WE CREATE THE SPACE FOR SUCCESS

Annual Report 2013

Aareal Bank Group

WE ARE THE SPECIALISTS FOR THE COMMERCIAL PROPERTY SECTOR

Aareal Bank Group, headquartered in Wiesbaden, is a leading international property specialist. We have been offering financing, advice and other services to the housing industry and the commercial property sector – for as long as nine decades. We support our clients in Germany, and in more than 20 different countries across three continents, as a financing partner and service provider. Aareal Bank has built a reputation on the capital markets as an active and reliable issuer of Pfandbriefe (German covered bonds), promissory notes and debt securities.

OUR BUSINESS IS FOUNDED ON TWO PILLARS:

In the Structured Property Financing segment, we finance commercial property – in particular, office buildings, hotels, shopping centres as well as logistics properties and residential property – in Germany, Europe, North America and Asia. We focus on financing existing buildings. Our particular strength lies in the success we have in combining local market expertise and sector-specific know-how. In the Consulting/Services segment, we offer specialised banking services to housing and commercial property management sector customers in our core market of Germany. Through Aareon AG, the leading consultancy and systems house to the property management sector, we offer IT consulting, software and IT services in several European countries.

3
continents on which we are active

2,400
employees from over 30 different countries

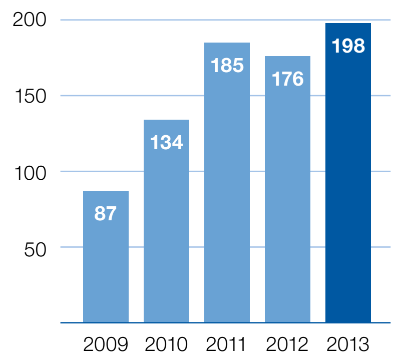
10 mn
residential units managed by Aareon AG

€ 7.2 bn
in deposits from the housing industry

€ 24.7 bn
in property financing under management

€ 43 bn
total assets

Consolidated operating profit
(€ mn)



Ratings

	2013	2012
Fitch Ratings, London		
long-term	A-	A-
short-term	F1	F1
Fitch Pfandbrief ratings	AAA	AAA
CDP	81 B	67 D
Sustainalytics	57	57
EIRIS/imug	Participation	Participation

WE CREATE THE SPACE FOR SUCCESS

”Success is simple: just do it!“ – as Johann Wolfgang von Goethe put it succinctly. Hence, anyone wishing to be successful needs the space to get things done – in terms of financing and time, but also the necessary room for manoeuvre.

As an international property specialist, we provide property investors on three continents with the financial scope they need to realise their investment projects. We offer our clients the flexibility they need in terms of timing – for instance, because as a mid-sized company we are able to quickly realise a tailor-made property financing. To give another example, our clients have the time to concentrate on what is essential to them: they can focus on their core business, thanks to the efficient processes for managing residential and commercial property we provide as a long-standing partner to the housing industry and the commercial property management sector.

Not least, we provide our staff with the necessary room for manoeuvre, allowing them to bring out the best of their extensive expertise in our Company, and to create real value for our clients – for more than 90 years.

Aareal Bank Group
Trusted since 90 years

We create the space for success

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Aareal Bank Group – Key Financial Indicators

(in accordance with IFRSs)

	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012	Change	
	€ mn	€ mn	€ mn	
Income statement				
Operating profit	198	176	22	
Consolidated profit	93	85	8	
Indicators				
Cost/income ratio (%)[1]	38.5	40.9		
Earnings per share in (€)	1.95	1.75		
RoE before taxes (%)	8.0	7.2		
RoE after taxes (%)	5.2	4.8		

	31 Dec 2013	31 Dec 2012	Change	
	€ mn	€ mn	€ mn	%
Portfolio data				
Property finance	24,550	23,304	1,246	5
of which: international	20,802	19,991	811	4
Property finance under management[2]	24,707	23,496	1,211	5
of which: international	20,802	19,991	811	4
Equity[3]	2,450	2,317	133	6
Total assets[3]	42,981	45,750	-2,769	-6
Regulatory indicators[4]				
Core tier 1 ratio pursuant to AIRBA[5] (Basis: IAS/IFRS, Basel II) in %	15.0			
Tier 1 ratio pursuant to AIRBA[5] (Basis: IAS/IFRS, Basel II) in %	20.8			
Total capital ratio pursuant to AIRBA[5] (Basis: IAS/IFRS, Basel II) in %	24.5			

[1] Structured Property Financing segment only.
[2] The figures for property finance under management include property loans managed on behalf of Deutsche Pfandbriefbank AG.
[3] Comparative figures for 2012 were adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.
[4] After confirmation of Aareal Bank AG's financial statements for 2013. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2013 is subject to approval by the Annual General Meeting.
[5] Advanced Internal Ratings Based Approach.

3
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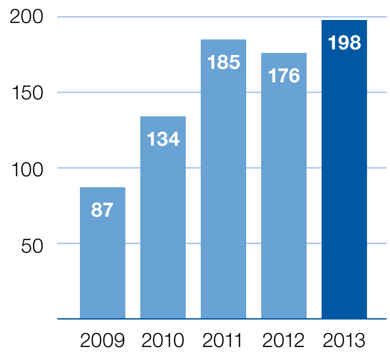

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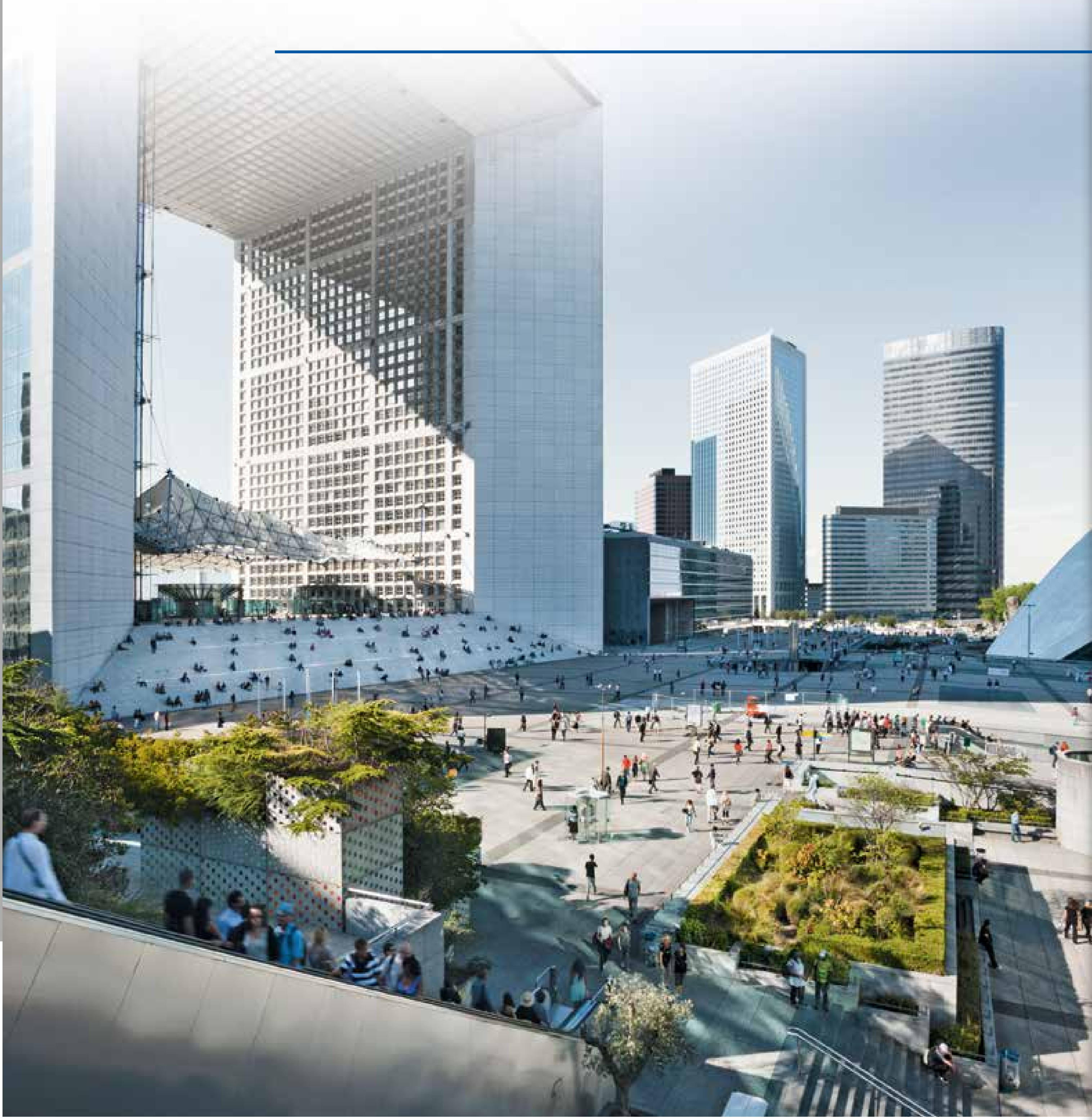
WHAT WE DO



WE GIVE OUR CLIENTS THE FLEXIBILITY TO MAKE STRATEGIC DECISIONS

Aareal Bank Group

To our Shareholders
Group Management Report
Consolidated Financial Statements
Transparency

As a bank and systems house, we are a partner to the property management sector

Structured Property Financing


Office buildings


Hotels


Retail properties

Logistics properties

- Tailor-made commercial property financing – with a special focus on office buildings, hotels, retail, logistics and residential properties
- Specialist expertise in the hotel, logistics and retail sectors
- Market expertise and locations across three continents
- Active issuer of Pfandbriefe and debt securities

Consulting / Services

Comprehensive IT support continuously enhances tenant services

Digitalisation of the housing industry gives tenants, staff and business partners new flexibility

Automated processes offer a maximum of security and help to reduce administrative costs

Linking of cross-industry systems enhances efficiency

- Provider of IT solutions to the property management sector
- Consulting, software and services to optimise and automate business processes
- Preferred banking partner to the housing sector
- Automated mass payments processing for the housing industry

Structured Property Financing

We offer tailor-made financing for commercial properties in Europe, North America and Asia.

Growing need for modern and future-proof commercial properties. Aareal Bank's activities in the Structured Property Financing segment mean it is active in a market that promises long-term success. Growing populations, longer lifetime working hours and growing urbanisation are stimulating global demand for more housing and commercial property designed specifically to fit the way we live and work today.

A successful combination. Aareal Bank focuses on the financing of existing properties with attractive risk/return profiles – in particular, office buildings, hotels, shopping centres as well as logistics and residential properties. Our particular strength lies in the combination of local market expertise and sector-specific know-how. Our market specialists in the Structured Property Financing segment are active on three continents; they have a solid track record in assessing and valuing the location and quality of a property. Moreover, their success in financing hotels, logistics properties and shopping centers relies, in particular, on sector-specific know-how. Our experts at the head office in Wiesbaden, Germany, has the right customer segmentation and whether the management concept has the potential to be successful; whether a warehouse's flexible interior fittings make it easy to rent, or why a tenant mix in a shopping centre in Essen must differ from one in Shanghai.

Tailor-made loan structures. Just as our approach to properties and portfolios is context-specific, we provide individual solutions when it comes to financing them. The role we play is oriented towards our client's needs. Generally, we act as the sole lender in transactions. In other cases, we arrange and structure the loan according to our client's requirements, or assemble a syndicate to collectively extend the loan. As agent, we manage the loan and support our partners throughout the loan term.

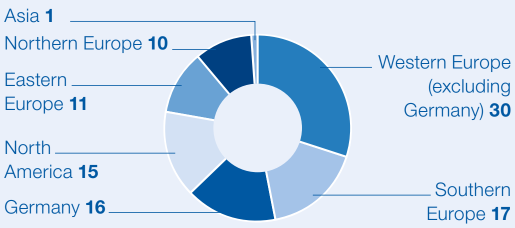
Balanced funding mix. The main sources of funding for our lending business are German Pfandbriefe, unsecured bank bonds – and our deposit-taking business, which we generate predominantly through our housing industry services. Therefore, we do not have to run a cost-intensive branch network.

Aareal Bank Group

Structured Property Financing segment

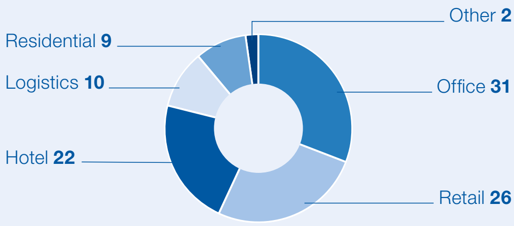
Property financing volumes under management across three continents (%)

€ 24.7 billion (31 Dec 2013)



Broadly diversified property financing portfolio under management (%)

€ 24.7 billion (31 Dec 2013)



Local expertise

- Detailed knowledge of local markets, languages and cultures
- Long-standing local contacts
- On-the-ground presence across three continents

Specialist sector know-how

- Hotel
- Logistics
- Retail

Tailor-made property financings

Offices, hotels, logistics and retail properties, residential property in selected markets

Activities in more than 20 countries

29 sector experts

Consulting / Services

As the preferred banking partner and market-leading IT systems house for the housing industry and the commercial property sector, we have over 50 years of banking expertise to draw upon.

Specialised banking services for the German housing sector. When a company manages more than 1,000 residential units, correctly posting rental income is no small matter. Our market-leading mass payment processing system BK 01 makes life a lot easier for housing companies, cooperatives and other commercial property providers. It handles payments and accounting, integrating both into the clients' IT environment and ERP processes. Our customers manage more than 7 million residential units, settling rents, ancillary costs and deposits through their accounts with us. Annual transaction volumes exceed 100 million postings; aggregate deposits taken averaged € 7.2 billion during the 2013 financial year.

Moreover, companies from the utilities and waste disposal industry use our software solutions to optimise processes, and also to increase customer loyalty, particularly with their housing industry customers. Just like the housing industry, these sectors have a lot of postings to assign.

Europe's biggest IT experts for the property sector. The origins of our IT systems house, Aareon AG, date back to 1957. That was when our predecessor bank established Germany's first banking data centre. Since that time, Aareon has become Europe's leading consultancy and systems house for the property management sector, with 27 locations in Germany, France, the UK, the Netherlands, Norway and Sweden. With our forward-looking portfolio of consulting, software and services, Aareon supports property management companies in optimising and automating their business processes. Streamlined process flows, greater transparency, reduced errors and the creation of new processes have produced several benefits. Tenant service, already fast and dependable, has gotten even better. The quality of the processes can continue to be improved overall, so that managing the rental units becomes more efficient and cost-effective. In addition, integrated IT solutions connect housing industry companies to their tenants, customers and business partners.

Aareal Bank Group

Segment Consulting / Consulting

Aareon Group

Aareal Bank's
Housing Unit

IT systems house
to the European property sector

Consulting, software and services to enhance the efficiency of property companies

Banking services
for the German housing industry.

Integrated mass payments system for the housing industry. All incoming and outgoing payments are transacted via Aareal Bank accounts

> 1,250 employees

> 2,800 clients **> 2,900 clients**

150 employees

€ 7.2 billion in deposits
(2013 average)

Sales revenues of € 173 million
(in 2013)

27 locations
across Europe

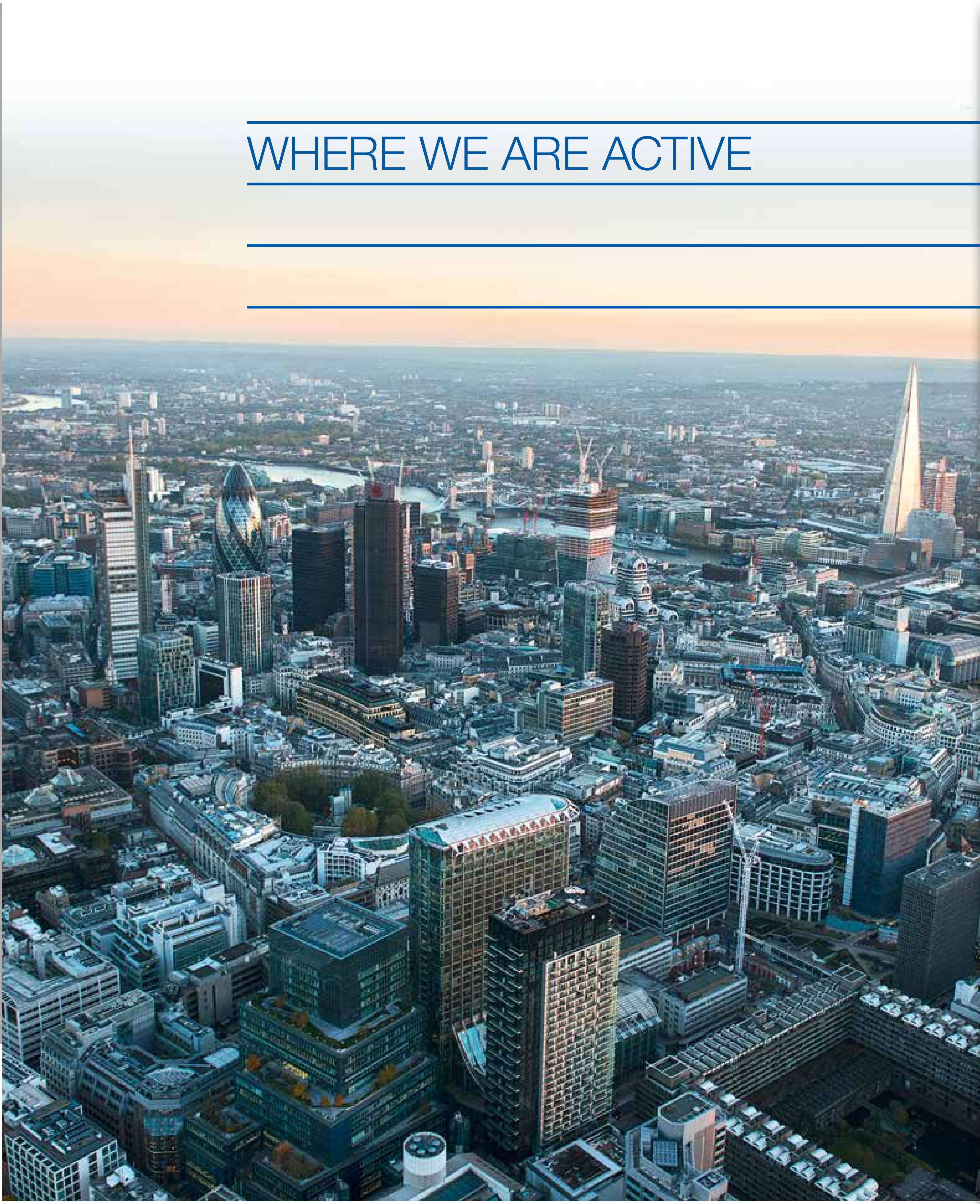
(Residential) Units managed by clients
> 10 mill. **> 7 mill.**

Rents
Rental deposits
Membership dues from cooperative members
Building management fees
100 million entries per year
Contributions by cooperative society members
Ancillary costs
Wages

WHAT WE DO

DELIVERING SOLUTIONS FOR PROPERTY NEEDS

WHERE WE ARE ACTIVE



WE ARE PRESENT INTERNATIONALLY AND CLOSE TO THE CLIENT

Financing across three continents

Around the world, we are located where we can best support our clients.

We support our clients' property projects in Europe, North America and Asia. Our concentration lies on developed markets with a favourable risk return profile. At all of their different locations, we offer our clients optimum financing solutions that are individually tailored to their needs. These financing solutions are the product of true team work: our specialists on site contribute experience in their respective local markets, whilst our experts at the head office in Wiesbaden deliver their specific sector knowledge.

We finance commercial property with a well-defined focus on prime locations. Whether it is about office buildings or residential properties: the key to success is always: location, location, location. That is why we generally concentrate on first-class properties with a solid rental situation and good transport infrastructure connections, such as office buildings or hotels in the best locations of the world's major cities and economic centres.

Short distances to the nearest port or major airport and neighbouring conurbations are important factors for logistics centres. That sort of location makes a logistics site an attractive asset to be let again and again, for the long term. In financing, we favour larger, sometimes cross-border logistics property portfolios with a diversified tenant and location profile because they are less dependent on a single location and/or tenant. When it comes to shopping centres, not only are location, surrounding market environment and proper layout important, the tenant mix is also a crucial success factor. It has to be geared towards its target consumer group, and adapted on an ongoing basis. Maintaining or increasing consumer satisfaction requires experienced and active centre management – we view this as a prerequisite for any financing.

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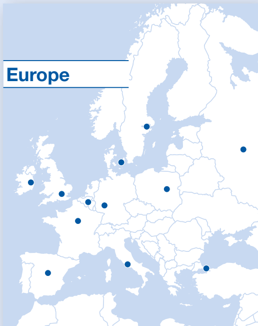
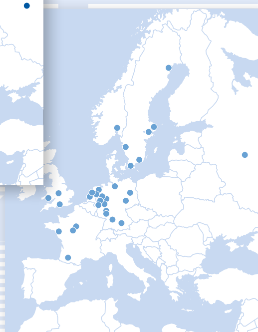
Our locations

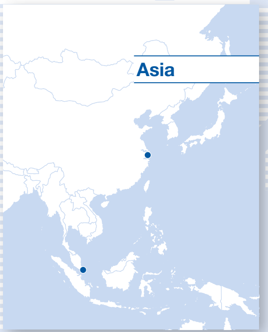
Structured Property Financing



Structured Property Financing



Consulting/Services



Structured Property Financing

Aareal Bank, Real Estate Structured Finance: Brussels, Copenhagen, Dublin, Istanbul, London, Madrid, Moscow, New York, Paris, Rome, Shanghai, Singapore, Stockholm, Warsaw, Wiesbaden | **Aareal Valuation GmbH:** Wiesbaden | **Aareal Estate AG:** Wiesbaden

Aareal Bank, Housing Unit: Berlin, Essen, Hamburg, Leipzig, Munich, Stuttgart, Wiesbaden | **Aareon AG:** Berlin, Coventry, Dortmund, Emmen, Enschede, Essen, Gorinchem, Hamburg, Hilversum, Hückelhoven, Karlskrona, Leipzig, Lund, Mainz, Meudon-la-Forêt, Mölndal, Munich, Nantes, Norrtälje, Orléans, Oslo, Piteå, Southampton, Stockholm, Stuttgart, Swansea, Toulouse | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Moscow, Munich | **Aareal First Financial Solutions AG:** Mainz

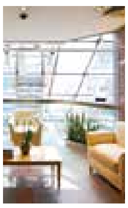
A selection of our 2013 transactions

NORTHWOOD INVESTORS

GBP 53,950,000

For the acquisition financing of the
Finsbury Dials Office Building
London, United Kingdom

Arranger, Agent and Lender

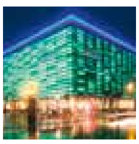
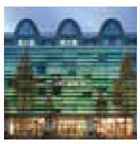



Ivanhoé Cambridge
Caisse de dépôt et placement du Québec
mfi

EUR 100,000,000

For the refinancing of the
Wilmersdorfer Arcaden Shopping Centre
Berlin, Germany

Arranger and Sole Lender

SEGRO plc
and another institutional investor

EUR 140,000,000

For the financing of a portfolio of
17 prime logistics properties
in France

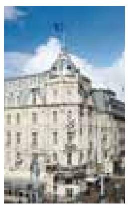
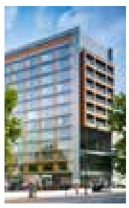
Arranger and Lender


pphe HOTEL GROUP

EUR 153,191,000
&
GBP 167,600,000

For the refinancing of a portfolio of
8 Park Plaza Hotels and 1 art'otel
in the Netherlands and the United Kingdom

Arranger and Lender

Satisfied clients throughout Europe

With innovative technological solutions, we offer the property management sector software and services that fulfil a client's needs.

International acquisitions unlock new sales markets and expand our product range. Our IT activities were formerly focused on the German market. Over the past several years, our subsidiary Aareon AG has steadily expanded internationally, opening up new sales opportunities in this way. By acquiring Sweden's rapidly-expanding Incit AB, Aareon has entered into the Scandinavian market, another major area for property management.

We leverage our international expertise to optimise national products and services – for instance, by developing solutions for the German market in international product groups, on the basis of existing products, such as Aareon France's CRM or the mobile services from our British subsidiary 1st Touch.

Gearing development to the market improves the solutions we offer. Aareon has firmly cemented its presence in the property management sector by offering a near-60-year track record, specific sector expertise, IT excellence and relationships to clients, associations and partners that have grown over many years. Aareon ensures it maintains a constructive dialogue with clients and the sector as a whole through client advisory councils, association memberships and numerous client events. The strength of this partnership is a pillar of our success; close cooperation enables us to deliver customised solutions to the industry.

We have the leading account management system in the German market. With 100 million transactions annually, we are the market leader in automated mass payment processing and the preferred banking partner of the German housing sector. Our systems aim at assigning 100 % of payments to their respective open items (for more information, please refer to the user story on the following page). Because we interweave our systems with our client's ERP systems, all day-to-day business processes involving payments run more efficiently – this now amounts to more than 90 % of all transactions in residential property management.

Other sectors have since discovered the advantages our products offer, including the utilities and waste disposal industry.

Rent payments – with added security

Many German housing companies use the BK 01 automatic payment services application offered by our Housing Unit. How it works:

Roughly 20 % of housing company Lebenswert's tenants do not pay their rent by direct debit, transferring their rent instead manually on a monthly basis. Mr Noll works in Lebenswert's Financial Accounting department and monitors incoming rent payments. Ms Sommer lives in one of the housing company's flats and realises that she still needs to transfer her rent for the month. She goes to her PC. Unfortunately, Ms Sommer is in a bit of a rush. Just as she is about to write in the transfer reference, a parcel delivery service rings at her door.

In a rush, Ms Sommer types in the wrong reference and confirms the transfer order.

Back at Lebenswert, Mr Noll notices that a payment could not be assigned.

Now Mr Noll has to investigate how to correctly assign the payment. But this takes time!

The answer: Aareal Bank's BK 01. It assigns a virtual account number to every lease agreement.

Ms Sommer transfers her rent payment to her personal virtual BK 01 account number. Entering a reference is no longer crucial. Her rent payment automatically goes to the right place in Accounting.

And Mr Noll no longer has to re-enter it, which saves him a lot of time.

The promise of global trends

We identify and take advantage of market trends.

Sustainable and high global investment volume in property markets. Just as we are at home in local markets, we are also in our element on a global level. A tremendous amount has to be invested in property internationally in order to cope with demographic change, urbanisation and structural transformation in emerging markets. We believe that a high level of modernisation is needed, which in turn means a renaissance for existing properties.

In western countries, increased lifetime working hours are fostering demand for senior-friendly workplaces. In developing countries, the transformation into an information and knowledge-based economy is bringing with it entirely different requirements with regard to how workplaces are designed. And urbanisation, which entails higher population concentrations within cities, requires housing and workplace modernisation.

A look at global trends for tailor-made financing solutions. As a bank, we have to examine these trends very closely in order to assess the impact they will have on the global property markets. Anyone investing money today in high-quality commercial property has to anticipate underlying technical and aesthetic developments over the long term. By very carefully assessing the opportunities and risks these trends carry, we are able to realise solid and customised financing solutions. Furthermore, as a medium-sized enterprise, we are well positioned to respond quickly to changes in the market and benefit from trends.

Digitalisation of the property management sector picks up speed. The trend towards digitalisation has reached the property management sector. Internet, smartphones and tablets have fundamentally changed the way people communicate. For the property management sector, digitalisation brings with it tremendous opportunities to improve customer relationship management by making processes simpler and more efficient.

The digitalisation of the property management sector means integrated processes

Digitalisation is a word on everyone's lips. At its core is the (mobile) web 2.0 – the way the internet is used as an interactive platform for communication and services. It makes it possible to securely access data and, above all, to use software across borders and devices. In a short span of time, this form of internet use has literally exploded, and is increasingly changing our lives. Intuitive interfaces and the seamless interaction between different devices, services and platforms are a key part of this development. For companies, digitalisation offers a variety of opportunities to enhance process efficiency and customer service, or even to develop new business models. In fact, Aareon has already implemented several key projects in its international business.

Ms Smith is looking for a flat on an online property site and requests a viewing via email.

The property site is connected to the housing company's IT system. All of the flats and related data are stored in the central IT system.

The housing company's agent sends a potential viewing time to Ms Smith's e-mail address. The appointment is saved directly in her smartphone.

The housing company uses a prospects management system provided by Aareon.

Ms Smith's good impression is confirmed by all the positive comments she sees on Facebook.

By using social media, the housing company can develop its brand with "likes" and user comments.

She does not like the flat at the viewing, but the agent shows her two alternatives that fit her criteria on his tablet computer,

which is connected to the housing company's central IT system in real time.

Ms Smith likes the next flat and signs a lease agreement on the agent's tablet straight away.

The lease agreement is generated by the housing company's central IT system. The data is transferred and saved seamlessly and securely.

But after a while, a tap starts to drip. Ms Smith uses an app to report the problem. The housing company greenlights the repair and the handyman contacts the tenant by text message.

Aareon has installed a portal site for tenants.

Five years later, Ms Smith moves to another city. The agent executes a mobile handover. Immediately after the handover is concluded, Ms Smith's deposit is transferred back to her.

The mobile handover process is connected to the central IT system in real time.

WHERE WE ARE ACTIVE

ACROSS THREE CONTINENTS, AT PRIME LOCATIONS AND ALWAYS CLOSE TO OUR CLIENTS

WHAT MAKES US SPECIAL

WE DELIVER COMPETITIVE ADVANTAGES TO OUR CLIENTS WITH QUALITY, SPEED AND RELIABILITY

Our strengths

We are the specialists’ specialists.

We take advantage of our focus on the property management sector to explore the industry‘s depths and search constantly for new perspectives on familiar areas. Long-standing and close relationships with our clients – that enable us to deliver tailor-made solutions – set us apart. Our staff have extensive professional and social skills, and we promote the development of these skills in a targeted manner. As a mid-sized company, we take swift decisions – yet we always act with foresight and responsibly.

> We work at speed for our customers: short decision-making channels and the reliability of a medium-sized bank give our customers planning security.
>
> **Christian Schmid, Managing Director Business Development & Syndication Management**

Our particular strength in the Structured Property Financing segment lies in the combination of local market expertise and sector-specific know-how. Whilst we act on an international level, our local presence provides us with in-depth knowledge of the culture and special features of the markets in which we are active.

> It’s an invaluable advantage for us that Aareal Bank has staff who are experts in the commercial property market where our international offices are located. Success factors vary substantially from region to region.
>
> **Jo de Clercq, Partner of Rockspring Belgium**

Moreover, the expert teams at our Wiesbaden head office command specific sector know-how. Thanks to the high level of service we provide, and our strong client proximity, we can develop tailor-made financing solutions, on an equal footing.

> Aareal Bank has the best tailor-made solutions for me, because they understand exactly what I need.
>
> **Chen Moravsky, Chief Financial Officer PPHE Hotel Group**

In the Consulting/Services segment, thanks to the constructive dialogue we have maintained with the German housing industry over decades, we have evolved into the sector's preferred banking partner. We provide input on numerous payments-related processes and on the IT-based management of property portfolios.

State-of-the-art technology at all times, with a personal touch and competent answers.

Andreas Krages, Managing Director of Rhein-Mainisches Bau-Treuhandbüro Krages & Klesse GmbH + Co. KG

Our digital solutions strengthen our clients' economic success: optimising and automating client processes create real added value, whilst linking cross-industry systems enhances efficiency. Our subsidiary Aareon AG pursues a client-oriented innovation and growth strategy. Through its enhanced international profile, Aareon is able to broaden the functional and technological basis of its product portfolio, to develop pioneering solutions for its clients.

It became clear to us pretty quickly that a solid concept and an analysis of our process landscape were decisive success factors for our CRM project.

Ulrich Bittner, Managing Director of Baugesellschaft München-Land GmbH

All of these strengths can be traced back to a core value – conducting business sustainably. It defines the scope of what we do every day, whether dealing with clients, employees, shareholders, the environment and society – or in product development. After all, we want to secure our success for the long term and conduct business that remains true to our ethical principles – doing so means we can contribute to the long-term development of the economy and society.

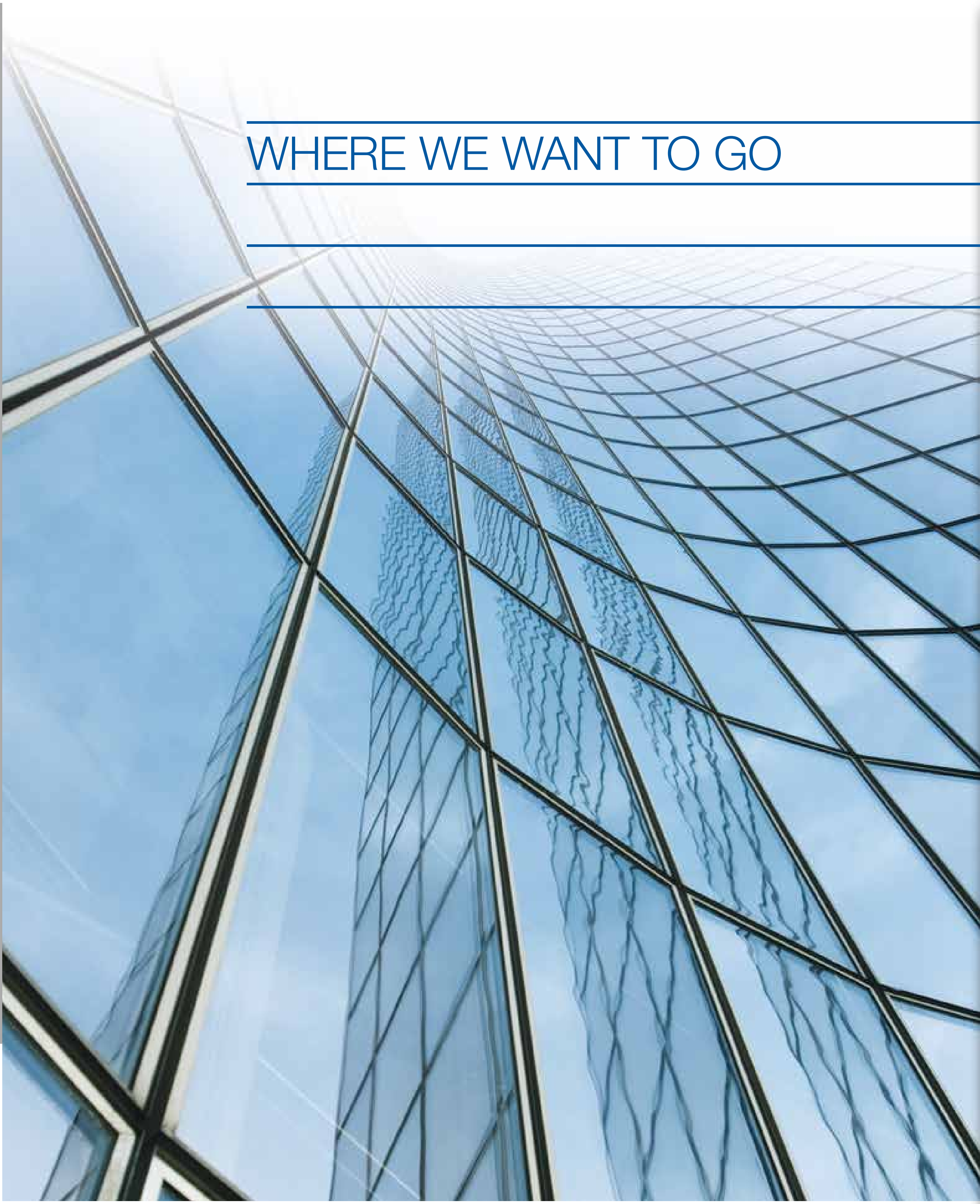
We make our business decisions by taking a long view and respecting the responsibility we have for future generations. We take into account the economic, social and ecological impact of what we do. Our stakeholders and sustainability rating agencies appreciate our efforts.

Henning Zander, Corporate Sustainability Officer

WHAT MAKES US SPECIAL

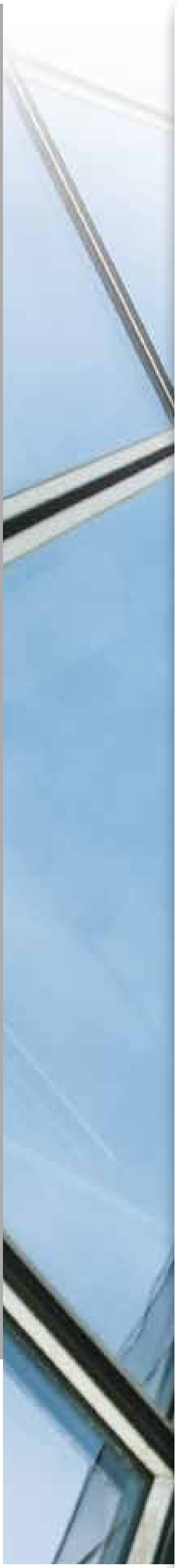
FORWARD THINKING AND RESPONSIBLE ACTIONS

WHERE WE WANT TO GO



WE WANT TO BE THE FIRST CHOICE
AMONGST THE LEADING INTERNTIONAL
PROPERTY SPECIALISTS

Aareal Bank
Group



Our perspective for 2015/16

We want to increase our profitability and to expand our market position.

1. Funding strategy: to significantly increase the share of Pfandbriefe and deposits. In future, we will focus our funding operations even more on issuing Pfandbriefe and on the deposit-taking business, so as to prevent an excessive dependence upon the capital markets. Accordingly, we are planning to gradually increase our share of funding using Pfandbriefe for our new business. This will enable us to increase the share of the cover assets pool to up to 50 % of our total assets. Client deposits are expected to average more than € 7 billion over the course of the year.

2. Continuing to progress along the chosen path in new business originated in property finance. In the Structured Property Financing segment, we will continue to progress along our chosen path: we are concentrating on high-margin exposures eligible for inclusion in the cover assets pool and with low loan-to-value ratios, and we will maintain our three-continent strategy. In this context we are focusing on markets with minimal or short-term fallout from the financial crisis and at least stable development forecast for the medium term.

In the commercial property financing business, we will in future also aim for greater cooperation with other providers – for example, with insurers, pension funds or staff pension schemes – within the scope of club deals or syndications. In the interests of our clients, doing so will provide a much larger volume of loan financings than banks would be able to offer alone.

3. To raise Aareon AG's contribution to results over the medium term. At our subsidiary Aareon, we will consistently invest in new and existing products, and will exploit further business opportunities – thus building the foundation for an increase in Aareon's contribution to results in the medium term.

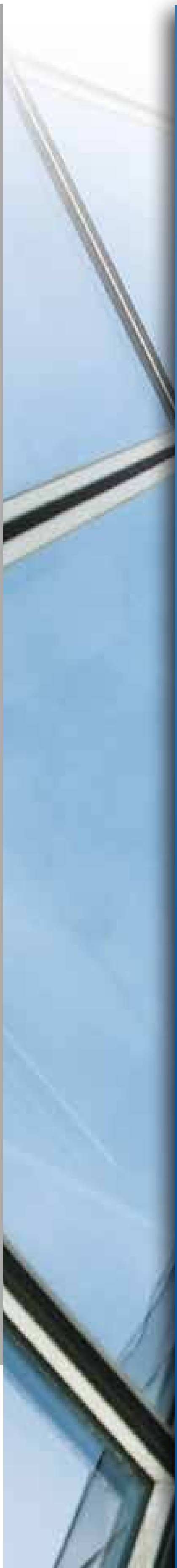
> The environment has changed significantly for banks. We are accepting these conditions as the "new normal". We acted in good time, and are well-equipped for future challenges.
> Dr Wolf Schumacher

4. To maintain a high cost discipline. We will not stray from our efforts to work as efficiently as possible. Our clear objective is to maintain the cost/income ratio in the Structured Property Financing segment at 40 %. In an environment that will bring about markedly higher expenditure due to the higher regulatory requirements, this can only be achieved by adhering to an unchanged cost discipline. Project-related costs will also constitute a temporary burden.

5. To further optimise the capital structure. Not least, we will adjust our capital structure to the changed regulatory environment. This includes our efforts to achieve a total capital ratio of 19 - 20 %. Such a high total capital ratio is particularly important for investors in our senior unsecured issues, to ensure we remain attractive to investors in a tightening market for unsecured bonds. We want to manage a target tier I ratio of 11.5 - 12 % (including all of the known effects of CRD IV), which we want to achieve in 2016, as cost-efficiently as possible.

We see ourselves as a company acting in the interests of all of our stakeholders. Specifically, the measures we take are geared towards a sustained increase in our profitability and the strengthening of our market position. We are targeting a return on equity before taxes of approximately 12 % for 2015/2016.

We have an advantage, whereby we can expect the demand for commercial property financing to remain high. We believe in the positive future of this business in the medium and long term, provided it is operated with a sense of perspective and the required know-how that we have.



WHERE WE WANT TO GO

ENHANCING OUR STRONG POSITION ON THE CAPITAL MARKETS


LIBERTY
DIVERSITY
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LIBERTY

The liberty we can see is the most important evidence of real existing freedom.

WOLF LOTTER
Business journalist and book author

Freedom is a big word. There's actually nobody who does not want more freedom. At least, as long as it remains abstract.

Because freedom is popular only on the surface. If you scratch only a little bit off the popular picture of freedom, you see that the varnish doesn't hold. But why is that? Maybe those who have freedom treat it too lightly. They forget the easiest questions, namely these: What is freedom for? What does it cost? What does it get? What does it make possible?

Whoever asks anything like this is likely to come under criticism himself. After all, are we really allowed to ask what freedom costs, what it is for and whom it benefits? Is it not a far too noble and sublime good to be measured using such ordinary weights? The answer is yes. It is not a matter of being allowed to ask. It is something that we must ask. We owe freedom that much.

Freedom urgently needs a sober approach again these days. It needs our pragmatic, cool and reasonable support. Freedom is too important to be used as a stopgap in crowd-pleasing speeches. It is not supernatural, but rather something with two feet planted firmly in the soil – or it is nowhere at all.

But first things first.

Those who speak too much about freedom come under suspicion, and for good reason. Every dictator started out as a hero of freedom, and every female tyrant claimed to be combating the lack of it. Freedom is quite like the so-called "Good". Where it is constantly talked about, there isn't much of it around. Swearing to something with too much fervour is a sure sign of a shortcoming.

It is the same with freedom. Swiss business ethicist Rupert Lay once remarked that "speaking about freedom instead of affording liberties (...) is one of pseudo-democratic dictators' favourite means of manipulation."

A great idea. Because that means that the liberty we can see is the most important evidence of real existing freedom.

Liberty is the practical human dimension of freedom on this earth. It most definitely means: no constrictions. No tight restraints, boundaries or rules pressing in from every side and surpressing movement. People who have experienced dictatorships consistently describe feeling as though the lack of freedom robbed them of the very air they breathed. A life lived under strict rules and oppressive laws, where ideas and changes are forbidden and individuality is a shortcoming, is a life without breathing room. In this sort of a system, you have to stay motionless and cannot keep on walking to achieve your goals. Living in such a system is not sustainable over the long term.

Liberty is, in very practical terms, the space where individuality and unique talents can unfold. Liberty is not the domain of the big picture where the collective rules. We need air to go forward in order to create new things and find better ideas. That leads to great self-confidence, and that is precisely the intention.

All of our struggles for freedom in the past have had one goal: the individual should have the right to grow and develop his or her own unique talents. To each his own, philosophers of the Enlightenment said. Nowadays this is increasingly part of our reality, even at work and in business. Specialists, experts, individualists set the tone. Self-confident, well-trained people keep demanding greater liberty – to the benefit of the entire company and society as a whole. Because ultimately everyone benefits when an individual is allowed to grow. One cannot think liberty without thinking individuality.

The old world used to be a place of either/or, of black-and-white thinking. You were either for or against something. Yet there is no one single culture, one solution, one truth. Diversity – not uniformity – surrounds us. Liberty is the indispensable prerequisite for this diversity. Wilhelm Röpke, one of the fathers of the social market economy that has again made Germany the object of the world's admiration, put it this way: "Our economic system is a construction of the most highly developed and subtle distinctions on top of underlying anarchy".

Diversity, freedom, liberty, fewer rules – though this sentiment is at odds with today's zeitgeist, it is still at the heart of human nature. And that is why it is so vitally important that one asks: Whom does freedom benefit? What liberty shall we take? What do we support?

The poet Erich Fried said that "freedom does not reign", which not only means that freedom and authoritarian rules do not go together, but also that freedom and its reaches need to be constantly re-conceived: "The fact that the purpose of freedom is to create the opportunity for unforeseeable developments means that we will never know what we lose when our freedom is restricted," wrote Friedrich von Hayek, winner of the Nobel prize in economics. Freedom is merely a word; it only becomes "something positive only by the use we make of it".

It is up to us again: we have to use liberty to breathe the air of freedom. Now more than ever.

TO OUR SHAREHOLDERS

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DAGMAR KNOPEK
Responsible for the Sales Units of the segment Structured Property Financing

HERMANN J. MERKENS
Responsible for Finance, Risk Controlling, Credit Management and Workout

DR WOLF SCHUMACHER
Chairman of the Management Board
Responsible for Corporate Communications, Investor Relations Corporate Development, Human Resources, Legal, Compliance, Audit and Operations

THOMAS ORTMANNS
Responsible for Institutional Housing Unit, Treasury, Organisation, Information Technology

Dear Shareholders,
business associates and Aareal Bank staff,

The financial year 2013 we look back upon was a very special one for Aareal Bank Group. We were able to celebrate the Bank's 90th anniversary – an anniversary that highlighted the consistency and solidity of Aareal Bank as a reliable service provider to its clients over many decades. The very good results posted for 2013 demonstrated just how well-positioned Aareal Bank Group is. Moreover, the Management Board and the Supervisory Board will propose to the Annual General Meeting the distribution of a dividend of € 0.75 per share. The acquisition of Corealcredit Bank AG, agreed upon in 2013, is another sign of our strength, and our ability to act.

Yet the business environment remained very challenging indeed for Aareal Bank – and the banking sector – during the year under review. Global economic growth continued to decline in 2013 – falling below the previous year's level, albeit with considerable differences between the individual economic regions. A positive development to note is that Europe was able to gradually free itself from the crisis during 2013. There are many signs that the continent returned to a path of subdued economic growth during the second half of 2013, whilst the speed of economic recovery within Europe varied considerably. The European sovereign debt crisis – which has yet to be resolved – has only influenced the markets in individual cases, even though there still is a need for reforms in many Southern European countries. The United States appear to return to its role as an engine of global economic momentum. In China, the growth trend remained intact – despite slightly lower growth rates – and the Japanese economy also managed to gain some momentum. Against the background of liquidity support provided by central banks in Europe and the US, the financial and capital markets continued to ease noticeably in the year under review.

Yet numerous uncertainty factors remain. For instance, despite significant progress, there is still significant potential for a backlash in Europe. The key issue that will drive developments during the current year will be the markets' response – including those outside Europe and the US – to a normalisation of money supply. Moreover, a number of emerging markets currencies came under increasing pressure towards the end of 2013 and at the beginning of 2014.

The future regulatory environment for the banking sector was substantiated further during the year under review, with focus on the structure of the European single supervisory mechanism (SSM) which was resolved by European finance ministers. Under this regime, the most important banks within the euro zone will be supervised directly by the European Central Bank (ECB) in the future. The ECB has already started preparations for assuming this regulatory function, which it will assume from the autumn of 2014. One part of these preparations is the so-called "comprehensive assessment" which comprises a risk assessment by the regulatory authorities, an asset quality review, and a stress test. Aareal Bank is also subject to this comprehensive review. Even though important details regarding the new regulatory environment are still unresolved, and competitive distortions at the expense of European – and especially German – banks against their international competitors cannot be ruled out, the planning certainty brought about by the increasing substantiation of regulatory requirements is generally positive. Still, it remains to be seen what cumulative consequences the large package of regulatory measures will in fact have.

Competitive pressure in commercial property finance has continued to increase during the financial year under review. In Europe and in the US, the focus remained on first-class properties in good locations and with low loan-to-value ratios. At the same time, the willingness to finance large-volume projects and properties in regional locations increased. Lenders were increasingly willing to accept higher loan-to-value ratios and lower margins. In this tougher competitive environment, Aareal Bank – whose focus is largely on financing existing properties – has held on to its business policy strictly committed to quality, and hence to an appropriate ratio of risks and returns.

Overall, the Bank once again performed very well in this challenging market and competitive environment. I am therefore pleased to be able to share with you our annual report testifying to an extremely successful anniversary year. Once again, we achieved our key objectives during the year under review.

With a consolidated operating profit of € 198 million, we not only matched the very good level of the year 2011 – as indicated when we announced our increased guidance in the autumn of 2013 – but in fact exceeded it. Consolidated net income also increased year-on-year. We see this successful performance as evidence of the viability of our business model, with the two pillars of Structured Property Financing and Consulting / Services, and of the operative strength of our business. At the same time, we consider the results achieved as motivation to continue consistently pursuing our sustainable business policy, with a sense of proportion.

We were able to increase net interest income more strongly than originally planned. As in the previous year, the performance in 2013 was characterised by two opposing effects: on the one hand, net interest income benefited from good margins achieved in the lending business, lower funding costs, and the effects of repayments that were higher than expected. On the other hand, net interest income was burdened by a lack of attractive investment opportunities for the liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses for the 2013 financial year was slightly higher than in the same period of the previous year, and at the lower end of the projected range. Once again, the moderate level – also in a sector comparison – has shown the high quality of our credit exposures, which we continue to work on, thanks to our conservative business policy and a careful monitoring of our portfolio. In doing so, we can rely on the Bank's comprehensive property expertise, which combines dedicated sector-specific know-how with in-depth local market knowledge.

Throughout the year under review, we used this basis to once again exploit numerous attractive new business opportunities which were available to us in a clearly revived transaction environment, in spite of more intense competition. This also involved higher loan repayments, however. With an aggregate new business volume of € 10.5 billion, we not only clearly exceeded our own forecast, which we last increased to € 8 billion in the autumn of 2013 – we also achieved the highest level of new business since 2007. In the Consulting/Services segment, our subsidiary Aareon AG continued to perform successfully during 2013. To safeguard Aareon AG's leading market position for the future, we have invested significantly in the ongoing development of our high-performance, innovative products for the administration, controlling and rental management of housing property portfolios. Despite these forward-looking investments, Aareon AG posted a slightly higher result than in the previous year. In the segment's banking business, we once again felt the effects of the prevailing low interest rate environment, which significantly burdened margins in the deposit-taking business. Despite Aareon's positive contribution to results, this led to a lower segment result compared to the previous year.

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 interest rate 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 not only largely independent of capital markets developments, but also provides cheaper funding compared to alternative capital market products. In addition to the German Pfandbrief and unsecured bank bonds, these deposits thus represent an important pillar in the Bank's long-term funding mix. In view of regulatory changes ahead, we consider this business as a particular competitive advantage. The fact that we succeeded in significantly raising the average volume of deposits to € 7.2 billion – despite competition remaining intense – is therefore all the more encouraging.

Administrative expenses were slightly higher than in the previous year, and also slightly above the forecast range for the financial year. There were several reasons for this: due to the positive performance of the Aareal Bank share price, we needed to recognise valuation effects related to the share-based remuneration component, in accordance with the German Ordinance on Remuneration in Financial Institutions. Furthermore, we acquired Sweden's Incit Group, effective 1 July 2013: with this acquisition, we further expedited Aareon's targeted international expansion. Lastly, higher project expenses burdened administrative expenses.

Aareal Bank continues to enjoy a sound reputation as an issuer on the capital markets. Demand for Pfandbriefe and unsecured issues from solid names is growing, especially in the current environment. We were able to implement our funding activities during 2013 as planned: we raised a total of € 4.1 billion in medium- and long-term funds on the capital market during the period under review, including € 3.0 billion in Mortgage Pfandbriefe. This shows the continued high level of importance the Pfandbrief has in Aareal Bank's funding mix, and also how attractive this asset class remains for investors.

Aareal Bank not only enjoys a comfortable liquidity base – it also remains very solidly capitalised. We are already in a position today to comply with the stringent requirements that Basel III will impose upon the Bank. Our core tier 1 ratio in accordance with the German Commercial Code rose to 12.9 per cent as at the end of 2013 – a very good level by international standards as well. The core tier 1 ratio in accordance with IAS was 15.0 per cent.

We announced in February 2013 that we are planning to resume an active dividend policy in 2014 for the 2013 financial year, depending on market conditions. We are now consistently implementing this plan. As already announced following the Supervisory Board meeting on 19 February 2014, the Management Board and the Supervisory Board will propose to the Annual General Meeting of Aareal Bank AG on 21 May 2014 to distribute a dividend of € 0.75 per share. Moreover, we have announced that we will resume a dividend policy according to which we aim to distribute approximately 50 per cent of the consolidated net income (determined in accordance with IFRSs) per financial year – to the extent that this is consistent with a long-term and sustained business development.

This step also testifies to our confidence for the current financial year. We expect a slight global economic recovery in 2014. Against the background of liquidity support provided by central banks in Europe and the US, the financial and capital markets continued to ease noticeably in the year under review. The key issue that will drive developments during the current year will be the markets' response – including those outside Europe and the US – to a normalisation of money supply. This holds risks for global economic developments. Considering the anticipated low inflationary pressure in the euro zone, Aareal Bank believes that the European Central Bank will keep its key interest rates at a low level – consequently, short-term interest rates in the euro zone are likely to remain low.

Overall, we therefore expect Aareal Bank Group's positive development to persist during the current year. Our forecasts for the 2014 financial year include, for the first time, projected figures for Corealcredit Bank AG. Its actual contribution will, however, largely depend upon the closing date. Corealcredit Bank's integration into the Group will materially contribute to the expected marked increase in key income statement items, such as net interest income and administrative expenses.

All in all, Aareal Bank aims for consolidated operating profit of between € 370 million and € 390 million for the current year, including a non-recurring effect from the acquisition of Corealcredit Bank. Adjusted for this non-recurring effect, Aareal Bank expects consolidated operating profit of € 220 million to € 240 million.

We also remain optimistic in our medium-term outlook: we have positioned the Bank to meet the changed market and competitive environment as well as changed regulatory requirements and persistently high volatility on the financial and capital markets. Our medium-term target return on equity of approximately 12 per cent before taxes remains unchanged.

Aareal Bank is well-equipped for the future. The fact that we will finance the planned acquisition of Corealcredit Bank AG from the Bank's own funds shows that Aareal Bank is in excellent shape. Our operative performance is good, we consistently pursue our strategic objectives, and we have full flexibility to act, in every respect – this is not least shown by the Corealcredit Bank transaction. All this puts us in a good position to continue our positive development, and to further strengthen our excellent position as a leading international property specialist on the markets we cover.

We want to remain a driving force in our sector in the future, as a leading international property specialist with the highest quality standards. With this, we have one clearly-defined goal: to create sustainable value for our shareholders, clients and staff, and to continue Aareal Bank's positive development.

For the Management Board

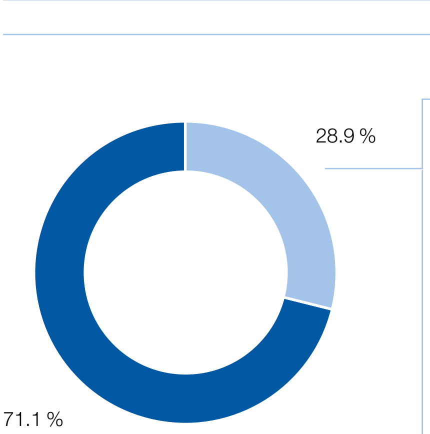
Yours Sincerely, Wolf Schumacher

Dr Wolf Schumacher
Chairman of the Management Board

AAREAL BANK SHARE

Our share has been trading on the Frankfurt Stock Exchange since 17 June 2002. Since 1 January 2003, it has also been included in the Prime Standard segment of the German Stock Exchange and meets the high international standards for transparency that are applicable there. Aareal Bank AG's major shareholder is Aareal Holding Verwaltungsgesellschaft mbH. It continues to hold a 28.9 % stake in Aareal Bank AG.

Shareholder structure



6,9 %	Bayerische Beamten-Lebensversicherung a.G.
6,9 %	Swiss Life AG
5,2 %	Versorgungsanstalt des Bundes und der Länder
4,7 %	Dr. August Oetker Finanzierungs- und Beteiligungs-Gesellschaft mbH
2,7 %	Basler Lebensversicherungs-AG und Basler Sachversicherungs-AG
1,4 %	Deutscher Ring Krankenversicherungsverein a.G.
1,1 %	Condor-Lebensversicherungs Aktiengesellschaft

The Aareal Bank share against the backdrop of equity market developments

At the end of 2012, the uncertainty generated by the US budget dispute was still weighing on equity markets. But a last-minute compromise between Democrats and Republicans to postpone approved spending cuts by two months put an end to the long-standing uncertainty – for the time being. At the same time, markets were also rattled by the resignation of Italian Prime Minister Monti, especially after former Premier Berlusconi announced that he would run for office again, which could have spelled the end for Italy's austerity policies. Central banks' generous money supply, as well as initial signs of economic recovery, e.g. in the United States, eased financial market tensions somewhat at the start of the year. Comments by ECB President Draghi, as well as by ratings agency FitchRating, also helped. Independently of one another, both said that they considered the worst of the European sovereign debt crisis to be over.

These – in part – opposing developments meant that in the first few weeks of the year, the DAX® (year-end level: 7,612 index points) and the MDAX® (year-end level: 11,914 index points) only rose slightly above their respective year-end levels. The DAX sector Banks Total Return Index (CXPB® – year-end level: 169 index points), as well as the share price of index constituent Aareal Bank (year-end level: € 15.71) benefited, however, from the generous central bank money supply and the easing of the sovereign debt crisis, rising by approximately 15 % from their end-2012 levels during the first two weeks.

In February, the European sovereign debt crisis, at times already considered resolved, reared its head again when Cyprus received financial assistance to prevent the country's potential default. While the DAX® and MDAX® showed further signs of a rising trend due to positive German economic data and an increasingly brighter US economic outlook, the Cyprus crisis once again weighed on bank shares. The CXPB®, as well as the share price of Aareal Bank, declined, erasing all the gains made since the start of the year in early February.

In the run-up to preliminary results for the 2012 financial year, the Aareal Bank share was able to more than make up for the losses suffered as a result of the Cyprus bailout discussions, however. In anticipation of solid annual results, the share price rose in the days before the results were published, from € 16.055 to € 18.365 on the day of publication. The Bank has proved once again that its sustainable business model, based on the two pillars of Structured Property Financing and Consulting/Services, does not disappoint the markets. The market welcomed news at the time of the results that an active dividend policy would start to be pursued in the 2013 financial year. The medium-term target of achieving a pre-tax RoE of 12 % by 2016 was also seen as positive. As a result, the Aareal Bank share price, which had moved in line with the CXPB® until then, was able to outperform the benchmark index.

At the same time as Aareal Bank's share price made gains, the CXPB® lost further in value. The reason for this was the stalemate resulting from the Italian parliamentary election results, which made it difficult for a government to be formed, as well as the start of automatic budget cuts in the US after both parties were unable to agree on spending cuts during the two-month delay. Furthermore, talk about the threat of default by Cyprus continued to weigh on the CXPB® in particular. Even though Cyprus received the required funds from the European Stability Mechanism (ESM) and the International Monetary Fund (IMF), the bailout also involved the customers of Cypriot banks. For the first time since the start of the sovereign debt crisis, savings deposits were tapped for a compulsory contribution to the bailout. The European banking world was rattled not only by fears that contagion could spread to other countries in crisis – and that the sovereign debt crisis could flare up again – but also by concerns that in future depositors could be bailed in to save banks.

These discussions also weighed on Aareal Bank's share price. At the beginning of April, the share price fell from a high of € 18.365 reached on the day preliminary results were published (+17 % from the year-end) to € 16.16. During the same period, the CXPB® lost more than 20 %, falling from 185 to 153 index points, significantly below its year-end level of 169 index points.

At the start of the second quarter, weak economic data and disappointing corporate results led to further share price losses. Only in mid-April did positive economic data in the US and first signs of economic stabilisation in the euro zone had a positive effect on equity markets. This development was further reinforced by the expectation that central banks would continue their expansive monetary policies. In particular, the US Federal Reserve (Fed), which was buying USD 85 billion of assets each month at the time, was supplying markets with liquidity, which then – virtually without alternative –had to be invested in shares due to the low interest rate environment. According to the Fed, this policy would remain in place until the US unemployment rate declined to 6.5 %. This meant US labour market data subsequently became the centre of attention over and over again. Even though lower unemployment figures in the US signalled a US economic recovery, this development weighed on equity markets due to fears that the Fed could reduce its bond-buying programme and thereby reduce this supply of liquidity.

Aareal Bank announced its first-quarter 2013 results on 7 May. After a positive end to the 2012 financial year and the announcement of a return to an active dividend policy, the market awaited the first-quarter results with some anticipation. A solid start prompted the share price to rise in the wake of the results, to € 19.29 (+23 %) by the end of May.

By that time, international equity markets had also risen on positive economic data and the central banks' liquidity supply. The DAX®, which reached 8,530 index points, a gain of 12 % from the end of 2012, even exceeded its pre-crisis high of 2007. The MDAX® performed even better, up 20 % to 14,258 index points. The CXPB® was also able to gain 7 % to 182 index points once a new Italian government without Berlusconi had been sworn in and the issues of Cyprus and thus the European sovereign debt crisis had been put to rest.

Comments by Chairman Ben Bernanke that the Fed may depart from its monetary policy course already in 2013 and reduce ("taper") its bond-buying programme weighed on equity market sentiment in June and led to partly heavy losses. Positive economic data in Europe and the US – normally a trigger for equity market gains – proved to be counter-productive at the time as they could translate into a gradual exit from the Fed's ultra-loose monetary policy. By the end of June, the DAX® lost 11 % and fell to 7,692 index points, while the MDAX® lost 9 % and fell to 13,263 index points. The CXPB® not only gave up all its year-to-date gains, but by the beginning of July it stood at 152 index points, 10 % lower than at the end of 2012. In June, the Aareal Bank share also gave up around half the gains made since the start of the year, falling back to € 17.50.

Following the partly massive losses, Fed Chairman Bernanke, as well as ECB President Mario Draghi, tried to calm markets at the start of July by reassuring them that in the foreseeable future the US economy would require an extremely expansive monetary policy, and that euro zone key interest rates would remain at a low level for an extended period of time. Following the share price losses seen in June, equity markets then recovered at the start of the second half of the year, in connection with positive corporate results, continued economic recovery in the US and a return to economic growth for the euro zone for the first time in six quarters.

Aareal Bank, whose share price fortunately recovered quickly from its losses at the end of June to exceed its interim high of € 19.29 by mid-July, published its half-year results in mid-August. A solid result, which made the resumption of an active dividend policy more likely, convinced markets as did the Management Board's medium-term outlook. The path to be pursued was clearly and corehently outlined, and it was explained to analysts and investors during roadshows and conferences. A share price of € 22 (+40 % from the end of 2012) on the day of the results was a reflection of investors' high degree of confidence in Aareal Bank. This performance is even more outstanding when the 40 % share price gain since the start of the year is compared with the DAX® (+10 % to 8,338 index points), the MDAX® (+24 % to 14,733 index points) and the CXPB® Banks index (+2 % to 173 index points).

Renewed discussions whether to grant Greece further financial assistance due to its high level of indebtedness brought the sovereign debt crisis back to the attention of financial markets in August, but only temporarily. The threat of a military strike against Syria in the wake of its use of chemical weapons also failed to sustainably undermine the fundamentally positive equity market mood once Syria agreed to destroy its chemical weapons.

Positive economic data, especially in the US, quickly displaced these developments, and markets once again focused on the main issue of when the Fed would start to exit its ultra-loose monetary policy. Good labour market data meant an earlier tapering of Fed bond-buying, so that share prices fell on positive economic data yet rose on negative economic data. For most of the third quarter, equity markets were correspondingly volatile.

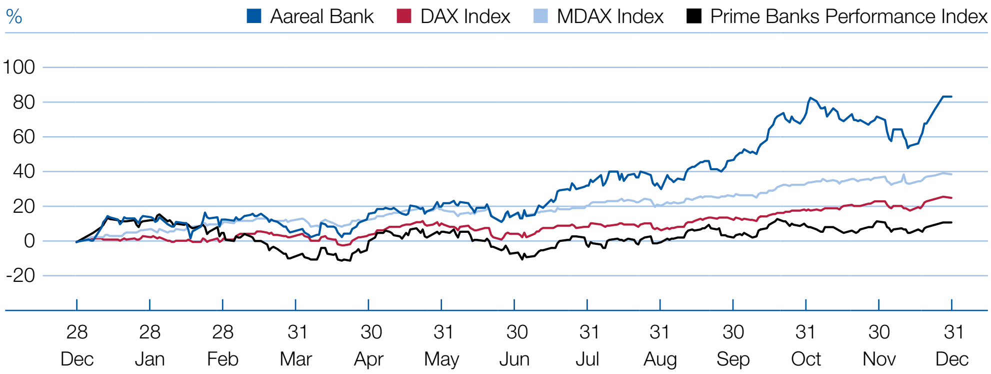
In September, the Fed surprised markets. Against market expectations, it did not start a gradual exit from its monetary policy even though the economy was picking up. Almost at the same time, ECB President Draghi said euro countries had overcome the recession, but the ECB still considered the economy too weak to abandon its loose monetary policy. Both events surprised the markets and caused share prices to rise further. At the end of September, the DAX® stood at 8,665 index points, up 14 % from the end of 2012, while the MDAX® was at 15,129 index points, up 27 %, Compared with the subdued performance of the CXPB®, up a mere 5 %, the share price performance of Aareal Bank was convincing at € 23.70, a gain of more than 50 % in 2013.

At the beginning of October, equity markets came under pressure as the US reached its debt ceiling. By the end of September, it had not been possible to agree a US budget for the fiscal year starting on the 1st of October. As a result, some public sector installations were closed and staff went unpaid until an agreement was reached. Only in mid-October could equity markets breathe a sigh of relief after the parties reached a compromise to temporarily suspend the debt ceiling until 7 February 2014, and subsequently raise it by the liabilities accrued in the meantime.

Markets suffered additional uncertainty as a result of the upcoming balance sheet checks of the 130 largest banks in the euro zone, carried out by the ECB before taking over European bank supervision in 2014. Fears that especially banks from the southern European periphery would be unable to fulfil the capital ratios necessary to pass the 2014 bank stress tests were aggravated by comments from ECB President Draghi that he would not hesitate to fail banks undergoing the stress tests.

But markets also coped well with this temporary uncertainty, driven as they were by cheap central bank liquidity. This was further supported by the ECB's decision to lower its main refinancing rate for the second time in 2013 – by 25 basis points to only 0.25 % – a move that came as a surprise to most market participants, at least in terms of timing. The Fed also did not seem to think that the latest US economic data in November were strong enough to justify tapering the bond-buying programme. The DAX® reached a new record high of 9,400 index points (+23 %) at the end of November, the MDAX® was up 37 % at 16,396 index points, and even the CXPB® was able to post a gain of 12 % at 189 index points, before fears of imminent tapering yet again weighed on equity markets towards the end of the month.

Relative performance of the Aareal Bank share price 2013



Having gained 50 % by the summer, the Aareal Bank share price rose further ahead of third-quarter results at the start of November, to € 28.725 – an increase of 82 % in 2013. Profit-taking led to a slight decline on the day results were published to € 27.465 (+75 %). Once more the Bank delivered what it had promised. The share price rise to that date demonstrated the confidence the market holds in the Bank, its management and in the ability to achieve its medium-term targets – a key prerequisite for this kind of outperformance.

In December, the ECB further analysed how to stimulate the European economy, which in the markets' view was not really picking up. Commenting on the outcome, ECB President Draghi said, however, that the ECB could deploy further measures but that at the present moment no further steps were necessary. His comments, which came after some market participants had called for a bond-buying programme, were aimed at dispelling the dwindling market confidence in the ECB's options, which markets already saw as exhausted. Following on from this discussion, the DAX® lost more than 400 index points by mid-December, barely holding above the psychologically important level of 9,000 index points.

In contrast to Europe, investors in the US seemed to have changed their thinking towards the year end. Up to that point, the focus had been on the Fed's ultra-cheap liquidity, but then the lowest unemployment rate since 2008 spread confidence that the US economy could cope without it. Even a future interest rate hike in the event that unemployment would hit 6.5 % seemed less terrifying after the US unemployment rate fell from 7.3 % to 7.0 % in November, a four-year low. The assumption was that the impact of an exit on capital markets, whether in 2013 or 2014, would not be as severe as previously thought (in May and June) when the central bank first mentioned the possibility of an exit. And markets proved to be correct with that assumption. In mid-December, the Fed decided to reduce its monthly bond-buying by USD 10 billion to USD 75 billion, and announced at the same time that there would be further tapering in line with continued economic recovery. Markets clearly welcomed the step, driving share prices higher as a result, so that the DAX® reached an all-time high of 9,589.39 index points (+26 %) on the penultimate day of the year.

However, Aareal Bank rounded off the year on 22 December when it announced the takeover of Corealcredit Bank AG, which specialises in commercial property financing in Germany and was owned by Lone Star since 2005. Equity markets welcomed this move, sharply boosting the Aareal Bank share price during the final days of the year, after it had declined to € 24.80 due to profit-taking in the wake of third-quarter results.

The share ended the 2013 financial year with a gain of 83 %, at € 28.785, only slightly below the year's high of € 28.86 reached on the penultimate trading day of the year.

Investor Relations activities

As a listed public limited company included in the MDAX® index, Aareal Bank is subject to numerous disclosure obligations. Aareal Bank sees these as an opportunity to enter into an open dialogue with analysts, investors and clients, as well as with the media.

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

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

Overall, market communications thus remained at a high level throughout 2013. In the course of the financial year under review, the Investor Relations team took part in eight international capital markets conferences and conducted more than 200 one-on-one meetings with more than 300 investors and analysts during 17 roadshows around the globe. Investors greatly appreciate the fact that Management Board members

	2013	2012	2011
Key data and indicators of the Aareal Bank share			
Share price (€) 1)			
Year-end price	28.785	15.710	13.985
High	28.860	19.820	24.470
Low	17.780	11.745	9.480
Book value per share (€)	31.88	30.22	27.18
Dividends per share (€) 3)	0.75	–	–
Earnings per share (€)	1.95	1.75	2.11
Price/earnings ratio 2)	14.76	8.98	6.63
Dividend yield (%) 2)	2.6	–	–
Market capitalisation (€ mn) 2)	1,723	940	837

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

1) XETRA® closing prices; 2) Based on XETRA® year-end closing prices; 3) Proposal to be submitted to the Annual General Meeting

also regularly attend conferences and roadshows in order to be available for personal meetings.

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

In the 2014 financial year, we will also continue our proactive communication with financial markets in order to strengthen shareholders' confidence in the sustainable success of Aareal Bank Group's business model.

Analysts' opinions

Of the 12 brokerages and analyst firms that regularly covered Aareal Bank at the start of the year, one stopped coverage in the course of the year for staffing reasons while another started coverage, so that at the end of the last financial year, the number of brokerages and analyst firms publishing independent studies and comments about developments at Aareal Bank Group was unchanged.

Having finished the 2012 financial year on a positive note, in 2013 Aareal Bank also had to meet market and analyst expectations. Aareal Bank fulfilled these high expectations, with currently seven "buy" recommendations and three "neutral" recommendations, compared with two "sell" recommendations.

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

GROUP MANAGEMENT REPORT

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Group Management Report

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

Fundamental Information about the Group

The Group's business model

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

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

Aareal Bank Group's business model comprises two segments:

Structured Property Financing

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

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

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

Consulting / Services

The Consulting/Services segment offers the housing industry and the commercial property sector services and products for managing property portfolios and processing payment flows. Within this segment, our subsidiary Aareon AG and the Housing Unit work together closely.

We operate the IT systems consultancy and related advisory services for the housing industry and the commercial property sector through our Aareon AG subsidiary, which looks back at almost 60 years experience. Aareon pursues a multi-product strategy that covers the requirements of all client groups in this segment. It is active in many European countries, with Germany being its core market. The ERP (enterprise resource planning) product portfolio for efficient process planning comprises Wodis Sigma, SAP® solutions and Blue Eagle, as well as the GES system. Aareon's international subsidiaries also offer ERP systems that are tailored to meet the needs of the respective market. These are Prem'Habitat and PortalImmo Habitat in France, QL in UK and SG|tobias and the new product generation SG|tobias^{AX} in the Netherlands. Sweden's Incit AB, which is also represented in the Netherlands and in Norway, offers the ERP system Incit Xpand. Clients can use Aareon's ERP solutions in different operating systems, depending on the product: software as service provided through the exclusive Aareon Cloud, ASP (application service providing), hosting and in-house. ERP solutions and integrated services, together with additional services, support the process-efficient cooperation between property companies and their business partners. The integrated services are incorporated directly in the ERP solutions and use the same database. These include the Mareon service portal, the Aareon invoicing service, Aareon Archiv kompakt, insurance management with BauSecura, CRM (customer relationship management) solutions and mobile services. This range is complemented by sector-specific advisory services for all products and services.

In the Housing Unit, Aareal Bank operates the automated mass payments system BK01, where it assumes management of the payment transactions and account maintenance for its clients in Germany, integrating both within their IT systems. The Housing Unit's clients are from the residential and commercial property sector, as well as from the utilities and waste disposal industry. The settlement of payment transactions via Aareal Bank generates deposits that contribute significantly to Aareal Bank Group's refinancing base.

Management system

Aareal Bank Group is managed with the aid of indicator-based management tools that are designed and differentiated specifically by segment.

In addition to return and productivity management tools and the risk management system described in the risk report, we particularly use the equity base and profitability at Group level as central performance parameters to manage and monitor our business. Our extensive risk management system is of great importance to us.

Aareal Bank Group manages its Group entities and their individual risk positions centrally. All management-relevant information is systematically collected and analysed to develop suitable strategies for risk management and monitoring. We also employ forecasting models for balance sheet structure, liquidity and portfolio development for strategic business and revenue planning.

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

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

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

In the Consulting / Services segment, management of the Group entities allocated to the segment is oriented on specific indicators, primarily earnings before interest and taxes (EBIT), depending on each entity's business focus. We also use specific performance indicators that are typical for consulting and services in the IT business, the focus of this segment. These include indicators relating to regular client satisfaction surveys, as well as capacity utilisation indicators in the consultancy business. The volume of deposits is a key performance parameter in the Housing Unit.

Report on the Economic Position

Macro-economic environment

The macro-economic environment in 2013 was defined by muted economic development. The easing on the financial and capital markets that had already started in the previous year continued. The willingness of the ECB – already stated in summer 2012 – to buy bonds on the secondary market under certain conditions largely contributed to this recovery. However, uncertainty remained about the further development of the European sovereign debt crisis. Cautious investment activities of companies and reluctance in private household consumption burdened economic development, particularly in Europe.

Economy

At 2.2 %, global economic growth in 2013 was marginally lower than the year before (2.3 %), albeit with considerable differences amongst the individual regions.

Real economic output in the euro zone fell slightly in the year under review; the start of the year in particular was defined by a negative economic trend. Although the economic situation improved during the remainder of the year and the euro zone succeeded in emerging from recession in the second quarter, economic development remained muted. Private consumption as well as corporate investments in the euro zone declined in the year under review. However, exports generated slightly positive impulses. Besides uncertainty in conjunction with the European sovereign debt crisis, a restrictive fiscal policy and the high level of unemployment in numerous countries particularly hampered macro-economic demand. In addition, demand in various countries such as the Netherlands, Spain and Portugal was burdened by private household efforts to lower debt levels. Falling housing prices also impacted on consumption in some countries, such as the Netherlands.

The recession experienced in the previous year by the southern member states, which were particularly affected by the sovereign debt crisis and the measures taken to consolidate the budgets continued. This included Italy and Spain. However, a trend towards stabilisation emerged in Italy and Spain in the second half of the year. In Finland and the Netherlands, real gross domestic product fell in 2013, as was the case the year before. In Belgium and France, real economic output was virtually stable, while the economies of Germany, Luxembourg and Austria grew marginally.

In contrast, the economy in various countries outside the euro zone was more positive. Real gross domestic product increased slightly to moderately in UK, Poland, Sweden and Switzerland. It improved slightly in Denmark. Even though real economic output in the Czech Republic fell significantly year-on-year, the recession was overcome in the course of the year. Russia experienced slight economic growth, albeit at a significantly lower rate than the year before. At the same time, the Turkish economy grew faster than in the previous year.

Real economic output rose moderately in the US and was supported by increases in private consumption, investments and exports. Recovery trends on the housing markets and the highly expansive monetary policy are likely to have supported the economy. At the same time, public sector demand had a dampening effect. The economy in Canada also grew moderately. Mexico's economic output increased slightly year-on-year but experienced interim periods of weakness.

Real economic output in China grew at the same pace as the year before. Housing prices rose again significantly, which is why the government intervened with, for example, a ban on second home ownership in certain cities. Real gross domestic product grew moderately in Japan. The expansive monetary and financial policy, as well as improved international competitiveness brought about by exchange rate effects, played a role here.

Annual rate of change in real gross domestic product

%	2013	2012
Europe		
Euro zone	-0.4	-0.6
Austria	0.3	0.7
Belgium	0.2	-0.1
Finland	-0.9	-0.8
France	0.1	0.0
Germany	0.5	0.9
Italy	-1.8	-2.6
Luxembourg	0.8	0.3
Netherlands	-1.0	-1.3
Portugal	-1.5	-3.2
Spain	-1.2	-1.6
Other European countries		
Czech Republic	-1.4	-0.9
Denmark	0.4	-0.4
Poland	1.4	2.0
Russia	1.2	3.5
Sweden	0.8	1.3
Switzerland	1.9	1.0
Turkey	4.2	2.2
United Kingdom	1.9	0.3
North America		
Canada	1.7	1.7
Mexico	1.3	3.7
USA	1.7	2.8
Asia		
China	7.6	7.7
Japan	1.7	1.4
Singapore	3.7	1.3

The situation on the labour markets remained difficult in many European Union (EU) countries. Unemployment rose again in the euro zone, particularly at the start of the year. A trend towards stabilisation was evident as the year progressed, and the unemployment rate had increased only slightly to 12.1 % by the year-end. At 27 %, unemployment was particularly high in Spain, although the increase levelled off during the year. The unemployment rate in Italy was clearly lower at 12.7 %, but it rose continuously over the course of the year. At 10.8 % and 10.2 % respectively (each at year-end), France and Poland also featured high unemployment rates. Unemployment was low, however, in Germany, Luxembourg and Austria.

The unemployment rate steadily declined in the US during the year to reach 7.0 % at year end. The trend in unemployment showed a slight fall, with minor fluctuations, in Japan.

Sovereign debt crisis

The sovereign debt crisis eased in individual European countries during 2013. Still, it remained a key issue in the macro-economic environment, where it not only impacted on the economy but also on the financial and capital markets.

As a consequence of the sovereign debt crisis, we have seen – for quite some time now – a segmentation of financial and capital markets in the euro zone into countries with low sovereign bond yields and those in the periphery with significantly higher yields. This did not change in the year under review, although the yield differentials decreased considerably. Yields on both Italian and even more so on Spanish government bonds fell significantly. At the same time, low-yielding countries such as Germany and France saw slightly rising yields. The reduction in risk premiums was a clear sign for an easing of the sovereign debt crisis, whereby the ECB's willingness to buy government bonds under certain circumstances, contributed significantly. Italy and Spain also succeeded in placing rather significant volumes of bonds on the financial and capital markets.

In spring, the focus had shifted to the issue of providing support to Cyprus and measures to save the country from bankruptcy. As a consequence, Cyprus was provided with support in the form of loans from the European Stability Mechanism (ESM) funds and the International Monetary Fund (IMF). During the latter part of the year, Greece's high debt level revived the discussion about further support measures for the country. Ireland exited the European rescue programme in December 2013. Having succeeded in expanding its capital market access already in the second half of 2012, it now fully refinances itself independently on the capital markets.

By mid-year, the euro zone representatives agreed on regulations on how to recapitalise banks directly from the ESM. This regulation would only apply to systemically relevant banks that can be restructured, that no longer have access to private capital, and whose home country could not provide the aid alone.

In the US, the government debt ceiling was once again a very important issue in the year under review. In mid-October, the parties succeeded in arriving at a compromise, only shortly before this limit was reached. This compromise provided for a short-term suspension of the limit until 7 February 2014 and a subsequent increase in the liabilities that have meanwhile accumulated.

Financial and capital markets, monetary policy and inflation

The situation on the financial and capital markets eased noticeably in the year under review compared with previous years. This afforded banks, companies and countries the opportunity to place securities at favourable terms.

Pfandbrief issues and other European covered bonds benefited from the steady recovery of the markets. Investor demand was strong already at the beginning of the year and certain risk premiums fell by the end of the year, in some cases sharply. In particular, covered bonds from the periphery countries benefited from this spread tightening, with Spain achieving the best performance amongst these countries.

The volume of outstanding German Pfandbriefe has fallen since 2000 and new issuance in this product has declined significantly for some years now, driven by the development concerning Public Sector Pfandbriefe. A reason for the declining volume was the greater reduction of assets and the decision taken by some competitors to suspend business activities entirely. The latter particularly affected the public sector finance business segment, which was due in part to regulatory requirements. At the same time, the volume of outstanding and new Mortgage Pfandbrief issues was almost stable.

Another trend seen in 2013 was smaller issue sizes. The share of issues sized at less than € 1 billion increased to almost 60 % in the year under review, compared with a figure of only approximately 40 % in 2012. This was due to, among other things, stricter asset/liability and rating requirements, as well as the still-high level of liquidity provided by the ECB.

Of late, the rating agencies' requirements were raised continuously and have become much more complex: the risk of mismatching between the payment flows from the outstanding covered bonds and the cover asset pools, which the agencies have frequently criticised as material, has led to higher over-collateralisation requirements in the recent past.

In the year under review, numerous commercial banks repaid significant sums from the ECB's three-year refinancing operations. Aareal Bank also took advantage of the good liquidity situation to repay the € 1 billion raised within the scope of the ECB's three-year tender – in full – during the first quarter of 2013. Funds held by commercial banks with the ECB or the euro zone's national central banks fell considerably during the course of the year. This also reflects the easing situation on the financial and capital markets.

Compared to the beginning of the year, the euro exchange rate – associated with some fluctuation in the course of the year – was higher at year-end against almost all the important currencies in which we are active. These include the pound sterling, the Swedish krona and the US dollar. Euro appreciation against the Japanese yen and the Canadian dollar was particularly pronounced. As an exception to this trend, the euro exchange rate changed little against the Danish krone, as the Danish central bank aims to maintain a stable krone against the euro.

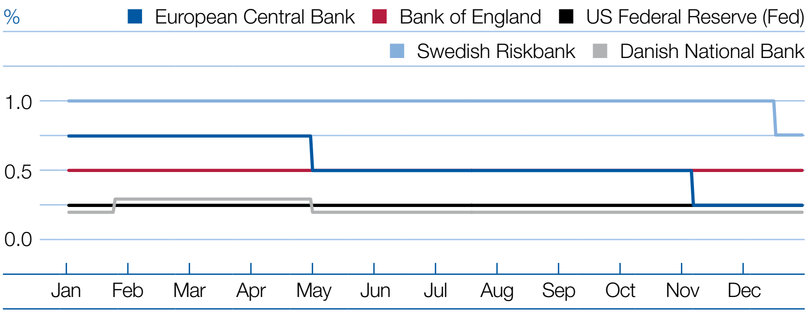
The aforementioned segmentation of the financial and capital markets between the individual countries must be taken into consideration when analysing interest rate developments. Long-term interest rates[1] rose in almost all the important currencies we are active in. The greatest increases were seen in pound sterling, Canadian dollar and US dollar. However, interest rates could still be classified as low in the various currencies. Long-term interest rates in Japan – which are close to zero – hardly changed. Short-term interest rates[2] were largely stable for most of the currencies observed. Only the Swedish krona eased slightly.

Most central banks continued to pursue an expansive monetary policy during the year under review. In this context, we would like to mention the extensive purchases by the Fed of mortgage-backed notes from state-supported issuers and longer-term US Treasuries, which continued throughout the entire year. Market participants' expectations as to whether a reduction ("tapering") of such purchases would take place during 2013 led to higher interest rates, especially in the US, but in other markets as well. In the UK, the Bank of England's Funding for Lending scheme (FLS), which was launched in 2012 to support the private housing property market, came to an end. However, the lending programme for corporate financing was extended until the start of 2015.

Numerous central banks held their key interest rates unchanged or marginally changed at a low level. The ECB lowered the key interest rate by 0.25 percentage points at both the start of May and

[1] Calculated on the basis of the 10-year swap rate
[2] Calculated on the basis of the 3-month Euribor/LIBOR, or comparable rates (depending on the currency)

Key rate developments in 2013



in November to a level of 0.25 %. The applicable rate of interest for the deposit facility was left unchanged at 0.00 %. Denmark's central bank lowered its key interest rate by 0.10 percentage points to 0.20 %, having increased the rate by the same amount in January. The Swedish Riksbank reduced its key rate by 0.25 percentage points to 0.75 % in mid-December.

Inflation was moderate in many countries. Annual average inflation in the euro zone fell considerably, both during the year under review and in comparison with the previous year, to 1.4 %. Inflation in the US was at a similar level, while it hovered close to the zero per cent mark in Japan. Higher rates of inflation were registered in the emerging economies. At 2.7 %, Chinese inflation was at the previous year's level, while it reached levels of 6 % and 7 % respectively in Russia and Turkey.

Regulatory environment

The emphasis in the banking sector remains on the various regulatory and reform measures. Many measures were adopted during the period under review, while others were still being discussed or prepared. The question as to what the cumulative impact will be for banks and the real economy has yet to be answered. The focus shifted in particular to the extensive ECB comprehensive assessment, which includes a regulatory risk assessment, an asset quality review and a stress test. The implementation of the assessment at all banks which will come under direct ECB supervision began before the responsibility for supervision was transferred to the ECB; the assessment will last until autumn 2014.

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

Sector-specific and business developments

Structured Property Financing segment

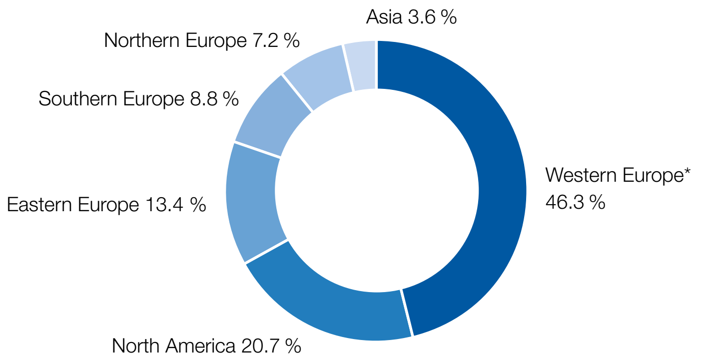
During the year under review, we continued to adhere to our risk-aware approach to lending, whilst also consistently managing our credit portfolio.

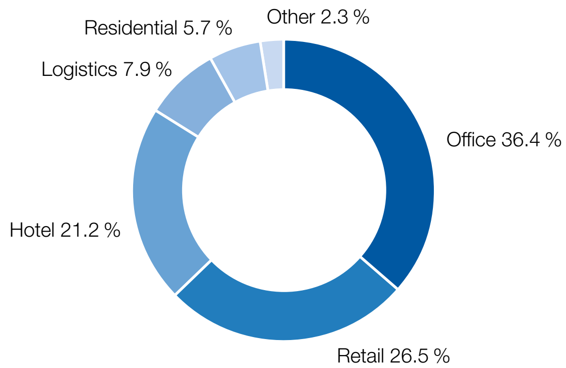
New business originated amounted to € 10.5 billion (2012: € 6.3 billion) and therefore significantly exceeded the original target of € 6 billion to € 7 billion. This was against a background of a more active transaction environment, characterised by higher liquidity than we had originally expected. This presented greater opportunities for new business on the one hand, of which we took advantage from the start of the year onwards. On the other hand, it was associated with higher and partially early repayments[1]. Repayments amounted to € 4.5 billion in the 2013 financial year (2012: € 3.0 billion). Based on the portfolio at year-end 2012, this represents a repayment ratio of 19.1 % (2012: 12.5 %).

[1] Repayments on the property financing portfolio include all types of scheduled and unscheduled principal payments by clients.

New business 2013

by region | by type of property





* including Germany

A portion of the property financing portfolio has been committed in foreign currencies. Exchange rate fluctuations impacted on the performance of the euro equivalent of the portfolio volume. The property finance portfolio fell by approximately € 380 million during 2013, due to such fluctuations.

On account of this development, the volume of Aareal Bank Group's property finance portfolio rose by 5.3 % to € 24.5 billion as at 31 December 2013 (2012: € 23.3 billion).

The volume of loans included in cover for Pfandbriefe increased further during the year under review. It amounted to € 11.5 billion as at 31 December 2013 (2012: € 10.7 billion). This equates to an increase of approx. 7.5 %.

The share of newly-originated loans in total new business amounted to 61.6 % in the year under review (2012: 47.2 %).

At 75.7 % (2012: 75.5 %), we achieved the highest share of new business in Europe, followed by North America with 20.7 % (2012: 22.0 %) and Asia with 3.6 % (2012: 2.5 %)[1]. We generate new business through our regional sales units as well as through our teams of sector specialists covering financing solutions for shopping centres, logistics and hotel properties.

Our new business in 2013 was also broadly diversified in terms of property type. Office properties accounted for the largest share with 36.4 % (2012: 39.8 %), followed by retail properties with 26.5 % (2012: 22.1 %) and hotels with 21.2 % (2012: 20.0 %). The shares of logistics properties at 7.9 % (2012: 10.1 %), housing properties at 5.7 % (2012: 5.2 %) and other financings at 2.3 % (2012: 2.8 %) were considerably lower than the aforementioned property types.

Competition on the market for commercial property finance intensified noticeably compared with the previous year and increased during the course of the year under review.

Particularly in the business of financing first-class properties in corresponding locations and with low loan-to-value ratios, competition was pronounced for many markets in Western and Northern

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

Europe. In addition, there was a marked increase in the willingness to fund project developments, large-volume projects and properties outside of the prime locations, even though competition was less intense in these areas. In general, the finance providers were more willing to accept higher loan-to-value ratios and lower margins from the clients. Competition in Eastern Europe was not quite as intense, although there was still evidence of greater competitive pressure. Lenders took a reluctant stance, however, when it came to funding commercial property in Southern Europe. The corresponding market environment in Asia was competitive.

In the US, the market for commercial property finance was defined by a high degree of liquidity and strong competition which even became more intense in the course of the year. The willingness to accept higher loan-to-value ratios and lower client margins, as well as financings outside of the prime locations, grew here, too. Not only banks, but also life insurers, which have been active in commercial property financing in the US for many years, and a marked increase in securitisations (commercial mortgage-backed securities – "CMBS") generated intense competition.

All in all, the rental performance[1)] for first-class commercial properties was largely stable to slightly positive. Investors' yield requirements mainly declined slightly in the premium segment[2)]. The volume of commercial property traded (the transaction volume) increased substantially on a global level over the previous year. Investors continued to focus on first-class properties in the corresponding locations. However, in view of the growing competition for these properties and a greater readiness to assume risk, there was evidence of a growing interest in secondary markets and in properties with a higher risk profile.

Developments in the commercial property markets in the individual regions

Europe

Rental development was largely stable to rising on the markets for first-class commercial properties in the European economic centres. In contrast, the number of markets with falling rents for high-quality properties was comparatively low.

Rents for retail properties in the premium segment increased in many economic centres, and varied greatly by region. Rents in this segment increased, for example, in London's West End, Istanbul, Moscow, Paris, Stockholm, the leading German centres, as well as in the Italian centres of Milan and Rome. At the same time, rents were virtually stable in the big Spanish cities of Barcelona and Madrid, and in Brussels, Prague and Warsaw. Only very few economic centres, notably in the Netherlands, registered falling rents on the markets for premium retail properties.

Rental activities for office properties were largely moderate, but picked up somewhat during the year. Rental development on the markets for high-quality office properties was somewhat less uniform than on the markets for prime retail properties. Rents for first-class office properties were stable in various economic centres, such as Amsterdam, Brussels, The Hague, Frankfurt, Hamburg, Moscow and Stockholm. However, a number of markets posted rising rents in this segment, including for example Berlin, Dusseldorf, Gothenburg, Helsinki, Munich and London. Examples of falling office rents were found in the Southern European economic centres, such as Barcelona, Madrid, Milan and Rome. However, office rents in the high-quality segment fell in other economic centres too, such as Copenhagen, Paris, Prague and Warsaw. Rent-free periods of use must be taken into account, particularly for Paris.

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1) It is characteristic of commercial property markets that they are not homogeneous. The individual properties differ, even within a regional market, with regard to the factors that determine their value and rents, such as construction quality, modernity, floor space and energy efficiency, flexibility and property management. The location – within regional or local markets – is of course an important factor as well. Hence, rents and values of individual properties from the same regional market can develop differently. This must be taken into account when analysing the following market trends.

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

In contrast, a stable rental development clearly prevailed for first-class logistics properties.

The rents for properties that are not included in the first-class segment in terms of their quality and location, however, lagged behind the overall development and came under pressure.

The hotel markets of the big European cities – in terms of average revenues per available hotel room, an important indicator in this industry – were rather more inconsistent. Numerous centres recorded rising average revenues, including for example, the German centres of Frankfurt, Hamburg and Munich, but also the Southern European centres of Barcelona, Milan and Rome, as well as Brussels, Copenhagen and Paris. Falling average revenues, however, were recorded, for example, in Amsterdam, Madrid and Warsaw. Average revenues per available hotel room were almost stable in Berlin, London and Prague.

Investors particularly remained on the lookout for first-class commercial property in corresponding locations and with stable cash flows in the year under review. However, the supply on various markets dwindled while the willingness to invest in properties with a higher risk profile, e.g. outside of the prime locations, increased. Transaction volumes in commercial property in Europe rose markedly in comparison with the previous year. The regional focal points were still the UK – especially London – and Germany. Transaction volumes increased in other markets too, such as Italy and Spain, albeit coming from a low prior year level.

In the European economic centres, a slightly falling trend in yields for properties in the premium segments clearly prevailed. Yields were lower for both office and retail as well as for logistics properties across the regions. Yields were stable, however, on the office markets of – for example – Barcelona, Milan, Moscow, Paris and Stockholm, the retail markets of Moscow, Prague and Stockholm, and the logistics markets of Amsterdam, Brussels, Rotterdam and Prague. Rising yields were only registered in a few of the economic centres, such as the office market in Rome, the retail markets in the Dutch centres, and the logistics markets of The Hague and Barcelona. The development of properties in peripheral locations or of lesser quality lagged behind that of high-quality properties.

Aareal Bank manages its sales activities in the individual regions via a network of sales centres (hubs). We have five regional hubs in Europe. Our sales activities are complemented by our teams of sector specialists covering financing solutions for hotels, shopping centres and logistics properties at the Wiesbaden location. As of the 2013 financial year, we merged the two hubs for Northwest Europe and Northern Europe. Management of this merged hub was assumed by our London branch, which has been responsible for the UK and the Netherlands, and now is also for the Northern European countries. The Stockholm branch and the representative office in Copenhagen remained in place. The other regional distribution centres are our national sales unit in Wiesbaden for Germany, the Paris branch for the other Western European countries including Spain, the Rome branch for Italy and the branch in Warsaw for Eastern Europe. The business in Turkey is allocated to the distribution centre of the sector specialists, as this is where international investors are active, especially in shopping centres and hotels, and our market activity in Turkey is greatest in these segments.

The volume of new business we achieved in Europe in the year under review amounted to € 7.9 billion, with Western Europe[1)] accounting for the highest share thereof at € 4.8 billion. Western European markets also recorded the highest transaction volumes by far in commercial property within Europe. We originated € 1.4 billion in new business in Eastern Europe, earning this region the second place, followed by Southern Europe with € 0.9 billion and Northern Europe with € 0.8 billion.

[1)] The breakdown of the regions in the new business reporting deviates from the distribution structure described above. The volume of new business reported here also includes new business originated by our sector specialists.

North America (NAFTA states)

The commercial property markets in the US recorded a moderately positive rental development, on a national average. This applied to office and retail, as well as to the logistics markets. The increase in logistics property was strongest in relative terms, followed by office and retail property. Rental increases prevailed on the leading regional markets, too, and was fairly strong in the office, retail and logistics markets of New York and San Francisco, the retail market of Boston and the logistics market of Los Angeles. The office market in Washington D.C. and the retail market in Los Angeles were examples of on average virtually stable rents in the leading cities. In line with these rent increases, all three property types registered slightly falling vacancy ratios on a national average.

The hotel sector in the US was in an upside trend, with average revenues per available hotel room rising year-on-year. Higher revenues were due to both an increase in occupancy ratios and average room rates. Average revenues per available hotel room also improved in Canada and Mexico.

The volume of commercial property transactions in North America increased significantly. Against the background of high levels of liquidity held by investors and strong competition for first-class properties in prime locations, investors' readiness to assume risk increased in the US as well, and demand for properties with a higher risk profile rose. This heightened investor demand was reflected in the yields for newly acquired properties. These fell slightly on a national average on the US markets for retail and logistics properties, and for office properties in the business centres, while increasing marginally for office buildings in the suburbs.

We have an active presence in North America through our subsidiary Aareal Capital Corporation, which has an office in New York and also manages our new business activities locally. We originated new business in the amount of € 2.2 billion in North America in 2013, which was accounted for almost exclusively by the US.

Asia

Rental development for first-class commercial properties was inconsistent among the big Asian cities. Rents for office properties remained constant in the premium segment in the big Chinese cities of Beijing and Shanghai, while rising in the Beijing sub-market of the financial district. However, office rents fell in Singapore and Tokyo, but stabilised as the year progressed. On the retail markets, rents for prime properties rose slightly in Singapore and Tokyo, and remained stable for the high-quality shopping centres in Beijing and Shanghai. Rising rents were evident on the markets for high-quality logistics properties in Beijing, Shanghai, Singapore and particularly in Tokyo.

There was no uniform trend either on the hotel markets of these four big cities. Average revenues per available hotel room fell in Beijing and Singapore. They remained nearly constant in Shanghai while increasing sharply in Tokyo.

Transaction volumes increased noticeably in Asia too. Yields for high-quality commercial properties remained stable in Beijing and Shanghai. In Tokyo, they were stable on the markets for office and logistics properties but eased slightly for retail properties. Yields on office and logistics properties fell slightly in Singapore, but increased marginally on the market for prime retail properties.

Our subsidiary Aareal Bank Asia in Singapore manages our market activities in Asia. We also have a local presence with our representative office in Shanghai. Our new business in Asia amounted to € 0.4 billion, largely accounted for by China and Japan.

Acquisition of Corealcredit Bank AG

During the year under review, Aareal Bank Group acquired all of the shares of Corealcredit Bank AG, Frankfurt/Main,which specialises in commercial property financing in Germany. A corresponding agreement was concluded on 22 December 2013 with the previous owner, a company of US financial investor Lone Star. The purchase price amounts to € 342 million, subject to contractually-agreed adjustments until the closing date. The closing –

which is still subject to the approval of the respective authorities – is expected to be completed during the first half of 2014. At the time of closing, Corealcredit Bank will be included in the consolidated financial statements of Aareal Bank Group for the first time (first-time consolidation). As at 30 June 2013, Corealcredit Bank's total assets amounted to € 7.6 billion, with € 3.6 billion in commercial property financings.

Consulting/Services segment

Housing Unit

Developments in the German housing industry remained stable overall in 2013, too. This was supported mainly by robust rents and long-term financing structures. Investments in property management companies continued to focus on the maintenance and modernisation of the housing stock. The housing and property companies that are organised in the German Federation of German Housing and Real Estate Enterprises (Bundesverband deutscher Wohnungs- und Immobilienunternehmen – "GdW") and its regional federations invested more than € 10 billion in the future of their portfolios.

The housing market was largely immune to short-term economic fluctuations, since market developments here tend to be determined for the most part by long-term factors such as population and income perspectives. Rents offered were some 3 % higher throughout Germany than in the previous year's level. The increase in advertised rents offered for new builds was higher in the major cities than in rural areas. The rental development was a result of the low new construction activity in recent years and the growing demand for residential properties, especially in prospering economic centres and university cities.

The housing market in Germany continued to develop heterogeneously. Demand for housing was higher in the economically strong urban areas, while rural areas, in particular, experienced a population decline and the associated falling demand for housing. The vacancy ratio on the housing market was moderately lower at less than 3 % in the former West German Federal states and approx. 8 % in Eastern Germany.

Investors continued to focus on residential property in 2013. The key reasons for the ongoing investment demand were the low yields offered by alternative investments and the positive development on the housing market. Transaction volumes increased again by around 29 % over the previous year (€ 11.4 billion) to € 14.7 billion, mostly on account of large-volume deals.

Based on the origins of the buyer groups, German investors once again dominated the transaction market. International investors accounted for only 18 % of investment volumes in 2013, so that their share of the transaction market fell again by a third compared with the previous year (27 %). Overall, various investor groups showed great interest, with listed property companies dominating the market, followed by pension funds and special funds.

The Bank's Housing Unit further strengthened its market position in 2013, acquiring new clients and intensifying business relationships with existing clients, bringing in more business partners for the payments and deposit-taking businesses. These partners manage around 290,000 units. Existing business partners in commercial property management connected more managed units to our payment processes than in the previous year. Once again, additional companies from the utilities and waste disposal industry opted for our payment systems and/or investment products. We meanwhile have an established customer base from this sector and thus a solid base for further growth.

Against the background of introducing the Single European Payments Area (SEPA) at the start of 2014, we started to convert our systems ahead of schedule by introducing the relevant SEPA credit transfers and direct debit payment methods. Having comprehensively informed our clients though workshops, brochures, cover letters and personal discussions, we supported them in the conversion to the new SEPA payment processes.

We also extended the newly-developed application for calculating usage and billing data in the BK 01 sector solution for the utilities and waste disposal industry.

This brings the number of business partners currently using our process-optimising products and banking services to more than 2,900. Despite continued intense competition, the volume of deposits from the housing industry increased significantly to € 7.2 billion on average in the 2013 financial year (2012: € 5.6 billion). Deposits averaged € 7.7 billion in the fourth quarter of 2013. This reflects the strong trust clients place in Aareal Bank.

The marked increase was particularly evident in current account balances, which also increased by more than one third compared with the previous year, in line with call money. With an increase of around 15 % in 2013, we once again increased the volume of rent deposits over the previous year significantly.

Aareon AG

Aareon recorded a positive business development in 2013 in its business segments – ERP Products, Integrated Services and International Business. Overall, sales revenues rose from € 165 million to € 173 million. Despite considerable investments, earnings before interest and taxes (EBIT) were € 27 million and therefore slightly above the previous year's level of € 26 million. This yielded an EBIT margin of 16 %.

In the area of ERP Products, the number of Wodis Sigma clients increased further in 2013 to more than 500 (2012: 477). Since 2011, Aareon has offered – besides Wodis Sigma as an in-house solution – Wodis Sigma as a service from the exclusive Aareon Cloud. The majority of new clients for ERP products opted for this secure and pioneering operating mode. The new Wodis Sigma Release 5 was presented at the annual Wodis Sigma Forum held in Bochum in November, including key functional enhancements concerning the mobile property inspection and integration of the Aareon CRM portal.

Demand was particularly strong in the ERP product line – SAP® solutions and Blue Eagle – in Aareon's advisory solutions for SAP® and for consultancy services. Aareon's successful partnership with SAP continues: since 1 January 2013, Aareon has participated as an SAP Services Partner in the SAP PartnerEdge Program of SAP Deutschland AG & Co. KG. This new agreement replaced the previous status as SAP channel partner, which had expired at the end of 2012 after ten years of successful cooperation.

The volume of business with the established GES ERP system, which is available in the ASP operating mode, was stable.

In order to convert the national payment systems to the single euro payments area (SEPA) as at 1 February 2014, Aareon had integrated the necessary functions in all ERP systems. Acceptance among the clients is high.

Development in integrated services remained positive. Demand was particularly strong for the Mareon service portal, the BauSecura insurance management and the Aareon invoicing services.

As planned, Aareon introduced Aareon Archiv kompakt in early 2013. This digital archiving solution is met with strong demand. In addition, Aareon launched Mareon FM (facility management), a development of the Mareon service portal for FM providers that has been tried and tested for more than ten years.

Two new features of the Mareon service portal were released on schedule in 2013: the "Supply and Demand" module for property management companies, which makes it easier to compare prices and automates a standard process, and the web app for tradesmen.

Aareon's invoicing service continued to penetrate the market in 2013 and Aareon entered into several strategic partnerships, for example with SEEBURGER AG, Bretten, a global specialist for the integration of internal and external business processes. The goal of this partnership is to integrate

Aareon's invoicing service in the SEEBURGER Business Integration Suite Utilities.

At the Aareon Congress, which was held in Garmisch-Partenkirchen in May 2013 and was characterised by digitalisation, Aareon presented its CRM offer for the first time, the result of the internal Aareon development project. The Aareon CRM portal is one of its main components and was rolled out with the first clients. Further introductory projects are about to be concluded.

International business remained positive during the period under review. Its share in Aareon Group's share of total sales revenue increased to 31 % (2012: 29 %). Within the scope of its research and development activities, Aareon Group benefits from the constant exchange of information on an international level. Synergies in the areas of business models, technologies and cooperation partners are systematically identified and exploited.

In the financial year under review, the Dutch subsidiary SG|automatisering bv, Emmen, rolled out an important client – the important property management company De Key, Amsterdam (35,700 rental units) – with the ERP product generation SG|tobias^{AX} based on Microsoft® Dynamics®AX.

The CRM solutions of the French subsidiary Aareon France SaaS, Meudon-la-Forêt, triggered positive client reactions. Aareon France is a forerunner in the area of client management systems for the commercial housing sector, which optimise and complement the processes and improve the rental service. Aareon France incorporates its expertise into the research and development activities of Aareon Group. The property management company Promologis, Toulouse (22,000 rental units) opted in favour of the CRM solutions. Erilia, Marseille, (89,000 rental units) is the first Aareon France client to use the Aareon data centre for hosting its CRM solution. The property management company Adoma, Paris (80,000 rental units), appointed Aareon France to develop a CRM web-based solution for prospective tenants. Aareon France also acquired additional clients for the Prem'Habitat and PortalImmo Habitat ERP solutions. The new release 3.0 of PortalImmo Habitat was developed on schedule and launched in the third quarter of 2013.

Several products were rolled out in the UK, with the ERP solution QL and the mobile solution 1st Touch – for example for the important property management company Together Housing Group, Halifax (35,000 rental units). 1st Touch, which was acquired in 2012, was successfully integrated into Aareon Group. Aareon is further developing the mobile solutions offered, so that they can also be marketed internationally. One result was the development of the mobile property inspection for Wodis Sigma Release 5.0.

In the course of its growth strategy, Aareon further extended its market position in Europe and took a 100 % stake in the Swedish company Incit AB, Mölndal, with effect from 1 July 2013. The Scandinavian market is important for Aareon because of its high share of institutional property investors. Incit AB is a leading provider of ERP property management software in Scandinavia. The financial and property management system Incit Xpand offers comprehensive property management functions, ranging from accounting to management information. The ERP solutions of Incit AB are based on Microsoft® technology, as is the case with most of Aareon Group's solutions. They are designed for multi-currency and country application, ideally complementing Aareon's service range. In addition to Sweden, Incit AB is represented with subsidiaries in Norway (Incit AS, Oslo) and in the Netherlands (Incit Nederland B.V., Gorinchem).

Net assets, financial position and financial performance

Financial performance

Group

Consolidated operating profit in the 2013 financial year amounted to € 198 million, compared with € 176 million in the same period of the previous year. In particular, the positive development in net interest income during the period under review led to a marked increase in results over the previous

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Net interest income	527	486
Allowance for credit losses	113	106
Net interest income after allowance for credit losses	**414**	**380**
Net commission income	165	169
Net result on hedge accounting	-6	-4
Net trading income/expenses	18	-10
Results from non-trading assets	-8	1
Results from investments accounted for using the equity method	0	0
Results from investment properties	–	5
Administrative expenses	375	358
Net other operating income/expenses	-10	-7
Impairment of goodwill	–	–
Operating profit	**198**	**176**
Income taxes	62	52
Net income/loss	**136**	**124**
Allocation of results		
Net income/loss attributable to non-controlling interests	19	19
Net income/loss attributable to shareholders of Aareal Bank AG	117	105
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	117	105
Silent participation by SoFFin	24	20
Consolidated profit/loss	**93**	**85**

year. Accordingly, consolidated operating profit clearly exceeded the original forecast.

Net interest income was € 527 million (2012: € 486 million). The increase over the previous year was therefore higher than originally expected. Good margins achieved in the lending business, low funding costs, and effects from repayments that were higher than expected had a positive impact on net interest income. It was burdened, however, by a lack of attractive investment opportunities for the liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses amounted to € 113 million in the 2013 financial year (2012: € 106 million), and was therefore at the lower end of the forecast range of € 110 million to € 150 million for the full financial year.

Net commission income of € 165 million was only slightly lower than the previous year's figure (€ 169 million) and points accordingly to an overall stable development in line with original expectations.

The aggregate of net trading income/expenses and the net result on hedge accounting of overall € 12 million was primarily attributable to the measurement of derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

The result from non-trading assets amounted to € -8 million, largely due to the sale of securities as part of active portfolio management.

At € 375 million (2012: € 358 million), administrative expenses were slightly higher than the forecast range of € 360 million to € 370 million for the financial year. One reason for this were measurement effects in conjunction with share-based variable remuneration components, as defined by the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung) owing to the positive performance of the Aareal Bank share. Other reasons included the acquisition of Sweden's Incit Group as at 1 July 2013, as well as higher expenses for projects compared with the previous year.

Overall, consolidated operating profit for the 2013 financial year was € 198 million (2012: € 176 million). Taking into consideration income taxes of € 62 million and non-controlling interest income of € 19 million, net income attributable to shareholders of Aareal Bank AG amounted to € 117 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 93 million (2012: € 85 million).

Structured Property Financing segment

At € 209 million, the operating profit achieved in the Structured Property Financing segment was markedly higher than the figure for the previous year (€ 170 million).

Net interest income was € 519 million (2012: € 463 million). The increase over the previous year was therefore higher than originally expected. Good margins achieved in the lending business, low funding costs, and effects from repayments that were higher than expected had a positive impact on net interest income. It was burdened, however, by a lack of attractive investment opportunities for the liquidity reserves, due to the persistent low interest rate environment.

Structured Property Financing segment result

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Net interest income	519	463
Allowance for credit losses	113	106
Net interest income after allowance for credit losses	**406**	**357**
Net commission income	10	21
Net result on hedge accounting	-6	-4
Net trading income/expenses	18	-10
Results from non-trading assets	-8	1
Results from investments accounted for using the equity method	–	0
Results from investment properties	–	5
Administrative expenses	201	191
Net other operating income/expenses	-10	-9
Impairment of goodwill	–	–
Operating profit	**209**	**170**
Income taxes	65	51
Segment result	**144**	**119**
Allocation of results		
Segment result attributable to non-controlling interests	16	17
Segment result attributable to shareholders of Aareal Bank AG	128	102

Allowance for credit losses in the 2013 financial year was € 113 million (2012: € 106 million) and was therefore slightly higher than the previous year's level and at the lower end of the forecast range of € 110 million to € 150 million for the financial year.

Net commission income was € 10 million; the previous year's figure of € 21 million was marked by positive non-recurring effects.

Net trading income/expenses and the net result on hedge accounting of € 12 million were primarily attributable to the measurement of derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from the sale of hedges for selected EU sovereign countries.

The result from non-trading assets amounted to € -8 million, largely due to the sale of securities as part of active portfolio management.

At € 201 million (2012: € 191 million), administrative expenses exceeded the previous year's level. One reason for this were measurement effects in conjunction with share-based variable remuneration components, as defined by the German Ordinance on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung) owing to the positive performance of the Aareal Bank share, as well as higher expenses for projects compared with the previous year.

Operating profit in the Structured Property Financing segment totalled € 209 million. Taking into consideration income taxes of € 65 million and non-controlling interest income of € 16 million, the segment result attributable to shareholders of Aareal Bank AG amounted to € 128 million.

Consulting/Services segment

At € -11 million, the operating profit achieved in the Consulting/Services segment was clearly lower than the figure for the previous year (€ 6 million). Contributing € 27 million, Aareon posted slightly higher results in line with original expectations, whereas low margins from the deposit-taking business with the housing industry, due to the persistent low interest rate levels, clearly burdened the segment result.

Consulting/Services segment result

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Sales revenue	187	194
Own work capitalised	4	2
Changes in inventory	0	0
Other operating income	6	7
Cost of materials purchased	22	21
Staff expenses	122	114
Depreciation, amortisation and impairment losses	14	13
Results from investments accounted for using the equity method	0	–
Other operating expenses	50	49
Interest and similar income/expenses	0	0
Operating profit	**-11**	**6**
Income taxes	-3	1
Segment result	**-8**	**5**
Allocation of results		
Segment result attributable to non-controlling interests	3	2
Segment result attributable to shareholders of Aareal Bank AG	-11	3

Sales revenue amounted to € 187 million in the 2013 financial year (2012: € 194 million). The year-on-year decline was attributable to markedly lower margins from the deposit-taking business with the housing industry, which was due to the persistent low interest rates; these margins are reported in sales revenues. Aareon's sales revenues, however, increased by € 8 million to € 173 million during the same period (2012: € 165 million).

The increase in own work capitalised was due, in particular, to stronger development activities in Aareon's international units, including in Customer Relationship Management (CRM).

Staff expenses of € 122 million were higher than the previous year's level. This was due to, amongst other things, the expenditure related to Incit AB, Mölndal, Sweden, acquired by Aareon as at 1 July 2013 and included in the item for the first time. In addition, the income statement included the full-year results of 1st Touch, Southampton, UK, for the first time. This subsidiary was acquired in mid-2012 and was thus only consolidated on a pro-rata basis in the previous year.

On balance, the Consulting/Services segment generated operating profit of € -11 million (2012: € 6 million). Taking into consideration taxes of € -3 million and non-controlling interest income of € 3 million, the segment result attributable to shareholders of Aareal Bank amounted to € -11 million (2012: € 3 million).

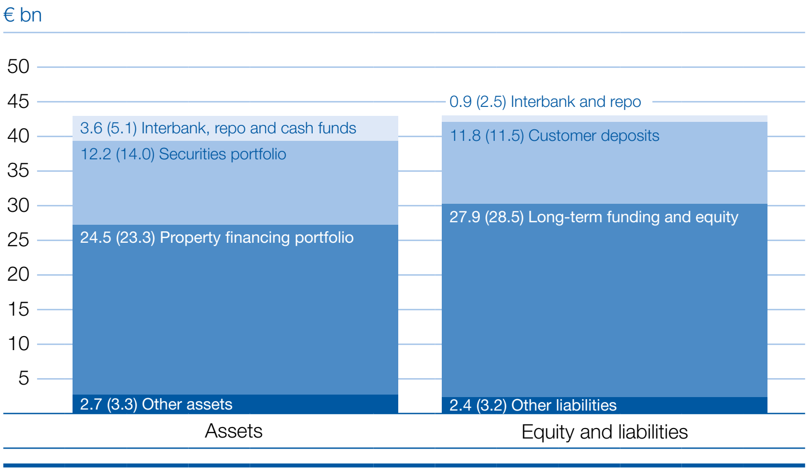
Net assets

Consolidated total assets of Aareal Bank Group as at 31 December 2013 amounted to € 43.0 billion, after € 45.7 billion as at 31 December 2012.

Interbank deposits, repos, and cash funds

Interbank deposits, repos, and cash funds comprise short-term investments of surplus liquidity. As at 31 December 2013, this comprised predominantly money-market receivables from other banks, deposits with central banks, and short-term receivables entered into in the course of central bank operations designed to fine-tune monetary policy.

Statement of financial position – structure as at 31 Dec 2013 (31 Dec 2012)



Within the scope of such fine-tuning measures, Aareal Bank regularly takes part in repo transactions used by the ECB to absorb market liquidity. As at 31 December 2013, the Bank had receivables vis-à-vis the ECB in an aggregate amount of € 1.5 billion.

Property financing portfolio

Portfolio structure

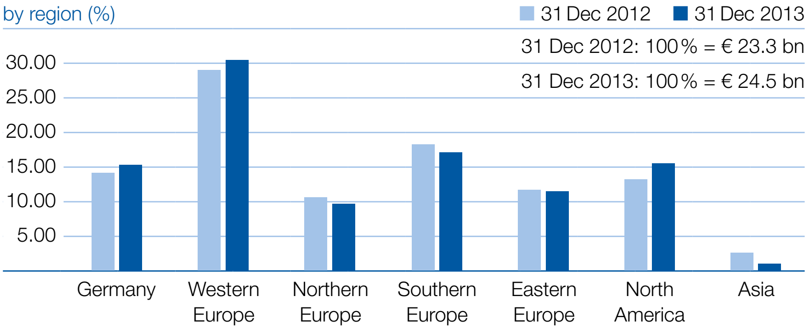
The volume of Aareal Bank Group's property financing portfolio stood at € 24.5 billion as at 31 December 2013. This represents an increase of 5.3 % over the 2012 year-end figure of € 23.3 billion. The international share of the portfolio fell slightly to 84.7 % (2012: 85.8 %).

At the reporting date, Aareal Bank Group's property financing portfolio was composed as shown in the diagrams on the following page.

The allocation of the portfolio by region changed only marginally in 2013, compared with the end of the previous year. Whilst the portfolio shares of exposures in Germany, Western Europe and North America rose slightly, they were slightly lower in Asia, Southern Europe and Northern Europe; the portfolio share of East European exposures remained stable.

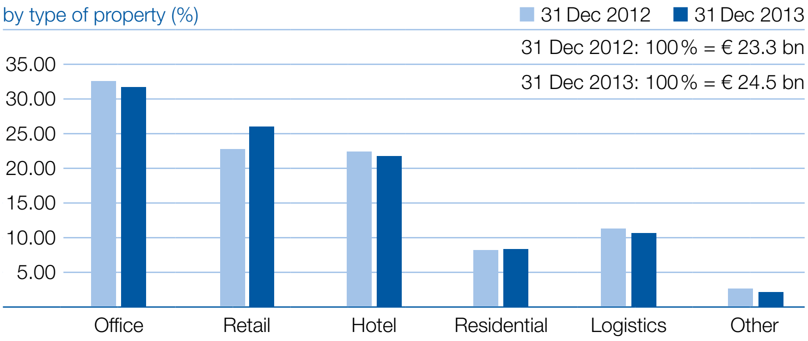
Property financing volume (amounts drawn)

by region (%)



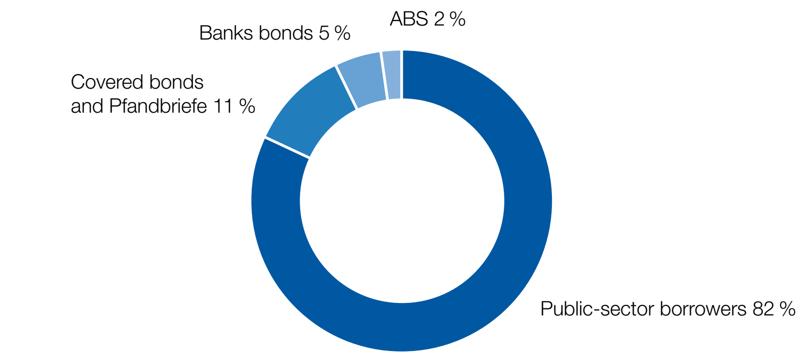
Property financing volume (amounts drawn)

by type of property (%)



Securities portfolio as at 31 December 2013

% Total volume (nominal): € 10.8 bn



The allocation of the portfolio by property type remained more or less unchanged during the year under review, whereby the share of retail property financings was increased. In contrast, the shares of office properties, hotels and logistics properties declined slightly, while those of housing properties and other financings remained stable.

All in all, the high degree of diversification by region and property type within the property financing portfolio was maintained in the 2013 financial year.

Securities portfolio

Aareal Bank holds liquidity reserves – in the form of a high-quality securities portfolio – in view of the still-volatile market environment and in order to comply with future regulatory requirements.

As at 31 December 2013, the nominal volume of the securities portfolio[1] was € 10.8 billion (31 December 2012: € 12.1 billion). Key aspects taken into account for new investments are good credit quality and the related value stability, as well as a high degree of liquidity, particular with regard to Basel III criteria. The securities portfolio comprises four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS).

97 %[2] of the overall portfolio is denominated in euro. 98 %[2] of the portfolio has an investment grade rating.[3]

Public-sector borrowers are the largest asset class held, accounting for a share of approx. 82 %. These include securities and promissory note loans[4] that qualify as ordinary cover for Public Sector Pfandbriefe. 97 % of these issuers are headquartered in the EU. Approx. 76 % are rated ”AAA”or ”AA” and a further 4 % are rated ”A”. Overall, 98 % have an investment grade rating.

[1] As at 31 December 2013, the securities portfolio was carried at € 12.2 billion (31 December 2012: € 14.0 billion).
[2] Details based on the nominal volume; [3] The rating details are based on the composite ratings.
[4] Promissory note loans carried as assets are reported in the IFRS statement of financial position under ”Loans and advances to banks“ and ”Loans and advances to customers“.

The share of Pfandbriefe and covered bonds at year-end was 11 %. 96 % consists of European covered bonds, with the remainder invested in Canadian covered bonds. Around 44 % have an "AAA" rating and a further 25 % are rated "A". The remainder are rated "BBB".

The bank bond asset class is made up predominantly of European issuers with high credit quality. The share of this asset class was approx. 5 % at year-end. A total of around 98 % were rated at least "A".

The securities portfolio also contains ABS securities that account for a share of approx. 2 %. Of this amount, European mortgage-backed securities account for approx. 91 %. The asset class comprises 77 % RMBS, 14 % CMBS and 9 % asset-backed securities on car and student loans.

Financial position

Interbank and repo business

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

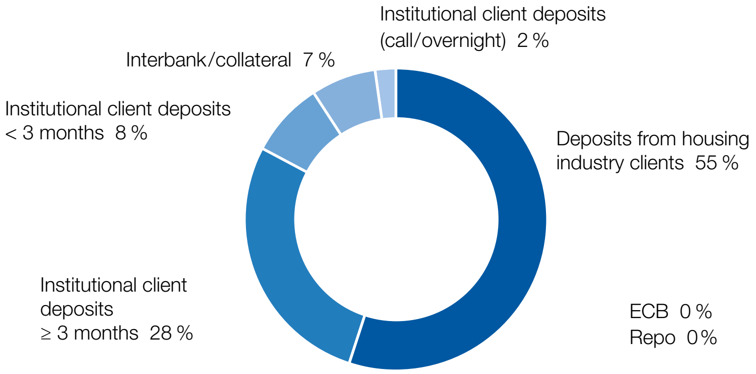
Aareal Bank participated in the European Central Bank's long-term refinancing operations (LTRO) during recent years. The Bank fully repaid the amounts drawn of € 1 billion on 27 February 2013. There were no liabilities vis-à-vis Deutsche Bundesbank or the ECB as at 31 December 2013.

Customer deposits

As part of our business activities, we generate deposits from housing customers, and from institutional investors. The volume of deposits from the housing industry increased during the reporting period. As at 31 December 2013, they amounted to € 7.0 billion (2012: € 6.3 billion). According to plan, the Bank reduced the volume of deposits from investors during 2013; these deposits amounted to € 4.8 billion as at 31 December 2013 (2012: € 5.2 billion).

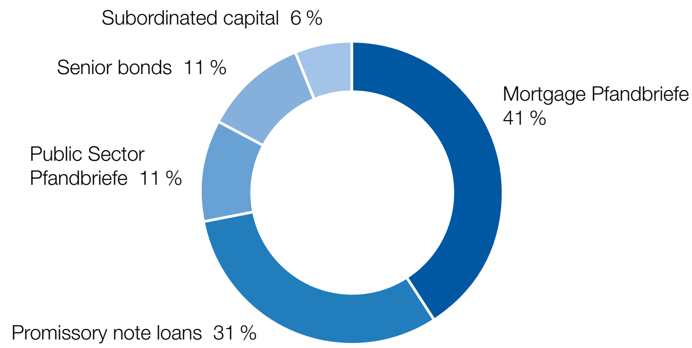
Money market funding mix as at 31 December 2013

% Total volume: € 12.7 bn



Capital market funding mix as at 31 December 2013

% Total volume: € 26.0 bn



Long-term funding and equity

Funding structure

Aareal Bank Group's funding remains very solid indeed, as evidenced by the high proportion of long-term refinancing. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinate issues. The latter includes subordinated liabilities, profit-participation certificates, silent participations and trust preferred securities. As at 31 December 2013, the long-term refinancing portfolio amounted to € 26.0 billion. Mortgage Pfandbriefe (Hypothekenpfandbriefe) comprised € 10.6 billion and

Public Sector Pfandbriefe (Öffentliche Pfandbriefe) € 2.8 billion, whilst € 11.1 billion was made up of unsecured bonds, and € 1.5 billion was in subordinated bonds.

In 2013, Mortgage Pfandbriefe accounted for a total share of 41 % of long-term refinancing.

Refinancing activities

During the period under review, Aareal Bank succeeded in raising a total of € 4.1 billion of medium- and long-term funds on the capital market. The issue volume of our unsecured funds amounted to € 1.0 billion. In addition, subordinated debt (LT2) has been issued with a volume of € 0.1 billion. Mortgage Pfandbriefe made up € 3.0 billion of the total volume. This highlights how very important the Pfandbrief remains to Aareal Bank's funding mix.

Of the various privately- and publicly-placed issues, the two benchmark Mortgage Pfandbriefe placed in January and June 2013, with issue volumes of € 625 million and € 500 million respectively have to be highlighted. Moreover, the Bank increased two outstanding € 500 million Aareal Bank Mortgage Pfandbriefe by € 125 million each. We also successfully placed two syndicated Mortgage Pfandbrief issues – in March (€ 200 million) and October 2013 (€ 250 million) – as well as Aareal Bank's debut sterling Mortgage Pfandbrief in April 2013, with an issue size of GBP 200 million. Owing to the strong demand for Pfandbriefe and unsecured bonds from solid issuers, we were able to successfully execute all of our planned funding activities as planned.

Equity

As at 31 December 2013, Aareal Bank Group's equity as disclosed on the balance sheet amounted to € 1.9 billion, excluding the SoFFin silent participation of € 300 million and trust preferred securities in the amount of € 243 million.

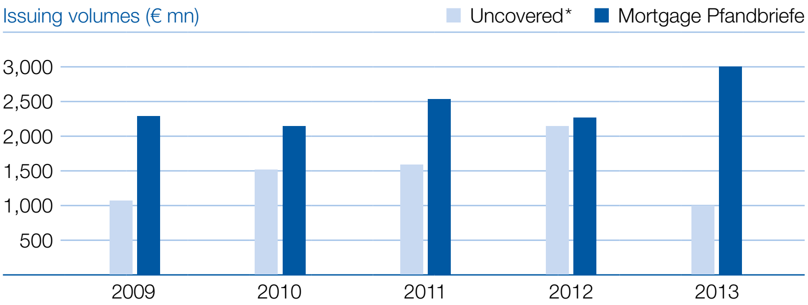
Key indicators pursuant to AIRBA [1]

	31 Dec 2013 [2]	31 Dec 2012
€ mn		
Tier 1 capital	2,437	2,430
Total own funds	3,081	2,991
Risk-weighted assets (incl. market risk)	13,150	14,513
%		
Tier 1 ratio	18.5	16.7
Total capital ratio	23.4	20.6

The regulatory indicators shown in the table above are based on the accounting rules in accordance with the German Commercial Code (HGB). In accordance with International Financial Reporting Standards (IAS/IFRSs), the regulatory indicators on the reporting date of 31 December 2013 would be as follows:

	31 Dec 2013 [2]
€ mn	
Tier 1 capital	2,636
Total own funds	3,107
Risk-weighted assets (incl. market risk)	12,689
%	
Tier 1 ratio	20.8
Total capital ratio	24.5

Issuing activities – 2009 to 2013



* excluding SoFFin-guaranteed issues and subordinated capital

[1] Aareal Bank AG has opted to determine regulatory indicators at Group level only since 2007, applying the regulation of section 2a (6) of the German Banking Act (KWG). In this respect, the following disclosures relate to Aareal Bank Group.

[2] After confirmation of the financial statements 2013 of Aareal Bank AG. The Management Board's proposal for the appropriation of profit for the 2013 financial year – which is subject to approval by the General Meeting – was taken into account when calculating equity.

Our Employees

Age structure and fluctuation

Aareal Bank's fluctuation ratio for 2013 was 1.4 %. The average number of years in service for the Company is 13.3. These two figures are a reflection of the strong relationship of the employees with the Company. The average age of our employees is 44.7 years.

Remuneration system

The remuneration systems are based on remuneration principles that apply throughout Aareal Bank Group. When the German Ordinance on Remuneration in Financial Institutions, (Institutsvergütungsverordnung), as amended on 6 October 2010, came into force, the remuneration structures at Aareal Bank AG and Bank-related subsidiaries were adjusted, incorporating external advisors and the employee representative bodies. The modified systems came into effect as at 1 January 2011.

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

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

Personnel data as at 31 December 2013

	31 Dec 2013	31 Dec 2012	Change
Number of employees of Aareal Bank Group	2,375	2,289	3.8 %
Number of employees of Aareal Bank AG	874	875	-0.1 %
of which: outside Germany	92	92	
of which: Proportion of women	46.3 %	45.0 %	
Proportion of women in executive positions	25.6 %	26.2 %	
No. of years service	13.3 years	13.5 years	-0.2 years
Average age	44.7 years	44.5 years	0.2 years
Staff turnover rate	1.4 %	2.7 %	
Part-time ratio	19.7 %	19.0 %	
Retired employees and surviving dependants	544	577	-4.0 %

Qualification and training programmes

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

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

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

Aareal Academy's specialist seminars were established in cooperation between Human Resources and the Bank's specialist divisions. Within the scope of the strategic personnel development programme, Human Resources thus developed tailor-made training programmes that were adjusted to meet the Bank's various functions and requirements. The development of new, internal training measures follows the principle of "colleagues learn from colleagues". In line with this principle, experts are called in as advisors, thus guaranteeing that current professional topics are dealt with and new knowledge is imparted.

The main focus during the 2013 financial year was on supplementary training and workshop offers on Company Health Management. In addition to the existing training and coaching measures, the Bank's managers are supported through another training programme called "Healthy Leadership". Carrying on from this, a workshop format on the issue of stress management was established for employees. In addition, health management was integrated within the scope of a sub-module in the new format "Office Congress of Aareal Bank Group" for assistants and employees working in support functions.

Aareal Bank Group views its training and CPD activities as an investment in its own employees, and therefore in the future of the entire Group. The "Structured Appraisal and Target Setting Dialogue", Aareal Bank's employee review, is the starting point for the individual development plans. Every year, each employee discusses his or her personal development with the responsible manager, agreeing upon concrete measures. Once again, more than 1,000 development measures were agreed in this manner at the start of 2013. As a result of these plans, 2,611 employees participated in Aareal Bank's training measures during the year under review.

The outcome of this systematic Human Resources development approach is that Aareal Bank employees invested an average of 3.51 days in professional development seminars and workshops during 2013.

The procedure for assessing potential, which was introduced already in the 2010 financial year and updated in 2013, is conducted in the Bank as a standard tool prior to the transfer of a management duty or specialist expert position. This tool systematically selects employees and guides them to new areas of responsibility.

The long-standing cooperation with the European Business School (EBS) and its Real Estate Management Institute (REMI) continued during the year under review. Within the scope of the cooperation, Aareal Bank Group's employees are offered the chance to participate in the executive courses of study that are specific to the property sector, or in events arranged by this partner institute of higher education. Aareal Bank also supports the institute with the "Aareal Foundation Chair for Property Investment and Financing" at the EBS-REMI.

Subsidiary Aareon AG also continued to focus on the CPD of its managers during the 2013 financial year. Within the scope of the Professional individual executive development ("ProFI"), the managers were offered training (including labour law for managers), diagnostics (including development centre for new executives) and advisory measures (including individual coaching and managerial circles). Another focus was on supporting the international profile of Aareon by means of language courses and training sessions to expand intercultural competencies. The training programme to become a certified property manager at the Hochschule für Wirtschaft und Umwelt in Nürtingen-Geislingen was also continued in 2013.

Promoting the next generation

Promoting the next generation through training is a central element of the HR work of Aareal Bank Group. The specialist knowledge required in our business divisions requires us to invest continuously – and in a targeted manner – in training the next generation. To this end, Aareal Bank has been offering a tailored trainee programme for university graduates since 2000, which provides comprehensive development opportunities within the Company. The programme concentrated on the Housing Business during the year under review.

Besides Aareal Bank's trainee programme and the restoration of Aareon's trainee programme in 2013, new entrants starting out in Aareal Bank Group can avail of a range of training programmes. Aareon AG offers vocational training in various careers: office administrator, IT applications developer, IT system integrator. It also offers the dual course of study: "Business Administration – Property Manager" in cooperation with the College of Advanced Vocational Studies in Leipzig and the technical institute "Duale Hochschule" in Baden-Württemberg (DHBW) in Mannheim. Aareon also cooperated with DHBW Mannheim for the first time in 2013 on the "Business Administration – Exhibition, Congress and Event Management" course of study.

Aareal Bank and Aareon held the Girls' Day and Boys' Day as part of its measures for promoting the next generation. The Girls Day was held at Aareon for the sixth consecutive year, where 17 female students aged between 11 and 15 were given an insight into the wide variety of careers in IT. A further 20 students aged between 11 and 14 years took the opportunity presented by the Girls' and Boys' Day at Aareal Bank to gain more comprehensive impressions of occupations that they would have not taken into account in their choice of career otherwise.

A total of 68 boys and girls visited the first Aareon kids & friends science camp. Employees' children and their friends aged between 8 and 12 years participated in the workshops, which aim at stimulating and promoting technical interest at an early stage.

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

Work-life balance

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

Since July 2012, the Bank cooperates with the non-profit organisation "Fit For Family Care", which operates two childcare facilities in Wiesbaden. This cooperation agreement offers employees childcare places for children aged between ten months and six years. Aareal Bank also cooperates with the City of Wiesbaden to offer childcare facilities to its employees during the school holidays, and since summer 2013 has cooperated with the Biberbau children and youth farm in Wiesbaden, where employees' children can take advantage of educational and leisure opportunities. These offers are supplemented by flexible working hours, part-time work or the possibility to incorporate home working into their working hours – provided the respective position allows it. During the year under review, 172 employees (19.7 %) worked part-time (2012: 166 or 19 %), and 31 employees (3.5 %) worked from home during parts of their working hours (2012: 26 or 3.0 %).

Another component for improving the work-life balance of Aareal Bank's staff is the range of advisory and support services offered where close relatives are ill or in need of care, the opportunity to use statutory family caregiver leave and the constantly changing offer within the scope of the company health management, together with the various measures surrounding health protection and preventative healthcare for all employees.

For the last six years, Aareon has been certified as a family-friendly company by berufundfamilie gemeinnützige GmbH, a non-profit organisation. Aareon's staff policy services include the promotion of workplace flexibility through part-time work and home working. At the end of 2013, Aareon had 123 (16.0 %) part-time positions (2012: 128, 16.8 %) and 85 (10.9 %) home working places (2012: 82, 10.7 %). Aareon also works together with a family service company that supports employees on matters relating to childcare as well as onset of a care situation, and, together with another company, offers places at a day nursery and nursery school at a daycare centre in Mainz, where the nursery school places are free of charge for Aareon employees.

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

Diversity

During the year under review, the Management Board expressly stated its commitment to diversity at Aareal Bank Group, and published this in the internet and the intranet. Accordingly, Aareal Bank understands diversity

- as valuing and respecting the unique characteristics and differences of each individual employee,
- guaranteeing equal opportunities at all levels,
- avoiding all types of discrimination and
- actively representing and living the conviction that diversity both enhances our corporate culture and is another success factor in achieving strategic objectives.

To this end, the attractiveness of Aareal Bank Group as a modern employer is intended to be promoted, employee loyalty strengthened and employee motivation enhanced, while performance-oriented and individual promotion of abilities and competencies are intended to be guaranteed. Furthermore, the Group intends to react to demographic change and an ageing employee base, as well as taking into account the individual situations and phases in the employees' lives.

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

Aareal Bank Group currently has employees from 30 different nations. It makes sure that its international operations are filled by mainly local nationalities.

The share of female employees in Aareal Bank Group was 46.3 % in 2013, with women accounting for 25.6 % of executive positions. The share of female employees in Aareon Group was 32.3 %, with 21.9 % holding executive positions.

With effect from 1 June 2013, the Supervisory Board appointed Ms Dagmar Knopek as a member of the Management Board of Aareal Bank.

Severely-disabled persons made up 3.3 % of Aareal Bank's staff base in 2013. This employee group is represented in the Group's German entities by a disability representative.

Equal treatment

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

The employee representative bodies regularly check within the scope of their co-determination rights that qualification is the decisive criteria for filling positions. In addition, recruitment decisions at

Management Board and executive staff levels must take into account primarily the qualifications and experience at international level, when selecting a suitable candidate.

In Germany, Aareal Bank and Aareon apply the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – "AGG"), with specially-appointed AGG Officers overseeing compliance. At the same time, AGG training is held for all employees. In the United States, the employee manual contains anti-harassment rules to avoid harassment and discrimination at the workplace.

Report on Material Events after the Reporting Date

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

Risk Report

Aareal Bank Group Risk Management

The ability to correctly assess risks, and to manage them in a targeted manner, is a core skill in banking. Accordingly, being able to control risks in all their relevant variations is a key factor for a bank's sustainable, commercial success. Besides this purely economic motivation for a highly-developed risk management system, extensive regulatory requirements apply to the risk management as well. We therefore continued to drive the development of our processes for identifying, measuring, limiting and managing risks in the financial year under review too.

Risk management – scope of application and areas of responsibility

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

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

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

Process-independent monitoring: Audit

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

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

Strategies

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

Risk-bearing capacity and risk limits

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

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the German Solvency Regulation (SolvV). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a minimum core Tier I ratio (calculated in accordance with Basel III) of 8 %. Only free own

Risk-bearing capacity of Aareal Bank Group as at 31 December 2013
– Going concern approach –

€ mn	31 Dec 2013	31 Dec 2012
Own funds for risk cover potential	2,504	2,359
less 8 % minimum tier 1	1,282	1,288
Freely available funds	**1,222**	**1,071**
Utilisation of freely available funds		
Credit risks	225	239
Market risks	220	281
Operational risks	44	43
Investment risks	28	27
Total utilisation	**516**	**590**
Utilisation as a percentage of freely available funds	**42 %**	**55 %**

funds exceeding this level are applied as potential risk cover, of which a further 28 % 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 core Tier I ratio of 8 %, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The following table summarises the Bank's overall risk exposure as at 31 December 2013.

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

Stress testing

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

Approval to apply the internal ratings-based advanced approach (AIRBA)

Since 31 December 2010, Aareal Bank has applied the internal ratings-based Advanced Approach (AIRBA) to calculate regulatory capital requirements for counterparty credit risk in commercial property financings. We applied for approval by the German Federal Financial Supervisory Authority (BaFin) to also use the AIRBA to counterparty credit risk vis-à-vis institutions. Following a successful review, BaFin has granted its approval in a letter dated 29 November 2013. Since then, we have also been applying internal ratings for institutions for the purpose of calculating regulatory capital requirements for counterparty credit risk exposure. The risk classification procedures we have implemented represent a central element of our risk management process.

Organisational structure and workflows

Lending business

Division of functions and voting

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

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

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

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

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

Process requirements

The credit process comprises the credit approval and further processing phases, each governed by a control process. Credit exposures subject to increased risks involve supplementary processes for intensified handling, the handling of problem loans, and – if necessary – for recognising allowance for credit losses. The corresponding processing principles are laid down in the Bank's standardised rules and regulations, which are applicable throughout the Group.

Important factors determining the counterparty credit risk of a credit exposure are identified and assessed on a regular basis, adequately taking into account sector and (where appropriate) country risks. Critical issues regarding an exposure are highlighted, and analysed assuming different scenarios where appropriate.

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

Furthermore, the risk assessment results are taken into account for pricing purposes.

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

Early risk detection procedures

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

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

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

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

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

Risk classification procedures

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

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

Property financing business

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

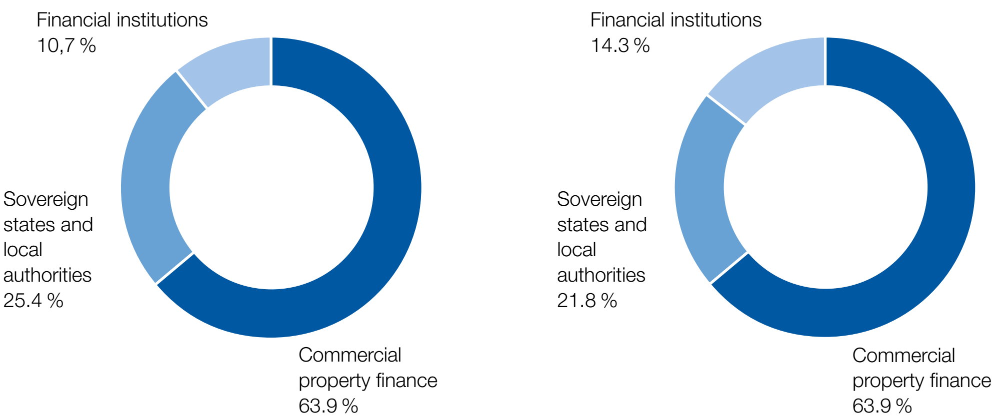
In a first step, the client's probability of default (PD) is determined using a rating procedure. The method used in this context comprises two main components, a property rating and a corporate rating.

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

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

Breakdown of exposure by rating procedure

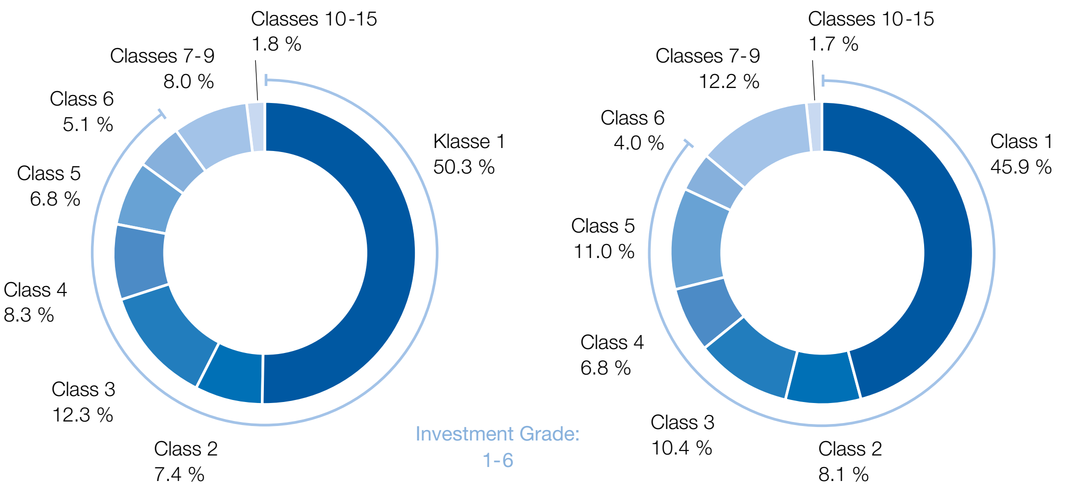
31 Dec 2013 | 31 Dec 2012 — 100 % = € 41.3 bn | 100 % = € 39.3 bn



Note: The rating procedures for financial institutions also apply to institutions with a zero weighting under the SolvV.
This includes, for example, public-sector development banks backed by a state guarantee. Such institutions accounted for 38 % of all rated financial institutions as at 31 December 2013.

Large-sized commercial property finance

by internal expected loss classes — as at 31 Dec 2013 | as at 31 Dec 2012



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

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

The diagrams shown above depict the distribution of lending volume by EL classes as at 31 December 2012 and 31 December 2013, based on the maximum current or future drawdown. The distribution excludes exposures for which no rating has been concluded, or which are in default (as defined under Basel II).

Financial institutions

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

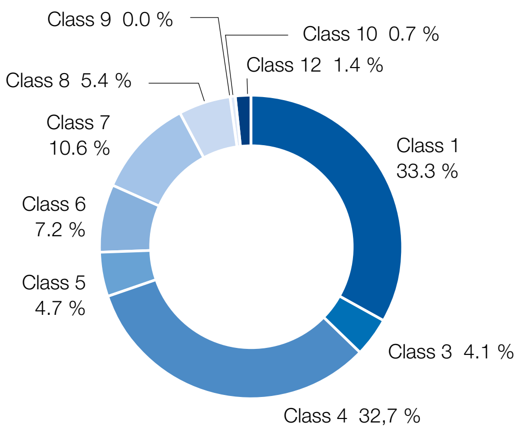
Sovereign states and local authorities

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

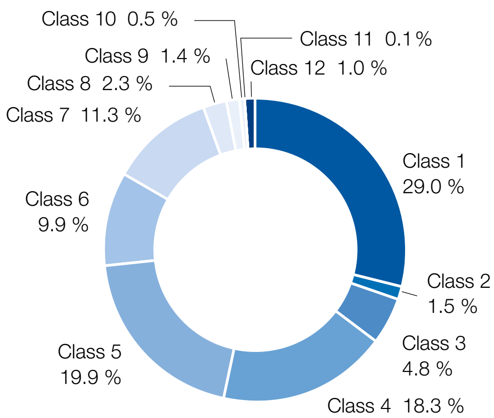
In general, the risk classification procedures employed by the Bank are dynamic methods which are permanently adapted to changing risk structures and market conditions.

Financial institutions

by rating class as at 31 Dec 2013 | as at 31 Dec 2012



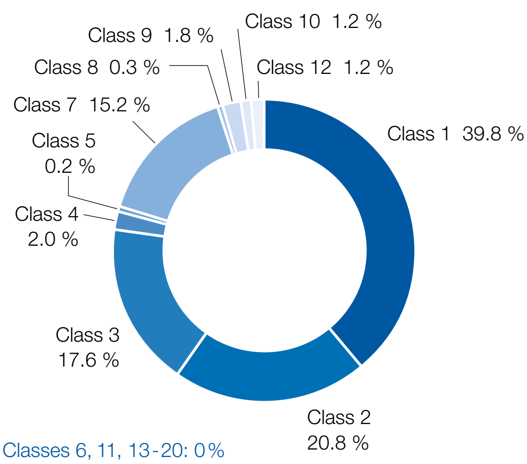
Classes 2, 11, 13-18: 0%



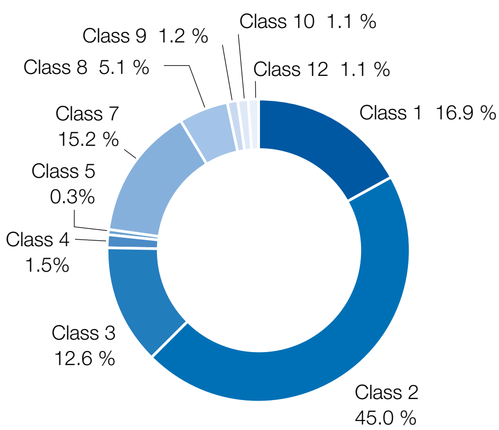
Classes 13-18: 0%

Sovereign states and local authorities

by rating class as at 31 Dec 2013 | as at 31 Dec 2012



Classes 6, 11, 13-20: 0%



Classes 6, 11, 13-20: 0%

Trading activities

Functional separation

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

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

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

The detailed assignment of responsibilities is outlined below.

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

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

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

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

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

Process requirements

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

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

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

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

Risk exposure by type of risk

Credit risks

Definition

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

Credit risk strategy

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

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

Risk measurement and monitoring

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

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

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

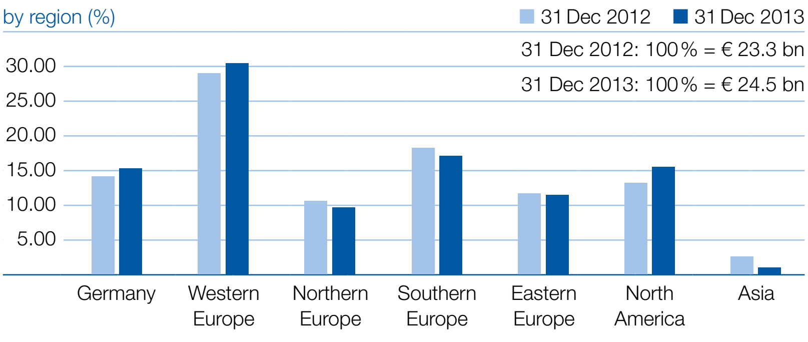
The model-based review and monitoring of risk concentrations is carried out on the basis of the credit risk models used in the Bank. The models in question allow the Bank to include in particular, rating changes and diversification effects in the model-based assessment of the risk concentrations.

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

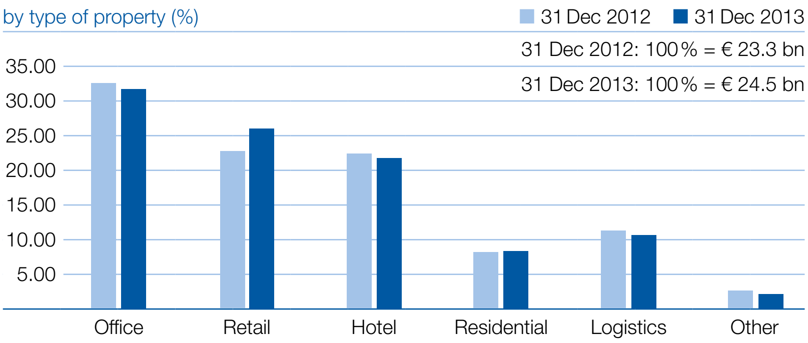
A risk report that complies with the Minimum Requirements for Risk Management (MaRisk) is prepared and submitted to the Bank's senior management and Supervisory Board on a regular basis, at least quarterly. This report contains extensive information on the development of the credit portfolio (covering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

Trading activities are generally restricted to counterparties for whom the requisite limits are in place. Replacement and settlement risks are taken into account when determining counterparty limit usage. Persons holding position responsibility are informed about relevant limits and their current

Property financing volume (amounts drawn)



Property financing volume (amounts drawn)



usage without delay. Trading activities also require the establishment of issuer limits.

All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Any limit breaches are documented, together with action taken in response. Where limit transgressions exceed an amount defined in line with risk considerations, these are escalated to the responsible members of senior management, using a standardised escalation process.

Credit risk mitigation

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

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

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

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

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

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

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

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

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

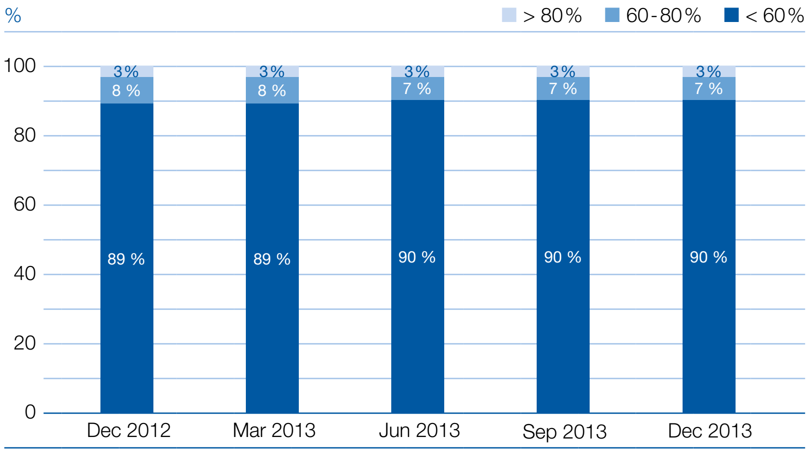
To further reduce default risks, the provision of collateral is agreed upon.

Prior to entering into agreements, and on a regular basis following conclusion of an agreement, the responsible legal services unit within the Operations division assesses the legal risks, and the legal effectiveness and enforceability. The Bank uses an internal rating system to assess the credit quality of counterparties. For derivatives transactions entered into with financial institutions, where the Bank is looking for capital adequacy relief in accordance with the SolvV, a clause providing for a review of eligibility is added to the netting agreements. This review is carried out in accordance with sections 206 et seq. of the SolvV, particularly through obtaining regular legal opinions, using a database developed for this purpose.

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

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

Property financing portfolio by LtV range (quarterly comparison)



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

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

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

Country risk

Definition

When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). These types of risks arise only if the borrower is located in a different country from the lender, or if the financed property is located in another country. The Bank always complied with the country limits defined in accordance with its ability to carry and sustain risk through-out the financial year under review.

Country risk measurement and monitoring

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

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

Market price risks

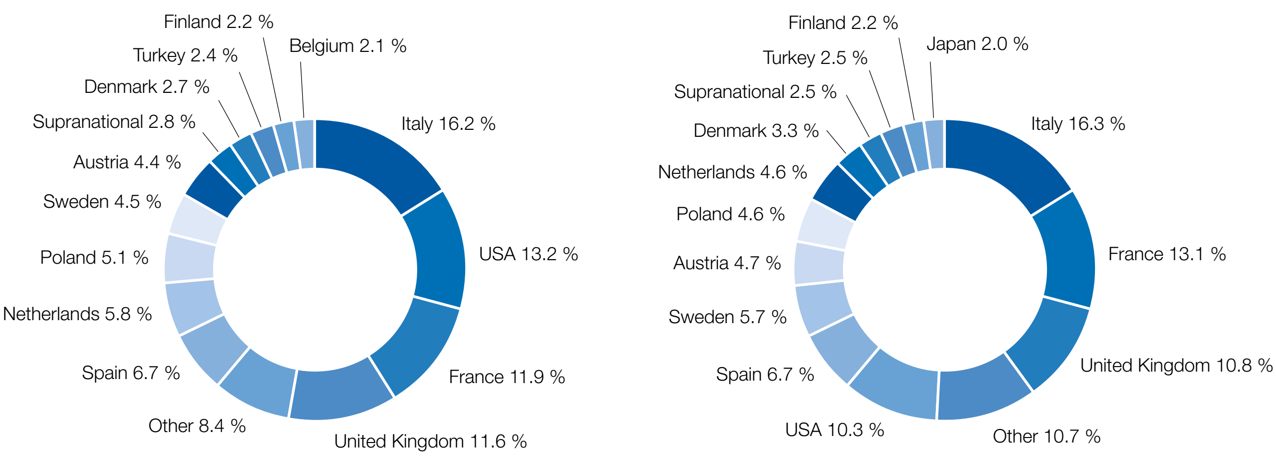
Definition

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

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

Breakdown of country exposure in the international business

% 31 Dec 2013 | 31 Dec 2012



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 its 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 two 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's 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.

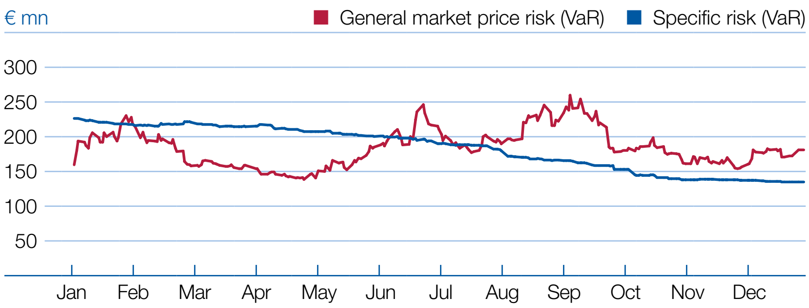
When interpreting the VaR figures stated below, it should be taken into account that these refer to the overall portfolio (thus including all non-trading positions as defined in IFRSs). Hence, the analysis provided represents a very extensive disclosure of market price risks by industry standards.

€ mn	MAX	MIN	Mean	Limit
2013 (2012 year-end values) 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	260.8 (220.3)	137.1 (154.9)	184.5 (183.4)	– (–)
Group VaR (interest rates)	248.8 (236.6)	136.2 (156.3)	177.3 (191.3)	– (–)
Group VaR (FX)	46.5 (65.6)	31.2 (35.1)	39.0 (54.7)	– (–)
VaR (funds)	7.0 (16.3)	0.3 (5.2)	3.6 (8.1)	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)	227.7 (260.8)	132.9 (193.2)	183.6 (232.8)	– (–)
Aggregate VaR - Aareal Bank Group	318.6 (338.2)	205.2 (256.4)	262.2 (296.7)	400.0 (400.0)

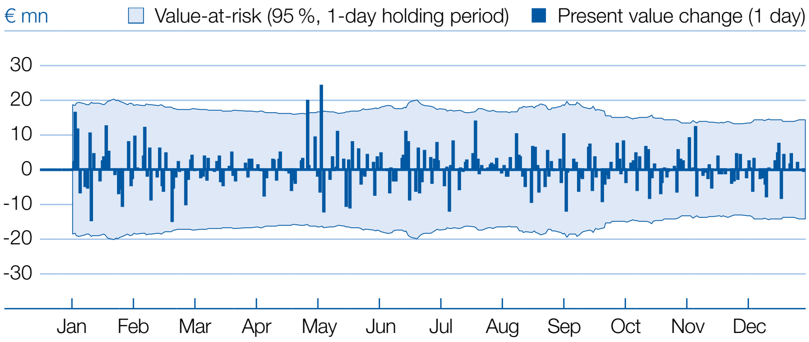
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period:

€ mn	MAX	MIN	Mean	Limit
2013 (2012 year-end values) 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	16.5 (13.9)	8.7 (9.8)	11.7 (11.6)	– (–)
Group VaR (interest rates)	15.7 (15.0)	8.6 (9.9)	11.2 (12.1)	– (–)
Group VaR (FX)	2.9 (4.1)	2.0 (2.2)	2.5 (3.5)	– (–)
VaR (funds)	0.4 (1.0)	0.0 (0.3)	0.2 (0.5)	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)	14.4 (16.5)	8.4 (12.2)	11.6 (14.7)	– (–)
Aggregate VaR - Aareal Bank Group	20.1 (21.4)	13.0 (16.2)	16.6 (18.8)	25.3 (25.3)

General market price risk and specific risk during 2013



Present values and 1-day VaR during the course of 2013



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 financial year under review; no limit breaches were detected.

Specific risk fell during the course of 2013, owing to a market recovery, with narrowing credit spreads and volatilities, as the solvency problems eased in some European countries.

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). No negative outliers at Group level occurred during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

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

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

The worst-case scenario used in the financial year under review was a hypothetical scenario, where a deteriorating financial markets crisis caused bond and CDS spreads to widen due to rating downgrades, combined with an appreciation of the euro and unchanged interest rate markets. This scenario implied a present value loss of 20 % of the stressed aggregate risk cover limit as at year-end 2013. No breach of set limits occurred during the year under review.

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

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

Trading book
Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the German Banking Act. Given that no such trades were concluded during 2013, trading book risks played a negligible role in the overall risk scenario.

Liquidity risks

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

Risk measurement and monitoring
Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including a daily liquidity report submitted to Treasury, and a contribution to the monthly risk report to the entire Management Board. The following tools are used for this purpose:

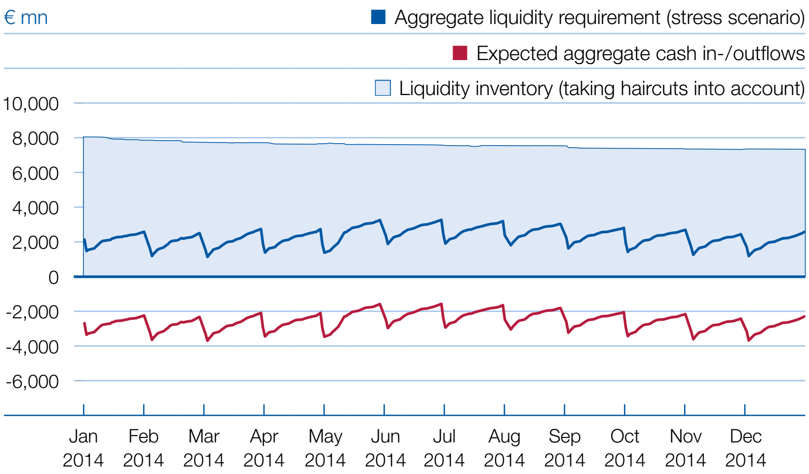
a) Cash flow forecast
We have developed a cash flow forecast, tracking cash flows from all balance sheet items and derivatives, on a daily basis, over a ten-year period. This liquidity risk information helps to assess the Bank's short-term liquidity position, broken down by currency or product. Strategic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

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

The adjacent chart shows the planned development of the liquidity stock, expected aggregate cash inflows and outflows, and the total liquidity requirements (based on stressed assumptions) until the end of 2014. This presentation demonstrates that the liquidity stock will always exceed liquidity requirements, even under unfavourable conditions.

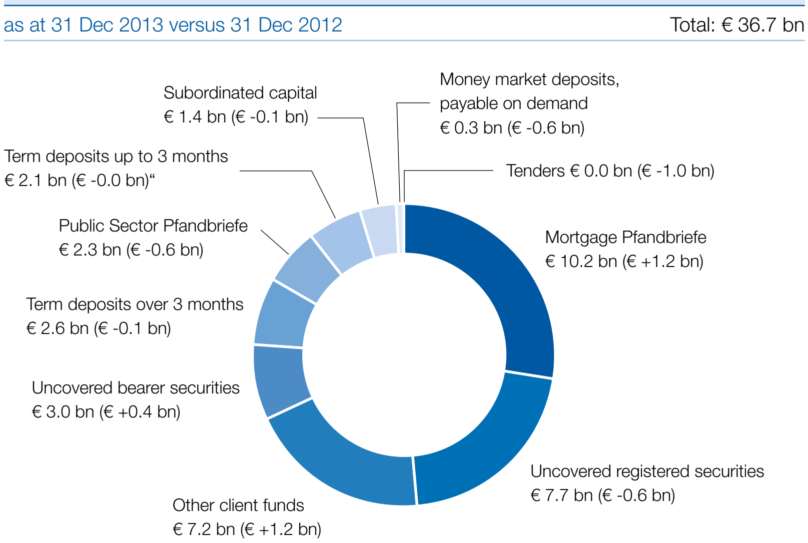
Further details are provided in the comments on the Bank's liquidity in the section on "Refinancing and Equity".

Liquidity



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

Refinancing portfolio diversification by product



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

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

Liquidity Ordinance
The requirements of the liquidity ratio in accordance with the Liquidity Ordinance, which is relevant to liquidity management, were always complied with throughout the year 2013, as were the limits set by reference to the liquidity run-off profile.

Operational risks

Definition

The Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. In contrast, strategic, reputational and systematic risks are not included.

Risk measurement and monitoring

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

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

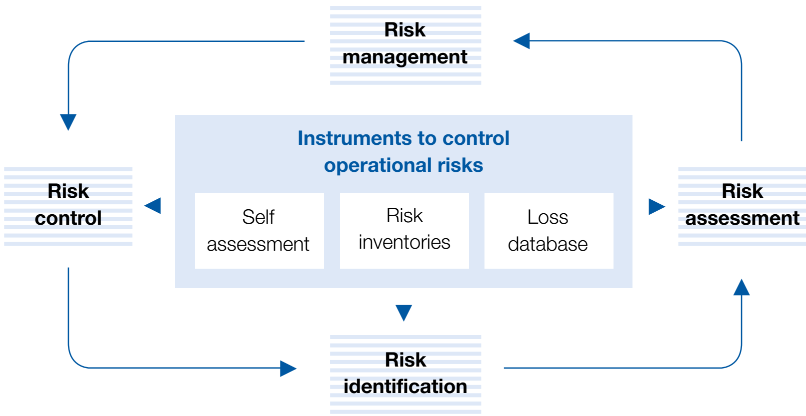
- Self assessments: analysis thereof can provide management with indicators of any potential risks within the organisational structure.
- Risk inventories that include a periodic systematic identification and compilation of all relevant risks.
- A loss database, in which relevant damages incurred are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

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

The three tools described above are used to prepare the regular risk reporting to the Bank's senior management. The responsibility for implementing operative risk-reducing measures rests with those responsible for the Bank's risk management.

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

Management of operational risks



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

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

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

Investment risks

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

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

Definition

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

Risk measurement and monitoring

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

The existing procedures used to measure and monitor risk exposure are supplemented by subjecting the equity portfolio to regular stress testing. The Corporate Development, Finance and Risk Controlling divisions are jointly responsible for measuring and monitoring investment risk exposure. Corporate Development and Finance hold the functional and organisational authority regarding investment controlling.

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

Aareon AG

Aareon has introduced a Group risk management system (which includes early-warning features on the basis of the R2C_risk to chance standard software) in order to monitor and control company risk. This risk management system requires the regular recording and assessment of risks (but not opportunities) by those individuals holding responsibility for divisions, shareholdings and projects, and provides for the conception of active risk management measures. In this context, risks are assessed separately in terms of their impact and their probability. As a rule, risk exposures are expressed on a net basis, i.e. including risk-limiting measures. The risk reports generated in this manner are consolidated by the Group Legal & Risk Management divisions and form the basis for quarterly risk reporting, which is regularly discussed during Management Board meetings. The reports are also incorporated into the quarterly reporting package submitted to Aareon AG's Supervisory Board. Aareon's risk reporting system creates transparency regarding the company's risk situation, providing a basis for decisions regarding any measures to be taken by senior management. The measures, proposed by those individuals responsible for risk, regarding the top ten risks perceived during the current quarter are documented within the scope of risk reporting, together with measures taken to counter the perceived top ten risks in one of the three preceding quarters, to review the effectiveness of such measures. Furthermore, Aareon's Management Board takes action with respect to any risks the expected value of which (calculated as a function of impact and probability of occurrence) exceeds a defined threshold, even though the risk concerned may not have been considered amongst the top ten risks.

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

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

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

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

Aareal First Financial Solutions AG

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

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

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

The further development of the BK@1 accounting system is based on Release 15.01 – the version which is currently in productive use – and therefore does not represent any material risk. All functions required for the smooth handling of SEPA payments were rolled out with the current release. Furthermore, all necessary steps were taken to account for the restrictions to electronic mass payments as at February 2014. Risk exposure resulting from the operation of the the BK@1 software solution is sufficiently covered through the regular operational processes.

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

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

A standardised procedure for the management of operational risks is being consistently applied. The results of regular risk inventory surveys and self-assessments regarding operational risks yielded no indication of risks or threats which are material or would jeopardise the continued existence of the business.

Regular discussions covering issues of active outsourcing control take place between the Bank's outsourcing divisions and Aareon AG, in its role as insourcer for the print server and archive system, as well as for the operation of the host and server platforms.

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

The market risk regarding utilisation of BK01 solutions was mitigated by developing interfaces to third-party systems, such as SAP or platforms developed by other software providers to the commercial housing sector, alongside connectivity to Aareon AG's systems. These interfaces are refined on an ongoing basis.

Deutsche Bau- und Grundstücks-Aktiengesellschaft

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

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

Going forward however, there is a distinct expectation that property managers who fail to deliver the service standards demanded by clients stand to be replaced in the near future. This offers BauGrund potential for acquisitions. The company was able to secure the majority of existing contracts during 2013. However, the level of fees was lower, due to scheduled as well as unscheduled sales of portfolio properties.

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

Other risks

Definition

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

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

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

Risk measurement and monitoring

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

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

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

Accounting-related Internal Control and Risk Management System

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

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

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

Organisation of the accounting-related ICS and RMS

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

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

Aareal Bank Group entities prepare an IFRS package as at the relevant balance sheet date. This includes financial statements prepared under IFRSs and in accordance with the IFRS Group accounting manual, as well as the notes and consolidation information (intercompany balances). All packages are recorded by the Finance division in a consolidation software and aggregated for the purpose of preparing the consolidated financial statements. The number of employees within Aareal Bank's Finance division is adequate, as are their qualifications. Furthermore, they possess the necessary knowledge and experience relevant for their functions.

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

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

Internal Audit also performs Group audit functions for Aareal Bank's subsidiaries, within the context of the Group's risk management. The audit activities of Internal Audit comprise all of the Group's operational and business processes, and are carried out using a risk-based approach. The review of the risk management's effectiveness and appropriateness covers the risk management and risk control systems, reporting, information systems, and the accounting process. To perform its tasks, Internal Audit has full and unrestricted information rights with respect to activities, processes and IT systems of Aareal Bank AG and its subsidiaries. Internal Audit is informed on a regular basis about material changes related to the Internal Control and Risk Management System.

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

Components of the accounting-related ICS and RMS

Within Aareal Bank, various measures related to the Bank's organisational structures and workflows help to fulfil the monitoring duties within the framework of its Internal Control System.

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

Various guidelines exist for activities and processes. These guidelines are set out in the Written Set of Procedural Rules of Aareal Bank and available for inspection for all employees. There are requirements as regards data entry and control – as well as data storage – which have to be observed in general by all of the Bank's posting units. If necessary, results are reconciled across divisions or companies. Uniform accounting policies are guaranteed through guidelines applicable throughout the Group. The requirements of these Group-wide guidelines substantiate legal provisions, and are adjusted on an ongoing basis to take current standards into account. The valuation techniques used, as well as the underlying parameters, are controlled regularly, and adjusted if necessary. For further information on measurement, please refer to the relevant notes to the consolidated financial statements.

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

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

Adherence of Group accounting to generally accepted accounting principles is ensured by both preventive and detective controls within the accounting process itself, as well as through a comprehensive review of processed data. The preparation of the consolidated financial statements is characterised by multiple analyses and plausibility checks. Besides the evaluation of individual accounting issues, these include comparisons of periods, and between plan and actual data. Adequate control processes have been implemented for both manual and automated accounting transactions.

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

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

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

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

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

Report on Expected Developments

Macro-economic environment

Economy

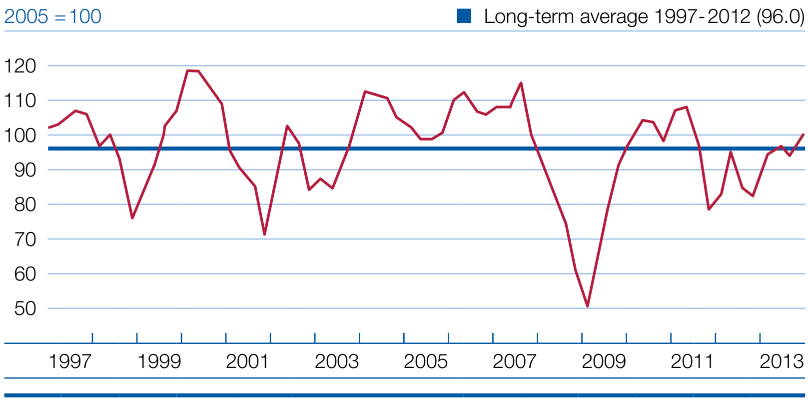
There are indications for a slight recovery in the global economy in the year 2014. Sentiment has improved in some regions, both amongst businesses and private households – and this is expected to gradually feed into demand. Likewise, slowly diminishing uncertainty concerning the development of the European sovereign debt crisis might also have a positive impact. However, material burdening factors persist in many economies; any recovery is thus likely to take place in a slight and reluctant manner. We therefore anticipate the global economy to grow at a slightly faster rate than last year, with continued noticeable differences regarding economic developments in different regions.

In the euro zone, uncertainty in connection with the European sovereign debt crisis has been declining for some time now. This is expected to have a positive impact on the economy – however, high unemployment, low wage growth in the previous year and a persistently restrictive fiscal policy – albeit less pronounced than in the previous years – have a dampening effect on macro-economic demand. Against this background, we expect real economic output in the euro zone to rise only slightly and slowly, for example, in Belgium, Finland and France. Growth rates are likely to be somewhat higher, even though still to a moderate extent, in Germany and Austria. The economies in Italy, the Netherlands and Spain, which were still in recession last year, are expected to continue stabilising this year. We anticipate real gross domestic product figures to rise marginally to slightly. For numerous European countries outside the euro zone, a more pronounced increase in economic output is likely, and we believe this will be the case in the UK, Poland, Sweden and Switzerland, as well as in the Czech Republic – which had been in recession for two years. We envisage a moderate recovery for the Danish economy. Whilst the Russian economy is also expected to grow at a slightly stronger rate than last year, the growth rate is likely to remain low compared to historical levels. Turkey is likely to have a moderate growth rate, albeit somewhat lower than in the previous year.

The economic environment in the United States has improved: private household debt is down significantly, the market for residential property shows equally significant signs of recovery, and unemployment has declined continuously. Against this background, the US economy is expected to show a pronounced growth rate, exceeding the previous year's figure. A moderate increase in interest rates is likely to follow the expected reduction ("tapering") of the US Federal Reserve's extensive bond purchases respectively their expiry. The economic forecast for the US is based on the assumption that these interest rate rises will not compromise investments to a major extent – nonetheless, this represents a risk to economic development. In the US, uncertainty continues to exist in particular with respect to fiscal policy. We assume the growth rate of real gross domestic product to accelerate compared with the previous year – to a slight extent for Canada, and to a stronger extent for Mexico.

The Japanese economy is likely to grow moderately, given Japan's enhanced competitiveness (due to

ifo Global Economic Climate*



* Arithmetic mean of the assessment of the current situation and expected developments,
Source: ifo World Economic Survey (WES) IV/2013

exchange rate fluctuations) and accelerating global trade. At the same time, budget consolidation measures which are about to take effect, such as the planned value-added tax increases, need to be taken into account: hence, we believe that Japan's growth rate will be on the same level as in the previous year. The Chinese economy will continue to post high growth rates by international standards. In our view, this year's growth rate will be marginally lower than in 2013. We believe Singapore's economy will grow with rates comparable to those of 2013.

Looking at the slow economic recovery in Europe, we expect unemployment to remain virtually unchanged – or perhaps to fall slightly at best – in many European countries this year. Accordingly, tensions will remain high, especially on labour markets in Southern Europe. Stronger economic growth in the US gives reason to expect the pronounced reduction in unemployment to continue.

Future economic development, and hence the forecasts, are subject to material risks and uncertainty – whereby the European sovereign debt crisis is a key factor. Even though uncertainty in this respect has declined in the meantime and financial and capital markets have seen significant relief, a renewed deterioration and escalation of the sovereign debt crisis cannot be excluded. Such a development might lead to distortions on the financial and capital markets, causing a deeper recession that could spread on a global scale, through channels of trade. Even though we do not consider such a deep global recession to be the most likely outcome, the risk still exists. Fiscal developments in the US pose another material risk.

Likewise, a quick exit from expansive monetary policy – particularly by the Fed – constitutes a risk for the global economy as related interest rate increases might burden corporate investments more strongly than is currently assumed. Furthermore, the tapering of US bond purchases holds the threat of investors withdrawing capital from emerging markets – which would burden their economies. Conversely, the expansive effects of lower interest rates on the global economy might be amplified in an environment of decreasing uncertainty. Right now, it is still unclear what effect the liquidity created through the massive expansion in central bank money supply will have, especially over the longer term. This constitutes an additional risk to economic developments.

Financial and capital markets, monetary policy and inflation

Financial and capital markets – including government bond and interbank markets – have continued to calm down notably during the year under review. There are no signs for any material changes to this situation in the current year. Whilst the impact of the European sovereign debt crisis on financial and capital markets has thus declined, related risks remain in this context. The financial and capital markets may still be very susceptible to shocks, should the sovereign debt crisis escalate. A positive factor in this connection is the fact that Spain left the rescue facility in January 2014, which it had drawn upon in an amount of € 41.3 billion to recapitalise banks.

Risks for the financial and capital markets also exist in connection with fiscal policy developments in the US.

In view of the expected low inflationary pressure, we believe that most central banks will keep their key interest rates low. Consequently, under current conditions, short-term interest rates are also expected to remain at low levels. However, the US Federal Reserve is likely to further reduce ("taper") or even exit its bond purchases this year – which might trigger moderate increases in long-term interest rates, particularly in the US but also in other regions. The Fed already cut back its bond purchases several times at the beginning of 2014.

Whilst risk premiums for euro zone periphery states are likely to remain in place, a marked narrowing might be possible as long as uncertainty in connection with the European sovereign debt crisis is not renewed.

In view of a slight, reluctant economic recovery, we believe inflationary pressure this year to be rather low. However, this forecast is subject to uncertainty caused by the development of oil prices, a key component of inflation developments. Besides economic factors, oil prices are also driven by political developments. In our view, this year's average inflation rate in the euro zone will be marginally lower than in 2013. For most European countries outside the euro zone – such as Denmark, the UK and Sweden – inflation is expected to be low to moderate. Russia and Turkey, in contrast, are likely to experience markedly higher inflation rates compared to other European countries. In the US, we anticipate moderate inflation, roughly in line with the previous year's level. In Japan, a noticeable increase in inflation, at least compared to the zero inflation rate seen over previous years, can be expected given the planned VAT increases and the central bank's stated inflation target of 2 %. In China, we expect inflation to be still moderate during the year.

Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. Accordingly, Aareal Bank will also focus on the related measures for implementation and how these will affect the Bank's business activities.

In addition to the core elements of the Basel III regime, which include enhancing the quality and quantity of regulatory capital, as well as the introduction of international liquidity standards and a leverage ratio, requirements are set to tighten further due to the ECB's Comprehensive Assessment – this will tie up additional resources. Furthermore, additional new regulatory requirements will need to be implemented. These include, on a national level, the Minimum Requirements for the Design of Recovery Plans ("MaSan"), as well as the establishment of a framework for the restructuring and resolution of banks and securities firms on a European level, in order to ensure effective crisis management and orderly resolution.

Regulators have yet to come up with final details for a large portion of these additional requirements, and adopt them. The final draft of the various technical standards that are essential for implementation is still pending. To nevertheless facilitate the timely implementation, we have already started to deal with and pursue the various issues in numerous projects – devoting considerable resources to this task.

Sector-specific and business developments

Structured Property Financing segment

During the year under review, competition on the market for commercial property financings in Europe has clearly intensified compared with the previous year. We expect competition to remain intense during 2014. This might also be driven by an expansion of financing activities from non-bank competitors, such as insurance companies, pension funds and debt funds. In general, the willingness of finance providers to accept lower margins and higher loan-to-value ratios is likely to noticeably increase further, especially in European core markets such as Germany, France and the UK. Yet we also anticipate competition to palpably intensify in other West European countries, as well as in Northern and Eastern Europe. Finance providers are expected to be more reluctant when it comes to Southern Europe, yet it is fair to expect a slight loosening in lending standards there – especially if uncertainty in connection with the European sovereign debt crisis continues to decline. Financings of first-class commercial properties in corresponding locations are likely to remain in focus. We expect to see a continued notable increase in financing offers for properties with a higher risk profile, and for large-volume projects.

For commercial property financings in the US, competition is set to remain strong and market liquidity to remain high, as was the case in the previous year. Insurance companies have played a major role on these markets for many years now. The volume of CMBS transactions may continue to grow strongly. We believe that the financing markets in China and Japan will also remain highly competitive.

Developments on the commercial property markets[1] are influenced on the one hand by the expected slight economic recovery – accompanied in Europe by high unemployment in many countries – and by the high degree of investor liquidity on the other hand. For investors holding significant liquidity and chasing yield in a low interest rate environment, commercial property might become attractive as a form of investment, which would stimulate demand on commercial property markets.

In Europe, taking the slight, slow economic recovery into consideration, we anticipate largely stable property values and rents in most countries during 2014. The high level of unemployment in numerous countries might have a burdening effect. On average, we assume values and rents to remain virtually stable in Belgium, the Czech Republic, Finland, Poland, Russia, Sweden and Turkey. Market values and rents should stabilise in Spain and Italy as their respective economies improve. However, the national averages for market values and rents in France – and to a somewhat greater extent in the Netherlands, given the historically high levels

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

of unemployment together with subdued economic development – are expected to decline slightly. Thanks to the forecast for more dynamic economic development and brisk demand for commercial property, Germany and the UK are expected to see notable increases in values and rents. We anticipate a slight increase for Denmark.

Combined with a high degree of investor liquidity, the positive outlook for the US economy and labour markets point towards moderate increases in rents and property values, despite the expected moderate rise in long-term interest rates. We expect a stable performance in Canadian property values. Against the background of expected interest rate rises, we remain cautious regarding the development of the commercial property markets in China and anticipate a slight decline in values on average. Whilst we expect a stable performance in Singapore, our forecast for Japan is a markedly positive trend.

The developments outlined above should, in our view, tend to apply to office, retail and logistics property markets. On the hotel markets, we expect average revenues per available hotel room to remain roughly in line with the previous year, especially in Europe and Asia. Of course, diverging levels on individual markets are always a possibility. On the North American hotel markets, however, we think that a slightly positive trend – on average – is possible.

Investors were already increasingly looking for properties with a higher risk profile last year – a trend that may continue and strengthen somewhat this year. First-class properties in the corresponding locations, offering secure cash flows, will continue to be of particular interest. Yet, a shortage in such properties should direct more and more liquidity to markets outside the premium segment.

Macro-economic risks and uncertainty factors will continue to be relevant for the further development of the commercial property markets. Events such as an escalation of the European sovereign debt crisis or a deep recession would likely lead to significant declines in property values and rents.

As another risk factor, in the wake of an exit by the US Federal Reserve from its bond-buying programme, long-term interest rates – especially in the US – might rise noticeably beyond the anticipated scope, which would clearly burden the development of property values. Conversely, limited supply – due to the low level of completions over recent years, particularly in the US but also in Europe – might provide support to commercial property markets.

Aareal Bank takes property market developments into account for its ongoing risk assessment, as well as, within the framework of its lending policies, expected diverging developments in different countries.

We have determined our target for new business in line with market conditions, including the competitive environment, forecast investor behaviour, and expected economic developments. Our target for aggregate new business originated this year is between € 8 billion and € 9 billion.

We want to continue to use club deals and syndicated financing in the future too, to allow us to participate in large-volume financings and to diversify risk. In this context, a significant change came into force in Germany on 1 January 2014: insurance companies, pension funds and pension schemes domiciled in a country of the European Economic Area (EEA) are now also eligible as beneficiaries to be entered into the funding register. This has facilitated cooperation with these market participants within the scope of syndications.

Looking ahead to 2014, we expect a marked expansion of our property financing portfolio compared to the year-end 2013, particularly as a result of our acquisition of Corealcredit Bank. The regional focus will continue to be on Western Europe and North America; we continue to strive for a broad diversification by region and by property type.

These forecasts are based on the assumption that there will be no protracted recession, and no escalation of the European sovereign debt crisis. Such events might burden new business, leading to a marked reduction especially in the case of newly-originated loans.

Consulting/Services segment

Housing Unit

For the housing industry in Germany, we expect a solidly positive development during the current year, thanks to stable rents and a high degree of stability in property values.

Expectations for residential space have become more differentiated, as a consequence of demographic change and the trends towards a more individual and differing lifestyle. This means that, going forward, housing industry enterprises will need to continue increasing their investments. The future development of the industry will be shaped by issues such as energy-efficient renovation and appropriate living conditions for families and the elderly.

The housing industry will continue to pursue a sustainable development of their portfolios; in addition, they will expedite new housing construction projects in order to modernise their holdings. Energy-efficiency requirements for new construction projects are expected to increase by 25 % in the spring of 2014, which will drive up construction costs. Expected investments in the industry are closely connected with the political environment and its impact on the profitability of any projects undertaken. High construction costs, exacerbated by discussions concerning a cap on rent levels, might have a dampening effect upon investment activities.

From a demographic and overall economic perspective, we anticipate a stable development of the residential property market in the 2014 financial year. In spite of the higher housing construction activity seen in 2013, the increased supply will not be sufficient to cover expected demand. Rental growth will continue to be highest in cities with growing populations and high economic output. This trend will be beneficial to property investors and potential sellers within the housing industry.

We expect investment demand for residential property to remain intact throughout 2014. Key factors driving the persistent investor interest are the favourable interest rate environment, the stability of the housing market, and sound fundamental data emanating from the German economy. However, investment activity will be limited by a lack of core investments on offer and the restricted number of potential large-scale portfolios available for sale. Against this background, we anticipate a noticeable decline in transaction volumes next year.

We see good opportunities during 2014 to acquire new clients and to further intensify the business relationships with our existing client base. This also applies to our payments services for the utilities and waste disposal industry. We see further growth potential in payment support services and process optimisation. At present, therefore, we invest particularly in the further development of our products designed for the management and settlement of rental deposits.

Looking at the volume of deposits taken, we expect the positive trend to continue, particularly in relation to current account balances and rent deposits. The persistent low interest rate environment, which is relevant for the results from our deposit-taking business, will continue to place a significant burden on segment results. However, the importance of this business goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. This is because the deposits from the housing industry represent a strategically important additional source of funding for Aareal Bank.

Aareon AG

The digitalisation of communication in the property management sector, and the related use of CRM solutions and mobile applications, are becoming increasingly important. In this context, the IT trend of cloud computing will become further established on the market for property management software.

For 2014, Aareon expects a slight increase in earnings before interest and taxes (EBIT), primarily driven by the acquisition of Sweden's Incit AB in

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2013, the continued migration of GES clients to Wodis Sigma, and strong growth among its international subsidiaries.

EBIT in Aareon's domestic operations is forecast to remain virtually unchanged from 2013's levels. A slight increase in sales revenues will be offset by higher personnel and other staff-related costs, as well as higher project-related costs.

Aareon expects unchanged sales revenues and EBIT in its ERP products segment in 2014, with a strong increase in sales revenues anticipated for the Wodis Sigma product line. Decisive factors will be activities that are designed to gradually increase the level of migrations, and to boost the need for consultancy services – with a view to growing advisory and licence fees. Business in the GES product line during the financial year under review was largely characterised by major one-off projects, and the implementation of SEPA. Given the non-recurring character of these effects and the continued migration of GES clients to Wodis Sigma, Aareon expects markedly lower product revenues in 2014.

The company continues to expect stable sales revenues from the SAP®solutions and Blue Eagle product line.

Significant sales revenue growth is expected in the Integrated Services segment; contributing factors include demand for the Aareon CRM and Mobile Services solutions (launched in 2013) and the Aareon Archiv kompakt product. In this context, Aareon also anticipates a positive development of sales revenues in Integrated Services consulting. Thanks to a high level of development work, EBIT in this segment is set to remain at the previous year's level.

In its International Business segment, Aareon expects significant EBIT growth, also reflecting the acquisition of Sweden's Incit AB. At the same time, we also forecast significant increases in sales revenues and results for Aareon's other international subsidiaries.

Overall, Aareon forecasts a marked increase in sales revenues for the next year, EBIT of around € 28 million, slightly higher year-on-year, and an EBIT margin of around 16 %.

Group targets

Aareal Bank Group's positive development is expected to continue during the current year. The Group's forecasts for the 2014 financial year include, for the first time, projected figures for Corealcredit Bank AG – assuming the closing of the transaction on 31 March 2014. The exact contribution of Corealcredit Bank depends on the closing date for the transaction, which is still expected to be in the course of the first half-year. Aareal Bank announced the acquisition of Corealcredit Bank on 22 December 2013.

We expect net interest income in the 2014 financial year to rise to between € 610 and € 640 million. Net interest income is set to benefit from good margins from the previous year's lending business, low funding costs, and the acquisition of Corealcredit Bank AG. The low interest rate environment continues to have negative implications for net interest income, both in relation to the deposit-taking business and because of the lack of attractive investment opportunities for the liquidity reserves.

Despite a larger loan portfolio, Aareal Bank forecasts allowance for credit losses in a slightly more optimistic range of € 100 million to € 150 million. As in the previous years, the Bank cannot rule out additional allowance for unexpected credit losses that may be incurred during 2014.

Net commission income is projected to increase slightly, to between € 170 million and € 180 million.

Administrative expenses are expected in a range of € 430 to € 450 million. A material reason for the projected increase over the previous year is the acquisition of Corealcredit Bank.

Overall, we believe there is a good chance to achieve a consolidated operating profit of between € 370 million and € 390 million for the current financial year, including the non-recurring effect (due to negative goodwill) from the acquisition of Corealcredit Bank. Adjusted for this non-recurring effect, we anticipate consolidated operating profit of between € 220 million and € 240 million.

Excluding said non-recurring effect, return on equity (RoE) before taxes is projected to be around 9 per cent.

New business of between € 8 billion and € 9 billion is expected for the Structured Property Financing segment in 2014.

In the Consulting/Services segment, we anticipate a slightly higher result before taxes for Aareon of around € 28 million.

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

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board. Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board.

In addition to their fixed annual salary, Management Board members receive a performance-related bonus (variable remuneration) that is determined using an assessment basis extending over several years. The level of this performance-related bonus is determined by reference to the personal performance of each Management Board member which is measured by the degree to which targets set in advance by the Supervisory Board are achieved, based on contractually agreed initial values. The targets which are relevant for performance-related bonuses include annual targets and three-year targets. The weighting of annual to three-year targets is fixed for each financial year, in line with legal rules, with a 60 %/40 % weighting taken as a guideline.

The annual and three-year targets are derived from the Bank's overall strategy and medium-term planning of Aareal Bank Group, each of which are agreed upon with the Supervisory Board. The targets comprise quantitative components and qualitative components, with latter being also related to non-financial parameters. In this context, the Bank's overall performance, the performance of the relevant division, and the individual performance contributions of the Management Board member concerned are all taken into consideration.

The amount of the initial value of the performance-related bonus increases - depending on the Management Board member's degree of target achievement – up to a maximum of 200 %. If the target achievement exceeds a level of 200 %, the initial value of the performance-related bonus will not increase any further (cap). If target achievement is 0 %, no performance-related bonus will be awarded for the financial year concerned. The initial value is fixed at 100 % for target achievement levels between 90 % and 110 %.

To ensure that the remuneration system provides long-term incentive effects, performance-related bonuses are awarded at the end of the financial year, according to the following principles:

20 % of the performance-related bonus is paid as a cash bonus directly after the end of the financial year. A further 20 % of the performance-related bonus is awarded as a share bonus[1)] in the form of phantom shares directly after the end of the financial year, and are the subject of the Share Bonus Plan. 30 % of the performance-related bonus is deferred as a cash deferral (Cash Deferral). The remaining 30 % of the performance-related bonus is deferred as a share deferral[1)] and is the subject of the Share Deferral Plan.

[1)] Please refer to the subsection "Cash-settled share-based remuneration" in the remuneration report, which is part of the Notes to the Consolidated Financial Statements, for details concerning the specifications of the Share Bonus Plan and the Share Deferral Plan.

With regard to the portion of the performance-related bonus that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one third of the amount, as well as the associated interest, in the three years following the determination of the performance-related bonus (retention period). If the deferred remuneration components for the Management Board members are actually awarded, the cash deferral is paid out in cash and the share deferral is converted into virtual shares, subject to a two-year holding period.

In making its determination about the amount to be awarded, the Supervisory Board particularly takes into account any negative aspects of the Management Board member's performance, his division as well as any weakness in the performance of Aareal Bank AG or the Group as a whole. The final amount may be awarded in full, partially, or not at all. If the award is not made in its full amount, the remain is forfeited, i.e. it is not carried forward into subsequent years. No bonus may be awarded if BaFin makes an official ruling against the Bank pursuant to section 45 (2) of the German Banking Act (KWG) due to shortcomings relating to capital adequacy or liquidity issues. If a case of serious individual misconduct by a member of the Management Board is identified afterwards in the financial year in which the remuneration components were awarded as a cash deferral and share deferral, the retained remuneration components are cancelled in full. Members of the Management Board may not undertake to limit or override the risk orientation of the performance-related bonus by initiating personal protection or countermeasures (hedging ban).

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. The Annual General Meeting held on 18 May 2011 made the most recent adjustment to the system for the remuneration of the Supervisory Board.

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

The fixed remuneration is € 30,000 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive two and a half times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration shall be increased by € 15,000 p.a. for each membership in a committee (with the exception of the Nomination Committee, which is an exclusively advisory committee, and the Committee for Urgent Decisions, which is part of the Risk Committee). The fixed remuneration shall be increased by € 30,000 p.a. for the chairmanship of a committee (with the exception of the Nomination Committee and the Committee for Urgent Decisions).

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

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

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

Disclosures pursuant to section 315 (4) of the German Commercial Code (HGB)

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

The composition of Aareal Bank AG's subscribed capital is shown in Note 64 to the consolidated financial statements. Each share casts one vote at a General Meeting. There are no shares with special rights granting supervisory powers to any shareholder or shareholder group. The Company currently does not hold any treasury shares, which would not be entitled to vote.

Restrictions affecting voting rights or the transfer of shares

The German Financial Markets Stabilisation Fund (SoFFin) agreed to provide a stabilisation measure to the Bank in March 2009, in the form of a silent participation. In the context of this stabilisation measure, SoFFin and the Bank's main shareholder, Aareal Holding Verwaltungsgesellschaft mbH ("Aareal Holding") entered into an agreement under which Aareal Holding has undertaken to maintain its stake in the Bank's capital (currently 15,916,881 shares) throughout the term of the recapitalisation, and to act in SoFFin's interest when casting certain votes during the General Meeting (or to seek SoFFin's opinion prior to such a poll). Furthermore, Aareal Holding has undertaken to exercise its voting rights for resolutions to be adopted by a General Meeting in such a way that Aareal Holding will retain its blocking minority.

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

Shareholdings exceeding 10 % of voting rights

Details regarding any shareholdings exceeding 10 % of voting rights are provided in Note 99 to the consolidated financial statements.

Shares with special rights granting the holder supervisory powers

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

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

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

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

The appointment and removal of members of the Management Board of Aareal Bank AG is carried out in accordance with sections 84 and 85 of the AktG and Article 7 of the Memorandum and

Articles of Association, according to which the Management Board must have a minimum of two members. The Supervisory Board shall appoint the Members of the Management Board and determine their number. The Supervisory Board may appoint deputy members, and may appoint one member of the Management Board to be the Chairman of the Management Board. The members of the Management Board are appointed for a maximum term of five years. This term of office may be renewed or extended for a maximum of five years in each case.

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

Authorisation of the Management Board to issue or repurchase shares

Authorised capital

The Annual General Meeting held on 23 May 2012 resolved to authorise the Management Board to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 89,785,830 (Authorised Capital) by issuance of new shares for contribution in cash or in kind. This authorisation will expire on 22 May 2017. The shareholders must be granted subscription rights in the event of a capital increase against cash contributions. The Management Board is authorised to exclude shareholders' pre-emptive subscription rights in the event of a capital increase not exceeding 10 % of the issued share capital at the time of the authorisation becoming effective or being exercised, subject to approval by the Supervisory Board and provided that the issue price is not significantly lower than the prevailing market price of shares already listed, at the time of final determination of the issue price. Article 5 (4) lit. b) to d) of the Memorandum and Articles of Association sets out further conditions for excluding shareholders' pre-emptive subscription rights. The Management Board may exclude shareholders' pre-emptive subscription rights in the event of a capital increase against contributions in kind. When exercising this authorisation, the Management Board will restrict the exclusion of shareholders' pre-emptive rights to a total of 20 % of the Company's issued share capital. Accordingly, the aggregate exclusion of shareholders' subscription rights upon exercise of this authorisation must not exceed 20 % of the registered share capital at the time said authorisation comes into effect or is exercised. This limit also includes shares that are issued by the Company on the basis of the authorisation by the General Meeting on 23 May 2012, under convertible bonds and/or bonds with warrants issued excluding the pre-emptive rights of shareholders.

The authorised capital has not been utilised.

Conditional capital

Pursuant to Article 5 (5) of the Memorandum and Articles of Association, the share capital is subject to a conditional capital increase of up to € 30 million by means of issuing up to 10 million new notional no-par value bearer shares. The purpose of the conditional capital increase is the granting of shares to holders or creditors of convertible bonds and/or bonds with warrants issued in accordance with the authorisation by the General Meeting held on 19 May 2010. Under this authorisation, bonds with warrants or convertible bonds with an aggregate nominal amount of up to € 600 million may be issued until 18 May 2015. Under the authorisation, subsidiaries of Aareal Bank AG may also issue convertible bonds and/ or bonds with warrants, and subject to approval by the Supervisory Board allows the Company to guarantee such issues as well as to issue shares to fulfil the resulting conversion or option rights. Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in the certain cases. Notwithstanding the provisions of section 9 (1) of the AktG, in certain circumstances holders of conversion or option rights are entitled to be protected against dilution. The new shares will be issued at the conversion or option price to be set as defined in the resolution passed by the General Meeting on 19 May 2010. The conditional capital increase will be executed only to the extent that holders of conversion or option rights exercise such rights or any conversion obligation from such convertible bonds and/or bonds with warrants is performed, and to the extent that treasury shares are not utilised to service such convertible bonds and/or bonds with warrants. The new shares will be entitled to a share in the profits from the beginning of the financial year in which they come into existence, by way of exercise or conversion. The Management Board is authorised to determine any further details of the conditional capital increase, subject to approval by the Supervisory Board. The purpose of this authorisation to issue convertible bonds and/or bonds with warrants (where the issue of shares to honour the obligations under such convertible bonds and/or bonds with warrants is covered by the conditional capital) is to provide the Management Board with the flexibility to act swiftly when raising finance, in the interests of the Company. The Management Board has not yet exercised this authorisation.

Authorisation to purchase treasury shares

The General Meeting held on 19 May 2010 authorised the Management Board, pursuant to section 71 (1) No. 7 of the AktG, to purchase and sell treasury shares for the purposes of securities trading, at a price not falling below or exceeding the average closing price of the Company's share in Xetra trading (or a comparable successor system) during the three trading days on the Frankfurt Stock Exchange prior to the relevant transaction by more than 10 %. This authorisation expires on 18 May 2015. The volume of shares acquired for this purpose must not exceed 5 % of the issued share capital of Aareal Bank AG at the end of any given day.

The General Meeting held on 19 May 2010 authorised the Management Board, pursuant to Section 71 (1) No. 8 of the AktG, up to 18 May 2015, to acquire and sell treasury shares for purposes other than securities trading, up to a maximum volume of 10 % of the issued share capital at the time of passing the resolution or – if this value is lower – of the share capital existing at the time of exercising this authorisation for purposes other than securities trading. Shares may be acquired via the stock exchange or by means of a public offer to buy, directed at all shareholders. Where acquisition is effected via the use of derivatives in the form of put or call options, or a combination of both, the option terms must ensure that said options are only serviced with shares that were purchased, in accordance with the principle of equal treatment, at the stock exchange at the prevailing share price of the Company's share in Xetra trading (or a comparable successor system) at the time of the purchase on the stock exchange.

The Management Board is authorised to effect the sale of any treasury shares acquired in accordance with this authorisation, subject to approval by the Supervisory Board, via channels other than the stock exchange or an offer to all shareholders, provided that the sale is carried out at a price that is not significantly lower than the stock exchange price of the Company's shares at the time of sale. This authorisation is subject to the proviso that the aggregate value of shares sold under this authorisation and of shares issued to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed 10 % of the issued share capital at the time of said authorisation becoming effective or being exercised. Subject to approval by the Supervisory Board, pre-emptive subscription rights on the sold shares may also be excluded in the event of a sale against contributions in kind, or if the sold shares are given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The Management Board is also authorised to exclude the pre-emptive subscription rights to the extent required to grant subscription rights to new shares to owners of convertible bonds or bonds with warrants which were issued in the meantime in such an amount as would be due to them once they exercised their option rights. The Management Board is authorised to call in any of the shares acquired under this authorisation, without any further resolutions by the General Meeting being necessary. The Company did not exercise this authorisation to purchase or dispose of treasury shares during the year under review.

The authorisation to purchase treasury shares is granted for a five-year period; it is in line with widely accepted practice of German listed companies. In line with authorised capital and conditional capital, this serves the company's interest of having access to flexible financing options.

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

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

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

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

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Consolidated Financial Statements
Statement of Comprehensive Income[1)]

Income Statement

	Notes	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
€ mn			
Interest income		848	970
Interest expenses		321	484
Net interest income	28	**527**	**486**
Allowance for credit losses	29	113	106
Net interest income after allowance for credit losses		**414**	**380**
Commission income		191	196
Commission expenses		26	27
Net commission income	30	**165**	**169**
Net result on hedge accounting	31	-6	-4
Net trading income/expenses	32	18	-10
Results from non-trading assets	33	-8	1
Results from investments accounted for using the equity method	34	0	0
Results from investment properties		–	5
Administrative expenses	35	375	358
Net other operating income/expenses	36	-10	-7
Impairment of goodwill	37	–	–
Operating profit		**198**	**176**
Income taxes	38	62	52
Net income/loss		**136**	**124**
Allocation of results			
Net income/loss attributable to non-controlling interests		19	19
Net income/loss attributable to shareholders of Aareal Bank AG		117	105
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		117	105
Silent participation by SoFFin		24	20
Consolidated profit/loss		**93**	**85**
€			
Earnings per share	39	1.95	1.75
Diluted earnings per share	39	1.95	1.75

Earnings per share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of shares outstanding during the financial year.

[1)] The comparative figures were partially adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Net income/loss	**136**	**124**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	**-1**	**-23**
Remeasurements	-2	-33
Taxes	1	10
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**49**	**122**
Gains and losses on remeasuring AfS financial instruments	63	161
Reclassifications to the income statement	–	–
Taxes	-14	-39
Changes in hedging reserves	**-4**	**-27**
Profit/loss from derivatives used to hedge future cash flows	-3	-39
Reclassifications to the income statement	-3	0
Taxes	2	12
Changes in currency translation reserves	**-2**	**1**
Profit/loss from translating foreign operations' financial statements	-2	0
Reclassifications to the income statement	–	1
Taxes	–	–
Other comprehensive income	**42**	**73**
Total comprehensive income	**178**	**197**
Allocation of total comprehensive income		
Total comprehensive income attributable to non-controlling interests	19	19
Total comprehensive income attributable to shareholders of Aareal Bank AG	159	178

Statement of Financial Position[1)]

€ mn	Notes	31 Dec 2013	31 Dec 2012
Assets			
Cash funds	7, 40	1,222	3,667
Loans and advances to banks	8, 41	2,531	1,552
Loans and advances to customers	9, 42	25,924	24,766
Allowance for credit losses	10, 43	-361	-302
Positive market value of derivative hedging instruments	11, 44	1,838	2,365
Trading assets	12, 45	307	576
Non-current assets held for sale and discontinued operations	13, 46	–	9
Non-trading assets	14, 47	10,668	12,286
Investments accounted for using the equity method	15, 48	1	1
Intangible assets	16, 49	107	90
Property and equipment	17, 50	98	103
Income tax assets	51	24	35
Deferred tax assets	18, 52	110	96
Other assets	19, 53	512	506
Total		**42,981**	**45,750**
Equity and liabilities			
Liabilities to banks	20, 54	1,589	3,284
Liabilities to customers	21, 55	25,476	27,366
Certificated liabilities	22, 56	10,124	8,473
Negative market value of derivative hedging instruments	11, 57	1,603	2,122
Trading liabilities	12, 58	286	719
Provisions	23, 59	289	290
Income tax liabilities	60	36	10
Deferred tax liabilities	18, 61	9	28
Other liabilities	24, 62	203	113
Subordinated capital	25, 63	916	1,028
Equity	26, 64		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,112	1,020
Other reserves		-105	-147
Silent participation by SoFFin		300	300
Non-controlling interests		242	243
Total equity		2,450	2,317
Total		**42,981**	**45,750**

[1)] The comparative figures were partially adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

Statement of Changes in Equity[1)]

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interests	Equity
Equity as at 1 Jan 2013	**180**	**721**	**1,016**	**–**	**-99**	**-13**	**4**	**300**	**2,109**	**243**	**2,352**
Adjustment			4	-39					-35		-35
Equity as at 1 Jan 2013 (adjusted)	**180**	**721**	**1,020**	**-39**	**-99**	**-13**	**4**	**300**	**2,074**	**243**	**2,317**
Total comprehensive income for the period			117	-1	49	-4	-2		159	19	178
Payments to non-controlling interests										-20	-20
Costs associated with the silent participation by SoFFin			-24						-24		-24
Other changes			-1						-1		-1
Equity as at 31 Dec 2013	**180**	**721**	**1,112**	**-40**	**-50**	**-17**	**2**	**300**	**2,208**	**242**	**2,450**

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interests	Equity
Equity as at 1 Jan 2012	**180**	**721**	**929**	**–**	**-221**	**14**	**3**	**300**	**1.926**	**243**	**2.169**
Adjustment			3	-16					-13		-13
Equity as at 1 Jan 2012 (adjusted)	**180**	**721**	**932**	**-16**	**-221**	**14**	**3**	**300**	**1.913**	**243**	**2.156**
Total comprehensive income for the period			105	-23	122	-27	1		178	19	197
Payments to non-controlling interests										-19	-19
Costs associated with the silent participation by SoFFin			-20						-20		-20
Other changes			3						3		3
Equity as at 31 Dec 2012 (adjusted)	**180**	**721**	**1.020**	**-39**	**-99**	**-13**	**4**	**300**	**2.074**	**243**	**2.317**

Transparency

1) The comparative figures were partially adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

Statement of Cash Flows

€ mn	Cash flows 1 Jan-31 Dec 2013	Cash flows 1 Jan-31 Dec 2012
Net income/loss for the year	**136**	**124**
Write-downs, valuation allowances and write-ups on loans and advances	129	106
Additions to and reversals of loan loss provisions, net	-5	0
Amortisation, depreciation, impairment and write-ups of non-current assets	20	23
Other non-cash changes	-380	-370
Gains/losses on the disposal of non-current assets	8	-3
Other adjustments	-29	59
Subtotal	**-121**	**-61**
Changes in loans and advances to banks	-987	1,361
Changes in loans and advances to customers	-1,377	608
Changes in trading assets	24	17
Changes in other assets from operating activities	36	30
Changes in liabilities to banks	-1,610	226
Changes in liabilities to customers	-1,273	1,914
Changes in certificated liabilities	1,764	841
Changes in trading liabilities	-21	-8
Changes in provisions	-100	-84
Changes in other liabilities from operating activities	-72	-173
Income taxes paid/income tax refunds	-58	-80
Interest received	507	907
Interest paid	-171	-649
Dividends received	–	–
Cash flow from operating activities	**-3,459**	**4,849**
Proceeds from the disposal of non-trading assets and investments accounted for using the equity method	1,406	923
Payments for the acquisition of non-trading assets and investments accounted for using the equity method	-204	-2,596
Proceeds from the disposal of property and equipment, intangible assets and investment properties	2	148
Payments for the acquisition of property and equipment, intangible assets and investment properties	-36	-27
Effect of changes in reporting entity structure	–	–
Changes due to other investing activities	–	–
Cash flow from investing activities	**1,168**	**-1,552**
Proceeds from capital increases	–	–
Changes in subordinated capital	-107	-170
Changes due to other funding activities	-47	-48
Cash flow from financing activities	**-154**	**-218**
Cash and cash equivalents as at 1 January	**3,667**	**588**
Cash flow from operating activities	-3,459	4,849
Cash flow from investing activities	1,168	-1,552
Cash flow from financing activities	-154	-218
Cash and cash equivalents as at 31 December	**1,222**	**3,667**

Notes
Basis of Accounting

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

As a listed public limited company, Aareal Bank AG has prepared its consolidated financial statements for the financial year ended on 31 December 2013 in accordance with International Financial Reporting Standards (IFRS) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). The reporting currency is the euro (€).

The Management Board approved the consolidated financial statements for publication on 26 February 2014.

Accounting Policies

(1) Accounting standards

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

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

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

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

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

Interest income and expenses are recognised using the effective interest method. It is no longer recorded if the cash inflow from interest payments is no longer deemed likely.

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

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

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

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

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

The most significant forward-looking assumptions and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year primarily refer to the calculation of pension obligations, allowances for credit losses and loan loss provisions, the measurement of goodwill, property and tax assets and liabilities as well as the determination of fair values of certain financial instruments. We refer to the item-specific disclosures in this section for information related to the estimates and assumptions actually made within the context of recognition and measurement.

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

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

(2) Changes in accounting policies

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

- **Amendment to IAS 1 Presentation of Financial Statements**
  The amendment to IAS 1 changes the presentation of the items reported in other comprehensive income within the statement of comprehensive income.

- **Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)**
  In accordance with IAS 12 Income Taxes, the measurement of deferred taxes depends on whether the carrying amount of an asset is recovered through its use or sale. The amendment introduces the rebuttable presumption according to which the carrying amount is normally recovered through sale. As a consequence of this amendment, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets, no longer applies for investment properties measured at fair value.

- **Amendment to IAS 19 Employee Benefits**
  In accordance with the amended IAS 19, future unexpected fluctuations of pension obligations and of any existing plan assets are recognised directly in other comprehensive income in the item "Remeasurements of defined benefit plans". The previous election of recognising these gains and losses directly in profit or loss, in other comprehensive income or the deferred recognition under the so-called corridor method, has been eliminated. Another change refers to the return on plan assets, which is no longer estimated upon return expectations based on asset allocation. Instead, any income from the expected return on plan assets may be recognised only based on the discount rate. In accordance with the revised IAS 19, step-up amounts from partial retirement arrangements are also no longer recognised as termination benefits but as other long-term employee benefits.

The unrealised actuarial losses accrued as at 31 December 2012 amount to € 51 million and are offset against equity as an increase in pension provisions as at 1 January 2013, taking into account deferred taxes of € 16 million, and reported separately in equity. The restatement of comparative figures resulting from the retrospective application of IAS 8 is as follows:

Adjusted items in the statement of financial position as at 31 Dec 2012

€ mn	31 Dec 2012 (reported)	Adjustment	31 Dec 2012 (adjusted)
Deferred tax assets	80	16	**96**
Provisions	239	51	**290**
Equity			
Retained earnings	1,016	4	**1,020**
Other reserves	-108	-39	**-147**

Adjusted items in the statement of financial position as at 1 Jan 2012

€ mn	1 Jan 2012 (reported)	Adjustment	1 Jan 2012 (adjusted)
Deferred tax assets	89	6	**95**
Provisions	251	19	**270**
Equity			
Retained earnings	929	3	**932**
Other reserves	-204	-16	**-220**

Adjusted items in the statement of comprehensive income for the period from 1 Jan 2012 to 31 Dec 2012

€ mn	1 Jan-31 Dec 2012 (reported)	Adjustment	1 Jan-31 Dec 2012 (adjusted)
Income statement			
Administrative expenses	358	0	**358**
Income taxes	52	0	**52**
Other comprehensive income			
Changes in the reserve from remeasurements of defined benefit plans	–	-23	**-23**

The application of the amended provisions of IAS 19 (IAS 19R) had the following effects on the statement of comprehensive income compared to the previously applicable IAS 19: decline in administrative expenses by € 3 million and an increase of tax expenses by € 1 million, as well as a reduction of other comprehensive income by € 1 million. As a result of the application of the amended provisions, undiluted earnings per share for the financial year 2013 increased by € 0.03 (2012: € 0.00). In the statement of financial position as at 31 December 2013, the application of IAS 19R resulted in higher pension provisions reported (increase of € 48 million) and an increase of reported deferred tax assets by € 15 million. Accordingly, the application of IAS 19R results in a reduction of reported equity as at 31 December 2013 by € 33 million, compared to the application of the previously applicable IAS 19.

The change in the classification of step-up amounts for partial retirement arrangements did not have any material consequences for the consolidated financial statements of Aareal Bank Group.

- **Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**
  The amendments to IFRS 7 clarify some details in relation to offsetting financial assets and financial liabilities. As a supplementary mandatory disclosure, gross and net amounts resulting from offsetting as well as the expected effects from netting arrangements that do not meet the criteria for offsetting in the statement of financial position will have to be disclosed in future.

- **IFRS 13 Fair Value Measurement**
  IFRS 13 sets out uniform measures and disclosure requirements for fair value measurement which was previously defined in individual standards. The standard increases the extent of disclosures in connection with non-financial assets that are recognised at fair value within the context of business combinations or investment property. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

- **Annual Improvements 2009-2011 Cycle**
  Within the framework of the IASB's Annual Improvements – 2009-2011 Cycle, clarifications were introduced regarding IAS 1 Presentation of Financial Statements. These clarifications relate to the disclosure of comparative information in case of the preparation of a third statement of financial position in connection with retrospective changes made to line items in accordance with IAS 8. Moreover, clarifications were made in relation to IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation and IAS 34 Interim Financial Reporting.

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

Until 31 December 2013, the following financial reporting standards (IASs/IFRSs) and interpretations (IFRICs) had been published by the International Accounting Standards Board (IASB) and adopted by the EU Commission:

New International Financial Reporting Standards/Interpretations		Issued	Endorsed	Effective Date
IFRS 9	Financial Instruments	November 2009 October 2010 December 2011 November 2013		Delayed for the time being
IFRS 10	Consolidated Financial Statements	May 2011	December 2012	Financial years beginning on or after 1 January 2014
IFRS 11	Joint Arrangements	May 2011	December 2012	Financial years beginning on or after 1 January 2014
IFRS 12	Disclosures of Interests in Other Entities	May 2011	December 2012	Financial years beginning on or after 1 January 2014
IAS 27	Separate Financial Statements (2011)	May 2011	December 2012	Financial years beginning on or after 1 January 2014
IAS 28	Investments in Associates and Joint Ventures (2011)	May 2011	December 2012	Financial years beginning on or after 1 January 2014
IFRIC 21	Levies	May 2012		Financial years beginning on or after 1 January 2014

Revised International Financial Reporting Standards		Issued	Endorsed	Effective Date
IAS 32	Offsetting Financial Assets and Financial Liabilities	December 2011	December 2012	Financial years beginning on or after 1 January 2014
IFRS 7	Transition Disclosures	December 2011		Delayed for the time being
IFRS 10	Transition Guidance Investment Entities	June 2012 October 2012	April 2013 November 2013	Financial years beginning on or after 1 January 2014
IFRS 11	Transition Guidance	June 2012	April 2013	Financial years beginning on or after 1 January 2014
IFRS 12	Transition Guidance Investment Entities	June 2012 October 2012	April 2013 November 2013	Financial years beginning on or after 1 January 2014
IAS 27	Investment Entities	October 2012	November 2013	Financial years beginning on or after 1 January 2014
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	Mai 2013	December 2013	Financial years beginning on or after 1 January 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	June 2013	December 2013	Financial years beginning on or after 1 January 2014
IAS 19	Defined Benefit Plans: Employee Contribution	November 2013		Financial years beginning on or after 1 July 2014
	Annual Improvements Cycle 2010-2012	December 2013		Financial years beginning on or after 1 July 2014
	Annual Improvements Cycle 2011-2013	December 2013		Financial years beginning on or after 1 July 2014

- **Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)**
  The amendments to IAS 19 include a clarification regarding the recognition of employee contributions made to defined benefit plans contributed by the employees themselves for service elements.

- **IAS 27 (2011) Separate Financial Statements**
  IAS 27 is renamed in IAS 27 Separate Financial Statements and will only contain rules relevant for separate financial statements. Changes regarding the recognition of investment entities were also added.

- **IAS 28 (2011) Investments in Associates and Joint Ventures**
  IAS 28 is renamed in IAS 28 Investments in Associates and Joint Ventures, and is adjusted to account for the newly introduced standards IFRS 10, 11 and 12.

- **Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**
  The amendments clarify some details in relation to offsetting financial assets and financial liabilities. As before, financial assets and financial liabilities are offset only when a company has a legally enforceable right to set off, and intends either to settle on a net basis or to realise the asset and settle the related liability simultaneously.

- **Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)**
  The amendments change the existing disclosure requirements for the recoverable amount of non-financial assets and introduce new disclosure requirements for the recoverable amount when it was determined based on the fair value less costs to sell.

- **Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)**
  The amendments to IAS 39 provide companies with relief from provisions related to the discontinuation of hedge accounting. Changes to derivative contracts required as a result of the introduction of new laws or regulations, such as a switch to a central clearing counterparty, do not lead to a discontinuation of the hedging relationship in accordance with IAS 39.

- **Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)**
  As a result of the relief introduced for IFRS 9 from restating comparative prior-year figures, additional disclosure requirements were incorporated in IFRS 7 related to the date of transition from IAS 39 to IFRS 9.

- **IFRS 9 Financial Instruments**
  The aim of IFRS 9 Financial Instruments is to provide new rules for the accounting of financial instruments, and will replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The development of IFRS 9 is structured in three phases: "Classification and Measurement", "Impairment" and "General Hedge Accounting". The first step of IFRS 9 "Classification and Measurement", which has been replaced by the IASB in the form of a standard, fundamentally changes the previous rules for classification and measurement of financial assets. In accordance with IFRS 9 issued by the IASB, there will be only two measurement categories for financial assets in future: financial assets measured at amortised cost and financial assets measured at fair value through profit or loss. The classification is based on the criteria of business model and cash flow characteristics of the financial assets. There are special rules for equity instruments as these may be recognised in the line item "Gains and losses directly recognised in equity (after taxes)". The accounting rules for financial liabilities do not result in any changes for Aareal Bank Group as the Group currently is not applying

the fair value option for financial liabilities. The IASB decided to revise once more the rules for the classification of debt securities in the first part of IFRS 9. The amended standard is expected to be issued in the next year. The rules relating to impairment, which represent the second phase of IFRS 9, have only been published as a draft and are expected to be issued on a final and binding basis in the next year. The third phase of IFRS 9 introduces new rules for general hedge accounting. The standard was published by the IASB on a final and binding basis in November of the reporting year. The new standard simplifies the hedge accounting rules by making an improved relationship between the risk management strategy of the company and the representation in the financial statements of hedging instruments used. In future, non-financial items may also be recognised under hedge accounting rules, and single risk components may be designated for hedge accounting to a larger extent. Generally, groups and net positions will be eligible for hedge accounting. A voluntary discontinuation of hedge accounting – so-called de-designation – is no longer permitted. Hedging relationships may only be discontinued when the objective of risk management has been changed. In contrast, the new IFRS 9 allows for an adjustment of hedging relationships if this is necessary (rebalancing). The requirements regarding effectiveness have been simplified: only qualitative assessments of effectiveness and prospective effectiveness tests have to be performed. The disclosure requirements for hedge accounting will be expanded. Due to the separation of macro hedge accounting from the current project and its postponement to IFRS 9, the application of the new hedge accounting rules in IFRS 9 allows for the continued application of special rules for fair value hedge accounting for portfolio hedges of interest rate risks in IAS 39.

Aareal Bank Group is currently reviewing the effects of the application of IFRS 9 on the consolidated financial statements.

- **IFRS 10 Consolidated Financial Statements**
  IFRS 10 replaces the guidance on control and consolidation included in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of "control". According to the new definition, the same criteria are applied to all companies to determine whether a company controls an investee. The amendments to IFRS 10, which relate to investment entities, introduce new rules regarding the inclusion of controlled subsidiaries at investment entities.

- **IFRS 11 Joint Arrangements**
  IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers that previously was applicable to the accounting for joint ventures. IFRS 11 governs the accounting for situations in which a company has joint control over a joint venture or a joint operation. The new standard eliminates the proportionate consolidation of joint ventures. In future, joint ventures have to be accounted for using the equity method. In case of a joint operation, assets, liabilities, income and expenses directly attributable to the joint operator have to be recorded in the consolidated financial statements of that joint operator.

- **IFRS 12 Disclosures of Interests in Other Entities**
  IFRS 12 clarifies the disclosures required to be made by companies that apply the new standards IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. This standard replaces the disclosure requirements currently included in IAS 27, IAS 28 and IAS 31. Disclosures have to be made that enable users of financial statements to assess the nature, risks and the financial effects of a company's interests in subsidiaries, associates and joint arrangements. New requirements have been introduced with respect to disclosures on unconsolidated structured entities. In future, detailed

information has to be disclosed regarding the type of relationship and the risks from structured entities that are not included in the scope of the consolidated financial statements, but where there is an interest or which are sponsored by the reporting entity.

- **Annual Improvements Cycles 2010-2012 and 2011-2013**
  Within the scope of the Annual Improvements Cycles, the IASB publishes clarifications and minor changes to various existing standards.

With the exception of IAS 36, Aareal Bank Group did not opt for early application of these standards in the financial year 2013; they are, however, required to be applied in future financial years.

(3) Consolidation

Consolidation principles

Subsidiaries are defined as all entities where the parent company of a group has the power to govern the financial and operating policies so as to obtain benefits from it. Subsidiaries are consolidated from the point in time when the parent assumes control (full consolidation); consolidation ends when control is no longer exercised.

Any non-controlling interests resulting from full consolidation are shown in the statement of financial position, as a separate item of equity.

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

Intragroup transactions, balances, and profits on transactions between Group entities are eliminated. Accounting policies applied by subsidiaries were amended – to the extent required to ensure consistent accounting throughout the Group.

Interests in jointly controlled entities are measured using the equity method.

Associates are companies in which the Group has an equity interest and may exercise significant influence, without having control. Associates are measured using the equity method. The Group's share in the profit or loss of associates is recognised in the consolidated income statement from the date of acquisition, and is included in the carrying amount of the equity investment.

Reporting entity structure

As at 31 December 2013, the reporting entity structure comprised 88 companies (2012: 92), including Aareal Bank AG as well as 75 (2012: 75) subsidiaries, one special fund (2012: one), two joint ventures (2012: four) as well as nine associates (2012: ten).

Effective 1 July 2013, Aareon acquired 100 % of the shares in Incit AB, Mölndal. Incit AB is an important provider of ERP property management software in Scandinavia. The company has been included in the consolidated financial statements by way of full consolidation since 1 July 2013. The purchase price consists of a fixed price of € 13.9 million and a contingent purchase price. The fair value of the contingent purchase price component was € 8.0 million, measured within the context of initial consolidation in accordance with IFRS 3 in connection with IAS 27. The fair value of assets acquired in the amount of € 14.8 million consists of intangible assets (€ 10.6 million), financial assets (€ 4.1 million) and other assets (€ 0.1 million). The fair value of liabilities assumed, including deferred tax liabilities, amounts to € 5.2 million. Accordingly, goodwill identified within the framework of initial consolidation amounted to € 12.4 million. This goodwill reflects market potential and economic advantages which Aareon sees in the Swedish market. In addition, the acquisition offers Aareon the opportunity to expand its business activities to the entire Scandinavian region.

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

(4) Currency translation

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

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

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

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

(5) Determination of fair value

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

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

As a rule, the transaction price equals the fair value at initial recognition. In contrast, there can be differences between the initial fair value determined using a valuation technique and the transaction price. These so-called day-one gains or losses may only be recognised immediately when all the inputs on which the valuation parameters are based are observable in the market. Otherwise, the difference has to be amortised through profit or loss over the term of the transaction. The application of IFRS 13 within Aareal Bank Group had no significant quantitative effects. Adjustments for specific counterparty risks (CVA and DVA) are not taken into account for the determination of the present value of derivatives at Aareal Bank, as they are deemed immaterial. Since the derivatives are part of highly effective collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives Transactions) which are each subject to a master collateralisation agreement, measurement adjustments to reflect any potential counterparty credit risk or own credit risk are not required. In the year under review, the Bank has changed the measurement of derivatives secured by cash collateral to the overnight interest rate swap curve (OIS curve). The temporary effect of this change in estimates (which was applied prospectively) on consolidated net income was not material.

(6) Recognition and measurement of financial instruments

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

Recognition

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

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

Measurement

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

Measurement categories in accordance with IAS 39

Loans and receivables (LaR)

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

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

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

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

Held to maturity (HtM)

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

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

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

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

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

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

Available for sale (AfS)

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

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

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

Financial liabilities measured at amortised cost (LaC)

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

Determination of the fair value of financial instruments

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

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

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

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

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

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

Structured products

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

Hedging relationships

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

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

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

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

(7) Cash funds

Cash funds include cash on hand and balances with central banks.

(8) Loans and advances to banks

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

(9) Loans and advances to customers

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

(10) Allowance for credit losses

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

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

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

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

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

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

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

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

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

Hedge accounting is based on clean fair values.

A distinction is made for derivatives used as hedging instruments whether these are part of a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation.

The purpose of a fair value hedge is the protection of the market value of an underlying transaction. Measurement gains or losses on the underlying transaction of the hedged exposure are recorded together with the corresponding fair value changes of the hedging instrument, and recognised in income in the item ”Net result on hedge accounting”. A fully effective hedging relationship results in offsetting measurement results. Interest on the hedged item and the hedging instrument is recognised in net interest income.

The hedging relationship may result in adjustments in the carrying amount of the underlying transaction. Such adjustments will only be recognised in income at the end of the term of the hedged item.

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

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

(12) Trading assets and trading liabilities

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

(13) Non-current assets held for sale

The item "Non-current assets held for sale" comprises properties.

A non-current asset is classified as held for sale within the meaning of IFRS 5 when it is available for immediate sale in its present condition, and sale is highly probable. Sale is deemed to be highly probable, amongst other things, when the sale is expected to occur within one year.

Non-current assets and disposal groups that are classified as held for sale within the meaning of IFRS 5 are generally measured at the lower of carrying amount or fair value less costs to sell.

(14) Non-trading assets

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

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

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

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

(15) Investments accounted for using the equity method

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

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

The equity method applied to the major associates was based on the most recent available financial statements prepared under local GAAP. 30 September 2013 was chosen as the relevant date for a company with a different financial year.

(16) Intangible assets

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

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

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

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

Where there are indications of impairment of intangible assets (as set out in IAS 36) at the reporting date, and the recoverable amount is lower than the carrying amount of the asset concerned, the asset is written down against income, to the estimated recoverable amount.

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

(17) Property and equipment

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

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

	Depreciation period
Other property and equipment	
Tenant's improvements	10 years
IT equipment	3-7 years
Other office furniture and equipment	5-13 years

For details on recognising impairments as defined in IAS 36, please refer to the explanations in Note (16) "Intangible assets" in this section.

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

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

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

(18) Deferred tax assets/deferred tax liabilities

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

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

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

(19) Other assets

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

(20) Liabilities to banks

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

(21) Liabilities to customers

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

(22) Certificated liabilities

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

(23) Provisions

The item ”Provisions” comprises provisions for pensions and similar obligations, provisions for staff expenses and non-staff operating costs, provisions for risks related to unrecognised items in the lending business as well as other provisions. Other provisions include provisions for potential obligations arising from tax and legal risks. Provisions are set aside for commitments to third parties if utilisation is probable and the amount of the commitment can be reasonably estimated. Provisions are measured on the basis of the best estimate of the expenditure required to settle the obligation, in accordance with IAS 37.36. Measurement is subject to several uncertainties and often requires significant estimates made by the management in relation to various factors. The final amount of the liabilities may deviate significantly from the measurement previously made in accounting. For example, the outcome of individual legal proceedings may not be predicted with certainty.

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

Provisions for pensions and similar obligations

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

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

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

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

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

Share-based payment

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

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

(24) Other liabilities

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

(25) Subordinated capital

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

(26) Equity

Equity comprises subscribed capital, capital reserves, retained earnings and other reserves. Other reserves include the reserve from remeasurements of defined benefit plans, the revaluation surplus, hedging reserves and currency translation reserves. In addition, the item "Equity" includes non-controlling interests as well as silent participation from SoFFin.

(27) Financial guarantee contracts

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

Notes to the Statement of Comprehensive Income

(28) Net interest income

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Interest income from		
Property loans	680	677
Public-sector loans	17	27
Other lending and money market operations	59	117
Debt and other fixed-income securities	92	148
Current dividend income	0	1
Other interest income	–	–
Total interest income	**848**	**970**
Interest expenses for		
Bonds issued	107	133
Registered mortgage bonds	29	68
Promissory note loans	88	127
Subordinated capital	23	29
Term deposits	50	98
Payable on demand	24	28
Other banking transactions	0	1
Total interest expenses	**321**	**484**
Total	**527**	**486**

Interest income from property loans includes income from impaired loans (so-called unwinding) in the amount of € 12 million (2012: € 17 million).

(29) Allowance for credit losses

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Additions	151	107
Reversals	33	16
Direct write-offs	6	20
Recoveries on loans and advances previously written off	11	5
Total	**113**	**106**

The additions to the allowance for credit losses comprise specific valuation allowances and individually recognised provisions for off-balance sheet risks within the lending business in a total amount of € 151 million (2012: € 96 million). Additions to portfolio-based valuation allowances and provisions recognised on a portfolio level for off-balance sheet risks in the lending business were not made in the reporting period (2012: € 11 million). Reversals of allowances for credit losses include € 10 million (2012: € 16 million) for specific valuation allowances and individually recognised provisions for off-balance sheet risks within the lending business as well as € 23 million (2012: –) for portfolio-based valuation allowances and provisions recognised on a portfolio level for off-balance sheet risks in the lending business.

(30) Net commission income

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Commission income from		
Consulting and other services	170	162
Trustee loans and administered loans	3	13
Securities transactions	–	–
Securitisation transactions	–	–
Other lending and money market operations	10	12
Other commission income	8	9
Total commission income	**191**	**196**
Commission expenses for		
Consulting and other services	20	19
Securities transactions	1	3
Securitisation transactions	–	–
Other lending and money market transactions	2	1
Other commission expenses	3	4
Total commission expenses	**26**	**27**
Total	**165**	**169**

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

The net amount of commission income and commission expenses from financial assets and financial liabilities not measured at fair value amounts to € 7 million (2012: € 8 million).

(31) Net result on hedge accounting

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Ineffective portion of fair value hedges	-3	1
Ineffective portion of cash flow hedges	-3	-4
Ineffective portion of net investment hedges	0	-1
Total	**-6**	**-4**

This item contains the measurement gains or losses from hedging instruments and the associated hedged items in the context of hedging relationships. The total amount of risk-induced changes to fair value was determined using recognised measurement methods, based on current market parameters.

(32) Net trading income/expenses

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Net income/expenses from positions held for trading	15	-7
Currency translation	3	-3
Total	**18**	**-10**

(33) Results from non-trading assets

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Result from debt securities and other fixed-income securities	-8	1
of which: Loans and receivables (LaR)	-8	1
Available for sale (AfS)	–	–
Result from equities and other non-fixed income securities	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)	0	0
Total	**-8**	**1**

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

In the past financial year, there were no material expenses resulting from investments accounted for using the equity method (2012: € 0 million).

(35) Administrative expenses

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Staff expenses	233	221
Other administrative expenses	122	117
Depreciation, amortisation and impairment of property and equipment and intangible assets	20	20
Total	**375**	**358**

Staff expenses include contributions to defined contribution plans in the amount of € 12 million (2012: € 11 million).

Other administrative expenses include administrative costs for research and development not eligible for capitalisation in the amount of € 6 million (2012: € 4 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the financial year 2013, which consists of the following sub-items:

€ 000's	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Auditing fees	3,413	3,131
Other assurance services	196	181
Tax advisory services	76	92
Other services	1,996	2,095
Total	**5,681**	**5,499**

(36) Net other operating income/expenses

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Income from properties	19	16
Income from the reversal of provisions	0	3
Income from goods and services	3	3
Miscellaneous	18	4
Total other operating income	**40**	**26**
Expenses for properties	22	22
Write-downs of trade receivables	1	0
Expenses for other taxes	3	3
Miscellaneous	24	8
Total other operating expenses	**50**	**33**
Total	**-10**	**-7**

(37) Impairment of goodwill

In the financial year 2013, there was no significant impairment of goodwill (2012: –).

(38) Income taxes

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Current income taxes	104	52
Deferred taxes	-42	0
Total	**62**	**52**

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

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Operating profit (before income taxes)	198	176
Expected tax rate	31.2 %	31.2 %
Calculated income taxes	**62**	**55**
Reconciliation to reported income taxes		
Different foreign tax burden	2	3
Tax attributable to tax-exempt income	-2	-2
Tax attributable to non-deductible expenses	7	2
Remeasurement of deferred taxes	4	8
Taxes for previous years	-4	-11
Effect of changes in tax rates	–	–
Non-controlling interests	-6	-6
Other tax effects	-1	3
Reported income taxes	**62**	**52**
Effective tax rate	31 %	30 %

The expected tax rate of 31.2 % (2012: 31.2 %), including a trade tax rate of assessment of 440 %, comprises trade taxes (15.4 %), corporation taxes (15 %) and the solidarity surcharge (0.825 %; 5.5 % of corporation tax).

(39) Earnings per share

	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Net income/loss attributable to shareholders of Aareal Bank AG (€ mn)	117	105
Average number of shares outstanding	59,857,221	59,857,221
Earnings per share (€)	**1.95**	**1.75**

Earnings per share are determined by dividing the earnings attributable to ordinary shareholders by the weighted average of ordinary shares outstanding in the financial year.

For Aareal Bank Group, diluted earnings per share correspond to undiluted earnings per share, as no convertible instruments were issued.

Notes to the Statement of Financial Position

(40) Cash and balances with the central bank

€ mn	31 Dec 2013	31 Dec 2012
Cash on hand	0	0
Balances with central banks	1,222	3,667
Total	**1,222**	**3,667**

(41) Loans and advances to banks

€ mn	31 Dec 2013	31 Dec 2012
Money market receivables	2,373	1,363
Promissory note loans	122	146
Securities repurchase agreements	–	–
Other loans and advances	36	43
Total	**2,531**	**1,552**

(42) Loans and advances to customers

€ mn	31 Dec 2013	31 Dec 2012
Property loans	23,848	22,522
Promissory note loans	1,435	1,633
Other loans and advances	641	611
Total	**25,924**	**24,766**

(43) Allowance for credit losses

31 December 2013

€ 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 andprovisions in the lending business
Allowance for credit losses as at 1 January	**218**	**84**	**302**	**18**	**320**
Additions	151	–	151	0	151
Write-downs	50	–	50	3	53
Reversals	9	19	28	5	33
Unwinding	12	–	12	–	12
Currency adjustments	2	0	2	–	2
Balance as at 31 December	**296**	**65**	**361**	**10**	**371**

31 December 2012

€ 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 andprovisions in the lending business
Allowance for credit losses as at 1 January	**243**	**75**	**318**	**22**	**340**
Additions	92	9	101	6	107
Write-downs	85	–	85	9	94
Reversals	15	–	15	1	16
Unwinding	17	–	17	–	17
Currency adjustments	0	0	0	0	0
Balance as at 31 December	**218**	**84**	**302**	**18**	**320**

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

(44) Positive market value of derivative hedging instruments

€ mn	31 Dec 2013	31 Dec 2012
Positive market value of fair value hedges	1,537	2,025
Positive market value of cash flow hedges	–	1
Pro rata interest receivable	301	339
Total	**1,838**	**2,365**

(45) Trading assets

€ mn	31 Dec 2013	31 Dec 2012
Positive market value of trading assets	307	576
Total	**307**	**576**

(46) Non-current assets held for sale and discontinued operations

€ mn	31 Dec 2013	31 Dec 2012
Properties	–	9
Total	**–**	**9**

(47) Financial assets

€ mn	31 Dec 2013	31 Dec 2012
Debt and other fixed-income securities	10,647	12,262
of which: Loans and receivables (LaR)	4,259	5,668
Held to maturity (HtM)	–	151
Available for sale (AfS)	6,388	6,443
Equities and other non-fixed income securities	20	22
of which: Available for sale (AfS)	20	19
Designated as at fair value through profit or loss (dFVtPL)	–	3
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	1	2
Total	**10,668**	**12,286**

The item ”Debt and other fixed-income securities” mainly consists of public-sector bonds as well as asset-covered bonds (Pfandbriefanleihen) and bank bonds. In addition, the item includes asset-backed securities in a nominal amount of € 163 million (2012: € 263 million).

Carrying amounts of negotiable non-trading assets:

	Listed		Unlisted	
	2013	2012	2013	2012
€ mn				
Debt and other fixed-income securities	10,632	12,190	–	72
Equities and other non-fixed-income securities	–	–	–	–
Total	**10,632**	**12,190**	**–**	**72**

(48) Investments accounted for using the equity method

As in the previous year, there were no unrecognised pro-rata losses incurred from associates accounted for using the equity method during the financial year. There were no accumulated unrecognised losses at the 2012 and 2013 reporting dates. The share of Aareal Bank Group in gains and losses of associates taken into account in 2013 totalled € 0 million (2012: € 0 million).

(49) Intangible assets

	31 Dec 2013	31 Dec 2012
€ mn		
Goodwill	66	54
Proprietary software	14	15
Other intangible assets	27	21
Total	**107**	**90**

The increase in goodwill and in other intangible assets mainly resulted from the acquisition of 100 % of the shares in Incit AB , Mölndal, by Aareon on 1 July 2013.

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

€ mn	31 Dec 2013 Goodwill	31 Dec 2012 Goodwill
Product group		
ERP Products	21	21
Integrated Services	5	5
International Business	40	28
Other products	0	0
Total	**66**	**54**

In the context of the impairment test for goodwill, which is carried out at least annually, the value in use of the relevant cash-generating units is determined. The basis for the valuation is the present value of future cash flows (value in use). The relevant cash flows (after taxes) are determined on the basis of a five-year plan adopted by Aareon's Management Board and approved by Aareon's Supervisory Board. Accordingly, there is an individual planning of revenue and expense items within the first five years. Cash flows beyond this five-year horizon are determined by way of a perpetual annuity. The present values of future cash flows were determined on the basis of a risk-adequate discount factor of 8.27 % before taxes. The discount factor is calculated based on a risk-free basic interest rate of 2.40 % plus a company-specific risk premium of 6.00 %, multiplied with a beta factor of 0.98. Due to the uncertainties surrounding the planning beyond the five-year horizon, we assume constant values, i.e. no further growth, to reflect our cautious view of the market environment. The parameters underlying the major assumptions are based on internal and external factors (migration plans, customer growth, cost trends and human resources development) as well as on experience. The recoverable amounts show a significant excess compared to the carrying amounts, which means that a deficit is not considered possible, even if the above-mentioned assumptions change dramatically. To that extent, even an increase of the risk-adequate discount factor by 1.00 % does not result in an impairment loss in the reporting period. Hence, there was no need to recognise impairment losses in the year under review.

The amount shown for software developed in-house includes € 2 million (2012: € 4 million) for the electronic payments system BK@1; the software is amortised over a remaining term of one year.

The same item also includes € 2 million (2012: € 4 million) for the property management software suite Blue Eagle; the software is amortised over an average remaining term of two years.

Intangible assets developed as follows:

€ mn	2013 Proprietary software	2013 Goodwill	2013 Other intangible assets	2013 Total	2012 Proprietary software	2012 Goodwill	2012 Other intangible assets	2012 Total
Cost								
Balance as at 1 January	**68**	**111**	**59**	**238**	**70**	**107**	**49**	**226**
Additions	3	12	13	**28**	1	4	11	**16**
Transfers	–	–	0	**0**	0	–	1	**1**
Disposals	2	–	1	**3**	3	0	2	**5**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	–	0	0	**0**	–	0	0	**0**
Balance as at 31 December	**69**	**123**	**71**	**263**	**68**	**111**	**59**	**238**
Amortisation and impairment losses								
Balance as at 1 January	**53**	**57**	**38**	**148**	**49**	**57**	**35**	**141**
Amortisation and impairment losses	5	–	6	**11**	7	0	4	**11**
of which: impairment losses	–	–	–	**–**	–	–	–	**–**
Write-ups	–	–	–	**–**	–	–	–	**–**
Transfers	–	–	0	**0**	–	–	1	**1**
Disposals	2	–	1	**3**	3	0	2	**5**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	–	0	0	**0**	–	–	0	**0**
Balance as at 31 December	**56**	**57**	**43**	**156**	**53**	**57**	**38**	**148**
Carrying amount as at 1 January	**15**	**54**	**21**	**90**	**21**	**50**	**14**	**85**
Carrying amount as at 31 December	**13**	**66**	**28**	**107**	**15**	**54**	**21**	**90**

(50) Property and equipment

€ mn	31 Dec 2013	31 Dec 2012
Land and buildings and construction in progress	77	81
Office furniture and equipment	21	22
Total	**98**	**103**

Property and equipment:

€ mn	2013 Land and buildings	2013 Office furniture and equipment	2013 Construction in progress	2013 Total	2012 Land and buildings	2012 Office furniture and equipment	2012 Construction in progress	2012 Total
Cost								
Balance as at 1 January	**104**	**63**	**0**	**167**	**101**	**65**	**2**	**168**
Additions	1	5	1	**7**	1	8	2	**11**
Transfers	0	0	–	**0**	3	-3	-3	**-3**
Disposals	3	5	1	**9**	1	7	1	**9**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	0	0	–	**0**	–	0	–	**0**
Balance as at 31 December	**102**	**63**	**0**	**165**	**104**	**63**	**0**	**167**
Depreciation and impairment losses								
Balance as at 1 January	**23**	**41**	**0**	**64**	**20**	**45**	**0**	**65**
Depreciation and impairment losses	3	6	–	**9**	3	6	–	**9**
of which: impairment losses	–	–	–	**–**	–	–	–	**–**
Write-ups	–	–	–	**–**	–	–	–	**–**
Transfers	–	0	–	**0**	–	-3	–	**-3**
Disposals	1	5	–	**6**	0	7	–	**7**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	0	0	–	**0**	0	0	–	**0**
Balance as at 31 December	**25**	**42**	**0**	**67**	**23**	**41**	**0**	**64**
Carrying amount as at 1 January	**81**	**22**	**0**	**103**	**81**	**20**	**2**	**103**
Carrying amount as at 31 December	**77**	**21**	**0**	**98**	**81**	**22**	**0**	**103**

(51) Income tax assets

Income tax assets in a total amount of € 24 million as at 31 December 2013 (2012: € 35 million) include €6 million (2012: €7 million) expected to be realised after a period of more than twelve months.

(52) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 500 million (2012: € 817 million).

Deferred tax assets were recognised in relation to the following items of the statement of financial position:[1]

€ mn	31 Dec 2013	31 Dec 2012
Loans and advances to banks/to customers	31	15
Positive and negative market value of derivative hedging instruments	29	32
Trading assets and trading liabilities	61	135
Non-current assets held for sale and discontinued operations	–	–
Non-trading assets	3	7
Investment properties	–	7
Intangible assets	1	1
Property and equipment	2	1
Other assets/liabilities	9	6
Liabilities to banks/to customers, and certificated liabilities	397	639
Provisions	54	41
Subordinated capital	7	16
Tax loss carryforwards	16	13
Deferred tax assets	**610**	**913**

Of the deferred taxes on loss carryforwards, an amount of € 7 million (2012: € 8 million) is attributable to foreign subsidiaries and permanent establishments. The existing loss carryforwards may be carried forward for an unlimited period. Deferred taxes on losses carried forward were recognised to the extent that they are expected to be realised within the next five years.

Unrecognised deferred tax assets amount to € 30 million (2012: € 36 million) and relate entirely to tax loss carryforwards that are neither recognised nor subjected to valuation adjustments.

Deferred tax assets in the amount of € 38 million (2012: € 48 million) were reported under other reserves.

(53) Other assets[2]

€ mn	31 Dec 2013	31 Dec 2012
Properties	413	412
Trade receivables (LaR)	34	29
Miscellaneous	65	65
Total	**512**	**506**

[1] The comparative figures were partially adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

[2] Properties reported under other assets include an amount of € 88 million (2012: € 88 million) related to a property which was held as an investment property in the previous year.

(54) Liabilities to banks

€ mn	31 Dec 2013	31 Dec 2012
Money market liabilities	838	2,389
Promissory note loans	385	465
Registered mortgage Pfandbriefe	254	261
Registered public-sector Pfandbriefe	46	97
Other liabilities	66	72
Total	**1,589**	**3,284**

(55) Liabilities to customers

€ mn	31 Dec 2013	31 Dec 2012
Money market liabilities	11,779	11,500
Promissory note loans	7,802	8,815
Registered mortgage Pfandbriefe	3,186	3,640
Registered public-sector Pfandbriefe	2,709	3,411
Total	**25,476**	**27,366**

(56) Certificated liabilities

€ mn	31 Dec 2013	31 Dec 2012
Bearer mortgage Pfandbriefe	7,179	5,787
Bearer public-sector Pfandbriefe	35	35
Other debt securities	2,910	2,651
Total	**10,124**	**8,473**

(57) Negative market value of derivative hedging instruments

€ mn	31 Dec 2013	31 Dec 2012
Negative market value of fair value hedges	1,409	1,918
Negative market value of cash flow hedges	30	22
Negative market value of net investment hedges	0	9
Pro rata interest payable	164	173
Total	**1,603**	**2,122**

(58) Trading liabilities

€ mn	31 Dec 2013	31 Dec 2012
Negative market value of trading assets	286	719
Total	**286**	**719**

(59) Provisions[1)]

€ mn	31 Dec 2013	31 Dec 2012
Provisions for pensions and similar obligations	148	144
Other provisions	141	146
Total	**289**	**290**

Provisions for pensions and similar obligations

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

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

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

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

[1)] The comparative figures were partially adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

The economic beneficiary of the fund assets is the Bank, which makes investment decisions based on an investment policy for the pensions of the employees and has established an investment committee. The Bank transfers new assets to be invested on an annual basis to Aareal Pensionsverein. Interest income is invested by Pensionsverein, as instructed by the Bank. The Bank has taken out reinsurance policies for a portion of the benefit entitlements of active members of the Management Board and former Management Board members. These policies were also transferred to Aareal Pensionsverein e.V. on a trust basis. The Bank provides corresponding funds for contribution paid to these policies.

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

Brief description of the pension plans

DePfa Bank Betriebsvereinbarung dated 14 December 1999 (BV 97)
BV 97 applies for new joiners since 1 January 1997. The following benefits are granted after a waiting period of five pensionable service years: old-age pension after completing the 65th year of age (also after any previous disability), early old-age pension, disability pension until completing the 65th year of age, as well as widow's pension.

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

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

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

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

The four individual benefit commitments prior to 2011 are fixed amount commitments related to monthly benefit payments upon retirement and disability, including a widow's pension of 60 % of the husband's pension entitlement. The current benefit payments are adjusted based on the development of standard wages within the private banking sector.

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

DePfa Bank Dienstvereinbarung dated 30 December 1955 (DePfa 55)
DePfa 55 is a remuneration-related benefit commitment for new entrants before 31 December 1988. It provides for benefit payments after completing the 65th year of age after a waiting period of five service years and benefits paid in case of occupational incapacity (disability) as well as benefits for surviving dependants, each in form of a monthly annuity.

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

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

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

BauBoden agreement dated 1 July 1968 (BauBoden 68)
This agreement applies to employees after completing their 18th year of age who were employed by the Bank on 1 January 1967 or joined the Bank not later than on 31 December 1983. The following benefits are granted after a waiting period of ten service years: old-age pension after completing the 65th year of age, early old-age pension, (total) occupational incapacity pension as well as widow's pension.

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

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

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

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

**BauBoden agreement dated 12 December 1984 (BauBoden 84)
and DePfa Bank Versorgungsordnung dated 28 November 1990 (DePfa 90)**
BauBoden 84 applies to employees who joined the Company after 31 December 1983 and have completed their 20th year of age. DePfa 90 applies to employees who joined the Company after 31 December 1988. The following benefits are granted after a waiting period of ten service years: old-age pension and early old-age pension, (total) occupational incapacity pension as well as widow‘s pension.

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

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

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

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

Baugrund
Baugrund AG (Baugrund) is a member of the Federal and Länder Government-Service Supplementary Pension Agency (Versorgungsanstalt des Bundes und der Länder, VBL) and has indirectly granted pensions to active and former employees within the framework of a multi employer plan in the form of an insurance policy. VBL charges annual contributions as well as recapitalisation monies (Sanierungsbeitrag) within the context of a partial reserve pay-as-you-go system (Deckungsabschnittsverfahren). The amount of the contributions required is determined so that the contributions, together with other expected income from mandatory insurance and the assets available at the beginning of the period to be covered (Deckungsabschnitt), are sufficient to be able to pay the expenditures for mandatory insurance in the period covered and for another six months. In order to safeguard the financing of the pay-as-you-go- and solidarity group, employers that leave the pay-as-you-go system have to pay an amount equivalent to the entitlements and benefit claims retained by VBL. In the financial year 2014, Baugrund is expected to contribute an amount of € 0.3 million to VBL for its employees (including contributions of employees). Since VBL

is not able to provide reliable information as to the assets, obligations or costs attributable to Baugrund (including employees' contributions), the defined benefit plan is accounted for as a defined contribution plan in accordance with IAS 19.34.

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

	31 Dec 2013	31 Dec 2012
Calculation method	Projected unit credit	Projected unit credit
Calculation basis	Actuarial tables issued by K. Heubeck in 2005	Actuarial tables issued by K. Heubeck in 2005
Actuarial assumptions (in %)		
Interest rate used for valuation	3.60	3.60
Development of salaries	2.25	2.25
Career trends	1.00	1.00
Pension increase	2.00	2.00
Rate of inflation	2.00	2.00
Staff turnover rate	3.00	3.00

Development of net pension liabilities:

€ mn	Present value of pensions obligations	Fair value of plan assets	Net pension liability
Balance as at 1 Jan 2013	**189**	**-45**	**144**
Pension expense	11	-1	**10**
Current service cost	5	–	**5**
Net interest cost	6	-1	**5**
Payments	**-6**	**-2**	**-8**
Pension benefits paid	-7	1	**-6**
Employer's contributions	–	-2	**-2**
Contributions made by beneficiaries of defined benefit plans	1	-1	**–**
Remeasurements	**3**	**-1**	**2**
due to experience adjustments	3	–	**3**
due to changes in financial assumptions	–	–	**–**
due to changes in demographic assumptions	–	–	**–**
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-1	**-1**
Balance as at 31 Dec 2013	**197**	**-49**	**148**

€ mn	Present value of pensions obligations	Fair value of plan assets	Net pension liability
Balance as at 1 Jan 2012	**147**	**-37**	**110**
Pension expense	12	-2	**10**
Current service cost	4	-	**4**
Net interest cost	8	-2	**6**
Payments	**-5**	**-4**	**-9**
Pension benefits paid	-6	0	**-6**
Employer's contributions	–	-3	**-3**
Contributions made by beneficiaries of defined benefit plans	1	-1	**–**
Remeasurements	**35**	**-2**	**33**
due to experience adjustments	-2	–	**-2**
due to changes in financial assumptions	37	–	**37**
due to changes in demographic assumptions	–	–	**–**
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-2	**-2**
Balance as at 31 Dec 2012	**189**	**-45**	**144**

The weighted duration of pension liabilities is 17 years as at 31 December 2013.

Expected maturities of the defined benefit obligation (DBO):

€ mn	31 Dec 2013
Up to 1 year	7
More than 1 year and up to 5 years	30
More than 5 years and up to 10 years	44
Total	**81**

Contributions in the amount of € 11 million (2012: € 10 million) are expected to be paid in the financial year 2014.

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

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

		Defined benefit obligation	Change
		€ mn	%
Present value of obligations		**197**	
Interest rate used for valuation	Increase by 1.0 percentage points	172	-13
	Decrease by 1.0 percentage points	233	18
Development of salaries	Increase by 0.5 percentage points	203	3
	Decrease by 0.5 percentage points	191	-3
Pension increase	Increase by 0.25 percentage points	198	1
	Decrease by 0.25 percentage points	192	-3
Life expectancy	Increase by 1 year	204	4
	Decrease by 1 year	191	-3

Plan assets can be broken down as follows:

€ mn	31 Dec 2013	31 Dec 2012
Cash	0	–
Equities	–	–
Investment funds	13	25
Bonds	16	–
Reinsurance	20	20
Total	**49**	**45**

The bonds and investment funds are listed.

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

Other provisions

Other provisions developed as follows:

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for risks associated with unrecognised items	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2013	**71**	**18**	**57**	**146**
Additions	63	0	29	**92**
Utilisation	30	3	51	**84**
Reversals	5	5	4	**14**
Reclassifications	0	–	0	**0**
Changes in basis of consolidation	–	–	–	**–**
Currency translation differences	-1	0	2	**1**
Carrying amount as at 31 Dec 2013	**98**	**10**	**33**	**141**

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for risks associated with unrecognised items	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2012	**76**	**22**	**62**	**160**
Additions	39	6	49	**94**
Utilisation	38	9	23	**70**
Reversals	6	1	3	**10**
Reclassifications	0	0	0	**0**
Changes in basis of consolidation	–	–	-26	**-26**
Currency translation differences	0	0	-2	**-2**
Carrying amount as at 31 Dec 2012	**71**	**18**	**57**	**146**

The provisions for staff expenses and non-staff operating costs comprise provisions for bonuses, partial retirement and severance pay as well as provisions for existing working hours accounts and professional and legal advice. We expect that the major portion of these provisions will be realised within two years following the balance sheet date.

An amount of € 4 million (2012: € 5 million) in provisions in the lending business for risks associated with unrecognised items relating to the capital guarantees provided for Deutsche Pfandbriefbank AG (formerly DEPFA Deutsche Pfandbriefbank AG) within the context of the separation in 2002 was recognised as at the balance sheet date. We expect that a large portion of these provisions will be realised within two years following the balance sheet date. In addition, the item includes provisions for portfolio-based valuation allowances in connection with risks associated with unrecognised items in the amount of € 3 million.

Other provisions include provisions for interest rate guarantees provided in the context of the separation in 2002 relating to the property loan portfolio held by Deutsche Pfandbriefbank AG. In addition, the item includes provisions in connection with tax liabilities and legal risks. We expect that a large portion of these provisions will be realised within two years.

The interest cost on provisions recognised at present values due to an estimated minimum remaining term of one year resulted in expenses in the financial year 2013 in the amount of € 1 million (2012: € 1 million).

(60) Income tax liabilities

Income tax liabilities in a total amount of € 36 million as at 31 December 2013 (2012: € 10 million) include € 0 million (2012: € 0 million) expected to be realised after a period of more than twelve months.

(61) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 500 million (2012: € 817 million).

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

€ mn	31 Dec 2013	31 Dec 2012
Loans and advances to banks/to customers	74	132
Positive and negative market value of derivative hedging instruments	73	154
Trading assets and trading liabilities	62	144
Non-trading assets	259	371
Investment properties	–	–
Intangible assets	8	6
Property and equipment	7	8
Other assets/liabilities	3	6
Liabilities to banks/to customers, and certificated liabilities	–	–
Provisions	21	22
Subordinated capital	2	2
Deferred tax liabilities	**509**	**845**

(62) Other liabilities

€ mn	31 Dec 2013	31 Dec 2012
Liabilities from outstanding invoices	8	10
Deferred income	11	5
Liabilities from other taxes	29	17
Trade payables (LaC)	9	8
Other liabilities (LaC)	146	73
Total	**203**	**113**

Other liabilities include proportionate interest in connection with the silent participation from SoFFin in the amount of € 33 million (2012: € 27 million).

(63) Subordinated capital

€ mn	31 Dec 2013	31 Dec 2012
Subordinated liabilities	524	574
Profit-participation certificates	166	227
Contributions by silent partners[1]	226	227
Total	**916**	**1,028**

[1] The silent participation by SoFFin is classified as equity in accordance with IFRS and therefore is not reported under contributions by silent partners, but as a separate item in equity.

Subordinated liabilities

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

As at the balance sheet date, there were no individual items exceeding 10 % of total subordinated liabilities.

Interest expenses for all subordinated liabilities during 2013 totalled € 25 million (2012: € 23 million). Interest was paid on subordinated liabilities at an average rate of 4.70 % (2012: 4.00 %).

Profit-participation certificates

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

	Nominal amount € mn	Issue currency	Interest rate (% p.a.)	Maturity
Bearer profit-participation certificates				
	60.0	EUR	6.125	2003-2013
	60.0			
Registered profit participation certificates				
	5.0	EUR	7.220	2002-2016
	5.0	EUR	7.220	2002-2016
	5.0	EUR	6.080	2003-2013
	20.0	EUR	6.120	2003-2013
	5.0	EUR	6.310	2003-2017
	10.0	EUR	5.750	2004-2014
	2.0	EUR	5.470	2004-2014
	5.0	EUR	5.480	2004-2014
	5.0	EUR	5.380	2004-2016
	20.0	EUR	5.950	2004-2016
	6.0	EUR	5.830	2005-2017
	88.0			

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

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

An amount of € 14 million (2012: € 14 million) in interest expenses was incurred with respect to profit-participation certificates issued.

Contributions by silent partners

Contributions by silent partners to Aareal Bank Group totalled € 220 million (2012: € 220 million).

Total expenses for silent participations amounted to € 9 million (2012: € 10 million) in the financial year 2013.

(64) Equity[1)]

€ mn	31 Dec 2013	31 Dec 2012
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,112	1,020
Other reserves		
Reserve from remeasurements of defined benefit plans	-40	-39
Revaluation reserve	-50	-99
Hedging reserves	-17	-13
Currency translation reserves	2	4
Silent participation by SoFFin	300	300
Non-controlling interests	242	243
Total	**2,450**	**2,317**

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (31 December 2012: € 180 million). It is divided into 59,857,221 notional no-par value shares ("unit shares") with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

Treasury shares

The Management Board was authorised by the Annual General Meeting held on 19 May 2010 pursuant to section 71 (1) no. 7 of the German Stock Corporation Act (AktG) to purchase and sell treasury shares until 18 May 2015 for the purposes of securities trading at prices that may not be higher or lower than 10 % than the average closing price of the shares in Xetra (or a comparable successor system) of the Frankfurt Stock Exchange during the three trading days prior to purchase. The volume of shares acquired for this purpose must not exceed 5 % of the share capital of Aareal Bank AG at the end of any day.

The General Meeting held on 19 May 2010 authorised the Management Board, pursuant to Section 71 (1) No. 8 of the AktG, up to 18 May 2015, to acquire and sell treasury shares for purposes other than securities trading, up to a maximum volume of 10 % of the issued share capital at the time of passing the resolution or – if this value is lower – of the share capital existing at the time of exercising this authorisation for purposes other than securities trading. Shares may be acquired via the stock exchange or by means of a public offer to buy, directed at all shareholders. Where acquisition is effected via the use of derivatives in the form of put or call options, or a combination of both, the option terms must ensure that said options are only serviced with shares that were purchased, in accordance with the principle of equal treatment, at the stock exchange at the prevailing share price of the Company's share in Xetra trading (or a comparable successor system) at the time of the purchase on the stock exchange.

1) The comparative figures were partially adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

The Management Board is authorised to effect the sale of any treasury shares acquired in accordance with this authorisation, subject to approval by the Supervisory Board, via channels other than the stock exchange or an offer to all shareholders, provided that the sale is carried out at a price that is not significantly lower than the stock exchange price of the Company's shares at the time of sale. This authorisation is subject to the proviso that the aggregate value of shares sold under this authorisation and of shares issued to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed 10 % of the issued share capital at the time of said authorisation becoming effective or being exercised. Subject to approval by the Supervisory Board, pre-emptive subscription rights on the sold shares may also be excluded in the event of a sale against contributions in kind, or if the sold shares are given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The Management Board is also authorised to exclude the pre-emptive subscription rights to the extent required to grant subscription rights to new shares to owners of convertible bonds or bonds with warrants which were issued in the meantime in such an amount as would be due to them once they exercised their option rights. The Management Board is authorised to call in any of the shares acquired under this authorisation, without any further resolutions by the General Meeting being necessary.

The authorisation to acquire treasury shares was granted for a period of five years.

Said authorities were not utilised. No treasury shares were held at the end of the year under review.

Authorised capital

Aareal Bank has authorised capital pursuant to the resolution by the Annual General Meeting held on 23 May 2012. The Annual General Meeting authorised the Management Board is authorised to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 89,785,830 (Authorised Capital 2012) by issuance of new bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board; this authority will expire on 22 May 2017. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right, unless the Management Board exercises its authority to exclude shareholder's pre-emptive subscription rights. The Management Board may exclude shareholders' subscription rights, subject to approval by the Supervisory Board and the conditions set out below:

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

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

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

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

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

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

The authorised capital has not been utilised.

Conditional capital

The share capital is subject to a conditional capital increase of up to € 30 million by means of issuing up to 10 million new no-par value bearer shares, with a share in the Company's share capital of € 3.00 each. Such conditional capital increase serves to enable the Company to service convertible bonds and/or bonds with warrants on the basis of the authorisation resolution of the Annual General Meeting held on 19 May 2010. Said resolution authorised the Management Board, subject to the consent of the Supervisory Board, to issue, on one or more occasions until 18 May 2015, convertible bonds and/or bonds with warrants with a limited or an unlimited term in an aggregate nominal amount of € 600 million and to grant option and/or conversion rights to bearers or holders of bonds with regard to no-par value bearer shares of the Company, equivalent to a share in the share capital of up to € 30 million.

The bonds may be issued in euro as well as in any other currency – with the corresponding equivalent value – which is the legal tender of, for example, an OECD member state. They may also be issued via an indirect or a direct subsidiary of the Company. In this case, the Management Board is authorised, subject to the consent of the Supervisory Board, to issue a guarantee with regard to the bonds on behalf of the Company and to grant to the bondholders conversion or option rights to new no-par value bearer shares of the Company.

The conditional capital increase will be executed only to the extent that holders of conversion or option rights exercise such rights or any conversion obligation from such convertible bonds and/or bonds with warrants are performed, and to the extent that treasury shares are not utilised to service such convertible bonds and/or bonds with warrants. The new shares will be entitled to a share in the profits from the beginning of the financial year in which they come into existence through the exercise of conversion or option rights or the performance of conversion obligations.

No convertible bonds or warrants were in issue as at the balance sheet date.

Capital reserves

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

Retained earnings

Retained earnings are comprised of statutory reserves (pursuant to section 150 of the AktG) of € 5 million (2012: € 5 million) and of other retained earnings of € 1.107 million (2012: € 1.015 million).

Revaluation surplus

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

Silent participation by SoFFin

On 31 March 2009, the German Financial Markets Stabilisation Fund (SoFFin) provided the € 525 million silent participation to Aareal Bank, as agreed upon as part of the package of support measures on 15 February 2009. The perpetual silent participation bears interest at 9 % p.a.; in the statement of financial position, it is shown as a separate line item under equity. The costs associated with this silent participation are reduced by the related income tax benefits, and directly offset with equity.

On 16 July 2010, Aareal Bank AG repaid a first tranche of € 150 million of the € 525 million silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin).

On 28 April 2011, Aareal Bank AG made the second partial repayment – in an amount of € 75 million – related to the silent participation provided by SoFFin, reducing the residual amount of the silent participation to € 300 million.

Non-controlling interests

€ 250 million (2012: € 250 million) in preference shares issued by a subsidiary were outstanding at the end of the financial year. These shares are repaid at their nominal value and carry an exclusive right to termination for the issuer.

Interest expenses on these preference shares amounted to € 18 million (2012: € 18 million). The tax relief resulting from distributions leads to a reduction of income taxes as reported in the statement of comprehensive income.

Dividends

The Management Board of Aareal Bank AG proposes to the Annual General Meeting that a partial amount of € 44,892,915.75 of Aareal Bank AG's net retained profit of € 49,892,915.75 for the financial year 2012, as reported under the German Commercial Code (HGB), be used to distribute a dividend of € 0.75 per notional no-par value share. The Management Board also proposes to the Annual General Meeting to transfer the remaining distributable profit of € 5,000,000.00 to other retained earnings.

Notes to Financial Instruments

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

(65) Net results of financial instruments by category

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

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Result from loans and receivables	-829	-24
Result from held-to-maturity investments	0	0
Result from financial instruments held for trading	17	23
Result from assets designated as at fair value through profit or loss	0	0
Result from assets available for sale	-162	456
of which: directly recognised in equity	49	139
Net result from hedging instruments	131	227
Result from liabilities measured at amortised cost	777	-666
Result from financial guarantee contracts	4	-5

In the current reporting period, there were no measurement gains or losses from available-for-sale assets reclassified from equity to the income statement (2012: –).

The net results include measurement gains and losses, realised gains/losses on disposal, subsequent recoveries on loans and advances previously written off as well as results from currency translation of all financial instruments of the individual category. The result from financial instruments held for trading also includes interest and dividends as well as commissions from held-for-trading financial instruments. The net result from derivatives that are part of hedging relationships is included in the result from hedging instruments, while the result from hedged items is reported under the result from the relevant measurement category.

(66) Impairment losses on financial assets

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

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Loans and advances to banks (LaR)	–	1
Loans and advances to customers (LaR)	157	120
Non-trading assets (AfS)	–	1
Other assets (LaR)	3	1
Total	**160**	**123**

(67) Fair value hierarchy in accordance with IFRS 13

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

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

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

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

Non-trading assets designated as at fair value through profit or loss:

Aareal Bank currently does not hold non-trading assets of the dFVtPL category in its portfolio.

Positive and negative market value of derivative hedging instruments as well as from derivatives held for trading:

Exchange-traded derivatives are measured at their quoted market price and allocated to Level 1 of the fair value hierarchy. Aareal Bank Group currently does not hold any listed derivatives in its portfolio. The fair value of OTC derivatives included in the trading portfolio as well as of OTC hedging derivatives is determined on the basis of sector-specific standardised measurement models, such as the present value method or option pricing models. These techniques are based on inputs quoted on active markets, such as interest rates, yield curves and credit spreads. The fair value of foreign exchange forwards is generally based on current forward exchange rates quoted on active markets. These derivatives are allocated to Level 2 of the fair value hierarchy.

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

31 December 2013

€ mn	Total Fair value 31 Dec 2013	Fair value level 1 31 Dec 2013	Fair value level 2 31 Dec 2013	Fair value level 3 31 Dec 2013
Positive market value of derivative hedging instruments	**1,838**	**–**	**1,838**	**–**
Assets held for trading	**307**	**–**	**307**	**–**
Trading derivatives	307	–	307	–
Non-trading assets available for sale	**6,408**	**6,318**	**90**	**–**
Fixed-income securities	6,388	6,315	73	–
Equities/funds	20	3	17	–
Non-trading assets designated as at fair value through profit or loss	**–**	**–**	**–**	**–**
Negative market value of derivative hedging instruments	**1,603**	**–**	**1,603**	**–**
Liabilities held for trading	**286**	**–**	**286**	**–**
Trading derivatives	286	–	286	–

31 December 2012

€ mn	Total Fair value 31 Dec 2012	Fair value level 1 31 Dec 2012	Fair value level 2 31 Dec 2012	Fair value level 3 31 Dec 2012
Positive market value of derivative hedging instruments	**2,365**	**–**	**2,365**	**–**
Assets held for trading	**576**	**–**	**576**	**–**
Trading derivatives	576	–	576	–
Non-trading assets available for sale	**6,462**	**6,387**	**75**	**0**
Fixed-income securities	6,443	6,384	59	–
Equities/funds	19	3	16	0
Non-trading assets designated as at fair value through profit or loss	**3**	**–**	**3**	**0**
Negative market value of derivative hedging instruments	**2,122**	**–**	**2,122**	**–**
Liabilities held for trading	**719**	**–**	**719**	**–**
Trading derivatives	719	–	719	–

In the financial year 2013, no fixed-income securities of the AfS category were reclassified from Level 1 to Level 2 (2012: –), neither were there any reclassifications of fixed-income securities of the same category from Level 2 to Level 1 in the reporting year (2012: € 3,652 million).

The reclassifications from Level 2 to Level 1 in the previous year primarily resulted from an adjustment of the definition of the factors used by Aareal Bank to determine the appropriate level. Apart from the existence of quoted market prices, Aareal Bank now also assesses the regularity of price quotations for determining whether an active market exists and whether allocation is made to Level 1. These regular price quotations are available for fixed-income securities to a large degree; thus, a greater number of securities was allocated to Level 1.

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

Cash on hand and balances with central banks:
Cash funds are recognised at the IFRS carrying amount, which is considered an appropriate fair value.

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

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

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

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

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

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

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

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

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

31 December 2013

€ mn	Total Fair value 31 Dec 2013	Fair value level 1 31 Dec 2013	Fair value level 2 31 Dec 2013	Fair value level 3 31 Dec 2013
Cash on hand and balances with central banks	**1,222**	**–**	**1,222**	**–**
Loans and advances to banks (loans and receivables)	**2,530**	**–**	**2,518**	**12**
Money market receivables from banks	2,372	–	2,372	–
Promissory note loans to banks	122	–	122	–
Other receivables from banks	36	–	24	12
Loans and advances to customers (loans and receivables)	**27,298**	**–**	**1,419**	**25,879**
Property loans to customers	25,191	–	10	25,181
Money market receivables from customers	458	–	1	457
Promissory note loans to customers	1,463	–	1,404	59
Other receivables from customers	186	–	4	182
Non-trading assets (loans and receivables)	**4,018**	**2,966**	**1,052**	**–**
Fixed-income securities	4,018	2,966	1,052	–
Liabilities to banks measured at amortised cost	**1,601**	**–**	**1,535**	**66**
Money market liabilities to banks	838	–	837	1
Registered mortgage Pfandbriefe to banks	257	–	257	–
Registered Public Sector Pfandbriefe to banks	46	–	46	–
Promissory note loans to banks	393	–	328	65
Other liabilities to banks	67	–	67	–
Liabilities to customers measured at amortised cost	**25,412**	**–**	**18,538**	**6,874**
Money market liabilities to customers	11,783	–	4,909	6,874
Registered mortgage Pfandbriefe to customers	3,201	–	3,201	–
Registered Public Sector Pfandbriefe to customers	2,700	–	2,700	–
Promissory note loans to customers	7,728	–	7,728	–
Certificated liabilities measured at amortised cost	**10,192**	**1,387**	**8,805**	**–**
Bearer mortgage Pfandbriefe	7,227	798	6,429	–
Bearer public-sector Pfandbriefe	35	–	35	–
Other debt securities	2,930	589	2,341	–
Subordinated capital measured at amortised cost	**914**	**–**	**527**	**387**

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

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

€ mn	31 Dec 2013 Carrying amount	31 Dec 2013 Fair value	31 Dec 2012 Carrying amount	31 Dec 2012 Fair value
Cash on hand and balances with central banks	**1,222**	**1,222**	**3,667**	**3,667**
Loans and advances to banks (LaR)	2,531	2,530	1,552	1,552
Loans and advances to customers (LaR)	25,563	27,298	24,464	25,966
Non-trading assets (LaR)	4,259	4,018	5,668	5,185
Other assets (LaR)	62	67	60	59
Total loans and receivables	**32,415**	**33,913**	**31,744**	**32,762**
Non-trading assets held to maturity	**–**	**–**	**151**	**152**
Non-trading assets available for sale	**6,408**	**6,408**	**6,462**	**6,462**
Non-trading assets designated as at fair value through profit or loss	**–**	**–**	**3**	**3**
Positive market value of derivative hedging instruments	**1,838**	**1,838**	**2,365**	**2,365**
Assets held for trading	**307**	**307**	**576**	**576**
Liabilities to banks (LaC)	1,589	1,601	3,284	3,288
Liabilities to customers (LaC)	25,476	25,412	27,366	26,975
Certificated liabilities (LaC)	10,124	10,192	8,473	8,576
Other liabilities (LaC)	163	156	91	91
Subordinated capital (LaC)	916	914	1,028	953
Total liabilities measured at amortised cost	**38,268**	**38,275**	**40,242**	**39,883**
Negative market value of derivative hedging instruments	**1,603**	**1,603**	**2,122**	**2,122**
Liabilities held for trading	**286**	**286**	**719**	**719**
Financial guarantee contracts	**120**	**120**	**273**	**273**
Loan commitments	**1,852**	**1,852**	**1,979**	**1,979**

(69) Credit quality of financial assets

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

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Financial assets neither past due nor impaired		
Loans and advances to banks	2,531	1,552
Loans and advances to customers	24,885	23,782
Positive market value of derivative hedging instruments	1,838	2,365
Trading assets	307	576
Non-trading assets (LaR)	4,259	5,668
Non-trading assets (AfS)	6,409	6,464
Non-trading assets (HtM)	–	151
Non-trading assets (dfvtpl)	–	3
Other assets	60	61
Total	**40,289**	**40,622**
Financial assets that are past due but not impaired		
Loans and advances to customers	158	157
Other assets	0	–
Total	**158**	**157**
Financial assets subject to specific valuation allowances		
Loans and advances to customers	881	827
Non-trading assets (AfS)	–	9
Other assets	20	4
Total	**901**	**840**

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

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

At Aareal Bank, property loans subject to intensified handling or handling of problem loans pursuant to the Minimum Requirements for Risk Management (MaRisk) that are not impaired individually were subjected to contractual adjustments due to financial difficulties of the borrower, in order to secure the repayment of the exposure. The portfolio of financings adjusted during the reporting year and the previous year totalled € 308 billion on 31 December 2013. In 2012, loans in a volume of € 411 million were adjusted due to financial difficulties of the borrower. Of that amount, loans with a carrying amount of € 9 million are no longer part of intensified handling or handling of problem loans due to an improvement of the financial situation, while specific valuation allowances were recorded for loans in a carrying amount of € 113 million. To that extent, these financings are no longer included in the volume stated for contractual adjustments due to financial difficulties of the borrower for the financial year 2013. Moreover, additions to the volume of financings subject to adjustments made due to financial difficulties of the borrower amounted to € 19 million.

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

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

Breakdown by region

31 December 2013

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2013
Regions						
Germany	0	0	0	13	26	**39**
Western Europe	0	–	–	–	0	**0**
Northern Europe	–	–	–	–	–	**–**
Southern Europe	0	0	0	0	64	**64**
Eastern Europe	–	55	–	–	–	**55**
Total	**0**	**55**	**0**	**13**	**90**	**158**

31 December 2012

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2012
Regions						
Germany	0	7	0	25	9	**41**
Western Europe	–	0	–	3	14	**17**
Northern Europe	3	–	–	–	–	**3**
Southern Europe	0	3	39	4	50	**96**
Eastern Europe	–	–	–	–	–	**–**
Total	**3**	**10**	**39**	**32**	**73**	**157**

[1] The figures shown are past-due, non-impaired assets that are at least ten days overdue with a minimum amount of € 100 or 2.5 % of the commitment.

Breakdown by borrower group

31 December 2013

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2013
Borrower groups						
Companies	0	55	0	13	79	**147**
Private individuals	0	0	0	0	11	**11**
Other	–	–	–	–	0	**0**
Total	**0**	**55**	**0**	**13**	**90**	**158**

31 December 2012

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2012
Borrower groups						
Companies	3	9	39	32	60	**143**
Private individuals	0	1	0	0	13	**14**
Other	–	0	–	0	0	**0**
Total	**3**	**10**	**39**	**32**	**73**	**157**

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

On the reporting date, the amount of loans and advances of the "Other assets" category that were past due but not impaired was € 0 million (2012: € 0 million). There were no other financial assets past due but not impaired on the reporting date.

(71) Impaired financial assets

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

Breakdown by region

31 December 2013

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	77	24	7
Western Europe	172	37	–
Northern Europe	89	59	0
Southern Europe	514	166	–
Eastern Europe	29	10	–
Total	**881**	**296**	**7**

31 December 2012

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	119	22	9
Western Europe	264	33	–
Northern Europe	113	67	0
Southern Europe	313	87	–
Eastern Europe	18	9	–
Total	**827**	**218**	**9**

Breakdown by borrower group

31 December 2013

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business	Direct write-downs
Borrower groups					
Companies	870	290	3	126	6
Private individuals	11	6	4	1	0
Other	0	0	0	0	0
Total	**881**	**296**	**7**	**127**	**6**

31 December 2012

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business	Direct write-downs
Borrower groups					
Companies	807	212	3	61	18
Private individuals	19	6	6	2	2
Other	1	0	0	0	0
Total	**827**	**218**	**9**	**63**	**20**

As at the reporting date, the amount of portfolio-based valuation allowances for loans and advances to customers was € 65 million (2012: € 84 million) and for financial guarantees € 3 million (2012: € 9 million). Net reversal amounted to € 24 million (2012: net addition of € 11 million) in the year under review. Payments on loans and advances previously written off amounted to € 11 million in the year under review (2012: € 5 million).

In 2013, no impairment allowances for non-trading assets (AfS) were recorded in 2013 (2012: volume of impaired assets as at 31 December 2012: € 1 million, amount of the impairment: € 1 million). The amount of impaired receivables of the "Other assets" category as at the reporting date was € 20 million (2012: € 4 million). The related impairment allowance amounts to € 18 million (2012: € 3 million). These receivables mainly referred to companies in Germany and Eastern Europe.

The carrying amount of assets acquired upon realisation of collateral during the 2013 financial year and recognised in the financial statements as at 31 December 2013 was € 0 million (2012: € 9 million). These assets are commercial properties which are subject to restructuring within the framework of the general realisation strategy of Aareal Bank AG and intended for disposal in the near term.

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

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

Bond portfolio as at 31 December 2013 (Total)

	Carrying amount			Revaluation surplus[1]			Unrealised gains/ losses[1]
€ mn	LaR + HtM	AfS	Total	LaR + HtM	AfS	Total	
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,059	549	1,608	-48	-11	-59	-119
Portugal	62	163	225	0	-13	-13	-12
Spain	713	240	953	-3	2	-1	-46
Total	**1,834**	**952**	**2,786**	**-51**	**-22**	**-73**	**-177**
Total as at 31 Dec 2012	2.118	795	2.913	-57	-64	-121	-333

[1] figures given on an after-tax basis

Bond portfolio as at 31 December 2013 (by type of security)

	Carrying amount			Revaluation surplus[1]			Unrealised gains/ losses[1]
€ mn	LaR	AfS	Total	LaR	AfS	Total	
Government bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,059	462	1,521	-48	-12	-60	-119
Portugal	–	99	99	–	-9	-9	–
Spain	–	–	–	–	–	–	–
Total	**1,059**	**561**	**1,620**	**-48**	**-21**	**-69**	**-119**

	Carrying amount			Revaluation surplus[1]			Unrealised gains/ losses[1]
€ mn	LaR	AfS	Total	LaR	AfS	Total	
Sub-sovereign bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	–	–	–	–	–	–
Portugal	62	–	62	0	–	–	-12
Spain	342	30	372	0	2	2	-52
Total	**404**	**30**	**434**	**0**	**2**	**2**	**-64**

	Carrying amount			Revaluation surplus[1]			Unrealised gains/ losses[1]
€ mn	LaR + HtM	AfS	Total	LaR	AfS	Total	
Covered bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	74	74	–	1	1	–
Portugal	–	64	64	–	-4	-4	–
Spain	371	210	581	-3	0	-3	6
Total	**371**	**348**	**719**	**-3**	**-3**	**-6**	**6**

	Carrying amount			Revaluation surplus[1]			Unrealised gains/ losses[1]
€ mn	LaR	AfS	Total	LaR	AfS	Total	
Senior unsecured bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	13	13	–	0	0	–
Portugal	–	–	–	–	–	–	–
Spain	–	–	–	–	–	–	–
Total	**–**	**13**	**13**	**–**	**0**	**0**	**–**

[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 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 € 939 million (2012: € 782 million) were allocated to Level 1 of the fair value hierarchy and measured based on quoted prices on active markets. Securities with a carrying amount of € 13 million (2012: € 13 million) were allocated to Level 2 of the fair value hierarchy. Quoted market prices as required by hierarchy level 1 were not available for these securities as at the balance sheet date, however, measurement is also directly or indirectly based on observable market prices. Aareal Bank Group does not hold securities measured according to Level 3 of the fair value hierarchy.

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

Property finance portfolio as at 31 December 2013

	Carrying amount[1]	Average LTV	of which: Non-performing loans
	€ mn	%	€ mn
Greece	–	–	–
Ireland	–	–	–
Italy	3,141	67.9	423
Portugal	–	–	–
Spain	1,033	89.0	92
Total	**4,174**		**515**
Total as at 31 Dec 2012	4,280		314

[1] Not including valuation allowances

(73) Reclassification of financial assets

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

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

	Reclassified assets, total				Results from fair value measurement without reclassification			
€ mn	Carrying amount at reporting date 31 Dec 2013	Fair value at reporting date 31 Dec 2013	Carrying amount previous year 31 Dec 2012	Fair value previous year 31 Dec 2012	Effect on the income statement 1 Jan-31 Dec 2013	Effect on the revaluation surplus 1 Jan-31 Dec 2013	Effect on the income statement 1 Jan-31 Dec 2012	Effect on the revaluation surplus 1 Jan-31 Dec 2012
from AfS to LaR	**3,849**	**3,600**	**5,120**	**4,651**	**–**	**145**	**–**	**118**
Asset-backed securities	27	27	29	28	–	1	–	2
Senior unsecured bank bonds	372	380	603	617	–	-12	–	15
Covered bank bonds	495	509	633	623	–	18	–	25
Public-sector issuers	2,955	2,684	3,855	3,383	–	138	–	76
from HfT to LaR	**121**	**115**	**213**	**179**	**28**	**–**	**19**	**–**
Asset-backed securities	121	115	213	179	28	–	19	–
Public-sector issuers	–	–	–	–	–	–	–	–
Total	**3,970**	**3,715**	**5,333**	**4,830**	**28**	**145**	**19**	**118**

As in the previous year, no impairment losses had to be recognised for the reclassified financial assets in 2013. The disposal of reclassified securities resulted in the realisation of capital losses of € 8 million (2012: capital gains of € 2 million). Interest income from reclassified assets amounted to € 115 million (2012: € 151 million) in the year under review. Interest income, including current interest from derivatives used to hedge economic market price risks, amounted to € 36 million (2012: € 76 million).

(74) Offsetting financial instruments

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

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

Financial assets as at 31 December 2013

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	1,921	–	1,921	1,170	727	24
Total	**1,921**	**–**	**1,921**	**1,170**	**727**	**24**

Financial liabilities as at 31 December 2013:

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Verbleibender Nettobetrag
Derivatives	1,844	–	1,844	1,170	652	22
Total	**1,844**	**–**	**1,844**	**1,170**	**652**	**22**

Financial assets as at 31 December 2012:

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	2,555	–	2,555	1,571	950	34
Total	**2,555**	**–**	**2,555**	**1,571**	**950**	**34**

Financial liabilities as at 31 December 2012:

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
Derivatives	2,831	–	2,831	1,571	1,225	35
Total	**2,831**	**–**	**2,831**	**1,571**	**1,225**	**35**

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

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

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

(75) Assets provided or accepted as collateral

Assets provided as collateral

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

€ mn	31 Dec 2013	31 Dec 2012
Bonds and debt securities (LaR)	677	1,154
Bonds and debt securities (AfS)	1,412	3,154
Total	**2,089**	**4,308**

The protection buyer has no right to sell or re-pledge any of financial assets pledged as collateral (2012: –).

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. No such collateral had been accepted as at the balance sheet date (2012: € 3 million).

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

(76) Transfer of financial assets without derecognition

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

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

(77) Derivative financial instruments

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

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

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

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

Fair value hedges

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

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

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Loans and advances to banks	-151	174
Non-trading assets	148	-173
Total	**-3**	**1**

Cash flow hedges

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

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

Cash flows from hedged items – Cash flow hedges as at 31 December 2013

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Cash flows from hedged assets	-1	-1	73	33	**104**

Cash flows from hedged items – Cash flow hedges as at 31 December 2012

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Cash flows from hedged assets	-2	-7	13	25	**29**

In 2013, losses determined as the effective portion of the hedge from derivatives included in cash flow hedges were recognised directly in equity at an amount of € 4 million (2012: losses of € 39 million).

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

€ mn	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Net interest income	-3	0
Total	**-3**	**0**

In the year under review, a loss of € 3 million (2012: loss of € 4 million) was recognised directly in the income statement due to inefficiencies of cash flow hedges.

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

€ 0 million (2012: a loss of € 1 million) was recognised directly in the income statement as the ineffective portion of hedges of net investments in foreign operations.

Overview of market values of derivatives

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

	Fair value as at 31 Dec 2013		Fair value as at 31 Dec 2012	
€ mn	positive	negative	positive	negative
Trading derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	233	220	528	525
Swaptions	0	0	–	–
Caps, floors	16	16	17	17
Total interest rate instruments	**249**	**236**	**545**	**542**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	27	7	11	1
Cross-currency swaps	31	42	20	160
Total currency-related instruments	**58**	**49**	**31**	**161**
Other transactions				
OTC products				
Credit default swaps [1]	0	1	0	16
Total other transactions	**0**	**1**	**0**	**16**
Total trading derivatives	**307**	**286**	**576**	**719**

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

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€ mn	Fair value as at 31 Dec 2013 positive	Fair value as at 31 Dec 2013 negative	Fair value as at 31 Dec 2012 positive	Fair value as at 31 Dec 2012 negative
Derivatives from fair value hedges				
Interest rate instruments				
OTC products				
Interest rate swaps	1,698	1,486	2,322	1,847
Swaptions	–	–	–	0
Total interest rate instruments	**1,698**	**1,486**	**2,322**	**1,847**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	4	0	2	–
Cross-currency swaps	136	87	40	244
Total currency-related instruments	**140**	**87**	**42**	**244**
Total derivatives from fair value hedges	**1,838**	**1,573**	**2,364**	**2,091**
Derivatives from cash flow hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	–	30	1	22
Total currency-related instruments	**–**	**30**	**1**	**22**
Total derivatives from cash flow hedges	**–**	**30**	**1**	**22**
Derivatives used as net investment hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	–	0	–	9
Total currency-related instruments	**–**	**0**	**–**	**9**
Total derivatives used as net investment hedges	**–**	**0**	**–**	**9**
Total	**2,145**	**1,889**	**2,941**	**2,841**

Derivatives have been entered into with the following counterparties:

€ mn	Fair value as at 31 Dec 2013 positive	Fair value as at 31 Dec 2013 negative	Fair value as at 31 Dec 2012 positive	Fair value as at 31 Dec 2012 negative
OECD banks	1,921	1,838	2,543	2,815
Companies and private individuals	224	51	398	26
Total	**2,145**	**1,889**	**2,941**	**2,841**

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

31 December 2013

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total 31 Dec 2013
Interest rate instruments					
Interest rate swaps					
Cash inflows	229	638	2,473	939	4,279
Cash outflows	222	420	2,170	981	3,793
Swaptions					
Cash inflows	–	0	–	–	0
Cash outflows	–	0	–	–	0
Caps, floors					
Cash inflows	1	4	10	1	16
Cash outflows	1	4	10	1	16
Currency-related instruments					
Spot and forward foreign exchange contracts					
Cash inflows	2,871	17	–	–	2,888
Cash outflows	2,848	17	–	–	2,865
Cross-currency swaps					
Cash inflows	541	2,020	4,955	106	7,622
Cash outflows	549	2,034	4,976	108	7,667
Other transactions					
Credit default swaps					
Cash inflows	0	0	1	–	1
Cash outflows	–	–	–	–	–
Total cash inflows	**3,642**	**2,679**	**7,439**	**1,046**	**14,806**
Total cash outflows	**3,620**	**2,475**	**7,156**	**1,090**	**14,341**

31 December 2012

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total 31 Dec 2012
Interest rate instruments					
Interest rate swaps					
Cash inflows	245	715	2,138	863	3,961
Cash outflows	234	453	1,779	884	3,350
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	0	–	0
Caps, floors					
Cash inflows	1	5	11	1	18
Cash outflows	1	5	11	1	18
Currency-related instruments					
Spot and forward foreign exchange contracts					
Cash inflows	1,539	–	–	–	1,539
Cash outflows	1,528	–	–	–	1,528
Cross-currency swaps					
Cash inflows	571	1,875	5,291	404	8,141
Cash outflows	624	1,980	5,547	401	8,552
Other transactions					
Credit default swaps					
Cash inflows	0	1	3	0	4
Cash outflows	–	–	–	–	–
Total cash inflows	**2,356**	**2,596**	**7,443**	**1,268**	**13,663**
Total cash outflows	**2,387**	**2,438**	**7,337**	**1,286**	**13,448**

(78) Day-One Profit or Loss

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

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

€ mn	2013	2012
Balance as at 1 January	**10**	**7**
Additions from new transactions	21	5
Reversals through profit or loss in the period	4	2
Balance as at 31 December	**27**	**10**

(79) Maturities of financial liabilities

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

Maturities as at 31 December 2013

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	742	147	88	382	296	**1,655**
Liabilities to customers	4,891	4,260	3,994	5,536	10,937	**29,618**
Certificated liabilities	–	768	1,191	7,316	1,540	**10,815**
Subordinated capital	–	18	137	218	790	**1,163**
Financial guarantee contracts	120	–	–	–	–	**120**
Loan commitments	1,852	–	–	–	–	**1,852**

Maturities as at 31 December 2012

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	942	374	292	1,435	339	**3,382**
Liabilities to customers	5,167	3,757	4,273	5,985	13,500	**32,682**
Certificated liabilities	–	342	1,179	6,618	1,059	**9,198**
Subordinated capital	–	34	113	337	667	**1,151**
Financial guarantee contracts	273	–	–	–	–	**273**
Loan commitments	1,979	–	–	–	–	**1,979**

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

Segment Reporting

(80) Operating segments of Aareal Bank

In the financial year 2013, segment reporting by Aareal Bank was prepared in accordance with IFRS 8 Operating Segments.

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

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

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

Aareal Bank has a broad and solid refinancing base. It has established itself as an active issuer of Pfandbriefe (German covered bonds), which account for a major share of the Bank's long-term funding. The AAA rating of the Pfandbriefe additionally confirms the quality of the cover assets pool. To cater to a broad investor base, Aareal Bank covers a wide range of other refinancing tools, including promissory notes and debt securities. Private placements are the focal point of our capital market activities. These are complemented by larger, public placements that are issued depending on market conditions. The Bank also generates deposits from the housing industry, which represent a strategically important additional source of funding, and from institutional money market investors.

The success of our capital and money market activities, and the business with housing industry clients, are the results of a combination of a sustainable business model with a sound understanding of the capital markets, and the quality of the cover assets pool.

The **Consulting/Services segment** offers services and products for managing properties and processing payment flows to clients from the housing industry and the commercial property sector. Within this segment, our subsidiary Aareon AG and the Housing Unit work closely together.

We operate our IT system consultancy and related advisory services for the housing and commercial property sector through our Aareon AG subsidiary, which can call upon more than 60 years in the business. Aareon pursues a multi-product strategy that covers the requirements of every client group in this segment. It is active in many European countries with Germany being its core market. The ERP (Enterprise Resource Planning) product portfolio for efficient process planning comprises Wodis Sigma, SAP® solutions and Blue Eagle as well as the GES system. The international subsidiaries of Aareon also offer ERP systems tailored to the needs of the respective market. These are Prem'Habitat und PortalImmo in France, QL in UK and SG|tobias and the new product generation SG|tobias^AX. Our new Swedish subsidiary

Incit AB, which also operates in the Netherlands and in Norway, offers the ERP system Incit Xpand. Aareon's ERP solutions may be used by the clients in various types of operating environments, depending on the product: software as a service provided through the exclusive Aareon Aareon Cloud, ASP (Application Service Providing), hosting and in-house services. ERP solutions and integrated services, together with integrated services and additional products, support the efficient cooperation of property companies and their business partners. Integrated services are directly integrated in the ERP solutions and share the same database. These services include, for example, the service portal Mareon, the Aareon Rechnungsservice (billing service), Aareon Archiv kompakt (archive) with BauSecura (insurance service), CRM (Customer Relationship Management) solutions and mobile services. This range is complemented by sector-specific advisory services for all products and services.

Within its Housing Unit, Aareal Bank markets its automated mass payments system BK 01. Aareal Bank performs payment transactions and account maintenance for its clients in Germany and integrates both in the customers' IT systems. The clients of the Housing Unit come from the housing and commercial property sector as well as from the utilities and waste disposal industry The settlement of payment transactions via Aareal Bank generates deposits that significantly contribute to the refinancing base of the entire Group.

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

Income and expenses within Aareal Bank are predominantly attributable to transactions with third parties, and are directly allocated to the responsible operating segment. The transactions between operating segments are always executed in line with prevailing market conditions, allocated to the relevant segment, and consolidated. Revenue from transactions between Aareal Bank's segments was not generated in a significant amount. Therefore, we elected not to distinguish between internal and external revenue in the following disclosures. Administrative expenses not directly attributable to any of the operating segments are segmented in line with the internal cost allocation, based on the principle of causation.

The segment information disclosed is fully reconciled with the figures in the consolidated financial statements. Apart from the reclassification of income from deposits taken in connection with the housing industry, the column "Consolidation / Reconciliation" only includes consolidation items.

The results of the operating segments are determined by the operating profit as well as by the return on equity (RoE) and the cost / income ratio (CIR). RoE, which indicates a segment's profitability, is calculated as the ratio of the segment's operating result (after non-controlling interest) and the portion of shareholders' equity allocated to that segment on average. The cost / income ratio – determined as the ratio of input to output of resources – is used as an indicator for the cost efficiency of operating segments.

Allocated equity is calculated in segment reporting for the first time on the basis of the advanced IRB Approach (AIRBA).

Aareal Bank generates its revenue mainly through interest income. As management reporting is based on the measure "net interest income", interest income and interest expenses are not reported separately in the segment report.

In addition to the disclosure requirements set out in IFRS 8, Aareal Bank discloses a full income statement by geographical areas. The segmentation uses a regional breakdown into "Germany" and "International", based on the registered office of the respective Group company or branch office. Organisational units centralised at head office are classified according to their regional responsibility.

(81) Segment Results

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	2013	2012	2013	2012	2013	2012	2013	2012
€ mn								
Net interest income	519	463	0	0	8	23	527	486
Allowance for credit losses	113	106					113	106
Net interest income after allowance for credit losses	**406**	**357**	**0**	**0**	**8**	**23**	**414**	**380**
Net commission income	10	21	165	173	-10	-25	165	169
Net result on hedge accounting	-6	-4					-6	-4
Net trading income/expenses	18	-10					18	-10
Results from non-trading assets	-8	1					-8	1
Results from investments accounted for using the equity method		0	0				0	0
Results from investment properties		5						5
Administrative expenses	201	191	177	169	-3	-2	375	358
Net other operating income/expenses	-10	-9	1	2	-1	0	-10	-7
Impairment of goodwill								
Operating profit	**209**	**170**	**-11**	**6**	**0**	**0**	**198**	**176**
Income taxes	65	51	-3	1			62	52
Net income/loss	**144**	**119**	**-8**	**5**	**0**	**0**	**136**	**124**
Allocation of results								
Net income/loss attributable to non-controlling interests	16	17	3	2			19	19
Net income/loss attributable to shareholders of Aareal Bank AG	128	102	-11	3	0	0	117	105
Allocated equity	1,151	1,252	101	84	990	837	2,242	2,173
Cost/income ratio (%)	38.5	40.9	106.7	96.8			54.7	56.0
RoE before taxes (%)	16.7	12.2	-14.0	4.2			8.0	7.2
Employees (average)	**743**	**780**	**1,576**	**1,515**			**2,319**	**2,295**
Segment assets [1]	**34,782**	**39,208**	**8,199**	**6,542**			**42,981**	**45,750**
Investments accounted for using the equity method	1	1	0	0			1	1
Segment investments	6	7	29	20			35	27
Segment depreciation/amortisation	7	8	13	12			20	20

[1] The comparative figures were partially adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

(82) Results by geographical region

	Germany		International		Consolidation/ Reconciliation		Aareal Bank Group	
	2013	2012	2013	2012	2013	2012	2013	2012
€ mn								
Net interest income	154	138	373	348			527	486
Allowance for credit losses	6	8	107	98			113	106
Net interest income after allowance for credit losses	**148**	**130**	**266**	**250**			**414**	**380**
Net commission income	109	118	56	51			165	169
Net result on hedge accounting	0	0	-6	-4			-6	-4
Net trading income/expenses	8	4	10	-14			18	-10
Results from non-trading assets	0	0	-8	1			-8	1
Results from investments accounted for using the equity method		0	0				0	0
Results from investment properties				5				5
Administrative expenses	216	210	159	148			375	358
Net other operating income/expenses	-2	-1	-8	-6			-10	-7
Impairment of goodwill								
Operating profit	**47**	**41**	**151**	**135**			**198**	**176**
Allocated equity	287	301	965	1,035	990	837	2,242	2,173
Cost/income ratio (%)	80.4	81.2	38.1	38.8			54.7	56.0
RoE before taxes (%)	14.3	11.9	14.2	11.7			8.0	7.2
Employees (average)	**1,437**	**1,451**	**882**	**844**			**2,319**	**2,295**

(83) 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 the basis for segment reporting)

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income/expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	2013		0	165		0	177	1		**-11**	-3	**-8**
	2012		0	173			169	2		**6**	1	**5**
Income statement classification – industrial enterprise												
Sales revenue	2013	187		187								
	2012	194		194								
Own work capitalised	2013	4					4					
	2012	2					2					
Changes in inventory	2013	0						0				
	2012	0						0				
Other operating income	2013	6						6				
	2012	7						7				
Cost of materials purchased	2013	22		22								
	2012	21		21								
Staff expenses	2013	122					122					
	2012	114					114					
Depreciation, amortisation and impairment losses	2013	14					14					
	2012	13					13					
Result from investments accounted for using the equity method	2013	0				0						
	2012											
Other operating expenses	2013	50					45	5				
	2012	49					44	5				
Interest and similar income/expenses	2013	0	0									
	2012	0	0									
Operating profit	**2013**	**-11**	**0**	**165**			**177**	**1**				
	2012	**6**	**0**	**173**			**169**	**2**				
Income taxes	2013	-3									-3	
	2012	1									1	
Segment result	**2013**	**-8**										
	2012	**5**										

Remuneration Report

(84) Remuneration of the Management Board

Principles of remuneration

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board. Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board.

In addition to their fixed annual salary, Management Board members receive a performance-related bonus (variable remuneration) that is determined using an assessment basis extending over several years. The level of this performance-related bonus is determined by reference to the personal performance of each Management Board member which is measured by the degree to which targets set in advance by the Supervisory Board are achieved, based on contractually agreed initial values. The targets which are relevant for performance-related bonuses include annual targets and three-year targets. The weighting of annual targets and three-year targets is determined for each financial year, with a 60/40 weighting taken as a guideline.

The annual and three-year targets are derived from the Bank's overall strategy and the annual and medium-term planning of Aareal Bank Group, each of which are agreed upon with the Supervisory Board. The targets comprise quantitative components and qualitative components, with latter being also related to non-financial parameters. In this context, the Bank's overall performance, the performance of the relevant section, and the individual performance contributions of the Management Board member concerned are all taken into consideration.

The amount of the initial value of the performance-related bonus increases – depending on the Management Board member's degree of target achievement – up to a maximum of 200 %. If the target achievement exceeds a level of 200 %, the initial value of the performance-related bonus will not increase any further (cap). If target achievement is 0 %, no performance-related bonus will be awarded for the financial year concerned. The initial value is fixed at 100 % for target achievement levels between 90 % and 110 %.

To ensure that the remuneration system provides long-term incentive effects, performance-related bonuses are awarded at the end of the financial year, according to the following principles:

20 % of the performance-related bonus is paid as a cash bonus directly after the end of the financial year.

A further 20 % of the performance-related bonus is awarded as a share bonus[1] in the form of phantom shares directly after the end of the financial year, and are the subject of the Share Bonus Plan.

30 % of the performance-related bonus is deferred as a cash deferral[1].

The remaining 30 % of the performance-related bonus is deferred as a share deferral[1] and is the subject of the Share Deferral Plan.

[1] Please refer to the subsection "Cash-settled share-based payment" in this Remuneration Report for further explanations related to the structure of the Share Bonus Plan, the Share Deferral Plan and the Cash Deferral.

With regard to the portion of the performance-related bonus that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one third of the amount as well as the associated interest in the three years following the determination of the performance-related bonus (retention period). If the deferred remuneration components for the Management Board members are actually awarded, the cash deferral is paid out in cash and the share deferral is converted into virtual shares, subject to a two-year holding period.

In making its determination about the amount to be awarded, the Supervisory Board particularly takes into account any negative aspects of the Management Board member's performance, his section as well as any weakness in the performance of Aareal Bank AG or the Group as a whole. The final amount may be awarded in full, partially, or not at all. If the award is not made in its full amount, the remain is forfeited, i.e. it is not carried forward into subsequent years. No bonus may be awarded if BaFin makes an official ruling against the Bank pursuant to section 45 (2) of the German Banking Act (KWG) due to shortcomings relating to capital adequacy or liquidity issues. If a case of serious individual misconduct by a member of the Management Board is identified afterwards in the financial year in which the remuneration components were awarded as a cash deferral and share deferral, the retained remuneration components are cancelled in full. Members of the Management Board may not undertake to limit or override the risk orientation of the performance-related bonus by initiating personal protection or countermeasures (hedging ban).

Remuneration

Remuneration of the members of the Management Board can be broken down as follows:

€	Year	Fixed remuneration	Variable remuneration: Cash component – Cash bonus	Cash component – Cash deferral	Share-based component – Share bonus	Share-based component – Share deferral	Other [1]	Total remuneration
Dr Wolf Schumacher	2013	1,100,000.00	363,000.00	544,500.00	363,000.00	544,500.00	27,751.91	2,942,751.91
	2012	1,100,000.00	330,000.00	495,000.00	330,000.00	495,000.00	26,026.59	2,776,026.59
Dirk Große Wördemann [2]	2013	270,833.35	330,833.00	–	–	–	14,607.20	616,273.55
	2012	650,000.00	158,800.00	238,200.00	158,800.00	238,200.00	31,189.76	1,475,189.76
Dagmar Knopek [3]	2013	408,333.33	125,510.00	188,265.00	125,510.00	188,265.00	17,291.18	1,053,174.51
	2012	–	–	–	–	–	–	–
Hermann J. Merkens	2013	700,000.00	215,160.00	322,740.00	215,160.00	322,740.00	55,758.86	1,831,558.86
	2012	700,000.00	195,600.00	293,400.00	195,600.00	293,400.00	53,909.48	1,731,909.48
Thomas Ortmanns	2013	700,000.00	215,160.00	322,740.00	215,160.00	322,740.00	28,418.29	1,804,218.29
	2012	700,000.00	195,600.00	293,400.00	195,600.00	293,400.00	26,695.09	1,704,695.09
Total	**2013**	**3,179,166.68**	**1,249,663.00**	**1,378,245.00**	**918,830.00**	**1,378,245.00**	**143,827.44**	**8,247,977.12**
	2012	**3,150,000.00**	**880,000.00**	**1,320,000.00**	**880,000.00**	**1,320,000.00**	**137,820.92**	**7,687,820.92**

[1] Other remuneration includes payments (in particular for company cars) in the amount of € 85,318.84 in 2013 (2012: € 85,521.76) as well as benefits related to social security contributions totalling € 49,219.20 for 2013 (2012: € 45,231.36).

[2] Mr Große Wördemann retired with effect from 31 May 2013. Variable remuneration for 2013 was granted on pro rata basis. Moreover, Mr Große Wördemann was granted no further benefits. The settlement of the cash and share deferrals to which he is entitled was made in accordance with the contractual regulations of the employment contract. Apart from this, Mr Große Wördemann continues to provide advice for the Bank.

[3] Ms Knopek was appointed to the Management Board on 1 June 2013.

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

€	Reference values for variable remuneration 2013	Reference values for variable remuneration 2012
Dr Wolf Schumacher	1,650,000.00	1,650,000.00
Dirk Große Wördemann [1]	794,000.00	794,000.00
Dagmar Knopek [2]	978,000.00	0.00
Hermann J. Merkens	978,000.00	978,000.00
Thomas Ortmanns	978,000.00	978,000.00
Total	**5,378,000.00**	**4,400,000.00**

[1] Mr Große Wördemann retired with effect from 31 May 2013.
[2] Ms Knopek was appointed to the Management Board on 1 June 2013.

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

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

		Share-based payment	
	Current year	Value (€)	Quantity (number) [1]
Dr Wolf Schumacher	2013	907.500,00	31.521,36
	2012	825.000,00	50.274,24
Dirk Große Wördemann [2]	2013	–	–
	2012	397.000,00	25.270,53
Dagmar Knopek [3]	2013	313.775,00	10.898,75
	2012	–	–
Hermann J. Merkens	2013	537.900,00	18.683,57
	2012	489.000,00	29.798,89
Thomas Ortmanns	2013	537.900,00	18.683,57
	2012	489.000,00	29.798,89

[1] The stated number of virtual shares granted for 2013 is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2013 (€ 28.79). The final conversion rate may only be determined after publication of the 2013 annual report.
[2] Mr Große Wördemann retired with effect from 31 May 2013.
[3] Ms Knopek was appointed to the Management Board on 1 June 2013.

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the employment contract apply to the members of the Management Board of Aareal Bank AG. Accordingly, they are entitled to receive pension payments after completing their 60th year of age, or earlier in case of a permanent disability of service. For members of the Management Board appointed on or after 1 November 2010, this rule applies only from the beginning of the second term of office, and the entitlement to pension payments commences after completing their 62nd year of age.

The following overview shows the vested pension claims of the members of the Management Board and the changes of the corresponding pension obligations (DBO) during the period under review:

	2013			2012		
€ 000's	Pension claims p.a.[1]	Balance of pension obligations (DBO) as at 31 Dec 2013	Increase of pension obligations (DBO) in 2013	Pension claims p.a.[1]	Balance of pension obligations (DBO) as at 31 Dec 2013	Increase of pension obligations (DBO) in 2013
Dr Wolf Schumacher	379	4,843	775	364	4,068	1,788
Dagmar Knopek[2]	–	254	254	–	–	–
Hermann J. Merkens	220	2,399	342	209	2,057	1,011
Thomas Ortmanns	220	2,439	450	210	1,989	970
Total	**819**	**9,935**	**1,821**	**783**	**8,114**	**3,769**

[1] The pension claims were calculated for pension benefits paid at the earliest possible date.
[2] Ms Knopek currently does not meet the vesting criteria for the pension claims.

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions, to the extent that these are based on defined benefit plans. If the payments refer to defined contribution plans, the guaranteed amount is adjusted by 1 % p.a. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to half-orphans and orphans amount to 10 % and not more than 25 %, respectively. Service costs incurred in the financial year 2013 in connection with the pension claims of members of the Management Board totalled € 1.8 million (2012: € 1.4 million). The pension obligations for current members of the Management Board as well as for former members of the Management Board and their surviving dependants increased by € 1.3 million in the year under review (2012: € 7.9 million). The total amount of pension obligations was € 27.8 million (2012: € 26.6 million). Of that amount, € 18.0 million relate to former members of the Management Board and their surviving dependants (2012: € 18.0 million). Payments to former Management Board members and their surviving dependants totalled € 0.8 million (2012: € 0.8 million) during the period under review.

The agreements concluded with members of the Management Board do not include any obligation to make severance payments in case of an early termination of employment relationships. However, severance payments may be included in individual termination agreements.

In the case of a retirement due to a change of control, the members affected receive a monthly payment, in settlement of their total remuneration a monthly payment, as agreed in their employment contracts, or a contractually agreed fixed one-off payment. Depending on the type of the change of control – termination by the Company or termination by the respective Board member –, the agreed benefits are as follows:

	Terminated by the company	Terminated by the Board member
€ per month of remaining contract term[1]		
Dr Wolf Schumacher	141,667.00	70,833.00
Dagmar Knopek	120,833.00	54,167.00
Hermann J. Merkens	120,833.00	54,167.00
Thomas Ortmanns	120,833.00	54,167.00

[1] Upon request of the Board member, the benefits may be paid in form of a one-off payment. In this case, the amount is discounted using the interest rate of the ECB for one-year deposits of private households in the month of payment.

The claims resulting from the early termination of the Board activities due to a change of control are capped to an equivalent of three years' remuneration.

During the term of a SoFFin stabilisation measure, Management Board members are not entitled to any severance pay in the event of an early termination or a change of control. The fulfilment of a Management Board member's contractual remuneration claims arising from the employment contract are not limited by the framework agreement entered into with SoFFin.

(85) Remuneration of the Supervisory Board

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. The Annual General Meeting held on 18 May 2011 made the most recent adjustments to the system for the remuneration of the Supervisory Board.

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

The fixed remuneration is € 30,000 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive two and a half times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration shall be increased by € 15,000 p.a. for each membership in a committee (with the exception of the Nomination Committee, which is an exclusively advisory committee, and the Committee for Urgent Decisions, which is part of the Risk Committee). The fixed remuneration shall be increased by € 30,000 p.a. for the chairmanship of a committee (with the exception of the Nomination Committee and the Committee for Urgent Decisions).

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

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

The individual amount of the remuneration for the Supervisory Board is shown in the following table. The figures in the table include the reimbursement for VAT (19 %).

€	Year	Fixed remuneration	Attendance fees	Total remuneration
Hans W. Reich,	2013	70,408.33	9,520.00	79,928.33
Chairman (until 22 May 2013)	2012	178,500.00	26,180.00	204,680.00
Marija G. Korsch, Member (since 11 July 2012),	2013	122,570.00	19,040.00	141,610.00
Chairman (since 22 May 2013)	2012	16,759.16	4,760.00	21,519.16
Erwin Flieger,	2013	89,250.00	19,040.00	108,290.00
Deputy Chairman	2012	89,250.00	19,040.00	108,290.00
York-Detlef Bülow,	2013	89,250.00	20,230.00	109,480.00
Deputy Chairman	2012	89,250.00	21,420.00	110,670.00
Christian Graf von Bassewitz	2013	71,400.00	17,850.00	89,250.00
	2012	71,400.00	21,420.00	92,820.00
Manfred Behrens	2013	35,700.00	4,760.00	40,460.00
	2012	35,700.00	5,950.00	41,650.00
Thomas Hawel	2013	35,700.00	5,950.00	41,650.00
	2012	35,700.00	9,520.00	45,220.00
Dieter Kirsch	2013	53,550.00	11,900.00	65,450.00
	2012	53,550.00	14,280.00	67,830.00
Dr Herbert Lohneiß	2013	53,550.00	11,900.00	65,450.00
	2012	53,550.00	13,090.00	66,640.00
Joachim Neupel	2013	89,250.00	19,040.00	108,290.00
	2012	89,250.00	21,420.00	110,670.00
Richard Peters,	2013	21,717.50	3,570.00	25,287.50
Member (since 22 May 2013)	2012	–	–	–
Prof Dr Stephan Schüller	2013	71,400.00	20,230.00	91,630.00
	2012	71,400.00	19,040.00	90,440.00
Wolf R. Thiel	2013	–	–	–
Member (until 31 March 2012)	2012	13,387.50	3,570.00	16,957.50
Helmut Wagner	2013	35,700.00	7,140.00	42,840.00
	2012	35,700.00	8,330.00	44,030.00
Total	**2013**	**839,445.83**	**170,170.00**	**1,009,615.83**
	2012	**833,396.66**	**188,020.00**	**1,021,416.66**

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2013. Therefore, no additional remuneration was paid.

(86) Cash-settled share-based payment

a) Description of cash-settled share-based payment

Within Aareal Bank Group, there are various forms of share-based payment arrangements. Among other things, differences between these plans can be found as regards their term and the vesting conditions as well as regarding the group of beneficiaries.

Management Board

Share Bonus Plan

According to the rules for the share bonus plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares and credited to the beneficiary. The calculation of the number of virtual shares is based on the weighted average price on the basis of five trading days (Xetra) after publication (ad-hoc release) of the annual financial statements adopted by the Supervisory Board (subscription price). The date of publication of the respective financial statements is used as the reference date. Not earlier than three years after the reference date, the beneficiary may exercise the virtual shares granted either in whole or in part within five business days after the publication of the quarterly report (holding period). Any virtual shares not exercised may be exercised either in whole or in part at a later date, in each case within five business days after the publication of a quarterly report. Upon exercise, the relevant proportion of virtual shares is converted at the weighted average price as reported by Bloomberg on the exercise date. If dividends are paid on the Company's shares during the time period between the reference date and the exercise date, a payout is made as a salary component in an amount equivalent to the dividends and the proportion of the virtual shares.

Share Deferral Plan

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

Negative performance contributions of the beneficiary or of the organisational units for which he/she is responsible for or a negative overall performance of the Aareal Bank Group lead to a reduction of the payout, in some cases even to zero. No bonus may be awarded if BaFin makes an official ruling against the Bank pursuant to section 45 (2) of the KWG.

If less than 100 % of the third of the share deferral eligible for conversion (including interest) is converted into virtual shares, the amount not converted is forfeited and is not carried forward to future years. The rules for the calculation of the number of virtual shares, their exercise and the other rights and obligations associated with the granting of virtual shares correspond to those applicable for share bonuses, with the exception that (instead of three-year holding period) a holding period of two years applies.

Phantom Share Plan
The Phantom Share Plan applied to virtual shares granted until (and including) the financial year 2011.

According to the rules for the Phantom Share Plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion is based on the weighted average price (XETRA) of Aareal Bank AG's share as notified by Bloomberg, on the five trading days following the publication (ad hoc release) of the financial statements as approved by the Supervisory Board. The entitlement to the remuneration, i.e. the award, arises after the Supervisory Board has used its discretion with regard to the amount of variable remuneration within the applicable range. One fourth of the awarded virtual shares become exercisable each year. This also applies for the year in which they are awarded. Virtual shares not exercised in a particular year are accumulated. The phantom shares may be exercised either in whole or in part within five business days following the publication of a quarterly report. The relevant price for exercising these phantom shares is the weighted average price according to Bloomberg on the exercise date.

There are no exercise hurdles in form of a minimum stock price appreciation target or other market or performance-related criteria. Virtual shares that have not been exercised carry full dividend rights, i.e. the beneficiaries receive (for each virtual share not yet exercised) a cash payment equivalent to the amount of the approved dividend. The term of the plan is not limited.

Further share-based payment models
Virtual shares are granted to senior executives and the so-called "risk takers" of Aareal Bank AG, as defined by the German Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions (Instituts-Vergütungsverordnung – "InstitutsVergV"), as well as to Managing Directors and Management Board members of Aareal Bank AG's subsidiaries on the basis of the following share-based payment models.

Share Bonus Plan
According to the rules for the share bonus plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion is based on the weighted average price (XETRA) of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the reference period. Entitlement to the remuneration occurs at the end of the reference period. The share bonus is paid out after a minimum holding period of two years, beginning on the date on which entitlement arose. The payout amount is calculated by multiplying the number of virtual shares allocated with the share price upon payout. The share price upon payout corresponds to the weighted average price on XETRA of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the financial year preceding the payout date. The actual payout date for the share bonus may be determined individually, based on an option right. For this purpose, the beneficiary must inform the Bank whether he will use the option right by notifying the Bank accordingly not later than the tenth day following the publication of the annual report for the financial year preceding the planned payout date. The option right expires after not less than three years, from the end of the calendar quarter of the earliest payout date. The option right may only be exercised as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the Bank not later than at the tenth day after publication of the quarterly financial results. The conversion of the virtual shares for the purpose of determining the payout amount is made at the weighted average price on XETRA according to Bloomberg, for the five trading days following the publication of the latest quarterly financial results for the selected option date.

There are no exercise hurdles in form of a minimum stock price appreciation target or other market or performance-related criteria. Virtual shares carry full dividend rights, i.e. the beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan – in relation to the grant date – is three years (six years in case of an option for late payout).

Restricted Virtual Share Award Plan

According to the rules for the Restricted Virtual Share Award (RVSA), a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion is based on the weighted average price (XETRA) of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the reference period. The amount granted within the scope of the RVSA is only awarded on a provisional basis. Entitlement to the RVSA vests over a period of three years at onethird of the original award each year, starting one year after the end of the reference period, provided that certain conditions (penalty rules) are met. The RVSA is paid out after a holding period of one year, starting on the date on which entitlement arose. When the holding period is expired, the beneficiary has an option right to postpone the RVSA payout by not more than three years. The payout may only be made as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the Bank not later than the tenth day following publication of the quarterly financial results.

The payout amount is calculated by multiplying the number of the exercised virtual shares with the weighted average price on XETRA of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the quarterly financial results.

According to the penalty rules, the Bank is entitled to reduce the amount of the portion of the RVSA for which no entitlement has been earned in an appropriate manner, possibly down to zero. The reasons for a reduction of the RVSA are described in section 45 of the German Banking Act (Kreditwesengesetz, KWG): when, until the relevant payout date, Aareal Bank's regulatory capital does not meet the requirements of section 10 (1) and (1b) or of section 45b (1) of the KWG or the investment of its funds does not comply with the requirements of section 11 (1) of the KWG or the development of Aareal Bank AG's financial position and financial performance justifies the assumption that it will not be able to meet these requirements permanently. The reasons for a reduction of the RVSA also exist when cases of serious individual misconduct prior to the entitlement of the RVSA, or parts of it, are identified afterwards. Examples are cases of misconduct which give rise to extraordinary termination of employment relationships, a breach of the prohibition of hedge transactions, even after the termination of the employment relationships, as well as a material breach of internal guidelines (e.g. Code of Conduct or compliance rules).

In addition, the amount of the RVSA for which no entitlement has arisen may be reduced when the so-called success factor for determining the bonus pool for variable remuneration for the employees of Aareal Bank AG is below zero. The success factor is determined based on the target planned and agreed by Aareal Bank AG's Management Board and Supervisory Board for the operating result before taxes of Aareal Bank Group, net of non-recurring effects. The basis for the determination of the target is the Bank's medium-term planning, taking into account capital employed. The success factor may range from -0.7 and +2.0.

There are no further exercise hurdles, other than the penalty rules, in form of a minimum stock price appreciation target or other market or performance-related criteria. Virtual shares carry full dividend rights, i.e. the beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan – in relation to the grant date – is five years (eight years in case of an option for late payout).

Virtual Share Plan

According to the rules for the virtual share plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion rate corresponds to the weighted average price (XETRA) of Aareal Bank AG's share according to Bloomberg, on the four trading days following the publication of the annual report for the reference period.

The virtual shares are automatically exercised in the three years following the reference year, with one third being exercised in each year. The exercise is based on the weighted average price on XETRA of Aareal Bank AG's share according to Bloomberg, on the publication date of the annual report for the financial year preceding the exercise and the four following trading days. For virtual shares granted from 1 January 2011, the beneficiary has an option right to postpone the payout of the virtual shares by not more than three years. The payout may only be made as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the Bank not later than the tenth day following publication of the quarterly financial results.

There are no exercise hurdles in form of a minimum stock price appreciation target or other market or performance-related criteria. With respect to virtual shares that have not been exercised, the beneficiaries receive for each virtual share a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan – in relation to the grant date – is four years (seven years in case of an option for late payout).

b) Valuation model and valuation assumptions

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

c) Amount of cash-settled share-based payment transactions

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

	2013	2012
Quantity (number)		
Balance (outstanding) at 1 January	**737,665**	**458,965**
Granted	386,473	370,292
of which: vested	170,764	249,737
of which: awarded on a provisional basis	215,709	120,555
Expired	–	–
Exercised	174,772	91,592
Balance (outstanding) at 31 December	**949,366**	**737,665**
of which: exercisable	130,227	290,478

The fair value of the virtual shares granted during the reporting period amounts to € 11,126,553.70 (2012: € 5,817,287) as at the balance sheet date.

The virtual shares exercised in the reporting period were converted at a weighted average price of the Aareal Bank AG share in the amount of € 17.71 (2012: € 14.50).

The virtual shares outstanding at 31 December 2013 have a limited contract term. The weighted average remaining contract term of these virtual shares amounts to 717.08 days (2012: 655.94 days).

d) Effects on financial position and performance

The total amount expensed for share-based payment transactions was € 17.7 million during the financial year 2013 (2012: € 7.1 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 4.4 million (2012: € 2.2 million) and can be broken down to the individual members of the Management Board as follows.

€	2013	2012
Dr Wolf Schumacher	1,431,503	825,000
Dirk Große Wördemann	44,707	397,000
Dagmar Knopek	321,192	–
Hermann J. Merkens	1,753,722	489,000
Thomas Ortmanns	819,124	489,000

The intrinsic value of the virtual shares exercisable at the reporting date amounted to € 3.8 million (2012: € 4.6 million). The obligation from share-based payment transactions as at 31 December 2013 amounts to € 32.1 million (2012: € 13.6 million). It is reported in the statement of financial position in the line item ”Provisions”.

(87) Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG and its subsidiaries, plus first-level managers and experts of Aareal Bank AG (other related parties in accordance with IAS).

Total remuneration of executives in key positions is analysed below:

€ 000's	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Short-term benefits	18,077	18,941
Post-employment benefits	4,170	4,094
Other long-term benefits	2,906	2,896
Termination benefits	–	580
Share-based payment	5,037	5,049
Total	**30,190**	**31,560**

Other Notes

(88) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2013	31 Dec 2012
USD	7,639	4,432
GBP	2,920	2,489
SEK	1,452	1,335
CHF	336	414
DKK	434	451
JPY	197	486
Other	315	448
Total	**13,293**	**10,055**

Foreign currency liabilities

€ mn	31 Dec 2013	31 Dec 2012
USD	7,651	4,395
GBP	2,936	2,502
SEK	1,494	1,323
CHF	333	409
DKK	414	429
JPY	197	486
Other	305	440
Total	**13,330**	**9,984**

(89) Subordinated assets

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

The following table gives an overview of subordinated assets of Aareal Bank Group:

€ mn	31 Dec 2013	31 Dec 2012
Loans and advances to customers	–	1
Total	**–**	**1**

(90) Leases

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

Properties leased by the Group are reported under other assets.

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

Aareal Bank Group acts both as lessor and lessee. The rental contracts are primarily classified as operating leases. They mainly refer to rented or let property.

Maturity of minimum lease payments under operating leases

€ mn	31 Dec 2013	31 Dec 2012
Aareal Bank Group as lessee		
up to 1 year	14	15
longer than 1 year, and up to 5 years	34	41
longer than 5 years	29	33
Total minimum lease payments	**77**	**89**
Aareal Bank Group as lessor		
up to 1 year	14	8
longer than 1 year, and up to 5 years	42	29
longer than 5 years	8	–
Total minimum lease payments	**64**	**37**

In the financial year, lease payments of € 18 million (2012: € 14 million) were recognised as expenses in the financial year.

(91) Trust business

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

€ mn	31 Dec 2013	31 Dec 2012
Trust assets		
Loans and advances to customers	300	329
Non-trading assets	1	2
Total trust assets	**301**	**331**
Trust liabilities		
Liabilities to banks	43	49
Liabilities to customers	258	282
Total trust liabilities	**301**	**331**

(92) Contingent liabilities and loan commitments

€ mn	31 Dec 2013	31 Dec 2012
Contingent liabilities on guarantees and indemnity agreements	120	273
Loan commitments	1,852	1,979
of which: irrevocable	1,328	1,521

The values given represent the maximum default risk resulting from contingent liabilities and irrevocable loan commitments to which Aareal Bank Group is exposed at the end of the reporting period.

Contingent liabilities on guarantees include € 37 million (2012: € 41 million) in capital guarantees extended by Aareal Bank to DEPFA Deutsche Pfandbriefbank AG (within the scope of splitting the former DEPFA Group), for the purpose of providing cover against risks of default with respect to the property loan portfolio held by DEPFA Deutsche Pfandbriefbank AG. € 4 million (2012: € 5 million) in provisions related to these capital guarantees was recognised as at 31 December 2013.

Disclosures in accordance with IAS 37.86 and IAS 37.89 are waived for reasons of practicability in accordance with IAS 37.91.

(93) Consolidated statement of cash flows

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

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

Effective 1 July 2013, Aareon acquired 100 % of the shares in Incit AB, Mölndal. Incit AB is a leading provider of ERP property management software in Scandinavia. The company has been included in the consolidated financial statements by way of full consolidation since 1 July 2013. The purchase price consists of a fixed price of € 13.9 million and a contingent purchase price. The fair value of the contingent purchase price component was € 8.0 million, measured within the context of initial consolidation in accordance with IFRS 3 in connection with IAS 27. The fair value of assets acquired in the amount of € 14.8 million consists of intangible assets (€ 10.6 million), financial assets (€ 4.1 million) and other assets (€ 0.1 million). The fair value of liabilities assumed, including deferred tax liabilities, amounts to € 5.2 million. Accordingly, goodwill identified within the framework of initial consolidation amounted to € 12.4 million.

(94) Regulatory capital and capital management

As regards meeting minimum capital ratios, Aareal Bank Group has to comply with the capital adequacy requirements set out in the German Banking Act (Kreditwesengesetz, KWG) and the German Solvency Regulation (SolvV) pursuant to Basel II. This requires the Bank to maintain own funds of at least 8 % of its risk-weighted assets (total capital ratio). Risk-weighted assets must be backed by Tier 1 capital of at least 4 % (Tier 1 ratio). Compliance with the capital requirements has to be reported to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Financial Supervisory Authority) on a quarterly basis. The capital requirements were complied with at all times during the reporting period.

The objectives of capital management within Aareal Bank Group are compliance with the legal minimum capital requirements, ensuring that internally targeted capital ratios are achieved, taking into account the future requirements pursuant to Basel III, as well as the provision of a sufficient capital cushion to ensure, at any time, the Group's capacity to act. In addition, funds are strategically allocated to the individual business segments within the framework of capital management, aiming at optimising the return on equity.

One of the consequences of the new capital requirements pursuant to Basel III, which have to be complied with by 2019, is that certain components of equity previously accepted as Tier 1 capital will no longer be eligible as Tier 1 capital. Taking into account the new requirements pursuant to Basel III, Aareal Bank Group aims at achieving a Tier 1 ratio, including buffers[1], of 11.5 %-12 % and a total capital ratio of 19 %-20 % in 2015/2016. The targeted capital ratios are considerably above the legal minimum requirements. It is planned to achieve the targeted capital ratios through the generation of profits, an active dividend policy, an optimisation of the capital structure and an efficient management of risk assets.

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

[1] e.g. rating changes or exchange rate fluctuations

Aareal Bank Group's regulatory capital pursuant to Basel II is composed of the following:

€ mn	31 Dec 2013 [1]	31 Dec 2012
Tier 1 capital		
Subscribed capital and capital reserves	855	872
Other eligible reserves	667	683
Special item for general banking risks	168	168
Amounts to be deducted from Tier 1 capital	-14	-59
Other	21	26
Sum total of core Tier 1 capital excluding silent participation by SoFFin	1,697	1,690
Silent participation by SoFFin	300	300
Sum total of core Tier 1 capital including silent participation by SoFFin	1,997	1,990
Other silent participations	190	190
Hybrid capital	250	250
Sum total of additional Tier 1 capital	440	440
Sum total of Tier 1 capital	**2,437**	**2,430**
Tier 2 capital		
Subordinated liabilities	443	431
Profit-participation certificates	46	63
Amounts to be deducted from Tier 2 capital	-1	-46
Other	156	113
Sum total of Tier 2 capital	**644**	**561**
Total own funds	**3,081**	**2,991**

[1] After confirmation of the financial statements 2013 of Aareal Bank AG. The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of net profit for the financial year 2013. The appropriation of profits is subject to approval by the Annual General Meeting.

The regulatory measurement of risk-weighted assets (RWA) in the area of credit risks is based on both the Advanced Internal Ratings Based Approach (AIRBA) and on the standardised approach (CRSA). RWA as at 31 December 2013 can be analysed as follows:

€ mn	EAD	Risk-weighted assets (RWA)			Regulatory capital requirements	EAD	RWA	Regulatory capital requirements
		AIRBA	CRSA	Total				
	31 Dec 2013	31 Dec 2013	31 Dec 2013	31 Dec 2013	31 Dec 2013	31 Dec 2012	31 Dec 2012	31 Dec 2012
Credit risks	**44,074**	**11,065**	**721**	**11,786**	**943**	**46,128**	**13,342**	**1,067**
Companies	27,555	9,518	359	9,877	790	26,447	11,314	905
Institutions	3,780	465	–	465	37	5,318	838	67
Public-sector entities	11,571	–	19	19	2	13,394	18	1
Other	1,168	1,082	343	1,425	114	969	1,172	94
Market price risks				**264**	**21**		**95**	**8**
Operational risks				**1,100**	**88**		**1,076**	**86**
Total	**44,074**	**11,065**	**721**	**13,150**	**1,052**	**46,128**	**14,513**	**1,161**

(95) Related party disclosures in accordance with IAS 24

Throughout the financial year 2013, the Bank has reported purchases and sales subject to reporting requirements under No. 6.6 of the German Corporate Governance Code, as well as under section 15a of the German Securities Trading Act (WpHG) to BaFin, the German financial services regulatory agency, without delay, and also published such details on its website. Furthermore, Aareal Bank AG has undertaken in its Code to disclose on its website, without delay, each reported purchase or sale by members of the Management Board or the Supervisory Board.

The group of related parties of Aareal Bank Group comprises the persons mentioned in Note 87 and close members of that person's family. The group of companies related to Aareal Bank Group consists of the companies set out in Note 102 "List of Shareholdings" as well as the companies attributable to the related persons within the meaning of IAS 24.9 (b)(vi).

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

€ mn	31 Dec 2013	31 Dec 2012
Management Board	–	–
Supervisory Board	0.5	0.6
Other related parties	–	1.6
Total	**0.5**	**2.2**

Loans extended to members of the Supervisory Board generally have a term between ten and 18 years, and bear interest at (nominal) rates between 4.71 % and 5.66 %. Collateral was provided in line with usual market practice. In the year under review, repayments amounted to € 0.1 million. Interest received in this context had no significant impact on the consolidated financial statements.

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

(96) Events after the reporting date

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

(97) List of offices held – corporate governance report

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

(98) Contingencies

By means of letters of comfort, Aareal Bank AG ensures that Deutsche Structured Finance GmbH, Frankfurt, DSF Zwölfte Verwaltungsgesellschaft mbH, Frankfurt, and Aareal Bank Capital Funding LLC, Wilmington, are able to fulfil their contractual obligations.

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

Due to its participating interest in Liquiditäts-Konsortialbank GmbH, Frankfurt / Main, in the nominal amount of € 1 million, Aareal Bank AG has call commitments of up to € 6 million. In addition, Aareal Bank AG has a pro-rata principal liability in the event of non-fulfilment of call commitments by other co-shareholders, who hold aggregate interests of € 63 million.

(99) Notices pursuant to section 21 (1) of the German Securities Trading Act (WpHG)

Pursuant to the WpHG, any investor whose shareholding in a listed company reaches, exceeds or falls short of certain threshold values in terms of voting rights (whether by purchase, sale or by any other means) must notify the Company and the German Federal Financial Supervisory Authority. The lowest threshold for this notification requirement is 3 %. 71.1 % of Aareal Bank AG shares are held in free float. The largest shareholder of the Company is Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf with an interest of 28.9 %.

During the year, we received several notifications on voting rights from Fidelity Group, Boston, Massachusetts, USA. The notification made by this group of companies referred to the fact that, as at 30 June 2013, the shares held by FMR LLC, Boston, Massachusetts, USA exceeded the 3 % threshold, amounting to 3.01 % (1,801,832 voting rights). Attribution of all the voting rights is based on section 22 (1) sentence 1 No. 6 in conjunction with sentence 2 of the WpHG.

Allianz Global Investors Europe GmbH, Frankfurt issued several notifications of voting rights during 2013. The last notification, which was issued on 30 May 2013, reported a share of voting rights of 4.97 % (2,972,198 voting rights). Of this share of voting rights, 0.98 % of the total number of voting rights (corresponding to 583,910 of a total of 59,857,221 voting rights) are attributable to it pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.

Dimensional Group, Austin, Texas, USA, notified us on 4 June 2012 that, as at 29 May 2012, it held the following amount of voting rights:

- Dimensional Fund Advisors LP, Austin, Texas, USA, 3.04 % (1,820,026 voting rights); attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.

- Dimensional Holdings Inc., Austin, Texas, USA, 3.04 % (1,820,026 voting rights); attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 in conjunction with section 22 (1) sentence 2 of the WpHG.

In 2013, we did not receive any further notifications of voting rights by Dimensional Group.

BlackRock Group, USA, issued several notifications of voting rights in 2013 pursuant to which its share of voting rights fell below the threshold of 3.00 %. The following entities were affected:

- BlackRock, Inc., New York, USA, 2.97 % (1,779,715 voting rights) as at 21 August 2013, attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 in conjunction with section 22 (1) sentence 2 of the WpHG.

- BlackRock HoldCo 2, Inc., Wilmington, Delaware, USA, 2.9995 % (1,795,424 voting rights) as at 19 August 2013, attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 in conjunction with section 22 (1) sentence 2 of the WpHG.

Norges Bank, Oslo, Norway, issued two notifications of voting rights during 2013. The last notification, which was issued on 17 December 2013, reported a share of voting rights of 2.99 % (1,790,459 voting rights of a total of 59,857,221 voting rights).

The Norwegian Ministry of Finance, Oslo, Norway, for and on behalf of the government of Norway, issued two notifications of voting rights during 2013. The last notification, which was issued on 17 December 2013, reported a share of voting rights of 2.99 % (1,790,459 voting rights of a total of 59,857,221 voting rights). All of these voting rights can be attributed to the government of Norway, pursuant to section 22 (1) sentence 1 no. 1 of the WpHG.

(100) Declaration of compliance in accordance with Section 161 of the AktG

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

(101) Employees

The number of Aareal Bank Group employees at 31 December 2013 is shown below:

	31 Dec 2013	31 Dec 2012
End-of-year numbers		
Salaried employees	2,251	2,167
Executives	124	122
Total	**2,375**	**2,289**
of which: Part-time employees	423	455

The average number of Aareal Bank Group employees in 2013 is shown below:

	1 Jan-31 Dec 2013	1 Jan-31 Dec 2012
Yearly average		
Salaried employees	2,196	2,171
Executives	123	124
Total	**2.319**	**2.295**
of which: Part-time employees	427	424

(102) List of shareholdings pursuant to section 313 (2) of the HGB

31 December 2013

No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated companies				
2	1st Touch Ltd.	Southampton	100.0	GBP 2.2 mn	GBP 1.1 mn
3	Aareal Bank Asia Ltd.	Singapore	100.0	SGD 17.4 mn	SGD 0.3 mn [1]
4	Aareal Bank Capital Funding LLC	Wilmington	100.0	250.0	0.0
5	Aareal Bank Capital Funding Trust	Wilmington	100.0	0.0	0.0
6	Aareal Capital Corporation	Wilmington	100.0	USD 203.6 mn	USD 6.4 mn [1]
7	Aareal Estate AG	Wiesbaden	100.0	2.8	0.0 [3]
8	Aareal First Financial Solutions AG	Mainz	100.0	3.2	0.0 [3]
9	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.1	0.1 [1]
10	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	167.6	0.0 [3]
11	Aareal IT Beteiligungen GmbH	Wiesbaden	100.0	145.5	0.0 [3]
12	Aareal Partecipazioni S.p.A.	Rome	100.0	6.8	0.0 [1]
13	Aareal Property Services B.V.	Amsterdam	100.0	29.4	0.6 [1]
14	Aareal Valuation GmbH	Wiesbaden	100.0	0.5	0.0 [3]
15	Aareon AG	Mainz	100.0	75.4	14.0
16	Aareon Deutschland GmbH	Mainz	100.0	32.2	0.0 [3]
17	Aareon France S.A.S.	Meudon-la Forêt	100.0	4.2	1.3
18	Aareon Immobilien Projekt GmbH	Essen	51.0	0.9	0.6
19	Aareon UK Ltd.	Coventry	100.0	GBP 4.3 mn	GBP 1.1 mn
20	Aareon Wodis GmbH	Dortmund	100.0	2.0	0.0 [3]
21	Aqvatrium AB	Stockholm	100.0	SEK 383.1 mn	SEK 2.2 mn [1]
22	arsago Alternative Investments SPC	Grand Cayman	67.0	n/a	n/a
23	Aufbaugesellschaft Prager Straße mbH	Wiesbaden	100.0	0.0	0.0 [1]
24	BauContact Immobilien GmbH	Wiesbaden	100.0	27.9	1.0
25	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 [3]

[1] Preliminary figures as at 31 December 2013; [2] Equity and results as at 31 December 2012; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; n/a no data

No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ mn	€ mn
26	BauGrund TVG GmbH	Munich	100.0	0.1	0.0
27	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	2.8	2.7
28	berlinbiotechpark Management GmbH	Berlin	100.0	0.1	0.1 [2]
29	berlinbiotechpark Verwaltung GmbH	Berlin	89.6	0.2	0.0 [2]
30	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	1.5	-0.6
31	Deutsche Structured Finance GmbH	Frankfurt	100.0	2.6	0.8 [1]
32	Deutsche Structured Finance GmbH & Co. Alphard KG	Frankfurt	100.0	0.5	0.2 [1]
33	Deutsche Structured Finance GmbH & Co. Deneb KG	Frankfurt	100.0	0.6	-1.1 [1]
34	DSF Anteils GmbH	Frankfurt	100.0	0.1	0.0 [1]
35	DSF berlinbiotechpark Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.1	0.0 [2]
36	DSF Dritte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
37	DSF Elfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
38	DSF Energia Naturale S.r.l.	Rome	100.0	0.0	0.0 [1]
39	DSF Flugzeugportfolio GmbH	Frankfurt	100.0	0.0	0.0 [3]
40	DSF Fünfzehnte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.1	0.0 [2]
41	DSF German Office Fund GmbH & Co. KG	Frankfurt	94.0	0.6	-1.4 [1]
42	DSF Immobilienverwaltung GmbH	Frankfurt	100.0	0.0	0.0 [2]
43	DSF Neunte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
44	DSF Solar Italien GmbH & Co. KG	Frankfurt	100.0	0.0	0.0 [4]
45	DSF Treuhand GmbH	Frankfurt	100.0	0.1	0.0 [2]
46	DSF Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
47	DSF Vierte Verwaltungsgesellschaft mbH	Wiesbaden	100.0	2.2	0.0 [3]
48	DSF Vierzehnte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.2	0.0 [2]
49	DSF Zwölfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.3	0.0 [2]
50	GEV GmbH	Wiesbaden	100.0	52.9	0.0 [3]
51	IMMO Consulting S.r.l.	Rome	100.0	0.7	0.2 [1]
52	Incit AB	Mölndal	100.0	SEK 23.2 mn	SEK 4.5 mn
53	Incit AS	Oslo	100.0	NOK 1.0 mn	NOK 0.3 mn
54	Incit Nederland B.V.	Gorinchem	100.0	-0.6	0.1
55	IV Beteiligungsgesellschaft für Immobilien-investitionen mbH	Wiesbaden	100.0	2.1	0.1
56	Izalco Spain S.L.	Madrid	100.0	11.1	0.0 [3]
57	Jomo S.p.r.l.	Brussels	100.0	11.6	-1.1 [2]
58	La Sessola Holding GmbH	Wiesbaden	100.0	42.1	-7.3 [1]
59	La Sessola S.r.l.	Rome	100.0	54.9	-5.7 [1]
60	La Sessola Service S.r.l.	Rome	100.0	1.8	-0.6 [1]
61	Main Triangel GmbH	Frankfurt	94.0	79.1	6.3 [1]
62	Main Triangel Gastronomie GmbH	Wiesbaden	100.0	0.4	-0.1 [1]
63	Mercadea S.r.l.	Rome	100.0	4.3	0.1 [1]
64	Mirante S.r.l.	Rome	100.0	13.1	-0.3 [1]
65	PLP Holding GmbH	Wiesbaden	100.0	12.3	-14.7 [1]
66	Real Verwaltungsgesellschaft mbH	Schönefeld	100.0	27.9	0.8
67	Rehabilitationsklinik Barby Besitzgesellschaft mbH	Wiesbaden	100.0	-4.6	1.0 [1]

[1] Preliminary figures as at 31 December 2013; [2] Equity and results as at 31 December 2012; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; n/a no data

No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ mn	€ mn
68	Rehabilitationsklinik Templin Besitzgesellschaft mbH	Wiesbaden	100.0	-3.7	0.0
69	SG Automatisering B.V.	Emmen	100.0	16.8	3.2
70	SG | Facilitor B.V.	Enschede	51.0	0.9	0.6
71	SG | stravis B.V.	Emmen	70.0	0.1	0.0
72	Sole Giano S.r.l. & Co. S.a.s.	Rome	100.0	-0.2	-0.1 [2]
73	Sustainable Solar Future – Hellas Limited Liability Company	Athen	99.0	0.0	0.0 [2]
74	Sustainable Solar Future Northern – Hellas Limited Liability Company	Athen	99.0	0.0	0.0 [2]
75	Sustainable Solar Thermal Future East – Crete Limited Liability Company	Heraklion	99.0	0.5	0.0 [2]
76	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99.9	4.7	0.0 [3]
	III. Fully-consolidated special funds (inclusion in accordance with IAS 27/SIC 12)				
77	DBB Inka	Düsseldorf	100.0	100.4	-1.0
	IV. Joint ventures accounted for using the equity method				
78	DSF Zehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.1	0.0 [2]
79	SG2ALL B.V.	Huizen	50.0	0.4	0.2
	V. Associated companies accounted for using the equity method				
80	Bavaria Solar I Verwaltungsgesellschaft mbH	Frankfurt	24.0	0.0	0.0 [1]
81	Deutsche Operating Leasing AG i.L.	Frankfurt	19.2	0.9	-0.1 [4]
82	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.4	0.0 [2]
83	Rehabilitationsklinik Uckermark GmbH i.L.	Templin	49.0	n/a	n/a
84	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	-0.2	0.0 [2]
85	Westhafen-Gelände Frankfurt am Main GbR	Frankfurt	33.3	0.1	0.0 [2]
86	Windpark Ahlerstedt Verwaltungsgesellschaft mbH	Frankfurt	20.0	0.0	0.0 [1]
87	Windpark Borsum Verwaltungsgesellschaft mbH	Frankfurt	20.0	0.0	0.0 [1]
88	Windpark Portfolio Verwaltungs GmbH	Freiburg	20.0	0.0	0.0 [1]

[1] Preliminary figures as at 31 December 2013; [2] Equity and results as at 31 December 2012; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; n/a no data

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

Ulf Ekelius, Bank Director		
Aareal Financial Service spol. s r.o. i.L.	Member of the Supervisory Board	until 27 June 2013
Dunya Heß		
Aareal Property Services B.V.	Member of the Supervisory Board	
Uli Gilbert		
Terrain-Aktiengesellschaft Herzogpark	Member of the Supervisory Board	
Hans-Ulrich Kron, Bank Director		
Aareal Estate AG	Deputy Chairman of the Supervisory Board	
Terrain-Aktiengesellschaft Herzogpark	Deputy Chairman of the Supervisory Board	
Dr Stefan Lange, Bank Director		
Aareal Estate AG	Member of the Supervisory Board	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Terrain-Aktiengesellschaft Herzogpark	Chairman of the Supervisory Board	
Dirk Pasewald		
Aareal Property Services B.V.	Member of the Supervisory Board	
Markus Schmidt		
Aareal Property Services B.V.	Member of the Supervisory Board	
Christine Schulze Forsthövel, Bank Director		
Aareal Financial Service spol. s r.o. i.L.	Member of the Supervisory Board	until 27 June 2013

Composition of Supervisory Board's committees

Executive Committee	
Marija G. Korsch	Chairman
Erwin Flieger	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Prof Dr Stephan Schüller	

Accounts and Audit Committee	
Joachim Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Christian Graf von Bassewitz	
York-Detlef Bülow	
Marija G. Korsch	

Risk Committee	
Marija G. Korsch	Chairman
Dr Herbert Lohneiß	Deputy Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dieter Kirsch	
Joachim Neupel	

Committee for Urgent Decisions	
Marija G. Korsch	Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dr Herbert Lohneiß	
Joachim Neupel	

Nomination Committee	
Marija G. Korsch	
Erwin Flieger	

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

Supervisory Board

Hans W. Reich, Chairman of the Supervisory Board (until 22 May 2013)		
Chairman of the Supervisory Board of Citigroup Global Markets Deutschland AG		
Aareal Bank AG	Chairman of the Supervisory Board	until 22 May 2013
Citigroup Global Markets Deutschland AG	Chairman of the Supervisory Board	
Marija G. Korsch, Chairman of the Supervisory Board (since 22 May 2013)		
Former partner of Bankhaus Metzler seel. Sohn & Co. Holding AG		
Aareal Bank AG	Member of the Supervisory Board	
Just Software AG	Member of the Supervisory Board	
Erwin Flieger, Deputy Chairman of the Supervisory Board		
Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Bayerische Beamten Lebensversicherung a.G.	Chairman of the Supervisory Board	
Bayerische Beamten Versicherung AG	Chairman of the Supervisory Board	
BBV Holding AG	Chairman of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Chairman of the Supervisory Board	
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH	Member of the Supervisory Board	
Neue Bayerische Beamten Lebensversicherung AG	Chairman of the Supervisory Board	
York-Detlef Bülow*, Deputy Chairman of the Supervisory Board		
Aareal Bank AG		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Christian Graf von Bassewitz		
Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	
Bank für Sozialwirtschaft Aktiengesellschaft	Member of the Supervisory Board	
Deutscher Ring Krankenversicherungsverein a.G.	Deputy Chairman of the Supervisory Board	
OVB Holding AG	Deputy Chairman of the Supervisory Board	until 20 June 2013
OVB Vermögensberatung AG	Member of the Supervisory Board	until 20 June 2013
SIGNAL IDUNA Allgemeine Versicherung AG	Member of the Supervisory Board	
SIGNAL IDUNA Holding AG	Member of the Supervisory Board	
Societaet CHORVS AG	Member of the Supervisory Board	
Manfred Behrens		
CEO/Chairman of the Management Board of Swiss Life Deutschland Holding GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Swiss Life Select Schweiz AG (former AWD Allgemeiner Wirtschaftsdienst AG)	President of the Board of Directors	until 29 April 2013
tecis Finanzdienstleistungen AG	Chairman of the Supervisory Board	

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

Thomas Hawel*		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Deputy Chairman of the Supervisory Board	
Dieter Kirsch *		
Aareal Bank AG		
Aareal Bank AG	Member of the Supervisory Board	
Dr Herbert Lohneiß		
Former Chief Executive Officer of Siemens Financial Services GmbH (ret'd)		
Aareal Bank AG	Member of the Supervisory Board	
UBS Global Asset Management (Deutschland) GmbH	Member of the Supervisory Board	
Joachim Neupel, Chairman of the Accounts and Audit Committee		
German Chartered Accountant, tax consultant		
Aareal Bank AG	Member of the Supervisory Board	
Richard Peters (since 22 May 2013)		
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder		
Aareal Bank AG	Member of the Supervisory Board	since 22 May 2013
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board	
Prof Dr Stephan Schüller		
Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Deputy Chairman of the Supervisory Board	
Universal-Investment-Gesellschaft mbH	Member of the Supervisory Board	
Helmut Wagner *		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Member of the Supervisory Board	

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

Management Board

Dr Wolf Schumacher, Chairman of the Management Board		
Corporate Communications, Investor Relations, Corporate Development, Human Resources, Legal, Compliance, Audit and Operations		
Aareon AG	Member of the Supervisory Board	
EBS European Business School gGmbH	Member of the Supervisory Board	

Dirk Große Wördemann, Member of the Management Board (until 31 May 2013)		
Sales Units Structured Property Financing		
Aareal Bank Asia Limited	Member of the Board of Directors	until 31 May 2013
Aareal Bank Asia Limited	CEO (Chairman)	until 31 May 2013
Aareal Capital Corporation	Chairman of the Board of Directors	until 31 May 2013
Aareal Financial Service spol. s r.o. i.L.	Member of the Supervisory Board	until 31 May 2013
Aareon AG	Member of the Supervisory Board	until 31 May 2013
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Deputy Chairman of the Supervisory Board	until 31 May 2013

Dagmar Knopek, Member of the Management Board (since 1 June 2013)		
Sales Units Structured Property Financing		
Aareal Bank Asia Limited	Member of the Board of Directors	since 1 June 2013
Aareal Bank Asia Limited	CEO (Chairman)	since 1 June 2013
Aareal Capital Corporation	Chairman of the Board of Directors	since 1 June 2013
Aareon AG	Member of the Supervisory Board	since 24 June 2013

Hermann Josef Merkens, Member of the Management Board		
Finance, Risk Controlling, Credit Management and Workout		
Aareal Estate AG	Chairman of the Supervisory Board	
Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Capital Corporation	Member of the Board of Directors	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Aareon AG	Member of the Supervisory Board	
CredaRate Solutions GmbH	Deputy Chairman of the Supervisory Board	

Thomas Ortmanns, Member of the Management Board		
Institutional Housing Unit, Treasury, Organisation, Information Technology		
Aareal First Financial Solutions AG	Chairman of the Supervisory Board	
Aareon AG	Chairman of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	
HypZert GmbH	Member of the Supervisory Board	

Responsibility Statement

Statement pursuant to section 37y of the German Securities Trading Act (WpHG) in conjunction with section 37v (2) No.3 of the WpHG

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

Wiesbaden, 26 February 2014

The Management Board

Dr Wolf Schumacher **Dagmar Knopek** **Hermann J. Merkens** **Thomas Ortmanns**

Auditors' Report

Independent Auditors' Report

To Aareal Bank AG, Wiesbaden

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aareal Bank AG, Wiesbaden and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements for the business year from 1 January to 31 December, 2013.

Board of Managing Directors' responsibility for the Consolidated Financial Statements

The Board of Managing Directors of Aareal Bank AG, Wiesbaden is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Board of Managing Directors is also responsible for the internal controls as the Board of Managing Directors determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

According to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at 31 December 2013 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Group Management Report

We have audited the accompanying group management report of Aareal Bank AG, Wiesbaden for the business year from 1 January to 31 December, 2013. The Board of Managing Directors is responsible for the preparation of the group management report in accordance with the requirements of German commercial law applicable pursuant to § 315a Abs. 1 HGB. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the group management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the group management report to obtain reasonable assurance about whether the group management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 Abs. 3 Satz 1 HGB we state, that our audit of the group management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and group management report, the group management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 28 February 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

TRANSPARENCY

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Corporate Governance Statement pursuant to section 289a of the HGB

Declaration of Compliance in Accordance with Section 161 of the AktG

Aareal Bank AG has fully complied with the recommendations of the Government Commission "German Corporate Governance Code" (as amended on 15 May 2012 – the "Code") since the last Declaration of Compliance was issued in March 2013.

Aareal Bank AG has complied, and will comply with the German Corporate Governance Code, as amended on 13 May 2013 and published in the German Federal Gazette on 10 June 2013, subject to the exceptions identified below.

In accordance with section 4.2.3 (2) sentence 6 of the Code, the amount of Management Board compensation shall be capped, both overall and for individual compensation components. The amounts of remuneration and bonuses paid to Management Board members are generally limited. Also, the number of shares awarded within the scope of specific remuneration components – share bonus and share deferrals – is limited. Given that the performance potential for such shares is theoretically unlimited, this rule does not comply with the Code recommendation, which provides for amounts to be capped. The chosen structure is based on the rationale that the Management Board should participate in the share price performance – whether positive or negative – in the same way as shareholders of Aareal Bank AG. Since the share bonus and share deferrals do not provide for any caps in terms of the amounts involved, by definition, the overall remuneration for Management Board members is not capped.

In accordance with section 4.2.5 (3) sentence 2 of the Code, the remuneration report for financial years commencing after 31 December 2013 shall disclose certain remuneration details, to be presented using the tables prescribed in the appendix to the Code. As an exchange-listed bank, Aareal Bank AG is already subject to numerous legal rules concerning Management Board remuneration and related disclosure. Aareal Bank reserves the right to conduct an in-depth review as to whether such additional information should be disclosed in the form of sample tables.

Pursuant to the German Act Implementing EU Directive 2013/36/EU (the "CRD IV Implementation Act"), dated 28 August 2013, the Nomination Committee of Aareal Bank AG's Supervisory Board is required to assume additional tasks which are not supposed to be prepared by shareholder representatives on the Supervisory Board alone. Hence, the Nomination Committee is not composed exclusively of shareholder representatives, in contravention of the recommendation in section 5.3.3. of the Code. However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

Wiesbaden, December 2013

The Management Board

Schumacher Knopek Merkens Ortmanns

Dr Wolf Schumacher **Dagmar Knopek** **Hermann J. Merkens** **Thomas Ortmanns**

For the Supervisory Board

Korsch

Marija G. Korsch (Chairman)

Corporate Governance Report

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board. Accordingly, Aareal Bank welcomes and supports the objectives and purposes of the German Corporate Governance Code, and regularly observes the amendments and extensions of the guidelines adopted by the German Government Commission on Corporate Governance.

The Supervisory Board discusses these amendments; together with the Management Board, the Supervisory Board determines to what extent Aareal Bank AG complies with – or diverges from – the recommendations of the German Corporate Governance Code. Accordingly, the Bank's Memorandum and Articles of Association, as well as the internal rules of procedure for the Management Board and the Supervisory Board, are reviewed regarding compliance, and are amended as necessary. Our annual Declaration of Compliance gives information on the extent to which the Bank complies with recommendations. The Declaration of Compliance is adopted by the Management Board and the Supervisory Board, and then published on the Bank's website, where Declarations issued in past years are also archived.

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by all our employees across the enterprise, regardless of their functions and duties. Our internal Code of Conduct is an integral part of responsible corporate governance. The Code of Conduct contains binding rules governing the legal and ethical conduct of employees vis-à-vis clients, business partners, and colleagues. Aareal Bank's efforts in this context are also motivated by the desire to affirm and further strengthen the confidence placed by stakeholders – our clients, investors, and staff.

Recommendations of the German Corporate Governance Code

During 2013, the German Corporate Governance Code (the "Code") was valid as amended on 15 May 2012; the Code was updated as amended on 13 May 2013 by way of publication in the German Federal Gazette (Bundesanzeiger) on 10 June 2013. Aareal Bank's Management Board and Supervisory Board issued and signed their most recent Declaration of Compliance pursuant to section 161 of the German Public Limited Companies Act (AktG) on 12 December 2013. The Declaration was published on the Bank's website, and is included in this annual report as part of the Corporate Governance Statement.

In accordance with this Declaration, Aareal Bank AG complies with the Code, subject to the following restrictions:

In accordance with section 4.2.3 (2) sentence 6 of the Code, the amount of Management Board compensation shall be capped, both overall and for individual compensation components. The amounts of remuneration and bonuses paid to Management Board members are generally limited. Also, the number of shares awarded within the scope of specific remuneration components – share bonus and share deferrals – is limited. Given that the performance potential for such shares is theoretically unlimited, this rule does not comply with the Code recommendation, which provides for amounts to be capped. The chosen structure is based on the rationale that the Management Board should participate in the share price performance – whether positive or negative – in the same way as shareholders of Aareal Bank AG. Since the share bonus and share deferrals do not provide for any caps in terms of the amounts involved, by definition, the overall remuneration for Management Board members is not capped.

In accordance with section 4.2.5 (3) sentence 2 of the Code, the remuneration report for financial years commencing after 31 December 2013 shall disclose certain remuneration details, to be presented using the tables prescribed in the appendix to the Code. As an exchange-listed bank, Aareal Bank AG is already subject to numerous legal rules concerning Management Board remuneration and related disclosure. Aareal Bank reserves the right to conduct an in-depth review as to whether such additional information should be disclosed in the form of these sample tables.

Pursuant to the German Act Implementing EU Directive 2013/36/EU (the "CRD IV Implementation Act"), dated 28 August 2013, the Nomination Committee of Aareal Bank AG's Supervisory Board is required to assume additional tasks which are not supposed to be prepared by shareholder representatives alone. Hence, the Nomination Committee is not composed exclusively of shareholder representatives, in contravention of the recommendation in section 5.3.3. of the Code. However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

The Management Board

The Management Board is responsible for managing the Company. In doing so, it is obliged to act in the best interest of the Company and undertakes to increase its sustainable enterprise value. The Management Board ensures that all provisions of law are complied with, and endeavours to achieve their compliance throughout Group companies. The Management Board develops company strategy, coordinates it with the Supervisory Board, and ensures its implementation. The Management Board ensures appropriate and sustainable risk management and risk control throughout the Company. The Management Board cooperates on the basis of trust with Aareal Bank AG's other executive bodies, and with employee representatives.

There were no conflicts of interest affecting members of the Management Board within the meaning of the Corporate Governance Code in the 2013 financial year.

Diversity

The Management Board has made an express commitment to diversity in Aareal Bank Group and has published this on the Internet and Intranet. This defines diversity as follows:

- An appreciation for the uniqueness of every individual and respect for their differences
- Equal opportunities at all levels
- The prevention of discrimination of any kind
- The belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals

The goals are:

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

Aareal Bank Group currently employs people from more than 25 different countries. Outside of Germany, care is taken to fill the majority of positions with local citizens.

The share of female employees in Aareal Bank Group was 46.3 % in 2013, with women currently accounting for 25.6 % of executive positions.
In Aareon AG, the share of female employees was 32.2 %, with 15.9 % holding executive positions.

The Supervisory Board appointed Dagmar Knopek as a regular member of the Management Board of Aareal Bank effective 1 June 2013.This has brought the share of female Management Board members to 25 %.

In Germany, the share of employees with a severe disability amounted to 3.3 % in 2013. This group of employees is represented in the Group's German companies by disability officers.

Equal treatment

Aareal Bank Group attaches great importance to the equal treatment of men and women in the Company, both with regard to staff appointment decisions and in terms of continuing professional development and remuneration. All job openings below executive level are advertised as a general rule and all employees, regardless of gender, are invited to apply for these positions. We only take into account factors such as qualifications, experience, or education when remunerating employees – we do not distinguish on the basis of gender.

Positions are filled on the basis of qualifications. This is regularly verified by employee representative bodies within the scope of their co-determination rights. The same applies to the Management Board – the primary considerations in the selection of a suitable candidate are their qualifications and international experience.

In accordance with the Allgemeines Gleichbehandlungsgesetz (AGG – General Equal Treatment Act), Aareal Bank and Aareon have AGG officers in Germany and AGG courses are held for all employees. The employee handbook in the USA contains anti-harassment policies.

Supervisory Board

The task of the Supervisory Board is to regularly advise and supervise the Management Board in the management of the Company. It is involved in decision-making that is of fundamental importance to the Company, and cooperates closely and on the basis of trust with the Management Board.

The Supervisory Board has created committees for its work. Responsibility for individual duties has been delegated to these committees. The members of the Supervisory Board and their functions in the Supervisory Board's committees are outlined in the "Description of Management Board and Supervisory Board work processes", and in the List of Offices Held, both of which form part of this annual report. The Supervisory Board reports on its duties and the events of the 2013 financial year in its report.

The option of preparing meetings separately with shareholder representatives and employee representatives is used by the Supervisory Board in exceptional cases only. No such separate preparations took place during 2013, nor were there any Supervisory Board meetings without the members of the Management Board in attendance.

In line with section 5.2 of the Code, the Chairman of the Supervisory Board does not chair the Accounts and Audit Committee: this position is held by Joachim Neupel, an experienced public auditor and tax advisor.

The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

The Supervisory Board regularly reviews the efficiency of its own activities, using a proprietary questionnaire. The results of this review serve to further improve the work carried out by the Supervisory Board as well as enhancing the cooperation between the Supervisory Board and Management Board. The Chairman of the Supervisory Board presented the results of the examination of efficiency for the year 2013 in the meeting on 12 December 2013, and discussed these with the members in detail. No measures to enhance efficiency were required.

The Supervisory Board has the required knowledge, skills, and professional expertise to properly perform its duties. In accordance with section 5.4.5 of the Code, the Supervisory Board members regularly attend continuous professional development measures, and are supported to this effect by the Company.

The Report of the Supervisory Board provides a detailed review of the activities of the Supervisory Board and its Committees.

Guidelines regarding the composition of the Supervisory Board (shareholder representatives)

Key factors taken into account for nomination to the Supervisory Board are the professional aptitude and the experience of candidates – also in relation to the Group's international activities. The Supervisory Board of Aareal Bank AG believes that it is sufficiently independent. Within the framework of actual decisions concerning potential members, the Supervisory Board of Aareal Bank AG assesses the independence of the respective candidate, duly taking it into account.

Any individual whose circumstances may give rise to conflicts of interest cannot be considered as candidates. At the time of election to the Supervisory Board, candidates should generally be less than 70 years old.

The Supervisory Board endeavours to increase the share of women amongst its members to at least 30 %. Given that the last regular Supervisory Board elections took place in 2010, the earliest time that this objective may be taken into account, in principle, will be the next regular Supervisory Board elections, to be held in the year 2015. With the appointment of Ms Korsch as Chairman of the Supervisory Board, Aareal Bank's Supervisory Board achieved a 12.5 % share of female shareholder representatives in 2012. Following the retirement of Mr Hans Reich from the Supervisory Board, Mr Richard Peters was elected as a member following a search for a successor. For this reason, taking the requirements for the members of the Supervisory Board into account, it was not possible to further increase the proportion of female members in the year 2013.

Furthermore, the objective for the composition of the shareholder representatives to the Supervisory Board was set at a minimum of 50 % of independent Supervisory Board members, as defined by section 5.4.2 of the German Corporate Governance Code, to be achieved by 2015.

As at December 2013, all shareholder representatives on the Supervisory Board must be classified as independent, in the sense of section 5.4.2 of the Code.

Purchase or sale of the Company's shares

No transactions involving the Company's shares were carried out in 2013 by members of the Company's executive bodies. At the end of the financial year, aggregate shareholdings of members of executive bodies in the Company's shares were less than 1 % of the issued share capital of Aareal Bank AG.

Transactions with related parties

Related party transactions are detailed in the notes to the financial statements.

Accounting policies

Aareal Bank AG prepares the Group's accounts in accordance with International Financial Reporting Standards (IFRSs). The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The Management Board prepares the financial statements of Aareal Bank AG and the consolidated financial statements. The external auditors submit their report on the audit of the financial statements and consolidated financial statements to the Supervisory Board. The Annual General Meeting on 22 May 2013 appointed Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft, Frankfurt/Main, as the auditors for the 2013 financial year. Having ascertained the independence of the external auditors, the Supervisory Board appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in this capacity, and defined the focal points of the audit. The external auditors conducted the audit in line with instructions given. The fees paid to the external auditors are shown in the notes to the financial statements.

The Supervisory Board approves the financial statements and the consolidated financial statements, and thus confirms the financial statements. Details regarding the examinations carried out by the Supervisory Board, and the results of such examinations, are provided in the Report of the Supervisory Board.

Relationship to shareholders

Aareal Bank holds a General Meeting of shareholders once a year. Shareholders are thus given the opportunity to actively participate in the development of the Company.

At the Annual General Meeting, the shareholders decide, in particular, on the formal approval for the members of the Supervisory Board and Management Board for the financial year under review, on the appropriation of any net retained profit, amendments to the Memorandum and Articles of Association, and authorisations on capital adjustments. The Annual General Meeting also elects the auditor for the Company.

The Company's shareholders may submit statements or proposals in writing, by fax or e-mail, to the Company or may request to speak at the Annual General Meeting. The shareholders may also submit counter or supplemental motions to the agenda items at the Annual General Meeting so that they participate in structuring and influencing the meeting. The Management Board and the Supervisory Board refer to shareholders' comments made during the general debate, or to motions submitted by shareholders in advance, to respond to questions, or to comment on other contributions.

Communications

Aareal Bank assigns great importance to extensive communications with all of the Bank's stakeholders. We have set ourselves the targets of actively and openly communicating with all stakeholders, taking into account the interests of all stakeholders. In this context, we make extensive use of our website to inform about current developments affecting the Group, and to provide information to all target groups at the same time. All press releases, ad-hoc disclosures, corporate presentations, as well as annual and quarterly reports published by Aareal Bank are available on the Bank's website to any interested person, and may be downloaded from there. In addition, the financial calendar is regularly updated, providing information about relevant corporate events.

Aareal Bank publishes details on the financial position and performance five times annually. On these occasions, the Management Board gives a personal account of results, within the scope of press conferences and analysts' events, as well as issuing press releases.

We are not currently broadcasting parts of the Annual General Meeting on the internet, nor is it currently possible to give instructions or cast votes online. This is because the low level of acceptance of such a service amongst our shareholders would render the related efforts and costs excessive. Aareal Bank will continue to review demand for such a service on a regular basis.

Disclosures regarding Corporate Governance standards

Aareal Bank AG is a public limited company under German law (Aktiengesellschaft – "AG") whose shares are included in the mid-cap MDAX index. Aareal Bank AG's corporate governance practices are governed, inter alia, by legal rules applicable to public limited companies and credit institutions, and by the Company's Memorandum and Articles of Association, which are published on its website and in its Commercial Register entry (under company number HRB 13184). Based on the Memorandum and Articles of Association, the Supervisory Board has adopted internal rules of procedure for itself, and for the Management Board. Aareal Bank AG has also adopted an internal Code of Conduct, providing guidelines for correct, ethical and responsible conduct of employees and executive bodies. Moreover, Aareal Bank's corporate governance is guided by a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the Bank's business, in line with legal and regulatory rules. All members of staff have access to these documents, via common internal communications channels such as the Bank's intranet.

Description of Management Board and Supervisory Board work processes

The Supervisory Board

In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairman and two Deputy Chairmen from amongst them, for the duration of their term of office. At present, Ms Marija G. Korsch serves as Chairman of the Supervisory Board. Her deputies are Erwin Flieger (as shareholder representative) and York-Detlef Bülow (as employee representative). The majority of members of the Supervisory Board were re-elected for a further term of office by the Annual General Meeting held on 19 May 2010. In the financial year 2010, employee representatives were elected by the special negotiating body, a body representing employees following the merger of Aareal Bank France S.A. into its parent company Aareal Bank AG. By virtue of a resolution passed by the Annual General Meeting on 22 May 2013, Ms Marija G. Korsch and Mr Richard Peters were elected until the Annual General Meeting 2018. Following the retirement of Mr Hans Reich at the end of the Annual General Meeting on 22 May 2013, the Supervisory Board elected Ms Korsch as Chairman of the Supervisory Board.

During the financial year under review, the Company's Supervisory Board comprised:

Hans W. Reich, Chairman of the Supervisory Board of Aareal Bank AG (until 22 May 2013)

Chairman of the Supervisory Board of Citigroup Global Markets Deutschland AG

Supervisory Board offices held:
Citigroup Global Markets Deutschland AG

Marija G. Korsch, Chairman of the Supervisory Board of Aareal Bank AG (since 22 May 2013)

Former Partner of Bankhaus Metzler seel. Sohn & Co. Holding AG

Supervisory Board offices held:
Just Software AG

Erwin Flieger, Deputy Chairman of the Supervisory Board of Aareal Bank AG

Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe

Supervisory Board offices held:
Bayerische Beamten Lebensversicherung a.G.,
Bayerische Beamten Versicherung AG, BBV Holding AG,
DePfa Holding Verwaltungsgesellschaft mbH,
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH,
Neue Bayerische Beamten Lebensversicherung AG

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

Employee of Aareal Bank AG

* Employee representative to the Supervisory Board of Aareal Bank AG

Christian Graf von Bassewitz

Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG

Supervisory Board offices held:
Bank für Sozialwirtschaft Aktiengesellschaft, Deutscher Ring Krankenversicherungsverein a.G., SIGNAL IDUNA Holding AG, SIGNAL IDUNA Allgemeine Versicherung AG, Societaet CHORVS AG

Manfred Behrens

CEO/Chairman of the Management Board of Swiss Life Deutschland Holding GmbH

Supervisory Board offices held:
tecis Finanzdienstleistungen AG

Thomas Hawel*

Employee of Aareon Deutschland GmbH

Supervisory Board offices held:
Aareon Deutschland GmbH

Dieter Kirsch*

Employee of Aareal Bank AG

Dr Herbert Lohneiß

Former Chief Executive Officer of Siemens Financial Services GmbH

Supervisory Board offices held:
UBS Global Asset Management (Deutschland) GmbH

Joachim Neupel, Chairman of the Accounts and Audit Committee of the Supervisory Board

German Public Auditor and tax advisor

Richard Peters (since 22 May 2013)

President and member of the Management Board of the Versorgungsanstalt des Bundes und der Länder

Supervisory Board offices held:
DePfa Holding Verwaltungsgesellschaft mbH

Prof Dr Stephan Schüller

Spokesman of the General Partners of Bankhaus Lampe KG

Supervisory Board offices held:
DePfa Holding Verwaltungsgesellschaft mbH, Universal-Investment-Gesellschaft mbH

Helmut Wagner*

Employee of Aareon Deutschland GmbH

Supervisory Board offices held:
Aareon Deutschland GmbH

* Employee representative to the Supervisory Board of Aareal Bank AG

Reference is made to the Corporate Governance Report concerning the independence of Supervisory Board members, for the purposes of the Corporate Governance Code. The shareholder representatives have sufficient professional knowledge to competently perform their duties. They have held – or still hold – executive positions in banks or insurance companies.

As a German Public Auditor and tax advisor – and hence, an independent financial expert – Joachim Neupel chairs the Accounts and Audit Committee of Aareal Bank AG's Supervisory Board.

The Supervisory Board conducts its business in the best interests of the Company and its Group entities, in accordance with the law, the Memorandum and Articles of Association, the internal rules of procedure, the German Corporate Governance Code (as amended from time to time), and Aareal Bank AG's Code of Conduct. The Supervisory Board determines which transactions have fundamental importance, and hence require the approval of the Supervisory Board.

The Supervisory Board established five committees in the past, in order to perform its supervisory duties in an efficient manner: the Executive Committee, the Risk Committee, the Committee for Urgent Decisions, the Accounts and Audit Committee, and the Nomination Committee. Following implementation and coming into force of the amendment to the German Banking Act (KWG) of 4 September 2013, which implemented the provisions of the Capital Requirements Directive (CRD IV) into German law, and by virtue of a resolution passed by the Supervisory Board on 12 December 2013, the Supervisory Board committees were brought into line with the new requirements in section 25d of the KWG. A Remuneration Control Committee was established, in accordance with section 25d (12) of the KWG, with effect from 1 January 2014. The existing Nomination Committee of the Supervisory Board was entrusted with additional tasks, in accordance with section 25d (11) of the KWG, and merged with the existing Executive Committee of the Supervisory Board. The existing Accounts and Audit Committee was renamed Audit Committee; it fulfils the duties assigned to it in accordance with section 25d (9) of the KWG and section 107 (3) of the German Public Limited Companies Act (AktG). The duties of the Risk Committee are governed by section 25d (8) of the KWG; the Committee for Urgent Decisions has remained unchanged.

The following explanations concerning the work of Supervisory Board committees relate to the reference date specified.

Executive Committee (until 31 December 2013)

The Executive Committee advises the Management Board and prepares the resolutions of the Supervisory Board. The Executive Committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

Hans W. Reich (until 22 May 2013)	Chairman
Marija G. Korsch (since 22 May 2013)	Chairman
Erwin Flieger	Deputy Chairman
Prof Dr Stephan Schüller	

The Executive Committee prepares the plenary meetings of the Supervisory Board, together with proposed resolutions. The committee's area of responsibility also includes assessing the internal condition of the Group, and issues concerning personnel planning for the Management Board (also regarding the contracts with individual Management Board members, based on the remuneration system adopted by the plenary meeting of the Supervisory Board). Where required, the Executive Committee prepares proposals for possible or necessary adjustments to the remuneration system for the Management Board. Furthermore, the Executive Committee discusses decision proposals regarding connected-party loans as well as other transactions between members of administrative, management and supervisory bodies and the Company or its subsidiaries.

Nomination Committee (until 31 December 2013)

The members of the Nomination Committee are the Chairman of the Supervisory Board and Mr Erwin Flieger, Deputy Chairman; in accordance with the German Corporate Governance Code, the committee only comprises shareholder representatives. The committee is responsible for coordinating and carrying out the search for new shareholder representatives on the Supervisory Board, if a member representing shareholders retires from the Supervisory Board. When preparing the nomination of candidates for Supervisory Board membership, the Nomination Committee takes into account the prerequisites set out in the Code.

Executive and Nomination Committee (since 1 January 2014)

The Executive and Nomination Committee advises the Management Board and prepares the resolutions of the Supervisory Board. The Executive Committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

Marija G. Korsch	Chairman
York-Delef Bülow	Deputy Chairman
Erwin Flieger	Deputy Chairman
Prof Dr Stephan Schüller	

The Executive and Nomination Committee prepares the plenary meetings of the Supervisory Board, together with proposed resolutions. The committee's area of responsibility also includes assessing the internal condition of the Group, and issues concerning personnel planning for the Management Board (also regarding the contracts with individual Management Board members, based on the remuneration system prepared by the Remuneration Oversight Committee and adopted by the plenary meeting of the Supervisory Board). The Executive and Nomination Committee compiles profiles defining the requirements for members of the Management Board and the Supervisory Board; based on an annual evaluation, it determines the extent to which the members of the Management Board or Supervisory Board have a need for further training, or whether other adjustments are required. Furthermore, the Executive and Nomination Committee discusses decision proposals regarding connected-party loans as well as other transactions between members of administrative, management and supervisory bodies and the Company or its subsidiaries.

Remuneration Control Committee (since 1 January 2014)

In accordance with section 25d (12) of the KWG, the Remuneration Control Committee monitors whether the structure of the remuneration systems for Management Board members and employees is appropriate, taking into account the impact of remuneration systems on Aareal Bank's overall risk profile. The Remuneration Control Committee prepares corresponding proposals concerning remuneration (including for members of the Management Board) for the plenary meeting of the Supervisory Board. The Remuneration Control Committee receives the information provided by Aareal Bank's Remuneration Officer pursuant to section 23 of the German Regulation on Remuneration in Financial Institutions (InstVergV, as amended) as well as the disclosure concerning the remuneration system pursuant to section 16 of the InstVergV (as amended). The committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

Marija G. Korsch	Chairman
York-Delef Bülow	Deputy Chairman
Erwin Flieger	Deputy Chairman
Dieter Kirsch	
Prof Dr Stephan Schüller	

Risk Committee

The Risk Committee consists of the Chairman of the Supervisory Board and up to five additional members.

The committee has the following members:

Hans W. Reich (until 22 May 2013)	Chairman
Marija G. Korsch (since 22 May 2013)	Chairman
Dr Herbert Lohneiß	Deputy Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dieter Kirsch	
Joachim Neupel	

The Risk Committee deals with all types of risk Aareal Bank is exposed to in its business activities. Besides credit risks, this also encompasses market risks, liquidity risks, and operational risks, taking into account the Bank's risk-bearing capacity as defined in the Minimum Requirements for Risk Management in Banks (MaRisk). The monitoring of credit risks also includes approving loans which, pursuant to the internal rules of procedure for the Management Board, require the approval of the Supervisory Board. This also includes decisions on connected-party loans pursuant to section 15 (1) nos. 6-12 of the German Banking Act (KWG), unless such loans are dealt with by the Executive and Nomination Committee.

The committee is also responsible for reviewing the contents of the risk strategies, in accordance with the MaRisk. The submission of the credit risk strategies to the plenary meeting to the Supervisory Board remains unaffected by this function, as is intended by the MaRisk. The Risk Committee has assumed the duties assigned to it in accordance with section 25d (8) of the KWG with effect from 1 January 2014; these tasks are largely identical to those previously performed by the Risk Committee.

Committee for Urgent Decisions

The Committee for Urgent Decisions is a sub-committee of the Risk Committee. Its members are elected from amongst the members of the parent committee.

The committee members are:

Hans W. Reich (until 22 May 2013)	Chairman
Marija G. Korsch (since 22 May 2013)	Chairman
Dr Herbert Lohneiß	
Christian Graf von Bassewitz	
Erwin Flieger	
Joachim Neupel	

The Committee for Urgent Decisions takes lending decisions which, pursuant to the internal rules of procedure for the Management Board, require Supervisory Board approval, and which are particularly urgent. Since the committee passes its resolutions by way of circulation, it does not hold any meetings. Any decisions taken between meetings of the Risk Committee are discussed at the subsequent meeting.

Audit Committee (until 31 December 2013: Accounts and Audit Committee)

The Audit Committee is concerned with all accounting issues, as well as regarding the audit of Aareal Bank AG and Aareal Bank Group. The committee is chaired by an independent financial expert as defined in section 100 (5) of the AktG.

The members of the Audit Committee are:

Joachim Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Christian Graf von Bassewitz	
York-Delef Bülow	
Erwin Flieger	
Hans W. Reich (until 22 May 2013)	
Marija G. Korsch (from 22 May 2013)	

The committee is responsible for the preparation and conduct of the audit of the financial statements and the consolidated financial statements; it prepares the decisions to be taken by the Supervisory Board on the basis of the committee's analysis of the external auditors' reports. For this purpose, the committee reports to the plenary meeting of the Supervisory Board on the results of its analysis and the assessments derived. Preparing the audit of the financial statements also comprises the preparations for instructing the external auditors (by virtue of the corresponding resolution passed by the Annual General Meeting), verifying the independence of the external auditors, negotiating the auditors' fees, and determining focal points of the audit. The Audit Committee also discusses quarterly and half-yearly financial reports with the Management Board, and obtains the external auditors' report on their review of the half-yearly report. Furthermore, the Audit Committee is responsible for examining the projections submitted by the Management Board; the reports by the Group Compliance Officer and Internal Audit are addressed to the committee. The Audit Committee is also responsible for monitoring the effectiveness of the internal control system. The Audit Committee has assumed the duties assigned to it in accordance with section 25d (9) of the KWG with effect from 1 January 2014; these tasks are largely identical to those previously performed by the Accounts and Audit Committee.

The Management Board

The Management Board manages Aareal Bank AG's business in accordance with the law, the

German Corporate Governance Code, the internal rules of procedure for the Management Board adopted by the Supervisory Board, and the Code of Conduct of Aareal Bank AG. The Management Board develops the overall company strategy, discusses it with the Supervisory Board, and ensures its implementation. The Management Board distributes responsibilities amongst its members.

The members of the Management Board are:

Dr Wolf Schumacher, Chairman of the Management Board
Corporate Communications, Investor Relations Corporate Development, Human Resources, Legal, Compliance, Audit and Operations

Dirk Große Wördemann, Member of the Management Board (until 31 May 2013)
Sales Units Structured Property Financing

Dagmar Knopek, Member of the Management Board (since 1 June 2013)
Sales Units Structured Property Financing

Hermann Josef Merkens, Member of the Management Board
Finance, Risk Controlling, Credit Management and Workout

Thomas Ortmanns, Member of the Management Board
Institutional Housing Unit, Treasury, Organisation, Information Technology

The Management Board informs the Supervisory Board regularly, without delay and comprehensively, orally and in writing, on all issues in respect of which the Supervisory Board requires information to fully perform its duties and obligations.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

During the financial year 2013, Aareal Bank AG once again performed successfully, mastering the challenges presented by the demanding market environment. Aareal Bank achieved consolidated operating profit which exceeded both the results posted in 2011 and the previous year's figures.

The Supervisory Board considers Aareal Bank AG's consistently positive results as evidence for the viability and operative strength of the Group's business model.

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

Furthermore, between the meetings of the Supervisory Board, the Chairman of the Management Board kept the Chairman of the Supervisory Board – until 22 May 2013, Mr Hans Reich, and from 22 May 2013 onwards, Ms Marija G. Korsch – informed, on a continuous and regular basis, both orally and in writing, on all material developments of the Company. The Chairman of the Management Board maintained close contact with the Chairmen of the Supervisory Board, in order to discuss key issues and important decisions personally.

Activities of the plenary meeting of the Supervisory Board

Six plenary meetings of the Supervisory Board were held during the year under review, of which five were scheduled meetings. During the meetings, the members of the Supervisory Board received reports and explanations by the members of the Management Board, and discussed these in detail. Proceedings and reports during all scheduled meetings focused on the way the Bank dealt with the challenges posed by the European sovereign debt crisis, and the resulting effects upon Aareal Bank AG.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory framework, in great detail. During the year under review, this included the decisions to establish a uniform European Banking Authority under the auspices of the European Central Bank and the regulations implementing the Basel III framework (the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV)).

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

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

One meeting in March focused exclusively on Aareal Bank's strategic options, and on the challenges presented in the prevailing market environment.

During the extraordinary meeting in March, the Chairman of the Supervisory Board declared that he would resign from his chairmanship and from membership of the Supervisory Board, with effect from the end of the Annual General Meeting on 22 May 2013. During the same meeting, the Supervisory Board accepted the proposal to elect Ms Marija G. Korsch as the Chairman of the Supervisory Board, succeeding Mr Reich.

During an additional, scheduled meeting in March, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2012 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. In addition, the proposal regarding the selection and subsequent appointment of the external auditor for the Annual General Meeting was discussed. This also included the scope and focal points of the audit for the 2013 financial year, as defined by the Supervisory Board. Other issues covered in the meeting in March included the preparations for the Annual General Meeting in May 2013. This meeting also discussed the annual reports submitted by Internal Audit and by the Compliance Officer. Furthermore, the proposals submitted by the Nomination Committee to fill the vacancy as a result of Mr Reich's retirement were discussed, and the Supervisory Board decided to propose Mr Richard Peters as a candidate for election to the Supervisory Board to the Annual General Meeting.

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

During the September meeting, corporate governance issues were presented and discussed, alongside other regulatory issues.

In the December meeting, the Management Board reported on the Group's corporate planning. The Management Board submitted and explained the corporate planning in detail to the Supervisory Board. The meeting also discussed corporate governance issues, as well as the requirements of the amendments to the German Banking Act concerning the structure of the Supervisory Board committees. The requisite resolutions were passed and implemented. Furthermore, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the German Public Limited Companies Act (AktG), which was subsequently published on the Bank's website. Moreover, the Supervisory Board concerned itself with the latest amendments to the German Ordinance on Remuneration in Financial Institutions (InstVergV). With the support of external advisors, the Supervisory Board discussed individual items where action was required with respect to the remuneration concept, in the context of the corresponding governance structure, and adopted proposed resolutions where possible. The Supervisory Board duly noted a related implementation schedule, taking coordination with the Works Council and the Executive Staff Representative Committee into account.

In accordance with good corporate governance practice, the Supervisory Board also regularly examines the efficiency of its activities in order to identify any areas requiring improvement. The results of the efficiency examination conducted during the 2013 financial year were acknowledged by the members of the Supervisory Board, and were discussed in detail. No concrete need for action was identified.

Strategy documents were regularly submitted to, and discussed by the Supervisory Board, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk). In this context, the Supervisory Board received a report on the status and implementation of the latest amendments to the MaRisk. The results of the regular review of the Company's remuneration system were reported to the Supervisory Board. The Supervisory Board determined that the Company's remuneration system is appropriate.

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

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

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

In addition to its regular meetings, the Supervisory Board convened for a separate meeting during which auditors PricewaterhouseCoopers provided information on current changes and deliberations in the regulatory and legal framework. This meeting provided the opportunity for a more detailed analysis and discussion of key topics, outside the regular work of the Supervisory Board.

Activities of Supervisory Board committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive Committee, the Risk Committee, the Committee for Urgent Decisions, the Accounts and Audit Committee, and the Nomination Committee. Explanations concerning the new structure of Supervisory Board committees in accordance with section 25d of the KWG are provided in the Corporate Governance Statement.

The Executive Committee of the Supervisory Board convened for three scheduled meetings and three extraordinary meetings. In the scheduled meetings, the Executive Committee prepared the proposed resolutions of the plenary meetings of the Supervisory Board. Strategic options of Aareal Bank were discussed during the extraordinary meetings; this included the acquisition of all shares in Corealcredit Bank AG, which was agreed upon on 22 December 2013.

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The committee members discussed these reports and market views in detail. The committee discussed the banking environment and the situation of the Bank's competitors. The committee also regularly dealt with loans requiring approval and transactions subject to reporting requirements. The committee discussed individual exposures of material importance to the Bank, which were presented and explained by the Management Board. Also, detailed reports were given regarding the Bank's liquidity status and funding.

The committee regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the committee. Besides credit and country risks, the committee concerned itself with market risks, liquidity risks, and operational risks. The committee discussed in detail the developments of the debt crisis and their implications for the business environment of Aareal Bank, the consideration of Aareal Bank's risk-bearing capacity and the detailed account of its capital ratios, as well as the implementation of the requirements in accordance with Basel III. The committee also decided on any other transactions requiring the Supervisory Board's approval pursuant to the Company's Memorandum and Articles of Association or the internal rules of procedure.

The Committee for Urgent Decisions is a subcommittee of the Risk Committee. It approves loans subject to approval requirements by way of circulation; for this reason, it did not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

The Accounts and Audit Committee held six meetings during the year under review. During its meeting in February 2013, the Accounts and Audit Committee received and discussed the preliminary results for the 2012 financial year. During its March meeting, the committee received the external auditors' report on the 2012 financial year and discussed the results with the auditors in detail. The committee members read the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of extensive discussions with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Accounts and Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2013 during the same meeting.

Proceedings at the meetings in August and November included information given to the committee on supplementary topics, such as measures to implement changed regulatory requirements. In addition to a report on the audit progress, the Management Board presented and explained the updated Group planning to the committee during its December meeting. The committee also received reports submitted by Internal Audit and by the Compliance Officer, requesting and receiving detailed explanations. It discussed and duly noted the review of the internal control system, which was carried out in accordance with applicable law.

Furthermore, during the committee meetings in February, May, August and November 2013, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2012 prior to publication, in accordance with the German Corporate Governance Code; the committee members discussed the reports with the Management Board. As in the financial year under review, the preliminary results for 2013 were discussed at a meeting in February 2014.

In its meeting on 19 March 2014, the Audit Committee received the external auditors' detailed report on the audit and audit results for the 2013 financial year, and discussed these results extensively with the auditors and the Management Board.

The Nomination Committee convened once in 2013. The task of the committee is to coordinate and carry out the search for new shareholder representatives on the Supervisory Board, if a member representing shareholders retires from the Supervisory Board. Hans W. Reich resigned from his office with effect from 22 May 2013 during the financial year under review.

Where members of the Supervisory Board were unable to attend a meeting, they had announced their absence in advance, giving reasons. If material decisions were on the agenda, these Supervisory Board members submitted written instructions for the casting of their votes, or cast their votes afterwards, in writing. Attendance of Supervisory Board members at meetings is shown in the table below.

Member of the Supervisory Board	Number of meetings attended / number of meetings (plenary and committee meetings)
Hans W. Reich **	9 of 9
Marija G. Korsch	16 of 17
Erwin Flieger	17 of 17
York-Detlef Bülow *	17 of 18
Christian Graf von Bassewitz	15 of 16
Manfred Behrens	4 of 6
Thomas Hawel *	5 of 6
Dieter Kirsch *	10 of 10
Dr Herbert Lohneiß	10 of 10
Joachim Neupel	16 of 16
Richard Peters **	3 of 3
Prof Dr Stephan Schüller	17 of 18
Helmut Wagner *	6 of 6

* employee representative
** member of the Supervisory Board for only part of the financial year

Financial statements and consolidated financial statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were elected as auditors by the Annual General Meeting 2013, with the audit of the financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports regarding the financial statements and the consolidated financial statements, including all annexes thereto, in good time before the meeting during which the audit results were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditor participated in the meeting of the Supervisory Board, during which the financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were available to the Supervisory Board to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB; and the consolidated financial statements and the Group Management Report prepared in accordance with IFRS and the proposal of the Management Board regarding the appropriation of profit and the audit report were examined in detail. No objections were raised to the audit results.
In its meeting on 26 March 2014, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with IFRSs, and thus confirmed the financial statements of Aareal Bank AG. The Supervisory Board examined and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Personnel matters

Hans W. Reich retired from his office as Chairman and as a member of the Supervisory Board, with effect from the end of the Annual General Meeting of Aareal Bank AG on 22 May 2013. Hans W. Reich's tenure was shaped by a number of key challenges for Aareal Bank, which the Bank mastered during his chairmanship of the Supervisory Board. The Supervisory Board regrets that the Bank has lost a renowned expert in international banking, and would like to sincerely thank Mr Reich for his long-standing and successful service on the Bank's Supervisory Board.

At the same time, the Supervisory Board welcomes new member Richard Peters and looks forward to a fruitful and successful cooperation. Mr Peters is President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder ("VBL"). He has been a member of VBL's Management Board since 1998, first with responsibility for VBL's investments and subsequently for VBL's insurance business and benefits. The Supervisory Board is delighted to have won a capital markets expert and wishes Mr Peters every success for his mandate.

Mr Dirk Große Wördemann resigned from Aareal Bank at his own request, with effect from 31 May 2013, in order to focus more on real estate investments, as he had done prior to joining Aareal Bank. He will continue to work for the Bank, as an advisor. Mr Große Wördemann had been a member of Aareal Bank's Management Board since November 2010. The Supervisory Board thanks Mr Große Wördemann for his contributions to the Bank.

The Bank's Supervisory Board appointed Ms Dagmar Knopek as a member of the Management Board with effect from 1 June 2013. The Supervisory Board is delighted that it was able to appoint Ms Knopek, who has been working for Aareal Bank for many years and commands extensive experience in the international commercial property finance business. The Supervisory Board wishes Ms Knopek every success in her new area of responsibility.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for their strong commitment during the 2013 financial year, which was once again eventful. The commitment and strong motivation of all employees of Aareal Bank Group made the Company's success possible, and thus enabled the Bank to successfully master the challenges of recent months.

Special transactions

During the year under review, Aareal Bank Group acquired all of the shares of Corealcredit Bank AG, Frankfurt/Main, which specialises in commercial property financing in Germany. A corresponding agreement was concluded on 22 December 2013 with the previous owner, a company of US financial investor Lone Star. The Supervisory Board has been involved in the entire process and was always comprehensively kept informed by the Management Board. The Supervisory Board has approved the transaction; with the acquisition, Aareal Bank AG further expands its position in commercial property finance.

Frankfurt, March 2014

For the Supervisory Board

Marija G. Korsch (Chairman)

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Glossary

Accrued interest
Interest on debt securities (such as bonds, notes or Pfandbriefe) which has accrued since the last coupon payment date. When buying such a security, the buyer must pay accrued interest to the seller.

Ad-hoc disclosure
Pursuant to section 15 of the German Securities Trading Act (WpHG), issuers of securities are obliged to publish any information that may have an impact on the price of these securities without delay. This obligation is discharged using so-called "ad-hoc" disclosures which may relate to the issuer's financial position and performance, or to its general business operations. The ad-hoc disclosure obligation applies in Germany as well as in other major financial centres; it is designed to prevent insider trading.

Advanced Approach
Under the "Advanced Approach', a bank having sufficiently developed procedures for internal capital allocation (subject to strict requirements concerning methodology and disclosure) is allowed to use its internal credit quality ratings for a given borrower to assess the credit risk exposure of its portfolios.

AfS (available for sale)
This IFRS measurement category denotes financial assets which are available for sale by an enterprise, and which are not receivables, financial instruments held for trading or held-to-maturity (HtM) financial instruments. AfS financial instruments are predominantly fixed-income securities which the enterprise cannot (or does not intend to) hold until maturity. They can also be equity instruments without a final maturity date.

Amortised cost
The amount at which a financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any reduction for impairment or non-collectibility.

Asset-backed securities
A special form of securitising payment claims in tradable securities that are structured by aggregating certain financial assets.

Associated enterprise (associate)
Enterprise which is accounted for in the consolidated financial statements using the equity method (as opposed to full or partial consolidation), over whose business or financial policies an entity included in the consolidated financial statements exercises significant influence.

Bonds
Generic term for fixed-income securities or debt securities.

Capital markets
The markets for any kind of medium to long-term funds – in a narrower sense, generic term for supply and demand in securities.

Cash flow hedge
Using a swap transaction to hedge the risk of future variable-rate interest payments from an underlying on-balance sheet transaction.

Collateral
Rights granted to the Bank by the borrower to facilitate enforcing the Bank's claims in case of default. Collateral may be provided in the form of personal collateral (e.g. a guarantee) and impersonal collateral (e.g. a land charge). In principle, collateral reduces expected losses sustained by the Bank in the event of default.

Consolidated statement of cash flows
Statement showing the cash flows an enterprise has generated and used during a financial year, from its operating, investment and financing activities, also showing cash and cash equivalents at the beginning and end of the financial year.

Corporate Governance
Corporate Governance denotes the legal and factual framework for the management and governance of enterprises. The recommendations of the German Corporate Governance Code provide transparency and are designed to strengthen confidence in good and trusting corporate governance. They predominantly serve shareholders' interests.

Cost/income ratio (CIR)
Financial indicator expressing the ratio of expenses to income within a given reporting period.

$$\text{CIR} = \frac{\text{Administrative expenses}}{\begin{gathered}\text{Net interest income + net commission income}\\ \text{+ net result on hedge accounting + net trading income/}\\ \text{expenses + results from non-trading assets}\\ \text{+ results from investments accounted for using the}\\ \text{equity method + net income from investment properties}\\ \text{+ net other operating income/expenses}\end{gathered}}$$

Counterparty credit risk
Counterparty credit risk can be further distinguished into credit risk, counterparty risk, issuer risk and country risk; it denotes the potential loss in value which may be incurred as a result of the default (or deterioration of credit quality) of borrowing clients, issuers of promissory note loans or securities, or of counterparties to money market, securities or derivatives transactions.

Covered bonds
"Covered" bonds is a generic term for debt securities covered by collateral. In Germany, covered bonds are mainly issued

in the form of "Pfandbriefe" pursuant to the German Pfandbrief Act (PfandBG), which provides a legal framework for collateralisation (assets eligible for Pfandbrief cover include mortgages and public-sector loans, as well as ship and aircraft financings).

Credit default swap (CDS)
Financial contract where the risk of a credit event specified in advance (such as insolvency, failure to pay, or deterioration of credit quality) is transferred from a protection buyer to a protection seller. The protection seller receives regular premium payments from the protection buyer in exchange for the assumption of credit risk, regardless of whether a credit event has actually occurred.

DAX®
German blue-chip index tracking the performance of the 30 largest German companies listed in Deutsche Börse's Prime Standard segment, measured in terms of order book turnover and market capitalisation. The index is calculated on the basis of price data from Xetra®, the electronic trading system of the Frankfurt Stock Exchange.

Debt security
Certificate whose issuer undertakes to repay the amount borrowed (plus current interest, or other form of performance) to the bearer.

Deferred taxes
Income taxes payable or receivable in the future, due to temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the tax accounts. At the time of recognition, deferred tax assets or liabilities do not yet constitute any actual claims on, or liabilities to the tax authorities.

Derivatives
Derivatives – which include all types of forwards, futures, options and swaps – are financial instruments whose value is derived from the price (and/or the price fluctuations) of an underlying instrument, such as equities, bonds or currencies.

Earnings per share
Financial indicator expressing the ratio of net income after non-controlling interest income to the average number of common shares outstanding.

$$\text{Earnings per share} = \frac{\text{Net income/loss attributable to shareholders of Aareal Bank AG (before interest payments on the SoFFin silent participation)}}{\text{Weighted number of common shares}}$$

EBIT margin

$$\text{EBIT margin} = \frac{\text{EBIT (operating profit before interest and taxes)}}{\text{Sales revenues}}$$

Effective interest method
Method for amortising the mark-up/markdown between cost and the nominal value (premium/discount), using the effective yield of a financial asset or liability.

Effective return (effective yield)
Investment yield, expressed as the actual return on invested capital.

Equity method
Method for measuring shareholdings in enterprises on whose business policy the reporting entity has significant influence ("associates"). When applying the equity method, the associate's pro-rata net income/loss is recognised in the carrying amount of the shareholding; any distributions are recognised via a corresponding pro-rata reduction in the carrying amount.

EURIBOR
European Interbank Offered Rate – the interest rate at which prime European banks offer euro deposits (with fixed terms of one week, and between one and twelve months) to one another.

Fair value
The fair value is the amount for which an asset can be exchanged (or a liability settled) between knowledgeable, willing parties in an arm's length transaction; this is often identical to the market price.

Fair value hedge
Using a swap to hedge the market risk of a balance sheet item with a fixed interest rate (e.g. a receivable or a security); this is measured at fair value.

Financial instruments
Generic term for loans extended and other receivables, fixed-income securities, equities, shareholdings, liabilities, and derivatives.

German Accounting Standards
Recommendations for the application of (German) standards for consolidated financial statements, issued by the German Accounting Standards Board (GASB), a committee of the Accounting Standards Committee of Germany.

Goodwill
An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Hedge accounting
Concept describing the recognition (or other form of accounting) or two or more agreements (including financial instruments) which together form a hedging relationship. In this context, the relationship between two or more contracts is

based in the equal and opposite specification of contractual elements giving rise to risks (usually financial risks). Due to these specifications, such agreements can be used to partially or fully offset and neutralise risks. In the context of hedge accounting, one of the contracts involved (specifically, the contract establishing the risk(s) concerned) is referred to as the "underlying transaction", and the other contract (the one entered into to hedge the risk(s) of the underlying transaction) as the "hedge transaction" or just "hedge".

Hedging
A strategy where a hedge is entered into in order to protect a position against the risk of unfavourable movements of prices or (interest) rates.

HtM (Held to Maturity)
Financial assets with a fixed term as well as fixed or determinable payments acquired from a third party, where the reporting entity has the intention and the ability to hold such financial assets to maturity.

International Accounting Standards (IAS)
Accounting standards issued by the International Accounting Standards Board (IASB), an international standard-setting body established by professional accountants' associations. The IASB's objective is to establish a single set of transparent, uniform international financial reporting standards.

International Financial Reporting Standards (IFRSs)
IFRSs comprise existing International Accounting Standards (IASs) and interpretations issued by the Standing Interpretations Committee, as well as future standards and interpretations published by the International Accounting Standards Board (IASB).

Investment property
Property (land or buildings) held to earn rental income or for capital appreciation, or both, rather than for use in the business operations.

LIBOR
London Interbank Offered Rate; the interest rate at which prime London banks offer deposits to one another.

MDAX®
The MDAX® mid-cap index comprises the shares of 50 companies from traditional sectors listed in Deutsche Börse's Prime Standard segment that, in terms of exchange turnover and market capitalisation, rank immediately below the companies included in the DAX® blue-chip index. The index is calculated on the basis of price data from Xetra®, the electronic trading system of the Frankfurt Stock Exchange.

Medium-Term Notes (MTNs)
Debt issuance programme used to issue unsecured debt securities at different points in time; the volume, currency and term (1 to 10 years) of each issue can be customised to the issuer's prevailing funding needs.

Minimum Requirements for Risk Management (MaRisk)
The Minimum Requirements for Risk Management in Banks (MaRisk) are binding requirements for the structure of risk management in German banks, as promulgated by the German Federal Financial Supervisory Authority (BaFin). Setting out the specifics of section 25a of the German Banking Act (KWG), BaFin has consolidated the previously-applicable Minimum Requirements for the Trading Activities of Credit Institutions (MaH), Minimum Requirements for the Internal Audit Function of Credit Institutions (MaIR) and Minimum Requirements for the Credit Business of Credit Institutions (MaK), updating and supplementing them in the process.

Nominal interest rate
Return of a security defined by reference to its nominal amount.

Present value
The present value of a future cash flow, determined by discounting all future cash flows (inflows and outflows) to today's date.

Profit-participation certificate
Securitised profit-participation rights which may be issued by enterprises (regardless of their legal form) and listed in official (exchange) trading. Subject to certain conditions, profit-participation certificates may be eligible for inclusion in liable capital.

Public Sector Pfandbriefe
Debt securities issued by Pfandbrief issuers (Pfandbrief banks), which are collateralised by claims against the public sector.

Rating
Risk assessment regarding a borrower (internal rating) or credit quality assessment regarding an issuer and its debt securities by a specialist rating agency (external rating).

Repurchase transaction (repo transaction)
Short-term money-market transaction collateralised by securities.

Return on equity (RoE)
Financial indicator expressing the ratio of net income (or pre-tax profit, for example) to average equity over the period. RoE expresses the return on the capital employed by the company (and its owners/shareholders).

$$\text{RoE before taxes} = \frac{\text{Operating profit less net income/loss attributable to non-controlling interests}}{\text{Allocated equity (excluding non-controlling interests and other reserves, including the SoFFin silent participation)}}$$

$$\text{RoE after taxes} = \frac{\text{Net income/loss attributable to shareholders of Aareal Bank AG (before interest payments on the SoFFin silent participation)}}{\text{Allocated equity (excluding non-controlling interests and other reserves, including the SoFFin silent participation)}}$$

Revaluation surplus
The revaluation surplus is used to recognise changes in the market value of securities and available-for-sale assets (AfS – measurement category in accordance with IAS 39) directly in equity. Deferred taxes are taken into account for the amounts recognised.

Segment reporting
Breakdown of aggregate consolidated figures across individual segments, by type of activity (business segment) or by geographical location (region). The segment reporting permits conclusions regarding developments in the various segments, and their individual contribution to consolidated net income.

Swap
Generic term for contracts to exchange cash flows, such as the exchange of fixed-rate and variable-rate cash flows in the same currency (interest rate swap), or the exchange of cash flows and/or nominal amounts in different currencies (cross-currency swap).

Unwinding
Change in the present value of allowance for credit losses (determined using present values) which is solely attributable to the unwinding of cash flows (i.e. of the recoverable amount) on the reporting date.

Value at risk
Method to quantify risks: it measures the maximum potential future loss which will not be exceeded within a defined period, and given a certain probability.

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Financial Calendar

7 May 2014	Presentation of interim report as at 31 March 2014
21 May 2014	Annual General Meeting – Kurhaus, Wiesbaden
12 August 2014	Presentation of interim report as at 30 June 2014
11 November 2014	Presentation of interim report as at 30 September 2014

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