QUALITY made by AAREAL

In motion.
By conviction.

Aareal Bank Group – Interim Report
1 January to 30 September 2016

Aareal

Key Indicators

	1 Jan-30 Sep 2016	1 Jan-30 Sep 2015
Results[1]		
Operating profit (€ mn)	281	378
Consolidated net income (€ mn)	193	306
Consolidated net income allocated to ordinary shareholders (€ mn)[2]	166	279
Cost/income ratio (%)[3]	41.6	44.9
Earnings per ordinary share (€)[2]	2.78	4.65
RoE before taxes (%)[2][4]	13.5	20.1
RoE after taxes (%)[2][4]	9.0	16.2

	30 Sep 2016	31 Dec 2015
Statement of financial position		
Property finance (€ mn)[5]	28,429	30,894
of which: international (€ mn)	24,059	25,243
Equity (€ mn)	3,064	3,044
Total assets (€ mn)	50,534	51,948
Regulatory indicators		
Risk-weighted assets (€ mn)	15,445	16,709
Common Equity Tier 1 ratio (CET1 ratio) (%)	14.3	13.8
Tier 1 ratio (T1 ratio) (%)	17.6	17.2
Total capital ratio (TC ratio) (%)	24.7	23.8
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	13.6	13.1
Employees	2,818	2,861
Rating		
Fitch Ratings, London		
long-term	BBB+ (outlook: stable)	BBB+ (outlook: stable)
short-term	F2	F2
Fitch Pfandbrief ratings	AAA	AAA
Sustainability[6]		
oekom	prime (C)	prime (C)
Sustainalytics	68	68

[1] Adjustment of previous year's figures due to completion of purchase price allocation for Westdeutsche ImmobilienBank AG (WestImmo), in accordance with IFRS 3

[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] Structured Property Financing segment only

[4] On an annualised basis

[5] Excluding € 1.2 billion in private client business (31 December 2015: € 1.5 billion) and € 0.7 billion in local authority lending business by WestImmo (31 December 2015: € 0.6 billion)

[6] 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.

Contents

Letter from the Management Board

Dear shareholders,
business associates and staff members,

The market environment for Aareal Bank Group during the third quarter remained both demanding and challenging. Overall, the global economic trend – which has been subdued since the beginning of the year – remained intact until the end of the third quarter of 2016. Yet geopolitical risks, uncertainty surrounding central bank measures, and subdued levels of global trade, all continue to have a dampening effect.

Volatility on the financial and capital markets eased overall during the third quarter, even though concerns and scepticism about certain large European banks emerged towards the end of the quarter – which translated into marked losses for bank shares. The monetary policy stance of the major central banks remained fundamentally expansive during the third quarter. Interest rate developments have diverged during the course of 2016, both in the different currency areas and regarding maturities. Compared to the end of 2015, short-term interest rates in the euro zone fell once again, with the decline being somewhat more pronounced during the first quarter. The decline over the next two quarters was only slight. Rates were slightly negative in all quarters. Compared to the fourth quarter of 2015, long-term interest rates fell significantly in the euro zone, whereas in the US, they only declined marginally during the first half of 2016, to rise again slightly in the third quarter. Thanks to the persistently high levels of liquidity, markets continued to be prepared to absorb new issues from banks, corporates, and sovereign issuers.

The banking sector continued to face known challenges, including, in particular, the persistent low interest rate environment as well as the need to deal with regulatory requirements and changes in banking supervision. Commercial continued to be a sought-after asset class in most markets, even though global transaction volumes declined noticeably compared with the previous year. Commercial property financing continued to be highly competitive. Still, margins solidified in the course of the year in Europe and the US, with the latter remaining on an elevated level in international terms.

In the third quarter of 2016, Aareal Bank Group maintained its positive performance – despite the challenging environment that was shaped by numerous uncertainty factors – by generating very good consolidated operating profit of € 74 million, slightly below the figure for the same quarter of the previous year (Q3 2015: € 82 million). This reflected an expected decline in net interest income, due – amongst other factors – to the reduction of portfolios no longer in line with the Bank's strategy. Consolidated operating profit amounted to € 281 million, reflecting the successful performance during the first nine months of the year. Against this background, Aareal Bank raises its full-year guidance from between € 300 million and € 330 million to a range between € 360 million and € 380 million. This includes a positive non-recurring effect of € 28 million, expected to be realised in the fourth quarter, from the successful conclusion of litigation in connection with Corealcredit Bank, acquired in 2014. However, since this non-recurring effect will be offset by a corresponding tax expense of virtually the same amount, this development will have only a minor impact upon results after taxes.

Consolidated operating profit in the Structured Property Financing segment amounted to € 85 million – a very good result, in light of the persistently difficult environment. After several large-volume portfolio financings gave second-quarter new business particular impetus, € 1.6 billion was originated during the third quarter (Q3 2015: € 2.7 billion). At € 6.0 billion, aggregate new business during the first three quarters has already roughly matched the previous year's level of € 6.3 billion, in spite of markedly lower transaction volumes. Also reflecting a higher level of early renewals, Aareal Bank raises its new business target for the full year 2016, from € 7 billion to € 8 billion to between € 8 billion and € 9 billion. In line with our growth strategy, the share of North American exposures in new business originated during the first nine months rose from 19.9 per cent in the previous year, to 28.8 per cent (and even close to 45 per cent of newly-originated loans), reflecting the markedly better risk/return profile compared to other regions.

Within the Consulting/Services segment, which – in line with our Group strategy – is set to evolve into the Group's growth driver in the coming years, our Aareon AG subsidiary continued to develop positively during the third quarter of 2016, with renewed year-on-year increases in both sales revenue and profit contribution. Aareon's performance was driven in particular by the successful expansion of its international business, and by the extension of its portfolio of digital products.

In the Consulting/Services segment, the volume of customer deposits from the housing industry remained at a high level, averaging € 9.5 billion during the quarter under review – once again demonstrating the sustained confidence that customers place in Aareal Bank. In this context, results in the banking business with the housing industry continue to be shaped by historically low interest rates.

Given the ECB's expansive monetary policy, however, we must assume that segment results will continue to be burdened by the low interest rate environment. Yet the importance of deposit-taking goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. Deposits from the housing industry are a strategically important additional source of funding for Aareal Bank.

Once again, we have every reason to be satisfied with business developments during the quarter under review. In its operating business, the Bank continues to perform very well, successfully mastering the challenges of the demanding business environment it operates in. We are progressing on schedule with the implementation of our "Aareal 2020" programme for the future, having already launched material projects designed to optimise our structures and processes. We have commenced numerous initiatives to explore potential new sources of income, with a continued focus on digital products and solutions. In this way, we are creating the prerequisites for continuing our successful development, even when facing the requirements of a changing market environment in the future.

We continue to assume that global economic growth will remain subdued for the remainder of the 2016 financial year, with our own business activities likely to be subject to numerous economic, political and regulatory risks and uncertainty factors. Yet we have good reasons to be optimistic: we are strong in our operating business, and we have the agility that enables us to flexibly deal with change. In this context, we leverage our deep understanding of the markets in order to best anticipate future developments. Finally, with our "Aareal 2020" programme for the future, we have launched a package that will secure Aareal Bank Group's success going forward – with the Structured Property Financing segment as the Group's solid foundation and the Consulting/Services segment as its growth driver – for you, our shareholders, as well as clients and staff of Aareal Bank Group.

For the Management Board

Yours sincerely,

Hermann J. Merkens
Chairman of the Management Board

Group Management Report

Report on the Economic Position

Macro-economic environment

Economy

Up to the end of the third quarter, global economic development has remained subdued during 2016, expanding only slightly year-on-year. Growth was hampered by uncertainty and volatility in emerging markets during the first quarter, whilst the second quarter was defined by the Brexit referendum in the UK on 23 June 2016 and weak investment activity. However, the Brexit vote did not have an appreciable effect on real economic output during the third quarter. Some of the important sentiment indicators for the economy and consumption have recovered since the end of August, after a short-term deterioration following the Brexit vote. The ifo business climate index in Germany, for example, climbed in September to its highest level since May 2014. In the UK, the trend barometer for the manufacturing industry rose to its highest level since June 2014. According to preliminary calculations by the British Office of National Statistics (ONS), real gross domestic product rose by a remarkable 0.5 % during the third quarter, compared to the previous one. Fundamental growth factors remained largely unimpressed of the referendum vote; a strong services sector more than offset declines in manufacturing industry and in the construction sector. The German economy started the year on a strong note. Growth became somewhat weaker in the course of the year on the back of weak industrial production. The construction industry continued to expand. The economy in France remained rather muted up to mid-year, as investments and private consumption failed to expand further. However, the country's fundamental data recovered again somewhat in the third quarter.

The US economy lost some steam during the first three quarters of 2016. Private consumption, which essentially was the growth driver, eased slightly in the course of the year. US retail sales have recently declined for two consecutive months. Whilst economic growth in China slowed down compared to the previous year, third-quarter economic momentum maintained the level seen in the two previous quarters. Ongoing fiscal stimulus by the state, a strong credit expansion and a sentiment of a residential property boom have helped stabilise growth – yet these factors simultaneously give cause for concern regarding future developments.

The current assessment of the overall global economic situation has deteriorated slightly on a global scale during the course of the year. At the same time, growth prospects have weakened for many economies, and for corporate profits. Besides the geopolitical risks, the structural transition in China, uncertainty surrounding central bank measures, and levels of global trade that are still subdued, all continued to depress sentiment. The price of oil in the third quarter remained unchanged from the previous quarter, even though the OPEC countries agreed at the end of the third quarter to cap output at a high level.

Unemployment within the European Union (EU) remained stable compared with the mid-year levels. The unemployment rate in 24 member states has fallen over the year as a whole, while rising slightly in three countries, for example in Belgium. The rate of unemployment continued to fall in Spain. Having increased slightly at the start of the year, unemployment in Italy fell again slightly as the year progressed. Unemployment fell further in the UK until the middle of the year, albeit to a lesser extent than had been the case in the previous year. Having declined further in the US during the year, unemployment then stagnated from mid-year. It thus remained at a low level, coupled with a further rise in employment.

Financial and capital markets, monetary policy and inflation

While developments in the emerging markets and the runup to the Brexit referendum on 23 June 2016 led to increased volatility in the first half of the year, volatility on the financial and capital markets eased in the third quarter. However, concerns were raised again at the end of the third quarter about some big banks in Europe. The Italian bank rescue fund Atlante II had amassed € 1.6 billion by mid-August, therefore passing the first hurdle. Even so, market scepticism could not be assuaged entirely. Bank shares were still posting substantial losses at the end of the quarter.

The most important central banks maintained their diverging monetary policies during the third quarter. This meant that central banks' generally expansive monetary policy stance remained unchanged. Accordingly, the European Central Bank (ECB) left its key interest rates (last decided upon in March) unchanged at its meeting on 2 June 2016. The ECB launched its bond-buying programme, increased by € 20 billion to a monthly volume of € 80 billion, on 8 June 2016. For the first time, the ECB also bought investment-grade bonds of non-bank corporate issuers. The targeted longer-term refinancing operations (TLTROs) were launched on 24 June 2016. The Bank of Japan (BOJ) retained its negative interest rate (-0.1 %) on excess reserves held with it. The key interest rate in Sweden remained unchanged at -0.50 %. The Bank of England (BoE) adopted a wait-and-see stance initially after the Brexit vote, but then lowered key interest rates by 25 bp to 0.25 %, and resolved to buy GBP 60 billion in additional securities.

In contrast, the US Federal Reserve (Fed), which had slightly raised its key interest rate in December 2015 – for the first time in almost ten years – made no further adjustments to monetary policy during the first three quarters of 2016. Instead, it remained waiting, faced with diverging fundamental data as well as uncertainty with regard to further economic development.

Interest rate developments diverged during the course of 2016, both in the different currency areas and regarding maturities. Compared to the end of 2015, short-term interest rates[1] in the euro zone fell more strongly during the first quarter. The decline over the next two quarters was only slight. Rates were slightly negative in all quarters. Short-term interest rates in the UK during the first half-year remained unchanged from the fourth quarter of 2015. They fell sharply in the third quarter after the Brexit vote, but remained in positive territory nonetheless. In Sweden, short-term interest rates fell more sharply in the first quarter relative to the final quarter of 2015, and have remained rather stable thereafter. In the US dollar area, short-term interest rates rose slightly in the first half-year compared to the final quarter of 2015, before posting a somewhat more pronounced increase during the third quarter. Short-term interest rates in Canada remained virtually constant compared with the end of 2015. Long-term interest rates[2] in the euro zone declined significantly in the first three quarters compared with the last quarter of 2015. This was also the case in Sweden and the UK. They fell slightly in the US in the first half-year relative to the fourth quarter of 2015, before rising again slightly in the third quarter. This trend was also evident in Japan.

The exchange rates of various currencies that are important for Aareal Bank AG relative to the euro were more volatile in the first three quarters of 2016 than in the comparable prior-year period. However, volatility eased slightly in the third quarter. During the first and third quarter of 2016, the US dollar appreciated slightly against the euro, but depreciated marginally in the second quarter. Pound sterling devalued slightly in the first quarter ahead of the Brexit vote, then moved sharply lower in the second and third quarters. It stabilised however towards the end of the third quarter. The Japanese yen halted its strong upside trend against the euro that had been observed over the year, and remained relatively stable in the third quarter of 2016.

In September 2016, the euro zone's Harmonised Index of Consumer Prices (HICP) was running at +0.4 %, and thus remained significantly below the ECB's target of just under +2 %. However, signs of an upside trend are developing. Consumer prices were still mildly deflationary at the start of the year, and up to mid-year. Core inflation was unchanged, remaining just below one per cent, whereas medium-term inflation expectations[3]

[1] Calculated on the basis of 3-month Euribor or the corresponding Libor or other comparable rates for other currencies
[2] Based on the 10-year swap rate
[3] Based on the 5y/5y forward swap for the euro zone

were still low. The US inflation rate (not seasonally adjusted) was running at +1 % as at the end of September, therefore continuing the stable trend that has persisted since the start of the year.

Regulatory environment

The environment in which banks are operating continues to be defined by highly dynamic regulatory requirements, as well as by changes in banking supervision. Especially when considering the extensive work the Basel Committee is undertaking to complete the already-implemented Basel III regime, it is currently not possible to fully assess the impact. Moreover, amendments to the Minimum Requirements for Risk Management in Banks (MaRisk) will bring about further regulatory changes, especially concerning the aggregation of risk data and risk reporting.

Following the introduction of the Single Supervisory Mechanism (SSM), Aareal Bank Group has been directly supervised by the ECB since 4 November 2014.

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 areas are aggregated in a score value, from which the ECB derives supervisory measures on holding additional capital and/or additional liquidity requirements. Aareal Bank Group's current SREP requirement is a Common Equity Tier 1 capital ratio (CET1 ratio), including capital conservation buffer, of 8.75 %. No additional liquidity requirements were set.

Sector-specific and business developments

Structured Property Financing segment

In the persistent low interest rate environment, commercial property continued to be a sought-after asset class in most markets in the first three quarters of 2016. However, global transaction volumes (the aggregate capital invested in newly-acquired commercial properties) showed a marked decline from the extraordinarily high levels seen in the same period of the previous year. During the third quarter of 2016, volumes in the US remained virtually unchanged, compared to the second quarter, whereas they declined in the Asia/Pacific region and in Europe during the same period. Investment yields for newly-acquired commercial property remained low, with signs of the downtrend (seen in previous periods) flattening. This meant that investment yields for first-class properties have remained almost constant in many markets during the course of 2016, with slight declines seen only in some places.[1] Rents for first-class commercial properties were virtually stable on most markets across the first three quarters. Some differences between the markets were observed, with declining rents seen in the case of lettings to new tenants in some markets, as well as increasing rents in others, relative to the end of 2015. In the UK, office rents for new tenants have fallen slightly since August, having remained stable or risen slightly in the first two quarters, as a consequence of the referendum.

Commercial property financing has remained a highly competitive business on most markets. The margins continued to solidify in the course of the year in Europe and the US. They remained higher in the US than in many European countries, particularly in Western and Northern Europe. Pricing levels on the US market are also influenced by the market for commercial mortgage-backed securities (CMBS). Transactions in this segment fell short of expectations, thus supporting margins.

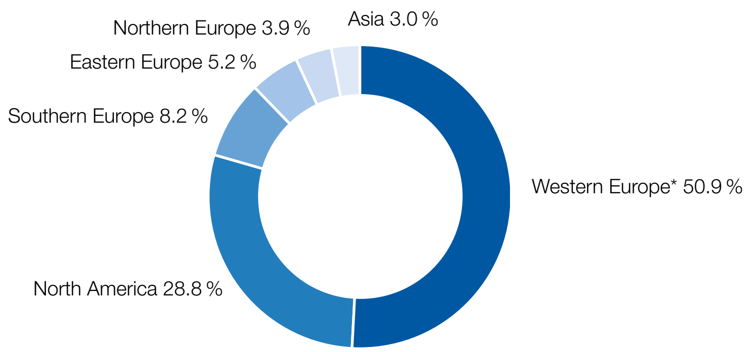
Following Aareal Bank Group's particularly strong new business[2] during the second quarter of 2016, it amounted to € 1.6 billion in the third quarter (Q3 2015: € 2.7 billion) – bringing aggregate new

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

[2] Excluding new business for private clients and local authority lending by WestImmo

New business 1 January - 30 September 2016

by region (%) Total volume: € 6.0 bn



* Including Germany

business for the first three quarters of 2016 to € 6.0 billion, roughly in line with the previous year's figure of € 6.3 billion. Newly-originated loans accounted for 35.2 % or € 0.6 billion in the third quarter (Q3 2015: 33.4 % / € 0.9 billion). During the first three quarters, newly-originated loans accounted for 57.3 % (9m 2015: 47.1 %) on a volume of € 3.6 billion (9m 2015: € 3.0 billion). Early renewals have recently played a greater role here, too.

At 68.2 % (previous year: 79.3 %), Europe accounted for the largest share of new business, followed by North America with 28.8 % (previous year: 19.9 %) and Asia with 3.0 % (previous year: 0.8 %). The increase in new business in North America relative to the previous year reflects our local growth strategy, not least reflecting a better risk / return profile.

Europe

The demand for commercial property remained high until the third quarter of 2016, not only as it continued to offer a high yield advantage compared with other assets such as government bonds. However, the volume of transactions declined. Transaction volumes in the first three quarters were significantly lower than in the same period of the previous year, but nonetheless remained above the long-term average. The decline was evident on many European markets, including France, Germany, Italy, and the UK. Besides uncertainty weighing on the markets, a lack of suitable properties on the market was a factor contributing to the decline – as well as the fact that the previous year's figure was particularly high. Private investors were seen as sellers, whereas the majority of buyers were institutional as well as cross-border investors. Contrary to the general market trend in Europe, transaction volumes in Spain increased. Compared with the second quarter of the year, transaction volumes fell markedly in Europe; Germany, however, saw a considerable increase. Yields for newly-acquired first-class commercial property in the European economic centres fell slightly in the first three quarters compared to the end of 2015, but remained almost constant at a low level through the third quarter. Some sub-markets reported further slight declines compared with the values of the first half-year. Yields on UK office properties in particular rose slightly in response to the Brexit vote.

Stable rents were observed in most European economic centres during the first three quarters, with slight rent increases in some markets, diverging from this trend. This general trend applied to office, retail and logistics properties. Rent increases for first-class office properties were observed in Berlin and Stockholm, for example. Office rents in London and some locations in the rest of the UK fell slightly in some sub-markets as a result of the uncertainty triggered by the Brexit vote. Examples for retail rent increases included Berlin and London; for the UK outside of London, rents fell slightly. Rents for logistics properties remained stable overall.

The hotel markets in the European economic centres were largely positive up until the third quarter of 2016. Individual negative developments were also observed, however, not least owing to the terrorist attacks in Paris and Brussels. Average revenue per available room, a key performance indicator for the hotel markets, improved over the corresponding period of the previous year in some markets, such as Amsterdam, Barcelona, Berlin, Madrid and Prague; in other markets (Milan for example), it declined slightly. However, in this location the previous year was particularly good, thanks to the World EXPO. The occupancy ratio fell slightly in London, albeit remaining at a very high level. In Paris, average revenue per available hotel room decreased noticeably, as occupancy ratios clearly fell short of last year's levels – quite obviously a consequence of the terrorist attacks in November of last year. The Brussels terrorist attacks in March caused similar effects.

Aareal Bank Group succeeded in originating € 1.1 billion of new business in Europe during the third quarter (Q3 2015: € 2.3 billion), and therefore € 4.1 billion overall during the first three quarters of the year (9m 2015: € 5.0 billion). Western Europe accounted for the highest share, followed by Southern, Eastern, and Northern Europe.

North America (NAFTA states)

Commercial property transaction volumes in North America (NAFTA states) declined somewhat less over the first three quarters of 2016 than in Europe. Besides the fact that the previous year's figures were particularly high, lower participation by Asian investors was a notable feature. Listed companies were net sellers into the third quarter whereas cross-border buyers and institutional investors were seen on the buyers' side. Transaction volumes in the US eased only slightly in the third quarter, compared to the second quarter of 2016.

Yields fell slightly on national average in the office property segment over the first three quarters. For example, they had fallen slightly in Boston and San Francisco in the first quarter of 2016 relative to the fourth quarter of 2015, before rising again marginally up to mid-year. Yields in the retail segment had fallen slightly on national average in the first quarter of 2016 relative to the fourth quarter of 2015, and remained constant thereafter. Investment yields in the logistics segment remained stable in the third quarter having fallen slightly in the first quarter from the fourth quarter of 2015.

Rents increased slightly on a national average in the US, compared to the end of 2015, for the various types of property, with virtually constant vacancy ratios. This development also applied to many of the leading regional markets in the US, while the performance of office property, for example in Washington DC, was weaker.

The moderate increase in some indicators for the US hotel markets, which had already been evident in the previous year, continued in the course of 2016. Average revenues rose compared to the same period of the previous year, especially due to slightly higher room rates, whilst the occupancy ratio remained slightly lower year-on-year.

Aareal Bank Group originated new business of € 0.5 billion in North America during the third quarter (Q3 2015: € 0.3 billion), bringing aggregate new business in North America to € 1.7 billion for the first three quarters of 2016 (9m 2015: € 1.3 billion). All of this was originated in the US.

Asia

Transaction volumes in the Asia/Pacific region during the first three quarters were markedly lower compared to the same period of the previous year; values overall were slightly below the long-term average. The transaction volume also fell significantly quarter-on-quarter. Even though the share of cross-border investments remained constant, investments by private and institutional investors declined. Both Japan and China saw significant volume declines; Japan lacked large-size transactions in particular. With regard to cross-border transactions, the volume of investors from Hong Kong and Singapore in particular declined, while investors from the Middle East were represented somewhat more strongly than in previous years.

Yields for first-class office properties in Tokyo fell slightly in the first two quarters, but remained stable in the third quarter. In China, yields for office and retail property remained stable in Beijing, but continued to decline slightly for office property in Shanghai. Investment yields in the retail segment in Shanghai remained stable, as did yields for office and retail properties in Singapore during the course of the year. Rents for retail and logistics properties in the three metropolitan areas of Beijing, Shanghai and Tokyo hardly changed, remaining stable during the period under review. Rents for office properties rose slightly during the year in Shanghai and Tokyo, while remaining stable in Beijing. In contrast, rents for the three property types were under pressure in Singapore.

The hotel markets in Beijing, Shanghai and Tokyo developed favourably, compared to the same period of the previous year, with rising average revenues per available hotel room. The situation was only slightly overshadowed by modest declines in average revenues per available hotel room in Singapore and the occupancy ratio in Tokyo.

Aareal Bank Group concluded no new business in Asia during the third quarter, bringing the total figure for the first three quarters to € 0.2 billion – compared to only minor new business in the same period of the previous year.

Consulting/Services segment

Bank division Housing Industry

Business development in the German housing and commercial property industries proved stable during the period under review. Rental income generated from a highly-diversified tenant portfolio thus guarantees a secure foundation for the industry.

Rental price development has been positive in the course of the year – even though the residential property market is still subject to regional differences. Rents offered were approx. 1.9 % higher throughout Germany in July than at the start of the year, with rents for newly constructed property in rural areas increasing by 1.7 % and in the major cities by 2.1 %.

Owing to the robust development of the German economy and the momentum of the housing market, the vacancy ratios of the housing companies which are members of the Federal Association of German Housing and Real Estate Companies (GdW) have fallen. Apartment vacancies declined moderately to 8.3 % in the East German Federal states; vacancies in the West German states were also slightly lower, at 1.7 %.

Our clients from the housing and property sectors – and from the utilities and waste disposal industries – continue to make strong use of the combination of our specialist services in conjunction with automated mass electronic payments processing. They also use the related consulting services we offer, as well as the Bank's cash investment schemes. This enables us to maintain a strong position in the market, despite strong competitive pressure – which is also reflected in the acquisition of new clients: during the third quarter of 2016, we were able to win new business partners from the housing industry, managing just over 26,000 residential units. Likewise, BK 01 eConnect, our digital solution for the energy sector launched at the beginning of the year, attracted a notable increase in new customers.

The volume of deposits taken remained high, averaging € 9.5 billion during the quarter under review (Q2 2016: € 9.5 billion). Deposits averaged € 9.4 billion during the 2016 period under review (9m 2015: € 9.1 billion).

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

Aareon

Aareon's contribution to consolidated operating profit amounted to € 21 million during the quarter under review (Q3 2015: € 16 million).

Germany

In Germany, Aareon distributes the Wodis Sigma ERP solutions, SAP® solutions, and Blue Eagle. Demand for Wodis Sigma persisted in the period under review, including from many GES customers who decided to switch within the scope of our migration campaign. As expected, the favoured version is the one that uses Wodis Sigma as a service from the exclusive Aareon Cloud. Aareon is implementing a large number of migration projects, which are developing on schedule.

The licensing business for SAP® solutions and Blue Eagle developed very positively indeed, especially due to additional licenses sold to a large client, as well as through the acquisition of new customers.

The Aareon Smart World digital solutions continued to attract particular interest in the course of the digital transformation process, and are developing on schedule. These include the Mareon service portal, Aareon Archiv kompakt, Aareon CRM and Aareon Immoblue Plus. These solutions also benefit from migrations of ERP solutions. BauSecura's insurance business also developed favourably.

Following the presentation of the Aareon Design-Lab and the associated design-thinking-method at the Aareon Congress, a first major customer has taken up the offer to develop a new software surface design.

The integration of phi-Consulting GmbH, which Aareon acquired effective 1 October 2015 in order to expand its business activities into the energy sector, was concluded successfully.

International Business

Demand for Aareon Smart World digital solutions was evident in the Netherlands, involving Mareon, a tenant app for employees, and the call centre function. Customers have also opted for the Treasury solution; the TobiasAX ERP solution was rolled out for a major customer. Turnover in ERP Consulting was increased significantly. The world's leading software manufacturer Microsoft has included Aareon Nederland B.V. in the Microsoft Dynamics Inner Circle 2016. Aareon Nederland B.V. has also been nominated for the "Digital Award 2016".

The integration of Square DMS Groep B.V., acquired effective 1 October 2015 in order to include a case management solution with the associated process advisory service into Aareon Smart World, was concluded successfully.

Aareon France is supporting several customers with the realisation of Aareon Smart World digital solutions. Demand is focused particularly on the tenant portals, as well as on billing services and mobile property inspection. Aareon France was represented at "H'Expo", the important trade fair for the social housing industry, in Nantes in September.

In the UK, several important property management companies opted for the Aareon QL ERP solution provided by Aareon UK. Looking at digitalisation, the UK market has already reached a high degree of maturity, especially regarding mobile solutions. The new ERP product generation QL.net was presented to the market, where it met with a very good response. Aareon's 1st Touch subsidiary is providing new impulses with Aareon Smart World Cockpit and the tenant portal. These solutions attracted significant customer interest, which has led to additional contracts being closed. The UK housing market is undergoing fundamental change: housing associations will have to reduce their rents by one per cent each year up to 2020. As a consequence, social housing enterprises are being forced to enhance their efficiency, for example, by optimising business processes. This offers sales potential for ERP and digital solutions. Business development in the UK has been stable, even after the Brexit vote.

Swedish Incit AB Group has won further new customers for its Incit Xpand ERP solution, including a major hotel group in Scandinavia. Their advisory business also picked up well. Demand for the new solution, Incit Xpand Smart Start, a pre-configured template that was introduced in the previous quarter, is very strong and the product is currently being implemented. This solution makes it easier for customers to migrate data to Incit Xpand. The digital signature for rental agreements was also introduced successfully.

Financial Position and Financial Performance

Financial performance

Group

In the first nine months of the financial year, consolidated operating profit amounted to € 281 million and was thus considerably higher than in the corresponding period of the previous year (€ 228 million, adjusted for negative goodwill of € 150 million resulting from the acquisition of WestImmo).

Net interest income totalled € 532 million, an expected reduction from the previous year (€ 583 million), which was largely attributable to lower effects from early loan repayments and the planned reduction of non-strategic portfolios. It was also burdened by a lack of attractive investment opportunities for the liquidity stock, due to the persistent low interest rate environment.

Allowance for credit losses amounted to € 64 million (9m 2015: € 86 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses contributed € 59 million, while net additions to portfolio-based allowance for credit losses amounted to € 11 million.

Net commission income increased to € 137 million (9m 2015: € 123 million), which was mainly due to higher sales revenue at Aareon.

The aggregate of net trading income/expenses and the net result on hedge accounting of € 25 million (9m 2015: € 13 million) resulted largely from the measurement and close-out of derivatives used to hedge interest rate and currency risks.

The net result from non-trading assets amounted to € 66 million (9m 2015: € -15 million) of which an amount of € 61 million was due to the disposal of all shares in Aareal Bank's wholly-

Consolidated net income of Aareal Bank Group[1)]

€ mn	1 Jan-30 Sep 2016	1 Jan-30 Sep 2015
Net interest income	532	583
Allowance for credit losses	64	86
Net interest income after allowance for credit losses	**468**	**497**
Net commission income	137	123
Net result on hedge accounting	4	5
Net trading income/expenses	21	8
Results from non-trading assets	66	-15
Results from investments accounted for using the equity method	0	0
Administrative expenses	417	415
Net other operating income/expenses	2	25
Negative goodwill from acquisitions	–	150
Operating profit	**281**	**378**
Income taxes	88	72
Consolidated net income	**193**	**306**
Consolidated net income attributable to non-controlling interests	15	15
Consolidated net income attributable to shareholders of Aareal Bank AG	178	291

[1)] Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3 owned subsidiary, Aqvatrium AB, as announced on 8 December 2015. Aqvatrium AB is the owner of a commercial property located in Stockholm. Moreover, the sale of the remaining asset-backed securities (ABS) yielded realised profits of € 5 million.

At € 417 million, administrative expenses were in line with the figure for the corresponding previous year's period (9m 2015: € 415 million).

Net other operating income/expenses amounted to € 2 million (9m 2015: € 25 million).

Nine-month consolidated operating profit thus stood at € 281 million (9m 2015: € 378 million). Taking into consideration tax expenses of € 88 million and non-controlling interest income of € 15 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 178 million (9m 2015: € 291 million). Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 166 million (9m 2015: € 279 million).

Structured Property Financing segment

At € 85 million, operating profit generated in the Structured Property Financing segment during the third quarter was slightly lower than in the corresponding period of the previous year (Q3 2015: € 89 million).

Segment net interest income amounted to € 179 million in the third quarter of 2016, down year-on-year as expected (Q3 2015: € 214 million), which was largely attributable to lower effects from early loan repayments and the planned reduction of non-strategic portfolios. It was also burdened by a lack of attractive investment opportunities for the liquidity stock, due to the persistent low interest rate environment.

Structured Property Financing segment result[1)]

€ mn	Quarter 3 2016	Quarter 3 2015
Net interest income	179	214
Allowance for credit losses	33	37
Net interest income after allowance for credit losses	**146**	**177**
Net commission income	2	2
Net result on hedge accounting	3	-3
Net trading income/expenses	4	13
Results from non-trading assets	5	-13
Results from investments accounted for using the equity method	0	0
Administrative expenses	77	101
Net other operating income/expenses	2	14
Negative goodwill from acquisitions	–	–
Operating profit	**85**	**89**
Income taxes	27	29
Segment result	**58**	**60**

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

Allowance for credit losses amounted to € 33 million (Q3 2015: € 37 million), and was thus in line with our expectations. It mainly comprised net additions to specific allowance for credit losses of € 39 million.

Results from non-trading assets of € 5 million (Q3 2015: € -13 million) were attributable to the disposal of the remaining asset-backed securities (ABS).

Segment administrative expenses amounted to € 77 million during the quarter, also considerably lower year-on-year (Q3 2015: € 101 million). The decline was due particularly to lower running costs for WestImmo and for former Corealcredit, as well as lower integration costs.

Overall, operating profit for the Structured Property Financing segment was € 85 million in the third quarter (Q3 2015: € 89 million). Taking tax expenses of € 27 million into consideration (Q3 2015: € 29 million), the segment result for the quarter under review was € 58 million (Q3 2015: € 60 million).

Consulting/Services segment

Sales revenue generated in the Consulting/Services segment developed positively during the third quarter of 2016, totalling € 47 million (Q3 2015: € 44 million), driven particularly by higher sales revenue of Aareon. The persistent low interest rate environment continued to burden margins from the deposit-taking business that are reported in sales revenues. Furthermore, cost of materials purchased rose to € 8 million (Q3 2015: € 5 million).

Staff expenses of € 36 million for the quarter under review were in line with the same period of the previous year (Q3 2015: € 35 million).

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

Overall, segment operating profit in the third quarter of 2016 was € -11 million (Q3 2015: € -7 million). Aareon's contribution here was € 6 million (Q3 2015: € 5 million).

After taking taxes into consideration, the segment result for the third quarter amounted to € -7 million (Q3 2015: € -4 million).

Consulting/Services segment result

€ mn	Quarter 3 2016	Quarter 3 2015
Sales revenue	47	44
Own work capitalised	1	2
Changes in inventory	0	0
Other operating income	2	2
Cost of materials purchased	8	5
Staff expenses	36	35
Depreciation, amortisation and impairment losses	3	3
Results from investments accounted for using the equity method	0	0
Other operating expenses	14	12
Interest and similar income/expenses	0	0
Operating profit	**-11**	**-7**
Income taxes	-4	-3
Segment result	**-7**	**-4**

Financial position

Aareal Bank Group's consolidated total assets amounted to € 50.5 billion as at 30 September 2016, after € 51.9 billion as at 31 December 2015.

Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio[1] stood at € 28.4 billion as at 30 September 2016, a decline of approximately 8 % compared to the 2015 year-end figure of € 30.9 billion. This development was largely attributable to the planned reduction of non-strategic portfolios and exchange rate fluctuations. The international share of the portfolio increased slightly, to 84.6 % (31 December 2015: 81.7 %).

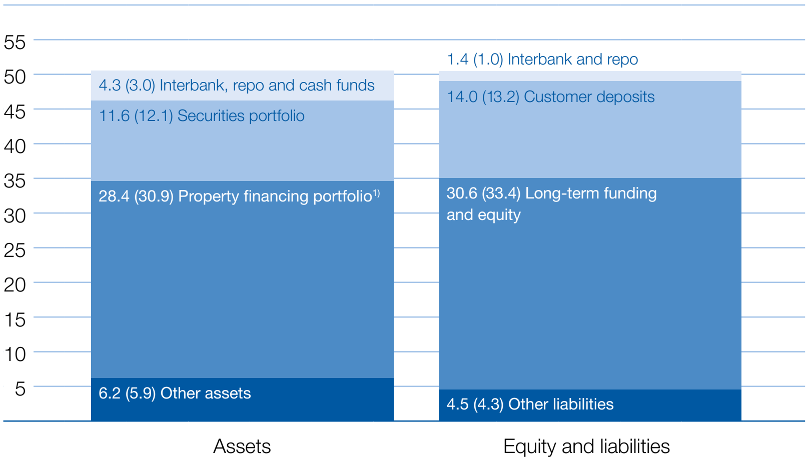
At the reporting date (30 September 2016), Aareal Bank Group's property financing portfolio was composed as shown in the charts beside, compared with year-end 2015.

Portfolio allocation by region and continent changed only marginally compared with the end of the previous year. Whilst the portfolio share of exposures in North America rose slightly (+3.7 percentage points) in line with our strategy, it declined in Germany (-2.9 percentage points). It remained largely stable for all other regions.

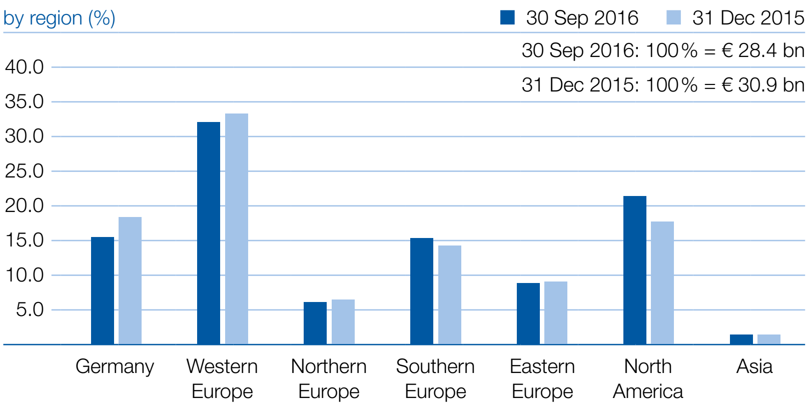
The breakdown of the portfolio by property type did not change significantly during the reporting period. The share of hotel properties rose slightly, by 1.6 percentage points, whilst the share of financings for office, residential, logistics, and retail property as well as other financings remained almost unchanged compared to the year-end 2015.

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.

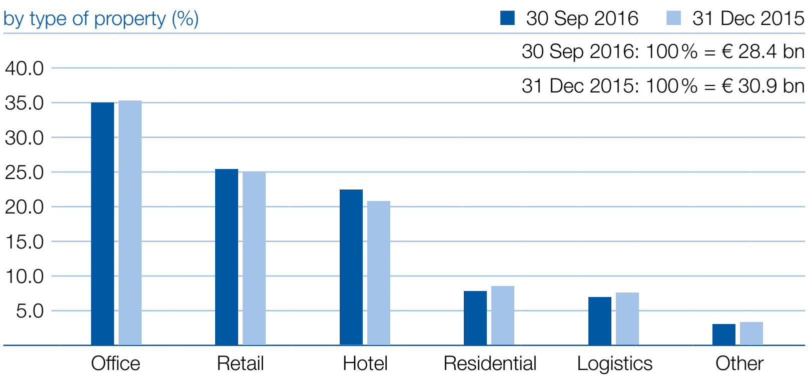
Statement of financial position – structure as at 30 Sep 2016 (31 Dec 2015)



Property financing volume[1] (amounts drawn)



Property financing volume[1] (amounts drawn)



[1] Excluding € 1.2 billion in private client business (31 December 2015: € 1.5 billion) and € 0.7 billion in local authority lending business by WestImmo (31 December 2015: € 0.6 billion)

Securities portfolio

As at 30 September 2016, the nominal volume of the securities portfolio[1] was € 9.3 billion (31 December 2015: € 10.2 billion). Following the sale of the remaining asset-backed securities (ABS), it comprises three asset classes: public-sector borrowers, covered bonds and Pfandbriefe, as well as bank bonds. 99 %[2] of the overall portfolio is denominated in euro. 98 %[2] 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).

Financial position

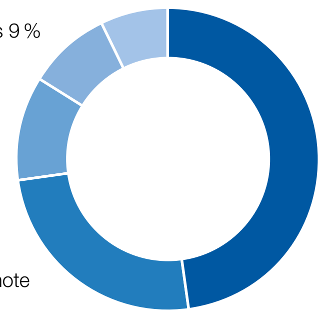
Funding and equity

Funding

Aareal Bank Group has remained very solidly funded throughout the first nine months of 2016. Total long-term funding as at 30 September 2016 amounted to € 28.1 billion (31 December 2015: € 30.9 billion), comprising Pfandbrief issues as well as senior unsecured and subordinated issues. As at the reporting date, Aareal Bank also had € 9.2 billion at its disposal in deposits generated from the business with the housing industry (31 December 2015: € 8.4 billion). Institutional money market investors' deposits amounted to € 4.8 billion (31 December 2015: € 4.8 billion).

Capital market funding mix as at 30 September 2016

% Total volume: € 28.1 bn



Aareal Bank Group raised € 1.2 billion on the capital market during the first nine months of 2016, comprising € 1.1 billion in senior unsecured, and € 0.1 billion in secured issues. One of the highlights was the increase of an existing senior unsecured bond by € 150 million in March 2016, to reach a benchmark volume of € 500 million.

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

Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 3,064 million as at 30 September 2016 (31 December 2015: € 3,044 million), comprising € 300 million in the Additional Tier 1 (AT 1) bond and € 242 million in non-controlling interests.

Regulatory capital

	30 Sep 2016	31 Dec 2015
€ mn		
Common Equity Tier 1 (CET1)	2,203	2,298
Tier 1 capital (T1)	2,712	2,882
Total capital (TC)	3,820	3,977
%		
Common Equity Tier 1 ratio (CET1 ratio)	14.3	13.8
Tier 1 ratio (T1 ratio)	17.6	17.2
Total capital ratio (TC ratio)	24.7	23.8

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

[1] As at 30 September 2016, the securities portfolio was carried at € 11.6 billion (31 December 2015: € 12.1 billion).
[2] Details based on the nominal volume
[3] The rating details are based on the composite ratings.

Analysis of risk-weighted assets (RWA)

30 September 2016

€ mn	EAD	Risk-weighted assets (RWA) AIRBA	CRSA	Total	Regulatory capital requirements
Credit risks	**51,487**	**10,172**	**3,148**	**13,320**	**1,066**
Companies	30,833	8,110	1,906	10,016	801
Institutions	4,301	420	93	513	41
Public-sector entities	14,055	0	23	23	2
Other	2,298	1,642	1,126	2,768	222
Market price risks				**166**	**13**
Credit Valuation Adjustment				**254**	**20**
Operational risks				**1,705**	**137**
Total	**51,487**	**10,172**	**3,148**	**15,445**	**1,236**

31 December 2015

€ mn	EAD	Risk-weighted assets (RWA) AIRBA	CRSA	Total	Regulatory capital requirements
Credit risks	**53,053**	**10,629**	**4,029**	**14,658**	**1,173**
Companies	33,463	8,481	2,647	11,128	890
Institutions	4,455	462	101	563	45
Public-sector entities	12,507	0	20	20	2
Other	2,628	1,686	1,261	2,947	236
Market price risks				**124**	**10**
Credit Valuation Adjustment				**264**	**21**
Operational risks				**1,663**	**133**
Total	**53,053**	**10,629**	**4,029**	**16,709**	**1,337**

Risk Report

Aareal Bank Group Risk Management

The Annual Report 2015 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of this interim report, we will once again briefly outline the key components of our risk management structure, together with the key developments during the period under review. The business policy set by the Management Board, and duly acknowledged by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the Bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the Bank's business strategy, are adapted to the changed environment at least once a year, adopted by the Management Board, and duly acknowledged by the Supervisory Board. Suitable risk management and risk control processes are deployed to implement the risk strategies, and to ascertain the Bank's ability to bear risk.

Risk-bearing capacity and risk limits

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

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the Capital Requirements Regulation (CRR). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a Tier 1 ratio (calculated in accordance with the CRR) equivalent to 8% of forecast risk-weighted assets (RWA), plus buffer. The Bank switched to full Basel III implementation during the year under review. Only free own funds exceeding this level are applied as potential risk cover, of which a further minimum of 10 % (currently 11 %) is retained as a risk cushion. This cushion is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks).

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum Tier 1 ratio of 8 % of RWA, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days).

Risk-bearing capacity of Aareal Bank Group as at 30 September 2016
– Going-concern approach –

€ mn	30 Sep 2016	31 Dec 2015
Own funds for risk cover potential	2,598	2,937
less 8 % of RWA (Tier 1 capital (T1))	1,477	1,606
Freely available funds	**1,121**	**1,331**
Utilisation of freely available funds		
Credit risks	294	313
Market risks	238	244
Operational risks	102	100
Investment risks	57	65
Total utilisation	**691**	**721**
Utilisation as a percentage of freely available funds	**62 %**	**54 %**

A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The table on page 20 summarises the Group's overall risk-bearing capacity as at 30 September 2016.

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

Credit risks

Definition

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

Risk measurement and monitoring

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

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

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

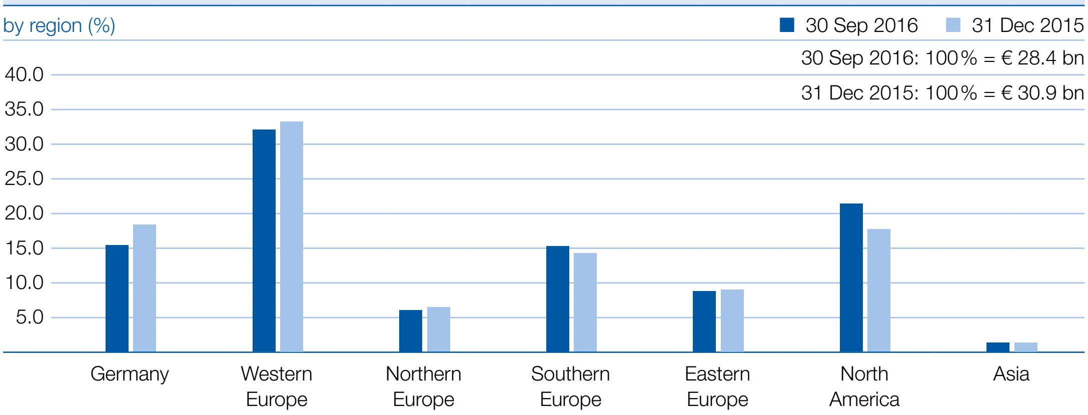
Methods used to measure, control and monitor concentration and diversification effects on a portfolio level include two different credit risk models. Based on these models, the Bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business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

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

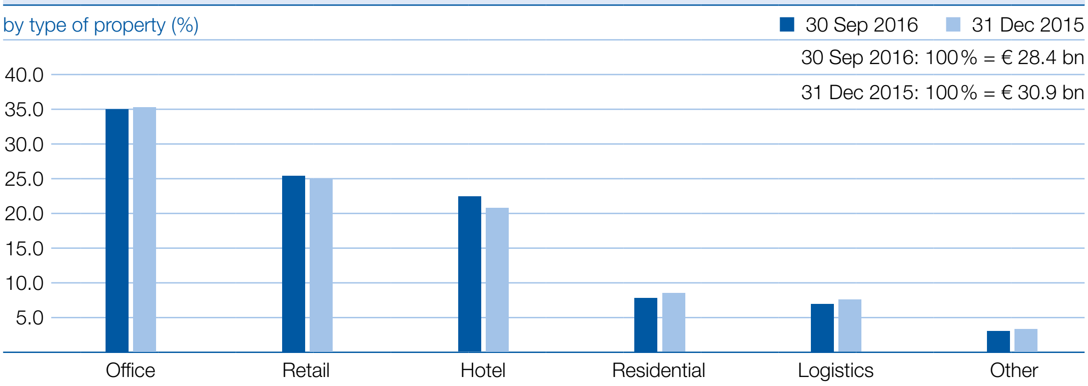
A credit risk report that complies with the Minimum Requirements for Risk Management (MaRisk) is prepared and submitted to the Bank's Management Board and Supervisory Board on a regular basis, at least quarterly. This report contains extensive information on the development of the credit portfolio (covering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

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

Property financing volume[1] (amounts drawn)



Property financing volume[1] (amounts drawn)



[1] Excluding € 1.2 billion in private client business (31 December 2015: € 1.5 billion) and € 0.7 billion in local authority lending business by WestImmo (31 December 2015: € 0.6 billion)

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

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

Country risks

Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process.

The respective country limits are determined on the basis of a country risk assessment by the Bank's senior management. The Risk Controlling division is responsible for the continuous monitoring of country limits and limit utilisation, and for periodical reporting.

Market price risks

Definition

Market price risk is broadly defined as the threat of losses due to changes in market parameters. Aareal Bank Group's market price risk exposure predominantly comprises interest rate risks, whilst currency risks are largely eliminated through hedges. Commodities 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 (thus including all non-trading positions as defined in IFRSs). Hence, the analysis provided represents a very extensive disclosure of market price risks by industry standards.

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year) **95 %, 250-day holding period**				
Aareal Bank Group – general market price risk	305.0 (422.3)	193.2 (187.5)	233.8 (263.3)	– (–)
Group VaR (interest rates)	211.6 (404.4)	110.1 (119.5)	161.7 (216.5)	– (–)
Group VaR (FX)	185.9 (170.5)	102.2 (61.0)	134.0 (114.7)	– (–)
VaR (funds)	5.8 (4.7)	3.5 (2.8)	4.7 (3.7)	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)	85.9 (92.0)	62.8 (72.3)	75.3 (83.8)	– (–)
Aggregate VaR – Aareal Bank Group	311.5 (428.7)	208.4 (207.5)	246.2 (277.4)	390.0 (435.0)

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	19.3 (26.7)	12.2 (11.9)	14.8 (16.7)	– (–)
Group VaR (interest rates)	13.4 (25.6)	7.0 (7.6)	10.2 (13.7)	– (–)
Group VaR (FX)	11.8 (10.8)	6.5 (3.9)	8.5 (7.3)	– (–)
VaR (funds)	0.4 (0.3)	0.2 (0.2)	0.3 (0.2)	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)	5.4 (5.8)	4.0 (4.6)	4.8 (5.3)	– (–)
Aggregate VaR – Aareal Bank Group	19.7 (27.1)	13.2 (13.1)	15.6 (17.5)	24.7 (27.5)

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 remained unchanged during the quarter under review; The VaR decline at the end of the third quarter was largely the result of a regular update of statistical data, and the associated recalibration of the model. No limit breaches were detected.

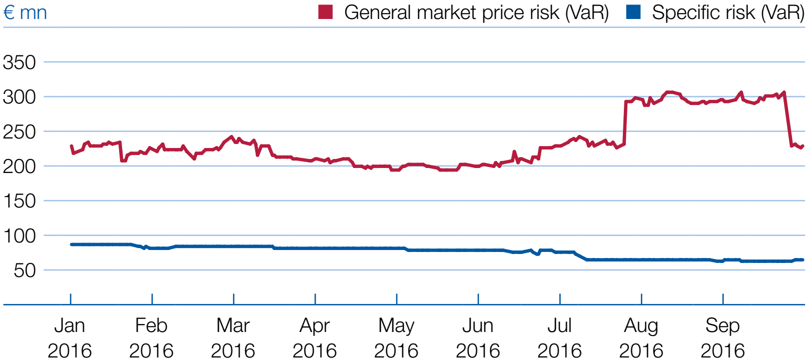
Backtesting

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). Four negative outliers at Group level occurred during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

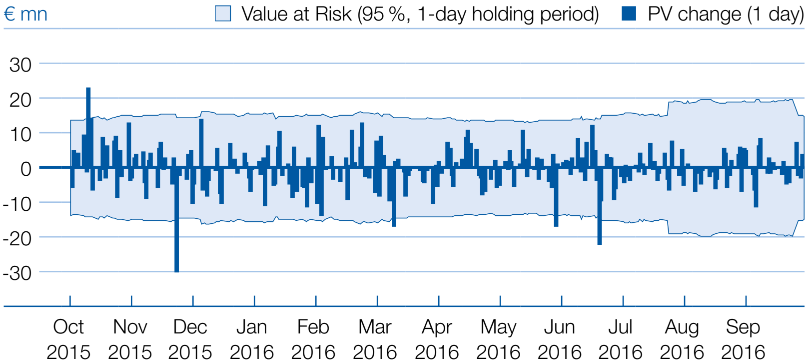
Trading book

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

General market price risk and specific risk during 2016



Present values and 1-day VaR during the course of 2015/2016



Liquidity risks

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

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

The appropriateness of the Bank's liquidity is assessed in a liquidity report prepared using an internal liquidity risk model: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. There were no liquidity shortages throughout the period under review. Further details are provided in the comments on the Bank's liquidity in the section on "Refinancing and equity".

Operational risks

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

Aareal Bank's policy for managing and monitoring operational risks is geared to achieving a risk-minimising or loss-limiting effect at an early stage, by employing a pro-active approach. The Risk Report in the 2015 Annual Report contains a detailed description of controlling tools employed by the Bank to manage operational risk, plus the relevant responsibilities.

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

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

Investment risks

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

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

Report on Expected Developments

Macro-economic environment

Further developments for the economy, as well as for financial and capital markets, are exposed to significant risks and threats – which also have an impact on the commercial property markets. The economic forecast is characterised by significant uncertainty.

The current low-interest rate environment and an expansive monetary policy pose particular risks as market participants might be induced to seek higher risk exposure, producing the risk of capital misallocation and exaggerated asset prices. This may result in prices and values sharply declining, should the need for asset revaluations arise or if interest rates rise swiftly. Low interest rates may also encourage a reduction of reform and consolidation efforts.

A resurgence of the European sovereign debt crisis or distortions due to a further divergence between US and euro zone monetary policies may burden the financial and capital markets and the economy. Furthermore, there is a risk of a political shift towards protectionism and isolation in the US and in Europe, which might impede the trade of goods and services. Geopolitical risks, such as the crisis in Ukraine, war in Syria, tensions within Turkey, or the fear of growing terrorism, may also evoke uncertainty and burden economic activity, at least regionally.

With a potential splitting of the UK, a new uncertainty and risk factor has materialised, following the British people's vote on 23 June in favour of leaving the EU. Expected Brexit negotiations on the UK's exit from the EU represent a potential burden upon the financial and capital markets. Doubts about continued European solidarity have also increased as a result of the referendum, possibly leading to rising volatility in the financial and capital markets. Another important aspect – especially in a European context – is the refugee crisis and how it is to be overcome. In addition, the referendum on constitutional reform in Italy, planned for December, is likely to create political uncertainty.

Further uncertainty factors and burdens include a reform backlog and structural economic issues in certain countries across the euro zone. This includes the high pressure that non-performing loans are placing on European and, in particular, Italian banks. Doubts concerning the stability of banks in Europe – and solutions that fail to materialise – may weigh heavily on the banking sector.

China also poses major risks to the world economy and the financial and capital markets, given the level of private debt -- which has been rising unchecked during the course of the year – and the renewed boom in residential property. Also, the structural change in China will continue to dampen the global economy.

Economy

Against the high number of existing uncertainty factors and burdens, economic momentum is expected to remain low during 2016. Growth rates in real economic performance should be slightly below the levels seen during 2015, and significantly below the long-term average. Risks and uncertainty factors, were they to materialise to a substantial extent, could further mute economic development, or even cause recessive tendencies in certain regions. Moreover, there are increased indications that global growth rates over the next years might fall short of the levels seen during the decade prior to the financial crisis.

The euro zone affirmed its stable economic development during the third quarter, without any direct impact from the Brexit vote. For the full financial year, we currently expect a stable economic performance in Europe. Private consumption should continue to bolster the economy, with investments set to rise again to some extent. Improved labour market data is expected to offset the negative effects resulting from the slight increase in oil prices. This positive development might, however, be dampened by the UK's impending exit from the EU. For Germany, we currently expect economic performance to post a slight rise on the previous year, modestly outperforming overall euro zone growth. Whilst growth in France remains subdued, it is likely to slightly exceed the previous year's figure, albeit remaining below the euro zone average. Spain's economic recovery is set to be affirmed through strong growth this year. Whilst growth in Italy can be expected to be slightly higher than in the previous year, no dynamic development has materialised yet.

In those EU national economies that are not part of the euro zone, we expect to see a slightly stronger growth rate than in euro member states this year, although the pending Brexit has increased the risk of an economic slump. Negotiations about the UK's exit from the EU have marked the start of a multi-year period of uncertainty, especially amongst investors. Over the medium term, we expect that economic momentum in the UK will experience a decline in investments, and possibly also in private consumption. For longer-term development, we need to wait and see which constellations will result from Brexit negotiations. At present, in the absence of any real impact upon the UK, we anticipate positive growth, only marginally below the previous year's levels. For Turkey, we anticipate continued economic growth, albeit at a moderately lower rate than the level achieved in 2015. Moreover, tensions within the country may burden the economy through uncertainty amongst economic actors. Russia will remain in recession for the time being, posting another moderate decline in real gross domestic product this year. The slight rise in oil prices, however, should have a positive effect here. Overall, geopolitical risks such as muted global trade have triggered an increase in risk.

In light of a weaker first half for 2016 in the US, more restrained investments caused by low oil prices and decreasing exports due to a strong dollar, we still expect a positive US growth rate for the full year, albeit markedly below the previous year's level. Whilst the Canadian economy might be supported by slightly rising exports to the US and stable consumer spending, economic recovery is likely to be rather technical in nature. Against this background, and given the particularly weak start to the year, we expect only a slight increase in real economic growth for Canada, in line with the last year's figure.

The Japanese economy is expected to continue lacking any momentum this year, with economic output set to remain low. Private consumption remains weak, and the strong yen continues to pose particular risks. In Singapore, we anticipate an economic growth rate slightly below the previous year's level. In China, the trend of decreasing real GDP growth is bound to continue, albeit at a more moderate level than in 2015. Factors curbing the economic development in China are the targeted reduction of over-capacity, especially in heavy industry, and the transition to an overall lower investment ratio. We are also witnessing uncertainties with regard to the increase in macro-economic debt, especially concerning companies. Low commodity prices have weighed on the economy in many emerging market nations year-to-date (and will continue to do so during the remainder of the year); furthermore, some of these countries are also burdened by structural economic problems, adding to the factors presumably restraining global economic growth in 2016.

Against a background of moderate, yet positive economic development, we expect labour markets across the euro zone as well as in other European countries to register slowly decreasing or virtually stagnating unemployment rates for 2016. In the US, unemployment should remain at low levels.

Financial and capital markets, monetary policy and inflation

The risks and uncertainty factors we have listed so far also apply to the financial and capital markets this year. In this connection, we see the risk posed by the low interest rate environment as particularly noteworthy, but also any of the aforementioned risks could, were they to materialise to a substantial extent, cause turbulences on the financial and capital markets. In the current environment, we assume that volatility will be slightly lower during the remainder of the year than in the first half of 2016 – as it has already been in the third quarter. We continue to expect that financial and capital markets will remain receptive for securities issues and refinancings.

The ECB's decision to expand its quantitative easing measures underscores our expectation that an extremely expansive monetary policy will continue to be pursued in the euro zone; it cannot be ruled out that the ECB will again reinforce that stance during the remainder of the year. Various other European central banks, such as Sweden's Riksbank, are also likely to abide by their expansive fiscal policy. The US, however, is slowly turning its back on an expansive monetary policy, with December 2015 seeing a first hike in its key interest rate. Whilst we see a strong likelihood of further cautious increases in 2017, these are unlikely to occur during the remainder of 2016. The UK's future monetary policy stance will be determined by economic developments as a consequence of the referendum. Still, positive economic data in the UK provides the Bank of England with room for manoeuvre, as well as time.

Due to slightly higher oil prices as well as basis effects, inflation may increase noticeably in the euro zone and other EU member states in the months to come, yet price increases will not be broadly spread across the goods basket. In fact we may even see temporary deflation in a few countries. For the full year 2016, we expect inflation in the euro zone and numerous other EU countries to be minimal to marginal. For the US, we expect the annual average of inflation to be slightly positive, and we are assuming a value of around zero per cent for Japan. China is not expected to differ too much from the picture we have painted for the various regions, with a slight to moderate rate of inflation.

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 (CRSA), the Internal Ratings-based Approaches (IRBA) 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 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 being 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 now taken definitive shape. 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) at national level, as well as the EU Bank Recovery and Resolution Directive (BRRD) at 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, the Minimum Requirements for Risk Management (MaRisk) as well as various technical standards, guidelines and regulations still have to be finalised, e.g. the final calibration of the Leverage Ratio. To nevertheless facilitate the timely implementation, we have already continued to pursue the individual issues in numerous projects – devoting considerable resources to this task.

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

Sector-specific and business developments

Structured Property Financing segment

Given the current low interest rate environment, combined with a high degree of investor liquidity, commercial property remains a sought-after investment this year, too. Global transaction volumes are likely to remain high compared to the previous year, despite the clear overall volume decline. However, results for the first three quarters of 2016 support our expectation that the previous year's very high levels constitute a ceiling. Continued investor interest in properties outside the top segments seems likely, given the shortage of first-class properties on offer. Investor demand is nonetheless expected to continue to support performance this year. Nonetheless, commercial property markets are also exposed to major risks and threats. One such risk lies in capital misallocation and associated potentially exaggerated asset prices in commercial property markets; a fundamental revaluation here might result in abrupt value declines. A turnaround in the US Federal Reserve's interest rate policy also poses a risk for commercial property markets, should interest rate hikes be substantial – in which case they would negatively impact demand for, and the value of commercial property. Moreover, other uncertainty factors and risks in the macroeconomic environment are also relevant for commercial property markets.

Commercial property – and its performance – will thus be subject to a variety of influencing factors this year. Whilst on the one hand investor demand and the low interest rate environment provide support, on the other hand commercial property investment yields have already reached very low levels – posing the risk of misallocation. Furthermore, subdued to moderate economic growth is the most likely scenario for various economies. Demand for rental space therefore may come under pressure. The risk of a slight correction has increased in numerous markets.

We are assuming commercial property values to remain stable to slightly positive this year on average for many countries. This also applies to Europe. Examples for European countries where we anticipate a slightly positive average performance are Germany, France, the Netherlands, Poland, Sweden, and Spain, whereas we expect values to remain stable on average during 2016 in Belgium and Italy, for example. In the case of the UK, the country's economic outlook is influenced by the June vote to leave the EU. Should investors and companies react to political and economic uncertainty by taking a wait-and-see attitude, property values are likely to decrease. First data indicates a rather moderate decline affecting individual types of property, rather than a general negative trend developing. The recession in Russia, which looks to endure through the remainder of 2016, is also likely to burden commercial property markets; overall, we expect values to stabilise. Tensions within Turkey and terrorist attacks in the country have burdened the ongoing development of the Turkish property market.

The slightly positive outlook for the current year with regard to the US commercial property markets is supported by the high levels of liquidity in these markets and the economic outlook. However, potential interest rate increases, given the Fed's turnaround in monetary policy, represent a risk to performance in the medium term. We assume the average performance of Canadian markets to be stable; the performance outlook for China this year is similar. In Japan, we anticipate a slightly positive performance for commercial property.

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

We assume that the hotel markets of numerous economic centres in Europe will continue to see a slight upturn – measured in an increase of average revenues per available hotel room – this year. However, hotel markets are burdened by terrorist attacks. For the year as a whole, the average revenues are thus set to decline in Brussels and Paris, diverging from the overall trend. Non-recurring effects may also play a role. For example, average revenues in Milan may well be down noticeably this year, having benefited from the EXPO 2015 held there last year. A slight increase in revenues per available hotel room is possible in North America. We anticipate developments in Beijing, Shanghai and Tokyo to be largely positive, whilst Singapore will show a slightly negative performance. Deviations on individual markets, but also seasonal fluctuations, are likely during the course of 2016.

At present, the market for commercial property financing is characterised by intense competition, and it is fair to expect this situation to prevail during the course of this year. Margins appear to be stabilising in the US and many parts of Europe, despite intense competition. We anticipate a slight increase in loan-to-value ratios across the various regions. Lenders are expected to continue adhering to their preference for financing first-class properties in top locations: similar to the situation for investors, the shortage of properties in this segment will drive lenders' readiness to finance properties with development potential, and/or in locations outside the top segment.

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 € 8 billion and € 9 billion for the 2016 financial year; we have raised the target range compared to our initial forecast, also due to early renewals. 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.

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

We expect developments within the German housing industry and commercial property sector to remain stable until the end of the year.

Companies in this sector will continue to pursue sustainable portfolio optimisation. Especially in conurbations, it is not only construction that matters, but also the demolition of housing in negative growth areas. At the same time, companies have started to show interest in measures to increase the attractiveness of such "exodus" areas.

GdW member companies plan to increase investments in their existing properties by close to 23% this year, to more than € 14 billion. Given increased demand for the construction of affordable rented housing, these companies furthermore plan to expand their investments in new buildings by more than 50%.

Demand for residential property is set to increase further in the growth centres. Accordingly, we expect developments on the residential property market to remain positive throughout the fourth quarter of 2016.

We continue to see good opportunities during the remainder of the year 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. Furthermore, we are currently focusing our investments on payment support services and process optimisation.

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

Aareon

Aareon's strategy is one of growth, and we expect to considerably increase both consolidated sales revenues and consolidated EBIT for the 2016 financial year, 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 the acquisitions made in 2015.

Both in Germany and in international business, efficiency enhancements in cost and organisational structures will enhance the contribution to results. For Aareon France, we expect the positive trend in maintenance business to continue. Aareon UK plans to launch its next ERP product generation QL.net before the end of 2016, and the QL advisory business is expected to have expanded during the year as a whole. The Swedish Incit Group is expected to report increased sales revenues stemming from its ERP solution Incit Xpand for the year as a whole, 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 – 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, have also been rising. As we see most new clients on the German market opting for 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.

Aareon Smart World's expansion is also likely to have proved a major factor in our successful endeavours to further penetrate the market with digital solutions. For Germany, France and the Netherlands, we expect market penetration to advance (Aareon CRM, Aareon Archiv kompakt, Mobile Services and Mareon). Demand for digital solutions provided by the British subsidiary 1st Touch is expected to rise further, on the back of the 1st Touch Mobile and Aareon Smart World Cockpit products (formerly 1st Touch 360°), together with the tenant portal.

Aareon continues to expect a marked increase in sales revenues and results for 2016 overall, anticipating a contribution to consolidated operating profit of between € 33 million and € 35 million.

Group targets

In view of the successful business development during the first nine months of the financial year, we raise our full-year guidance for consolidated operating profit, which we now expect in a range between € 360 million and € 380 million. This includes a positive non-recurring effect of € 28 million due to the successful conclusion of a legal dispute (which is expected to take place during the fourth quarter), which is offset by a corresponding tax expense of virtually the same amount. In this context, please also refer to our explanations in the Report on Material Events After the Reporting Date on page 66.

Net interest income is expected to be in a range between € 700 million and € 740 million; we expect allowance for credit losses to range between € 80 million and € 120 million. As in the previous years, the Bank cannot rule out additional allowance for unexpected credit losses that may be incurred during the current year.

Net commission income is projected to be in a range between € 190 million and € 200 million. We anticipate administrative expenses to be between € 520 million and € 550 million, including non-recurring expenditure for integration costs, projects, and investments.

Return on equity (RoE) before taxes is projected to be around 13 % for the current year. Excluding said positive non-recurring effect from the conclusion of a legal dispute (which is expected to take place during the fourth quarter), this equates to an expected RoE before taxes of approximately 12 %. Earnings per share are expected in a range between € 3.20 and € 3.43. Our medium-term target RoE of around 12 % before taxes remains unchanged.

In the Structured Property Financing segment, the credit portfolio attributable to Aareal Bank's core business is expected to amount to between € 25 billion and € 27 billion, subject to currency fluctuations. New business is now targeted between € 8 billion and € 9 billion in 2016. In the Consulting/Services segment, we expect our IT subsidiary Aareon to contribute 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 10.75 % (plus a management buffer of 2.25 %) to be appropriate. The Liquidity Coverage Ratio (LCR) is expected to be at least 100 %.

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement[1)]

€ mn	Notes	1 Jan-30 Sep 2016	1 Jan-30 Sep 2015
Interest income		639	759
Interest expenses		107	176
Net interest income	1	**532**	**583**
Allowance for credit losses	2	64	86
Net interest income after allowance for credit losses		**468**	**497**
Commission income		164	145
Commission expenses		27	22
Net commission income	3	**137**	**123**
Net result on hedge accounting	4	4	5
Net trading income/expenses	5	21	8
Results from non-trading assets	6	66	-15
Results from investments accounted for using the equity method		0	0
Administrative expenses	7	417	415
Net other operating income/expenses	8	2	25
Negative goodwill from acquisitions		–	150
Operating profit		**281**	**378**
Income taxes		88	72
Consolidated net income		**193**	**306**
Consolidated net income attributable to non-controlling interests		15	15
Consolidated net income attributable to shareholders of Aareal Bank AG		178	291
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG[2)]		178	291
of which: allocated to ordinary shareholders		166	279
of which: allocated to AT1 investors		12	12
Earnings per ordinary share (€)[3)]		2.78	4.65
Earnings per AT1 unit (€)[4)]		0.12	0.12

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

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[1)]

€ mn	1 Jan-30 Sep 2016	1 Jan-30 Sep 2015
Consolidated net income	**193**	**306**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**-56**	**12**
Remeasurements	-82	17
Taxes	26	-5
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**8**	**20**
Gains and losses on remeasuring AfS financial instruments	10	30
Reclassifications to the income statement	1	-2
Taxes	-3	-8
Changes in hedging reserves	**11**	**20**
Profit/loss from derivatives used to hedge future cash flows	16	29
Reclassifications to the income statement	1	–
Taxes	-6	-9
Changes in currency translation reserves	**-6**	**1**
Profit/loss from translating foreign operations' financial statements	-7	1
Reclassifications to the income statement	1	–
Taxes	–	–
Other comprehensive income	**-43**	**53**
Total comprehensive income	**150**	**359**
Total comprehensive income attributable to non-controlling interests	15	15
Total comprehensive income attributable to shareholders of Aareal Bank AG	135	344

[1)] Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

Statement of Comprehensive Income

Income Statement (Quarterly Development)

€ mn	Quarter 3 2016	Quarter 3 2015
Interest income	199	270
Interest expenses	24	56
Net interest income	**175**	**214**
Allowance for credit losses	33	37
Net interest income after allowance for credit losses	**142**	**177**
Commission income	52	47
Commission expenses	8	7
Net commission income	**44**	**40**
Net result on hedge accounting	3	-3
Net trading income/expenses	4	13
Results from non-trading assets	5	-13
Results from investments accounted for using the equity method	0	0
Administrative expenses	127	147
Net other operating income/expenses	3	15
Negative goodwill from acquisitions	–	–
Operating profit	**74**	**82**
Income taxes	23	26
Consolidated net income	**51**	**56**
Consolidated net income attributable to non-controlling interests	5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	46	51

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income (Quarterly Development)

€ mn	Quarter 3 2016	Quarter 3 2015
Consolidated net income	**51**	**56**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**-9**	**-4**
Remeasurements	-14	-7
Taxes	5	3
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**5**	**-3**
Gains and losses on remeasuring AfS financial instruments	5	8
Reclassifications to the income statement	2	-12
Taxes	-2	1
Changes in hedging reserves	**2**	**2**
Profit/loss from derivatives used to hedge future cash flows	5	2
Reclassifications to the income statement	-1	-
Taxes	-2	0
Changes in currency translation reserves	**-4**	**-3**
Profit/loss from translating foreign operations' financial statements	-4	-3
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**-6**	**-8**
Total comprehensive income	**45**	**48**
Total comprehensive income attributable to non-controlling interests	5	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	40	43

Segment Reporting

Segment Results[1]

€ mn	Structured Property Financing		Consulting/Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015
Net interest income	542	584	0	0	-10	-1	532	583
Allowance for credit losses	64	86					64	86
Net interest income after allowance for credit losses	**478**	**498**	**0**	**0**	**-10**	**-1**	**468**	**497**
Net commission income	5	4	124	120	8	-1	137	123
Net result on hedge accounting	4	5					4	5
Net trading income/expenses	21	8	0				21	8
Results from non-trading assets	66	-15					66	-15
Results from investments accounted for using the equity method		0	0	0			0	0
Administrative expenses	266	274	153	143	-2	-2	417	415
Net other operating income/expenses	1	23	1	2	0	0	2	25
Negative goodwill from acquisitions		150						150
Operating profit	**309**	**399**	**-28**	**-21**	**0**	**0**	**281**	**378**
Income taxes	98	79	-10	-7			88	72
Consolidated net income	**211**	**320**	**-18**	**-14**	**0**	**0**	**193**	**306**
Consolidated net income attributable to non-controlling interests	13	13	2	2			15	15
Consolidated net income attributable to shareholders of Aareal Bank AG	198	307	-20	-16	0	0	178	291
Allocated equity	1,587	1,613	133	127	741	555	2,461	2,295
Cost/income ratio (%)	41.6	44.9	122.2	117.1			54.7	56.9
RoE before taxes (%)[2] [3]	23.5	30.5	-30.3	-24.5			13.5	20.1
Employees (average)	**1,042**	**1,018**	**1,776**	**1,654**			**2,818**	**2,672**
Segment assets	**40,869**	**44,583**	**9,665**	**9,293**			**50,534**	**53,876**

[1] Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3
[2] On an annualised basis
[3] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Segment Reporting

Segment Results (Quarterly Development)

€ mn	Structured Property Financing		Consulting/Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 3 2016	Quarter 3 2015	Quarter 3 2016	Quarter 3 2015	Quarter 3 2016	Quarter 3 2015	Quarter 3 2016	Quarter 3 2015
Net interest income	179	214	0	0	-4	0	175	214
Allowance for credit losses	33	37					33	37
Net interest income after allowance for credit losses	**146**	**177**	**0**	**0**	**-4**	**0**	**142**	**177**
Net commission income	2	2	39	39	3	-1	44	40
Net result on hedge accounting	3	-3					3	-3
Net trading income/expenses	4	13					4	13
Results from non-trading assets	5	-13					5	-13
Results from investments accounted for using the equity method		0	0	0			0	0
Administrative expenses	77	101	51	47	-1	-1	127	147
Net other operating income/expenses	2	14	1	1	0	0	3	15
Negative goodwill from acquisitions								
Operating profit	**85**	**89**	**-11**	**-7**	**0**	**0**	**74**	**82**
Income taxes	27	29	-4	-3			23	26
Consolidated net income	**58**	**60**	**-7**	**-4**	**0**	**0**	**51**	**56**
Consolidated net income attributable to non-controlling interests	5	5	0	0			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	53	55	-7	-4	0	0	46	51
Allocated equity	1,587	1,613	133	127	741	555	2,461	2,295
Cost/income ratio (%)	39.7	44.4	126.7	116.2			54.4	55.1
RoE before taxes (%) [1) 2)]	18.8	19.4	-34.0	-22.4			10.3	12.4

[1)] On an annualised basis

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

Segment Reporting

Consulting/Services segment – Reconciliation of the Income Statement

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

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Net trading income/expenses	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**
	Q3 2016		0	39		0	51	1		**-11**	-4	**-7**
	Q3 2015		0	39		0	47	1		**-7**	-3	**-4**
Income statement classification – industrial enterprise												
Sales revenue	Q3 2016	47		47								
	Q3 2015	44		44								
Own work capitalised	Q3 2016	1					1					
	Q3 2015	2					2					
Changes in inventory	Q3 2016	0						0				
	Q3 2015	0						0				
Other operating income	Q3 2016	2						2				
	Q3 2015	2						2				
Cost of materials purchased	Q3 2016	8		8								
	Q3 2015	5		5								
Staff expenses	Q3 2016	36					36					
	Q3 2015	35					35					
Depreciation, amortisation and impairment losses	Q3 2016	3					3					
	Q3 2015	3					3					
Results from investments accounted for using the equity method	Q3 2016	0				0						
	Q3 2015	0				0						
Other operating expenses	Q3 2016	14					13	1				
	Q3 2015	12					11	1				
Interest and similar income/expenses	Q3 2016	0	0									
	Q3 2015	0	0									
Operating profit	**Q3 2016**	**-11**	**0**	**39**		**0**	**51**	**1**				
	Q3 2015	**-7**	**0**	**39**		**0**	**47**	**1**				
Income taxes	Q3 2016	-4									-4	
	Q3 2015	-3									-3	
Segment result	**Q3 2016**	**-7**										
	Q3 2015	**-4**										

Statement of Financial Position

€ mn	Notes	30 Sep 2016	31 Dec 2015
Assets			
Cash funds		2,763	1,282
Loans and advances to banks	9	1,641	1,893
Loans and advances to customers	10	32,024	34,566
Allowance for credit losses	11	-563	-528
Positive market value of derivative hedging instruments		2,970	2,498
Trading assets	12	636	638
Non-trading assets	13	10,017	10,507
Investments accounted for using the equity method		1	1
Intangible assets	14	121	126
Property and equipment	15	266	267
Income tax assets		58	20
Deferred tax assets		202	239
Other assets	16	398	439
Total		**50,534**	**51,948**
Equity and liabilities			
Liabilities to banks	17	2,303	1,898
Liabilities to customers	18	30,247	30,360
Certificated liabilities	19	9,034	10,819
Negative market value of derivative hedging instruments		2,772	2,720
Trading liabilities	20	584	663
Provisions	21	839	783
Income tax liabilities		70	102
Deferred tax liabilities		34	34
Other liabilities	22	170	114
Subordinated capital	23	1,417	1,411
Equity	24, 25, 26		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,696	1,633
AT1 bond		300	300
Other reserves		-75	-32
Non-controlling interests		242	242
Total equity		3,064	3,044
Total		**50,534**	**51,948**

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 interest	Equity
Equity as at 1 Jan 2016	**180**	**721**	**1,633**	**300**	**-80**	**28**	**13**	**7**	**2,802**	**242**	**3,044**
Total comprehensive income for the period			178		-56	8	11	-6	**135**	15	**150**
Payments to non-controlling interests										-15	**-15**
Dividends			-99						**-99**		**-99**
AT1 coupon			-16						**-16**		**-16**
Other changes											
Equity as at 30 Sep 2016	**180**	**721**	**1,696**	**300**	**-136**	**36**	**24**	**1**	**2,822**	**242**	**3,064**

€ mn	Subscribed capital	Capital reserves	Retained earnings[1]	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 interest	Equity
Equity as at 1 Jan 2015	**180**	**721**	**1,357**	**300**	**-95**	**15**	**-1**	**4**	**2,481**	**242**	**2,723**
Total comprehensive income for the period			291		12	20	20	1	**344**	15	**359**
Payments to non-controlling interests										-15	**-15**
Dividends			-72						**-72**		**-72**
AT1 coupon			-7						**-7**		**-7**
Other changes											
Equity as at 30 Sep 2015	**180**	**721**	**1,569**	**300**	**-83**	**35**	**19**	**5**	**2,746**	**242**	**2,988**

[1] Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

Statement of Cash Flows (condensed)

€ mn	2016	2015
Cash and cash equivalents as at 1 January	**1,282**	**184**
Cash flow from operating activities	1,094	-1,031
Cash flow from investing activities	496	1,394
Cash flow from financing activities	-109	-160
Total cash flow	**1,481**	**203**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 September	**2,763**	**387**

Notes (condensed)

Basis of Accounting

Legal framework

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

This quarterly financial report for the period ended 30 September 2016 was prepared pursuant to the provisions of section 37w of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37y no. 2 of the WpHG and was approved for publication by the Management Board on 2 November 2016. It comprises the present interim condensed consolidated financial statements (also referred to as the "Consolidated Financial Statements"), as well as an interim group management report (also referred to as the "Group Management Report") and was neither audited nor reviewed in accordance with section 317 of the German Commercial Code (Handelsgesetzbuch – "HGB").

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

Reporting entity structure

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

Apart from the disposal of all shares in Aareal Bank's wholly-owned subsidiary Aqvatrium and the addition of Aareal Holding Realty and its three special purpose entities, there were no other material changes to the scope of consolidation during the period under review.

Accounting Policies

Unless specifically indicated otherwise, the accounting policies applied in the preparation of the consolidated financial statements 2015 were also applied in the preparation of these condensed interim consolidated financial statements, including the calculation of comparative figures.

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

IAS 19 Defined Benefit Plans: Employee Contribution
The amendments to IAS 19 include a clarification regarding the recognition of employee contributions made to defined benefit plans paid 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

The Annual Improvements Cycle 2010-2012 resulted in a collection of clarifications and minor amendments to different standards. The amendment to IFRS 2 mainly consisted of a clarification of the definition for "vesting condition" by adding definitions for "service condition" and "performance condition" to Appendix A of the standard. The amendments to IFRS 3 related to the classification of contingent consideration as debt or equity pursuant to IFRS 3.40. According to the latest amendments, only contingent considerations transferred as part of a business combination and fulfilling the definition of a financial instrument shall be considered for classification, while the reference to "other applicable IFRSs" was deleted. If a contingent consideration is classified as a financial liability, it shall be recognised at fair value through profit or loss. The amendments to IFRS 8 clarified the aggregation of operating segments and the reconciliation of segments' assets to the entity's assets as disclosed in the statement of financial position. The amendment to IFRS 13 clarified that short-term receivables and liabilities may not be subject to discounting if the effect of not discounting is immaterial. The amendments to IAS 16 and 38 provide clarification on the restatement of accumulated depreciation in case of a revaluation of assets. The amendment to IAS 24 broadens the definition of "related parties" to include entities (and group companies of such entities) providing key management personnel services to the reporting entity, without any other form of close relationship being in place between the two companies within the meaning of IAS 24 (so-called "management entities").

IFRS 11 Accounting for Acquisitions of Interests 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 und IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments include guidance for determining an acceptable method of depreciation and amortisation. The amendments clarify 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 und 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 in the same way as 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.

Annual Improvements Cycle 2012-2014

The Annual Improvements Cycle 2012-2014 resulted in a collection of clarifications and minor amendments to different standards. The amendments to IFRS 5 include guidance for cases in which an entity reclassifies an asset directly from "held for sale" to "held for distribution to owners". The presentation and measurement requirements as described in IFRS 5 still apply after direct reclassification. A further amendment concerns IFRS 7, clarifying in which cases servicing contracts – where the selling entity retains any of the contractual rights or obligations inherent in the transferred financial asset – form the basis for continuing involvement within the meaning of IFRS 7. The amendments also specify that there is no explicit disclosure requirement regarding the offsetting of financial assets and liabilities in condensed interim financial statements. The amendment to IAS 19 relates to the interest rate used for discounting defined benefit pension obligations. The amendment clarifies that the depth of the market for high quality corporate bonds should be assessed "at currency level", i.e. corporate bonds from the entire euro zone should be taken into account for assessments relating to the euro zone. The amendment to IAS 34 affects disclosures "elsewhere in the interim report". Such information may be provided directly in the respective interim report, or in other documents, which shall always be subject to a cross-reference provided in the interim report.

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 und 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.

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

In the reporting period, the following financial reporting standards (IASs/IFRSs) to be applied in future financial years were published by the International Accounting Standards Board (IASB) or endorsed by the EU Commission:

New International Financial Reporting Standards		Issued	Endorsed	Effective date
IFRS 16	Leases	January 2016		Financial years beginning on or after 1 January 2019

Revised International Financial Reporting Standards		Issued	Endorsed	Effective date
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	January 2016		Financial years beginning on or after 1 January 2017
IAS 7	Disclosure Initiative	January 2016		Financial years beginning on or after 1 January 2017
IFRS 15	Revenue from Contracts with Customers	April 2016		Financial years beginning on or after 1 January 2018
IFRS 2	Classification and Measurement of Share-based Payment Transactions	June 2016		Financial years beginning on or after 1 January 2018
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016		First-time application, depending upon the first-time application of IFRS 9

IFRS 16: Leases
The new financial reporting standard IFRS 16, regarding lease accounting, will replace IAS 17 as well as the related interpretations IFRIC 4, SIC 15 and SIC 7. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise (in the statement of financial position) any leases and the related contractual rights and obligations with a term of more than twelve months, unless the underlying asset is of low value. The lessee recognises a right-of-use asset (representing its right to use the underlying leased asset) and also a lease liability (representing its obligation to make lease payments). Similar to the previous rules set out in IAS 17, the lessor continues to classify its leases as finance or operating leases. The criteria for classification under IFRS 16 equal those of IAS 17. In addition, IFRS 16 sets outs a number of further rules for presentation, disclosures in the Notes and sale-and-lease-back transactions.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
The amendment to IAS 12 clarifies that an impairment of a debt instrument measured at fair value, resulting from changes in market interest rates, leads to deductible temporary differences. The IASB also clarifies that an entity has to assess – for all of its deductible temporary differences – whether taxable profits are expected to be available in future, in order to utilise and recognise these. Only if and to the extent that tax laws make a distinction between different types of taxable profits, these different types have to be assessed separately. Moreover, IAS 12 introduces rules and examples which clarify how future taxable income has to be determined for the recognition of deferred tax assets.

Amendments to IAS 7: Disclosure Initiative
Within the scope of the disclosure initiative, amendments to IAS 7 Statement of Cash Flows were issued. The objective is to improve information about changes in an entity's liabilities. In future, an entity has to provide disclosures about the changes in financial liabilities whose cash receipts and cash payments are reported in the statement of cash flows as cash flows from financing activities. The related financial assets also have to be disclosed (e.g. assets from hedging transactions). The IASB suggests presenting the disclosures in the form of a reconciliation between the opening and closing balances in the statement of financial position, but also permits other forms of presentations.

Clarifications to IFRS 15: Revenue from Contracts with Customers
In April 2016, the IASB issued the final version of the amendment standard IFRS 15. The amendment includes clarifications regarding various rules set out in IFRS 15, and also simplifications concerning the transition to the new standard. The clarifications refer to the identification of the service obligations from a contract, the assessment as to whether a company acts as principal or agent of a transaction, and the assessment as to whether revenue from a licence granted has to be recognised either as at a particular reporting date or during a specific period. The simplifications refer to options regarding the presentation of contracts that are either completed at the beginning of the earliest period presented, or which were modified prior to the beginning of the earliest period presented. This is to reduce the complexity and costs of the transition to the new standard.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
In June 2016, the IASB issued amendments to IFRS 2 that clarify classification and measurement of share-based payment transactions. The amendments relate to the following areas: (i) accounting for cash-settled share-based payment transactions that include a performance condition, (ii) the classification of share-based payment transactions with a settlement feature for withholding tax obligations and (iii) accounting for modifications of share-based payment transactions that change the classification from "cash-settled" to "equity-settled".

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
In September 2016, the IASB issued amendments to IFRS 4. The amendments refer to the first-time application of IFRS 9 by insurers. Due to different effective dates for IFRS 9 and the new standard for insurance contracts, without these amendments results will be more volatile for a transitional period; in addition, conversion efforts will be doubled.

Aareal Bank Group did not opt for early application of these standards, 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.

Notes to the Statement of Comprehensive Income

(1) Net interest income

€ mn	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015
Interest income from		
Property loans	571	659
Public-sector loans	6	10
Other lending and money market operations	40	46
Debt securities and other fixed-income securities	22	44
Current dividend income	0	0
Total interest income	**639**	**759**
Interest expenses for		
Bonds issued	26	55
Registered mortgage bonds	9	18
Promissory note loans	32	46
Subordinated capital	23	26
Money market transactions	16	26
Other interest expenses	1	5
Total interest expenses	**107**	**176**
Total	**532**	**583**

Net interest income totalled € 532 million, an expected reduction from the previous year (€ 583 million). This is largely attributable to lower effects from early loan repayments and the planned reduction of non-strategic portfolios. It was also burdened by a lack of attractive investment opportunities for our liquidity stock, due to the persistent low interest rate environment.

Interest income includes expenses of € 9 million from cash investments as well as money market and securities repurchase transactions; interest expenses include income in the amount of € 3 million from money market and securities repurchase transactions.

(2) Allowance for credit losses

€ mn	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015
Additions	94	161
Reversals	27	68
Direct write-offs	14	1
Recoveries on loans and advances previously written off	17	8
Total	**64**	**86**

Allowance for credit losses amounted to € 64 million (9m 2015: € 86 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses contributed € 59 million, while net additions to portfolio-based allowance for credit losses amounted to € 11 million. Please also refer to our explanations in Note (11).

(3) Net commission income

€ mn	1 Jan - 30 Sep 2016	1 Jan -30 Sep 2015
Commission income from		
Consulting and other services	150	131
Trustee loans and administered loans	1	1
Securities transactions	–	–
Other lending and money market operations	6	7
Other commission income	7	6
Total commission income	**164**	**145**
Commission expenses for		
Consulting and other services	22	16
Securities transactions	1	1
Other lending and money market transactions	1	1
Other commission expenses	3	4
Total commission expenses	**27**	**22**
Total	**137**	**123**

Net commission income increased to € 137 million (9m 2015: € 123 million), which was mainly due to higher sales revenue at Aareon.

(4) Net result on hedge accounting

€ mn	1 Jan - 30 Sep 2016	1 Jan -30 Sep 2015
Ineffective portion of fair value hedges	2	4
Ineffective portion of cash flow hedges	2	1
Ineffective portion of net investment hedges	–	0
Total	**4**	**5**

(5) Net trading income/expenses

€ mn	1 Jan - 30 Sep 2016	1 Jan -30 Sep 2015
Net income/expenses from positions held for trading	17	16
Currency translation	4	-8
Total	**21**	**8**

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

(6) Results from non-trading assets

€ mn	1 Jan - 30 Sep 2016	1 Jan -30 Sep 2015
Result from debt securities and other fixed-income securities	5	-15
of which: Loans and receivables (LaR)	5	-7
Held to maturity (HtM)	–	-5
Available for sale (AfS)	0	-3
Result from equities and other non-fixed income securities	0	0
of which: Available for sale (AfS)	0	0
Designated as at fair value through profit or loss (dFVtPL)	0	0
Results from equity investments (AfS)	61	0
Total	**66**	**-15**

The net result from non-trading assets amounted to € 66 million (9m 2015: € -15 million), of which an amount of € 61 million was due to the disposal of all shares in Aareal Bank's wholly-owned subsidiary, Aqvatrium AB, as announced on 8 December 2015. Aqvatrium AB is the owner of a commercial property located in Stockholm. Moreover, the sale of the remaining asset-backed securities (ABS) yielded realised profits of € 5 million.

(7) Administrative expenses

€ mn	1 Jan - 30 Sep 2016	1 Jan -30 Sep 2015
Staff expenses	246	236
Other administrative expenses	155	164
Depreciation, amortisation and impairment of property and equipment and intangible assets	16	15
Total	**417**	**415**

(8) Net other operating income/expenses

€ mn	1 Jan - 30 Sep 2016	1 Jan -30 Sep 2015
Income from properties	30	37
Income from the reversal of provisions	1	13
Income from goods and services	1	2
Miscellaneous	14	26
Total other operating income	**46**	**78**
Expenses for properties	29	34
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	3	8
Miscellaneous	12	11
Total other operating expenses	**44**	**53**
Total	**2**	**25**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	30 Sep 2016	31 Dec 2015
Money market receivables	1,468	1,509
Promissory note loans	119	192
Securities repurchase agreements	–	150
Other loans and advances	54	42
Total	**1,641**	**1,893**

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

(10) Loans and advances to customers

€ mn	30 Sep 2016	31 Dec 2015
Property loans[1]	26,783	29,344
Promissory note loans	1,503	1,457
Other loans and advances	3,738	3,765
Total	**32,024**	**34,566**

[1] Excluding € 1.2 billion in private client business (31 December 2015: € 1.5 billion) and € 0.7 billion in local authority lending business by WestImmo (31 December 2015: € 0.6 billion)

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

(11) Allowance for credit losses

30 September 2016

€ 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	**412**	**116**	**528**	**14**	**542**
Additions	83	11	**94**	–	**94**
Write-downs	11	–	**11**	–	**11**
Reversals	24	–	**24**	3	**27**

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€ 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
Unwinding	23	–	**23**	–	**23**
Changes in basis of consolidation	–	–	**–**	–	**–**
Currency adjustments	-1	0	**-1**	0	**-1**
Balance as at 30 September	**436**	**127**	**563**	**11**	**574**

30. September 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	161	–	**161**	–	**161**
Write-downs	12	–	**12**	–	**12**
Reversals	11	56	**67**	1	**68**
Unwinding	15	–	**15**	–	**15**
Changes in basis of consolidation[1]	–	19	**19**	–	**19**
Currency adjustments	-3	0	**-3**	0	**-3**
Balance as at 30 September	**453**	**110**	**563**	**17**	**580**

[1] Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

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

(12) Trading assets

€ mn	30 Sep 2016	31 Dec 2015
Positive market value of trading assets	636	638
Total	**636**	**638**

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

(13) Non-trading assets

€ mn	30 Sep 2016	31 Dec 2015
Debt securities and other fixed-income securities	10,012	10,499
of which: Loans and receivables (LaR)	3,387	3,630
Held to maturity (HtM)	620	604
Available for sale (AfS)	6,005	6,265
Equities and other non-fixed income securities	4	7
of which: Available for sale (AfS)	4	7
Designated as at fair value through profit or loss (dFVtPL)	–	–
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	1	1
Total	**10,017**	**10,507**

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

(14) Intangible assets

€ mn	30 Sep 2016	31 Dec 2015
Goodwill	74	75
Proprietary software	21	19
Other intangible assets	26	32
Total	**121**	**126**

(15) Property and equipment

€ mn	30 Sep 2016	31 Dec 2015
Land and buildings and construction in progress	244	245
Office furniture and equipment	22	22
Total	**266**	**267**

(16) Other assets

€ mn	30 Sep 2016	31 Dec 2015
Properties	223	263
Trade receivables (LaR)	47	42
Miscellaneous	128	134
Total	**398**	**439**

The changes in property largely results from the disposal of all of the shares held in the wholly-owned Group company Aqvatrium, which is the owner of a commercial property in Stockholm, and the addition of Aareal Holding Realty, which is the owner of three commercial properties in the USA.

(17) Liabilities to banks

€ mn	30 Sep 2016	31 Dec 2015
Money market liabilities	1,322	925
Promissory note loans	364	414
Registered mortgage Pfandbriefe	491	457
Registered public-sector Pfandbriefe	21	51
Other liabilities	105	51
Total	**2,303**	**1,898**

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

(18) Liabilities to customers

€ mn	30 Sep 2016	31 Dec 2015
Money market liabilities	14,011	13,179
Promissory note loans	6,778	7,038
Registered mortgage Pfandbriefe	6,395	6,852
Registered public-sector Pfandbriefe	3,063	3,291
Total	**30,247**	**30,360**

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

(19) Certificated liabilities

€ mn	30 Sep 2016	31 Dec 2015
Bearer mortgage Pfandbriefe	6,543	8,529
Bearer public-sector Pfandbriefe	45	71
Other debt securities	2,446	2,219
Total	**9,034**	**10,819**

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

(20) Trading liabilities

€ mn	30 Sep 2016	31 Dec 2015
Negative market value of trading assets	584	663
Total	**584**	**663**

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

(21) Provisions

€ mn	30 Sep 2016	31 Dec 2015
Provisions for pensions and similar obligations	418	333
Other provisions and contingent liabilities	421	450
Total	**839**	**783**

The change in provisions for pensions and similar obligations was largely attributable to a changed discount rate and the resulting revaluation of the amount of obligations. The change is recognised directly in Other Comprehensive Income, under Changes in the reserve from defined benefit plans.

(22) Other liabilities

€ mn	30 Sep 2016	31 Dec 2015
Liabilities from outstanding invoices	10	12
Deferred income	20	14
Liabilities from other taxes	13	18
Trade payables (LaC)	11	16
Other liabilities (LaC)	116	54
Total	**170**	**114**

(23) Subordinated capital

€ mn	30 Sep 2016	31 Dec 2015
Subordinated liabilities	1,174	1,164
Profit-participation certificates	50	53
Contributions by silent partners	193	194
Total	**1,417**	**1,411**

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

(24) Equity

€ mn	30 Sep 2016	31 Dec 2015
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,696	1,633
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-136	-80
Revaluation reserve	36	28
Hedging reserves	24	13
Currency translation reserves	1	7
Non-controlling interests	242	242
Total	**3,064**	**3,044**

(25) Treasury shares

No treasury shares were held during the period under review.

(26) Distributions

The Annual General Meeting of Aareal Bank AG on 25 May 2016 resolved to pay a dividend of € 1.65 per no-par value share, totalling € 98,764,414.65, from net retained profit (Bilanzgewinn) of € 99,264,414.65 as reported under the German Commercial Code (HGB) for the financial year 2015.

In accordance with the terms and conditions of the bond, the Management Board resolved to make a distribution on the AT1 bond, effective 30 April 2016.

Within Aareal Bank Group's consolidated statement of financial position, a dividend payment and a distribution on the AT1 bond reduce the retained earnings item within consolidated equity.

Notes to the Financial Instruments

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

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

30 September 2016

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,970**	**–**	**2,970**	**–**
Assets held for trading	**636**	**–**	**636**	**–**
Trading derivatives	636	–	636	–
Non-trading assets available for sale	**6,009**	**5,979**	**30**	**–**
Fixed-income securities	6,005	5,975	30	–
Equities/funds	4	4	0	–
Negative market value of derivative hedging instruments	**2,772**	**–**	**2,772**	**–**
Liabilities held for trading	**584**	**–**	**584**	**–**
Trading derivatives	584	––	584	–

31 December 2015

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,498**	**–**	**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	–

The fair value of financial instruments 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. The determination of the fair value is based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Another factor to be taken into account is whether Aareal Bank can enter into a transaction for the relevant asset or liability at the price in that market at the measurement date.

Fair values determined using inputs other than quoted prices included within Level 1 that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of the fair value hierarchy. Financial instruments whose fair value is allocated to Level 2 of the fair value hierarchy are measured using various valuation techniques.

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

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

In the first nine months of 2016, there were no material transfers between the hierarchy levels for the various financial instruments.

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

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

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

€ mn	Carrying amount 30 Sep 2016	Fair value 30 Sep 2016	Carrying amount 31 Dec 2015	Fair value 31 Dec 2015
Cash on hand and balances with central banks (LaR)	2,763	2,763	1,282	1,282
Loans and advances to banks (LaR)	1,641	1,645	1,893	1,896
Loans and advances to customers (LaR)	31,461	33,596	34,038	36,156
Non-trading assets (LaR)	3,387	3,288	3,630	3,586
Other assets (LaR)	102	102	93	92
Total loans and receivables	**39,354**	**41,394**	**40,936**	**43,012**
Non-trading assets held to maturity	**620**	**624**	**604**	**606**
Non-trading assets available for sale	**6,009**	**6,011**	**6,272**	**6,272**
Positive market value of derivative hedging instruments	**2,970**	**2,970**	**2,498**	**2,498**
Assets held for trading	**636**	**636**	**638**	**638**
Liabilities to banks (LaC)	2,303	2,322	1,898	1,912
Liabilities to customers (LaC)	30,247	30,329	30,360	30,335
Certificated liabilities (LaC)	9,034	9,073	10,819	10,870
Other liabilities (LaC)	136	134	82	82
Subordinated capital (LaC)	1,417	1,460	1,411	1,441
Total liabilities measured at amortised cost	**43,137**	**43,318**	**44,570**	**44,640**
Negative market value of derivative hedging instruments	**2,772**	**2,772**	**2,720**	**2,720**
Liabilities held for trading	**584**	**584**	**663**	**663**

(29) Day-one profit or loss

Aareal Bank Group has entered into transactions that were not effected on the principal market (or the most advantageous market) for the asset or liability concerned. In these cases, the transaction price does not correspond to the fair value of the asset or liability, because determination of 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 period 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	2016	2015
Balance as at 1 January	**27**	**42**
Additions from new transactions	0	2
Reversals through profit or loss in the period	12	13
Changes in basis of consolidation	–	4
Balance as at 30 September	**15**	**35**

(30) Reclassification of financial assets

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

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

€ mn	Carrying amount 30 Sep 2016	Fair value 30 Sep 2016	Carrying amount 31 Dec 2015	Fair value 31 Dec 2015
from AfS to LaR	**3,179**	**3,071**	**3,262**	**3,202**
Asset-backed securities	–	–	27	27
Senior unsecured bank bonds	46	47	138	140
Covered bank bonds	239	242	298	304
Public-sector issuers	2,894	2,782	2,799	2,731
from HfT to LaR	**–**	**–**	**85**	**91**
Asset-backed securities	–	–	85	91
Total	**3,179**	**3,071**	**3,347**	**3,293**

If the Bank had not opted for reclassification, this would have resulted in a € -6 million profit/loss (before taxes) for the first nine months of the current financial year (9m 2015: loss of € 1 million), and € -41 million (after taxes) (9m 2015: € 71 million) would have been recognised in the revaluation surplus.

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

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

Bond portfolio as at 30 September 2016

	Carrying amount			Revaluation surplus [1]			Unrealised gains/losses [1]
	LaR + HtM	AfS	Total	LaR	AfS	Total	
€ mn							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,321	322	1,643	-37	19	-18	-66
Portugal	68	110	178	0	0	0	-8
Spain	551	53	604	0	4	4	-10
Total	**1,940**	**485**	**2,425**	**-37**	**23**	**-14**	**-84**
Total as at 31 Dec 2015	1,884	579	2,463	-43	33	-10	-50

[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 € 485 million (31 December 2015: € 579 million) were allocated to Level 1 of the fair value hierarchy, and measured based on quoted prices on active markets.

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

Property financing portfolio as at 30 September 2016

	Carrying amount[1]	Average LTV[2]	of which: subject to specific valuation allowances
	€ mn	%	€ mn
Greece	–		–
Ireland	–		–
Italy	3,179	73.3	832
Portugal	–		–
Spain	1,074	60.8	109
Total	**4,253**		**941**
Total as at 31 Dec 2015	4,335		924

[1] Not including valuation allowances; [2] Property financings not subject to individual impairment

Other Notes

(32) Contingent liabilities and loan commitments

€ mn	30 Sep 2016	31 Dec 2015
Contingent liabilities	152	162
Loan commitments	1,467	1,227
of which: irrevocable	1,048	797

(33) Employees

The number of Aareal Bank Group employees[1] as at 30 September 2016 is shown below:

	30 Sep 2016	31 Dec 2015
Salaried employees	2,647	2,695
Executives	171	166
Total	**2,818**	**2,861**
of which: Part-time employees	521	514

The average number of Aareal Bank Group employees in 2016[2] is shown below:

	1 Jan-30 Sep 2016	1 Ja-31 Dec 2015
Salaried employees	2,654	2,557
Executives	164	162
Total	**2,818**	**2,719**
of which: Part-time employees	518	487

[1] This number does not include 211 employees of the hotel business La Sessola Service S.r.l. (31 December 2015: 41 employees).
[2] This number does not include 189 employees of the hotel business La Sessola Service S.r.l. (31 December 2015: 132 employees).

(34) Related party disclosures in accordance with IAS 24

In the first nine months of the 2016 financial year, there were no material transactions with related parties that would have to be reported here.

(35) Events after the interim reporting period

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. Meanwhile, the Federal Supreme Court rejected this appeal. Given the impending conclusion of the legal disputes, material provisions and claims for damages which were recognised at Group level upon acquisition are expected to be reversed during the fourth quarter of 2016. Taking tax effects into account, the impact on Aareal Bank's results is deemed immaterial overall.

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

Executive Bodies of Aareal Bank AG

Supervisory Board

Marija Korsch [1) 2) 3) 4) 5) 6)]
Chairman of the Supervisory Board
Former partner of Bankhaus Metzler seel. Sohn & Co. Holding AG

Prof. Dr Stephan Schüller [1) 2) 3)]
Deputy Chairman of the Supervisory Board
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President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder

Dr Hans-Werner Rhein [1) 4) 5)]
German Lawyer (Rechtsanwalt)

Sylvia Seignette [4) 5)]
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Elisabeth Stheeman [4) 5) 6)]
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Chairman of the Audit Committee
German Chartered Accountant, Tax Consultant

Beate Wollmann [7)]
Aareon Deutschland GmbH

Management Board

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Chairman of the Management Board

Dagmar Knopek
Member of the Management Board

Christiane Kunisch-Wolff (since 15 March 2016)
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

Christof Winkelmann (since 1 July 2016)
Member of the Management Board

1) Member of the Executive and Nomination Committee; 2) Member of the Remuneration Control Committee; 3) Member of the Audit Committee;
4) Member of the Risk Committee; 5) Member of the Committee for Urgent Decisions; 6) Member of the Technology and Innovation Committee;
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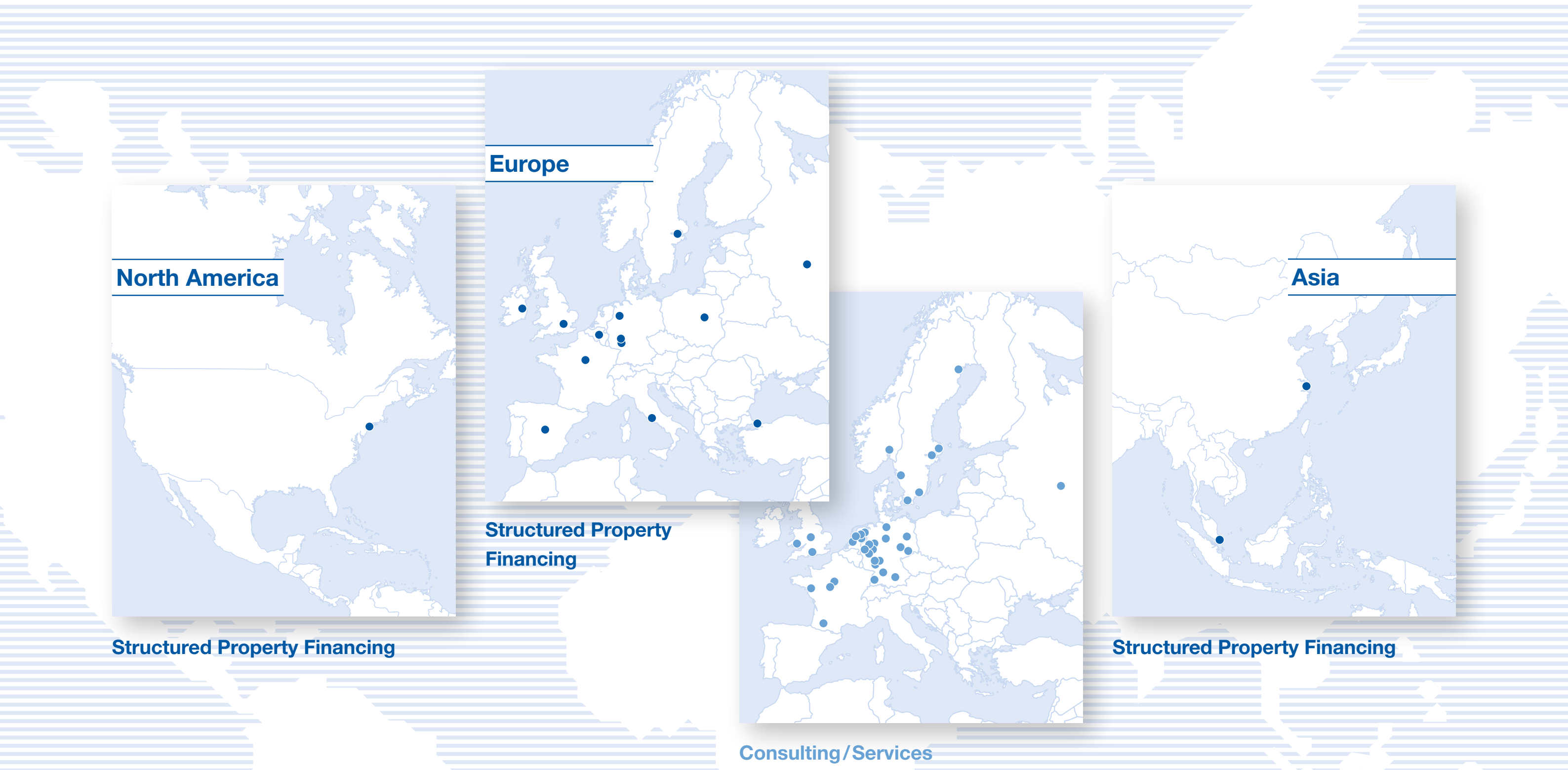
Financial Calendar

23 February 2017	Presentation of preliminary results for the 2016 financial year
30 March 2017	Presentation of annual report as at 31 December 2016
11 May 2017	Publication of results as at 31 March 2017
31 May 2017	Annual General Meeting – Kurhaus, Wiesbaden
10 August 2017	Publication of results as at 30 June 2017
14 November 2017	Publication of results as at 30 September 2017

Locations



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