

Deferred tax assets in the amount of € 13 million (2014: € 32 million) were reported under other reserves.

(50) Other assets

€ mn	31 Dec 2015	31 Dec 2014
Properties	263	444
Trade receivables (LaR)	42	38
Miscellaneous	134	128
Total	**439**	**610**

In the year under review, one property was reclassified to property and equipment.

(51) Liabilities to banks

€ mn	31 Dec 2015	31 Dec 2014
Money market liabilities	925	855
Promissory note loans	414	374
Registered mortgage Pfandbriefe	457	362
Registered public-sector Pfandbriefe	51	41
Other liabilities	51	175
Total	**1,898**	**1,807**

(52) Liabilities to customers

€ mn	31 Dec 2015	31 Dec 2014
Money market liabilities	13,179	13,071
Promissory note loans	7,038	7,970
Registered mortgage Pfandbriefe	6,852	3,476
Registered public-sector Pfandbriefe	3,291	2,966
Total	**30,360**	**27,483**

The increase in liabilities to customers mainly results from the consolidation of WestImmo. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(53) Certificated liabilities

€ mn	31 Dec 2015	31 Dec 2014
Bearer mortgage Pfandbriefe	8,529	8,690
Bearer public-sector Pfandbriefe	71	45
Other debt securities	2,219	2,748
Total	**10,819**	**11,483**

(54) Negative market value of derivative hedging instruments

€ mn	31 Dec 2015	31 Dec 2014
Negative market value of fair value hedges	2,554	2,731
Negative market value of cash flow hedges	7	13
Negative market value of net investment hedges	1	2
Pro rata interest payable	158	182
Total	**2,720**	**2,928**

(55) Trading liabilities

€ mn	31 Dec 2015	31 Dec 2014
Negative market value of trading assets	663	659
Total	**663**	**659**

(56) Provisions

€ mn	31 Dec 2015	31 Dec 2014
Provisions for pensions and similar obligations	333	295
Other provisions and contingent liabilities	450	418
Total	**783**	**713**

The increase in provisions for pensions and similar obligations as well as the increase in other provisions mainly results from the consolidation of WestImmo.

Provisions for pensions and similar obligations

The pension obligations result mainly from retirement benefit plans maintained at Aareal Bank, Aareon, BauGrund and WestImmo, which are classified as defined contribution plans or defined benefit plans in accordance with IAS 19.

Aareal Bank contributed parts of the assets held to cover the Bank's existing pension obligations into a Contractual Trust Arrangement (CTA). This is to ensure improved insolvency protection of the pension claims as a result of the limited protection provided by the German Pension Guarantee Association (Pensionssicherungsverein; PSVaG). For this purpose, a bilateral trust was agreed between Aareal Bank AG (trustor) and Aareal Pensionsverein e.V. as legally independent third party (trustee). The trustee is registered at the Wiesbaden District Court.

The trustee holds in trust the special fund for the trustor (administrative trust). Simultaneously, but senior to the administrative trust, the trustee holds the special fund for all beneficiaries on trust to secure the recorded entitlements (security trust).

The security trust is established in the interest of the beneficiaries by way of a genuine agreement for the benefit of third parties (section 328 (1) of the German Civil Code (Bürgerliches Gesetzbuch – "BGB")). On the basis of this security trust, the beneficiaries may request from the trustee that the trustee holds and manages this special fund pursuant to the regulations of this trust agreement for the purpose of securing the recorded entitlements. Upon the occurrence of an insured event, the beneficiaries may, based on the security trust, request from the trustee that the trustee satisfies their recorded entitlements pursuant to the regulations of this trust agreement out of the special fund.

The Bank is the economic beneficiary of the assets. With effect from 1 August 2014, the Bank has transferred the assets to a special fund under German investment law ("Spezialfonds") managed by HSBC INKA. Based on an investment guideline, HSBC INKA takes investment decisions for staff pensions. A joint investment committee was established, comprising staff from HSBC and Aareal Bank. The Bank transfers new assets to be invested to Aareal Pensionsverein on an annual basis, which in turn acquires additional units in the special fund. The fund manager invests interest income during the course of the year. The Bank has taken out reinsurance policies for a portion of the benefit entitlements of active members of the Management Board and former Management Board members. These policies were also transferred to Aareal Pensionsverein e.V. on a trust basis. The Bank provides corresponding funds for contribution paid to these policies.

Transferring assets to Aareal Pensionsverein e.V. on the one hand secures benefit entitlements and claims under occupational pension schemes, and on the other hand creates plan assets within the meaning of IAS 19 which may be offset with benefit obligations of the trustor.

Brief description of the material pension plans

DePfa Bank Betriebsvereinbarung dated 14 December 1999 (BV 97)

BV 97 applies for new joiners since 1 January 1997. The following benefits are granted after a waiting period of five pensionable service years: old-age pension after completing the 65th year of age (also after any previous disability), early old-age pension, disability pension until completing the 65th year of age, as well as widow's pension.

The Bank shall grant its employees a basic pension from own contributions and additional benefits in the form of corresponding individual agreements on deferred compensation. The basic pension for the pensionable service period is calculated based on an annual benefit expense of 3.5 % for portions of the pensionable income below the contribution ceiling (Beitragsbemessungsgrenze, BBG) and 10 % for portions of pensionable income above the contribution ceiling. The employer contributions thus calculated as well as the contributions from deferred compensation are contributed into a CTA at the end of each financial year. The benefit assets, including any allocated surpluses, bear interest at a rate of 4 %. The annual benefit payments are calculated based on an annuitisation of the benefit assets, using a fixed annuitisation table.

The pensionable service period is deemed to be the period from completing the 20th year of age to completing the 65th year of age. Pensionable income is the gross remuneration within the year.

Any actuarial deductions upon claiming old-age pensions before completing the 65th year of age are taken into account through an annuitisation of the benefit assets. The widow's pension amounts to 60 % of the employee pension. The Bank increases the current benefit payments annually by 1 %; there is no obligation to provide for an inflation adjustment.

Management Board

The four Management Board members receive their benefits based on individual commitments (a total of seven individual benefit commitments).

Four individual benefit commitments are fixed amount commitments related to monthly benefit payments upon retirement and disability, including a widow's pension of 60 % of the beneficiary's pension entitlement. The current benefit payments are adjusted based on the development of standard wages within the private banking sector.

Three individual benefit commitments of 23 December 2011 are aligned to the fixed annual employer contributions and the amounts from deferred compensation, which are paid to the relevant benefit account and bear interest at a rate of 4 %. The benefit assets and the assets from deferred compensation are translated into a lifelong old-age or disability pension upon the occurrence of an insured event, using actuarial principles. Annuitisation is based on biometric principles and a notional interest rate of 4 % p.a. and takes into account a guaranteed pension increase of 1 % p.a. The widow pension amounts to 60 % of the beneficiary's pension entitlement. The current benefit payments are increased annually by 1 %; there is no obligation to provide for an inflation adjustment. The old-age pension benefits based on this commitment were secured through reinsurance policies. These reinsurance policies include benefits in the case of disability or death.

DePfa Bank Dienstvereinbarung dated 30 December 1955 (DePfa 55)

DePfa 55 is a pay-related benefit commitment for new entrants before 31 December 1988. It provides for benefit payments after completing the 65th year of age after a waiting period of five service years and benefits paid in case of occupational incapacity (disability) as well as benefits for surviving dependants, each in form of a monthly annuity.

The amount of the entitlement is based on the following increases: 5 % of the last annual salary for the first five service years each, 2 % of the last annual salary for the next 20 service years each, and 1 % of the last annual salary for any following service year, up to a maximum percentage of 75 % of the last annual salary after 35 service years. The widow's pension amounts to 60 % of the old-age or disability pension. Benefits paid by social security insurance and VBL/Gerling are charged to the benefit entitlements. DePfa 55 does not include any provision allowing for an early payout of old-age pensions or for an adjustment of current benefit payments.

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

BauBoden agreement dated 1 July 1968 (BauBoden 68)

This agreement applies to employees after completing their 18th year of age who were employed by the Bank on 1 January 1967 or joined the Bank not later than on 31 December 1983. The following benefits are granted after a waiting period of ten service years: old-age pension after completing the 65th year of age, early old-age pension, (total) occupational incapacity pension as well as widow's pension.

Benefits consist of an overall pension, comprising the statutory pension insurance scheme, the additional pension insurance scheme at VBL or BVV (which is taken into account), or the group insurance contracts and the bank subsidy. The overall pension amounts to 55 % of the pensionable salary after ten years of service. The overall pension is increased by 1 % of the pensionable salary for any further service year, up to the maximum rate of 75 %. The pensionable salary is the last monthly gross salary received during service.

No actuarial deductions are made upon claiming old-age pensions before completing the 65th year of age. The widow's pension amounts to 60 % of the bank subsidy. The current pension payments are adjusted pursuant to section 16 of the German Company Pensions Act (Betriebsrentengesetz).

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic environment. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

BauBoden agreement dated 12 December 1984 (BauBoden 84)
and DePfa Bank Versorgungsordnung dated 28 November 1990 (DePfa 90)

BauBoden 84 applies to employees who joined the Company after 31 December 1983 and have completed their 20th year of age. DePfa 90 applies to employees who joined the Company after 31 December 1988. The following benefits are granted after a waiting period of ten service years: old-age pension and early old-age pension, (total) occupational incapacity pension as well as widow's pension.

The benefit entitlements of the employees vest after completing their 65th year of age. The amount of the monthly pension entitlement is calculated for each pensionable service year (up to a maximum of 40 service years) as follows: 0.6 % of pensionable salary up to the contribution ceiling, 2 % of the portion of pensionable salary exceeding the contribution ceiling, with pensionable salary and contribution ceiling being calculated using the average for the last twelve months. Benefits paid by BVV are charged to the benefit entitlements under BauBoden 84.

The Bank does not make any actuarial deductions upon claiming early old-age pensions. The widow's pension amounts to 60 % of the entitlements to benefit payments. The current pension payments are adjusted pursuant to section 16 of the German Company Pensions Act (Betriebsrentengesetz).

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

AHB – General works agreement on additional pension benefits (company pension scheme) of former Corealcredit

The pension benefits to former employees of Allgemeine Hypothekenbank AG, whose employment relationship began prior to 1 January 1994, are governed by the additional benefit arrangement dated 29 August 1995 on the basis of the complementing general works agreement dated 7 March 1995.

This benefit commitment is based on aggregate benefits derived from pension benefits for civil servants. After a waiting period of five years of service, the aggregate benefit rate is 50 % of pensionable income. For each year after completing the 37th year of age, the aggregate benefit rate increases by 1 % of pensionable income, up to a maximum 75 % of pensionable income. The entitlement amounts to at least 65 % of pensionable income in the case of (total) occupational incapacity and 75 % of pensionable income in the case of workplace accidents. Pensionable income is the annual income (calculated on the basis of 14 monthly salaries), divided by 12.

The pension benefits of the statutory pension insurance and the BVV Versicherungsverein des Bankgewerbes a.G., which are based on mandatory contributions, are taken into account in the pension determined as described. To that extent, the benefit obligation directly depends on the development of the level of pensions from the statutory pension insurance on the one hand and from the BVV on the other. As a result of the German Pension Reform Act of 1992 and the associated cuts in statutory pension insurance, the pension scheme was restructured in 1995. The main pillar of the new structure is the limitation of the Bank's deficiency guarantee for the declining level of statutory pensions due to deduction factors applied at early retirement (Rentenzugangsfaktor) and the lower adjustment of the pension value. Accordingly, the Bank continues to assume the deficiency guarantee on a pro-rata basis for the periods of service until the restructuring on 31 December 1995 in relation to the deduction factors applied at early retirement and for the reduced level of the current pension value (net adjustment factor). The reduction in the level of statutory pensions that occurred during the service periods from the restructuring date until retirement is taken into account at the expense of the beneficiary.

From the start of retirement, the AHB pension is decoupled from the development of the statutory pension and the BVV pension already prior to the restructuring since only the AHB pension is adjusted for inflation on an annual basis.

Accordingly, the obligation for the pension commitment during the qualification period is, on the one hand, directly dependent upon the development of the statutory pension and the BVV pension. On the other hand, it is fully dependent upon salary development for all years of service, even including past service. The volume of the obligation also depends upon the fluctuation of inflation and hence pension increases.

Rheinboden Hypothekenbank AG – pension scheme in the version dated 1 December 1991 of former Corealcredit

The former employees of Rheinboden Hypothekenbank AG are entitled to old-age and disability pensions as well as surviving dependant's benefits in accordance with the pension schemes in the version dated 1 December 1991.

The monthly benefits for employees who commenced service prior to 1 October 1978 amount to 5 % of pensionable remuneration (most recent monthly salary based on collective or individual agreements) after ten service years and increase by 0.5 % of pensionable remuneration for each service year, up to 14 % of pensionable remuneration after 15 service years. The monthly benefit entitlement increases by 0.3 % of pensionable remuneration for any additional service years, up to a maximum of 20 %. The BVV benefits are taken into account in such entitlement to the extent that these are based on employer contributions.

The benefits for employees who commenced service after 30 September 1978 amount to 0.15 % of pensionable remuneration up to the contribution ceiling as well as 1.5 % of pensionable remuneration above the contribution ceiling for each year of service between the 25th and 65th year of age. The maximum number of recognisable service years is 35.

The old-age pension under the Rheinboden pension schemes is paid after completing the 65th year of age or upon commencement of old-age pension under the statutory pension insurance scheme (full pension). In case of early retirement, the benefits are subject to deductions of 0.3 % per month of early retirement prior to the age of 65 as a partial compensation for the additional costs associated with early retirement. The surviving dependant's benefits amount to 60 % of the employee's pension entitlement for widow(er)s as well as 15 % for half-orphans and 20 % for orphans, however, in aggregate not exceeding the amount of the employee's pension entitlement.

Supplementary individual contractual arrangements were agreed with individual pensioners and leavers with vested benefits for the purpose of the transition from the old to the new Rheinboden pension scheme and the application of the BVV benefits.

In addition, individual contractual commitments apply to former management board members and general managers – currently pensioners and one leaver with vested benefits.

The adjustment of current pensions on the basis of the Rheinboden commitments is performed on the basis of the inflation allowance set out in section 16 of the German Occupational Pensions Act (BetrAVG), with the exception of a small group of approximately ten pensioners where adjustment is made pursuant to the collective agreement for banks.

WestImmo – Pension fund rules dated 1 October 1995

The pension fund rules dated 1 October 1995 represent a defined contribution scheme. The following benefits are paid after a waiting period of five year of service: old-age pension, early old-age pension, (total) occupational incapacity pension as well as widow's and orphan's pension.

The amount of the old-age pension, the early old-age pension and the (total) occupational incapacity pension is calculated based on the sum of the pension components earned during the pensionable service period. If the pensionable service period exceeds 40 years, the monthly pension is calculated based on the sum of the highest 40 pension components earned during the pensionable service period. The amount of one pension component is derived from multiplying the reference contribution (since 2014: € 260), the personal earnings relation (relation between pensionable income and contribution ceiling of the German statutory pension insurance; earnings components above the contribution ceiling are weighted with a factor of 3.75) and the annuitisation factor in the relevant age pursuant to the annuitisation table. The amount of the early old-age pension is reduced by 0.5 % for each month in which annuity is paid prior to completing the 65th year of age. The widow's pension entitlement amounts to 60 %.

If necessary, the determination of the amount of provisions for pensions is based on the following actuarial assumptions applied consistently throughout the Group:

	31 Dec 2015	31 Dec 2014
Calculation method	Projected unit credit	Projected unit credit
Calculation basis	Actuarial tables issued by K. Heubeck in 2005	Actuarial tables issued by K. Heubeck in 2005
Actuarial assumptions (in %)		
Interest rate used for valuation	2.28	2.05
Development of salaries	2.25	2.25
Pension increase	1.86	1.86
Rate of inflation	2.00	2.00
Staff turnover rate	3.00	3.00

Development of net pension liabilities:

€ mn	Present value of pensions obligations	Fair value of plan assets	Net pension liability
Balance as at 1 Jan 2015	**352**	**-57**	**295**
Pension expense	**20**	**-1**	**19**
Current service cost[1]	12	–	12
Net interest cost	8	-1	7
Payments	**-9**	**-5**	**-14**
Pension benefits paid	-11	0	-11
Employer's contributions	–	-3	-3
Contributions made by beneficiaries of defined benefit plans	2	-2	–
Remeasurements	**-22**	**–**	**-22**
due to experience adjustments	-1	–	-1
due to changes in financial assumptions	-19	–	-19
due to changes in demographic assumptions	-2	–	-2
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	0	0
Changes in basis of consolidation	**55**	**–**	**55**
Balance as at 31 Dec 2015	**396**	**-63**	**333**

[1] 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.

€ mn	Present value of pensions obligations	Fair value of plan assets	Net pension liability
Balance as at 1 Jan 2014	**197**	**-49**	**148**
Pension expense	**14**	**-2**	**12**
Current service cost	5	–	5
Net interest cost	9	-2	7
Payments	**-8**	**-4**	**-12**
Pension benefits paid	-10	0	-10
Employer's contributions	–	-2	-2
Contributions made by beneficiaries of defined benefit plans	2	-2	–
Remeasurements	**82**	**-2**	**80**
due to experience adjustments	11	–	11
due to changes in financial assumptions	70	–	70
due to changes in demographic assumptions	1	–	1
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-2	-2
Changes in basis of consolidation	**67**	**–**	**67**
Balance as at 31 Dec 2014	**352**	**-57**	**295**

The weighted duration of pension liabilities is 18.4 years as at 31 December 2015 (2014: 17.3 years).

Expected maturities of the defined benefit obligation (DBO):

€ mn	31 Dec 2015	31 Dec 2014
Up to 1 year	12	11
More than 1 year and up to 5 years	52	48
More than 5 years and up to 10 years	75	67
Total	**139**	**126**

Contributions in the amount of € 8 million (2014: € 7 million) are expected to be paid in the financial year 2016.

Sensitivity of the defined benefit obligation (DBO) compared to the central actuarial assumptions

Based on the qualitative plan description, the valuation parameters significant for calculating the amount of the obligation were derived and corresponding calculations were made as regards sensitivity:

		Defined benefit obligation 2015	Change	Defined benefit obligation 2014	Change
		€ mn	%	€ mn	%
Present value of obligations		**396**		**352**	
Interest rate used for valuation	Increase by 1.0 percentage points	332	-16	296	-16
	Decrease by 1.0 percentage points	477	20	420	19
Development of salaries	Increase by 0.5 percentage points	403	2	358	2
	Decrease by 0.5 percentage points	387	-2	342	-3
Pension increase	Increase by 0.25 percentage points	403	2	356	1
	Decrease by 0.25 percentage points	386	-3	343	-3
Life expectancy	Increase by 1 year	412	4	370	5
	Decrease by 1 year	375	-5	335	-5

The sensitivity analysis takes into account, in each case, the change of an assumption, while the other assumptions remain unchanged compared to the original calculation, i.e. any potential correlation effects between the individual assumptions are not taken into consideration.

Plan assets can be broken down as follows:

€ mn	31 Dec 2015	31 Dec 2014
Cash	0	0
Equities	–	–
Investment funds	38	34
Bonds	–	–
Reinsurance	25	23
Total	**63**	**57**

Apart from the usual actuarial risks, the risks associated with defined benefit obligations primarily relate to financial risks in connection with plan assets. Amongst others, these may include counterparty credit risks and market price risks.

Other provisions

Other provisions developed as follows:

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for unrecognised items	Provisions for legal and tax risks	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2015	**101**	**18**	**269**	**30**	**418**
Additions	85	0	5	27	**117**
Utilisation	57	1	7	19	**84**
Reversals	19	2	34	5	**60**
Interest	0	–	2	0	**2**
Reclassifications	1	-1	-1	1	**0**
Changes in basis of consolidation	52	–	2	0	**54**
Currency translation differences	3	0	–	0	**3**
Carrying amount as at 31 Dec 2015	**166**	**14**	**236**	**34**	**450**

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for unrecognised items	Provisions for legal and tax risks	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2014	**98**	**10**	**0**	**33**	**141**
Additions	53	4	18	24	**99**
Utilisation	50	2	4	9	**65**
Reversals	8	1	12	22	**43**
Interest	1	0	8	0	**9**
Reclassifications	1	–	-1	0	**0**
Changes in basis of consolidation	4	7	260	4	**275**
Currency translation differences	2	0	–	–	**2**
Carrying amount as at 31 Dec 2014	**101**	**18**	**269**	**30**	**418**

Other provisions of € 450 million include € 215 million expected to be realised after a period exceeding twelve months.

Provisions for staff expenses and non-staff operating costs refer to personnel provisions in the amount of € 78 million (2014: € 75 million) and provisions for non-staff operating costs in the amount of € 88 million (2014: € 26 million). Personnel provisions consist of, among other things, provisions for bonuses, partial retirement, severance pay and existing working hours accounts. Provisions for non-staff operating expenses mainly include provisions for professional and legal advice. We expect that the major portion of these provisions will be realised within the next five years following the balance sheet date.

The provisions for legal and tax risks include, amongst others, contingent liabilities in accordance with IFRS 3 in the amount of € 131 million (2014: € 143 million).

Provisions for legal risks mainly refer to several legal actions initiated by holders of former Corealcredit profit-participation certificates Different legal proceedings before different courts must be distinguished in this context: Materially, the main risk is in the allegation that derivatives transactions entered into in 2001/2002 constitute a breach of the Company's object, as set out in its memorandum and articles of association, and that a diligent businessman would refrain from entering into such transactions. If these allegations were found to be true, this would fulfil the prerequisites of the so-called "Klöckner" case law. The aggregate amounts of the claims are in the low triple-digit millions range. Against the background of the complexity of the proceedings and the expectation that all legal remedies are utilised, the proceedings are expected to continue for a longer period. This means that substantial additional default interest would be payable in the event of a ruling against the Bank.

Based on the current state of proceedings, a successful outcome is deemed to have a probability of more than 50 %.

In its judgement dated 15 July 2015, the Frankfurt Higher Regional Court (Oberlandesgericht Frankfurt am Main) fully rejected a claim for damages of various hedge funds (holders of profit-participation certificates). Rights to further appeals were not granted. The majority of the plaintiffs lodged an appeal against the denial of leave to appeal with the German Federal Supreme Court. For this reason, it is not yet possible at the moment to reduce or release the provisions recognised within the scope of the company acquisition. Due to risk protection agreements in connection with the acquisition of Corealcredit, the effect on Aareal Bank's earnings, taking into account tax effects, is considered immaterial, even in case of a complete prevalence. As at 31 December 2015, there may be compensation payments to the seller, in an amount between nil and € 70 million, which would lead to utilisation of the provisions recognised for this purpose – with no effect on profit or loss.

Provisions for tax risks were recognised largely to cover risks in connection with ongoing tax audits at former Corealcredit. In the year under review, provisions from the risk protection that are no longer required were partially released. We anticipate long duration of proceedings for the remaining portion.

Concerning the part of the credit portfolio of former Corealcredit that was acquired subject to credit-related purchase price discounts, as at 31 December 2015, compensation payments to the seller may occur in the future, in an amount of not more than € 9 million plus interest; such payments would also be recognised directly in equity. The potential level of such compensation payments largely corresponds to the surplus amount of future borrower payments relative to the carrying amount of the corresponding accounts receivable. Compensation payments made to the seller to date (and recognised directly in equity) totalled € 45 million. The carrying amount of the contingent considerations is € 5 million (2014: € 1 million). The item "Provisions in the lending business for unrecognised items" includes portfolio-based valuation allowances in the amount of € 6 million (2014: € 8 million).

Within the scope of the acquisition of WestImmo, provisions for severance pay were transferred to provisions for staff expenses and non-staff operating costs. As at year-end, these amounted to € 34 million. In addition, restructuring provisions were recognised in the amount of € 27 million for Frankfurt branch. These include € 23 million for staff expenses and € 4 million for non-staff operating expenses.

(57) Income tax liabilities

Income tax liabilities in a total amount of € 102 million as at 31 December 2015 (2014: € 124 million) include € 44 million (2014: € 86 million) expected to be realised after a period of more than twelve months.

(58) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 722 million (2014: € 805 million).

Deferred tax liabilities were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2015	31 Dec 2014
Loans and advances to banks/to customers	148	118
Positive and negative market value of derivative hedging instruments	133	93
Trading assets and trading liabilities	104	118
Non-trading assets	370	480
Investments accounted for using the equity method	–	–
Intangible assets	8	7
Property and equipment	3	7
Other assets/liabilities	-22	1
Liabilities to banks/to customers, and certificated liabilities	7	–
Provisions	3	–
Subordinated capital	2	2
Deferred tax liabilities	**756**	**826**

(59) Other liabilities

€ mn	31 Dec 2015	31 Dec 2014
Liabilities from outstanding invoices	12	6
Deferred income	14	12
Liabilities from other taxes	18	17
Trade payables (LaC)	16	13
Other liabilities (LaC)	54	79
Total	**114**	**127**

(60) Subordinated capital

€ mn	31 Dec 2015	31 Dec 2014
Subordinated liabilities	1,164	1,222
Profit-participation certificates	53	73
Contributions by silent partners	194	194
Total	**1,411**	**1,489**

Subordinated liabilities

Subordinated funds raised do not provide for any early repayment obligation. In the event of liquidation or insolvency, claims on interest and principal from these liabilities are subordinated to the claims of all other creditors, 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 during 2015 totalled € 45 million (2014: € 40 million). Interest was paid on subordinated liabilities at an average rate of 3.89 % (2014: 3.27 %).

Profit-participation certificates

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

	Nominal amount € mn	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. To the extent that a distribution 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), on the day after the Annual General Meeting passing resolutions regarding the relevant financial year. The profit-participation certificates evidence creditors' rights; they do not grant any share in the liquidation proceeds.

An amount of € 3 million (2014: € 4 million) in interest expenses was incurred with respect to profit-participation certificates issued.

Contributions by silent partners

Contributions by silent partners to Aareal Bank Group had a nominal amount of € 190 million (2014: € 190 million).

Total expenses for silent participations amounted to € 6 million (2014: € 7 million) in the 2015 financial year.

(61) Equity

€ mn	31 Dec 2015	31 Dec 2014
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,633	1,357
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-80	-95
Revaluation reserve	28	15
Hedging reserves	13	-1
Currency translation reserves	7	4
Non-controlling interests	242	242
Total	**3,044**	**2,723**

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (2014: € 180 million). It is divided into 59,857,221 notional no-par value shares ("unit shares") with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

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 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 this 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 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.

Authorised capital

Aareal Bank has authorised capital pursuant to the resolution by the Annual General Meeting held on 23 May 2012. The Annual General Meeting authorised the Management Board 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 issued 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 issued share capital. Said 10 % 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 registered share capital. Accordingly, the aggregate exclusion of shareholders' subscription rights upon exercise of this authorisation must not exceed 20 % of the issued share capital at the time said authorisation comes into effect or is exercised. This limit also includes shares that are issued by the Company on the basis of the authorisation by the Annual 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 only be issued for the Company's no-par value bearer shares with a proportionate share in the Company's share capital of € 89,785,830. 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. 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); 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.

Accordingly, the 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 will 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 performance 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 General Meeting on 21 May 2014.

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

Capital reserves

The capital reserves contain premiums received upon the issuance of shares. Costs incurred within the framework of a capital increase reduce capital reserves.

Retained earnings

Retained earnings are comprised of statutory reserves (pursuant to section 150 of the AktG) of € 5 million (2014: € 5 million) and of other retained earnings of € 1,628 million (2014: € 1,352 million).

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 the 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.

Revaluation surplus

The revaluation surplus comprises effects from fair value measurement of financial instruments of the measurement category "Available for sale (AfS)".

Non-controlling interests

€ 250 million (2014: € 250 million) in preference shares issued by, among others, Aareal Capital Funding Trust, Wilmington, Delaware, U.S.A. were outstanding at the end of the financial year. The equity interest of Aareal Bank Group held in this company amounts to 0.01 %, while the remaining 99.99 % are held by non-controlling interests. Aareal Bank Group holds 100 % of the voting rights in the company. The preference shares are repaid at their nominal value and carry an exclusive right to termination for the issuer.

Interest expenses on these preference shares amounted to € 18 million (2014: € 18 million). The tax relief resulting from distributions leads to a reduction of income taxes as reported in the statement of comprehensive income.

Distributions

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

In addition, on 30 April 2016, the Management Board will resolve on a distribution in relation to the AT1 instruments, pursuant to the terms and conditions of the notes.

Notes to Financial Instruments

A detailed description of the system in place at Aareal Bank AG to measure, limit, and manage risks throughout Aareal Bank Group is presented in the risk report as part of the management report. The disclosures on the description and the extent of the risks arising from financial instruments in accordance with IFRS 7 are included (in part) in the risk report.

(62) Net results of financial instruments by category

The following overview shows the net gains or net losses from financial instruments in accordance with the classification of financial assets and financial liabilities (from which the results are generated) in the measurement categories in accordance with IAS 39:

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Result from loans and receivables	-142	-140
Result from held-to-maturity investments	-5	0
Result from financial instruments held for trading	20	13
Result from assets designated as at fair value through profit or loss	0	0
Result from assets available for sale	11	82
of which: directly recognised in equity	13	81
Result from financial guarantee contracts	2	-3

In the current reporting period, a measurement gain from available-for-sale assets of € -2 million was reclassified from equity to the income statement (2014: € 1 million). The net result on hedge accounting amounted to € 8 million in the year under review (2014: € 5 million). The result from currency translation amounted to € -6 million in the year under review (2014: € -11 million).

The net results include measurement gains and losses, realised gains/losses on disposal, subsequent recoveries on loans and advances previously written off in relation to all financial instruments of the respective category. The result from financial instruments held for trading also includes interest and dividends as well as commissions from held-for-trading financial instruments. The hedge result from hedged items is aggregated with the hedge result from derivative hedging instruments in one line item and, similarly to the result from currency translation, shown separately.

(63) Impairment losses on financial assets

The following overview shows the impairment losses recognised for financial assets by measurement category during the year under review:

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Loans and advances to banks (LaR)	–	1
Loans and advances to customers (LaR)	204	196
Non-trading assets (AfS)	6	–
Other assets (LaR)	0	0
Total	**210**	**197**

(64) Fair value hierarchy in accordance with IFRS 13

All financial instruments for which a fair value is disclosed have to be allocated to one of the levels of the fair value hierarchy in accordance with IFRS 13. The classification into the individual hierarchy levels is based on the inputs used for fair value measurement. A description of the fair value hierarchy is included in Note (5) "Determination of fair value" in the section on accounting policies.

Determination of the fair value for financial instruments carried at fair value in the statement of financial position

Non-trading assets available for sale:
Fixed-income securities and equity instruments for which stock exchange turnover in a meaningful volume can be observed on or shortly before the reporting date are allocated to Level 1 of the fair value hierarchy.

In case of fixed-income securities or equities for which no current market price is available, the fair value is determined on the basis of comparable market prices to the extent possible. To this end, quoted prices on active markets for largely identical or quoted prices on inactive markets for identical or similar securities are used by adjusting the last available market price or the current fair value of another largely identical instrument, to take into account any changes in risk or new information known as at the measurement date. In the absence of comparable market prices for securities, they are measured through an analysis of future payments using the fully-capitalised earnings value approach, where the inputs are based on observable market data. These approaches include the discounted cash flow (DCF) method which is used to determine the present value of contractual cash flows until the expected end of the term. The present value is determined based on the benchmark curve applicable for the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or appropriate numerical procedures. These valuation models exclusively include inputs observable in the market, so that the securities concerned are allocated to Level 2 of the fair value hierarchy. In case the fair value of unlisted equity instruments cannot be determined reliably, the instruments are accounted for using cost.

Non-trading assets designated as at fair value through profit or loss:
Aareal Bank currently does not hold non-trading assets of the dFVtPL category in its portfolio.

Positive and negative market value of derivative hedging instruments as well as from derivatives held for trading:
Exchange-traded derivatives are measured at their quoted market price and allocated to Level 1 of the fair value hierarchy. Aareal Bank currently does not hold any listed derivatives in its portfolio.

The fair value of OTC derivatives included in the trading portfolio as well as of OTC hedging derivatives is determined on the basis of sector-specific standardised measurement models, such as the present value method or option pricing models. These techniques are based on inputs quoted on active markets, such as interest rates, yield curves and credit spreads. The fair value of foreign exchange forwards is generally based on current forward exchange rates quoted on active markets. These derivatives are allocated to Level 2 of the fair value hierarchy.

The carrying amounts of financial instruments held by Aareal Bank Group which are reported at fair value in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument:

31 December 2015

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,498**	**–**	**2,498**	**–**
Assets held for trading	**638**	**–**	**638**	**–**
Trading derivatives	638	–	638	–
Non-trading assets available for sale	**6,272**	**6,240**	**32**	**–**
Fixed-income securities	6,265	6,235	30	–
Equities/funds	7	5	2	–
Negative market value of derivative hedging instruments	**2,720**	**–**	**2,720**	**–**
Liabilities held for trading	**663**	**–**	**663**	**–**
Trading derivatives	663	–	663	–

31 December 2014

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

In the financial year 2015, fixed-income securities of the AfS category in the amount of € 48 million were reclassified from Level 2 to Level 1 (2014: € –). There was no reclassification of fixed-income securities of the same category from Level 1 to Level 2 in the reporting year (2014: € –).

Determination of the fair value for financial instruments carried at amortised cost in the statement of financial position

Cash on hand and balances with central banks:

Cash funds are recognised at the IFRS carrying amount, which is considered an appropriate fair value.

Loans and advances to banks and customers classified as "Loans and receivables" as well as liabilities to banks and customers measured at amortised cost:

The property finance portfolio included in loans and advances to customers of the "Loans and receivables" category is measured using the discounted cash flow method for the purpose of the determination of fair value. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for risks specific to the counterparty as well as credit costs. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions.

Amortised cost is an adequate estimate of fair value for short-term money market transactions, current account balances and other short-term receivables and liabilities included in these classes. Quoted market prices are normally not available for promissory note loans of the "Loans and receivables" category. Therefore, they are measured through discounting the future cash flows using the currency-specific benchmark curve. The liquidity and creditworthiness components are taken into account using issuer-specific spreads.

Registered profit-participation certificates of the "Liabilities measured at amortised cost" category which are backed through assets (covered issues) are also measured using the discounted cash flow method on the basis of the benchmark curve. In addition, we take into account quoted covered bond spreads. Future contractual cash flows of uncovered issues are discounted using an interest rate adequate for Aareal Bank.

Generally, there are no quoted market prices available for the products included in loans and advances, and liabilities to banks and customers. They are allocated either to Level 2 or Level 3 of the fair value hierarchy, depending on the inputs included in the measurement model.

Non-trading assets of the "Loans and receivables" and "Held to maturity" categories:
These classes include fixed-income bonds and debt securities whose fair value is determined following the same procedure for available-for-sale non-trading assets, based on prices on active markets or valuation methods such as the discounted cash flow method; they are classified accordingly into the fair value hierarchy. They are allocated either to Level 1 or Level 2 of the fair value hierarchy, depending on whether or not sufficient stock exchange turnover is observable as at the reporting date.

For the purpose of determining fair value, the asset-backed securities held in the portfolio (mainly CMBS and RMBS) are measured using prices calculated by an independent pricing service provider; accordingly, they are allocated to Level 2 of the fair value hierarchy.

Certificated liabilities measured at amortised cost:
Unless prices on active markets are available, the fair value for bearer securities is determined in accordance with the procedure used for registered securities, with a distinction being made between covered and uncovered issues. To the extent that quoted market prices are available for securities issued by Aareal Bank, such securities are allocated to Level 1 of the fair value hierarchy. Securities for which there are no active market prices are allocated to Level 2 since the valuation methods do not use inputs not observable in the market.

Subordinated capital equity measured at amortised cost:
Subordinated promissory note loans, subordinated bearer debt securities as well as other hybrid instruments of the "Liabilities measured at amortised cost" category are also measured on the basis of the present value method using market-based credit quality premiums with respect to the relevant benchmark curves. If quoted prices on active markets are available, such prices are used as the fair value. Subordinated securities not actively traded in the market are allocated either to Level 2 or Level 3 of the fair value hierarchy, depending on the inputs included in the measurement model.

The market values of financial instruments held by Aareal Bank Group which are reported at amortised cost in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument:

31 December 2015

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Cash on hand and balances with central banks	**1,282**	**–**	**1,282**	**–**
Loans and advances to banks (loans and receivables)	**1,896**	**–**	**1,868**	**28**
Money market receivables from banks	1,672	–	1,672	–
Promissory note loans to banks	196	–	196	–
Other receivables from banks	28	–	–	28
Loans and advances to customers (loans and receivables)	**36,156**	**–**	**1,529**	**34,627**
Property loans to customers	30,695	–	0	30,695
Money market receivables from customers	1,139	–	5	1,134
Promissory note loans to customers	1,526	–	1,524	2
Other receivables from customers	2,796	–	–	2,796
Non-trading assets (loans and receivables)	**3,586**	**2,533**	**1,053**	**–**
Fixed-income securities	3,586	2,533	1,053	–
Non-trading assets held to maturity	**606**	**519**	**87**	**–**
Fixed-income securities	606	519	87	–
Liabilities to banks measured at amortised cost	**1,912**	**–**	**1,832**	**80**
Money market liabilities to banks	924	–	923	1
Registered mortgage Pfandbriefe to banks	464	–	464	–
Registered Public Sector Pfandbriefe to banks	51	–	51	–
Promissory note loans to banks	423	–	345	78
Other liabilities to banks	50	–	49	1
Liabilities to customers measured at amortised cost	**30,335**	**–**	**22,292**	**8,043**
Money market liabilities to customers	13,169	–	5,126	8,043
Registered mortgage Pfandbriefe to customers	6,914	–	6,914	–
Registered Public Sector Pfandbriefe to customers	3,319	–	3,319	–
Promissory note loans to customers	6,933	–	6,933	–
Other liabilities to customers	–	–	0	–
Certificated liabilities measured at amortised cost	**10,870**	**1,041**	**9,829**	**–**
Bearer mortgage Pfandbriefe	8,591	1,041	7,550	–
Bearer public-sector Pfandbriefe	71	–	71	–
Other debt securities	2,208	–	2,208	–
Subordinated capital measured at amortised cost	**1,441**	**323**	**869**	**249**

31 December 2014

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Cash on hand and balances with central banks	**184**	**–**	**184**	**–**
Loans and advances to banks (loans and receivables)	**3,177**	**–**	**3,161**	**16**
Money market receivables from banks	1,738	–	1,738	–
Promissory note loans to banks	121	–	121	–
Other receivables from banks	1,318	–	1,302	16
Loans and advances to customers (loans and receivables)	**32,309**	**–**	**1,611**	**30,698**
Property loans to customers	29,582	–	0	29,582
Money market receivables from customers	874	–	0	874
Promissory note loans to customers	1,611	–	1,608	3
Other receivables from customers	242	–	3	239
Non-trading assets (loans and receivables)	**4,125**	**2,901**	**1,224**	**–**
Fixed-income securities	4,125	2,901	1,224	–
Non-trading assets held to maturity	**836**	**528**	**308**	**–**
Fixed-income securities	836	528	308	–
Liabilities to banks measured at amortised cost	**1,824**	**–**	**1,689**	**135**
Money market liabilities to banks	905	–	902	3
Registered mortgage Pfandbriefe to banks	368	–	368	–
Registered Public Sector Pfandbriefe to banks	41	–	41	–
Promissory note loans to banks	385	–	345	40
Other liabilities to banks	125	–	33	92
Liabilities to customers measured at amortised cost	**27,563**	**–**	**19,481**	**8,082**
Money market liabilities to customers	13,077	–	4,995	8,082
Registered mortgage Pfandbriefe to customers	3,531	–	3,531	–
Registered Public Sector Pfandbriefe to customers	2,988	–	2,988	–
Promissory note loans to customers	7,967	–	7,967	–
Certificated liabilities measured at amortised cost	**11,595**	**1,059**	**10,536**	**–**
Bearer mortgage Pfandbriefe	8,776	1,059	7,717	–
Bearer public-sector Pfandbriefe	45	–	45	–
Other debt securities	2,774	–	2,774	–
Subordinated capital measured at amortised cost	**1,517**	**329**	**921**	**267**

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

The fair values of financial instruments are compared with their carrying amounts in the following table. The presentation is made for each class of financial instrument:

€ mn	31 Dec 2015 Carrying amount	31 Dec 2015 Fair value	31 Dec 2014 Carrying amount	31 Dec 2014 Fair value
Cash on hand and balances with central banks (LaR)	1,282	1,282	184	184
Loans and advances to banks (LaR)	1,893	1,896	3,178	3,177
Loans and advances to customers (LaR)	34,038	36,156	30,069	32,309
Non-trading assets (LaR)	3,630	3,586	4,313	4,125
Other assets (LaR)	93	92	86	91
Total loans and receivables	**40,936**	**43,012**	**37,830**	**39,886**
Non-trading assets held to maturity	**604**	**606**	**833**	**836**
Non-trading assets available for sale	**6,272**	**6,272**	**6,854**	**6,854**
Positive market value of derivative hedging instruments	**2,498**	**2,498**	**2,565**	**2,565**
Assets held for trading	**638**	**638**	**467**	**467**
Liabilities to banks (LaC)	1,898	1,912	1,807	1,824
Liabilities to customers (LaC)	30,360	30,335	27,483	27,563
Certificated liabilities (LaC)	10,819	10,870	11,483	11,595
Other liabilities (LaC)	82	82	98	101
Subordinated capital (LaC)	1,411	1,441	1,489	1,517
Total liabilities measured at amortised cost	**44,570**	**44,640**	**42,360**	**42,600**
Negative market value of derivative hedging instruments	**2,720**	**2,720**	**2,928**	**2,928**
Liabilities held for trading	**663**	**663**	**659**	**659**

(66) Credit quality of financial assets

The following overview shows the credit quality of Aareal Bank Group's financial assets by separately disclosing assets neither past due nor impaired, past due assets and impaired assets. The presentation is based on carrying amounts.

€ mn	31 Dec 2015	31 Dec 2014
Financial assets neither past due nor impaired		
Loans and advances to banks	1,893	3,178
Loans and advances to customers	32,934	29,185
Positive market value of derivative hedging instruments	2,498	2,565
Trading assets	638	467
Non-trading assets (LaR)	3,630	4,313
Non-trading assets (AfS)	6,273	6,856
Non-trading assets (HtM)	604	833
Other assets	89	78
Total	**48,559**	**47,475**
Financial assets that are past due but not impaired		
Loans and advances to customers	268	378
Other assets	0	0
Total	**268**	**378**
Financial assets subject to specific valuation allowances		
Loans and advances to customers	1,364	986
Other assets	19	21
Total	**1,383**	**1,007**

Information about the recoverability of financial assets neither past due nor impaired are provided in the Risk Report in the section on credit risks. An analysis of the financial assets that are past due and impaired is included in the other disclosures in the Notes.

Please refer to the presentation of the items of the statement of financial position in the section "Notes to the statement of financial position" for information on maximum credit risk exposure since the carrying amount corresponds to the maximum credit risk exposure of Aareal Bank as at the balance sheet date. The collateral received is described in the Risk Report.

At Aareal Bank, property loans subject to intensified handling or handling of problem loans pursuant to the Minimum Requirements for Risk Management (MaRisk) that are not impaired individually were subjected to contractual adjustments due to financial difficulties of the borrower, in order to secure the repayment of the exposure. The portfolio of financings, adjusted during the reporting year and the previous years, totalled € 118 million on 31 December 2015. In 2014, the balance of loans adjusted due to financial difficulties of the borrower amounted to € 156 million. In the financial year 2015, loans with a carrying amount of € 3 million (2014: € 144 million) are no longer part of intensified handling or handling of problem loans due to re-ageing after the end of a two-year period of good conduct, while specific valuation allowances were recorded for loans in a carrying amount of € 30 million (2014: € 88 million). These financings are no longer included in the volume stated for contractual adjustments due to financial difficulties of the borrower for the financial year 2015. In the year under review, there were no additions to the volume of financings that were subject to adjustments made due to financial difficulties of the borrower (2014: € 71 million). There were decreases in the carrying amounts in relation to existing exposures, by a total of € 5 million (2014: € 9 million).

(67) Financial assets that are past due but not impaired

The following overviews show the amount of property loans past due but not impaired within the category "Loans and advances to customers (LaR)".[1)]

Breakdown by region

31 December 2015

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2015
Regions						
Germany	20	6	1	1	3	**31**
Western Europe	0	43	–	–	–	**43**
Northern Europe	3	3	–	–	4	**10**
Southern Europe	–	24	94	1	65	**184**
Eastern Europe	–	–	–	–	–	**–**
Total	**23**	**76**	**95**	**2**	**72**	**268**

31 December 2014

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2014
Regions						
Germany	0	0	0	2	44	**46**
Western Europe	–	–	–	–	–	**–**
Northern Europe	–	7	–	–	–	**7**
Southern Europe	–	3	24	180	61	**268**
Eastern Europe	–	–	–	57	–	**57**
Total	**0**	**10**	**24**	**239**	**105**	**378**

1) The overview shows assets that are past due for a period of at least ten days, but not impaired, with an amount past due of at least € 100 or 2.5 % of the commitment.

Breakdown by borrower group

31 December 2015

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2015
Borrower groups						
Companies	23	72	95	1	62	**253**
Private individuals	0	4	0	1	10	**15**
Other	0	0	0	–	0	**0**
Total	**23**	**76**	**95**	**2**	**72**	**268**

31 December 2014

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2014
Borrower groups						
Companies	0	10	24	239	95	**368**
Private individuals	0	0	0	0	10	**10**
Other	–	–	–	–	0	**0**
Total	**0**	**10**	**24**	**239**	**105**	**378**

The past due financial assets were not impaired due to collateral provided.

On the reporting date, the amount of loans and advances of the ”Other assets” category that were past due but not impaired was € 0 million (2014: € 0 million). There were no other financial assets past due but not impaired on the reporting date.

(68) Impaired financial assets

The following overviews indicate the amount of impaired property loans, together with the related allowance for credit losses:

Breakdown by region

31 December 2015

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	78	7	8
Western Europe	179	41	0
Northern Europe	88	44	–
Southern Europe	924	298	–
Eastern Europe	95	22	–
North America	–	–	–
Total	**1,364**	**412**	**8**

31 December 2014

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	106	22	10
Western Europe	111	24	–
Northern Europe	123	73	–
Southern Europe	599	198	–
Eastern Europe	35	9	–
North America	12	7	–
Total	**986**	**333**	**10**

Breakdown by borrower group

31 December 2015

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowance	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business recognised in profit or loss	Direct write-offs
Borrower groups					
Companies	1,353	411	6	149	21
Private individuals	3	0	1	0	0
Other	8	1	1	-2	–
Total	**1,364**	**412**	**8**	**147**	**21**

31 December 2014

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowance	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business recognised in profit or loss	Direct write-offs
Borrower groups					
Companies	979	330	7	79	2
Private individuals	4	1	3	0	0
Other	3	2	0	2	5
Total	**986**	**333**	**10**	**81**	**7**

As at the reporting date, the amount of portfolio-based valuation allowances for recognised items was € 116 million (2014: € 147 million) and for financial guarantees € 6 million (2014: € 8 million). Net reversals of portfolio-based valuation allowances, which are recognised through profit or loss, amounted to € 52 million (2014: net addition of € 68 million) in the year under review. Payments on loans and advances previously written off amounted to € 7 million in the year under review (2014: € 23 million).

The amount of impaired receivables of the "Other assets" category as at the reporting date was € 19 million (2014: € 21 million). The related impairment allowance amounts to € 17 million (2014: € 20 million). These receivables mainly referred to companies in Eastern Europe.

In the financial year 2015, no assets were acquired within the context of the realisation of collateral (2014: € –).

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

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

Bond portfolio as at 31 December 2015

	Carrying amount			Revaluation surplus[1]			Unrealised gains/ losses[1]
	LaR + HtM	AfS	Total	LaR	AfS	Total	
€ mn							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,209	313	1,522	-43	27	-16	-32
Portugal	65	113	178	0	2	2	-6
Spain	610	153	763	0	4	4	-12
Total	**1,884**	**579**	**2,463**	**-43**	**33**	**-10**	**-50**
Total as at 31 Dec 2014	2,013	1,135	3,148	-48	17	-31	-155

[1] Figures given on an after-tax basis

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

The presented AfS securities with a carrying amount of € 579 million (2014: € 1,135 million) were completely allocated to Level 1 of the fair value hierarchy and measured based on quoted prices on active markets.

The following table (page 180) is a breakdown of property financing in selected European countries included in loans and advances to customers.

Property financing portfolio as at 31 December 2015

	Carrying amount[1]	Average LTV[2]	of which: Non-performing loans
	€ mn	%	€ mn
Greece	–	–	–
Ireland	–	–	–
Italy	3,257	73.5 %	836
Portugal	–	–	–
Spain	1,078	65.7 %	88
Total	**4,335**		**924**
Total as at 31 Dec 2014	4,140		599

[1] Not including valuation allowances; [2] Performing loans only

(70) Reclassification of financial assets

In 2008 and 2009, Aareal Bank Group made use of the possibility to reclassify financial assets into another measurement category, in accordance with IAS 39.50A et seq.

The following table is a comparison of the carrying amounts and the fair values of the reclassified securities and also shows the measurement effects which would have arisen without reclassification in the current financial year and in the previous year:

	Reclassified assets, total				Results from fair value measurement without reclassification			
	Carrying amount at reporting date 31 Dec 2015	Fair value at reporting date 31 Dec 2015	Carrying amount previous year 31 Dec 2014	Fair value previous year 31 Dec 2014	Effect on the income statement 1 Jan-31 Dec 2015	Effect on the revaluation surplus 1 Jan-31 Dec 2015	Effect on the income statement 1 Jan-31 Dec 2014	Effect on the revaluation surplus 1 Jan-31 Dec 2014
€ mn								
from AfS to LaR	**3,262**	**3,202**	**3,938**	**3,727**	**–**	**113**	**–**	**23**
Asset-backed securities	27	27	27	28	–	0	–	1
Senior unsecured bank bonds	138	140	277	282	–	-6	–	-8
Covered bank bonds	298	304	428	447	–	-12	–	2
Public-sector issuers	2,799	2,731	3,206	2,970	–	131	–	28
from HfT to LaR	**85**	**91**	**101**	**109**	**-1**	**–**	**14**	**–**
Asset-backed securities	85	91	101	109	-1	–	14	–
Total	**3,347**	**3,293**	**4,039**	**3,836**	**-1**	**113**	**14**	**23**

As in the previous year, no impairment losses had to be recognised for the reclassified financial assets in 2015. The disposal of reclassified securities resulted in the realisation of capital losses of € 10 million (2014: € 0 million). Interest income from reclassified assets amounted to € 98 million (2014: € 109 million) in the year under review. Interest income, including current interest from derivatives used to hedge economic market price risks, amounted to € 17 million (2014: € 34 million).

(71) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when currently there is a legally enforceable right to set off the recognised amounts, and when the Bank intends either to settle on a net basis – or to realise the asset and settle the liability simultaneously.

The following overviews show whether and to what extent financial instruments were actually offset as at the current reporting date. The tables also include disclosures on financial instruments that are part of an enforceable master netting or similar arrangement that do not meet the criteria for offsetting in the statement of financial position.

Financial assets as at 31 December 2015

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	2,794	–	2,794	1,792	1,002	–
Reverse repos	150	–	150	–	150	–
Total	**2,944**	**–**	**2,944**	**1,792**	**1,152**	**–**

Financial liabilities as at 31 December 2015

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
Derivatives	3,347	–	3,347	1,792	1,393	162
Repos	–	–	–	–	–	–
Total	**3,347**	**–**	**3,347**	**1,792**	**1,393**	**162**

Financial assets as at 31 December 2014

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	2,703	–	2,703	1,825	851	27
Reverse repos	1,284	–	1,284	–	1,284	–
Total	**3,987**	**–**	**3,987**	**1,825**	**2,135**	**27**

Financial liabilities as at 31 December 2014

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	3,598	–	3,598	1,825	1,576	197
Repos	–	–	–	–	–	–
Total	**3,598**	**–**	**3,598**	**1,825**	**1,576**	**197**

To reduce counterparty risk, Aareal Bank Group concludes standardised master agreements for financial derivatives and securities repurchase agreements, such as the ISDA Master Agreement, the German Master Agreement on Financial Derivatives or the Master Agreement for Securities Repurchase Transactions. In addition, Aareal Bank enters into collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives) in which a mutual collateralisation of all claims between the contracting parties is agreed and which include netting arrangements.

The master agreements for financial derivatives used by Aareal Bank include netting arrangements at a single transaction level (so-called "payment netting"), which provide for a netting of payments when both parties need to make payments in the same currency on the same date, as set out in the contract. Aareal Bank does not offset financial derivatives according to the rules related to payment netting, as the transactions are not settled on a net basis. Aareal Bank Group has not entered into arrangements providing for netting of derivatives across several transactions.

For securities repurchase transactions (repo), depending on the counterparty, payment or delivery netting is made. In line with the rules set out in the master agreement for repo transactions, payments or deliveries of securities may be offset when both counterparties have to make payments in the same currency on the same date, or have to deliver securities of the same type. Transactions effected on the basis of the master agreement for repo transactions generally meet the offsetting requirements of IAS 32. Aareal Bank settles on a net basis in the case of transactions within the framework of GC pooling, which means that these transactions are offset in the statement of financial position.

(72) Assets provided or accepted as collateral

Assets provided as collateral

Aareal Bank Group has provided financial assets as collateral for its liabilities or contingent liabilities. The following overview shows the carrying amount of the collateral provided and the items of the statement of financial position in which they are reported.

€ mn	31 Dec 2015	31 Dec 2014
Loans and advances to banks	1,393	1,576
Loans and advances to customers	–	0
Non-trading assets	238	224
Total	**1,631**	**1,800**

The protection buyer has no right to sell or re-pledge any of financial assets pledged as collateral (2014: –).

Furthermore, Aareal Bank Group has provided cash collateral of € 6 million, reported under other assets, for the irrevocable payment obligation to the Federal Agency for Financial Market Stabilisation (FMSA) from the bank levy.

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. As at the balance sheet date, fixed-income securities received as collateral for repo transactions had a fair value of € 152 million (2014: € 1,313 million).

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions and on the collateralisation of forward transactions.

(73) Transfer of financial assets without derecognition

Aareal Bank Group sells securities subject to a take-back requirement as borrower within the framework of genuine repurchase agreements. Within the scope of such agreements, securities were transferred to lenders without resulting in the securities being derecognised since Aareal Bank Group retains the substantial risks and rewards from the securities. The risks to which Aareal Bank Group is still exposed comprise the default risk, the interest rate risk and other price risks. The equivalent values received as hedges during the transfer of securities are accounted for as liabilities to banks, or liabilities to customers. Within the context of securities repurchase transactions, the unrestricted title and the unrestricted power of disposition is transferred to the lender upon delivery of the securities. The lender has the right to sell or pledge these securities, however, he is required to retransfer securities of the same type and in the same amount as at the repurchase date.

As in previous year, no securities were part of repurchase agreements as at the balance sheet date.

(74) Derivative financial instruments

Aareal Bank Group enters into derivative financial instruments primarily in order to hedge market risks as well as for refinancing purposes. Derivatives which are designated for hedging purposes and meet the hedge accounting criteria are reported in the statement of financial position as derivative hedging instruments.

Derivatives classified as ”Held for trading” are reported as ”Assets or liabilities held for trading”. They are also mainly used to hedge the economic market risk exposure. Spot and forward foreign exchange transactions are almost exclusively used within the context of refinancing. Credit derivatives are used to assume credit risks for the purpose of portfolio diversification.

Counterparty risks in derivative transactions are monitored by means of counterparty limits, provision of collateral and a uniform lending policy. Limits are set in accordance with the counterparty classification in internally-defined credit classes as well as ratings of Fitch IBCA, Moody’s and Standard & Poor’s. Collateral is generally provided in the form of cash collateral, which is released to the pledger as soon as the purpose of collateralisation ceases to exist.

Derivative transactions are generally entered into on the basis of the German Master Agreement for Financial Derivatives, or the ISDA Master Agreements only. Such master agreements provide for the netting of claims and liabilities in the event of insolvency or counterparty default, and thus further reduce counterparty risk.

Fair value hedges

Fair value hedges are entered into by Aareal Bank Group in order to hedge interest rate and currency risks inherent in securities, mortgage loans, promissory note loans, money market instruments, registered covered bonds (Namenspfandbriefe), certificated liabilities, and subordinated capital. Instruments used for fair value hedges comprise interest rate swaps as well as cross-currency swaps.

The following gains and losses result from fair value hedges in the year under review:

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Result from hedging instruments	-165	-90
Result from hedged items	172	91
Total	**7**	**1**

Cash flow hedges

Cash flow hedges are used within Aareal Bank Group exclusively to hedge future cash flows from variable-rate financial assets and liabilities.

The hedged portion of the cash flows from hedged items which are part of cash flow hedges will impact earnings of Aareal Bank Group in future as follows:

Cash flows from hedged items – Cash flow hedges as at 31 December 2015

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Cash flows from hedged assets	-7	-24	-15	43	**-3**

Cash flows from hedged items – Cash flow hedges as at 31 December 2014

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	mehr als 5 Jahre	Total
Cash flows from hedged assets	-2	-8	4	26	**20**

In 2015, gains determined as the effective portion of the hedge from derivatives included in cash flow hedges were recognised directly in equity at an amount of € 21 million (2014: € 18 million).

The amount from cash flow hedges transferred from hedging reserves to the income statement in the year under review can be allocated to the following income statement items:

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Net interest income	0	-4
Total	**0**	**-4**

In the year under review, a gain of € 1 million (2014: € 4 million) was recognised directly in the income statement due to inefficiencies of cash flow hedges.

In addition, derivatives were entered into within Aareal Bank Group to hedge net investments in foreign operations. These derivatives are used to hedge the currency risk arising on translating the net assets of foreign Group companies to the Group's reporting currency (euro).

€ 0 million (2014: € 0 million) was recognised directly in the income statement as the ineffective portion of hedges of net investments in foreign operations.

Overview of market values of derivatives

The following table shows positive and negative market values (including pro-rata interest) of derivative financial instruments:

€ mn	Fair value as at 31 Dec 2015 positive	Fair value as at 31 Dec 2015 negative	Fair value as at 31 Dec 2014 positive	Fair value as at 31 Dec 2014 negative
Trading derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	592	507	428	501
Swaptions	–	0	–	–
Caps, floors	13	13	13	13
Total interest rate instruments	**605**	**520**	**441**	**514**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	24	15	18	45
Cross-currency swaps	8	128	8	100
Total currency-related instruments	**32**	**143**	**26**	**145**
Other transactions				
OTC products				
Credit default swaps[1)]	1	–	0	–
Total other transactions	**1**	**–**	**0**	**–**
Total trading derivatives	**638**	**663**	**467**	**659**
Fair value hedge derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	2,404	1,911	2,502	2,350
Total interest rate instruments	**2,404**	**1,911**	**2,502**	**2,350**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	–	–	–	10
Cross-currency swaps	68	801	53	553
Total currency-related instruments	**68**	**801**	**53**	**563**
Total derivatives from fair value hedges	**2,472**	**2,712**	**2,555**	**2,913**
Derivatives from cash flow hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	26	7	10	13
Total currency-related instruments	**26**	**7**	**10**	**13**
Total derivatives from cash flow hedges	**26**	**7**	**10**	**13**

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

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€ mn	Fair value as at 31 Dec 2015 positive	Fair value as at 31 Dec 2015 negative	Fair value as at 31 Dec 2014 positive	Fair value as at 31 Dec 2014 negative
Derivatives used as net investment hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	–	1	–	2
Total currency-related instruments	**–**	**1**	**–**	**2**
Total derivatives used as net investment hedges	**–**	**1**	**–**	**2**
Total	**3,136**	**3,383**	**3,032**	**3,587**

Derivatives have been entered into with the following counterparties:

€ mn	Fair value as at 31 Dec 2015 positive	Fair value as at 31 Dec 2015 negative	Fair value as at 31 Dec 2014 positive	Fair value as at 31 Dec 2014 negative
OECD banks	2,548	3,295	2,641	3,557
Companies and private individuals	588	88	391	30
Total	**3,136**	**3,383**	**3,032**	**3,587**

The following overview shows the cash flows of derivative financial instruments, based on the contractual maturity. The amounts shown in the table represent the contractually agreed future undiscounted cash flows. The procedure for measuring and monitoring liquidity risk is described in the Risk Report.

31 December 2015

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Interest rate instruments					
Interest rate swaps					
Cash inflows	245	656	2,073	732	3,706
Cash outflows	200	430	1,592	614	2,836
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	0	0	0	0
Caps, floors					
Cash inflows	0	1	8	4	13
Cash outflows	0	1	8	4	13

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€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	2,458	287	112	–	2,857
Cash outflows	2,450	287	112	–	2,849
Cross-currency swaps					
Cash inflows	13	1,008	6,014	1,514	8,549
Cash outflows	30	1,191	6,961	1,575	9,757
Other transactions					
Credit default swaps					
Cash inflows	–	0	–	–	0
Cash outflows	–	–	–	–	–
Total cash inflows	**2,716**	**1,952**	**8,207**	**2,250**	**15,125**
Total cash outflows	**2,680**	**1,909**	**8,673**	**2,193**	**15,455**

31 December 2014

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Interest rate instruments					
Interest rate swaps					
Cash inflows	223	605	2,182	820	3,830
Cash outflows	217	439	1,831	659	3,146
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	–	–	–
Caps, floors					
Cash inflows	0	2	8	3	13
Cash outflows	0	2	8	3	13
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	3,365	251	4	–	3,620
Cash outflows	3,404	248	–	–	3,652
Cross-currency swaps					
Cash inflows	98	1,371	6,414	798	8,681
Cash outflows	125	1,534	6,941	870	9,470
Other transactions					
Credit default swaps					
Cash inflows	–	0	0	–	0
Cash outflows	–	–	–	–	–
Total cash inflows	**3,686**	**2,229**	**8,608**	**1,621**	**16,144**
Total cash outflows	**3,746**	**2,223**	**8,780**	**1,532**	**16,281**

(75) Day-one profit or loss

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

The table below shows the development of the day-one profit or loss during the year under review. The day-one profit or loss is recognised as an item to be deducted from the carrying amount of the respective underlying derivative position:

€ mn	2015	2014
Balance as at 1 January	**42**	**27**
Additions from new transactions	-3	15
Reversals through profit or loss in the period	16	9
Changes in basis of consolidation	4	9
Balance as at 31 December	**27**	**42**

(76) Maturities of financial liabilities

The following two overviews show the future undiscounted cash flows of non-derivative financial liabilities and of loan commitments.

Maturities as at 31 December 2015

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	975	57	76	472	396	**1,976**
Liabilities to customers	6,646	3,790	4,141	7,245	12,133	**33,955**
Certificated liabilities	–	813	2,254	6,674	1,443	**11,184**
Subordinated capital	–	19	87	340	1,274	**1,720**
Financial guarantee contracts	162	–	–	–	–	**162**
Loan commitments	1,227	–	–	–	–	**1,227**

Maturities as at 31 December 2014

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	925	80	104	381	384	**1,874**
Liabilities to customers	6,072	3,911	4,299	5,963	10,176	**30,421**
Certificated liabilities	1	874	1,178	8,386	1,460	**11,899**
Subordinated capital	–	61	49	380	1,383	**1,873**
Financial guarantee contracts	140	–	–	–	–	**140**
Loan commitments	1,466	–	–	–	–	**1,466**

The Risk Report includes a detailed description of the liquidity risk associated with financial liabilities.

Segment Reporting

(77) Operating segments of Aareal Bank

In the financial year 2015, segment reporting by Aareal Bank was prepared in accordance with IFRS 8 Operating Segments.

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

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

The **Structured Property Financing segment** comprises the property financing and refinancing activities. In this segment, Aareal Bank facilitates property investments 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, residential and logistics properties. Its particular strength lies in its success in 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 structure tailor-made financing concepts to meet the special requirements of its domestic 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 (German covered bonds), which account for a major share of the Bank's long-term funding. The AAA rating of the Pfandbriefe additionally confirms the quality of the cover assets pool. 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 its 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 its 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.

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 our IT system consultancy and related advisory services for the housing and commercial property sector through our Aareon AG subsidiary, which can call upon almost 60 years in the business. Aareon offers its customers reliable, pioneering solutions in the fields of consulting, software and services to optimise IT-supported business processes in the digital age. The ERP (Enterprise Resource Planning) systems, which are tailored to the needs of the respective market, may be supplemented by further digital solutions for purposes of process optimisation. The majority of these integrated systems forms the digital ecosystem "Aareon Smart World". It connects property companies with customers, employees and business partners as well as technical "equipment" in apartments and buildings. Aareon Smart World can be used to restructure and optimise processes. The applications may help to reduce costs, enable the creation of new business models by providing links between all participants and offer more ease-of-use in the dialogue between tenants and employees of the housing industry.

Aareon offers software solutions both in Germany and abroad that may be used in various types of operating environments: in-house services, hosting und 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 high level. After successful consulting, implementation and training, the customer receives a maintenance model which covers regular support.

In its Housing Industry division, Aareal Bank offers its customers process optimisation, electronic banking and asset management. Aareal Bank distributes BK 01, the leading procedure in the German housing and property management sector for the automated settlement of mass payments. The procedure is integrated in licensed bookkeeping systems. Therefore, customers in Germany may process their payment transactions and account management from the administration software employed. Apart from the German residential and commercial property sector, the German energy and waste disposal industry is a second important customer group of the Bank's Housing Industry division. This enables the offer of further products, facilitating the cross-sector cooperation of target groups and realising synergy effects via end-to-end digital processes. The use of the payment transaction products of Aareal Bank generates deposits that contribute significantly to Aareal Bank Group's refinancing base.

(78) Segment results

€ mn	Structured Property Financing 2015	Structured Property Financing 2014	Consulting/ Services 2015	Consulting/ Services 2014	Consolidation/ Reconciliation 2015	Consolidation/ Reconciliation 2014	Aareal Bank Group 2015	Aareal Bank Group 2014
Net interest income	783	687	0	0	-2	1	781	688
Allowance for credit losses	128	146					128	146
Net interest income after allowance for credit losses	**655**	**541**	**0**	**0**	**-2**	**1**	**653**	**542**
Net commission income	6	4	169	163	0	-3	175	164
Net result on hedge accounting	8	5					8	5
Net trading income/expenses	13	2	0				13	2
Results from non-trading assets	-17	2					-17	2
Results from investments accounted for using the equity method	0	0	0	0			0	0
Administrative expenses	359	255	197	187	-3	-3	553	439
Net other operating income/expenses	37	3	5	4	-1	-1	41	6
Negative goodwill from acquisitions	150	154					150	154
Operating profit	**493**	**456**	**-23**	**-20**	**0**	**0**	**470**	**436**
Income taxes	106	109	-10	-8			96	101
Consolidated net income	**387**	**347**	**-13**	**-12**	**0**	**0**	**374**	**335**
Consolidated net income attributable to non-controlling interests	16	16	3	3			19	19
Consolidated net income attributable to shareholders of Aareal Bank AG	371	331	-16	-15	0	0	355	316
Allocated equity	1,616	1,327	136	117	549	632	2,301	2,076
Cost/income ratio (%)	43.2	36.2	113.4	111.9			55.2	50.6
RoE before taxes (%)	28.1	30.6	-19.1	-19.4			18.6	18.5
Employees (average)	**1,040**	**873**	**1,679**	**1,644**			**2,719**	**2,517**
Segment assets	**42,653**	**40,221**	**9,295**	**9,336**			**51,948**	**49,557**
Investments accounted for using the equity method	1	1	0	0			1	1
Segment investments	11	5	25	9			36	14
Segment depreciation/amortisation	9	8	11	13			20	21

(79) Results by geographical region

€ mn	Germany 2015	Germany 2014	International 2015	International 2014	Consolidation/ Reconciliation 2015	Consolidation/ Reconciliation 2014	Aareal Bank Group 2015	Aareal Bank Group 2014
Net interest income	276	225	505	463			781	688
Allowance for credit losses	-13	11	141	135			128	146
Net interest income after allowance for credit losses	**289**	**214**	**364**	**328**			**653**	**542**
Net commission income	120	103	55	61			175	164
Net result on hedge accounting	5	2	3	3			8	5
Net trading income/expenses	5	1	8	1			13	2
Results from non-trading assets	-5	0	-12	2			-17	2
Results from investments accounted for using the equity method	0	0	0	0			0	0
Administrative expenses	329	264	224	175			553	439
Net other operating income/expenses	34	-9	7	15			41	6
Negative goodwill from acquisitions	150	154					150	154
Operating profit	**269**	**201**	**201**	**235**			**470**	**436**
Allocated equity	610	450	1,142	994	549	632	2,301	2,076
Cost/income ratio (%)	75.6	81.6	39.6	32.1			55.2	50.6
RoE before taxes (%)	42.3	41.8	14.9	19.7			18.6	18.5
Employees (average)	**1,683**	**1,586**	**1,036**	**931**			**2,719**	**2,517**

(80) Consulting/Services segment – reconciliation of the income statement

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

			Income statement classification – bank										
€ mn			Net interest income	Net commission income	Net trading income/expenses	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income/expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	2015		0	169	0		0	197	5		**-23**	-10	**-13**
	2014		0	163			0	187	4		**-20**	-8	**-12**
Income statement classification – industrial enterprise													
Sales revenue	2015	193		193									
	2014	185		185									
Own work capitalised	2015	4						4					
	2014	5						5					
Changes in inventory	2015	0							0				
	2014	0							0				
Other operating income	2015	9			0				9				
	2014	8							8				
Cost of materials purchased	2015	24		24									
	2014	22		22									
Staff expenses	2015	139						139					
	2014	131						131					
Depreciation, amortisation and impairment losses	2015	12						12					
	2014	14						14					
Result from investments accounted for using the equity method	2015	0					0						
	2014	0					0						
Other operating expenses	2015	54						50	4				
	2014	51						47	4				
Interest and similar income/expenses	2015	0	0										
	2014	0	0										
Operating profit	**2015**	**-23**	**0**	**169**	**0**		**0**	**197**	**5**				
	2014	**-20**	**0**	**163**			**0**	**187**	**4**				
Income taxes	2015	-10										-10	
	2014	-8										-8	
Segment result	**2015**	**-13**											
	2014	**-12**											

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 publishes a description of its remuneration systems (qualitative disclosure) in the annual report for the 2015 financial year, in accordance with section 16 (1) of the amendment to the German Regulation on Remuneration in Financial Institutions (Institutionsvergütungsverordnung – "InstitutsVergV") dated 16 December 2013, and pursuant to the EU 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.

(81) 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 with respect to performance-related 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 date of conversion into the Company's shares, 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, and pursuant to section 314 (1) no. 6a of the HGB. 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**			
	2014[3]	**2015**	**2015 (min)[4]**	**2015 (max)[5]**	**2014[3]**	**2015**	**2015 (min)[4]**	**2015 (max)[5]**
€								
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**				**Dr Wolf Schumacher[2]**			
	2014[3]	**2015**	**2015 (min)[4]**	**2015 (max)[5]**	**2014[3]**	**2015**	**2015 (Min)[4]**	**2015 (max)[5]**
€								
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 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:

		Share-based payment	
	Year	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 (DBO) as at 31 Dec 2015	Increase of pension obligations (DBO) in 2015	Pension claims p.a.[1]	Balance of pension obligations (DBO) as at 31 Dec 2014	Increase of pension obligations (DBO) in 2014
Hermann J. Merkens[2]	244	4,664	329	230	4,335	1,936
Dagmar Knopek	125	1,095	357	–	738	484
Thomas Ortmanns	242	4,465	364	230	4,101	1,662
Dr Wolf Schumacher[3]	441	12,285	4,640	394	7,645	2,802
Total	**1,052**	**22,509**	**5,690**	**854**	**16,819**	**6,884**

[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 in the 2015 financial year in connection with the pension claims of members of the Management Board totalled € 2.8 million (2014: € 1.8 million). The present value of 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 € 4.2 million in the year under review (2014: € 11.3 million). The total amount of pension obligations was € 43.3 million (2014: € 39.1 million). Of that amount, € 33.1 million related to former members of the Management Board and their surviving dependants (2014: € 22.3 million). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 0.8 million (2014: € 0.8 million).

However, severance payments may be included in individual termination agreements. Pursuant to the contracts entered into with the members of the Management Board, 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 Code, 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 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.

(82) 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.

(83) Remuneration governance

Remuneration Control Committee

The Remuneration Control Committee supports the Supervisory Board, according to section 15 of the InstitutsVergV 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 InstitutsVergV in connection with art. 450 of the CRR) as well as the review of the risk taker analysis.

(84) 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

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€	Year	Fixed remuneration	Attendance fees	Total remuneration
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.

(85) Additional disclosures pursuant to IFRS 2 regarding share-based payment arrangements

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:

	2015	2014
Quantity (number)		
Balance (outstanding) as at 1 January	**643,824**	**949,366**
Granted	503,290	190,627
of which: vested	362,140	128,930
of which: awarded on a provisional basis	141,150	61,697
Expired	–	–
Exercised	262,305	496,169
Balance (outstanding) as at 31 December	**884,809**	**643,824**
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
Hermann 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 € 10.2 million as at 31 December 2015.

Other Notes

(86) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2015	31 Dec 2014
USD	9,529	9,086
GBP	4,392	3,986
SEK	1,353	1,589
CHF	483	424
DKK	447	438
JPY	–	354
Other	417	452
Total	**16,621**	**16,329**

Foreign currency liabilities

€ mn	31 Dec 2015	31 Dec 2014
USD	9,551	9,060
GBP	4,326	3,935
SEK	1,444	1,606
CHF	478	419
DKK	455	445
JPY	–	298
Other	399	444
Total	**16,653**	**16,207**

(87) Subordinated assets

In the event of insolvency or liquidation of the issuer, subordinated assets are those subordinate to the claims of all other creditors.

There were no subordinated assets in the financial year 2015 (2014: –).

(88) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or a series of payments the right to use an asset for an agreed period of time. In accordance with IAS 17, leases where a material part of risks and rewards incidental to ownership of the leased assets remains with the lessor are classified as operating leases. Where substantially all risks and rewards are transferred to the lessee, the lease is classified as a finance lease. The provisions of IFRIC 4 were complied with as regards the application of IAS 17. Aareal Bank Group acts both as lessor and lessee. All rental contracts are classified as operating leases. They mainly refer to rented or let property.

Properties leased by the Group are reported under other assets.

Payments received or made under operating leases are recognised in income, on a straight-line basis over the term of the lease.

Maturity of minimum lease payments under operating leases

€ mn	31 Dec 2015	31 Dec 2014
Aareal Bank Group as lessee		
up to 1 year	15	14
longer than 1 year, and up to 5 years	41	37
longer than 5 years	20	25
Total minimum lease payments	**76**	**76**
Aareal Bank Group as lessor		
up to 1 year	2	17
longer than 1 year, and up to 5 years	4	70
longer than 5 years	4	46
Total minimum lease payments	**10**	**133**

In the financial year, lease payments of € 17 million (2014: € 20 million) were recognised as expenses in the financial year..

(89) Trust business

Aareal Bank Group's trust business at the balance sheet date is analysed below:

€ mn	31 Dec 2015	31 Dec 2014
Trust assets		
Loans and advances to customers	203	204
Non-trading assets	2	2
Total trust assets	**205**	**206**
Trust liabilities		
Liabilities to banks	15	14
Liabilities to customers	190	192
Total trust liabilities	**205**	**206**

(90) Contingent liabilities and loan commitments

€ mn	31 Dec 2015	31 Dec 2014
Contingent liabilities	162	140
Loan commitments	1,227	1,466
of which: irrevocable	797	920

Contingent liabilities include € 23 million (2014: € 26 million) in capital 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 DEPFA Deutsche Pfandbriefbank AG. € 1 million (2014: € 2 million) in provisions related to these capital guarantees was recognised as at 31 December 2015. In addition, this item includes the irrevocable payment obligation regarding the bank levy. These and the values reported under loan commitments given represent the maximum default risk to which Aareal Bank Group is exposed at the end of the reporting period.

Furthermore, the Bank is involved in legal disputes. Based on a legal analysis, successful outcome of these disputes is more likely than not. Essentially, these are legal disputes with borrowers (or former borrowers) who claim damages against the Bank. These are included in the table above, with a probability-weighted amount of € 40 million (2014: € 53 million), but have not been recognised as liabilities. We estimate the maximum default risk in the low triple-digit million range. The duration of proceedings depends on the complexity of each individual litigation, and the legal remedies available in each case. Likewise, the final amount in the event of defeat may vary considerably, depending upon the duration of proceedings and the legal remedies. Refunds of litigation costs are possible. Accordingly, the recognition of contingent liabilities is also subject to estimation uncertainties.

(91) Consolidated statement of cash flows

Aareal Bank Group's statement of cash flows records cash flows pertaining to the areas of operating activities, investing activities and financing activities for the period under review. The starting point of the consolidated statement of cash flows is the amount of cash and cash equivalents, consisting of cash on hand, balances with central banks as well as public-sector debt instruments and bills of exchange eligible for refinancing at central banks.

The definition of the term "operating activities" is consistent with the composition of the operating profit in the statement of comprehensive income. Cash flows from investing activities include proceeds from and payments in relation to property and equipment, non-trading assets and investment properties. Cash flows from financing activities include cash flows from transactions with providers of equity capital.

In connection with the assets acquired and liabilities assumed, as well as the purchase price paid within the context of the acquisition of WestImmo, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(92) Regulatory capital and capital management

As regards meeting minimum capital ratios, Aareal Bank Group has to comply with the capital adequacy requirements set out in the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD IV), the German Banking Act (Kreditwesengesetz, KWG) and the German Solvency Regulation (SolvV) pursuant to Basel III. This requires the Bank to maintain own funds of at least 8 % of its risk-weighted assets (total capital ratio). Any additional country-specific capital requirements are taken into account. Risk-weighted assets had to be backed by Tier I capital of at least 6 % (Tier I ratio). Compliance with the capital requirements has to be reported to the competent supervisory authorities on a quarterly basis. The capital requirements were complied with at all times during the reporting period.

The objective of capital management within Aareal Bank Group is compliance with the legal minimum capital requirements, ensuring that internally targeted capital ratios are achieved, taking into account the full implementation of Basel III requirements, as well as the provision of a sufficient capital cushion to ensure, at any time, the Group‘s capacity to act. Funds are allocated to the individual business segments within the framework of capital management, aiming at optimising the return on equity.

The SREP requirement for Aareal Bank Group at the end of 2015 was a Common Equity Tier I (CET1) ratio of 8.75 %, including the capital conservation buffer.

Given prevailing uncertainty with regard to future regulatory requirements, we consider a fully phased-in Common Equity Tier I (CET1) ratio of at least 13 % (including a 2.25 % management buffer) to be appropriate. These ratios are considerably above the legal minimum requirements. Compliance with the minimum requirements is planned to be ensured through the generation of profits, an active dividend policy, optimisation of the capital structure, and an efficient management of risk assets.

Within the context of capital management, projections are made on a regular basis showing the changes of the individual capital components and risk-weighted assets, as well as the resulting capital ratios. This is reported regularly within the framework of management reporting. The strategic allocation of capital to the individual business segments is incorporated in the Group‘s annual overall planning process.

Aareal Bank Group’s regulatory capital is composed of the following:

€ mn	31 Dec 2015[1)]	31 Dec 2014
Tier 1 capital (T1)		
Subscribed capital and capital reserves	899	899
Eligible retained earnings	1,479	1,250
Accumulated other comprehensive income	-47	-18
Amounts to be deducted from CET1 capital	-33	-22
Sum total of Common Equity Tier 1 (CET1)	2,298	2,109
AT1 bond	300	300
Silent participations	126	144
Other	169	193
Amounts to be deducted from additional tier 1 capital	-11	-11
Sum total of additional tier 1 (AT1) capital	584	626
Sum total of Tier 1 capital (T1)	**2,882**	**2,735**

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Transparency

€ mn	31 Dec 2015[1]	31 Dec 2014
Tier 2 capital (T2)		
Silent participations	54	36
Subordinated liabilities	965	988
Profit-participation certificates	11	22
Other	72	48
Amounts to be deducted from tier 2 capital	-7	-3
Sum total of Tier 2 capital (T2)	**1,095**	**1,091**
Total capital (TC)	**3,977**	**3,826**

[1] After confirmation of Aareal Bank AG's financial statements for 2015. The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of net profit for the financial year 2015. The appropriation of profits is subject to approval by the Annual General Meeting.

The regulatory measurement of risk-weighted assets (RWA) in the area of credit risks is based on both the Advanced Internal Ratings Based Approach (AIRBA) and on the standardised approach (CRSA). RWA as at 31 December 2015 can be analysed as follows:

€ mn	EAD 31 Dec 2015	Risk-weighted assets (RWA) AIRBA 31 Dec 2015	CRSA 31 Dec 2015	Total 31 Dec 2015	Regulatory capital requirements 31 Dec 2015	EAD 31 Dec 2014	RWA 31 Dec 2014	Regulatory capital requirements 31 Dec 2014
Credit risks	**53,053**	**10,629**	**4,029**	**14,658**	**1,173**	**50,659**	**13,688**	**1,095**
Companies	33,463	8,481	2,647	11,128	890	32,089	10,551	844
Institutions	4,455	462	101	563	45	6,103	760	61
Public-sector entities	12,507	0	20	20	2	11,218	14	1
Other	2,628	1,686	1,261	2,947	236	1,249	2,363	189
Market price risks				**124**	**10**		**168**	**14**
Credit Valuation Adjustment				**264**	**21**		**329**	**26**
Operational risks				**1,663**	**133**		**1,307**	**104**
Total	**53,053**	**10,629**	**4,029**	**16,709**	**1,337**	**50,659**	**15,492**	**1,239**

(93) Related party disclosures in accordance with IAS 24

Throughout the financial year 2015, the Bank has reported purchases and sales subject to reporting requirements under No. 6.6 of the German Corporate Governance Code, as well as under 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 Code to disclose on its website, without delay, each reported purchase or sale by members of the Management Board or the Supervisory Board.

The group of related parties of Aareal Bank Group comprises the members of management or supervisory bodies and close members of these persons' families. The members of management or supervisory bodies of Aareal Bank AG's subsidiaries, plus first-level managers and experts of Aareal Bank AG are no longer classified as other related parties in accordance with IAS, in line with the typical approach used in the industry. The group of companies related to Aareal Bank Group consists of the companies set out in Note 102 "List of Shareholdings" as well as the companies attributable to the related persons within the meaning of IAS 24.9 (b)(vi).

The following list provides an overview of existing related party transactions:

€ mn	31 Dec 2015	31 Dec 2014
Management Board	–	–
Supervisory Board	0	0
Other related parties [1]	–	–
Total	**0**	**0**

[1] The previous year's figure was adjusted due to a narrower definition.

The loan extended to one member of the Supervisory Board 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. Interest received and paid in this context had no material impact on the consolidated financial statements.

In addition, there were no further significant transactions within the meaning of IAS 24.

(94) 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.

(95) List of offices held – corporate governance report

The List of Offices Held, which has been deposited with the Commercial Register at the Wiesbaden District Court, includes all offices held in German and foreign companies. Like the Corporate Governance Report, the list is available, free of charge, from Aareal Bank AG in Wiesbaden, or from the internet on www.aareal-bank.com.

(96) Contingencies

By means of a Letter of Comfort, Aareal Bank AG guarantees 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.

(97) 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] Voting interests held directly and indirectly

(98) Declaration of Compliance in accordance with Section 161 of the AktG

The Management Board and the Supervisory Board issued the Declaration of Compliance as stipulated in section 161 of the AktG, and made this Declaration available to shareholders. It is available to the public on the Company's website on http://www.aareal-bank.com/investor-relations/corporate-governance/.

(99) Employees

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

	31 Dec 2015	31 Dec 2014
Yearly average		
Salaried employees	2,695	2,386
Executives	166	162
Total	**2,861**	**2,548**
of which: Part-time employees	514	441

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

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Yearly average		
Salaried employees	2,557	2,374
Executives	162	143
Total	**2,719**	**2,517**
of which: Part-time employees	487	435

(100) Nature and extent of interests in unconsolidated structured entities

In accordance with IFRS 12.24, the nature and extent of interests in unconsolidated structured entities as well as the nature of, and changes in, the risks associated with such interests have to be disclosed in the annual report. An interest in a structured entity arises from a contractual and non-contractual involvement which entitles the Group to receive variable returns from the relevant activities of the structured entity. Examples for this are equity or debt instruments of structured entities or the provision of financing, collateral and guarantees to structured entities.

Structured entities are companies where voting rights or similar rights are not the dominant factor to assess control of the company. The relevant activities of structured entities are directed by means of contractual arrangements; any voting rights relate to administrative tasks only. Structured entities are characterised by features or attributes such as restricted activities, a narrow and well-defined objective and/or insufficient equity. In addition, structured entities may relate to financings in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks. Examples of structured entities are securitisation vehicles, asset-backed financings and some investment funds.

[1] This number does not include 41 (2014: 20) employees of the hotel business La Sessola Service S.r.l.

[2] This number does not include 132 (2014: 2) employees of the hotel business La Sessola Service S.r.l.

Aareal Bank Group interacts with structured entities such as open-ended property funds, leased property companies and asset-backed security companies. The Group's business relationships are restricted to the provision of financings to structured entities in the form of loans or guarantees and to the holding of debt instruments issued by structured entities. The leased property companies were established by third parties for the financing of particular transactions and have the legal form of a German private limited company with a limited liability company as general partner (GmbH & Co KG) where Aareal Bank Group holds marginal interests in some cases. In the year under review and the previous year, Aareal Bank Group did not provide any non-contractual support for unconsolidated structured entities.

The following table shows the carrying amounts of assets and liabilities recognised by Aareal Bank Group as at the reporting date as well as the existing off-balance sheet risk exposures that relate to unconsolidated structured entities. The carrying amounts of the assets and off-balance sheet items correspond to the Group's maximum loss exposure from interests in unconsolidated structured entities (without taking into account collateral). The size of the structured entities was determined on the basis of the net fund assets for open-ended property funds, of total assets for leased property companies, and of the nominal value of the launched total issue for asset-backed security entities.

The addition to loans and advances to customers in relation to open-ended property funds is the result of the acquisition of Westdeutsche ImmobilienBank AG.

31 December 2015

€ mn	Open-ended property funds	Leased property companies	Asset-backed security (ABS) companies	Total
Assets	**514**	**41**	**118**	**673**
Loans and advances to customers	514	41	–	**555**
Non-trading assets	–	–	118	**118**
Liabilities	**–**	**–**	**–**	**–**
Off-balance sheet risk exposures	**–**	**–**	**–**	**–**
Size Range of structured units	**€ 61 mn– € 13,195 mn**	**€ 14 mn– € 50 mn**	**€ 19 mn– € 2,500 mn**	

31 December 2014

€ mn	Open-ended property funds	Leased property companies	Asset-backed security (ABS) companies	Total
Assets	**105**	**86**	**129**	**320**
Loans and advances to customers	105	86	–	**191**
Non-trading assets	–	–	129	**129**
Liabilities	**–**	**–**	**–**	**–**
Off-balance sheet risk exposures	**–**	**–**	**–**	**–**
Size Range of structured units	**€ 378 mn – € 1,797 mn**	**€ 7 mn – € 55 mn**	**€ 22 mn – € 2,704 mn**	

(101) Country-by-Country Reporting

The disclosure requirements refer to information on registered office, revenue, profit or loss, taxes on profit or loss, received government assistance as well as wage and salary earners of Aareal Bank AG, together with its foreign branches and domestic and foreign subsidiaries included in the reporting entity-structure, prior to consolidation.

For this purpose, the Bank's entities – subsidiaries as well as Aareal Bank AG's foreign branches – are allocated to our two business segments, Structured Property Financing and Consulting / Services.

Aareal Bank defines the branch offices' operating profit, which is used as a proxy for revenue, as the sum of the following consolidated income statement items (in accordance with IFRSs):

- net interest income before allowance for credit losses;
- net commission income;
- net result on hedge accounting;
- net trading income / expenses;
- results from non-trading assets;
- results from investments accounted for using the equity method;
- results from investment properties;
- net other operating income / expenses; and
- negative goodwill.

Taxes disclosed are tax expenses in accordance with IFRSs.

The number of wage and salary earners relates to average full-time equivalent staff employed during the financial year.

The following overview shows all countries where Aareal Bank AG has offices, including foreign branches and subsidiaries. Please refer to the list of shareholdings as regards the allocation of individual subsidiaries to the relevant country of domicile. Aareal Bank AG's foreign branches are located in Belgium, France, Ireland, Italy, Poland, Sweden and the United Kingdom.

2015

	Revenues	Profit or loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**982**	**494**	**106**	**1,193**
Belgium	2	-1	–	4
France	8	5	3	6
Germany	815	384	91	1,039
Ireland	1	-5	6	10
Italy	52	35	-13	79
Netherlands	–	–	–	–
Poland	10	6	1	7
Singapore	3	2	–	5
Spain	–	–	–	–
Sweden	18	14	1	7
Switzerland	1	1	-1	-
United Kingdom	14	11	2	7
USA	61	42	16	29
Consolidation	-3	0	0	–
Consulting/Services segment	**172**	**-24**	**-10**	**1,281**
France	20	4	1	162
Germany	114	-35	-12	763
Netherlands	18	6	1	171
Norway	–	–	–	6
Sweden	11	1	–	79
United Kingdom	9	–	–	100
Consolidation	0	–	–	–
Total	**1,154**	**470**	**96**	**2,474**

Government assistance was not received in financial year 2015.

Aareal Bank Group's return on assets, calculated as the ratio of net profit to total assets, was 0.68 % as at the record date.

2014

	Revenues	Profit or loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**858**	**459**	**109**	**1,128**
Belgium	1	–	–	6
France	11	8	2	6
Germany	699	431	93	996
Ireland	11	4	-6	10
Italy	51	-65	-4	57
Netherlands	1	1	–	–
Poland	10	7	1	7
Singapore	2	–	–	5
Spain	–	–	–	–
Sweden	–	–	–	6
Switzerland	9	9	1	–
United Kingdom	11	9	-3	7
USA	77	55	24	28
Consolidation	-25	–	1	–
Consulting/Services segment	**166**	**-22**	**-8**	**1,267**
France	20	5	1	156
Germany	138	-33	-9	774
Netherlands	17	3	–	156
Norway	–	–	–	5
Sweden	8	1	–	73
United Kingdom	9	2	–	103
Consolidation	-26	–	–	–
Total	**1,024**	**437**	**101**	**2,395**

(102) List of shareholdings

The list of shareholdings is disclosed pursuant to section 313 (2) of the HGB. The disclosures in relation to the companies' equity and earnings are retrieved from the financial statements based on the respective local financial reporting principles.

31 December 2015

No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated subsidiaries				
2	1st Touch Ltd.	Southampton	100.0	GBP 2.4 mn	GBP 0.2 mn [2]
3	Aareal Bank Asia Ltd.	Singapur	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 4.1 mn	GBP 0.8 mn [2]
19	AHBR-Grundstücksverwaltungsgesellschaft 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	51.0	3.1	3.0 [1]
27	BGS-Beteiligungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.8	0.0 [3]
28	BVG – Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	216.6	0.0 [3]
29	DBB Inka	Dusseldorf	100.0	101.3	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
n/a no data

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No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ 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 Beteiligungsgesellschaft mbH	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.	Rom	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 Immobilien-investitionen mbH	Wiesbaden	100.0	2.3	0.0
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]
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
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

[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
n/a no data

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No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ mn	€ mn
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]
	II. Joint Arrangements				
74	Konsortium BauGrund/TREUREAL	Bonn	50.0	0.0	0.0 [1]
75	SG2ALL B.V.	Huizen	50.0	0.3	0.2 [2]
	III. Associates				
76	CredaRate Solutions GmbH	Cologne	25.9	2.2	0.2 [2]
77	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.4	0.0 [2]
78	Rathaus-Carrée Saarbrücken Verwaltungs GmbH i.L.	Cologne	25.0	0.1	0.0 [2]
79	Rathaus-Carrée Saarbrücken Verwaltungs GmbH & Co. KG i.L.	Cologne	25.0	0.1	0.0 [2]
80	Rehabilitationsklinik Uckermark GmbH i.L.	Templin	49.0	n/a	n/a
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
n/a no data

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

This disclosure refers to all offices in statutory supervisory bodies of large corporations held by employees of Aareal Bank AG:

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

(104) 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 (Aktiengesetz – "AktG")

Supervisory Board

Marija Korsch, Chairman of the Supervisory Board
Former partner of 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 (ret'd.); 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

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

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 the 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	22 April 2015 until 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

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

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 Chartered Accountant, tax consultant**		
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's 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 (untils 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 2015 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	CEO (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

Responsibility Statement

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

Wiesbaden, 1 March 2016

The Management Board

Hermann J. Merkens **Dagmar Knopek** **Thomas Ortmanns**

Auditors' Report

Independent Auditors' Report

To Aareal Bank AG, Wiesbaden

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aareal Bank AG, Wiesbaden and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the Notes to the consolidated financial statements for the business year from 1 January to 31 December, 2015.

Board of Managing Directors' responsibility for the Consolidated Financial Statements

The Board of Managing Directors of Aareal Bank AG, Wiesbaden is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Board of Managing Directors is also responsible for the internal controls as the Board of Managing Directors determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

According to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at 31 December 2015 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Group Management Report

We have audited the accompanying group management report of Aareal Bank AG, Wiesbaden for the business year from 1 January to 31 December 2015. The Board of Managing Directors is responsible for the preparation of the group management report in accordance with the requirements of German commercial law applicable pursuant to § 315a Abs. 1 HGB. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the group management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the group management report to obtain reasonable assurance about whether the group management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 Abs. 3 Satz 1 HGB we state, that our audit of the group management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and group management report, the group management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group'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**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
(German Public Auditor)	**(German Public Auditor)**

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and is considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board.

Transparency

Corporate Governance Statement pursuant to section 289a of the HGB

Declaration of Compliance in Accordance with Section 161 of the AktG

Aareal Bank AG has complied with the recommendations of the Government Commission "German Corporate Governance Code" (as amended on 13 May 2013) since the last Declaration of Compliance was issued in December 2014.

Aareal Bank AG has complied, and will comply with the German Corporate Governance Code, as amended on 5 May 2015 and published in the German Federal Gazette on 12 June 2015, subject to the exceptions identified below.

In accordance with section 4.2.3 (2) sentence 6 of the German Corporate Governance Code (the "Code"), the amount of Management Board compensation shall be capped, both overall and for individual compensation components. In March 2014, against the background of changed regulatory requirements, and based upon a proposal by the Remuneration Control Committee, the Supervisory Board approved a new remuneration system for members of the Management Board, with effect from 1 January 2014. The new remuneration system complies with the recommendation in section 4.2.3 (2) sentence 6 of the Code. In this connection, a maximum amount ("cap") was resolved for the variable, performance-related remuneration component of the Management Board – for the 2013 financial year, and for subsequent financial years. As the only exception, no cap applies to virtual shares granted for the 2012 financial year or earlier financial years, or to virtual shares still to be granted under applicable rules governing the deferral of variable remuneration components. However, such virtual shares will be settled and disbursed for the last time in 2018, after expiry of the retention period and any applicable holding or blocking periods, based on the weighted average price (Xetra®) of the five exchange trading days following the expiry of the period. All virtual shares that were no longer subject to any holding or blocking period as at 26 March 2014 (and which Management Board members have been free to dispose of, in some cases since the vesting in 2007), were disbursed to the members of the Management Board, under a separate addendum to their contracts.

Pursuant to the German Act Implementing EU Directive 2013/36/EU (the "CRD IV Implementation Act" dated 28 August 2013), the Executive and Nomination Committee of Aareal Bank AG's Supervisory Board is required to assume additional tasks which are not supposed to be prepared by shareholder representatives on the Supervisory Board alone. Hence, the Executive and Nomination Committee also includes employee representative members, in contravention of the recommendation in section 5.3.3. of the Code. However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

Wiesbaden, December 2015

The Management Board

Hermann J. Merkens **Dagmar Knopek** **Thomas Ortmanns**

For the Supervisory Board

Marija Korsch (Chairman)

Corporate Governance Report

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and is considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board. Accordingly, Aareal Bank welcomes and supports the objectives and purposes of the German Corporate Governance Code, and regularly observes the amendments and extensions of the guidelines adopted by the German Government Commission on Corporate Governance.

The Supervisory Board discusses these amendments; together with the Management Board, the Supervisory Board determines to what extent Aareal Bank AG complies with – or diverges from – the recommendations of the German Corporate Governance Code. Accordingly, the Bank's Memorandum and Articles of Association, as well as the internal rules of procedure for the Management Board and the Supervisory Board, are reviewed regarding compliance, and amended as necessary. Our annual Declaration of Compliance gives information on the extent to which the Bank complies with recommendations. The Declaration of Compliance is adopted by the Management Board and the Supervisory Board, and then published on the Bank's website, where Declarations issued in past years are also archived.

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by all our employees across the enterprise, regardless of their functions and duties. Our internal Code of Conduct is an integral part of responsible corporate governance. The Code of Conduct contains binding rules governing the legal and ethical conduct of employees vis-à-vis clients, business partners, and colleagues. Aareal Bank's efforts in this context are also motivated by the desire to affirm and further strengthen the confidence placed by stakeholders – our clients, investors, and staff.

Recommendations of the German Corporate Governance Code

During 2015, the German Corporate Governance Code, as amended on 5 May 2015, was applicable. Aareal Bank's Management Board and Supervisory Board issued and signed their most recent Declaration of Compliance pursuant to section 161 of the German Public Limited Companies Act (AktG) on 17 December 2015. The Declaration was published on the Bank's website, and is included in this annual report as part of the Corporate Governance Statement.

In accordance with this Declaration, Aareal Bank AG complies with the Code, subject to the following restrictions:

In accordance with section 4.2.3 (2) sentence 6 of the German Corporate Governance Code (the "Code"), the amount of Management Board compensation shall be capped, both overall and for individual compensation components. In March 2014, against the background of changed regulatory requirements, and based upon a proposal by the Remuneration Control Committee, the Supervisory Board approved a new remuneration system for members of the Management Board, with effect from 1 January 2014. The new remuneration system complies with the recommendation in section 4.2.3 (2) sentence 6 of the Code. In this connection, a maximum amount ("cap") was resolved for the variable, performance-related remuneration component of the Management Board – for the 2013 financial year, and for subsequent financial years. As the only exception, no cap applies to virtual shares granted for the 2012 financial year or earlier financial years, or to virtual shares still to be granted under applicable rules governing the deferral of variable remuneration components. However, such virtual shares will be settled and disbursed for the last time in 2018, after expiry of the retention period and any applicable holding or blocking periods, based on the weighted average price (Xetra®) of the five exchange trading days following the expiry of the period. All virtual shares that were no longer subject to any holding or blocking period as at 26 March 2014 (and which Management Board members have been free to dispose of, in some cases since the vesting in 2007), were disbursed to the members of the Management Board, under a separate addendum to their contracts.

Pursuant to the German Act Implementing EU Directive 2013/36/EU (the "CRD IV Implementation Act" dated 28 August 2013), the Executive and Nomination Committee of Aareal Bank AG's Supervisory Board is required to assume additional tasks which are not supposed to be prepared by shareholder representatives on the Supervisory Board alone. Hence, the Executive and Nomination Committee also includes employee representative members, in contravention of the recommendation in section 5.3.3. of the Code. However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

The Management Board

The Management Board is responsible for managing the Company. In doing so, it is obliged to act in the best interests of the Company and undertakes to increase its sustainable enterprise value. The Management Board ensures that all provisions of law are complied with, and endeavours to achieve their compliance throughout Group companies. The Management Board develops the company strategy, coordinates it with the Supervisory Board, and ensures its implementation. The Management Board ensures appropriate and sustainable risk management and risk control throughout the Company. The Management Board cooperates on the basis of trust with Aareal Bank AG's other executive bodies, and with employee representatives.

There were no conflicts of interest affecting members of the Management Board within the meaning of the Corporate Governance Code in the 2015 financial year.

Diversity

The Management Board has made an express commitment to diversity in Aareal Bank Group, and published it on the Internet and Intranet. Aareal Bank defines diversity as:

- 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
- The belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals

The goals are:

- To promote Aareal Bank Group's image as an attractive employer
- To maintain the high level of staff loyalty (and to establish such loyalty with new employees), and to enhance staff motivation
- To continue ensuring 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

Aareal Bank Group currently employs people from more than 30 different countries. When filling positions abroad, the Bank takes care to predominantly appoint local staff.

The share of female employees in Aareal Bank Group was 45.5 % in the 2015 financial year, with women currently accounting for 21.7 % of executive positions at Aareal Bank AG. In Germany, the share of employees with a severe disability amounted to 3.7 % in 2015. This employee group is represented in the Group's German entities by a disability representative.

Equal treatment

Aareal Bank Group attaches great importance to the equal treatment of women and men, whether in the context of filling vacant positions, with regard to continuous professional development, or in terms of remuneration. Specifically, any vacancies below senior executive level are generally published throughout the Company, in the form of job advertisements that all members of staff – male or female – may apply for. When setting the remuneration of employees, we do not differentiate by gender but rely exclusively on aspects such as qualification, professional experience or training.

Likewise, qualification is the decisive criterion for the appointment of employees to positions; this is examined regularly by employee representative bodies, within the scope of their co-determination rights. The principle that qualifications and international experience are the primary criteria for choosing a candidate also applies for the Management Board.

In accordance with the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – "AGG"), Aareal Bank and Aareon have AGG Officers in Germany. 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").

Supervisory Board

The task of the Supervisory Board is to regularly advise and supervise the Management Board in the management of the Company. It is involved in decision-making that is of fundamental importance to the Company, and cooperates closely and on the basis of trust with the Management Board.

The Supervisory Board has created committees for its work. Responsibility for individual duties has been delegated to these committees. The members of the Supervisory Board and their functions in the Supervisory Board's committees are outlined in the "Description of Management Board and Supervisory Board work processes", and in the List of Offices Held, both of which form part of this annual report. The Supervisory Board reports on its duties and the events of the 2015 financial year in its report.

The option of preparing meetings separately with shareholder representatives and employee representatives is used by the Supervisory Board in exceptional cases only. However, some of the meetings have been prepared separately in 2015. Meetings were held without employee representatives present (Executive and Nomination Committee meetings preparing the election of shareholder representatives at the Annual General Meeting on 20 May 2015). Moreover, in accordance with the provisions of the KWG, Supervisory Board meetings were held with limited presence of the Management Board during the discussion of selected agenda items.

In line with section 5.2 of the Code, the Chairman of the Supervisory Board does not chair the Audit Committee: Prof Dr Wagner assumed this position from Mr Neupel; Prof Wagner, who is a certified public auditor and tax advisor, has many years of experience gained as a partner in audit firms.

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.

The Supervisory Board regularly reviews the efficiency of its own activities, with support provided by external consultants. In line with the requirements set out in section 25d (11) of the KWG, the Executive and Nomination Committee is in charge of the preparation and execution of the efficiency review. The results of this review serve to further improve the work carried out by the Supervisory Board as well as enhancing the cooperation between the Supervisory Board and Management Board. The Chairman of the Supervisory Board presented the results of the efficiency review for the year 2015 in the meeting on 23 March 2016, and discussed these with the members in detail. The Supervisory Board will incorporate these results into its work.

The Supervisory Board has the required knowledge, skills, and professional expertise to properly perform its duties. In accordance with section 5.4.5 of the Code, the Supervisory Board members regularly attend continuous professional development measures, and are supported to this effect by the Company.

The Report of the Supervisory Board provides a detailed review of the activities of the Supervisory Board and its Committees.

Guidelines regarding the composition of the Supervisory Board (shareholder representatives)

Key factors taken into account for nomination to the Supervisory Board are the professional aptitude and the experience of candidates – also in relation to the Group's international activities. The Supervisory Board of Aareal Bank AG believes that it is sufficiently independent. Within the framework of actual decisions concerning potential members, the Supervisory Board of Aareal Bank AG assesses the independence of the respective candidate, duly taking that independence into account.

Any individual whose circumstances may give rise to conflicts of interest cannot be considered as a candidate. At the time of election to the Supervisory Board, candidates should generally be less than 70 years old.

With the scheduled elections to the Supervisory Board at the Annual General Meeting 2015, the Supervisory Board has achieved the target quota of female members of at least 30 %. Since the elections to the Supervisory Board at the Annual General Meeting 2015, all shareholder representatives to the Supervisory Board have been independent, as defined by section 5.4.2 of the Code.

Guidelines for the setting of targets for female quotas

In accordance with the German Act for Equal Participation of Women and Men in Senior Positions in Private Enterprises and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst – "FührposGleichberG"), Aareal Bank AG has set targets for the share of female members of the Supervisory Board and the Management Board, as well as for the two management levels below the Management Board.

Specifically, the Supervisory Board of Aareal Bank AG has set itself the target of maintaining the 30 % share of women on the Supervisory Board and of 25 % on the Management Board (which the Bank had achieved prior to the Act coming into force), until 30 June 2017. In parallel, the Management Board has set target quotas of 6.3 % for the first and 21.4 % for the second management level below the Management Board; these quotas are to be achieved by 30 June 2017.

Purchase or sale of the Company's shares

In 2015, members of the Company's executive bodies did not carry out any transactions involving the Company's shares, which would have needed to be published, inter alia, on the website of Aareal Bank AG in accordance with section 15a of the WpHG. At the end of the financial year, aggregate shareholdings of members of executive bodies in the Company's shares were less than 1 % of the issued share capital of Aareal Bank AG.

Transactions with related parties

Related party transactions are detailed in the Notes to the financial statements.

Accounting policies

Aareal Bank AG prepares the Group's accounts in accordance with International Financial Reporting Standards (IFRSs). The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The Management Board prepares the financial statements of Aareal Bank AG and the consolidated financial statements. The external auditors submit their report on the audit of the financial statements and consolidated financial statements to the Supervisory Board. The Annual General Meeting on 20 May 2015 appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the auditors for the 2015 financial year.

Having ascertained the independence of the external auditors, the Supervisory Board appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in this capacity, and defined the focal points of the audit. The external auditors conducted the audit in line with instructions given. The fees paid to the external auditors are shown in the Notes to the financial statements.

The Supervisory Board approves the financial statements and the consolidated financial statements, and thus confirms the financial statements. Details regarding the examinations carried out by the Supervisory Board, and the results of such examinations, are provided in the Report of the Supervisory Board.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), the auditors of the 2015 financial statements – as elected by the Annual General Meeting 2015 and instructed accordingly by the Supervisory Board – have exercised their audit activities under the management of Messrs Stefan Palm and Kay Böhm. In accordance with internal regulations, all employees of the external auditors, including the responsible partners and lead auditors, rotate their assignment to specific audit assignments on a regular basis – in this case, every five years.

Mr Palm, PwC's responsible partner, has audited Aareal Bank since 2013; Mr Böhm, the responsible lead auditor, since 2012.

Relationship to shareholders

Aareal Bank holds a General Meeting of shareholders once a year. Shareholders are thus given the opportunity to actively participate in the development of the Company.

At the Annual General Meeting, the shareholders decide, in particular, on the formal approval for the members of the Supervisory Board and Management Board for the financial year under review, on the appropriation of any net retained profit, amendments to the Memorandum and Articles of Association, and authorisations on capital adjustments. The Annual General Meeting also elects the auditor for the Company.

The Company's shareholders may submit statements or proposals in writing, by fax or e-mail, to the Company. They may also request to speak at the Annual General Meeting. The shareholders may also submit counter or supplemental motions to the agenda items at the Annual General Meeting, so that they participate in structuring and influencing the meeting. The Management Board and the Supervisory Board refer to shareholders' comments made during the general debate, or to motions submitted by shareholders in advance, to respond to questions, or to comment on other contributions.

Communications

Aareal Bank assigns great importance to extensive communications with all of the Bank's stakeholders. We have set ourselves the targets of actively and openly communicating with all stakeholders, taking into account the interests of all stakeholders. In this context, we make extensive use of our website to inform about current developments affecting the Group, and to provide information to all target groups at the same time. All press releases, ad-hoc disclosures, corporate presentations, as well as annual and quarterly reports published by Aareal Bank are available on the Bank's website to any interested person, and may be downloaded from there. In addition, the financial calendar is regularly updated, providing information about relevant corporate events.

Aareal Bank publishes details on the financial position and performance five times annually. On these occasions, the Management Board gives a personal account of results, within the scope of press conferences and analysts' events, as well as issuing press releases.

We are not currently broadcasting parts of the Annual General Meeting on the internet, nor is it currently possible to give instructions or cast votes online. This is because the low level of acceptance of such a service amongst our shareholders would render the related efforts and costs excessive. Aareal Bank will continue to review demand for such a service on a regular basis.

Disclosures regarding Corporate Governance standards

Aareal Bank AG is a public limited company under German law (Aktiengesellschaft – "AG") whose shares are included in the mid-cap MDAX index. Aareal Bank AG's corporate governance practices are governed, inter alia, by legal rules applicable to public limited companies and credit institutions, and by the Company's Memorandum and Articles of Association, which are published on its website and in its Commercial Register entry (under company number HRB 13184). Based on the Memorandum and Articles of Association, the Supervisory Board has adopted internal rules of procedure for itself, and for the Management Board. Aareal Bank AG has also adopted an internal Code of Conduct, providing guidelines for correct, ethical and responsible conduct of employees and executive bodies. Moreover, Aareal Bank's corporate governance is guided by a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the Bank's business, in line with legal and regulatory rules. All members of staff have access to these documents, via common internal communications channels such as the Bank's intranet.

Description of Management Board and Supervisory Board work processes

The Supervisory Board

In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairman and two Deputy Chairmen from amongst them, for the duration of their term of office. At present, Ms Marija Korsch serves as Chairman of the Supervisory Board. Her deputies are Prof Dr Stephan Schüller (as shareholder representative) and York-Detlef Bülow (as employee representative). The majority of shareholder representatives to the Supervisory Board were elected by the Annual General Meeting held on 20 May 2015. The employee representatives were elected by the special negotiating body, a body representing employees following the merger of Aareal Bank France S.A. into its parent company Aareal Bank AG in the financial year 2010.

During the financial year under review, the Company's Supervisory Board comprised:

Marija Korsch, Chairman of the Supervisory Board of Aareal Bank AG
Former Partner of Bankhaus Metzler seel. Sohn & Co. Holding AG
Supervisory Board offices held: Just Software AG

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

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

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

* Employee representative to the Supervisory Board of Aareal Bank AG

Christian Graf von Bassewitz (until 20 May 2015)

Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG

Supervisory Board offices held: Bank für Sozialwirtschaft Aktiengesellschaft, Deutscher Ring Krankenversicherungsverein a.G., SIGNAL IDUNA Allgemeine Versicherung AG, SIGNAL IDUNA Holding AG, Societaet CHORVS AG

Manfred Behrens (until 20 May 2015)

Former CEO/Chairman of the Management Board of Swiss Life Deutschland Holding GmbH

Thomas Hawel*

Employee of Aareon Deutschland GmbH

Supervisory Board offices held: Aareon Deutschland GmbH

Dieter Kirsch*

Employee of Aareal Bank AG

Dr Herbert Lohneiß (until 20 May 2015)

Former Chief Executive Officer of Siemens Financial Services GmbH

Supervisory Board offices held:
UBS Global Asset Management (Deutschland) GmbH

Joachim Neupel (until 20 May 2015), Chairman of the Audit Committee of the Supervisory Board

German Public Auditor and tax advisor

Richard Peters

President and Chairman of the Management Board of the Versorgungsanstalt des Bundes und der Länder

Supervisory Board offices held:
DePfa Holding Verwaltungsgesellschaft mbH

Dr Hans-Werner Rhein (since 20 May 2015)

Solicitor

Supervisory Board offices held: Deutsche Familienversicherung AG, Gothaer Allgemeine Versicherung AG

Sylvia Seignette (since 20 May 2015)

Former CEO for Germany and Austria, Calyon

Elisabeth Stheeman (since 20 May 2015)

Senior Advisor, Bank of England, Prudential Regulation Authority

Supervisory Board offices held: TLG Immobilien AG, Courno

Hans-Dietrich Voigtländer (since 20 May 2015)

Senior Partner of BDG Innovation + Transformation GmbH & Co. KG

Helmut Wagner* (until 20 May 2015)

Employee of Aareon Deutschland GmbH

Prof Dr Hermann Wagner (since 20 May 2015), Chairman of the Audit Committee (since 20 May 2015)

German Public Auditor and tax advisor

Supervisory Board offices held: btu beraterpartner Holding, PEH Wertpapier Deutschland, Deutsche Mittelstand Real Estate AG, Squadra Immobilien GmbH & Co. KGaA

Beate Wollmann* (since 20 May 2015)

Employee of Aareon Deutschland GmbH

* Employee representative to the Supervisory Board of Aareal Bank AG

Reference is made to the Corporate Governance Report concerning the independence of Supervisory Board members, for the purposes of the Corporate Governance Code. The shareholder representatives have sufficient professional knowledge to competently perform their duties. They have held – or still hold – executive positions in the banking or insurance sectors.

As a German Public Auditor and tax advisor – and hence, an independent financial expert – Professor Dr Hermann Wagner chairs the Audit Committee of Aareal Bank AG's Supervisory Board.

The Supervisory Board conducts its business in the best interests of the Company and its Group entities, in accordance with the law, the Memorandum and Articles of Association, the internal rules of procedure, the German Corporate Governance Code (as amended from time to time), and Aareal Bank AG's Code of Conduct. The Supervisory Board determines which transactions have fundamental importance, and hence require the approval of the Supervisory Board.

The Supervisory Board has established six committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination

Committee, the Remuneration Control Committee, the Risk Committee, the Committee for Urgent Decisions, the Audit Committee, and the Technology and Innovation Committee.

Executive and Nomination Committee

The Executive and Nomination Committee advises the Management Board and prepares the resolutions of the Supervisory Board. The committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

Marija Korsch, Chairman
York-Detlef Bülow, Deputy Chairman
Erwin Flieger, Deputy Chairman (until 20 May 2015)
Prof Dr Stephan Schüller, Deputy Chairman (since 20 May 2015)
Richard Peters (since 20 May 2015)
Dr Hans-Werner Rhein (since 20 May 2015)5)

The Executive and Nomination Committee prepares the plenary meetings of the Supervisory Board, together with proposed resolutions. The committee's area of responsibility also includes assessing the internal condition of the Group, and issues concerning personnel planning for the Management Board (also regarding the contracts with individual Management Board members, based on the remuneration system prepared by the Remuneration Control Committee and adopted by the plenary meeting of the Supervisory Board). The Executive and Nomination Committee compiles profiles defining the requirements for members of the Management Board and the Supervisory Board; based on an annual evaluation, it determines the extent to which the members of the Management Board or Supervisory Board have a need for further training, or whether other adjustments are required. Furthermore, the Executive and Nomination Committee discusses decision proposals regarding connected-party loans as well as other transactions between members of administrative, management and supervisory bodies and the Company or its subsidiaries.

Remuneration Control Committee

In accordance with section 25d (12) of the KWG, the Remuneration Control Committee monitors whether the structure of the remuneration systems for Management Board members and employees is appropriate, taking into account the impact of remuneration systems on Aareal Bank's overall risk profile. The Remuneration Control Committee prepares corresponding proposals concerning remuneration (including for members of the Management Board) for the plenary meeting of the Supervisory Board. The Remuneration Control Committee receives the information provided by Aareal Bank's Remuneration Officer pursuant to section 23 of the German Regulation on Remuneration in Financial Institutions (InstVergV) as well as the disclosure concerning the remuneration system pursuant to section 16 of the InstVergV. The committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

Marija Korsch, Chairman
York-Detlef Bülow, Deputy Chairman
Erwin Flieger, Deputy Chairman (until 20 May 2015)
Prof Dr Stephan Schüller, Deputy Chairman (since 20 May 2015)
Dieter Kirsch
Hans-Dietrich Voigtländer (since 20 May 2015)

Risk Committee

The Risk Committee consists of the Chairman of the Supervisory Board and up to five additional members. The committee has the following members:

Marija Korsch, Chairman (until 31 December 2015) Member (since 1 January 2016)
Sylvia Seignette (since 20 May 2015), Chairman (since 1 January 2016)
Dr Herbert Lohneiß, Deputy Chairman (until 20 May 2015)
Elisabeth Stheeman, Deputy Chairman (since 20 May 2015)

Christian Graf von Bassewitz (until 20 May 2015)
Erwin Flieger (until 20 May 2015)
Dieter Kirsch
Joachim Neupel (until 20 May 2015)
Dr Hans-Werner Rhein (since 20 May 2015)
Prof Dr Hermann Wagner (since 20 May 2015)

The Risk Committee deals with all types of risk Aareal Bank is exposed to in its business activities. Besides credit risks, this also encompasses market risks, liquidity risks, and operational risks, taking into account the Bank's risk-bearing capacity as defined in the Minimum Requirements for Risk Management in Banks (MaRisk). The monitoring of credit risks also includes approving loans which, pursuant to the internal rules of procedure for the Management Board, require the approval of the Supervisory Board. This also includes decisions on connected-party loans pursuant to section 15 (1) nos. 6-12 of the German Banking Act (KWG), unless such loans are dealt with by the Executive and Nomination Committee.

The committee is also responsible for reviewing the contents of the risk strategies, in accordance with the MaRisk. The submission of the risk strategies to the plenary meeting of the Supervisory Board remains unaffected by this function, as is intended by the MaRisk.

Committee for Urgent Decisions

The Committee for Urgent Decisions is a sub-committee of the Risk Committee. Its members are the members of the parent committee. The committee members are:

Marija Korsch
Christian Graf von Bassewitz (until 20 May 2015)
Erwin Flieger (until 20 May 2015)
Dr Herbert Lohneiß (until 20 May 2015)
Joachim Neupel (until 20 May 2015)
Sylvia Seignette (since 20 May 2015)
Elisabeth Stheeman (since 20 May 2015)
Dr Hans-Werner Rhein (since 20 May 2015)
Prof Dr Hermann Wagner (since 20 May 2015)

The Committee for Urgent Decisions takes lending decisions which, pursuant to the internal rules of procedure for the Management Board, require Supervisory Board approval, and which are particularly urgent. Since the committee passes its resolutions by way of circulation, it does not hold any meetings. Any decisions taken between meetings of the Risk Committee are discussed at the subsequent meeting.

Audit Committee

The Audit Committee is concerned with all accounting issues, as well as regarding the audit of Aareal Bank AG and Aareal Bank Group. The committee is chaired by an independent financial expert as defined in section 100 (5) of the AktG.

The members of the Audit Committee are:

Joachim Neupel, Chairman (until 20 May 2015)
Prof Dr Hermann Wagner, Chairman (since 20 May 2015)
Prof Dr Stephan Schüller, Deputy Chairman
Christian Graf von Bassewitz (until 20 May 2015)
York-Detlef Bülow
Marija Korsch
Richard Peters (since 20 May 2015)
Hans-Dietrich Voigtländer (since 20 May 2015)

The committee is responsible for the preparation and conduct of the audit of the financial statements and the consolidated financial statements; it prepares the decisions to be taken by the Supervisory Board on the basis of the committee's analysis of the external auditors' reports. For this purpose, the committee reports to the plenary meeting of the Supervisory Board on the results of its analysis and the assessments derived. Preparing the audit of the financial statements also comprises the preparations for instructing the external auditors (by virtue of the corresponding resolution passed by the Annual General Meeting), verifying the independence of the external auditors, negotiating the auditors' fees, and determining focal points of the audit. The Audit Committee also discusses quarterly and half-yearly financial reports with the Management Board, and obtains the external auditors' report on their review of the half-yearly report. Furthermore, the Audit Committee is responsible for examining the projections submitted by the Management Board; the reports by the Group Compliance Officer and Internal Audit are addressed to the committee. The Committee is also responsible for monitoring the effectiveness of the internal control system.

Technology and Innovation Committee

The Technology and Innovation Committee comprises the following members of the Supervisory Board:

Hans-Dietrich Voigtländer, Chairman (since 20 May 2015)
Marija Korsch, Deputy Chairman (since 20 May 2015)
Thomas Hawel (since 20 May 2015)
Richard Peters (since 20 May 2015)
Elisabeth Stheeman (since 20 May 2015)

The committee deals with issues concerning information technology used within the Company, and with issues related to IT products created and distributed by Aareal Bank Group entities.

The Management Board

The Management Board manages Aareal Bank AG's business in accordance with the law, the German Corporate Governance Code, the internal rules of procedure for the Management Board adopted by the Supervisory Board, and the Code of Conduct of Aareal Bank AG. The Management Board develops the overall company strategy, discusses it with the Supervisory Board, and ensures its implementation. The Management Board distributes responsibilities amongst its members.

The members of the Management Board, and their respective areas of responsibility, are outlined in Note (104).

The Management Board informs the Supervisory Board regularly, without delay and comprehensively, orally and in writing, on all issues in respect of which the Supervisory Board requires information to fully perform its duties and obligations.

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 subcommittee 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 Immobilien-Bank 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)

Offices

Wiesbaden Head Office

Aareal Bank AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3480
Fax: +49 611 3482549

Structured Property Financing

Brussels
40 rue Joseph II-straat
1000 Brussels, Belgium
Phone: +32 2 5144090
Fax: +32 2 5144092

Frankfurt/Main
Grüneburgweg 58-62
60322 Frankfurt/Main, Germany
Phone: +49 69 71790
Fax: +49 69 7179100

Istanbul
Ebulula Mardin Caddesi
Maya Meridyen Iş Merkezi
D:2 Blok · Kat. 11
34335 Akatlar-Istanbul, Turkey
Phone: +90 212 3490200
Fax: +90 212 3490299

London
6th Floor, 6,7,8 Tokenhouse Yard
London EC2R 7AS, United Kingdom
Phone: +44 20 74569200
Fax: +44 20 79295055

Madrid
Calle María de Molina 40, 4
28006 Madrid, Spain
Phone: +34 915 902420
Fax: +34 915 902436

Moscow
Business Centre "Mokhovaya"
4/7 Vozdvizhenka Street
Building 2
125009 Moscow, Russia
Phone: +7 499 2729002
Fax: +7 499 2729016

New York
Aareal Capital Corporation
250 Park Avenue
Suite 820
New York NY 10177, USA
Phone: +1 212 5084080
Fax: +1 917 3220285

Paris
29 bis, rue d'Astorg
75008 Paris, France
Phone: +33 1 44516630
Fax: +33 1 42662498

Rome
Via Mercadante, 12/14
00198 Rome, Italy
Phone: +39 06 83004200
Fax: +39 06 83004250

Shanghai
Suite 2902
Tower 2 Plaza 66
No. 1266 Nanjing West Road
Jing An District
Shanghai 200040, P.R. of China
Phone: +86 21 62889908
Fax: +86 21 62889903

Singapore
Aareal Bank Asia Limited
3 Church Street
17-03 Samsung Hub
Singapore 049483, Singapore
Phone: +65 6372 9750
Fax: +65 6536 8162

Stockholm
Norrmalmstorg 14
11146 Stockholm, Sweden
Phone: +46 8 54642000
Fax: +46 8 54642001

Warsaw
RONDO 1
Rondo ONZ 1
00-124 Warsaw, Poland
Phone: +48 22 5380060
Fax: +48 22 5380069

Wiesbaden
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482950
Fax: +49 611 3482020

Aareal Estate AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482446
Fax: +49 611 3483587

Aareal Valuation GmbH
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482059
Fax: +49 611 3482640

Deutsche Structured Finance GmbH
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 9714010
Fax: +49 611 971401510

Westdeutsche ImmobilienBank AG
Grosse Bleiche 46
55116 Mainz, Germany
Phone: +49 6131 92800
Fax: +49 6131 92807200

Consulting / Services

Aareal Bank AG
Housing Industry
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482967
Fax: +49 611 3482499

Housing Industry
Berlin Branch
SpreePalais
Anna-Louisa-Karsch-Strasse 2
10178 Berlin, Germany
Phone: +49 30 88099444
Fax: +49 30 88099470

Housing Industry
Essen Branch
Alfredstrasse 220
45131 Essen, Germany
Phone: +49 201 81008100
Fax: +49 201 81008200

Housing Industry
Hamburg Branch
Neuer Dovenhof · Brandstwiete 1
20457 Hamburg, Germany
Phone: +49 40 33316850
Fax: +49 40 33316399

Housing Industry
Leipzig Branch
Neumarkt 2-4
04109 Leipzig, Germany
Phone: +49 341 2272150
Fax: +49 341 2272101

Housing Industry
Munich Branch
Prinzregentenstrasse 22
80538 Munich, Germany
Phone: +49 89 5127265
Fax: +49 89 51271264

Housing Industry
Rhine-Main Branch
Paulinenstrasse 15
65189 Wiesbaden, Germany
Hotline: +49 611 3482000
Fax: +49 611 3483002

Housing Industry
Stuttgart Branch
Büchsenstrasse 26
70174 Stuttgart, Germany
Phone: +49 711 2236116
Fax: +49 711 2236160

Aareon AG
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 3010
Fax: +49 6131 301419

Aareal First Financial Solutions AG
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 4864500
Fax: +49 6131 486471500

Deutsche Bau- und Grundstücks-Aktiengesellschaft
Lievelingsweg 125
53119 Bonn, Germany
Phone: +49 228 5180
Fax: +49 228 518298

Deposit-taking

Dublin
4 Custom House Plaza · IFSC
Dublin 1, Ireland
Phone: +353 1 6369220
Fax: +353 1 6702785

Glossary

Accrued interest
Interest on debt securities (such as bonds, notes or Pfandbriefe) which has accrued since the last coupon payment date. When buying such a security, the buyer must pay accrued interest to the seller.

Ad-hoc disclosure
Pursuant to section 15 of the German Securities Trading Act (WpHG), issuers of securities are obliged to publish any information that may have an impact on the price of these securities without delay. This obligation is discharged using so-called "ad-hoc" disclosures which may relate to the issuer's financial position and performance, or to its general business operations. The ad-hoc disclosure obligation applies in Germany as well as in other major financial centres; it is designed to prevent insider trading.

Advanced Approach
Under the "Advanced Approach", banks having sufficiently developed procedures for internal capital allocation (subject to strict requirements concerning methodology and disclosure) are allowed to use their internal credit quality ratings for a given borrower, to assess the credit risk exposure of their portfolios.

Amortised cost
The amount at which a financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any reduction for impairment or non-collectibility.

Asset-backed securities
A special form of securitising payment claims in tradable securities that are structured by aggregating certain financial assets.

Associated enterprise (associate)
Enterprise which is accounted for in the consolidated financial statements using the equity method (as opposed to full or partial consolidation), over whose business or financial policies an entity included in the consolidated financial statements exercises significant influence.

Available for sale (AfS)
This IFRS measurement category denotes financial assets which are available for sale by an enterprise, and which are not receivables, financial instruments held for trading or held-to-maturity (HtM) financial instruments. AfS financial instruments are predominantly fixed-income securities which the enterprise cannot (or does not intend to) hold until maturity. They can also be equity instruments without a final maturity date.

Basel III
„Basel III" denotes the regulatory framework for banks, promulgated by the Basel Committee on Banking Supervision at the Bank for International Settlements (BIS) with the objective of stabilising the banking sector.

Bonds
Generic term for fixed-income securities or debt securities.

Capital markets
The markets for any kind of medium to long-term funds – in a narrower sense, generic term for supply and demand in securities.

Cash flow hedge
Using a swap transaction to hedge the risk of future variable-rate interest payments from an underlying on-balance sheet transaction.

Collateral
Rights granted to the Bank by the borrower to facilitate enforcing the Bank's claims in case of default. Collateral may be provided in the form of personal collateral (e.g. a guarantee) and impersonal collateral (e.g. a land charge). In principle, collateral reduces expected losses sustained by the Bank in the event of default.

Commercial Mortgage Backed Securities (CMBS)
Bonds backed by loans collateralised by commercial and multi-family properties.

Consolidated statement of cash flows
Statement showing the cash flows an enterprise has generated and used during a financial year, from its operating, investment and financing activities, also showing cash and cash equivalents at the beginning and end of the financial year.

Corporate Governance
Corporate Governance denotes the legal and factual framework for the management and governance of enterprises. The recommendations of the German Corporate Governance Code provide transparency and are designed to strengthen confidence in good and trusting corporate governance. They predominantly serve shareholders' interests.

Cost/income ratio (CIR)
Financial indicator expressing the ratio of expenses to income within a given reporting period.

$$\text{CIR} = \frac{\text{Administrative expenses}}{\begin{array}{c}\text{Net interest income + net commission income}\\ \text{+ net result on hedge accounting + net trading income/}\\ \text{expenses + results from non-trading assets}\\ \text{+ results from investments accounted for using the}\\ \text{equity method + net income from investment properties}\\ \text{+ net other operating income/expenses}\end{array}}$$

Counterparty credit risk
Counterparty credit risk can be further distinguished into credit risk, counterparty risk, issuer risk and country risk; it denotes the potential loss in value which may be incurred as a result of the default (or deterioration of credit quality) of borrowing clients, issuers of promissory note loans or securities, or of counterparties to money market, securities or derivatives transactions.

Covered bonds
"Covered" bonds is a generic term for debt securities covered by collateral. In Germany,

covered bonds are mainly issued in the form of "Pfandbriefe" pursuant to the German Pfandbrief Act (PfandBG), which provides a legal framework for collateralisation (assets eligible for Pfandbrief cover include mortgages and public-sector loans, as well as ship and aircraft financings).

Credit default swap (CDS)
Financial contract where the risk of a credit event specified in advance (such as insolvency, failure to pay, or deterioration of credit quality) is transferred from a protection buyer to a protection seller. The protection seller receives regular premium payments from the protection buyer in exchange for the assumption of credit risk, regardless of whether a credit event has actually occurred.

Debt security
Certificate whose issuer undertakes to repay the amount borrowed (plus current interest, or other form of performance) to the bearer.

Deferred taxes
Income taxes payable or receivable in the future, due to temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the tax accounts. At the time of recognition, deferred tax assets or liabilities do not yet constitute any actual claims on, or liabilities to the tax authorities.

Derivatives
Derivatives – which include all types of forwards, futures, options and swaps – are financial instruments whose value is derived from the price (and/or the price fluctuations) of an underlying instrument, such as equities, bonds or currencies.

Earnings per share
Financial indicator expressing the ratio of net income after non-controlling interest income to the average number of common shares outstanding.

$$\text{Earnings per share} = \frac{\text{Operating profit ./. income taxes ./. non-controlling interest income ./. AT1 coupon (net)}}{\text{Number of ordinary shares}}$$

EBIT margin

$$\text{EBIT margin} = \frac{\text{EBIT (operating profit before interest and taxes)}}{\text{Sales revenues}}$$

Effective interest method
Method for amortising the mark-up/markdown between cost and the nominal value (premium/discount), using the effective yield of a financial asset or liability.

Equity method
Method for measuring shareholdings in enterprises on whose business policy the reporting entity has significant influence ("associates"). When applying the equity method, the associate's pro-rata net income/loss is recognised in the carrying amount of the shareholding; any distributions are recognised via a corresponding pro-rata reduction in the carrying amount.

Euribor
European Interbank Offered Rate – the interest rate at which prime European banks offer euro deposits (with fixed terms of one week, and between one and twelve months) to one another.

Fair value
The fair value is the amount for which an asset can be exchanged (or a liability settled) between knowledgeable, willing parties in an arm's length transaction; this is often identical to the market price.

Fair value hedge
Using a swap to hedge the market risk of a balance sheet item with a fixed interest rate (e.g. a receivable or a security); this is measured at fair value.

Financial assets or liabilities at fair value through profit or loss (FVtPL)
Financial instruments assigned to this measurement category are carried at fair value, with the re-measurement recognised in income. A further differentiation is made within the category "Financial assets at fair value through profit or loss" into held for trading (HfT) and designated as at fair value through profit or loss (dFVtPL). Financial instruments are classified as "Held for trading" if they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, or if they are derivatives not designated within the scope of a recognised hedging relationship. Entities have the option to irrevocably designate financial instruments as at fair value, irrespective of any intention to trade (fair value option).

Financial instruments
Generic term for loans extended and other receivables, fixed-income securities, equities, shareholdings, liabilities, and derivatives.

Financial liabilities measured at amortised cost (LaC)
Financial liabilities not designated "at fair value through profit or loss". These items are re-measured at amortised cost. Premiums and discounts are amortised over their term using relevant effective interest rates.

FX
Abbreviation for foreign exchange, referring to the FX market or the FX asset class.

German Accounting Standards
Recommendations for the application of (German) standards for consolidated financial statements, issued by the German Accounting Standards Board (GASB), a committee of the Accounting Standards Committee of Germany.

Goodwill
An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Hedge accounting
Concept describing the recognition (or other form of accounting) of two or more financial instruments, which together form a hedging relationship. In this context, the relationship between these contracts is based in the equal and opposite specification of contractual elements giving rise to risks (usually financial risks). Due to these specifications, such agreements can be used to partially or fully offset and neutralise risks. In the context of hedge accounting, one of the contracts involved (specifically, the contract establishing the risk(s) concerned) is referred to as the ‚underlying transaction', and the other contract (the one entered into to hedge the risk(s) of the underlying transaction) as the "hedge transaction" or just "hedge".

Hedging
A strategy where a hedge is entered into in order to protect a position against the risk of unfavourable movements of prices or (interest) rates.

Held to maturity (HtM)
Financial assets with a fixed term as well as fixed or determinable payments acquired from a third party, where the reporting entity has the intention and the ability to hold such financial assets to maturity.

Impairment
An impairment occurs when the recoverable amount declines below the carrying amount. Impairment tests are required to be carried out for the purposes of determining allowance for credit losses.

International Accounting Standards (IASs)
Accounting standards issued by the International Accounting Standards Board (IASB), an international standard-setting body established by professional accountants' associations. The objective is to establish transparent, comparable international financial reporting standards.

International Financial Reporting Standards (IFRS/IFRSs)
IFRSs comprise International Accounting Standards (IASs) and interpretations issued by the Standing Interpretations Committee, as well International Financial Reporting Standards (IFRSs) and related interpretations published by the International Accounting Standards Board (IASB).

LIBOR
London Interbank Offered Rate; the interest rate at which prime London banks offer deposits to one another.

Liquidity Coverage Ratio (LCR)
A Basel III indicator designed to assess liquidity risk.

Loan-to-value ratio
The ratio of loan amount to property value in the context of property loans.

MDAX®
The MDAX® mid-cap index comprises the shares of 50 companies from traditional sectors listed in Deutsche Börse's Prime Standard segment that, in terms of exchange turnover and market capitalisation, rank immediately below the companies included in the DAX® blue-chip index. The index is calculated on the basis of price data from Xetra®, the electronic trading system of the Frankfurt Stock Exchange.

Medium-Term Notes (MTNs)
Debt issuance programme used to issue unsecured debt securities at different points in time; the volume, currency and term (one to ten years) of each issue can be customised to the issuer's prevailing funding needs.

Minimum Requirements for Risk Management (MaRisk)
The Minimum Requirements for Risk Management in Banks (MaRisk) are binding requirements for the structure of risk management in German banks, as promulgated by the German Federal Financial Supervisory Authority (BaFin). Setting out the specifics of section 25a of the German Banking Act (KWG), BaFin has consolidated the previously-applicable Minimum Requirements for the Trading Activities of Credit Institutions (MaH), Minimum Requirements for the Internal Audit Function of Credit Institutions (MaIR) and Minimum Requirements for the Credit Business of Credit Institutions (MaK), updating and supplementing them in the process.

Nominal interest rate
Return of a security defined by reference to its nominal amount.

Option
The right to buy or sell a specific asset.

Over the counter (OTC)
Financial markets term for off-exchange trading between market participants.

Present value
The present value of a future cash flow, determined by discounting all future cash flows (inflows and outflows) to today's date.

Profit-participation certificate
Securitised profit-participation rights which may be issued by enterprises (regardless of their legal form) and listed in official (exchange) trading. Subject to certain conditions, profit-participation certificates may be eligible for inclusion in liable capital.

Public-Sector Pfandbriefe
Debt securities issued by Pfandbrief issuers (Pfandbrief banks), which are collateralised by claims against the public sector.

Rating
Risk assessment regarding a borrower (internal rating) or credit quality assessment regarding an issuer and its debt securities by a specialist rating agency (external rating).

Repurchase transaction (repo transaction)
Short-term money-market transaction collateralised by securities; in a repo, the owner of securities sells them and simultaneously agrees to repurchase the securities at a later point in time, at an agreed price.

Residential Mortgage Backed Securities (RMBS)
Bonds backed by loans collateralised against residential property.

Return on equity (RoE)
Financial indicator expressing the ratio of net income (or pre-tax profit, for example) to average equity over the period. RoE expresses the return on the capital employed by the company (and its owners/shareholders).

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

$$\text{RoE after taxes} = \frac{\text{Operating profit ./. income taxes ./. non-controlling interest income ./. AT1 coupon (net)}}{\text{Average equity (IFRS) excluding non-controlling interests, other reserves, AT1 bond, and dividends}}$$

Revaluation surplus
The revaluation surplus is used to recognise changes in the market value of securities and available-for-sale assets (and their deferred tax effects) directly in equity.

Reverse repo transaction
A repo transaction where the buyer of securities simultaneously agrees to sell the securities at a later point in time, at an agreed price.

Segment reporting
Breakdown of aggregate consolidated figures across individual segments, by type of activity (business segment) or by geographical location (region). The segment reporting permits conclusions regarding developments in the various segments, and their individual contribution to consolidated net income.

Solvency
A bank‘s capitalisation – literally, its ability to pay.

Swap
Generic term for contracts to exchange cash flows, such as the exchange of fixed-rate and variable-rate cash flows in the same currency (interest rate swap), or the exchange of cash flows and/or nominal amounts in different currencies (cross-currency swap).

Unwinding
The increase in a written-down receivable’s present value over time, due to the fact that the receivable is being discounted at its original effective interest rate.

Value at risk
Method to quantify risks: it measures the maximum potential future loss which will not be exceeded within a defined period, and given a certain probability.

Volatility
Volatility denotes the scope and intensity of fluctuations in the price of securities or currencies. Volatility is often calculated via the standard deviation of historical price data, or implied via a pricing formula. The higher the volatility, the riskier the respective investment.

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

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Aareal Bank AG
Investor Relations
Paulinenstrasse 15
65189 Wiesbaden, Germany

Phone: +49 611 348 3009
Fax: +49 611 348 2637
www.aareal-bank.com

03/2016

Aareal Bank
Group