LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

QUA
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Convincing with QUALITY

Annual Report 2014

Aareal Bank
Group

Highest-quality service for the commercial property industry

Aareal Bank Group, headquartered in Wiesbaden, is a leading international property specialist. We have been offering highest-quality financing, advice and other services to the housing and commercial property industries for nine decades now. 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.

www.aareal-bank.com/en

Double expertise: as a bank and as a consultancy and systems house

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 clients from the housing and commercial property industries as well as energy sector customers in our core market of Germany. Through Aareon AG, the leading consultancy and systems house to the property industry, we offer IT consulting, software and IT services in several European countries.

3
continents on which we are active

2,500
employees from 27 countries

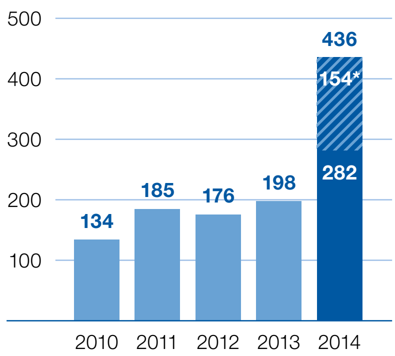
10 mn
residential units managed by customers of Aareon AG

€ 8.6 bn
in deposits from the housing industry

€ 29 bn
in property financing

€ 49.6 bn
total assets

Consolidated operating profit
(€ mn)



* Negative goodwill from the acquisition of Corealcredit

Ratings

	2014	2013
Fitch Ratings, London		
long-term[6]	A- (outlook: negative)	A- (outlook: stable)
short-term[6]	F1 (outlook: negative)	F1 (outlook: stable)
Fitch Pfandbrief ratings	AAA	AAA
oekom	prime	prime
Sustainalytics	61	57
CDP	88 B	81 B
EIRIS/imug	Participation	Participation

Convincing with quality

”Quality is our highest priority in everything we do. Quality for our clients, our investors and our staff.“

Dr Wolf Schumacher, Chairman of the Management Board

As the specialist for the commercial property industry – which we serve in two roles: as a bank, and as a consultancy and IT systems house – we are extremely successful on a sustained basis. We are convinced that our success is based on one guiding principle: our QUALITY – ”quality made by Aareal“.

What quality means to us, Aareal Bank Group, will be explained in this report. The first step to ensuring quality is to focus on what we know best: business with commercial property industry clients. This is the sector where we are at home. Because we know and understand our clients‘ needs, we can offer solutions that are made-to-measure and therefore of very high quality. These range from international financing projects to payment solutions and IT services. We can rely on employees who are amongst the best in their field, and we are an attractive employer. To us, quality means to strive for long-term success on behalf of our stakeholders in everything we do. Only when clients, shareholders, investors and employees are satisfied will we be able to live up to our claim of sustainable business – and that is convincing.

www.aareal-bank.com/en/events/convincing-with-quality

Contents

Aareal Bank Group – Key Indicators

(in accordance with IFRSs)

	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Income statement[1]		
Operating profit (€ mn)	436	198
Consolidated profit (€ mn)	294	93
Cost/income ratio (%)[2]	36.2	38.5
Earnings per ordinary share (€)[3]	4.87	1.55
RoE before taxes (%)[3]	18.5	7.5
RoE after taxes (%)[3]	14.1	4.8

	31 Dec 2014	31 Dec 2013
Statement of financial position[4]		
Property finance (€ mn)	28,987	24,550
of which: international (€ mn)	22,894	20,802
Equity (€ mn)	2,723	2,450
Total assets (€ mn)	49,557	42,981
Regulatory indicators[4) 5)]		
Risk-weighted assets (€ mn)	15,492	
Common Equity Tier 1 ratio (CET1 ratio) (%)	13.6	
Tier 1 ratio (T1 ratio) (%)	17.7	
Total capital ratio (TC ratio) (%)	24.7	
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	12.9	
Employees[4]	2,548	2,375

[1] The disclosures covering the current period under review include negative goodwill from the acquisition of COREALCREDIT BANK AG ("Corealcredit") as at 31 March 2014. Corealcredit's operating results have been included in the Income Statement of Aareal Bank Group since the beginning of Q2 2014.
[2] Structured Property Financing segment only
[3] Within the context of calculating earnings for the purpose of determining EpS and RoE attributable to common shareholders, net interest payable on the SoFFin silent participation was deducted for the first time, to enable an assessment based on economic substance. Likewise, the SoFFin silent participation was deducted from equity used to calculate RoE. The comparative figure was adjusted accordingly.
[4] Figures as at 31 December 2014, including Corealcredit
[5] Since 1 January 2014, regulatory indicators have been determined in accordance with CRD IV/CRR, based on carrying amounts in accordance with IFRSs. Until 31 December 2013, these indicators were calculated in accordance with the German Solvency Regulation (SolvV) and based on local GAAP (book values in accordance with the German Commercial Code (HGB)). The Bank therefore decided against stating comparative amounts.
[6] At the end of the first quarter of 2014, rating agency Fitch Ratings changed its outlook for the Long-Term Issuer Default Rating (IDR) of 18 banks within the European Union from "stable" to "negative". The corresponding outlook for an additional 18 European commercial banks remained "negative". This revision reflects a global re-assessment of government support for banks.

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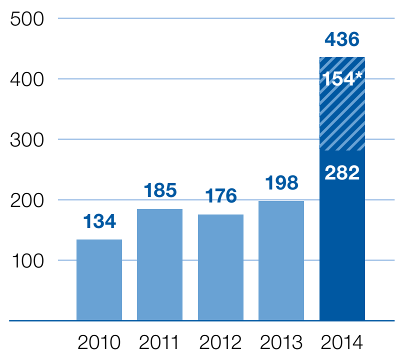
Consolidated operating profit

(€ mn)



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Highest quality at all levels

Aareal Bank Group

„For us, quality comes first – in our products, our services, in everything we do. It is this commitment to quality through which we set standards."

Hermann J. Merkens, Deputy Chairman of the Management Board

We embody quality – in all our business activities. We know what matters. We meet complex demands with tailor-made solutions in both business segments, and we are an attractive employer.

Always a step ahead

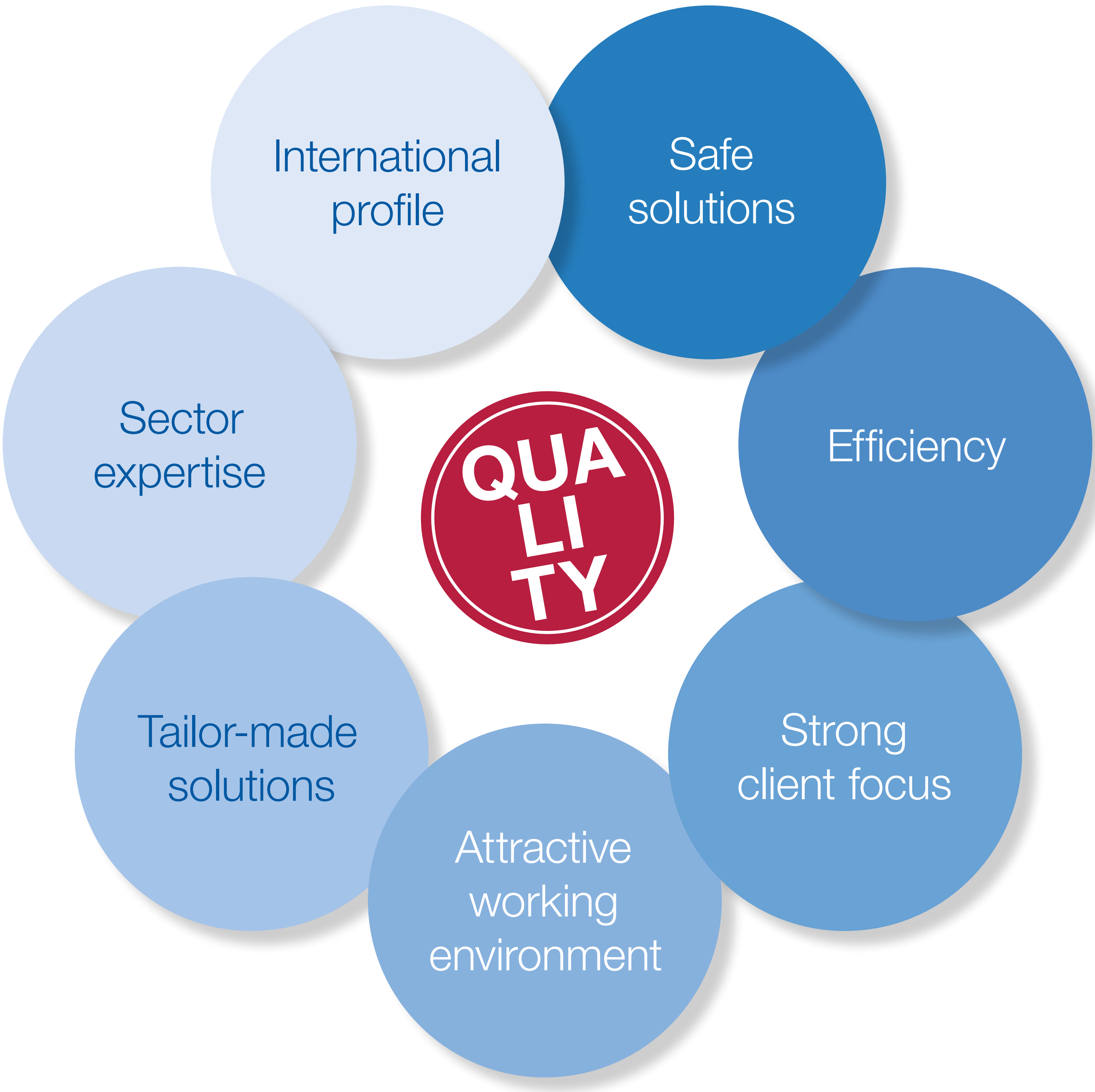
With an experienced eye for trends and developments, we offer the right products and services to our clients and are a driving force in the constantly changing markets. We set the standards in our industry, be it for property finance or as a consultancy and IT systems house. Likewise, we were pioneers in early compliance with regulatory requirements. Our good operating performance during the past financial year shows that the market appreciates our clear focus on quality.

An attractive employer

Aareal Bank Group places great importance on being an attractive employer. Helping our staff improve their work-life balance, providing individual further training and education, creating a diverse and international working environment and bright career prospects as experts or managers results in a high degree of satisfaction and motivation amongst our staff.

Sustainable economic activity

Our activities are not centred around the success of the Group alone. Instead, we base our decisions on the principle of sustainability and the interests of our stakeholders, and carefully weigh exposure decisions against risk and return prospects. Our quality-based approach is thus an integral part of what we do, across all levels of our Company.


International profile
Safe solutions
Efficiency
Strong client focus
Attractive working environment
Tailor-made solutions
Sector expertise
QUALITY

01

We are the first-choice partner for specialist solutions, at an international level

QUA LI TY

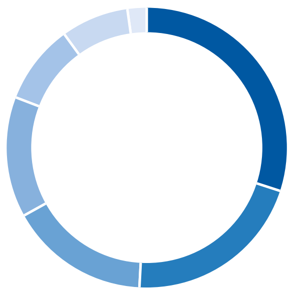
”To us, quality means making well-founded, risk-aware and swift decisions. This applies also to complex, tailor-made financings, which we offer and realise in more than 20 countries across the globe. Doing business with our clients at eye-level is a matter of course for us.“

Dagmar Knopek
Member of the Management Board

Success for our clients on three continents

Tailor-made financing solutions for commercial properties

Property financing volume (%)



Western Europe*	30
Germany	21
North America	16
Southern Europe	14
Eastern Europe	9
Northern Europe	8
Asia	2

*excluding Germany

More than bankers: sector experts and partners at eye level

Ensuring long-term success for our clients' investments

Our particular strength in the Structured Property Financing segment lies in the combination of local market expertise and sector-specific know-how. Our specialists are active on three continents and have a proven track record in assessing and valuing the location and quality of a property. We finance office buildings, hotels and shopping centres, as well as logistics and residential properties. Our focus is on existing buildings. Especially with hotels, logistics properties and shopping centres, in-depth and sector-specific know-how are crucial to success.
▸ **www.aareal-bank-deals.com**

QUALITY

Tailor-made solutions

Individual financing concepts, solutions that meet the special requirements of each client, advisory services at eye level – our business activities are centred around the interests of our clients.

International profile

Europe, North America and Asia – our focus lies on developed markets with a favourable risk/return profile. Our employees in each branch or representative office around the world have the necessary local market expertise to assess and value a property's location and quality.

Sector expertise

Commercial property requires specialist sector know-how. The experts at our Wiesbaden head office know the characteristics of – and requirements for – hotels, logistics properties and shopping centres.

Swiftness

Swift decisions are a sign of quality. Our mid-sized structure ensures short communication lines and quick action – of course, this also holds true for customised solutions.

Risk awareness

As sustainable risk management is a prerequisite for our banking business: we carefully weigh exposure decisions against risk and return prospects.

Long-term relationships

Long-term client coverage – often by the same contact – is a crucial success factor. The only way to satisfy our clients and grow our relationship with them is through personal contact, ensuring regular communication and precise analysis of their individual needs.

Flexibility

As a mid-sized company we quickly adapt our product and service portfolio as well as our business processes when clients' needs or market conditions change. This flexibility shapes our daily business.

Fastness – as a sign of quality

Why we are capable of taking well-founded decisions – fast

Our credit process is very efficient. Provided a client's financing request is compatible with our risk policy, a Deal Team is composed, pooling our experts' know-how. Every Deal Team consists of specialists from the branch or representative office, who know the local, i.e. the client's, market and legislation, and industry experts for special properties.

Their early examination of a potential project leads to a preliminary enquiry. If the Bank's decision on this enquiry is positive, it makes a non-binding offer. As soon as the client has approved the offer, the lending decision process will start automatically. Depending on complexity and country-specific circumstances, deals are often closed within ten weeks.

www.aareal-bank-deals.com

Established credit process ensures efficiency

Examination and preliminary enquiry → Risk analysis and hedging → Documentation → Contract negotiations and signing

Our decision-making process

02

We make business processes safe, future-proof and efficient

QUALITY

”Our clients in the housing and commercial property industries and in the energy sector associate quality with innovative and safe solutions that make their business more efficient and increase customer loyalty – and that’s what we provide as their preferred banking partner and as a leading consultancy and IT systems house.”

Thomas Ortmanns
Member of the Management Board

High industry expertise means perfect services

Specialised banking services and pioneering IT solutions

Aareal Bank Group's Consulting/Services segment

Aareon

Consultancy and IT systems house
for the European property sector

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

Aareal Bank

Banking services
for the German housing and the energy sector

Integrated mass payments system for the German housing sector

Aareal Bank extends its payment solutions portfolio to include other sectors

More and more utilities use our solutions

For more than 50 years, Aareal Bank has been the lead bank to the housing industry. The Bank handles payments for more than 7 million residential units and manages more than € 8 billion in deposits. Just like the housing industry, utilities and waste disposers have a considerable number of postings to process. Furthermore, they regularly engage with the housing industry. That is why companies from these sectors have started to use our software solutions to optimise processes, and also to increase customer loyalty, particularly with their housing industry customers. Our tightly-knit network ensures close contact and intensive dialogue with our clients – in day-to-day business, through a number of events and advisory councils. As we listen to our clients we develop products and services that meet their needs, and expand our portfolio with important solutions.

QUALITY

Efficiency

Our solutions are integrated into our customers' business processes, and provide for efficient management of their rental units.

Strong client focus

We have maintained a dialogue with our clients and the sector through client advisory councils, association memberships and client events for decades now: we know what our clients need.

Safe solutions

Our specialised IT and banking services make handling millions of payments safe and simple. We have defined standards with products such as the market-leading payments system BK01 and Aareon Cloud.

Reliable partner

Our solutions automate business processes, ensure transparency, lower costs and increase our clients' service quality. Smooth processes are built on our in-depth industry knowledge.

International footprint

Our subsidiary Aareon is Europe's biggest consultancy and IT systems house for the property industry. Its product range consisting of consultancy, software and services is forward-looking.

Digital pioneers

Digitisation offers many opportunities to enhance process efficiency and customer service, or even to develop new business models. This is why we promote the ongoing digitisation of the property industry.

We steadily continue to expand Aareon AG's range of products and services

Quality through international knowledge transfer and technological integration

An international company benefits from country-specific expert knowledge that is shared with the whole group. This also applies to Aareon AG, a wholly-owned subsidiary of Aareal Bank AG. Aareon France, for example, is a forerunner in the area of customer relationship management (CRM) systems for the housing industry. These systems are to be rolled out to other countries. The French experts share their knowledge and experience in CRM solutions with their German colleagues via a competence centre. The solutions are then adapted and enhanced to meet the German market's needs and, once introduced in Germany, will be re-adapted for export to other countries. To foster effective international collaboration and employee communication, we provide inter-cultural training.

New products and services by Aareal Bank Group enhance efficiency

- **All-electronic rental deposit solution –** clients may choose between individual and collective accounts, whatever suits their business best.
- **Automatic BK01 calculation of invoice data for energy and waste disposal companies –** the cornerstone of electronic billing; enhances efficiency for housing enterprises and corporate clients in the energy industry.
- **Aareon CRM Portal –** online platform for direct and mobile communication between landlords and tenants simplifies processes such as the reporting and correction of defects, and offers information and services on a portal site for tenants.
- **Aareon Archiv kompakt –** central, audit-compliant digital archive replaces paperwork and makes searching for and working on documents easier.
- **Mobile handover of flats –** digital recording of information on site and integration into ERP system ensures efficiency and quick re-letting.

03

The industry's top talent values us as an attractive employer

QUALITY

"Basically everyone who joins us stays for a long time. We work hard on systematically building know-how and retaining our employees for the long term."

Joachim Deppe
Managing Director Human Resources

Our goal is long-term satisfaction

Continuity thanks to attractive working conditions

3.1 %	14.1	73 %
fluctuation ratio (banking sector average: 6.6%)	years of average length of service (banking sector average: 8.1)	of our employees are proud to work at Aareal Bank

Aareal Bank AG data (not Aareal Bank Group)
Source: Employers' association of the German banking sector

Career promotion: Aareal Bank is an organisation of experts

Advancing in a job usually means stepping up to the next executive position. At Aareal Bank, we see things differently. To us, advancing as a manager or an expert holds the same value, and we offer interesting development opportunities with a high degree of responsibility, equivalent titles and equal pay for both groups. Experts need technical knowledge as well as a number of personal and entrepreneurial skills. We provide qualification and training programmes so that our employees can grow and advance in their career. Professional interests may change over the years, and we support our employees who want to change from the expert to the management career path and vice-versa. This flexibility adds to quality made by Aareal.

Our experts are familiar with many roles

Take responsibility for projects and develop them • Broad specialist knowledge, skills and experience • Internal knowledge transfer • Active and continuous learning process regarding professional subject matters and clients

Performance-driven culture, self-motivation and resilience • Ability to communicate and cooperate, strong networks • Develop and convincingly present ideas • Recognise, approach and solve conflicts • Teach quality by example, as set by our Corporate Identity

Balance client focus, divisional and company interests • Think and operate economically • Act analytically, holistically and in a results-oriented way • Strong decisions • Forward-looking actions – Recognise change and act early

Balance

The Bank offers wide-ranging child care support services and help in caring for family members. Share of part-time employees:

20.7 %

Work and family life can be reconciled at Aareal Bank

Internationality

Nationalities at Aareal Bank:

27

We work in international teams

Individual training and education

Average number of days for training and education:

3.4

Professional and personal training for every age group

Career perspectives

We provide both experts and executives with interesting advancement opportunities. Highly qualified experts:

40 %

We are an organisation of experts

Diversity

Proportion of women in executive positions:

25.0 %

We stand for diversity and equal opportunity

Aareal Bank AG data (not Aareal Bank Group)

www.aareal-bank.com/en/jobs-career/our-company/people-at-aareal-bank

High level of satisfaction

One indicator of the high level of satisfaction of our staff is a low fluctuation rate. Company health management, which includes various measures surrounding health protection and help in times of crisis, also plays an important role. Our employees make frequent use of health check-ups, talks, exercise facilities, stress management and leadership seminars.

Quality – The bottom line

”The flood of interpretations of what may or may not constitute quality is confusing. True quality, however, is always clearly recognisable.“

Above all, this big word helps us find our way. It’s about reliability. Quality is always measured against reality.

WOLF LOTTER
Business journalist and book author

Quality can’t simply be claimed. Quality is non-negotiable. Quality is at the core of good.

Everybody wants to have something good. Everybody wants to be the good one. People like what‘s good, and recommend what‘s good.

Good is easy to explain. What‘s good is useful. What‘s good pays off. Quality pays off.

All that is true. But it’s also true that we live in a world where the wealth of attention means the dearth of information, where people sometimes talk a lot, but don’t say much. This is nothing new. Back in ancient times, in the bazaars and markets, every seller claimed their goods to be the tastiest, the best, the most beautiful, the most precious. However, it did not take long for buyers to know who sold the good stuff – and who was selling less attractive goods. Quality was easy to recognise: you could see it, hear it, smell it. Quality revealed itself. Quality was honest.

But the bigger the markets and the more complex the world grew, the foggier and more blurred became the perception of quality. It is more difficult than before to recognise true quality. Quite often, it’s even hidden in the dark.

The Latin word qualitas means ”property”, ”nature”, ”state”, or ”condition”, and thus refers to very solid concepts that speak for themselves – no additional assessment needed. That may sound strange today, as we all constantly rate and assess everything with stars and check marks, tests and diplomas, in reviews and comments. This flood of ratings and interpretations of what may or may not constitute quality is confusing.

Quality, in fact, is suffering from ”feature creep”. Until the end of the 1970s, a product was believed to be better the more features and buttons it had. Quality related to mass and quantity. Microelectronics resulted in highly sophisticated, over-equipped TVs and hi-fi systems, and (as a result) confused consumers. This misconceived interpretation of quality then ran into the beginning of the PC era, becoming established as the ”new normal“ in a world of complex networks. Feature creep has devalued the term, but true quality is still clearly recognisable.

We have to get back to a plain view of quality, aimed at recognising its sense and use, in order to be able to use it as one of the most powerful tools of the 21st century – turning quality into something that brings a tangible improvement to people. Quality means usefulness – and thus, is easy to recognise.

Quality, this big and often misunderstood word, helps us find our way through today's complex world. It's our most valuable compass. It's reliable.

Quality compares with reality, not with marketing claims and promises. Reliability means trusting others with making the right decisions and choices for us – in an individual, personal setting. Industrial society used to standardise quality classes, and thus invented what scientists call "predefined quality". In today's world, that is not enough.

Today's knowledge society requires quality to prove highly flexible throughout periods of change, and not a type of quality that can be prescribed or protected by rigid rules. Quality has become a dialogue between two partners, between suppliers and clients.

David Garvin, Professor of Business Administration at Harvard Business School, describes this view of quality as "transcendent" approach, which sounds a bit supernatural, but makes a lot of sense. According to Garvin, quality is personal and subjective: people recognise quality through experience, not through tests, comments, reviews, norms and regulations. This highest degree of quality rests on reliability and trust. Quality is no longer seen as something ready-made that meets predefined norms, but as more: as made-to-measure.

So we are back where we started from. Quality pays off. It pays off when you give your best.

To our Shareholders

Convincing with quality

DAGMAR KNOPEK
Member of the
Management Board

HERMANN J. MERKENS
Deputy Chairman of the
Management Board

DR. WOLF SCHUMACHER
Chairman of the
Management Board

THOMAS ORTMANNS
Member of the
Management Board

Dear Shareholders,
business associates and Aareal Bank staff,

2014 was a remarkable year for Aareal Bank, in many respects. Not only did we pass the European Central Bank's Comprehensive Assessment with convincing results, fully repaid the residual amount of the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin), placed Additional Tier 1 capital, and integrated Corealcredit, which we had acquired in the previous financial year – we also expanded our market position and generated an excellent result, despite a demanding market and an increasingly competitive environment. We thus laid the ideal foundation to keep developing Aareal Bank Group further, positively and sustainably, in the years to come – based on our proven business model and for the benefit of all our stakeholders.

With economic conditions remaining challenging, Aareal Bank's successful business performance will increasingly gain significance. We are therefore delighted to be able to share with you our annual report that gives account of the past financial year.

Consolidated operating profit for the 2014 financial year was a record € 436 million and therefore more than double the previous year's figure. Adjusted for the negative goodwill of € 154 million arising from the acquisition of Corealcredit, consolidated operating profit amounted to € 282 million. Consolidated net income more than tripled compared with the previous year, to € 294 million. RoE before taxes – adjusted for the effect of the negative goodwill from the Corealcredit acquisition – was 11.1 per cent. It has therefore already moved significantly closer to what was originally our medium-term target of around 12 per cent.

We affirm this RoE target, also taking into account effects from the acquisition of Westdeutsche ImmobilienBank AG ("WestImmo"). On 22 February 2015, we announced that we had entered into a sale and purchase agreement to acquire all of the shares of WestImmo, which specialises in commercial property financing. With the acquisition of WestImmo – a Pfandbrief issuer with a clear focus on its core business, whose portfolio supplements our own activities, in line with the Bank's strategy – we are exploiting an attractive opportunity to execute a value-creating transaction, and to further expand our position on strategically important markets.

The positive business development in 2014 signifies both confirmation and motivation for us: we see it as further proof of the sustainability of our business model with its two strong pillars of Structured Property Financing and Consulting/Services, as well as evidence of the operative strength we are capable of. At the same time, the result constitutes a commitment for us to secure our achievements on a sustainable basis and to remain true to our prudent business policy.

With this goal in mind, we also exploited the opportunities for attractive new business in the Structured Property Financing segment in 2014. The volume of new business originated in the financial year under review therefore totalled € 10.7 billion. New business volume clearly exceeded the originally-forecast target range of between € 8 billion and € 9 billion. The very dynamic transaction environment resulted in higher-than-expected loan repayments. We therefore decided to expand our new loan origination during the course of the year.

Net interest income in the Structured Property Financing segment amounted to € 687 million. Unexpectedly high income from early loan repayments had a positive effect on net interest income, as did low funding costs, a marked increase in lending volume and stable lending margins. However, net interest income was burdened by a lack of attractive investment opportunities for the liquidity reserves, due to the persistent low interest rate environment.

Sales revenues in the Consulting/Services segment were virtually unchanged in the 2014 financial year, at € 185 million. The slight decrease was attributable to markedly lower margins from the deposit-taking business with the housing industry, which was due to persistently low interest rates; these margins are reported in sales revenues.

With its pioneering products, Aareon benefits from core technical trends in the housing industry, such as cloud computing. In order to secure Aareon's leading market position for the future, we invested further in innovative and high-performance new developments during the financial year under review. Aareon was able to increase its sales revenue by € 5 million to € 178 million, thus demonstrating stable development. Nonetheless, we concluded the year with a negative operating profit in this segment. This is due once again to burdens on margins in the deposit-taking business, as a result of the low interest rate levels.

We will continue to have to cope with the extremely tense interest rate environment in the new financial 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 market environment. The volume of deposits from the housing industry, and from the energy and waste disposal industries, amounted to a high average of € 8.6 billion in the 2014 financial year. For Aareal Bank, deposits from the housing and the utilities and waste disposal industries are a strategically important additional source of funding for the property financing business, and one that is largely independent of developments on the capital markets. The volume of deposits again rose significantly in the 2014 financial year to an average of € 8.6 billion, despite the decline in interest rates paid to customers.

Aareal Bank continues to enjoy a high degree of confidence as an issuer on the capital market. Accordingly, we were able to implement our funding objectives as planned: overall, we succeeded in raising € 3.9 billion in medium- and long-term funds in the financial year under review. Mortgage Pfandbriefe made up € 1.9 billion of the total volume. Furthermore, Tier 2 issues totalling € 600 million were successfully placed on the capital market during 2014.

Aareal Bank continues to enjoy a comfortable liquidity base and to be very solidly financed – our very good result in the aforementioned ECB Comprehensive Assessment is impressive proof of that. In November, we further strengthened our regulatory capital base by issuing Additional Tier 1 (AT1) capital through a € 300 million perpetual note. As at 31 December 2014, our Tier 1 ratio was 17.7 per cent, which is comfortable on an international level. Even assuming full implementation of Basel III, the Bank's pro-forma Common Equity Tier 1 (CET1) ratio would be 12.9 per cent.

The strength of our capitalisation is also evident in the repayment of the remaining € 300 million SoFFin silent participation at the end of October 2014. In early 2009 – at the height of the crisis affecting financial markets and the economy – Aareal Bank had proactively – and as a precautionary measure – drawn on support available within the scope of a government package to stabilise the financial services sector. The objective was to protect Aareal Bank's sustainably profitable business, in what was a very difficult market environment at the time.

In January 2015, our long-standing anchor shareholder, Aareal Holding Verwaltungsgesellschaft mbH, made up mostly of insurance companies and holding a 28.9 per cent stake in the issued share capital to date, placed its entire shareholding in Aareal Bank AG on the market, within the scope of a very successful private placement that reinforces the confidence shown by the market in our business model. In addition, the higher number of shares held in free float and hence greater liquidity of our share must be seen as positive.

We distributed a dividend for the 2013 financial year and thus returned to an active dividend policy in the year under review. Consistent with this policy, for the financial year 2014, the Management Board and the Supervisory Board will propose to the Annual General Meeting of Aareal Bank AG, to be held on 20 May 2015, a 60 per cent increase in the dividend per share, from € 0.75 to € 1.20. The distribution ratio, adjusted for the negative goodwill from the acquisition of Corealcredit, of approximately 50 per cent corresponds with the communicated dividend policy.

We expect the market and competitive environment to remain very challenging during the current financial year. Despite the substantial uncertainties and numerous risk factors, we are generally confident that our positive development will continue in the 2015 financial year. Overall, we believe there is a good chance that we can achieve consolidated operating profit of between € 400 million and € 430 million for the current financial year, including the non-recurring effect (negative goodwill) from the acquisition of WestImmo.

Aareal Bank has had a record year, and we are facing a challenging future. We are well prepared, and Aareal Bank is in the best possible position to deal with the challenges ahead. We will continue to pursue our solid and proven business policy in an environment that remains demanding. We are committed to further build on Aareal Bank's success story for and on behalf of our shareholders, clients and employees. We want to create value for you in the future too!

For the Management Board

Yours Sincerely, Wolf Schumacher

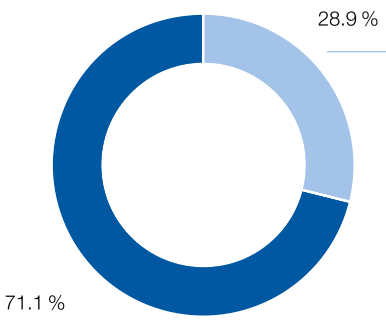
Dr Wolf Schumacher
Chairman of the Management Board

A quality investment: 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. In January 2015, our long-standing anchor shareholder, Aareal Holding Verwaltungsgesellschaft mbH, placed its entire shareholding in Aareal Bank AG on the market, within the scope of a very successful private placement – underlining the confidence shown by the market in our business model. In addition, the higher number of shares held in free float and hence greater liquidity of our share must be seen as positive.

Shareholder structure, as at: 31 December 2014

Free float | Aareal Holding Verwaltungsgesellschaft mbH



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

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 open dialogue with analysts, investors and clients, as well as with the media.

This dialogue, greatly valued by the Bank, is pursued diligently and intensively, regardless of the economic environment, and is considered a prerequisite for 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 market developments as well as from regulatory changes, and discuss them with Aareal Bank.

To this end, two conferences are held by the Bank in Frankfurt/Main 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 2014. In the course of the financial year under review, the Investor Relations team took part in nine international capital markets conferences and conducted more than 200 one-on-one meetings with more than 300 investors and analysts during 13 roadshows around the globe. Investors greatly appreciate the fact that Management Board members also regularly attend conferences and roadshows in order to be available for personal meetings.

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

In the 2015 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

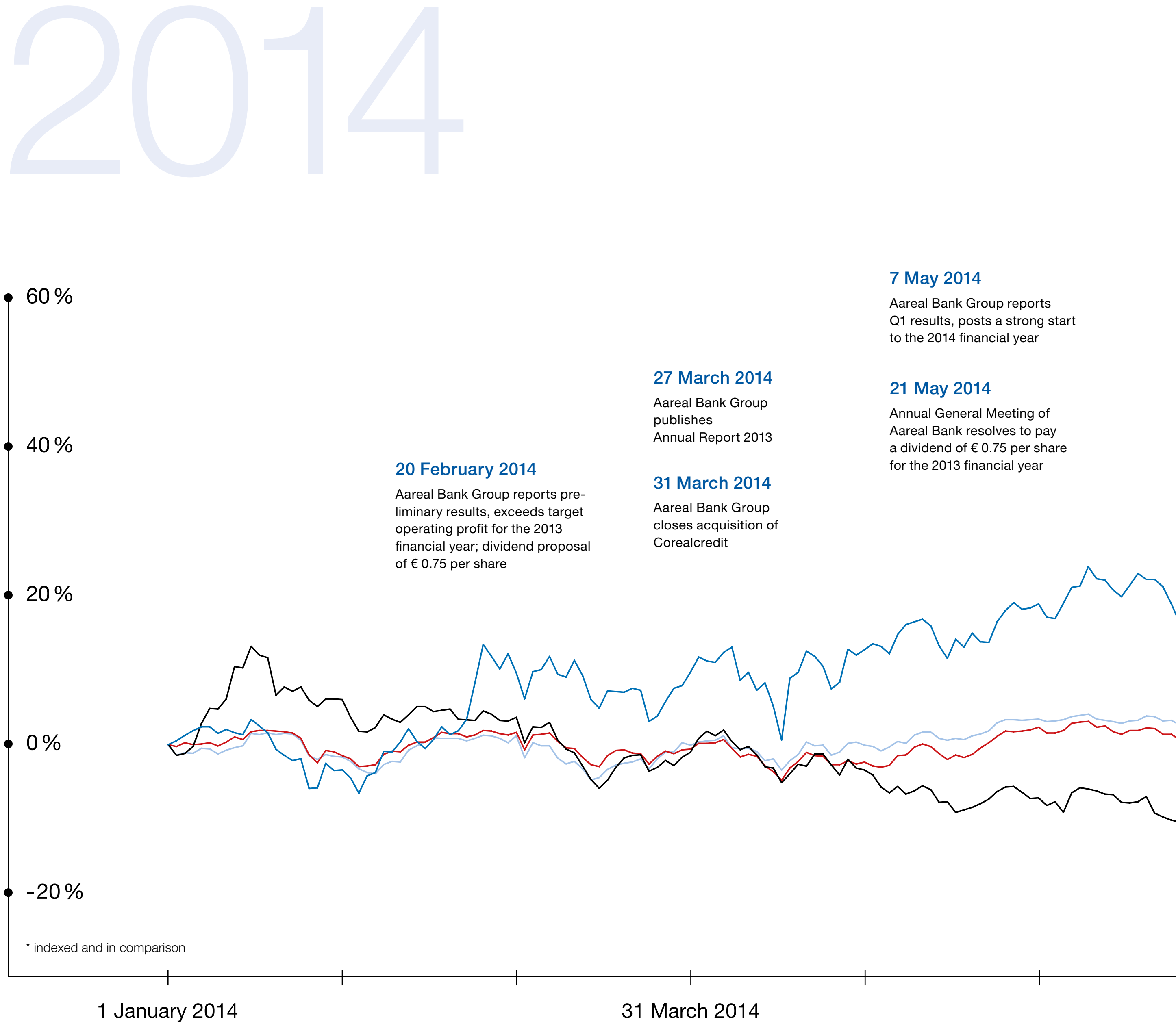
On top of the 12 brokerages and analyst firms that regularly covered Aareal Bank at the start of the year, two more initiated coverage, so that at the end of the last financial year the number of brokerages and analyst firms publishing independent studies and comments about developments at Aareal Bank Group had risen to 14. Having finished the 2013 financial year on a positive note, in 2014 Aareal Bank also had to meet market and analyst expectations. Aareal Bank fulfilled these high expectations, with currently ten ”buy“ recommendations and two ”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
Consolidated Financial Statements
Transparency

Relative performance of the Aareal Bank share price*

The chart illustrates the relative performance of the Aareal Bank share price, compared to the DAX®, MDAX® and the Prime Banks Performance Index, respectively. The Aareal Bank share once more succeeded in soundly beating the benchmarks, rising 16 % on the previous year in 2014 (the DAX® index rose 2.7 %). This is all the more remarkable as already in 2013, Aareal Bank had shown a distinct outperformance (+83 % vs. DAX® +26 %).



* indexed and in comparison

	2014	2013
Key data and indicators of the Aareal Bank share		
Share price (€) [1]		
Year-end price	33.29	28.785
High	36.49	28.860
Low	26.67	17.780
Book value per share (€)	36.44	31.88
Dividends per share (€) [2]	1.20	0.75
Earnings per ordinary share (€) [3]	4.87	1.55
Price/earnings ratio [4]	6.84	18.57
Dividend yield (%) [4]	3.6	2.6
Market capitalisation (€ mn) [4]	1,993	1,723

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] Proposal to be submitted to the Annual General Meeting
[3] Within the context of calculating earnings for the purpose of determining EpS attributable to common shareholders, net interest payable on the SoFFin silent participation was deducted for the first time, to enable an assessment based on economic substance. The comparative figure was adjusted accordingly.
[4] Based on Xetra® year-end closing prices

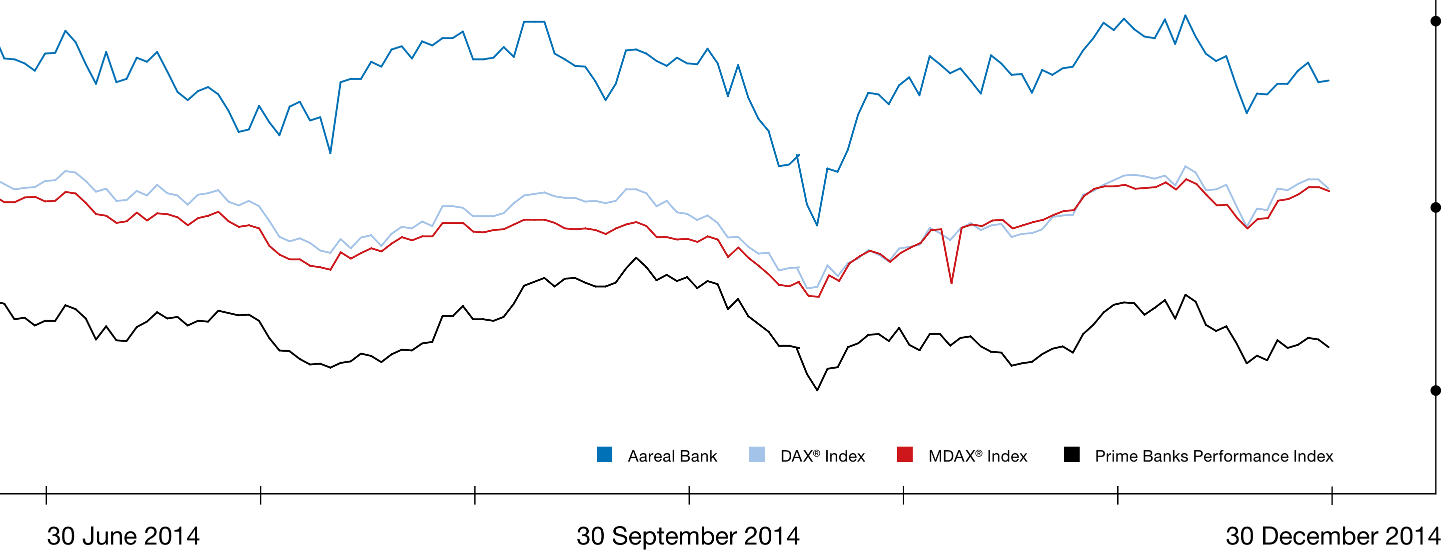
12 August 2014
Aareal Bank Group publishes Q2 results, reporting successful developments during the period and slightly raising its forecast for 2014 consolidated operating profit

26 October 2014
ECB reviews confirm Aareal Bank's capital and financial strength

30 October 2014
Aareal Bank fully repays SoFFin silent participation

11 November 2014
Aareal Bank Group reports strong Q3 results, and accordingly raises operating profit forecast for 2014

13 November 2014
Aareal Bank successfully places Additional Tier 1 capital



Group Management Report

Group Management Report

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

Fundamental Information about the Group

The Group's business model

Aareal Bank AG, headquartered in Wiesbaden, Germany, is the parent company of the Group. Its shares are admitted to trading on the regulated market (Geregelter Markt) of the Frankfurt Stock Exchange, and are included in the mid-cap MDAX® index. Aareal Bank Group provides financing 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, 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 and commercial property industries services and products for managing property portfolios and processing payment flows. Within this segment, our subsidiary Aareon AG and the Bank's Housing Industry division work together closely.

We operate the IT systems consultancy and related advisory services for the housing and commercial property industries through our Aareon AG subsidiary, which looks back at almost 60 years experience. With its portfolio consisting of software, services and advisory offerings, Aareon supports property companies to optimise and automate their internal and external business processes, e.g. in relation to tenants and business partners. The quality of these processes can thus be further improved overall. Aareon is active in several 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 the UK and SG|tobias and the SG|tobias[AX] product generation in the Netherlands. Our Swedish subsidiary 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 environments, depending on the product: software as a service provided through the exclusive Aareon Cloud, ASP (Application Service Providing), hosting and in-house services. ERP solutions and integrated services, together with additional services, support the process-efficient cooperation between property companies and their business partners. Integrated services are incorporated directly in the ERP solutions and share the same database. These services include, for example, 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 its Housing Industry division, Aareal Bank markets its automated mass payments system BK 01. In this context, the Bank performs payment transactions and account maintenance for its clients in Germany and integrates both in the customers' IT systems. The Housing Industry division's clients are part of the housing and commercial property industries, as well as of the utilities and waste disposal industries. 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 using key financial performance indicators, taking the Group's risk-bearing capacity into account. Management takes place primarily at Group level, and is additionally differentiated by business segment. Group management is based on medium-term Group planning, prepared annually, which is geared towards the

Group's long-term business strategy. An extensive (management) reporting system regularly provides the information required for management and monitoring purposes.

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

- Group/consolidated:
  - » Net interest income (in accordance with IFRSs)
  - » Allowance for credit losses (in accordance with IFRSs)
  - » Net commission income (in accordance with IFRSs)
  - » Administrative expenses (in accordance with IFRSs)
  - » Operating profit (in accordance with IFRSs)
  - » Return on equity (RoE; before taxes)[1)]
  - » Earnings per ordinary share (EpS)[2)]
- Structured Property Financing segment
  - » New business[3)]
- Consulting/Services segment
  - » Aareon's contribution to consolidated operating profit (in accordance with IFRSs)

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

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

Structured Property Financing also deploys supplementary management tools and indicators. For example, we manage our 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, depending on each entity's business focus – primarily the contribution to consolidated operating profit. We also use specific performance indicators that are typical for consulting and services in the IT business, the focus of this segment. These include indicators relating to regular client satisfaction surveys, as well as capacity utilisation indicators in the consultancy business. The volume of deposits is a key performance parameter in the Bank's Housing Industry division.

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

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

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

Report on the Economic Position

Macro-economic environment

The macro-economic environment during the year under review was characterised by subdued economic developments and a broad-based low interest rate environment – with notable differences between the various regions.

Economy

At 2.6 %, global economic growth in 2014 was in line with the previous year (2.5 %), meaning that the economy remained subdued, falling short of expectations. Of particular note was that the euro zone economy failed to recover. Whilst domestic demand in the euro zone still lacked momentum, strong growth was reported in net exports. Macro-economic imbalances as well as structural problems in various euro zone economies contributed to the weak economic development. Increased geopolitical risks placed additional burdens on the business climate and the economy.

Some differences were discernible amongst individual euro member states: Belgium, Germany and Luxembourg saw slight to moderate growth in real gross domestic product. Spain was able to exit from the previous year's recession, also posting moderate economic growth. Growth in the Netherlands and Portugal – which had also been in recession during the previous year – was somewhat lower, whilst it was clearly burdened in both France and Austria. The Finnish economy stagnated, and Italy's real gross domestic product showed a marginal decline. Economic development was more dynamic in various European countries outside the euro zone. Economic development was particularly pronounced in the UK and Poland, whilst real gross domestic product growth in the Czech Republic, in Sweden and Switzerland also outpaced the euro zone average. Denmark saw slight growth. The Turkish economy saw high growth rates by European standards, albeit markedly lower than in the previous year. Economic development in Russia was burdened by the conflict in the Ukraine, and the economic sanctions imposed as a consequence, as well as by low commodity prices. Russia's economic output only grew to a minor extent during the year under review.

In the US, the unusually harsh winter at the start of the year had a dampening effect on the economy. During the course of the year, however, US economic growth accelerated noticeably, with a real gross domestic product growth rate for 2014 that was roughly in line with the previous year. Higher private consumption as well as rising corporate investment and a fiscal policy that no longer represented a burden were factors contributing to this increase. In Canada, the growth rate of real gross domestic product was slightly higher year-on-year.

Whilst China's economy continued to post high growth rates by international standards, the second-largest global economy grew slightly less dynamically, compared to the previous year. In particular, investment momentum faltered, especially in the construction sector. Japan's economic development during the course of the year was materially influenced by the increase in value-added tax as at 1 April 2014. Whilst the economy was stimulated by the pre-emptive effects on consumer expenditure in the first quarter, demand collapsed during the following quarters, leading to virtually unchanged real economic output for the full year 2014, compared to the previous year. Singapore's economy grew noticeably during the year under review, albeit at a less stronger rate than in 2013.

Muted economic development in the euro zone was insufficient to trigger a marked recovery on the labour markets: the unemployment rate in the euro zone fell only slightly. Whilst Spain saw a more pronounced, above-average reduction, its near-24 % unemployment rate at the end of the year remained high. Germany and Austria continued to see the lowest unemployment rates in the euro zone. Unemployment actually rose in some countries – including Finland and Italy – during 2014, whilst in France it hardly changed. Outside the euro zone, Denmark, the UK, Poland and the Czech Republic saw notable declines in their unemployment rates, whereas the rate declined only marginally in Sweden. The situation on the US labour market improved significantly, with a falling unemployment rate. A slight reduction was seen in Japan.

Annual rate of change in real gross domestic product

%	2014	2013
Europe		
Euro zone	0.9	-0.4
Austria	0.4	0.1
Belgium	1.1	0.3
Finland	0.0	-1.2
France	0.4	0.4
Germany	1.5	0.2
Italy	-0.4	-1.9
Luxembourg	2.6	2.1
Netherlands	0.7	-0.7
Portugal	0.8	-1.4
Spain	1.3	-1.2
Other European countries		
Czech Republic	2.3	-0.7
Denmark	0.8	-0.5
Poland	3.4	1.5
Russia	0.7	1.3
Sweden	1.9	1.3
Switzerland	1.9	1.9
Turkey	2.7	4.1
United Kingdom	2.6	1.7
North America		
Canada	2.5	2.0
USA	2.4	2.2
Asia		
China	7.4	7.7
Japan	0.1	1.6
Singapore	2.9	3.9

Financial and capital markets, monetary policy and inflation

The financial and capital markets of developed economies were characterised by a very pronounced low interest rate environment. Despite a continued absence of tensions on these markets, sentiment deteriorated temporarily. The financial and capital markets in the developed economies continued to offer the opportunity to a large number of banks, companies and sovereign issuers to place securities at favourable terms.

Aareal Bank thus successfully issued Mortgage Pfandbriefe and subordinated capital; during the last quarter of 2014 the Bank placed another Additional Tier 1 issue, in the form of perpetual notes.

Spreads of German Pfandbriefe continued to tighten during 2014: besides the lower volume of outstanding issues, the spreads also reflected continued high investor confidence in the solidity of this type of debt security.

The importance of Mortgage Pfandbriefe has grown consistently over recent years, both in terms of gross new issuance and aggregate Pfandbrief issues outstanding. The decline in the outstanding amounts of Public-Sector Pfandbriefe reflects the changed business models of some mortgage banks and Landesbanken, amongst other factors. The volume of public finance business has been in decline with many Pfandbrief issuers for some years – which also cuts the cover assets pools for Public-Sector Pfandbriefe. Furthermore, legacy portfolios of receivables against German savings banks and Landesbanken, which were eligible for inclusion in cover prior to the abolition of state guarantees for the public-sector banks (the so-called Gewahrträgerhaftung) in July 2005, are gradually shrinking. Prior to the abolition of state guarantees, receivables from such public-sector banks were frequently used as cover assets for Public-Sector Pfandbriefe.

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

On 4 September, the European Central Bank (ECB) announced its third covered bond purchase programme ("CBPP3"), under which it would purchase covered bonds issued by banks domiciled within the euro zone, in a total amount of up to € 80 billion. This initiative took all market participants by surprise, leading to further tightening of covered bond spreads, from an already low level. Bonds issued by the countries benefiting from this programme have noticeably outperformed covered bonds outside the ECB's purchase programme. Also, the significant increase in primary sales during September can be interpreted as a positive response to this programme.

In its meeting on 6 November 2014, the lower chamber of the German parliament (the Bundestag) adopted a legislation package implementing the European Banking Union into German law. This package also includes an amendment to the German Pfandbrief Act, which came into force at the beginning of 2015: it includes, among other things, higher transparency requirements for Public-Sector Pfandbriefe, and also affects the duties of the administrator appointed in the event of insolvency of a Pfandbrief issuer. Moreover, properties located in Australia, New Zealand and Singapore are now also eligible for inclusion in cover for Mortgage Pfandbriefe.

The ECB's Comprehensive Assessment (including a stress test) revealed a need for additional capital at 25 banks. However, twelve (of these banks had already raised sufficient capital prior to the announcement of the results; five additional banks are subject to restructuring and/or resolution measures and thus no longer need to raise additional capital. This left eight banks with an aggregate additional capital requirement in excess of € 6 billion, which did not trigger any market burdens or turbulence.

A lower level of uncertainty regarding the European sovereign debt crisis, compared to previous years, was decisive for developments on euro zone financial and capital markets. At the beginning of 2014, the European Stability Mechanism (ESM) concluded its support programme for Spain, which had been implemented for the purpose of recapitalising Spanish banks. The support programme for Portugal expired in May. However, developments affecting a big Portuguese bank required the rescue of that institution in July, using funds from the rescue package as well as from the Portuguese government.

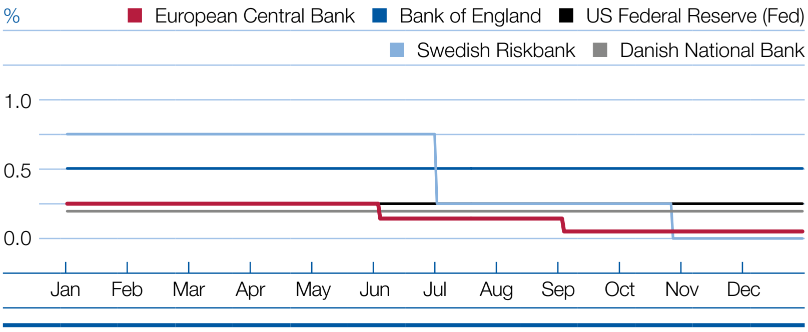
Government bond yields for euro zone countries dropped significantly, reaching extremely low levels. Yield reductions in the bonds of countries such as Italy and Spain – deemed riskier by investors – were stronger than for countries such as Germany, which are considered to be safer. Accordingly, the yield spreads between these groups of countries narrowed. Government bond yields also declined markedly in numerous other European countries, including, for example, the UK, Sweden and Switzerland. Yields for US government bonds also declined noticeably, albeit to a lesser extent than in many European countries. Yields in Japan only declined to a minor extent – given the already very low yield level, the extent of this decline was nevertheless noteworthy.

The financial and capital markets of various emerging economies experienced major tensions at the beginning of the year, as investors reassessed the risk/return relationships and withdrew significant amounts of capital. This led to some noticeable currency devaluation. Looming changes in US monetary policy, higher political tension in some countries, as well as revisions to long-term growth prospects of these economies were all contributing factors. Various central banks responded by raising their key interest rates, in some cases drastically. Tensions decreased again during the course of the year, which translated into declining government bond yields – for example, in Turkey. The situation in Russia was different. As a consequence of the withdrawal of foreign capital, in response to the conflict in the Ukraine and economic sanctions, sovereign bond yields were very significantly higher at the end of the year than at the beginning.

The low interest rate environment in Europe continued to solidify. Long-term interest rates[1] for the major currencies in which the Bank is active fell

[1] Based on the 10-year swap rate

Key rate developments in 2014 [1)]



1) The upper level of the corridor for the Fed Funds rate was set at 0.00 % to 0.25 %.

considerably, to very low levels – whereas short-term interest rates[2)] in many of the relevant currencies fluctuated only slightly, with a more pronounced decline seen for the Swedish krona, and – to a minor extent – the euro.

The euro exchange rate fell significantly against some foreign currencies, with a particularly pronounced decline against the US dollar from the mid-year point onwards. The euro also declined noticeably against pound sterling and the Canadian dollar. The euro's depreciation against the Swiss franc was less pronounced, reflecting the fact that the Swiss National Bank still maintained its minimum-rate regime throughout 2014. Given the Danish central bank's policy of maintaining exchange rate stability, fluctuations in the euro exchange rate against the Danish krone were low. The euro appreciated noticeably against the Swedish krona. The euro exchange rate against the Japanese yen was subject to considerable volatility. Following a strong devaluation of the yen during the fourth quarter of the year, the year-end exchange rate was comparable to the levels seen at the start of the year.

Monetary policy has remained very expansive in the advanced economies. However, decisions taken by central banks during the course of the year showed that these have embarked upon diverging paths. The ECB implemented numerous measures to ease its monetary policy between June and October 2014, including cuts to its main refinancing rate down to 0.05 %, the first-time introduction of negative deposit rates (-0.2 % as at the end of the year) for commercial banks, continuation of the full allotment for refinancing operations (fixed-rate tenders), [targeted] longer-term refinancing operations (TLTROs) linked to lending to enterprises, as well as the suspension of fine-tuning operations, which had neutralising effect. Moreover, the ECB launched programmes to purchase asset-backed securities (the "ABSPP") as well as covered bonds ("CBPP3"), as outlined above. The various ECB measures are designed to improve the monetary policy transmission mechanisms, enhancing lending to businesses. Moreover, the intention is to move inflation closer to the ECB's target level of just under 2 %. Sweden's Riksbank lowered its key interest rates even down to zero, whilst the Bank of Japan once again increased its quantitative easing measures. Decisions by the US Federal Reserve (the Fed) pointed in a different direction. Even though the Fed maintained its key interest rate at a very low level, it continuously reduced its extensive bond purchases and finally stopped these altogether at the end of October.

Due to reticent demand and falling energy prices, the average euro zone inflation rate for 2014 amounted to a mere 0.4 %, and even turned slightly negative in December. Few countries (including Spain, for example) even saw slight deflation on average for the year. Outside the euro zone, Sweden also experienced slight deflation. Whilst other countries (such as Poland) posted inflation, this remained subdued. At 1.5 %, the UK had a markedly higher inflation rate. In the US, the twelve-month inflation index fell below 1 % in December. The annual average inflation rate in China stood at 2 %. In Japan, the VAT increase and an extremely expansive monetary policy drove inflation to under 3 %. In contrast, some emerging economies – including Russia and Turkey – saw high rates of inflation.

2) Calculated on the basis of the 3-month Euribor/LIBOR, or comparable rates (depending on the currency)

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 was on the ECB's extensive Comprehensive Assessment. All banks directly supervised by the ECB began to implement the assessment before the responsibility for supervision was transferred to the ECB; the exercise ran until autumn 2014. Aareal Bank has also been directly supervised by the ECB since 4 November 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 2014 the transaction markets for commercial property were characterised by a high degree of investor liquidity, against the background of a prevailing low interest rate environment. In this environment, commercial property was a sought-after asset class – as expressed by a notable increase in global transaction volumes (the aggregate capital directly invested in newly-acquired commercial properties). Investor interest was broadly diversified across regions, property types and sizes. Intense investor competition for first-class properties in top locations led to a reduction of investment yields[1] in numerous markets, with investors showing more interest in secondary cities, or properties with a higher risk profile – which thus offer higher potential yields.

Whilst the rental markets for commercial property showed regional differences, a fundamental trend of predominantly stable (to moderately positive) rental development was evident for first-class properties. The hotel markets showed a regionally differentiated picture, yet there were numerous economic hubs where the key indicator for the hotel industry – average revenue per available hotel room – increased year-on-year.[2]

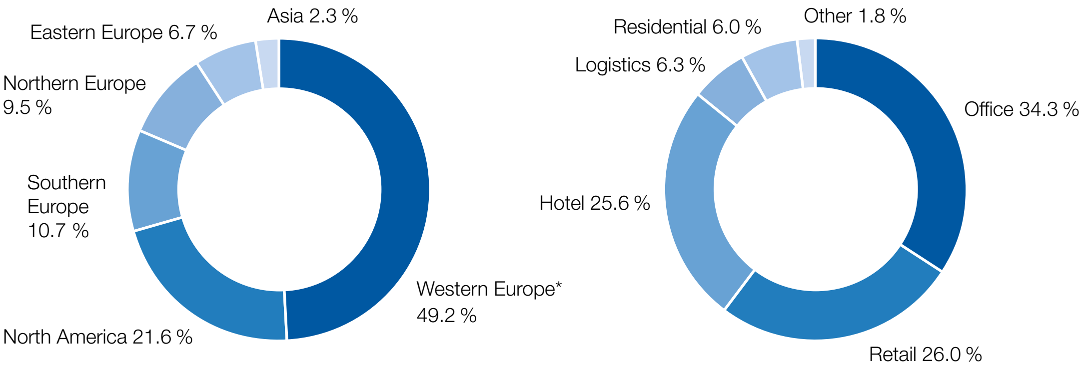
Competition in commercial property finance intensified further during the year under review: property financings were more easily available, and the financing market more liquid, compared to the previous years. Competition was very intense in numerous financing markets. Whilst finance providers focused especially on first-class properties (in corresponding locations) – a segment where competition was particularly intense – the tightness of supply in this market segment shifted interest to other segments, regarding providers of finance and investors alike. Intensified competition was evident in margins and loan-to-value ratios, for example: the willingness of many finance providers to accept lower margins and higher loan-to-value ratios increased. Likewise, lenders were more prepared to grant large-sized loans. However, on

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

[2] It is characteristic of commercial property markets that they are not homogeneous. Individual properties differ – even within a regional market or for a given property type – with regard to the factors that determine their value and rents, such as construction quality, modernity, floor space and energy efficiency, flexibility and property management. The location – within regional or local markets – is of course an important factor as well. Hence, rents, income, vacancies, yields and values of individual properties from the same regional market or property type may develop differently. This must be taken into account when analysing the market trends described here, and in the following sections.

New business 2014

by region | by type of property



* incl. Germany

numerous markets they were reluctant to finance speculative new construction projects, even though a certain degree of revitalisation was noticeable concerning project development on some markets. These developments were evident in Europe, in North America and in various Asian countries. In various countries where competition had been less intense in the past, such as Italy and Spain, it grew markedly during the year under review. However, margins are still noticeably higher in these countries – and loan-to-value ratios lower – than in the particularly liquid European markets, such as Germany and the UK. Alternative finance providers played a role regarding more intense competition, albeit to a varying extent across different regions. In the US, the importance of non-bank financing, such as from life assurance companies, commercial mortgage-backed securities (CMBS) and debt funds, was particularly strong. In Europe, alternative finance providers increasingly focused on the UK in particular, but also on other major markets such as Germany and France. Finance providers outside the commercial banking sector have continuously gained market share in Europe over recent years. In Asia, alternative finance providers were particularly active on the Japanese market.

In this environment, Aareal Bank Group originated new business of € 10.7 billion (2013: € 10.5 billion) during 2014, markedly exceeding its original target of between € 8 billion and € 9 billion. This development was primarily driven by the high level of early loan repayments, which led the Bank to expand its new loan origination – whereby the active transaction environment also played a role. Early renewals also contributed to the higher level of new business, compared to the original target.

At € 6.4 billion or 60.2 % (2013: € 6.5 billion or 61.6 %), newly-originated loans accounted for the majority of new business concluded. Renewals amounted to € 4.3 billion during the financial year under review (2013: € 4.0 billion).

At 76.1 % (2013: 75.7 %), Aareal Bank Group generated the highest share of new business 2014 in Europe, followed by North America with 21.6 % (2013: 20.7 %) and Asia with 2.3 % (2013: 3.6 %).[1] The Bank generated new business both through its regional sales units and through its teams of sector specialists, covering financing solutions for hotels, shopping centres, and logistics properties.

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

As in previous years, new business was broadly diversified by property type. Office properties accounted for the largest share with 34.3 % (2013: 36.4 %), followed by retail properties with 26.0 % (2013: 26.5 %) and hotels with 25.6 % (2013: 21.2 %). In contrast, the shares in new business of logistics properties (6.3 %; 2013: 7.9 %), housing properties (6.0 %; 2013: 5.7 %) and other properties and financings (1.8 %; 2013: 2.3 %) were considerably lower.

As at 31 December 2014, Aareal Bank Group's property financing portfolio totalled € 29.0 billion, up by approx. 18 % versus the previous year-end. The increase was principally attributable to the acquisition of Corealcredit, but also to loan disbursements resulting from strong new business. Given that a portion of the property financing portfolio was committed in non-euro currencies, the devaluation of the euro versus the US dollar in particular – but also vis-à-vis other currencies such as pound sterling – also contributed to the portfolio increase. Repayments[1] amounted to € 5.4 billion in the 2014 financial year (2013: € 4.5 billion).

Developments in the commercial property markets in the individual regions

Europe

Investor interest in commercial property remained high during the year under review, with demand for a wide range of property types and sizes, in different markets. Accordingly, transaction volumes of direct investments in Europe showed a significant increase compared to 2013. The UK remained the largest market, followed by Germany and France. Higher transaction volumes in these countries were accompanied by rising activity in other markets, such as in the Benelux countries and Scandinavia, but also in Southern Europe (albeit from lower levels).

In view of lively demand, yields for newly acquired first-class commercial properties declined in the vast majority of European economic hubs; this applied to office, retail and logistics properties. Diverging from this trend, stable yields for first-class properties were observed, for example, on the office markets in Brussels, Copenhagen, London's West End and Warsaw, the retail markets in Brussels and Warsaw as well as in Istanbul, and the logistics markets in The Hague. Especially during the fourth quarter, however, yields for office, retail and logistics properties in Moscow rose significantly. Even though demand for properties in peripheral locations – or of lesser quality – lagged behind the first-class segment, interest in such properties was rising.

Rents for first-class commercial property in the European economic centres were largely stable to rising. Rental activities on the office markets were burdened by the subdued economic development. Still, rising rents for high-quality office properties were seen in quite a number of economic centres. These were widely dispersed in regional terms, and included Amsterdam, Frankfurt, Hamburg, Helsinki, London, Madrid, Milan, Munich and Stockholm. At the same time, rents for first-class office properties came under downside pressure in certain other economic centres – for example, in Dusseldorf, Copenhagen, Prague, Rome and Warsaw, and in Moscow, where this trend was particularly pronounced. In contrast, there were hardly any markets for high-quality retail properties where rents were in decline. Markets with rising rents for first-class retail properties included, for example, the German centres of Berlin, Hamburg and Munich, as well as Istanbul and Prague. Rents for premium retail properties were predominantly stable, however. Similarly, stable rental development largely prevailed on the markets for high-quality logistics properties. Examples for rising rents in this sector, diverging from this trend, included, for example, Berlin, Dusseldorf, London, Istan-bul and Rotterdam. Rental declines for first-class logistics properties were recorded in Milan, Moscow, Paris, Prague and Rome, for instance.

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

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

Rising average revenues per available hotel room were observed on the hotel markets of numerous European economic centres, with particularly pronounced increases evident in Copenhagen and Madrid, for example. Average revenues also increased, for example, in Barcelona, Berlin, Milan, London, Munich, Paris, Prague and Rome, albeit only slightly. Falling average revenues were recorded in Amsterdam, Frankfurt and Warsaw, for example.

Aareal Bank manages its sales activities in the individual regions via a network of sales centres (hubs); this excludes its Corealcredit subsidiary. The Bank operates five such regional hubs in Europe. Its sales activities are complemented by teams of sector specialists covering financing solutions for hotels, shopping centres and logistics properties at the Wiesbaden office. Regional hubs are located at the following offices, and cover sales activities in the following regions:

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

Office locations in six other European countries are assigned to the hubs. The business in Turkey is allocated to the distribution centre of the sector specialists, reflecting the fact that international investors in Turkey are primarily active in shopping centres and hotels. Aareal Bank's market activity in Turkey is therefore greatest in these segments.

Moreover, Aareal Bank Group has a presence through its Corealcredit subsidiary in Frankfurt/Main, which is Corealcredit's headquarters, and at Corealcredit's other German locations.

Aareal Bank Group originated new business of € 8.1 billion (2013: € 7.9 billion) in Europe during 2014, with Western Europe clearly accounting for the highest portion (€ 5.3 billion; 2013: € 4.8 billion). This is also where the highest transaction volumes are recorded at a pan-European level. The remaining new business was originated in Southern Europe (€ 1.1 billion; 2013: € 0.9 billion), followed by Northern Europe (€ 1.0 billion; 2013: € 0.8 billion) and Eastern Europe (€ 0.7 billion; 2013: € 1.4 billion).

North America (NAFTA states)

The markets in the US were also characterised by high investor liquidity. Given a shortage of properties in the top segment, investors were also increasingly prepared to shift to other segments, which caused a marked increase in the direct investments volume. Pressure on yields of newly-acquired first-class properties was not quite as pronounced in the US. On a national average, yields for retail and logistics properties were slightly lower, whilst they remained virtually constant for office properties. Slight increases were observed on some markets, such as the office markets of Los Angeles and New York City. Conversely, larger yield declines occurred on the markets for retail properties in Los Angeles, New York City and Washington D.C., as well as for logistics properties in Los Angeles.

Average rents across the US continued to rise moderately for the various types of property; increases were also recorded on numerous regional markets within the leading metropolitan areas. Rent increases were particularly pronounced in New York City and San Francisco for all three property types, for example, as well as on the markets for offices and logistics properties in Los Angeles, and for retail properties in Washington D.C. Rents for offices in Washington D.C. as well as for retail properties in Boston and Chicago, for example, changed only slightly compared to the beginning of the year. The market for logistics properties in Washington D.C. was an example for slightly falling rents. The trend of rising rents on a national average was accompanied by diminishing vacancy ratios, which applied for all three types of property.

The US hotel sector revived during the year under review: both higher occupancy ratios and higher room rates drove up average revenues per available hotel room. The improvement in average hotel revenues was also observable in Canada.

Aareal Bank Group maintains an active presence in North America through its subsidiary Aareal Capital Corporation, which has an office in New York and also manages new business activities locally. New business in North America amounted to € 2.3 billion (2013: € 2.2 billion), predominantly originated in the US, with a minor contribution from Canada.

Asia

In contrast to the marked increases in direct transaction volumes in Europe and North America, volumes in the Asia/Pacific region remained on the previous year's levels, with a marked decline in China. Transaction volumes in Japan increased slightly year-on-year. Differences in demand – and hence, in transaction volumes – were also visible in yield developments. In Tokyo, investment yields for newly-acquired, high-quality office, retail and logistics properties declined. Yields for first-class properties stagnated in the Chinese metropolitan areas of Beijing and Shanghai; they only declined for logistics properties in Shanghai. In Singapore, yields for office and logistics properties increased, whereas they declined for high-quality retail properties.

The rental markets in the Asian metropolitan areas also showed a mixed picture: rents for first-class office properties in Singapore rose very strongly, with the increase in Tokyo being somewhat less pronounced. Rents in Beijing remained stable, while trends on certain sub-markets in Shanghai were also stable, with others posting increases. Rents for high-quality retail properties were virtually unchanged in Shanghai, Singapore, and in some Tokyo sub-markets; they rose in other sub-markets of Tokyo, as well as in Beijing. At the same time, rents for first-class logistics properties increased in Shanghai whilst they fell slightly in Beijing and Singapore. Rents for logistics properties in Tokyo showed a marked decline.

The hotel markets in the four Asian metropolitan areas referred to above also failed to show a uniform trend. Average revenues per available hotel room showed clear increases in Shanghai and Tokyo, and only slight increases in Singapore. They were moderately lower in Beijing.

Aareal Bank's subsidiary Aareal Bank Asia Limited in Singapore is responsible for managing the Group's market activities in Asia. The Group also has a representative office in Shanghai. New business in Asia amounted to € 0.3 billion (2013: € 0.4 billion) during the year under review, originated in China and Japan, and in selected hotel destinations.

Acquisition of Corealcredit Bank AG

Aareal Bank Group closed the acquisition of Corealcredit, announced on 22 December 2013: the purchase was completed with effect from 31 March 2014 (closing date). Corealcredit is now a legally independent subsidiary under the umbrella of Aareal Bank Group. The (preliminary) purchase price paid amounted to € 346 million. The preliminary nature of this purchase price relates to the possibility of potential compensation payments to the seller. Further information is included in the Notes to the consolidated financial statements.

Within the scope of the acquisition of Corealcredit, Aareal Bank assumed assets in the amount of € 6.2 billion and liabilities in the amount of € 5.7 billion. The acquisition resulted in a negative goodwill of € 154 million, which was recognised in income as at the time of first-time consolidation on 31 March 2014. Corealcredit's operative results were included in Aareal Bank Group's consolidated income statement for the first time in the second quarter of 2014. Excluding negative goodwill, Corealcredit's contribution to consolidated operating profit for the period under review amounted to € 4 million. As part of the integration of Corealcredit into Aareal Bank Group, a control and profit and loss transfer agreement was concluded.

Supervision by the European Central Bank and Comprehensive Assessment

On 4 November 2014, the European Central Bank (ECB) assumed responsibility for supervising banks within the euro zone. The ECB directly supervises 120 significant banking groups, including Aareal Bank Group.

Prior to assuming responsibility for banking supervision, the ECB carried out a Comprehensive Assessment of banks to be supervised.

Aareal Bank achieved thoroughly convincing results during this extensive bank audit – both in terms of the Asset Quality Review (AQR) conducted by the ECB, which included a review of the valuation and classification of the Bank's loan exposures, as well as in relation to the subsequent stress test coordinated by the European Banking Authority (EBA). The stress test analysed the impact of changes in the macro-economic environment on the Bank's capital ratios, in different scenarios. Thanks to the good results achieved in both tests of the Comprehensive Assessment, the ECB has not imposed any measures upon Aareal Bank. The audit did not give rise to any change in estimates, or correction of errors (as defined by International Financial Reporting Standard IAS 8), nor did it have any other impact on Aareal Bank Group's consolidated financial statements.

Consulting / Services segment

Bank division Housing Industry

The German housing and commercial property industries continued to show solid overall development in 2014. Existing long-term financing structures and stable rental income (thanks to the highly diversified tenant base) contributed to this trend, among other factors. The industry continued to focus on a sustainable development of portfolios, with an emphasis on increasing energy efficiency and the creation of residential space suitable for the elderly. 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 € 11 billion in the future of their portfolios.

The housing market was largely robust in view of economic fluctuations, since market developments here tend to be determined to a greater extent by long-term factors such as population and income perspectives. Rents for new-built properties were some 2.8 % higher throughout Germany than in the previous year. The increase in advertised rents was higher in rural areas than in the major cities. This reflected rising demand for residential accommodation in the densely populated regions, whereby demand has increasingly extended to the wider vicinity of metropolitan areas.

The housing market was still subject to great regional differences. Whilst demand for housing rose in growth regions, driven by job creation, weak economic locations experienced population declines. The vacancy ratio on the housing market has been stable, at less than 3 % in the former West German Federal states and approximately 9 % in the new Federal states.

In view of the positive development on the residential property market, demand on the market for German residential property portfolios remained strong during 2014. In this context, the market for residential property investments benefits from very low interest rate levels and strong fundamental data for the German economy. Residential property portfolios totalling around € 12.7 billion were traded – a decline of 14 % year-on-year (2013: € 14.7 billion). The marked decline in investment volume was due to limited supply in large-volume portfolio transactions, especially during the second half of the year.

Looking at the origins of buyers, German investors continued to dominate the transaction market. Foreign buyers accounted for around 18 % of the market in 2014, in line with the previous year's level. Market activity was driven predominantly by listed property companies and special funds.

The Bank's Housing Industry division further strengthened its market position in 2014 through acquiring new customers as well as intensifying business relationships with existing customers, bringing in more business partners – managing more than 185,000 residential units between them – for the payments and deposit-taking businesses. Moreover, existing business partners in commercial property management connected more managed units to the Bank's payment processes than in the previous year. More companies from the utilities and waste disposal industries opted for Aareal Bank's payment systems and/or investment products. The Bank now has an established customer base from this sector and thus created a solid base for further growth.

We used 2014 to enhance our electronic rent deposits management system, adding an attractive variant: besides the option of managing deposits through a collective account, we now offer the possibility of managing them on individual accounts. Clients thus have the option of choosing which procedure suits them best.

At present, more than 2,900 business partners are using our process-optimising products and banking services. The volume of deposits from the housing industry stood at a high level of € 8.6 billion on average in the 2014 financial year (2013: € 7.2 billion). During the fourth quarter, deposits averaged as much as € 9.1 billion. The year-on-year increase was particularly evident in current account balances, which increased by around one-fifth compared with the previous year, in line with call money. With an 8 % increase in 2014, the Bank also once again succeeded in growing the volume of rent deposits over the previous year.

Aareon AG

Aareon's research and development activities – designed to explore new technologies, to respond to current trends, and to expand the range of solutions – form the basis for its pioneering portfolio of products and services. Aareon benefits from its international profile. Systematic, joint development activities of the various country-specific teams of experts facilitate synergies to the benefit of individual national products and services. Activities continued to focus on the megatrend of digitisation. Essentially, this involves deploying IT resources in order to optimise external and internal business processes. Housing enterprises enhance their integration with business partners (B2B), tenants (B2C) and their field service staff (B2E). This is enhanced by networking devices (M2M) and objects via the internet (the "Internet of Things"). In the context of digitisation of the housing industry, Aareon had already extended its product range in 2013, and developed the so-called "digital ecosystem". This constitutes an IT infrastructure comprising a large number of integrated systems. All important business processes, whether renting, customer service or maintenance, are supported fully and digitally throughout. The ERP systems form the controlling centre at the heart of the digital ecosystem.

In its ERP Solutions segment, Aareon already refined its Wodis Sigma ERP system in 2013, in order to even better leverage the concept of digitisation – integrating mobile property inspection using tablet computers as well as the new Aareon CRM portal site. This has met with positive market response. The mobile property inspection product was enhanced with extensive new features in 2014. Aareon presented the new Wodis Sigma Release 6 at its annual Aareon Forum customer event (previously: Wodis Sigma Forum), which took place in November in Bochum. An additional 89 customers opted for Wodis Sigma during 2014, increasing the total Wodis Sigma customer base to around 600.

Business volumes generated with GES continued to decline slightly, as planned in the context of the transformation process. Numerous GES customers are in the process of reviewing their long-term IT strategy with a view to technological upgrade, or have already done so. Generally, this goes hand in hand with the decision to migrate from GES to Wodis Sigma. Aareon usually is involved in such processes as the preferred partner and consultant. However, due to the high degree of customer satisfaction, migration volumes during 2014 were somewhat lower than expected. Aareon has the necessary resources in place for future migrations of GES customers, to ensure that such migrations are executed smoothly and safely.

Aareon's decade-long successful cooperation with SAP AG reached a new milestone during 2014, achieving new SAP partner status of Value Added Reseller. The new partner status extends the existing certifications as Partner Center of Expertise, SAP Certified Provider of Hosting Services, and SAP Certified Provider of Application Management Services. The latest release of the Blue Eagle

Standard ERP system – Release 6.4 – was rolled out in November 2014.

In the Integrated Services area, the Mareon service portal, insurance management from BauSecura, and Aareon's invoicing services all met with demand. The latter has been available as an online portal since the second quarter of 2014. Furthermore, Aareon Archiv kompakt, the digital archiving solution launched in 2013, attracted particularly strong interest.

Aareon presented its CRM offer for the first time at the Aareon Congress in 2013. Some customers have already opted for the use of Aareon CRM; the functionality will be expanded further, through regular software releases. Tenants, members and owners very much appreciate being able to experience the same user-friendly online applications that they are familiar with from other sectors, such as insurance companies or banks. The system is currently in its market launch phase; interest is developing as expected.

Demand for IT outsourcing services continued to rise during the year under review, whilst in Integrated Payments it remained unchanged compared to the previous year.

Data protection and data security are crucially important during this age of "big data". Aareon has been commissioning regular, voluntary external data protection audits in accordance with section 9a of the German Data Protection Act since 2010. DQS GmbH (Deutsche Gesellschaft zur Zertifizierung von Managementsystemen) again confirmed Aareon's high level of data protection in July 2014. Aareon and its domestic subsidiaries were awarded – already for the fifth time – with a DQS seal of quality for data protection. This also applies to new hosting agreements with business partners or Group companies within Europe, which also benefit from the proven high level of data protection at the German locations.

Aareon was certified in accordance with the internationally-recognised norm ISO/IEC 27001:2013 for the first time in December 2014, having further developed its already high information security management standards.

In order to optimise the Group structure and enhance process efficiency, Aareon AG merged its subsidiary Aareon Wodis GmbH with Aareon Deutschland GmbH, with retrospective effect from 1 January 2014. This was entered into the Commercial Register as at 23 May 2014.

International business remained positive: Aareon Group was able to successfully execute production roll-outs during the period under review, winning new customers in addition. The share of international business in Aareon Group's total sales revenue increased to 34 % (2013: 31 %).

In September 2014, the Dutch subsidiary SG|automatisering bv changed its name to Aareon Nederland B.V. Moreover, effective 1 July 2014, it acquired the remaining 49 % of the shares of SG|Facilitor B.V., which is now trading under the name of Facilitor B.V. Aareon Nederland B.V. also acquired the remaining 30 % of the SG|stravis B.V. subsidiary, which was liquidated after the transfer of its business activities to Aareon Nederland B.V., effective 31 December 2014. Aareon Nederland B.V. reported several significant contract renewals, amongst them with de Alliantie, a large customer based in Hilversum, Netherlands. Brabant Wonen, based in Oss, Netherlands, was acquired as an additional key customer. Within the framework of the research and development activities within Aareon Group, Aareon Nederland cooperates with the French subsidiary Aareon France. The objective here is to develop a solution for the Dutch market over the medium term, based on Aareon France's tried-and-tested CRM system. Aareon Nederland celebrated its 35th anniversary in 2014. Owing to intensified competition in the Netherlands, however, business development was not in line with expectations. Moreover, EBIT was burdened by higher investments in special projects.

Aareon France SAS, Meudon-la-Forêt, France, meanwhile enjoyed good business performance. Market response to Aareon France's CRM system remains positive. The French subsidiary's customer congress also concentrated on the topic of digitasation. Aareon France is a pioneer in customer management systems for the housing industry, designed to optimise processes and enhance tenant services. The subsidiary incorporates its expertise into the research and development activities of Aareon Group. Aareon France also acquired additional customers for the Prem'Habitat and Portal-Immo Habitat ERP solutions.

In the UK, Aareon AG is present with two subsidiaries: Aareon UK Ltd., Coventry, as well as 1st Touch Ltd. in Southampton, which specialises in mobile solutions for the housing industry. The QL Housing ERP solution was rolled out successfully for Barnet Group, a major London-based customer. In the UK, mobile services provided by 1st Touch met with increased demand. Business development at Aareon UK and 1st Touch was positive: volumes continued to grow, albeit slightly below expectations.

The integration of the Swedish subsidiary Incit AB, Mölndal, (acquired in 2013) into Aareon Group was successfully concluded during 2014. In addition to Sweden, Incit AB is represented with subsidiaries in Norway (Incit AS, Oslo) and in the Netherlands (Incit Nederland B.V., Gorinchem). With Malmö-based MKB, one of the largest public housing enterprises has opted for Incit's Xpand system. Incit AB developed favourably during 2014, in line with expectations.

Overall, Aareon contributed € 26 million to consolidated operating profit during the financial year under review.

Financial position and performance

Financial performance

Group

Operating profit in the 2014 financial year amounted to € 436 million. Adjusted for the negative goodwill from the acquisition of Corealcredit (€ 154 million), operating profit was € 282 million and thus markedly higher year-on-year (2013: € 198 million). Besides the negative goodwill, positive development of net interest income was a particular contributor to the profit increase, compared to the previous year. Thus, operating profit was considerably higher than the forecast range at the beginning of the 2014 financial year (€ 370 million to € 390 million).

Net interest income was € 688 million (2013: € 527 million). The increase over the previous year was therefore higher than originally expected (€ 610 million to € 640 million). Unexpectedly high non-recurring income from early loan repayments had a positive effect, as did low funding costs, a marked increase in lending volume, and stable lending margins. It was burdened, however, by a lack of attractive investment opportunities for the liquidity stock, due to the persistent low interest rate environment.

Allowance for credit losses amounted to € 146 million in the 2014 financial year (2013: € 113 million), comprising € 78 million in specific allowance for credit losses plus € 68 million in portfolio-based allowance for credit losses. € 35 million of this portfolio-based allowance for credit losses was due to a change in individual measurement parameters, and thus non-recurring. The further increase of the portfolio-based allowance for credit losses was mainly driven by the poor macro-economic development in Southern Europe. Allowance for credit losses was therefore within the forecast range of € 100 million to € 150 million for the full financial year.

Net commission income at € 164 million was stable compared to the previous year (€ 165 million). It was slightly below the forecast range of € 170 million to € 180 million for the full financial year. This was due to high customer satisfaction and a correspondingly lower migration volume of Aareon customers from the GES ERP system to Wodis Sigma, which slowed down the anticipated sales revenue growth.

The aggregate of net trading income / expenses, the net result on hedge accounting, and net result from non-trading assets of € 9 million resulted

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Net interest income	688	527
Allowance for credit losses	146	113
Net interest income after allowance for credit losses	**542**	**414**
Net commission income	164	165
Net result on hedge accounting	5	-6
Net trading income/expenses	2	18
Results from non-trading assets	2	-8
Results from investments accounted for using the equity method	0	0
Administrative expenses	439	375
Net other operating income/expenses	6	-10
Negative goodwill from the acquisition of Corealcredit	154	–
Operating profit	**436**	**198**
Income taxes	101	62
Net income/loss	**335**	**136**
Allocation of results		
Net income/loss attributable to non-controlling interests	19	19
Net income/loss attributable to shareholders of Aareal Bank AG	316	117
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	316	117
Silent participation by SoFFin	22	24
Consolidated profit/loss	**294**	**93**

largely from the measurement of derivatives used to hedge interest rate and currency risk.

Administrative expenses of € 439 million (2013: € 375 million) were within the € 430 million to € 450 million range projected for the financial year. A material reason for the increase over the previous year (€ 375 million) was the acquisition of Corealcredit. Furthermore, higher project costs were incurred during the reporting period, including those in conjunction with regulatory measures such as the ECB's Comprehensive Assessment.

Net other operating income / expenses includes non-recurring income from the reversal of provisions for settlement risks. However, during the period under review, expenses in conjunction with, inter alia, the assessment of property not used by the Company, were incurred.

The negative goodwill (day-one gain) in the amount of € 154 million was a result of the acquisition of Corealcredit. It represents the difference between the (preliminary) purchase price paid and the higher net balance of assets and liabilities acquired (= net assets) and measured at fair value. Further information is included in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

All in all, operating profit for the 2014 financial year totalled € 436 million, after € 198 million in 2013. Taking into consideration income taxes of € 101 million and non-controlling interest income of € 19 million, net income attributable to shareholders of Aareal Bank AG amounted to € 316 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated profit stood at € 294 million (2013: € 93 million).

Structured Property Financing segment

At € 456 million, the operating profit achieved in the Structured Property Financing segment was markedly higher than the figure for the previous year (€ 209 million).

Net interest income was € 687 million (2013: € 519 million). The increase over the previous year was therefore higher than originally expected (€ 610 million to € 640 million). Unexpectedly high non-recurring income from early loan repayments had a positive effect, as did low funding costs, a marked increase in lending volume, and stable lending margins. It was burdened, however, by a lack of attractive investment opportunities for the liquidity stock, due to the persistent low interest rate environment.

Allowance for credit losses in the 2014 financial year was € 146 million (2013: € 113 million), comprising € 74 million in specific allowance for credit losses plus € 72 million in portfolio-based allowance for credit losses. € 35 million of this portfolio-based allowance for credit losses was due to a change in individual measurement parameters, and thus non-recurring. The further increase of the portfolio-based allowance for credit losses was mainly driven by the poor macro-economic development in Southern Europe. Allowance for credit losses was therefore within the forecast range of € 100 million to € 150 million for the full financial year.

The € 9 million aggregate of net trading income / expenses, the net result on hedge accounting, and net result from non-trading assets, resulted largely from the measurement of derivatives used to hedge interest rate and currency risk.

At € 255 million, administrative expenses were higher than the previous year's level (€ 201 million). A material reason for the increase over the previous year was the acquisition of Corealcredit. Furthermore, higher project costs were incurred during the reporting period, including those in conjunction with regulatory measures such as the ECB's Comprehensive Assessment.

Structured Property Financing segment result

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Net interest income	687	519
Allowance for credit losses	146	113
Net interest income after allowance for credit losses	**541**	**406**
Net commission income	4	10
Net result on hedge accounting	5	-6
Net trading income/expenses	2	18
Results from non-trading assets	2	-8
Results from investments accounted for using the equity method	0	0
Administrative expenses	255	201
Net other operating income/expenses	3	-10
Negative goodwill from the acquisition of Corealcredit	154	–
Operating profit	**456**	**209**
Income taxes	109	65
Segment result	**347**	**144**

Net other operating income/expenses includes non-recurring income from the reversal of provisions for settlement risks. However, during the period under review, expenses in conjunction with, inter alia, the assessment of property not used by the Company, were incurred.

The negative goodwill (day-one gain) in the amount of € 154 million was a result of the acquisition of Corealcredit. It represents the difference between the (preliminary) purchase price paid and the higher net balance of assets and liabilities acquired (= net assets) and measured at fair value. Further information is included in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

Operating profit in the Structured Property Financing segment totalled € 456 million. After inclusion of € 109 million in income taxes, the segment result amounted to € 347 million (2013: € 144 million).

Consulting/Services segment

At € -20 million, the operating profit realised in the Consulting/Services segment was clearly lower than the figure for the previous year (€ -11 million). Contributing € 26 million, Aareon's development was almost stable compared to the previous year. The subsidiary's contribution to consolidated operating profit was thus € 2 million lower than originally expected (€ 28 million). This was due to high customer satisfaction and a correspondingly lower migration volume of Aareon customers from the GES ERP system to Wodis Sigma, which slowed down the anticipated sales revenue growth. 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.

Sales revenues amounted to € 185 million in the 2014 financial year (2013: € 187 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 € 5 million to € 178 million during the same period (2013: € 173 million).

Staff expenses of € 131 million were higher than the previous year's level. This was due to, amongst other things, the current expenditure related to Incit AB, Mölndal, Sweden, acquired by Aareon as at 1 July 2013 and included in the item for the entire financial year for the first time.

Consulting/Services segment result

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Sales revenue	185	187
Own work capitalised	5	4
Changes in inventory	0	0
Other operating income	8	6
Cost of materials purchased	22	22
Staff expenses	131	122
Depreciation, amortisation and impairment losses	14	14
Results from investments accounted for using the equity method	0	0
Other operating expenses	51	50
Interest and similar income/expenses	0	0
Operating profit	**-20**	**-11**
Income taxes	-8	-3
Segment result	**-12**	**-8**

On balance, the Consulting / Services segment generated operating profit of € -20 million (2013: € -11 million). After inclusion of tax reclaims (€ -8 million), the segment result amounted to € -12 million (2013: € -8 million).

Financial position

Consolidated total assets of Aareal Bank Group as at 31 December 2014 amounted to € 49.6 billion, after € 43.0 billion as at 31 December 2013.

Interbank deposits, repos, and cash funds

Interbank deposits, repos, and cash funds comprise short-term investments of surplus liquidity. As at 31 December 2014, this comprised predominantly money-market receivables from other banks, deposits with central banks, and receivables from reverse repo transactions.

Property financing portfolio

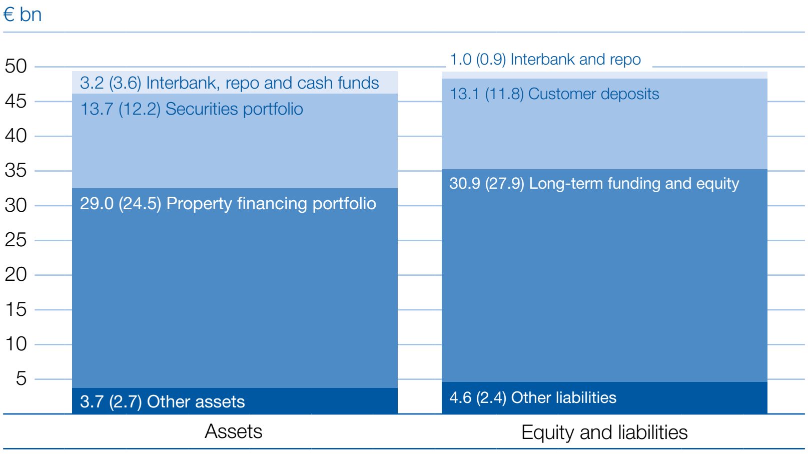
Portfolio structure

The volume of Aareal Bank Group's property financing portfolio stood at € 29.0 billion as at 31 December 2014, up by approximately 18 % since the end of 2013 (€ 24.5 billion). The increase was attributable to the acquisition of Corealcredit, disbursements from strong new business, and exchange rate effects. The acquisition, effective 31 March 2014, exclusively increased the German property financing portfolio as at the acquisition date, by € 3.4 billion. Accordingly, the international share of the portfolio fell to 79.4 % (31 December 2013: 84.7 %).

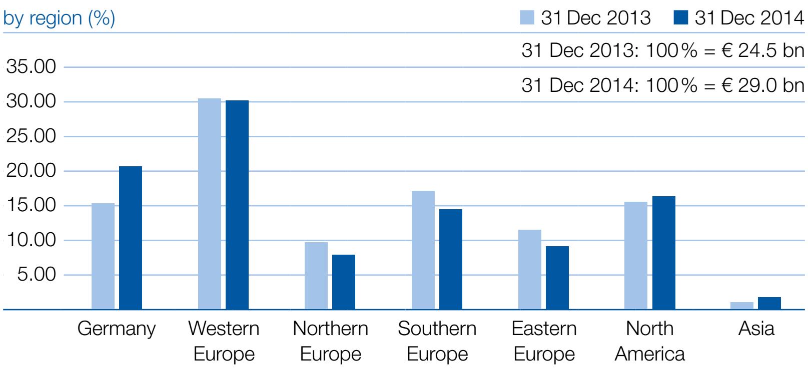
At the reporting date, Aareal Bank Group's property financing portfolio was composed as shown in the diagrams beside, compared with year-end 2013.

The portfolio breakdown by region and continent, compared with the end of the previous year, changed as a result of the acquisition of Corealcredit. Whilst the portfolio share of exposures in Germany rose by approx. 5 %, it declined slightly in Southern Europe, Northern Europe and Eastern Europe. The portfolio share of exposures remained almost stable in Western Europe (excluding Germany) and increased slightly in North America and Asia.

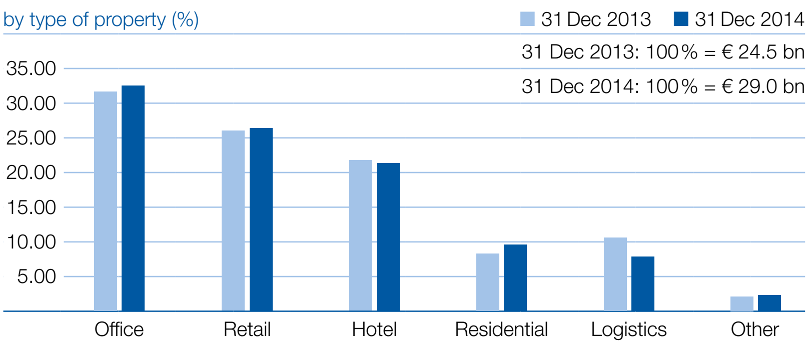
Asset / liability structure as at 31 Dec 2014 (31 Dec 2013)



Property financing volume (amounts drawn)



Property financing volume (amounts drawn)



The allocation of the portfolio by property type remained largely unchanged during the year under review, whereby the shares of office, residential and retail property financings increased slightly, inter alia due to the acquisition of Corealcredit.

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

Securities portfolio

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

As at 31 December 2014, the nominal volume of the consolidated securities portfolio[1) 2)] was € 11.3 billion (31 December 2013: € 10.8 billion).

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

97 % of the overall portfolio is denominated in euro. 98 % of the portfolio has an investment grade rating.[3)] More than 70 % of the portfolio fulfils the requirements of "High Quality Liquid Assets" (as defined by the CRR) in the Liquidity Coverage Ratio (LCR).

Public-sector borrowers are the largest asset class held, accounting for a share of approx. 84 %. These include securities and promissory note loans that qualify as ordinary cover for Public-Sector Pfandbriefe. 97 % of these issuers are headquartered in the EU. Some 74 % are rated AAA or AA, and a further 5 % are rated single-A. Overall, 98 % have an investment grade rating.

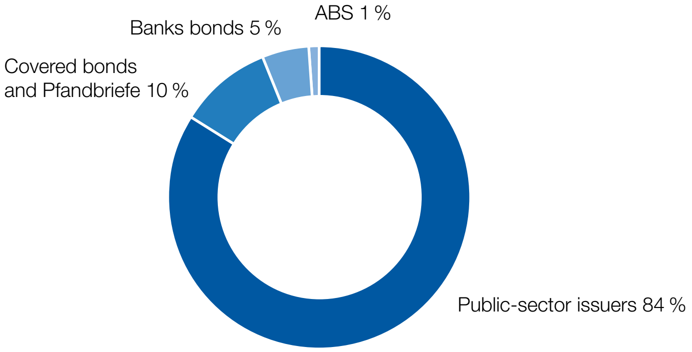
The share of Pfandbriefe and covered bonds at year-end was 10 %. 95 % consists of European covered bonds, with the remainder invested in Canadian covered bonds. Around 63 % are rated AAA or AA, and a further 20 % are rated single-A. The remainder are rated "BBB".

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 90 % were rated at least "A".

The securities portfolio also contains ABS securities that account for a share of approx. 1 %. Of this amount, European mortgage-backed securities account for approx. 88 %. The asset class comprises 76 % RMBS, 12 % CMBS, and 12 % Asset-Backed Securities on student loans.

Securities portfolio as at 31 December 2014

% Total volume (nominal): € 11.3 bn



Financial position

Interbank and repo business

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

Aareal Bank Group participated in the European Central Bank's long-term refinancing operations

1) As at 31 December 2014, the securities portfolio was carried at € 13.7 billion (31 December 2013: € 12.2 billion).
2) Details based on the nominal volume
3) The rating details are based on the composite ratings.

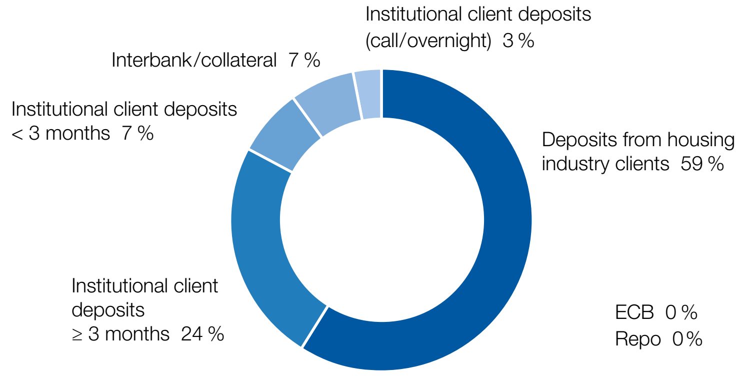
(LTRO) during recent years. The remaining volume of € 600 million was fully repaid before maturity during 2014. There were no liabilities vis-à-vis Deutsche Bundesbank or the ECB as at 31 December 2014.

Customer deposits

As part of our business activities, we generate deposits from housing industry customers, and from institutional investors. The volume of deposits from the housing industry increased during the reporting period. As at 31 December 2014, they amounted to € 8.3 billion (31 December 2013: € 7.0 billion). According to plan, the Bank reduced the volume of deposits from investors during 2014; these deposits amounted to € 4.8 billion as at 31 December 2014 (31 December 2013: € 4.8 billion).

Money market funding mix as at 31 December 2014

% Total volume: € 14.1 bn



Long-term funding and equity

Funding structure

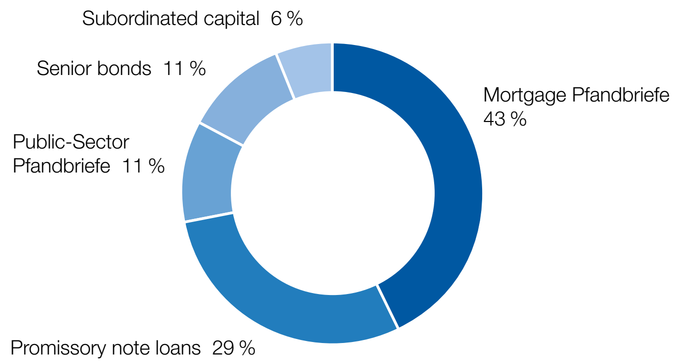
Aareal Bank Group's funding remains very solid indeed, as evidenced by the high proportion of long-term refinancing. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinate issues. The latter include subordinated liabilities, profit-participation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

As at 31 December 2014, the long-term debt portfolio amounted to € 28.7 billion. Of this amount, Mortgage Pfandbriefe accounted for € 12.5 billion, Public-Sector Pfandbriefe for € 3.1 billion, unsecured long-term refinancing for € 11.4 billion and subordinated long-term refinancing for € 1.7 billion.

Thus, Mortgage Pfandbriefe accounted for a total share of 43 % of long-term refinancing.

Capital market funding mix as at 31 December 2014

% Total volume: € 28.7 bn



Refinancing activities

During the period under review, Aareal Bank succeeded in raising a total of € 3.9 billion in medium- and long-term funds on the capital market. The issue volume of our senior unsecured bonds amounted to € 1.1 billion; subordinated debt accounted for an additional € 0.6 billion. In addition, Tier 1 capital in the amount of € 0.3 billion was placed on the market. Mortgage Pfandbriefe made up € 1.9 billion of the total volume. This highlights how very important the Pfandbrief remains to Aareal Bank's funding mix.

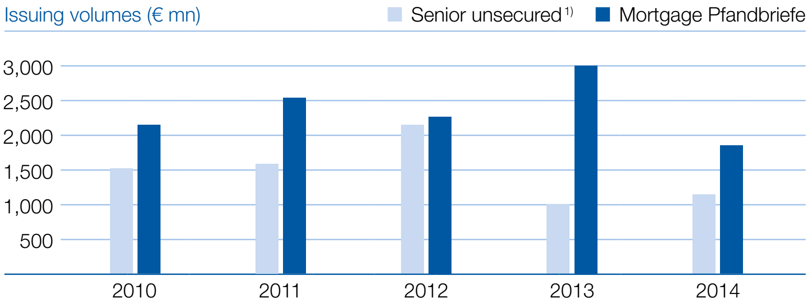
Of the various privately- and publicly-placed issues, particular mention should be made of the two benchmark Mortgage Pfandbriefe placed in January and September 2014, with issue volumes of € 500 million each and maturities of five and three years, respectively.

We also successfully placed a Tier 2 issue of € 300 million on the capital market in March 2014.

Furthermore, Aareal Bank was in the position to repay the remaining € 300 million SoFFin silent participation at the end of October. In mid-November, Aareal Bank AG issued Additional Tier I (AT I) capital through a € 300 million perpetual note with a coupon of 7.625 %. The AT I securities issued comply with the applicable Capital Requirements Regulation (CRR), thereby qualifying in full as Additional Tier I capital. The issue further strengthens Aareal Bank's regulatory capital base.

Owing to the strong demand for Pfandbriefe and unsecured bonds from solid issuers, we were able to implement all of our funding activities as planned.

Issuing activities – 2010 to 2014



1) excluding SoFFin-guaranteed issues and subordinated capital

Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 2,723 million as at the reporting date (31 December 2013: € 2,450 million), comprising € 300 million in the Additional Tier I (AT I) bond and € 242 million in non-controlling interests.

Regulatory capital [2]

	31 Dec 2014 [3]
€ mn	
Common Equity Tier 1 (CET 1)	2,109
Tier 1	2,735
Total capital	3,826
%	
Common Equity Tier 1 ratio (CET 1 ratio)	13.6
Tier 1 ratio	17.7
Total capital ratio	24.7

Our Employees

Age structure and fluctuation

Aareal Bank's fluctuation ratio for 2014 was 3.1 %. The average number of years in service for the Company is 14.1. These two figures are a reflection of the strong relationship between Aareal Bank and its employees. The average age of employees is 45.4 years.

Remuneration system

The remuneration systems are based on remuneration principles that apply throughout Aareal Bank Group. The remuneration structures for the Management Board, employees and executive staff at Aareal Bank AG were adjusted according to these principles to meet the regulatory requirements of the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstitutsVergV"), as amended on 16 December 2013, and the German Corporate Governance Code (Deutscher Corporate Governance Kodex – "DCGK"), as amended on 13 May 2013, incorporating external

2) 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.

3) After confirmation of Aareal Bank AG's financial statements for 2014. The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of net profit for the financial year 2014. The appropriation of profits is subject to approval by the General Meeting.

Personnel data as at 31 December 2014

	31 Dec 2014	31 Dec 2013	Change
Number of employees of Aareal Bank Group	2,548	2,375	7.3 %
Number of employees of Aareal Bank AG	882	874	0.9 %
of which: outside Germany	88	92	
of which: Proportion of women	45.9 %	46.3 %	
Proportion of women in executive positions	25.0 %	25.6 %	
No. of years service	14.1 years	13.3 years	0.8 years
Average age	45.4 years	44.7 years	0.7 years
Staff turnover rate	3.1 %	1.4 %	
Part-time ratio	20.7 %	19.7 %	
Retired employees and surviving dependants	550	544	-0.7 %

advisors and the employee representative bodies of Aareal Bank AG and Bank-related subsidiaries. The modified systems came into effect as at 1 January 2014.

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

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

Qualification and training programmes

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

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

Aareal Bank 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 employees at all locations. It offers a broad range of internal and external seminars, language and IT training courses, vocational qualifications and study courses, complemented by the opportunity for individual development planning.

In 2014, the focus was on Aareal Academy's specialist seminars, held 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 can be dealt with and new knowledge is imparted. To help these experts grow in their role as advisors and build a network, Aareal Bank held its second Speakers' Day in October 2014, providing Aareal Bank experts with an opportunity to discuss learning trends and material, and to work on their presentation skills in workshops dealing with body language and voice awareness.

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 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 2014. As a result of these plans, 2,800 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 3.3 days in professional development seminars and workshops during 2014.

The procedure for assessing potential, which was introduced already in the 2010 financial year and updated in 2013, is conducted at Aareal Bank as a standard tool prior to the transfer of a management duty or expert position. This tool systematically selects employees and guides them to new areas of responsibility. Aareal Bank supported its managers who assumed new management responsibilities as a result of this procedure during the reporting period with seminars and coaching offers that fit their individual needs.

The long-standing cooperation with the European Business School (EBS) and its Real Estate Management Institute (EBS-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.

Subsidary Aareon AG promotes young talent and the sciences with a chair for business informatics at EBZ Business School in Bochum, as agreed by both parties in November. The chair will be instigated with the winter term 2015, and endowed by Aareon for five years.

Aareon also continued to focus on the CPD of its managers during the 2014 financial year. Within the scope of the Professional individual executive development ("ProFI") initiative, the managers were offered training (including labour law for managers), diagnostics (including a development centre for new executives) and advisory measures (including individual coaching and managerial circles). Another focus was on supporting Aareon's international profile by means of language courses and training sessions to expand inter-cultural competencies. The training programme to become a certified property manager at the Hochschule für Wirtschaft und Umwelt in Nürtingen-Geislingen was also continued in 2014.

Promoting the next generation

Promoting the next generation through training is a central element of the HR work of Aareal Bank Group. The specialist knowledge required in our business segments requires us to invest continuously – and in a targeted manner – in training the next generation. To this end, Aareal Bank has been offering a tailored trainee programme for university graduates since 2000, which provides comprehensive development opportunities within the Company. As the 2013 trainee programme – which had a clear focus on the housing industry – came to an end, four new trainees joined our ranks during the reporting period in the Special Property Finance, Risk Controlling/Finance, Operations and Human Resources divisions.

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 take advantage of a range of training programmes. Aareon AG offers vocational training in various careers: office management, IT applications developer, IT system integrator. It also offers the dual course of study: "Business Administration – Property Manager", in cooperation with the College of Advanced Vocational Studies in Leipzig and cooperated with DHBW Mannheim on the "Business Administration – Exhibition, Congress and Event Management" and business informatics courses of study. During their training, participants benefit from additional education and take over responsibilities early on. As at year-end 2014, Aareon employed 14 vocational trainees and three students from the College of Advanced Vocational Studies.

Aareal Bank and Aareon held the Girls' Day and the Boys' Day as part of their measures for promoting the next generation. The Girls' Day was held at Aareon for the seventh consecutive year, where 23 female students aged between 10 and 15 were given an insight into the wide variety of careers in IT. A further 17 students aged between 11 and 14 years took the opportunity presented by the Girls' and Boys' Days at Aareal Bank to gain more comprehensive impressions of occupations that they would have not taken into account in their choice of career otherwise.

A total of 80 boys and girls aged between 8 and 12 years visited the Aareon Science Camps "From talking drums to bits and bytes", which aim at stimulating and promoting interest in technology at an early age.

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, and broadened to include cooperation with Stiftung Deutsche Sporthilfe over a programme for graduate athletes looking to enter working life after their career in sports.

Work-Life balance

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

Since July 2012, the Bank has cooperated with the non-profit organisation "Fit For Family Care", which operates two childcare facilities in Wiesbaden. This cooperation agreement offers employees childcare places for children aged between ten months and six years. Aareal Bank also cooperates with the City of Wiesbaden to offer childcare facilities to its employees during the school holidays. Since summer 2013 it has cooperated with the Biberbau children and youth farm in the city, where employees' children can take advantage of educational and leisure opportunities. These offers are supplemented by flexible working hours, 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, 183 employees (20.7 %) worked part-time (2013: 172, 19.7 %), and 38 employees (4.3 %) worked from home during parts of their working hours (2013: 31, 3.5 %). To provide particular support to employees who are based outside Wiesbaden in balancing the demands of family and career, we installed a new service in 2014 offering help in finding private childcare solutions. This service is available all over Germany and includes finding childminders, nannies, "rent-a-grandma/grandpa" schemes, as well as caregivers for emergencies via external service providers.

Another component for improving the work-life balance of Aareal Bank's staff consists of services that make it easier to combine working life with the care of close relatives. This includes the opportunity to use statutory family caregiver leave, and in particular advisory and support services where close relatives are ill or in need of care, all over Germany. Since 2014, our employees may also participate in trainings to develop and hone the skills needed to successfully combine care and career, offered by Bündnis für Familie, Wiesbaden.

For the last seven 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 2014, Aareon had 132 (17.0 %) part-time positions (2013: 143, 18.5 %) and 88 (11.3 %) home working places (2013: 85, 11.0 %). 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. The family service's advisory offer was broadened to include psychosocial support. Given the demographic changes and higher retirement ages, personnel policies that take account of different life stages are becoming increasingly important. Therefore, Aareon placed special emphasis on the further development of these policies. Also in 2014, berufundfamilie gemeinnützige GmbH, a non-profit organisation, certified Aareon as a family-friendly company.

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.

Health

Aareal Bank practices Company Health Management to promote employee health. This includes information and trainings on prevention, physical activity, nutrition and relaxation.

The health portal of BAD occupational health service offers information on a variety of health-related topics. Aareal Bank also organised expert talks on "Exercise opportunities in your daily routine" and "Improvement of e-mail culture" for its employees during the year under review. Recordings of these talks have been made available online to all employees globally. Additionally, we provide a forum on the intranet for our employees to engage in discussions about health-related topics, share experiences and bring forward suggestions.

In addition to these services, the Company Health Management also includes the Employee Assistance Program (EAP), a hotline to help employees deal with crises at work and at home. The service is available 24 hours a day, 365 days a year.

The classes on physical activity for employees initiated in 2013 continued in the year under review, with running courses for beginners and for those returning to running, a Nordic Walking class, an advanced workshop on "Healthy running for advanced runners" and a multiplier training for those who lead running or jogging groups.

To help employees relax, Aareal Bank in Wiesbaden not only offers massages, but also introduced Qi Gong classes, which will be continued in 2015 due to popular demand. In the area of preventative healthcare, the Bank continued to provide influenza vaccinations and skin cancer screenings. Additionally, employees were given the opportunity to receive counsel on ergonomics at their workstations.

Aareal Academy also held seminars on the subject of "Healthy Leadership" again in 2014. These were introduced in 2013 and are specifically tailored to managers. Employees were also able to participate in a stop-smoking seminar.

The Bank was legally required to conduct a survey on work-related mental stress in the year under review. The overall results of this survey, conducted in cooperation with an occupational health service, were positive.

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

Since 2013, subsidiary Aareon AG has been implementing various measures to promote physical and mental health within its Company Health Management. In 2014, these measures included the seminars "Management and Health" and "Employees and Health", running groups for employees in Mainz and the first Health Day at Aareon.

Diversity

During 2013, the Management Board made an express commitment to diversity in Aareal Bank Group, publishing it 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
- actively representing and living the belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals.

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

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

Aareal Bank Group currently has employees from 27 different nations. It makes sure that its international operations are filled by mainly local nationalities.

Female employees made up 45.9 % of Aareal Bank Group's workforce in the 2014 financial year, with women accounting for 25.0 % of executive positions. Within Aareon Group, the figures were 32.4 % and 19.2 % respectively.

Since Ms Dagmar Knopek's appointment as a member of the Management Board of Aareal Bank AG, female membership now stands at 25 %.

Severely disabled persons made up 3.5 % of Aareal Bank's staff base in 2014. This employee group is represented in the Group's German entities by a disability representative.

Equal treatment

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

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

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

Events after the Reporting Date

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

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

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

There have been no other 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.

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 diagram beside provides an overview of the responsibilities assigned to the respective organisational units.

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

Type of risk		Risk management	Risk monitoring
Market price risks		Treasury, Dispo Committee	Risk Controlling
Liquidity risks		Treasury	Risk Controlling
Credit risks	Property Finance Single exposures	Credit Business Market, Credit Management	Risk Contolling, Credit Management
Credit risks	Property Finance Portfolio risks	Credit Management, Portfolio 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, Corporate Development, Controlling bodies

Process-independent monitoring: Audit

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

Risk-bearing capacity of Aareal Bank Group as at 31 December 2014
– Going concern approach –

€ mn	31 Dec 2014	31 Dec 2013
Own funds for risk cover potential	2,530	2,504
less 8 % of RWA (Tier 1 capital (T1))	1,442	1,282
Freely available funds	**1,088**	**1,222**
Utilisation of freely available funds		
Credit risks	246	225
Market risks	205	220
Operational risks	52	44
Investment risks	38	28
Total utilisation	**542**	**516**
Utilisation as a percentage of freely available funds	**50 %**	**42 %**

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

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum Tier I ratio of 8 % of RWA, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The table above summarises the Group's overall risk-bearing capacity as at 31 December 2014.

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

Stress testing

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

Organisational structure and workflows

Lending business

Division of functions and voting

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

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

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

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

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

Process requirements

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

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

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

Early risk detection procedures

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

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

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

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

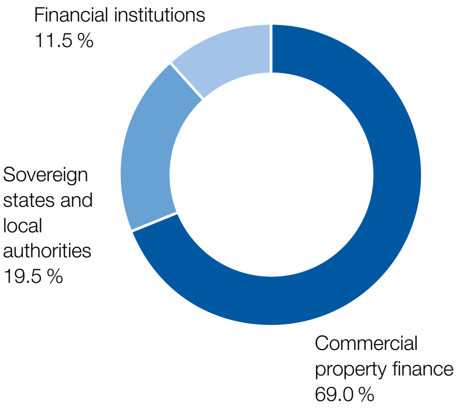
Actively managing client relationships is crucially important in this context: approaching clients in time to jointly develop a solution to any problems which may arise. Where necessary, we muster the support of experts from the independent restructuring and recovery functions.

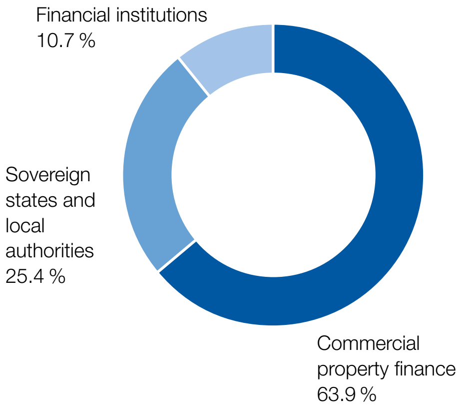
Risk classification procedures

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

Breakdown of exposure by rating procedure

31 Dec 2014 | 31 Dec 2013 100 % = € 44.2 bn | 100 % = € 41.3 bn

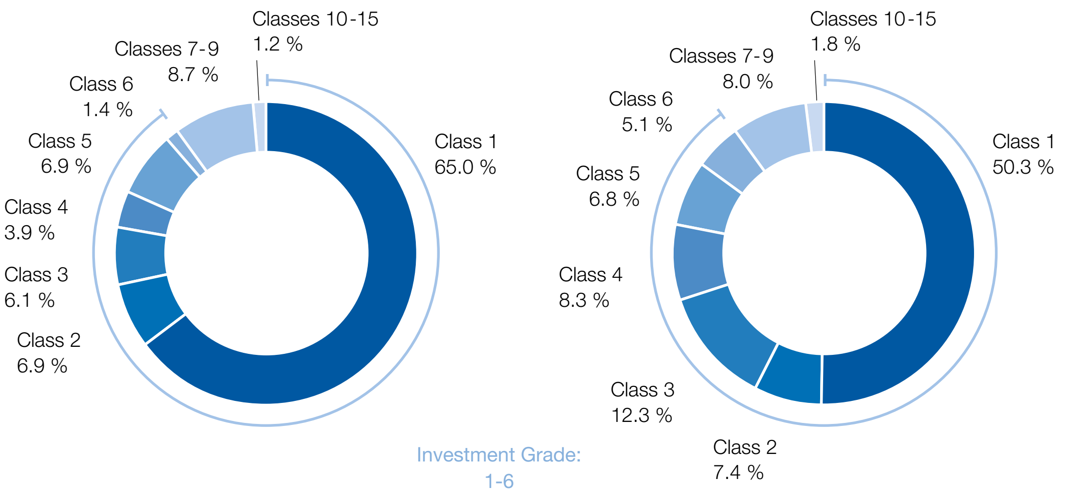




Note: The rating procedures for financial institutions also apply to institutions with a zero weighting under the SolvV. This includes, for example, public-sector development banks backed by a state guarantee. Such institutions accounted for 41 % of all rated financial institutions as at 31 December 2014.

Large-sized commercial property finance

by internal expected loss classes | as at 31 Dec 2014 | as at 31 Dec 2013



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

Property financing business

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

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

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

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

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

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

The diagrams shown above depict the distribution of lending volume by EL classes as at 31 December 2013 and 31 December 2014, 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

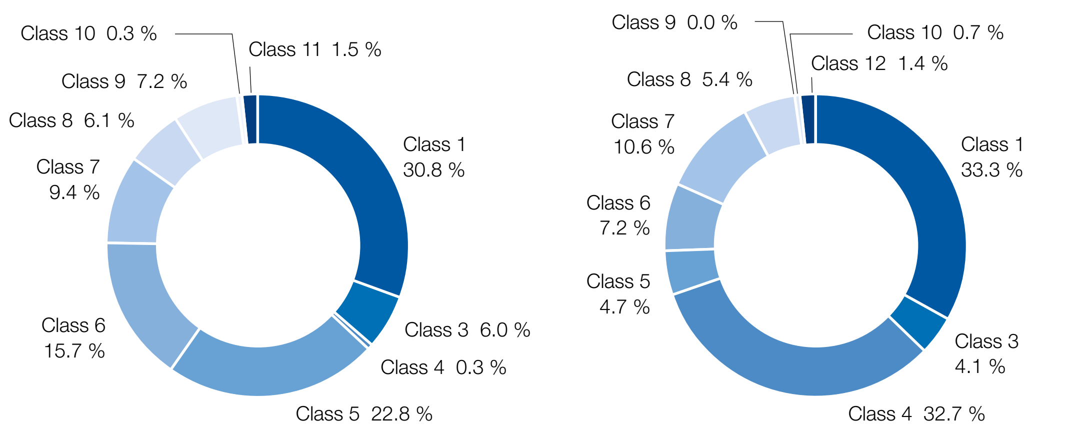
Aareal Bank employs an internal rating procedure for financial institutions, which incorporates qualitative and quantitative factors as well as our client's group affiliation, to classify the risk exposure to banks, financial services providers, securities firms, public-sector development banks, and 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.

Financial institutions

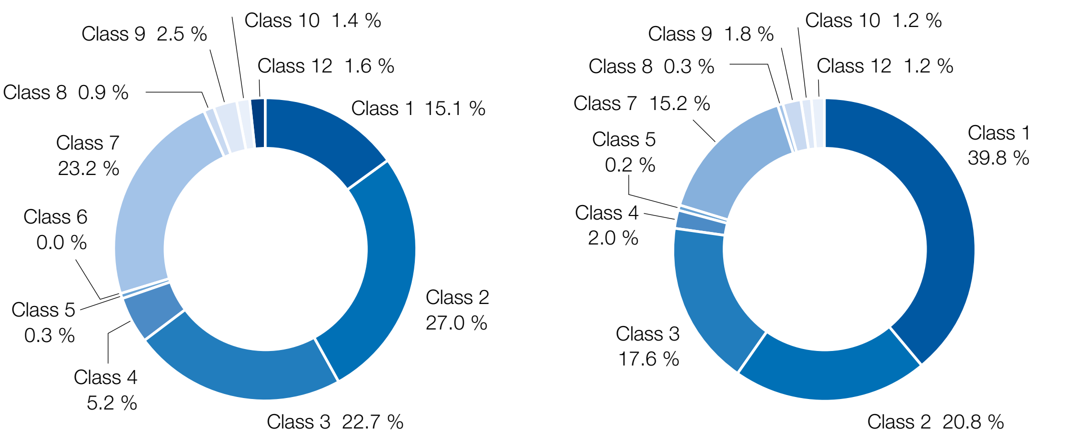
by rating class — as at 31 Dec 2014 | as at 31 Dec 2013



Classes 2, 12-18: 0% Classes 2, 11, 13-18: 0%

Sovereign states and local authorities

by rating class — as at 31 Dec 2014 | as at 31 Dec 2013



Classes 11, 13-20: 0% Classes 6, 11, 13-20: 0%

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.

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.

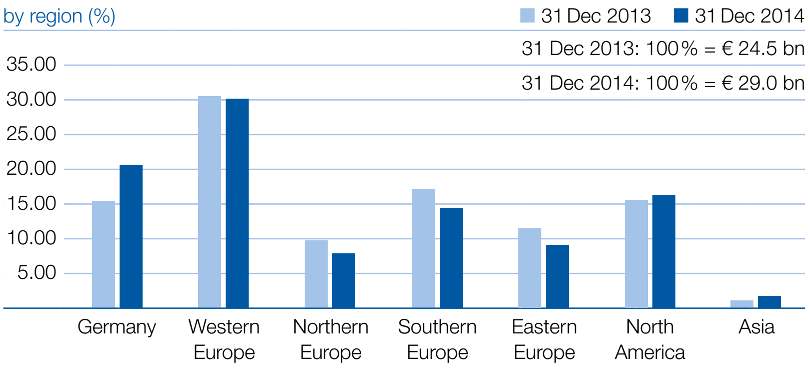
Trading activities are generally restricted to counterparties for whom the requisite limits are in place. Replacement and settlement risks are taken into account when determining counterparty limit usage. Persons holding position responsibility are informed about relevant limits and their current usage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

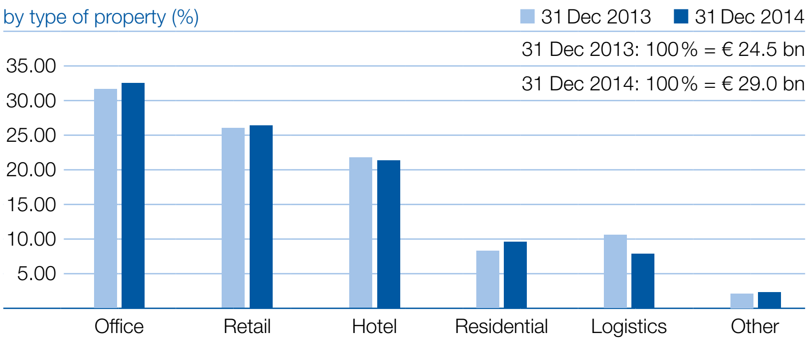
Credit risk mitigation

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.

Property financing volume (amounts drawn)



Property financing volume (amounts drawn)



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.

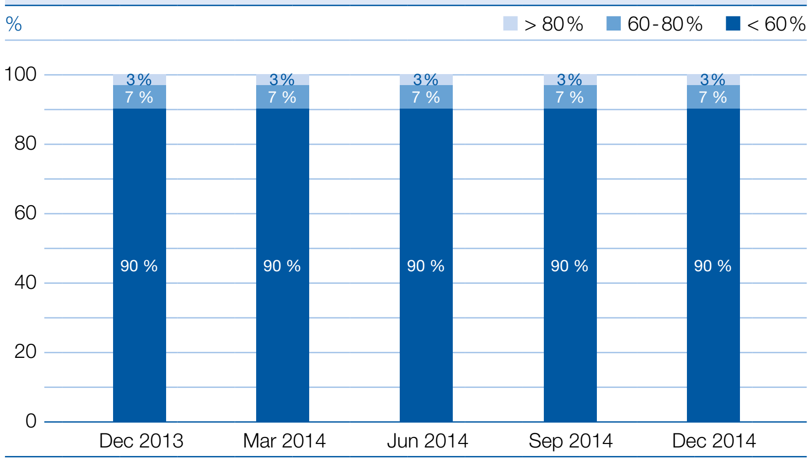
Market values and mortgage lending values are set in accordance with the responsibilities for decision-making on lending, and form an integral part of the lending decision. The values to be determined by the Bank are generally pegged on the valuation prepared by an independent appraiser; any dicrepancies 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.

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.

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 CRR, a clause providing for a review of eligibility is added to the netting agreements. This review is carried out in accordance with the CRR, particularly through obtaining regular legal opinions, using a database developed for this purpose.

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

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

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

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

Country risk

Definition

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

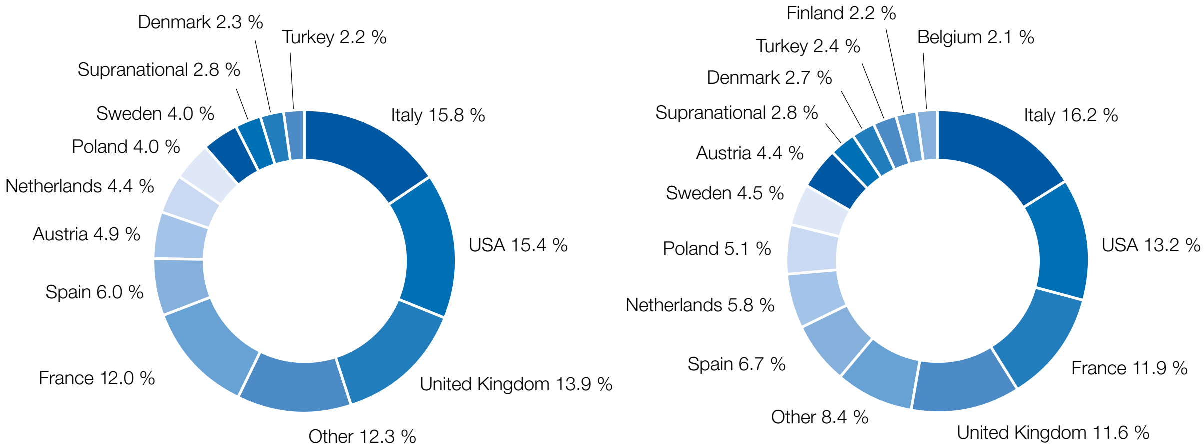
Country risk measurement and monitoring

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,

Breakdown of country exposure in the international business

% 31 Dec 2014 | 31 Dec 2013



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

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

Risk measurement and monitoring

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

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

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

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

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

When interpreting the VaR figures stated below, it should be taken into account that these refer to the overall portfolio (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
2014 (2013 year-end values) 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	224.4 (260.8)	109.1 (137.1)	148.5 (184.5)	– (–)
Group VaR (interest rates)	212.8 (248.8)	95.7 (136.2)	135.3 (177.3)	– (–)
Group VaR (FX)	58.8 (46.5)	45.3 (31.2)	51.8 (39.0)	– (–)
VaR (funds)	2.8 (7.0)	0.0 (0.3)	0.9 (3.6)	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)	135.6 (227.7)	86.6 (132.9)	102.8 (183.6)	– (–)
Aggregate VaR – Aareal Bank Group	240.9 (318.6)	142.9 (205.2)	181.9 (262.2)	390.0 (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
2014 (2013 year-end values) 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	14.2 (16.5)	6.9 (8.7)	9.4 (11.7)	– (–)
Group VaR (interest rates)	13.5 (15.7)	6.1 (8.6)	8.6 (11.2)	– (–)
Group VaR (FX)	3.7 (2.9)	2.9 (2.0)	3.3 (2.5)	– (–)
VaR (funds)	0.2 (0.4)	0.0 (0.0)	0.1 (0.2)	1.3 (1.3)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	8.6 (14.4)	5.5 (8.4)	6.5 (11.6)	– (–)
Aggregate VaR – Aareal Bank Group	15.2 (20.1)	9.0 (13.0)	11.5 (16.6)	24.7 (25.3)

Aggregate VaR – Aareal Bank Group

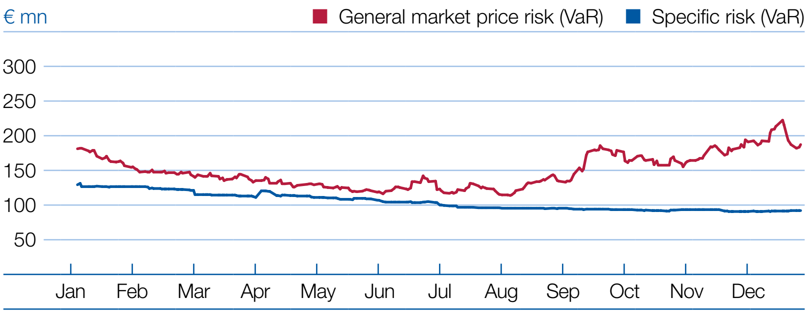
Group-wide limits are being continuously monitored as part of the analysis of the Bank's risk-bearing capacity. These limits were adjusted during the first quarter, due to the consolidation of Corealcredit Bank AG into Aareal Bank Group. No limit breaches were detected even after this re-calibration.

Specific risk fell during the course of 2014, owing to a market recovery, with narrowing credit spreads and volatilities, as the solvency problems eased in some European countries. The increase in general market price risk exposure during the second half of the year reflected general developments on international interest rate markets.

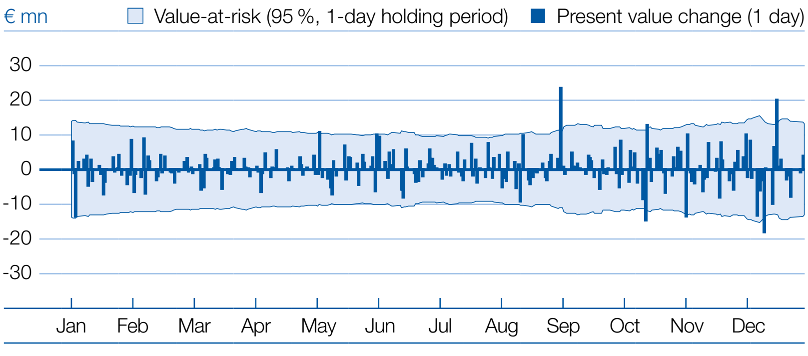
Backtesting

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

General market price risk and specific risk during 2014



Present values and 1-day VaR during the course of 2014



Stress testing

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

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

The worst-case scenario used in the financial year under review was a hypothetical scenario, where a deteriorating financial markets crisis caused bond and CDS spreads to widen due to rating downgrades, combined with an appreciation of the euro and unchanged interest rate markets. This scenario implied a present value loss of 26 % of the stressed aggregate risk cover limit as at year-end 2014. 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 2014, trading book risks played a negligible role in the overall risk scenario.

Liquidity risks

Definition

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

Risk measurement and monitoring

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

a) Cash flow forecast

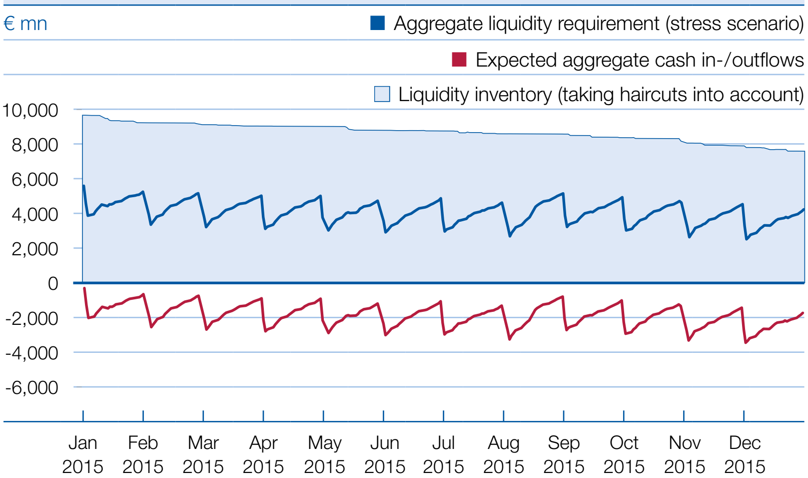
We have developed a cash flow forecast, tracking cash flows from all balance sheet items and derivatives, on a daily basis, over a ten-year period. This liquidity risk information helps to assess the Bank's short-term liquidity position, broken down by currency or product. Strategic liquidity is taken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

b) Liquidity run-off profile

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

The following chart shows the planned development of the liquidity stock, expected aggregate cash inflows and outflows, and the total liquidity requirements (based on stressed assumptions) until the end of 2015. This presentation demonstrates

Liquidity



that the liquidity stock will always exceed liquidity requirements, even under unfavourable conditions.

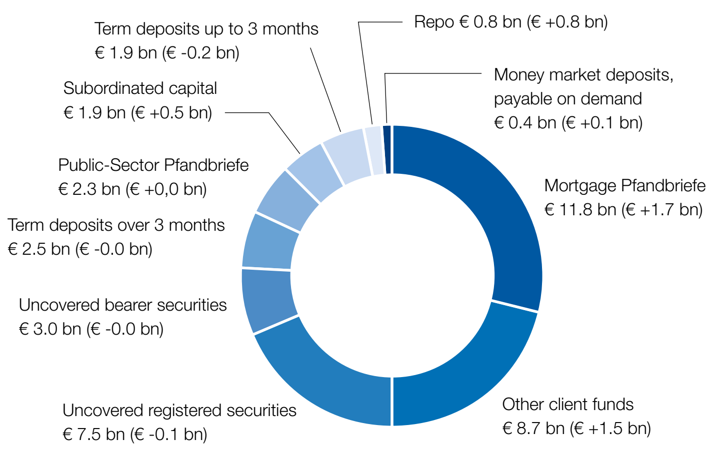
Further details are provided in the comments on the Bank's liquidity in the section on "Refinancing and Equity".

c) Funding profile

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

Refinancing portfolio diversification by product

as at 31 Dec 2014 versus 31 Dec 2013 Total: € 40.8 bn



Stress testing

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

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

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 2014, 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. The utilisation of freely available funds for operational risks – as part of the Bank's risk-bearing capacity – are determined using the regulatory standardised approach.

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

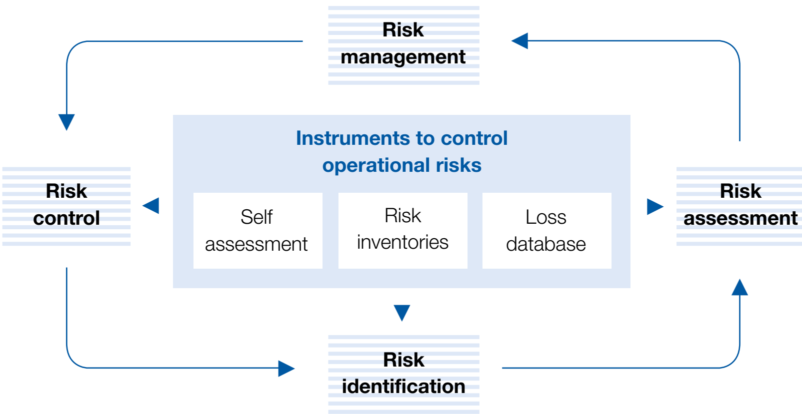
Aareal Bank's legal department (CD-Legal) deals with any litigation the Bank is involved in, as well as with any legal issues of fundamental importance – where necessary, using the support of external lawyers.

CD-Legal also compiles all information concerning any legal disputes involving Aareal Bank Group, whether in or out of court. To this extent, the involvement of the legal department is based on corresponding Group-wide guidelines. The Bank's decentralised operating legal entities, as well as the legal departments of subsidiaries submit semi-annual reports on legal risks identified to Aareal Bank's legal department; where particular risks have occurred, such reports are submitted on an event-driven basis. When required, Aareal Bank's legal department discusses and coordinates any concrete measures with the reporting unit.

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

Within the scope of the acquisition of Corealcredit, Aareal Bank also assumed legal, tax and credit risks, among others. These risks were assessed on a conservative basis and are hedged comprehensively. Corealcredit's legal department deals with material litigation Corealcredit is is involved in, closely supported by Aareal Bank's legal department.

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 and Risk Controlling divisions are jointly responsible for measuring and monitoring investment risk exposure.

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

Aareon AG

Aareon AG has introduced a Group risk management system (which includes early-warning features on the basis of the R2C_risk to chance standard software) in order to monitor and control company risk. This risk management system requires the regular recording and assessment of risks (but not opportunities) by those individuals holding responsibility for divisions, shareholdings and projects, and provides for the conception of active risk management measures. In this context, risks are assessed separately in terms of their impact and their probability. Specifically, risk is viewed on a net basis, using the residual risk after taking into account adequate measures taken. 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, provided that the expected value of such risks (calculated as a function of impact and probability of occurrence) exceeds a defined threshold. The same applies to measures taken to counter the perceived top ten risks in one of the three preceding quarters, to review the effectiveness of such measures. Furthermore, Aareon AG's Management Board takes action with respect to any risks the expected value of which exceeds a further defined threshold, even though the risk concerned may not have been considered amongst the top ten risks.

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

Aareon's risk categories include financial and market risks, management and organisational risks, environmental / business risks, and production risks. The financial risk category includes liquidity, cost and revenue risks. Market risks comprise client risks, competition risks, as well as the risks emanating from the views of opinion leaders in industry associations and advisory boards, as well as supplier risks. Management and organisational risks include risks related to human resources, communications, corporate culture and company planning, as well as risks from internal processes. The environmental / business risk category covers legal risks as well as political and regulatory risks. Production risks comprise product-specific risks, project risks, and IT security risks. Cross-relationships exist between 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 Heads of Legal & Risk Management inform the risk manager about any material changes to the organisation, strategy or business policy resolved during meetings of corporate bodies and committees. The risk manager will then adapt the risk map to the changed situation. Individuals responsible for risk may also submit proposals for the inclusion of risks into the risk map, or for their removal. Following review and approval by central risk management, the risk map will be updated and the affected individuals responsible for risk informed accordingly.

Based on the average of quarterly risk assessments, risk exposure during 2014 was assessed at a lower overall level compared to the previous year.

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

Aareal First Financial Solutions AG

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

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

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

The further development of the BK@1 accounting system based on the current Release 16.01 which is currently productive (Release 17.01 scheduled from approx. 11 / 2014) does not represent any material risk. All functions required for the smooth handling of SEPA-CT and SEPA-DD payments have been implemented. 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.

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

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

The market risk regarding utilisation of 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 retain virtually all of its existing contracts during 2014, as in the previous years. However, the level of fees was lower, due to scheduled as well as unscheduled sales of portfolio properties.

To counter the risk of shrinkage in the managed portfolio, the activities were focused on stabilising and securing these portfolios. In addition, the company has revised its sales concept in order to originate 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. 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

The development of the global economy will remain exposed to numerous significant burdens and uncertainty factors throughout 2015 – these will continue to clearly impede economic momentum. Against this background, we expect economic developments to be subdued during the forecast year 2015, with global economic growth rates roughly in line with the levels seen in 2014. Economic trends are likely to continue diverging in a notable manner between different regions.

Significant uncertainty factors exist which might dampen forecast economic development even further, or even lead to recession in various regions.

Geopolitical tensions – such as the crisis in the Ukraine – are a material factor in this context: whilst it is impossible to assess the future outcome, these tensions might compromise economic developments, especially in Europe. Even though uncertainty concerning the European sovereign debt crisis has subsided over recent years, a resurgence cannot be ruled out. Furthermore, the euro zone in particular is exposed to a risk of deflation, which might further restrain the propensity to consume and invest.

There is a lack of broad fundamental support for economic development. That is why overly slow or inadequate risk defences, particularly in the euro zone, are increasing the threat that systemic risks pose to monetary stability or the stability of the euro system. The solidifying low interest rate environment in the euro zone gives rise to significant risks, as it might provide incentives to market participants to seek higher risk exposure. The low interest rates also imply the threat of capital misallocation, and of bubbles building on asset markets – which might trigger an abrupt market collapse if valuation levels are re-assessed. In addition, the low interest rate environment might compromise reform and consolidation efforts undertaken in the public sector, as well as in the private and banking sectors.

Significant risks to future economic development not only exist in Europe, but also in various emerging economies – where last year, a re-assessment of risk/return ratios led to capital outflows which burdened their future economic development. Similar problems affecting various emerging economies cannot be ruled out for this current year – especially in the event of significant interest rate rises due to the US Federal Reserve's (Fed) tightening of its monetary policy. Major uncertainties also exist with respect to China's future economic development. The risks for the US economy appear to be less pronounced at present, however, fiscal policy may hold uncertainty. Furthermore, risks and burdens from other regions might feed through trade channels and the financial markets, thus also burdening the economy in North America.

However, the – apparently completed – deleveraging processes in the private sector of some large economies – such as the US or the UK – might have a favourable effect upon economic developments. Faster progress regarding structural reforms in some euro zone countries might also have positive effects, if only on a rather long-term horizon.

In our forecast for 2015, we anticipate the following: given the multitude of burdens and uncertainty factors (as outlined above), including, for example, geopolitical tensions, deflation risk, and uncertainty concerning the further development of the European sovereign debt crisis, we expect economic momentum in the euro zone to be subdued, with only slight growth in real gross domestic product. Exports to countries outside the euro zone might provide support for the economy, thanks to the devaluation of the euro. The anticipation of a subdued economy also applies to many euro member states – including, for example, Belgium, France, the Netherlands and Austria. Growth rates might be somewhat stronger in Germany, possibly also in Spain. In our opinion, growth rates in Finland will be only marginal, whilst the Italian economy is expected to virtually stagnate. At present, the economic outlook is more favourable for numerous countries outside the euro zone. For example, we expect moderate economic growth – albeit somewhat stronger compared to the euro zone – for Denmark, Switzerland and Sweden. By comparison, the UK, Poland and the Czech Republic are likely to post rather strong growth. For Turkey, we assume growth rates slightly above the previous year's levels. Russia's economic development is subject to significant uncertainty: the combination of uncertainty caused by the conflict in the Ukraine, a weak rouble exchange rate and the massive drop in crude oil prices point towards a very significant decline in real gross domestic product.

The US is amongst the economies offering a relatively favourable outlook, with an economic growth rate that might even markedly outperform the previous year's figure. This expectation is supported by lower indebtedness and a recovering labour market, bolstering private consumption. The Fed is expected to tighten its monetary policy to some extent – the resulting slight interest rate increases pose a threat of pushing back investments. Fiscal policy will present a risk once the government debt ceiling is reached during the course of 2015. For Canada, we assume that real economic growth rates will remain at 2014's levels.

No deeper recovery is on the horizon for the Japanese economy – marginal to slight growth is expected for this year. Whilst we expect Chinese growth rates to remain high by international standards, a further slight decline is likely. Uncertainty remains to the extent that macro-economic debt – which was strongly inflated in the past – and high construction investments may lead to marked corrections, which might constitute a threat to the economy and the financial system. Singapore's economy is likely to grow at similar rates as in the previous year.

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

Financial and capital markets, monetary policy and inflation

The situation on the financial and capital markets was clearly more relaxed than in the previous years. During the course of 2014, sentiment deteriorated temporarily before the situation relaxed towards the year-end. It is fair to assume that this situation will prevail during the current year. The risks and uncertainty factors mentioned in connection with economic developments – including, for example, geopolitical tensions, or a renewed escalation of the European sovereign debt crisis – are also very relevant indeed to the financial and capital markets, and might cause distortions if they were to materialise to a considerable extent. Furthermore, the financial and capital markets in various emerging economies are exposed to the risk of significant capital outflows, as seen at the beginning of 2014.

Looking at monetary policy, central banks are likely to embark upon different directions. The central banks in the US and the UK are expected to gradually exit their expansive monetary policies, with initial hikes in key interest rates likely. In contrast, the ECB and the Bank of Japan will maintain their highly expansive monetary policy in view of the low inflationary pressure and a lack of economic momentum. The ECB underlined this stance with its decision, in January 2015, to purchase sovereign bonds on the secondary market. Alongside existing programmes, this programme will cover a volume of € 60 billion a month; it is set to run until at least September 2016. Given this environment, interest rates in the euro zone, as well as in various other European countries, are likely to remain low throughout 2015. A slight increase in interest rates is conceivable in the US: this is not only expected to be driven by monetary policy measures, but also by expectations regarding the Fed's course going forward – for instance, regarding the Fed's bond purchases during recent years, many of which will mature during 2016. Combined with weak economic data, a widening interest rate differential between the US and the euro zone might also burden the capital and financial markets of some countries which were particularly affected by the sovereign debt crisis. The interest rate differential could also significantly affect the euro / US dollar exchange rate.

Inflationary pressure is set to remain at a low level in numerous European economies throughout 2015: annual average inflation in the euro zone may well be close to zero, and might possibly turn negative for some time. There is a risk of deflation in the euro zone. In some countries – Spain, for example – moderate deflation is the most likely scenario. Yet inflationary pressure is also low outside the euro zone, with low inflation (or minor deflation) around the 0 % line expected for numerous European economies. Russia and Turkey, in contrast, are likely to experience markedly higher inflation rates. We anticipate low inflation in the US. The inflation rate in Japan will likely be influenced by the value-added tax increase planned for October 2015; we anticipate a moderate annual inflation rate, slightly lower than the previous year's figure.

A moderate inflation rate, slightly below the level seen in 2014, is also conceivable for China.

Regulatory environment

The trend towards a stricter regulatory framework for the banking business will continue over the coming years. Numerous initiatives by the Basel Committee on Banking Supervision – such as the revision of the Credit Risk Standard Approach, the capital floor rules or the handling of interest rate risk exposure in the banking book – are currently being discussed, or are in a consultation process. Accordingly, Aareal Bank will continue to focus on the related measures for implementation and how these will affect the Bank's business activities.

The European Banking Authority, in particular, has raised requirements and ties up additional resources. Furthermore, additional regulatory requirements will need to be dealt with. These include, for example, the Minimum Requirements for the Design of Recovery Plans (MaSan) on a national level, as well as the EU Bank Recovery and Resolution Directive (BRRD) at a European level.

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

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

Sector-specific and business developments

Structured Property Financing segment

Competition in commercial property finance stepped up further during 2014; in a number of markets, it became very intense. It is fair to assume that the business environment will remain equally competitive this year. The readiness of finance providers to accept lower margins and higher loan-to-value ratios is expected to rise moderately. Whilst lenders are expected to continue adhering to their preference for financing first-class properties in corresponding locations, given the limited availability of such properties, a noticeable increase in financing offers for properties subject to certain constraints in terms of quality or location – and hence, with a higher risk profile, is distinctly conceivable. These developments are likely to apply for the vast majority of markets relevant to us, in Europe, North America and Asia. Strong competition may also be driven by an expansion of non-bank financing activities, such as from insurance companies, pension funds and debt funds.

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

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

Transaction volumes are expected to remain on a high level during 2015, and might even moderately increase further, compared to 2014. Whilst investors continue to show particular interest in first-class properties in corresponding locations, the shortage of such investment opportunities and a higher investor risk appetite are likely to lead to noticeably stronger demand for properties outside the premium segment, which will translate into stronger capital flows to such properties.

Against the background outlined above, we anticipate average performance in numerous commercial property markets to be positive, albeit with different strengths. On some markets, property values are likely to remain largely stable. In particular, this applies to some European markets – in our view, this is likely to be the case regarding the average market performance in Belgium, Finland, the Netherlands, Switzerland and Turkey, for example. Average property values might slightly increase in France and Italy. Thanks to the slightly more favourable economic outlook, Denmark, Germany, Poland and Sweden might see somewhat higher increases. A certain degree of economic recovery in Spain should result in a somewhat stronger appreciation of values there. Likewise, strong value increases are expected in the UK, given the popularity of the market for investment and the more favourable outlook for the economy there. Development of the Russian market is dependent upon political tension related to the conflict in the Ukraine – a situation that is likely to exert significant pressure on rents and property values.

In the US, high investor liquidity combined with relatively good prospects for the economy indicates notable growth in average commercial property values, whereas US dollar interest rates are assumed to increase slightly, and this might slow down growth slightly. We assume property values in Canada to slightly rise on average. Given that economic momentum in China has come off the peaks, and also considering the high level of investments in the past (as well as an expected slight increase in US dollar interest rates), we take a reluctant stance concerning Chinese commercial property markets, anticipating a moderate decline in property values. We expect a virtually stable performance for Singapore, whilst we assume a moderate increase for Japan.

The trends described above are expected, in our view, to apply to office, retail and logistics property markets. We consider a continuation of the positive trend on North American hotel markets – especially in the US – to be probable. Specifically, this implies a continued marked increase in average revenues per available hotel room. Our view on European and Asian markets is more cautious: we assume largely stable development in the leading economic centres – with deviations on individual markets, but seasonal fluctuations are also likely during the course of 2015.

Macro-economic risks and uncertainty factors will continue to be relevant for the further development of commercial property markets. If such influencing factors were to apply to a considerable extent, they might not only impede the development of commercial property rents and values, but might in fact lead to declines. The current low interest rate environment, which is of particular importance for the property markets, is assumed to prevail throughout 2015 in many countries. This holds the risk that a flight to tangible assets might further the development of bubbles, as well as a misallocation of capital. Another risk for the property markets is that in the context of a tightening monetary policy in the US, interest rates might rise faster than anticipated – which would burden property values in the US, but also in other economies.

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

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

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

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

Consulting/Services segment

Bank division Housing Industry

We expect stable development for the German housing and commercial property industries in the current and the next year. This stability is largely due to the mainly constant rental income and the high stability of property values.

The considerable lack of residential properties suitable for the elderly is also increasing the necessity in the industry to adapt the housing stock to meet the changing needs of an ageing population. Besides the impact of demographic change, the impact of transition of the German energy sector – the "Energiewende" on properties requires growing investment by the industry. For these reasons, the housing and commercial property industries will adhere to a sustainable development of portfolios even beyond 2015. Additionally, investment activities will focus on new construction projects, above all in the conurbations. The industry's future investment activities will be closely connected with the political environment and its impact on the profitability of any projects undertaken. As such, investments might be curtailed by strict energy savings regulations, as well as by discussions concerning a cap on rent levels.

The macro-economic environment provides a solid foundation in terms of demand for residential space. It is thus fair to assume a steady development of the housing market over the next two years. Specifically, the positive rent development in economic growth regions is expected to continue during 2015, on account of ongoing urbanisation and rising demand for housing. Property investors and potential sellers within the housing and commercial property industries will be able to benefit from these market prospects.

The attractiveness of tangible assets will tend to increase further if the ECB maintains its low-interest rate policy. Furthermore, the solidity of the residential property market and the stable economic environment in Germany provide for a positive investment climate. Since the strong appeal of the German residential property market remains unchanged, we anticipate the volume of investment to remain high next year.

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

Looking at the volume of deposits taken, we expect the positive trend to continue, particularly in relation to 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

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

EBIT in Aareon's domestic operations is forecast to remain virtually unchanged from 2014's levels: a slight increase in sales revenues will be offset by higher staff expenses – due to new hirings – as well as additional project-related costs related to strategic programmes.

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

Aareon expects slight growth in sales revenues for its Integrated Services segment next year, driven in particular by Aareon CRM and Mobile Services, the Aareon Archiv kompakt digital archiving solution, and the Mareon portal. Despite continued high development work required for the new digital solutions, the company nonetheless anticipates a slight increase in product results.

In its International Business segment, Aareon expects positive effects from the investments into strategic measures made in the previous year, with a focus on international expansion and digitisation. Sales revenues and EBIT are expected to rise significantly. Aareon Nederland B.V. is expected to generate a marked increase in sales revenues, due in particular to the expansion of its range of digital solutions for the Dutch market, through the Aareon Archiv kompakt CRM solution and the Mareon portal. Notwithstanding the associated increase in development work, strong results growth is expected for the unit. We forecast a slight increase in sales revenues for Aareon France SaS. The positive trend seen in the previous year will continue, especially in terms of maintenance fees. Likewise, whilst market response to the French CRM system is expected to increase further, the results will decline year-on-year, due ot the fact that 2014's results were positively influenced by one-off effects. Aareon anticipates significant increases in sales revenues and EBIT on the UK market, due in particular to expected high license revenues following the market launch of the QL.net new product generation by Aareon UK as well as increasing demand for mobile services by 1st Touch. This will, however, be associated with higher costs, mainly due to new hires. Great potential is seen for Incit AB, particularly in the Norwegian and Dutch markets. High project volumes, accompanied by a stronger advisory business, are seen as indications for significant increases in sales revenues and results, alongside higher staff expenses and staff-related costs.

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

A project was launched to successfully implement the migration strategy from GES to Wodis Sigma. This will support Aareon's growth in terms of its product range as well as advisory services for the subsequent years.

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

Group targets

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

Net interest income is projected within a range between € 720 million to € 760 million.

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

Net commission income is projected to be within a range between € 170 million and € 180 million in 2015. Administrative expenses, including one-off effects related to the acquisition of WestImmo, are expected in the region of € 520 million to € 550 million.

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

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

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

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

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

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.

At its meeting on 12 December 2013, the Supervisory Board of Aareal Bank AG adjusted the Board's rules of procedure with effect from 1 January 2014 and has established a Remuneration Control Committee. This Remuneration Control Committee (Vergütungskontrollausschuss) fulfils the requirements according to section 25d (12) of the German Banking Act (Kreditwesengesetz – "KWG") and section 15 of the InstitutsVergV, and held nine meetings throughout the 2014 financial year. The Bank's remuneration system was adjusted with effect from 1 January 2014, involving external advisors, in order to implement the revised InstitutsVergV, as amended on 16 December 2013.

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

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

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

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

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

The initial value of the performance-related remuneration may increase – depending on the Management Board member's degree of target achievement – up to a maximum of 150 % (previously 200 %) of the target value. If the overall target achievement level exceeds 150 %, the initial value of the performance-related remuneration will not increase any further (cap). If the overall target achievement level is 0 %, no performance-related remuneration will be awarded for the financial year concerned. Unconscionable behaviour or behaviour in breach of duties cannot be balanced out by positive performance contributions in other areas and will automatically lead to an appropriate reduction in the variable remuneration. The variable remuneration generally depends on the Supervisory Board's decision to provide for the applicable financial year an amount (mathematically) sufficient for all variable remuneration components to be paid out according to section 45 (2) sentence 1 no. 5a of the KWG and section 7 of the Instituts-VergV.

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

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

With regard to the portion of the variable remuneration that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one third of the amount, as well as the associated interest, in the three years following the determination of the performance-related remuneration (retention period). Until the end of the retention period, there is no right to the relevant remuneration components. Once the deferred remuneration components for Management Board members are vested, the cash deferral is paid out in cash and the share deferral is converted into 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, that of his section, as well as any weakness in the performance of Aareal Bank Group (backtesting). The existence of a negative aspect in the performance of a Management Board member is to be assumed, in particular, if serious breaches of duty and / or performance deficiencies are discovered, which lead to the performance contributions – which were initially assumed to be positive – being later shown to have not been sustained. A negative performance contribution on the part of the section within the respective Management Board member's responsibility, or of Aareal Bank Group, is to be assumed if significant assumptions which formed the basis of the calculation of the variable remuneration are later proven to be incorrect or unsustainable. The Supervisory Board may award the deferred variable remuneration components in full, partially, or not at all. If the full amount of the bonus is not awarded, the remaining sum is forfeited, i.e. it is not carried forward into subsequent years. An award of the deferred variable remuneration components will not be made insofar and for so long as German Federal Financial Supervisory Authority ("BaFin") forbids this according to section 45b (2) sentence 1 nos. 5a and 6 of the German Banking Act (Kreditwesengesetz – "KWG"). The entitlement no longer exists if BaFin so orders by way of a final and conclusive decision pursuant to section 45 (5) sentences 5 to 8 of the KWG.

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

Members of the Management Board may not undertake to limit or override the risk orientation of their remuneration by initiating personal protection or countermeasures (hedging ban).

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

The remuneration system for the Supervisory Board only comprises 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 is increased by € 15,000 p.a. for each membership in a committee (with the exception of the Committee for Urgent Decisions, which is part of the Risk Committee). The fixed remuneration is increased by € 30,000 p.a. for the chairmanship of a committee (with the exception of the Committee for Urgent Decisions). The meeting attendance compensation amounts to € 1,000.00 for each meeting attended (except for meetings of the Committee for Urgent Decisions).

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

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

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 61 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. This agreement was cancelled concurrently with the full repayment of the silent participation to SoFFin, on 30 October 2014.

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 97 to the consolidated financial statements.

Shares with special rights granting the holder supervisory powers

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

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

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

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

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

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

Authorisation of the Management Board to issue or repurchase shares

Authorised capital

The Annual General Meeting held on 23 May 2012 resolved to authorise the Management Board to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 89,785,830 (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 share capital at the time said authorisation comes into effect or is exercised. This limitation also includes shares issued by the Company on the basis of the authorisation by the General Meeting on 23 May 2012, under convertible bonds and/or bonds with warrants issued excluding the pre-emptive rights of shareholders.

The authorised capital has not been utilised.

Conditional capital

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

The purpose of the authorisation passed by the General Meeting on 21 May 2014 is to create Tier I capital that is eligible for regulatory purposes; it provides for the issue of profit-participation rights with or without conversion rights, as well as for issues with mandatory conversion. It is in accordance with the various structuring alternatives for Additional Tier I capital instruments, pursuant to the Capital Requirements Regulation.[1] For instance, a conversion obligation may be provided for if the Bank falls short of certain capital ratios (to be defined in the terms of convertible profit-participation certificates) or other financial indicators; conversion is required, in the opinion of the Company's Management Board and Supervisory Board, to safeguard the Company's continued existence; or if conversion is instructed by a supervisory authority within the scope of its powers. Under the authorisation, subsidiaries of Aareal Bank AG may also issue convertible bonds, 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 rights.

Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in certain cases. The new shares will be issued at the conversion price to be set as defined in the resolution passed by the General Meeting on 21 May 2014.

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

Authorisation to purchase treasury shares

The General Meeting held on 19 May 2010 also 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

[1] Regulation 575/2013/EU

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 cum 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.

Consolidated Financial Statements

Contents II

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement

€ mn	Notes	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Interest income		1,010	848
Interest expenses		322	321
Net interest income	27	**688**	**527**
Allowance for credit losses	28	146	113
Net interest income after allowance for credit losses		**542**	**414**
Commission income		193	191
Commission expenses		29	26
Net commission income	29	**164**	**165**
Net result on hedge accounting	30	5	-6
Net trading income/expenses	31	2	18
Results from non-trading assets	32	2	-8
Results from investments accounted for using the equity method	33	0	0
Administrative expenses	34	439	375
Net other operating income/expenses	35	6	-10
Negative goodwill from the acquisition of Corealcredit	36	154	–
Operating profit		**436**	**198**
Income taxes	37	101	62
Net income/loss		**335**	**136**
Allocation of results			
Net income/loss attributable to non-controlling interests		19	19
Net income/loss attributable to shareholders of Aareal Bank AG		316	117
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		316	117
Silent participation by SoFFin		22	24
Consolidated profit/loss		**294**	**93**
Earnings per share (EPS)			
Consolidated net income/loss attributable to shareholders of Aareal Bank AG		316	117
of which: attributable to ordinary shareholders		314	117
of which: attributable to AT1 investors		2	–
Basic earnings per ordinary share (in €)[1)][3)]		4.87	1.55
Basic earnings per AT1 unit (in €)[2)]		0.02	–

[1)] Earnings per ordinary share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). The allocation of earnings is based on the assumption of proper debt service in relation to the AT1 bond. Diluted earnings per share correspond to basic earnings per share.

[2)] Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings attributable to AT1 investors by the weighted average of AT1 units outstanding during the financial year. The allocation of earnings is based on the assumption of proper debt service in relation to the AT1 bond. Diluted earnings per AT1 unit correspond to basic earnings per AT1 unit.

[3)] Within the context of calculating earnings for the purpose of determining EpS attributable to ordinary shareholders, net interest payable on the SoFFin silent participation was deducted for the first time, to enable an assessment based on economic substance. The comparative figure was adjusted accordingly.

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Net income/loss	**335**	**136**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	**-55**	**-1**
Remeasurements	-79	-2
Taxes	24	1
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**65**	**49**
Gains and losses on remeasuring AfS financial instruments	90	63
Reclassifications to the income statement	-1	–
Taxes	-24	-14
Changes in hedging reserves	**16**	**-4**
Profit/loss from derivatives used to hedge future cash flows	18	-3
Reclassifications to the income statement	4	-3
Taxes	-6	2
Changes in currency translation reserves	**2**	**-2**
Profit/loss from translating foreign operations' financial statements	2	-2
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**28**	**42**
Total comprehensive income	**363**	**178**
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	344	159

Statement of Financial Position

€ mn	Notes	31 Dec 2014	31 Dec 2013
Assets			
Cash funds	7, 38	184	1,222
Loans and advances to banks	8, 39	3,178	2,531
Loans and advances to customers	9, 40	30,549	25,924
Allowance for credit losses	10, 41	-480	-361
Positive market value of derivative hedging instruments	11, 42	2,565	1,838
Trading assets	12, 43	467	307
Non-trading assets	13, 44	12,002	10,668
Investments accounted for using the equity method	14, 45	1	1
Intangible assets	15, 46	110	107
Property and equipment	16, 47	96	98
Income tax assets	48	35	24
Deferred tax assets	17, 49	240	110
Other assets	18, 50	610	512
Total		**49,557**	**42,981**
Equity and liabilities			
Liabilities to banks	19, 51	1,807	1,589
Liabilities to customers	20, 52	27,483	25,476
Certificated liabilities	21, 53	11,483	10,124
Negative market value of derivative hedging instruments	11, 54	2,928	1,603
Trading liabilities	12, 55	659	286
Provisions	22, 56	713	289
Income tax liabilities	57	124	36
Deferred tax liabilities	17, 58	21	9
Other liabilities	23, 59	127	203
Subordinated capital	24, 60	1,489	916
Equity	25, 61		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,357	1,112
AT1 bond		300	–
Other reserves		-77	-105
Silent participation by SoFFin		–	300
Non-controlling interests		242	242
Total equity		2,723	2,450
Total		**49,557**	**42,981**

Statement of Changes in Equity

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

€ 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**	**1,020**	**-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**

Statement of Cash Flows

€ mn	Cash flows 1 Jan-31 Dec 2014	Cash flows 1 Jan-31 Dec 2013
Net income/loss for the year	**335**	**136**
Write-downs, valuation allowances and write-ups on loans and advances	166	129
Additions to and reversals of loan loss provisions, net	3	-5
Amortisation, depreciation, impairment and write-ups of non-current assets	21	20
Other non-cash changes	170	-380
Gains/losses on the disposal of non-current assets	-3	8
Other adjustments	-304	-29
Subtotal	**388**	**-121**
Changes in loans and advances to banks	-83	-987
Changes in loans and advances to customers	-440	-1,377
Changes in trading assets	146	24
Changes in other assets from operating activities	14	36
Changes in liabilities to banks	-1,397	-1,610
Changes in liabilities to customers	-617	-1,273
Changes in certificated liabilities	-150	1,764
Changes in trading liabilities	-37	-21
Changes in provisions	-86	-100
Changes in other liabilities from operating activities	-169	-72
Income taxes paid/income tax refunds	-77	-58
Interest received	987	507
Interest paid	-514	-171
Dividends received	–	–
Cash flow from operating activities	**-2,035**	**-3,459**
Proceeds from the disposal of non-trading assets and investments accounted for using the equity method	1,249	1,406
Payments for the acquisition of non-trading assets and investments accounted for using the equity method	-220	-204
Proceeds from the disposal of property and equipment, intangible assets and investment properties	1	2
Payments for the acquisition of property and equipment, intangible assets and investment properties	-14	-36
Effect of changes in reporting entity structure	-346	–
Changes due to other investing activities	–	–
Cash flow from investing activities	**670**	**1,168**
Dividends paid	-45	–
Changes in subordinated capital	424	-107
Changes due to other funding activities	-52	-47
Cash flow from financing activities	**327**	**-154**
Cash and cash equivalents as at 1 January	**1,222**	**3,667**
Cash flow from operating activities	-2,035	-3,459
Cash flow from investing activities	670	1,168
Cash flow from financing activities	327	-154
Cash and cash equivalents as at 31 December	**184**	**1,222**

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 2014 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 3 March 2015.

Accounting Policies

(1) Accounting standards

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

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

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

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

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

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

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

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

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

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

The presentation of the financial position and the financial performance in the consolidated financial statements depends on the recognition and measurement methods underlying the preparation of the financial statements, as well as on 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 (SICs and IFRICs) were required to be applied for the first time in the reporting period:

- **IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28**

  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. The standard 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 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers that were previously 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 will 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 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. The disclosures in relation to IFRS 12 are primarily included in Notes (45), (61) and (100).

- **Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities**
  The amendments clarify some details in relation to offsetting financial assets and financial liabilities. As before, financial assets and financial liabilities are to be 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.

- **IAS 39 Financial Instruments: Recognition and Measurement entitled Novation of Derivatives and Continuation of Hedge Accounting**
  The amendments to IAS 39 provide companies relief from provisions related to the discontinuation of hedge accounting. Changes to derivative contracts required as a result of the introduction 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.

- **IFRIC 21**
  IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and states that a company only recognises levies imposed by government once the activity that gives rise to a levy by law has occurred.

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

Until 31 December 2014, the following financial reporting standards (IASs/ IFRSs) and interpretations (SICs and IFRICs) had been published by the International Accounting Standards Board (IASB) and adopted by the EU Commission:

New International Financial Reporting Standards/Interpretations		Issued	Endorsed	Effective Date
IFRS 14	Regulatory Deferral Accounts	January 2014		Financial years beginning on or after 1 January 2016
IFRS 15	Revenue from Contracts with Customers	May 2014		Financial years beginning on or after 1 January 2017
IFRS 9	Financial Instruments	July 2014		Financial years beginning on or after 1 January 2018

Revised International Financial Reporting Standards		Issued	Endorsed	Effective Date
IAS 19	Defined Benefit Plans: Employee Contribution	November 2013	December 2014	Financial years beginning on or after 1 February 2015
	Annual Improvements Cycle 2010-2012	December 2013	December 2014	Financial years beginning on or after 1 February 2015
	Annual Improvements Cycle 2011-2013	December 2013	December 2014	Financial years beginning on or after 1 January 2015
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	May 2014		Financial years beginning on or after 1 January 2016
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	May 2014		Financial years beginning on or after 1 January 2016

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Revised International Financial Reporting Standards		Issued	Endorsed	Effective Date
IAS 16 and IAS 41	Agriculture: Bearer Plants	June 2014		Financial years beginning on or after 1 January 2016
IAS 27	Equity Method in Separate Financial Statements	August 2014		Financial years beginning on or after 1 January 2016
IFRS 10 and IFRS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 2014		Financial years beginning on or after 1 January 2016
	Annual Improvements Cycle 2012-2014	September 2014		Financial years beginning on or after 1 January 2016
IAS 1	Disclosure Initiative	December 2014		Financial years beginning on or after 1 January 2016
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	December 2014		Financial years beginning on or after 1 January 2016

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

- **IFRS 15 Revenue from Contracts with Customers**
  IFRS 15 governs the recognition of revenue from contracts with customers based on a uniform model. The standard supersedes the current revenue recognition provisions set out in IAS 11 and IAS 18 as well as the related interpretations. The core principle of IFRS 15 for revenue recognition is that an entity has to recognise revenue when the performance obligations assumed are satisfied, i.e. when control over the goods and services has been transferred. Revenue has to be recognised in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. IFRS 15 introduces a 5-step model based on which the amount and the timing of revenue recognition are determined. In addition, the standard requires additional disclosures, including, amongst other things, a disaggregation of total revenue, performance obligations, a reconciliation of opening and closing balances of contractual net assets and liabilities as well as significant judgements and estimates.

- **IFRS 9 Financial Instruments**
  IFRS 9 Financial Instruments introduces 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 was structured in three phases: "Classification and Measurement", "Impairment" and "General Hedge Accounting". In July 2014, the final rules of IFRS 9 were published in their entirety. The classification and measurement section of the new standard sets out a new model for the classification and measurement of financial assets. Subsequent measurement of financial assets will be based in future on three categories with different measurement methods and different recognition methods related to changes in value. Apart from the measurement category "Financial assets measured at amortised cost using the effective interest method", there will be in future the following categories:

”Financial assets at fair value through profit or loss” as well as ”Financial assets at fair value through other comprehensive income”. The classification 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 new rules for impairment replace the previous incurred loss model and introduce the expected loss model which will result in allowances for credit losses to be recognised earlier. IFRS 9 prescribes three stages which are used to determine the amount of the losses to be recognised and the recognition of interest. Upon initial recognition of an asset, expected losses are recognised using the present value of a 12-month expected credit loss (Stage 1). If the credit risk increases significantly, the allowance for credit losses is increased to the total amount of lifetime expected credit losses (Stage 2). If there is objective evidence of impairment in relation to a financial asset, interest revenue is recognised based on the net carrying amount (Stage 3). The impairment model set out in IFRS 9 has to be applied to financial assets of the categories ”Measured at amortised cost” and ”Measured at fair value through other comprehensive income” as well as to loan commitments and financial guarantees. In addition, lease receivables and contract assets in accordance with the revenue recognition criteria are covered by the new impairment rules.

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

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

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

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

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

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

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

- **IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments relate to a situation where assets are sold or contributed to an associate or a joint venture. In future, any gain or loss resulting from the loss of control of a subsidiary which is contributed to a joint venture or an associate, has to be recognised in full by the investor when the transaction concerns a business within the meaning of IFRS 3 Business Combinations. However, if the transaction refers to assets which are not a business, only the pro-rata gain or loss (in the amount of the share held by the other investors) is recognised.

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

- **Amendments to IAS 1: Disclosure Initiative**
  The amendments refer to clarifications of the concept of materiality in relation to the presentation of items in the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity as well as regarding the notes. Immaterial disclosures are not required to be made. This also applies when the disclosure is explicitly required pursuant to other standards. In addition, rules for the presentation of subtotals, the systematic ordering or grouping of the notes, as well as the disclosures of accounting policies, have been added to IAS 1,

and previous requirements have been clarified. The presentation of the share of investments accounted for using the equity method in other comprehensive income in the statement of comprehensive income is clarified.

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

Aareal Bank Group did not opt for early application of these standards in 2014, which are required to be applied in future financial years.

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

(3) Consolidation

Consolidation principles

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

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

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

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

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

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

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

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

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

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

Reporting entity structure

As at 31 December 2014, the reporting entity structure comprised 90 companies (2013: 88), including Aareal Bank AG as well as 79 (2013: 76) subsidiaries, three joint ventures (2013: two) as well as seven associates (2013: nine).

Aareal Finanz- und IT Beteiligungen GmbH (formerly Aareal IT Beteiligungen GmbH), Wiesbaden, a subsidiary of Aareal Bank AG, acquired all of the shares of COREALCREDIT BANK AG (Corealcredit), Frankfurt/Main, which specialises in commercial property financing in Germany. A corresponding agreement was concluded on 22 December 2013 with the previous owner, a fund owned by financial investor Lone Star (seller). The (preliminary) purchase price paid amounted to € 346 million. The preliminary nature of this purchase price relates to the possibility of potential compensation payments to the seller. The closing of the transaction was completed after the approval of the respective authorities and the fulfilment of additional conditions as at 31 March 2014. Accordingly, Aareal Bank Group obtained control over Corealcredit and included the acquired company in the consolidated financial statements of Aareal Bank Group as at 31 March 2014 (date of initial consolidation).

Through the acquisition of Corealcredit, Aareal Bank exploited an attractive opportunity for inorganic growth at a favourable point in time. With this transaction, Aareal Bank further expands its position as one of the leading specialists in commercial property financing. The reasons for the business combination also include optimising the allocation of equity capital, as well as realising potential synergies which result from the combination of both companies, due to their very similar business models.

In accordance with IFRS 3, all identifiable assets and liabilities of the acquired entity have to be measured at their fair value at the time of acquisition (closing). These fair values also represent the amounts recognised upon initial consolidation. The excess of the net assets (i.e. the balance of assets and liabilities acquired and measured at fair value) over the (preliminary) purchase price paid is recognised as negative goodwill in the income statement, and directly increases the equity of Aareal Bank Group. This income amounts to € 154 million and is reported in the statement of comprehensive income in a separate item. This income primarily results from the utilisation of a favourable market environment for such transactions.

The allocation of the purchase price in accordance with IFRS 3 and the related determination of the fair values for assets acquired and liabilities assumed were completed as at 31 December 2014. The completion of the purchase price allocation did not lead to any material adjustments.

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

€ mn	Fair value as at 31 Mar 2014
Cash funds	9
Loans and advances to banks	540
Loans and advances to customers	3.587
Allowance for credit losses (portfolio-based)	-17
Positive market value of derivative hedging instruments and trading assets	150
Non-trading assets	1.610
Intangible assets	2
Property and equipment	1
Income tax assets	30
Deferred tax assets	157
Other assets	91
Total assets acquired	**6.160**

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€ mn	Fair value as at 31 Mar 2014
Liabilities to banks	1.257
Liabilities to customers	2.047
Certificated liabilities	1.353
Negative market value of derivative hedging instruments and trading liabilities	387
Provisions incl. contingent liabilities	347
Income tax liabilities	123
Other liabilities	10
Subordinated capital	136
Total liabilities assumed	**5.660**
Total net assets acquired	**500**
(Preliminary) purchase price paid	346
Negative goodwill	**154**

Taking into account the (preliminary) purchase price paid in the amount of € 346 million, the transaction led to an increase in total net assets, as shown in the consolidated statement of financial position, in the amount of the negative goodwill (€ 154 million).

The costs associated with the business combination amounted to € 9 million and were recognised as administrative expenses, predominantly in the 2013 financial year.

Within the scope of the acquisition of Corealcredit, Aareal Bank assumed legal, tax and credit risks. These risks were assessed on a conservative basis and have been hedged comprehensively in the financial statements. The obligations in connection with the risks assumed are recognised in the statement of financial position at fair value, in line with the related indemnification assets. Accordingly, recognition and measurement in the IFRS consolidated financial statements differ from recognition and measurement in the financial statements of Corealcredit prepared under the German Commercial Code. In the consolidated statement of financial position, the obligations as well as the indemnification assets are reported under provisions, income tax liabilities or other assets, respectively.

The fair value of the indemnification assets existing to the seller as well as to third parties in relation to tax and legal risks amounted to € 79 million as at the acquisition date. The seller provided cash collateral in the amount of € 50 million to cover individual credit risks.

Ongoing litigation mainly refers to legal actions initiated by holders of Corealcredit profit-participation certificates in relation to loss assumption in the past, which – according to the plaintiffs – was unjustified. This has led to strongly reduced repayments compared to the nominal receivables at final maturity of the profit-participation certificates. Tax risks relate to risks from ongoing tax audits.

In the case of a positive outcome of the current legal disputes from the perspective of Aareal Bank AG, there may be compensation payments to the seller, in an amount between nil and € 73 million, which would lead to utilisation of the provisions recognised for this purpose – with no effect on profit or loss. Concerning the part of the credit portfolio that was acquired subject to credit-related purchase price discounts, compensation payments to the seller may occur in the future, in an amount between nil and

€ 97 million plus interest; such payments would also have no effect on profit or loss or equity. The potential level of such compensation payments largely corresponds to the surplus amount of future borrower payments relative to the carrying amount of the corresponding accounts receivable. Compensation payments made to the seller to date totalled € 11.2 million and have no effect on profit or loss or equity. The fair value of contingent consideration was € 0.7 million as at 31 December 2014.

The measurement of legal, tax and credit risks is subject to several uncertainties. One of the issues related to legal risks is the lack of comparable case law. As far as tax risks are concerned, there are discussions with tax audit about the assessment of underlying facts. The assessment of risks often requires significant estimates made by the management. The final amount of the cash outflows may deviate significantly from the measurement previously made in accounting. The time period and the actual amount of any potential cash outflows in connection with liabilities assumed cannot be determined exactly. It is expected that the majority of cash outflows will occur until the year-end 2019.

The fair value of the accounts receivable acquired as part of the business combination amounts to € 4.1 billion as at 31 March 2014, comprising € 3.6 billion in loans and advances to customers and € 0.5 billion in loans and advances to banks. The gross amount of these receivables' contractually agreed cash flows amounted to € 4.7 billion, comprising € 4.1 billion in loans and advances to customers and € 0.6 billion in loans and advances to banks. € 97 million of contractually-agreed cash flows from these loans and advances to customers are considered uncollectable.

The effects upon the income statement of the present interim consolidated financial statements are € 53 million in interest income and € 4 million in operating profit, both of which are attributable to Corealcredit. If the business combination had taken effect at the beginning of the period under review, Aareal Bank Group would probably have reported additional interest income in the amount of approximately € 17 million as well as additional operating profit of approximately € 3 million.

There were no material changes to the reporting entity structure during the measurement period. 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. The Bank uses the overnight interest rate swap curve (OIS curve) for the measurement of derivatives secured by cash collateral.

(6) Recognition and measurement of financial instruments

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

Recognition

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

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

Measurement

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

Measurement categories in accordance with IAS 39

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

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

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

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

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

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

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

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

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

Available for sale (AfS)

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

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

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

Financial liabilities measured at amortised cost (LaC)

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

Determination of the fair value of financial instruments

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

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

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

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

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

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

Structured products

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

Hedging relationships

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

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

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

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

(7) Cash funds

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

(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 fair value include the income capitalisation approach or the discounted cash flow method. The interest rates used can be derived from the type and location of the property as well as from the current market situation. Time for reletting as well as structural vacancies are taken into account as appropriate. Valuation is normally based on estimates prepared by in-house experts. It is subject to several uncertainties and often requires significant estimates made by the management in relation to various factors such as local economic conditions, financial position and development of the counterparty, and the value of collateral held for which there is no easily accessible market.

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". The total amount of risk-induced changes to fair value was determined using recognised measurement methods, based on current market parameters. A fully effective hedging relationship results in offsetting measurement gains or losses from hedged item and hedging transaction. 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 and the hedge are recognised in income. The underlying transaction is recognised in line with the rules for the measurement category to which the underlying transaction has been allocated.

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

(12) Trading assets and trading liabilities

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

(13) Non-trading assets

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

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

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

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

(14) Investments accounted for using the equity method

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

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

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

(15) Intangible assets

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

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

Research costs incurred in connection with software development are expensed as they are incurred. Development costs are capitalised from the time when the software development can be regarded as completed from a technical perspective, and several other conditions are fulfilled. Borrowing costs directly attributable to software development are also part of the cost. They are amortised on a straight-line basis, using an estimated economic life of 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.

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

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

(16) Property and equipment

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

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

(17) Deferred tax assets / deferred tax liabilities

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

Deferred tax assets are only recognised to the extent that 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 set-off against loss carryforwards.

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

(18) Other assets

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

(19) Liabilities to banks

The item ”Liabilities to banks” comprises money market liabilities, registered Mortgage Pfandbriefe, registered Public-Sector Pfandbriefe, promissory note loans and other liabilities to banks, including deferred interest. Liabilities to banks are allocated to the measurement category ”Liabilities measured at amortised cost” (LaC).

(20) Liabilities to customers

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

(21) Certificated liabilities

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

(22) Provisions

The item "Provisions" comprises provisions for pensions and similar obligations, provisions for staff expenses and non-staff operating costs, provisions for risks related to unrecognised items in the lending business, provisions for tax and legal risks as well as other provisions. 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 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 or a fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions paid to the statutory pension insurance scheme are also classified as defined contribution plans. The contributions paid to a defined contribution plan are recorded as staff expenses.

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

The Group's obligations under defined benefit plans are recognised as a provision in the consolidated statement of financial position. These are based on 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 trends must be applied to the calculations of the provisions. Calculating the amount of provisions in the Group is based on actuarial opinions which are prepared by external actuaries on the basis of Aareal Bank-specific and Group-wide standardised parameters.

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

Share-based payment

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

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

(23) Other liabilities

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

(24) Subordinated capital

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

(25) Equity

Equity comprises subscribed capital, capital reserves, retained earnings and other reserves. Other reserves include the reserve from remeasurements of defined benefit plans, the revaluation surplus, hedging reserves and currency translation reserves. In addition, the item "Equity" includes non-controlling interests as well as the so-called Additional Tier 1 bond (AT1 bond). The AT1 bond is classified as equity since there is neither an obligation to repay the bond nor is there an obligation for ongoing debt service (payment of a dividend). The transaction costs directly attributable to the issue of the AT1 bond as well as dividends paid are deducted directly from equity, net of taxes. The silent participation from SoFFin had also been reported in equity until its repayment on 30 October 2014.

(26) Financial guarantee contracts

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

Notes to the Statement of Comprehensive Income

(27) Net interest income

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Interest income from		
Property loans	829	680
Public-sector loans	14	17
Other lending and money market operations	76	59
Debt and other fixed-income securities	91	92
Current dividend income	–	0
Total interest income	**1,010**	**848**
Interest expenses for		
Bonds issued	99	107
Registered mortgage bonds	31	29
Promissory note loans	77	88
Subordinated capital	33	23
Term deposits	38	50
Payable on demand	22	24
Other interest expenses	22	0
Total interest expenses	**322**	**321**
Total	**688**	**527**

Interest income from property loans includes income from impaired loans (so-called unwinding) in the amount of € 14 million (2013: € 12 million).

(28) Allowance for credit losses

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Additions	194	151
Reversals	32	33
Direct write-offs	7	6
Recoveries on loans and advances previously written off	23	11
Total	**146**	**113**

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 € 126 million (2013: € 151 million). Additions to portfolio-based valuation allowances and provisions recognised on a portfolio level for off-balance sheet risks in the lending business amounted to € 68 million (2013: –). Reversals of allowances for credit losses include € 32 million (2013: € 10 million) for specific valuation allowances and individually recognised provisions for off-balance sheet risks within the lending business. No reversals for portfolio-based valuation allowances and provisions recognised on a portfolio level for off-balance sheet risks in the lending business were recorded in the reporting year (2013: € 23 million).

(29) Net commission income

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Commission income from		
Consulting and other services	175	170
Trustee loans and administered loans	2	3
Securities transactions	–	–
Other lending and money market operations	8	10
Other commission income	8	8
Total commission income	**193**	**191**
Commission expenses for		
Consulting and other services	21	20
Trustee loans and administered loans	–	–
Securities transactions	1	1
Securitisation transactions	1	0
Other lending and money market transactions	2	2
Other commission expenses	4	3
Total commission expenses	**29**	**26**
Total	**164**	**165**

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 € 4 million (2013: € 7 million).

(30) Net result on hedge accounting

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Ineffective portion of fair value hedges	1	-3
Ineffective portion of cash flow hedges	4	-3
Ineffective portion of net investment hedges	0	0
Total	**5**	**-6**

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

(31) Net trading income / expenses

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Net income/expenses from positions held for trading	13	15
Currency translation	-11	3
Total	**2**	**18**

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

(32) Results from non-trading assets

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Result from debt securities and other fixed-income securities	0	-8
of which: Loans and receivables (LaR)	0	-8
Held to maturity (HtM)	–	–
Available for sale (AfS)	0	–
Result from equities and other non-fixed income securities	2	0
of which: Available for sale (AfS)	2	0
Designated as at fair value through profit or loss (dFVtPL)	0	0
Results from equity investments (AfS)	0	0
Total	**2**	**-8**

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

In the past financial year, there were no material expenses resulting from investments accounted for using the equity method (2013: € 0 million).

(34) Administrative expenses

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Staff expenses	261	233
Other administrative expenses	157	122
Depreciation, amortisation and impairment of property and equipment and intangible assets	21	20
Total	**439**	**375**

Staff expenses include contributions to defined contribution plans in the amount of € 14 million (2013: € 12 million).

Other administrative expenses include administrative costs for research and development not eligible for capitalisation in the amount of € 10 million (2013: € 6 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the financial year 2014, which consists of the following sub-items:

€ 000's	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Auditing fees	3,563	3,413
Other assurance services	327	196
Tax advisory services	73	76
Other services	3,211	1,996
Total	**7,174**	**5,681**

(35) Net other operating income/expenses

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Income from properties	16	19
Income from the reversal of provisions	2	–
Income from goods and services	3	3
Miscellaneous	34	18
Total other operating income	**55**	**40**
Expenses for properties	19	22
Write-downs of trade receivables	0	1
Expenses for other taxes	4	3
Miscellaneous	26	24
Total other operating expenses	**49**	**50**
Total	**6**	**-10**

(36) Negative goodwill from the acquisition of Corealcredit

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

(37) Income taxes

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Current income taxes	68	104
Deferred taxes	33	-42
Total	**101**	**62**

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

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Operating profit (before income taxes)	436	198
Expected tax rate	31.4 %	31.2 %
Calculated income taxes	**137**	**62**
Reconciliation to reported income taxes		
Different foreign tax burden	-1	2
Tax attributable to tax-exempt income	-63	-2
Tax attributable to non-deductible expenses	2	7
Remeasurement of deferred taxes	3	4
Taxes for previous years	27	-4
Effect of changes in tax rates	–	–
Non-controlling interests	-6	-6
Other tax effects	2	-1
Reported income taxes	**101**	**62**
Effective tax rate	23 %	31 %

The expected tax rate of 31.4 % (2013: 31.2 %), including a trade tax rate of assessment of 446 %, comprises trade taxes (15.6 %), corporation taxes (15 %) and the solidarity surcharge (0.825 %; 5.5 % of corporation tax).

Notes to the Statement of Financial Position

(38) Cash funds

€ mn	31 Dec 2014	31 Dec 2013
Cash on hand	–	0
Balances with central banks	184	1,222
Total	**184**	**1,222**

(39) Loans and advances to banks

€ mn	31 Dec 2014	31 Dec 2013
Money market receivables	1,737	2,373
Promissory note loans	120	122
Securities repurchase agreements	1,284	–
Other loans and advances	37	36
Total	**3,178**	**2,531**

(40) Loans and advances to customers

€ mn	31 Dec 2014	31 Dec 2013
Property loans	27,856	23,848
Promissory note loans	1,584	1,435
Other loans and advances	1,109	641
Total	**30,549**	**25,924**

The increase in property loans mainly results from the consolidation of Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(41) Allowance for credit losses

31 December 2014

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

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 and provisions 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**
Changes in basis of consolidation	–	–	**–**	–	–
Currency adjustments	-2	0	**-2**	–	**-2**
Balance as at 31 December	**296**	**65**	**361**	**10**	**371**

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.

The addition to the portfolio-based valuation allowance (additions) is attributable to, amongst other things, a harmonisation related to the inclusion of the so-called LIP factor (LIP – Loss Identification Period). While different LIP factors were used until 31 December 2013 for each exposure class in the context of the determination of the portfolio-based valuation allowance, the LIP factor has been generally harmonised to 1 for all exposure classes for the first time as at 31 March 2014. The effect from the adjustment of the LIP factor amounts to € 35 million.

In addition, the subdued economic momentum in Southern Europe led to an increase in portfolio-based allowance for credit losses.

The increase in the balance of portfolio-based valuation allowances (changes in basis of consolidation) results from the initial consolidation of Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(42) Positive market value of derivative hedging instruments

€ mn	31 Dec 2014	31 Dec 2013
Positive market value of fair value hedges	2,251	1,537
Positive market value of cash flow hedges	9	–
Pro rata interest receivable	305	301
Total	**2,565**	**1,838**

(43) Trading assets

€ mn	31 Dec 2014	31 Dec 2013
Positive market value of trading assets	467	307
Total	**467**	**307**

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

(44) Non-trading assets

€ mn	31 Dec 2014	31 Dec 2013
Debt and other fixed-income securities	11,992	10,647
of which: Loans and receivables (LaR)	4,313	4,259
Held to maturity (HtM)	833	–
Available for sale (AfS)	6,846	6,388
Equities and other non-fixed income securities	8	20
of which: Available for sale (AfS)	8	20
Designated as at fair value through profit or loss (dFVtPL)	–	–
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	2	1
Total	**12,002**	**10,668**

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 € 143 million (2013: € 163 million).

This rise in debt and other fixed-income securities mainly results from the consolidation of Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

Carrying amounts of negotiable non-trading assets:

	Listed		Unlisted	
€ mn	2014	2013	2014	2013
Debt and other fixed-income securities	11,954	10,632	7	–
Equities and other non-fixed-income securities	–	–	–	–
Total	**11,954**	**10,632**	**7**	**–**

(45) Investments accounted for using the equity method

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

The sum total of the carrying amounts of the equity investments that are immaterial on an individual basis amounted to € 1 million (31 December 2013: € 1 million). The sum total of the Group's share in the total comprehensive income of companies accounted for using the equity method amounted to € 0 million in the year under review (1 January - 31 December 2013: € 0 million).

(46) Intangible assets

€ mn	31 Dec 2014	31 Dec 2013
Goodwill	66	66
Proprietary software	17	14
Other intangible assets	27	27
Total	**110**	**107**

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 2014 Goodwill	31 Dec 2013 Goodwill
Product group		
ERP Products	21	21
Integrated Services	5	5
International Business	40	40
Other products	0	0
Total	**66**	**66**

Goodwill is generally tested for impairment in the fourth quarter of each year. The basis for the valuation is the present value of future cash flows (value in use), which are determined using medium-term projections. In this context, the projected pre-tax cash flows – determined on the basis of the five-year plan adopted by Aareon AG's Management Board and approved by the Supervisory Board – are used. Accordingly, there is an individual planning of revenue and expense items within the first five years. The parameters underlying the major assumptions are based on internal and external factors as well as on past experience. The major basis is the previous year's planning. Revenue projections are largely subject to assumptions in relation to migration plans, new business, as well as renewals of contracts with existing customers. At the same time, these represent the key sources for estimation uncertainty. Regular sales revenues, such as maintenance and fees from transactions with existing customers, are normally not subject to estimation uncertainty. The projections for cost of materials is derived from revenue projections. These cost projections predominantly take into account the number of employees, as well as wage and salary trends. Other costs are projected based on the previous year's figures, taking into account known one-off effects. Estimation uncertainty in relation to costs arises as a result of unplanned price increases or unforeseeable one-off effects. In principle, estimation uncertainty increases if assumptions are made further into the future. Cash flows beyond the five-year horizon are determined by way of a perpetual annuity. The present values of future cash flows were determined consistently throughout the Group on the basis of a risk-adequate discount factor of 6.9 % before taxes. The discount factor is calculated based on a risk-free basic interest rate of 2.1 % plus a company-specific risk premium of 6.0 %, multiplied with a beta factor of 0.8. 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 recoverable amounts show a significant excess compared to the carrying amounts, which means that a deficit is not considered possible, even if the above-mentioned assumptions change dramatically.

To that extent, even a likely increase of the risk-adequate discount factor as well as a reduction in EBIT included in the cash flows by 1.00 % does not result in an impairment loss in the reporting period. There was no need to recognise impairment losses in the year under review.

Intangible assets developed as follows:

€ mn	2014 Goodwill	2014 Proprietary software	2014 Other intangible assets	2014 Total	2013 Goodwill	2013 Proprietary software	2013 Other intangible assets	2013 Total
Cost								
Balance at 1 January	**123**	**69**	**71**	**263**	**111**	**68**	**59**	**238**
Additions	0	6	3	**9**	12	3	13	**28**
Transfers	0	2	2	**4**	–	–	0	**0**
Disposals	0	0	1	**1**	–	2	1	**3**
Changes in basis of consolidation	–	–	2	**2**	–	–	–	–
Currency translation differences	0	0	0	**–**	0	–	0	**0**
Balance as at 31 December	**123**	**77**	**77**	**277**	**123**	**69**	**71**	**263**
Amortisation and impairment losses								
Balance at 1 January	**57**	**56**	**43**	**156**	**57**	**53**	**38**	**148**
Amortisation and impairment losses	–	6	6	**12**	–	5	6	**11**
of which: impairment losses	–	–	–	**–**	–	–	–	**–**
Write-ups	–	–	–	**–**	–	–	–	**–**
Transfers	–	-2	2	**0**	–	–	0	**0**
Disposals	0	0	1	**1**	–	2	1	**3**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	0	–	0	**–**	0	–	0	**0**
Balance as at 31 December	**57**	**60**	**50**	**167**	**57**	**56**	**43**	**156**
Carrying amount as at 1 January	**66**	**13**	**28**	**107**	**54**	**15**	**21**	**90**
Carrying amount as at 31 December	**66**	**17**	**27**	**110**	**66**	**13**	**28**	**107**

(47) Property and equipment

€ mn	31 Dec 2014	31 Dec 2013
Land and buildings and construction in progress	75	77
Office furniture and equipment	21	21
Total	**96**	**98**

Property and equipment:

	2014			2013		
€ mn	Land and buildings and construction in progress	Office furniture and equipment	Total	Land and buildings and construction in progress	Office furniture and equipment	Total
Cost						
Balance at 1 January	**102**	**63**	**165**	**104**	**63**	**167**
Additions	1	4	**5**	2	5	**7**
Transfers	0	0	**0**	0	0	**0**
Disposals	0	4	**4**	4	5	**9**
Changes in basis of consolidation	–	1	**1**	–	–	**–**
Currency translation differences	0	0	**0**	0	0	**0**
Balance as at 31 December	**103**	**64**	**167**	**102**	**63**	**165**
Amortisation and impairment losses						
Balance at 1 January	**25**	**42**	**67**	**23**	**41**	**64**
Amortisation and impairment losses	3	6	**9**	3	6	**9**
of which: impairment losses	–	0	**–**	–	–	**–**
Write-ups	–	–	**–**	–	–	**–**
Transfers	–	0	**0**	–	0	**0**
Disposals	0	5	**5**	1	5	**6**
Changes in basis of consolidation	–	–	**–**	–	–	**–**
Currency translation differences	0	0	**0**	0	0	**0**
Balance as at 31 December	**28**	**43**	**71**	**25**	**42**	**67**
Carrying amount as at 1 January	**77**	**21**	**98**	**81**	**22**	**103**
Carrying amount as at 31 December	**75**	**21**	**96**	**77**	**21**	**98**

(48) Income tax assets

Income tax assets in a total amount of € 35 million as at 31 December 2014 (2013: € 24 million) include € 5 million (2013: € 6 million) expected to be realised after a period of more than twelve months.

(49) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 805 million (2013: € 500 million).

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

€ mn	31 Dec 2014	31 Dec 2013
Loans and advances to banks/to customers	0	31
Positive and negative market value of derivative hedging instruments	43	29
Trading assets and trading liabilities	139	61
Non-trading assets	–	3
Intangible assets	1	1
Property and equipment	5	2
Other assets/liabilities	1	9
Liabilities to banks/to customers, and certificated liabilities	683	397
Provisions	130	54
Subordinated capital	27	7
Tax loss carryforwards	16	16
Deferred tax assets	**1,045**	**610**

Of the deferred taxes on loss carryforwards, an amount of € 12 million (2013: € 7 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 € 33 million (2013: € 30 million) and relate entirely to tax loss carryforwards that are neither recognised nor subjected to valuation adjustments.

Deferred tax assets in the amount of € 32 million € (2013: € 38 million) were reported under other reserves.

(50) Other assets

€ mn	31 Dec 2014	31 Dec 2013
Properties	444	413
Trade receivables (LaR)	38	34
Miscellaneous	128	65
Total	**610**	**512**

(51) Liabilities to banks

€ mn	31 Dec 2014	31 Dec 2013
Money market liabilities	855	838
Promissory note loans	374	385
Registered Mortgage Pfandbriefe	362	254
Registered Public-Sector Pfandbriefe	41	46
Other liabilities	175	66
Total	**1,807**	**1,589**

(52) Liabilities to customers

€ mn	31 Dec 2014	31 Dec 2013
Money market liabilities	13,071	11,779
Promissory note loans	7,970	7,802
Registered Mortgage Pfandbriefe	3,476	3,186
Registered Public-Sector Pfandbriefe	2,966	2,709
Total	**27,483**	**25,476**

The increase in liabilities to customers mainly results from the consolidation of Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(53) Certificated liabilities

€ mn	31 Dec 2014	31 Dec 2013
Bearer Mortgage Pfandbriefe	8,690	7,179
Bearer Public-Sector Pfandbriefe	45	35
Other debt securities	2,748	2,910
Total	**11,483**	**10,124**

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

(54) Negative market value of derivative hedging instruments

€ mn	31 Dec 2014	31 Dec 2013
Negative market value of fair value hedges	2,731	1,409
Negative market value of cash flow hedges	13	30
Negative market value of net investment hedges	2	–
Pro rata interest payable	182	164
Total	**2,928**	**1,603**

(55) Trading liabilities

€ mn	31 Dec 2014	31 Dec 2013
Negative market value of trading assets	659	286
Total	**659**	**286**

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

(56) Provisions

€ mn	31 Dec 2014	31 Dec 2013
Provisions for pensions and similar obligations	295	148
Other provisions and contingent liabilities	418	141
Total	**713**	**289**

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

Provisions for pensions and similar obligations

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

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

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

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

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

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

Brief description of the material pension plans

DePfa Bank Betriebsvereinbarung dated 14 December 1999 (BV 97)

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

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

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

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

Management Board

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

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. These reinsurance policies include benefits in the case of disability or death.

DePfa Bank Dienstvereinbarung dated 30 December 1955 (DePfa 55)

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

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

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

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

BauBoden agreement dated 1 July 1968 (BauBoden 68)

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

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

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

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

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

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

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

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

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

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

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

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 2015, BauGrund is expected to contribute an amount of € 0.4 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, 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 2014	31 Dec 2013
Calculation method	Projected unit credit	Projected unit credit
Calculation basis	Actuarial tables issued by K. Heubeck in 2005	Actuarial tables issued by K. Heubeck in 2005
Actuarial assumptions (in %)		
Interest rate used for valuation	2.05	3.60
Development of salaries	2.25	2.25
Pension increase	1.86	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 January 2014	**197**	**-49**	**148**
Pension expense	**14**	**-2**	**12**
Current service cost	5	–	5
Net interest cost	9	-2	7
Payments	**-8**	**-4**	**-12**
Pension benefits paid	-10	0	-10
Employer's contributions	–	-2	-2
Contributions made by beneficiaries of defined benefit plans	2	-2	–
Remeasurements	**82**	**-2**	**80**
due to experience adjustments	11	–	11
due to changes in financial assumptions	70	–	70
due to changes in demographic assumptions	1	–	1
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-2	-2
Changes in basis of consolidation	**67**	**–**	**67**
Balance as at 31 December 2014	**352**	**-57**	**295**

€ mn	Present value of pensions obligations	Fair value of plan assets	Net pension liability
Balance as at 1 January 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	–	4
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 December 2013	**197**	**-49**	**148**

The weighted duration of pension liabilities is 17.3 years as at 31 December 2014 (2013: 17 years).

Expected maturities of the defined benefit obligation (DBO):

€ mn	31 Dec 2014
Up to 1 year	11
More than 1 year and up to 5 years	12
More than 5 years and up to 10 years	67
Total	**90**

Contributions in the amount of € 7 million (2013: € 11 million) are expected to be paid during the financial year 2015.

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 2014	Change	Defined benefit obligation 2013	Change
		€ mn	%	€ mn	%
Present value of obligations		**352**		**197**	
Interest rate used for valuation	Increase by 1.0 percentage points	296	-16	172	-13
	Decrease by 1.0 percentage points	420	19	233	18
Development of salaries	Increase by 0.5 percentage points	358	2	203	3
	Decrease by 0.5 percentage points	342	-3	191	-3
Pension increase	Increase by 0.25 percentage points	356	1	198	1
	Decrease by 0.25 percentage points	343	-3	192	-3
Life expectancy	Increase by 1 year	370	5	204	4
	Decrease by 1 year	335	-5	191	-3

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

Plan assets can be broken down as follows:

€ mn	31 Dec 2014	31 Dec 2013
Cash	0	0
Equities	–	–
Investment funds	34	13
Bonds	–	16
Reinsurance	23	20
Total	**57**	**49**

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

Other provisions

Other provisions developed as follows:

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

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for unrecognised items	Provisions for legal and tax risks	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2013	**71**	**18**	**0**	**57**	**146**
Additions	63	–	0	29	**92**
Utilisation	30	3	0	51	**84**
Reversals	5	5	0	4	**14**
Interest	0	0	0	0	**0**
Reclassifications	0	–	0	0	**0**
Changes in basis of consolidation	–	–	–	–	**–**
Currency translation differences	-1	0	–	2	**1**
Carrying amount as at 31 Dec 2013	**98**	**10**	**0**	**33**	**141**

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.

The provisions for legal and tax risks include, amongst others, contingent liabilities in accordance with IFRS 3 in the amount of € 143 million (2013: –).

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

Based on the current state of proceedings and the findings of the hearings, a successful outcome is deemed to have a probability of more than 50 % even in case of a potential appeal before the German Federal Court of Justice. In accordance with IFRS 3, the contingent liabilities are recognised at fair value. Measurement 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.

Provisions for tax risks were recognised largely to cover risks in connection with ongoing tax audits at Corealcredit.

An amount of € 2 million (2013: € 4 million) for provisions in the lending business with regard to 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 € 8 million (2013: € 3 million).

Other provisions include amongst others 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.

(57) Income tax liabilities

Income tax liabilities in a total amount of € 124 million as at 31 December 2014 (2013: € 36 million) include € 86 million (2013: € 0 million) expected to be realised after a period of more than twelve months.

(58) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 805 million (2013: € 500 million).

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

€ mn	31 Dec 2014	31 Dec 2013
Loans and advances to banks/to customers	118	74
Positive and negative market value of derivative hedging instruments	93	73
Trading assets and trading liabilities	118	62
Non-trading assets	480	259
Investments accounted for using the equity method	–	–
Intangible assets	7	8
Property and equipment	7	7
Other assets/liabilities	1	3
Liabilities to banks/to customers, and certificated liabilities	–	–
Provisions	–	21
Subordinated capital	2	2
Deferred tax liabilities	**826**	**509**

(59) Other liabilities

€ mn	31 Dec 2014	31 Dec 2013
Liabilities from outstanding invoices	6	8
Deferred income	12	11
Liabilities from other taxes	17	29
Trade payables (LaC)	13	9
Other liabilities (LaC)	79	146
Total	**127**	**203**

Other liabilities include proportionate interest in connection with the silent participation from SoFFin in the amount of € 31 million (2013: € 33 million).

(60) Subordinated capital

€ mn	31 Dec 2014	31 Dec 2013
Subordinated liabilities	1,222	524
Profit-participation certificates	73	166
Contributions by silent partners	194	226
Total	**1,489**	**916**

Subordinated liabilities

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

Interest expenses for all subordinated liabilities during 2014 totalled € 40 million (2013: € 25 million). Interest was paid on subordinated liabilities at an average rate of 3.27 % (2013: 4.70 %).

Profit-participation certificates

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

	Nominal amount € mn	Issue currency	Interest rate (% p.a.)	Maturity
Registered profit-participation certificates:				
	5.0	EUR	7.220	2002-2016
	5.0	EUR	7.220	2002-2016
	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
	63.0			

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 € 8 million (2013: € 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 had a nominal amount of € 190 million (2013: € 220 million).

Total expenses for silent participations amounted to € 7 million (2013: € 9 million) in the 2014 financial year.

(61) Equity

€ mn	31 Dec 2014	31 Dec 2013
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,357	1,112
AT1 bond	300	–
Other reserves		
Reserve from remeasurements of defined benefit plans	-95	-40
Revaluation reserve	15	-50
Hedging reserves	-1	-17
Currency translation reserves	4	2
Silent participation by SoFFin	–	300
Non-controlling interests	242	242
Total	**2,723**	**2,450**

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (31 Dec 2013: € 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 Public Limited Companies 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 Annual 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 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 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 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 10 % of the issued share capital. Said 10 % threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation;

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

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

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

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

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

The authorised capital has not been utilised.

Conditional capital

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

The purpose of the authorisation passed by the Annual General Meeting on 21 May 2014 is to create Tier 1 capital that is eligible for regulatory purposes; it provides for the issue of profit-participation rights with or without conversion rights, as well as for issues with mandatory conversion. It is in accordance with the various structuring alternatives for Additional Tier 1 capital instruments, pursuant to the Capital Requirements Regulation.[1)] For instance, a conversion obligation may be provided for if the Bank falls short of certain capital ratios (to be defined in the terms of convertible profit-participation certificates); conversion is required, in the opinion of the Company's Management Board and Supervisory Board, to safeguard the Company's continued existence; or if conversion is instructed by a supervisory authority within the scope of its powers. Under the authorisation, subsidiaries of Aareal Bank AG may also issue convertible bonds, and subject to approval by the Supervisory Board, the Company may guarantee such issues as well as issue shares to fulfil the resulting conversion rights.

Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in certain cases. The new shares will be issued at the conversion price to be set as defined in the resolution passed by the Annual General Meeting on 21 May 2014.

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

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 (2013: € 5 million) and of other retained earnings of € 1,352 million (2013: € 1,107 million).

Additional Tier 1 bond (AT1 bond)

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

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

The notes constitute unsecured and subordinated obligations of the issuer.

Upon the occurrence of a trigger event, the redemption amount and the principal amount of each note shall be reduced by the amount of the relevant write-down. The write-down shall be effected pro rata with all other Additional Tier 1 instruments within the meaning of the CRR, the terms of which provide for a write-down upon the occurrence of the trigger event. A "trigger event" occurs if the Common Equity Tier 1 capital ratio pursuant to Article 92 (1) (a) CRR or a successor provision, determined on a con-

[1)] Regulation 575/2013/EU

solidated basis of the issuer falls below 7.0 %. After a write-down has been effected, the principal amount and the redemption amount of each note may – subject to certain conditions – be written up in each of the financial years of the issuer subsequent to such write-down until the full initial principal amount has been reached.

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

Revaluation surplus

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

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 bore 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 were 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.

Having obtained approval from the German Federal Financial Supervisory Authority (BaFin) on 29 October 2014 to repay the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin) in full, Aareal Bank repaid the residual amount of € 300 million to SoFFin on 30 October 2014. In accordance with the repayment agreement, Aareal Bank will additionally pay interest accruing until the next regular maturity date on 31 March 2015 to SoFFin. Furthermore, in line with existing contractual stipulations, the agreement provides for a pro rata temporis share due to SoFFin in any dividends distributed by Aareal Bank, by way of a dividend-linked interest add-on for the 2014 financial year. With the full repayment of the silent participation, SoFFin's support to Aareal Bank has therefore come to an end.

Non-controlling interests

€ 250 million (2013: € 250 million) in preference shares issued by, among others, Aareal Capital Funding Trust, Wilmington, Delaware, U.S.A. were outstanding at the end of the financial year. The equity interest of Aareal Bank Group held in this company amounts to 0.01 %, while the remaining 99.99 % are held by non-controlling interests. Aareal Bank Group holds 100 % of the voting rights in the company. The preference shares are repaid at their nominal value and carry an exclusive right to termination for the issuer.

Interest expenses on these preference shares amounted to € 18 million (2013: € 18 million). The tax relief resulting from distributions leads to a reduction of income taxes as reported in the statement of comprehensive income.

Distributions

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

In addition, on 30 April 2015, the Management Board will resolve on a distribution in relation to the AT1 instruments, pursuant to the terms and conditions of the notes.

Notes to Financial Instruments

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

(62) Net results of financial instruments by category

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

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Result from loans and receivables	-140	-130
Result from held-to-maturity investments	0	0
Result from financial instruments held for trading	13	16
Result from assets designated as at fair value through profit or loss	0	0
Result from assets available for sale	82	49
of which: directly recognised in equity	81	49
Result from liabilities measured at amortised cost	–	–
Result from financial guarantee contracts	-3	4

In the current reporting period, a measurement gain from available-for-sale assets of € 1 million was reclassified from equity to the income statement (2013: –). The net result on hedge accounting amounted to € 5 million in the year under review (2013: € -6 million). The result from currency translation amounted to € -11 million in the year under review (2013: € 3 million).

The net results include measurement gains and losses, realised gains / losses on disposal, subsequent recoveries on loans and advances previously written off in relation to all financial instruments of the respective category. The result from financial instruments held for trading also includes interest and dividends as well as commissions from held-for-trading financial instruments.

The determination of the net result from financial instruments was adjusted in the year under review in order to provide a more meaningful presentation of net results. In the current year, the hedge result from hedged items is aggregated with the hedge result from derivative hedging instruments in one line item. In addition, the result from currency translation is no longer divided into individual categories. The previous year's figures in the table were adjusted accordingly.

(63) Impairment losses on financial assets

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

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Loans and advances to banks (LaR)	1	–
Loans and advances to customers (LaR)	196	157
Other assets (LaR)	0	3
Total	**197**	**160**

(64) Fair value hierarchy in accordance with IFRS 13

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

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

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

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

Non-trading assets designated as at fair value through profit or loss:

Aareal Bank currently does not hold non-trading assets of the dFVtPL category in its portfolio.

Positive and negative market value of derivative hedging instruments as well as from derivatives held for trading:

Exchange-traded derivatives are measured at their quoted market price and allocated to Level 1 of the fair value hierarchy. Aareal Bank currently does not hold any listed derivatives in its portfolio.

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

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

31 December 2014

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

31 December 2013

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 2
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	–
Negative market value of derivative hedging instruments	**1,603**	**–**	**1,603**	**–**
Liabilities held for trading	**286**	**–**	**286**	**–**
Trading derivatives	286	–	286	–

In the financial year 2014, no fixed-income securities of the AfS category were reclassified from Level 1 to Level 2 (2013: –), neither were there any reclassifications of fixed-income securities of the same category from Level 2 to Level 1 in the reporting year (2013: € 0 million).

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; accordingly, they are allocated to Level 2 of the fair value hierarchy.

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

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

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

31 December 2014

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

31 December 2013

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 2
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	–
Non-trading assets (held to maturity)	**–**	**–**	**–**	**–**
Fixed-income securities	–	–	–	–
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**

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

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

€ mn	31 Dec 2014 Carrying amount	31 Dec 2014 Fair value	31 Dec 2013 Carrying amount	31 Dec 2013 Fair value
Cash on hand and balances with central banks	**184**	**184**	**1,222**	**1,222**
Loans and advances to banks (LaR)	3,178	3,177	2,531	2,530
Loans and advances to customers (LaR)	30,069	32,309	25,563	27,298
Non-trading assets (LaR)	4,313	4,125	4,259	4,018
Other assets (LaR)	86	91	62	67
Total loans and receivables	**37,646**	**39,702**	**32,415**	**33,913**
Non-trading assets held to maturity	**833**	**836**	**–**	**–**
Non-trading assets available for sale	**6,854**	**6,854**	**6,408**	**6,408**
Positive market value of derivative hedging instruments	**2,565**	**2,565**	**1,838**	**1,838**
Assets held for trading	**467**	**467**	**307**	**307**
Liabilities to banks (LaC)	1,807	1,824	1,589	1,601
Liabilities to customers (LaC)	27,483	27,563	25,476	25,412
Certificated liabilities (LaC)	11,483	11,595	10,124	10,192
Other liabilities (LaC)	98	101	163	156
Subordinated capital (LaC)	1,489	1,517	916	914
Total liabilities measured at amortised cost	**42,360**	**42,600**	**38,268**	**38,275**
Negative market value of derivative hedging instruments	**2,928**	**2,928**	**1,603**	**1,603**
Liabilities held for trading	**659**	**659**	**286**	**286**
Financial guarantee contracts	**140**	**140**	**120**	**120**
Loan commitments	**1,466**	**1,466**	**1,852**	**1,852**

(66) Credit quality of financial assets

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

€ mn	31 Dec 2014	31 Dec 2013
Financial assets neither past due nor impaired		
Loans and advances to banks	3,178	2,531
Loans and advances to customers	29,185	24,885
Positive market value of derivative hedging instruments	2,565	1,838
Trading assets	467	307
Non-trading assets (LaR)	4,313	4,259
Non-trading assets (AfS)	6,856	6,409
Non-trading assets (HtM)	833	–
Other assets	78	60
Total	**47,475**	**40,289**
Financial assets that are past due but not impaired		
Loans and advances to customers	378	158
Other assets	0	0
Total	**378**	**158**
Financial assets subject to specific valuation allowances		
Loans and advances to customers	986	881
Other assets	21	20
Total	**1,007**	**901**

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

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

At Aareal Bank, property loans subject to intensified handling or handling of problem loans pursuant to the Minimum Requirements for Risk Management (MaRisk) that are not impaired individually were subjected to contractual adjustments due to financial difficulties of the borrower, in order to secure the repayment of the exposure. The portfolio of financings, adjusted during the reporting year and the previous years, totalled € 156 billion on 31 December 2014. In 2013, the balance of loans adjusted due to financial difficulties of the borrower amounted to € 308 million. In the financial year 2014, loans with a carrying amount of € 144 million (2013: € 9 million) are no longer part of intensified handling or handling of problem loans, due to an improvement of the financial situation (re-ageing after the end of a two-year period of good conduct), while specific valuation allowances were recorded for loans in a carrying amount of € 88 million (2013: € 113 million). These financings are no longer included in the volume stated for contractual adjustments due to financial difficulties of the borrower for the financial year 2014. Moreover, additions to the volume of financings subject to adjustments made due to financial difficulties of the borrower amounted to € 71 million in the year under review (2013: € 19 million). There were also increases in the carrying amounts in relation to existing exposures, by a total of € 9 million.

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

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

Breakdown by region

31 December 2014

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

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 as at 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**

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

Breakdown by borrower group

31 December 2014

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

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 as at 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**

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 (2013: € 0 million). There were no other financial assets past due but not impaired on the reporting date.

(68) Impaired financial assets

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

Breakdown by region

31 December 2014

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

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**

Breakdown by borrower group

31 December 2014

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

31 December 2013

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowance	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business recognised in profit or loss	Direct write-offs
Borrower groups					
Companies	870	290	3	126	6
Private individuals	11	6	4	1	0
Other	0	0	0	0	0
Total	**881**	**296**	**7**	**127**	**6**

As at the reporting date, the amount of portfolio-based valuation allowances for loans and advances to customers was € 147 million (2013: € 65 million) and for financial guarantees € 8 million (2013: € 3 million). Net additions to portfolio-based valuation allowances, which are recognised through profit or loss, amounted to € 68 million (2013: net reversal of € 24 million) in the year under review. Payments on loans and advances previously written off amounted to € 23 million in the year under review (2013: € 11 million).

The amount of impaired receivables of the "Other assets" category as at the reporting date was € 21 million (2013: € 20 million). The related impairment allowance amounts to € 20 million (2013: € 18 million). These receivables mainly referred to companies in Eastern Europe, Southern Europe and Germany.

In the financial year 2014, no assets were acquired within the context of the realisation of collateral (2013: €0 million).

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

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

Bond portfolio as at 31 December 2014

	Carrying amount			Revaluation surplus[1]			Unrealised gains/ losses[1]
	LaR	AfS	Total	LaR	AfS	Total	
€ mn							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,265	740	2,005	-45	10	-35	-120
Portugal	67	185	252	0	1	1	-7
Spain	681	210	891	-3	6	3	-28
Total	**2,013**	**1,135**	**3,148**	**-48**	**17**	**-31**	**-155**
Total as at 31 Dec 2013	1,834	952	2,786	-51	-22	-73	-177

[1] Figures given on an after-tax basis

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

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

The presented AfS securities with a carrying amount of € 1,135 million (2013: € 939 million) were allocated to Level 1 of the fair value hierarchy, and measured based on quoted prices on active markets. No Level 2 securities were allocated to the fair value hierarchy as at the reporting date (2013: € 13 million). Quoted market prices (as required by hierarchy level 1) were not available for these securities as at the previous year's 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 (p. 170) is a breakdown of property financing in selected European countries included in loans and advances to customers.

Property finance portfolio as at 31 December 2014

	Carrying amount[1]	Average LTV	of which: Non-performing loans
	€ mn	%	€ mn
Greece	–	–	–
Ireland	–	–	–
Italy	3,107	72.1	520
Portugal	–	–	–
Spain	1,033	87.0	79
Total	**4,140**		**599**
Total as at 31 Dec 2013	4,174		515

[1] Not including valuation allowances

(70) Reclassification of financial assets

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

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

	Reclassified assets, total				Results from fair value measurement without reclassification			
€ mn	Carrying amount at reporting date 31 Dec 2014	Fair value at reporting date 31 Dec 2014	Carrying amount previous year 31 Dec 2013	Fair value previous year 31 Dec 2013	Effect on the income statement 1 Jan-31 Dec 2014	Effect on the revaluation surplus 1 Jan-31 Dec 2014	Effect on the income statement 1 Jan-31 Dec 2013	Effect on the revaluation surplus 1 Jan-31 Dec 2013
from AfS to LaR	**3,938**	**3,727**	**3,849**	**3,600**	**–**	**23**	**–**	**145**
Asset-backed securities	27	28	27	27	–	1	–	1
Senior unsecured bank bonds	277	282	372	380	–	-8	–	-12
Covered bank bonds	428	447	495	509	–	2	–	18
Public-sector issuers	3,206	2,970	2,955	2,684	–	28	–	138
from HfT to LaR	**101**	**109**	**121**	**115**	**14**	**–**	**28**	**–**
Asset-backed securities	101	109	121	115	14	–	28	–
Total	**4,039**	**3,836**	**3,970**	**3,715**	**14**	**23**	**28**	**145**

As in the previous year, no impairment losses had to be recognised for the reclassified financial assets in 2014. The disposal of reclassified securities resulted in the realisation of capital losses of € 0 million (2013: € -8 million). Interest income from reclassified assets amounted to € 109 million (2013: € 115 million) in the year under review. Interest income, including current interest from derivatives used to hedge economic market price risks, amounted to € 34 million (2013: € 36 million).

(71) Offsetting financial instruments

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

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

Financial assets as at 31 December 2014

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

Financial liabilities as at 31 December 2014

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

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
Reverse repos	–	–	–	–	–	–
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	Remaining net amount
Derivatives	1,844	–	1,844	1,170	652	22
Repos	-	–	–	–	–	–
Total	**1,844**	**–**	**1,844**	**1,170**	**652**	**22**

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

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

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

(72) Assets provided or accepted as collateral

Assets provided as collateral

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

€ mn	31 Dec 2014	31 Dec 2013
Loans and advances to banks	1,576	677
Loans and advances to customers	0	–
Non-trading assets	224	1,412
Total	**1,800**	**2,089**

The protection buyer has no right to sell or re-pledge any of financial assets pledged as collateral (2013: –).

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. As at the balance sheet date, fixed-income securities received as collateral for repo transactions had a fair value of € 1,313 million. No such collateral had been accepted in the previous year.

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

(73) Transfer of financial assets without derecognition

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

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

(74) Derivative financial instruments

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

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

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

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

Fair value hedges

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

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

€ mn	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Result from hedging instruments	-90	-151
Result from hedged items	91	148
Total	**1**	**-3**

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 2014

€ 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	-8	4	26	**20**

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

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	mehr als 5 Jahre	Total
Cash flows from hedged assets	-1	-1	73	33	**104**

In 2014, gains determined as the effective portion of the hedge from derivatives included in cash flow hedges were recognised directly in equity at an amount of € 18 million (2013: losses of € 4 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 2014	1 Jan-31 Dec 2013
Net interest income	-4	-3
Total	**-4**	**-3**

In the year under review, a gain of € 4 million (2013: loss of € 3 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 (2013: € 0 million) was recognised directly in the income statement as the ineffective portion of hedges of net investments in foreign operations.

Overview of market values of derivatives

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

€ mn	Fair value as at 31 Dec 2014 positive	Fair value as at 31 Dec 2014 negative	Fair value as at 31 Dec 2013 positive	Fair value as at 31 Dec 2013 negative
Trading derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	428	501	233	220
Swaptions	–	–	0	0
Caps, floors	13	13	16	16
Total interest rate instruments	**441**	**514**	**249**	**236**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	18	45	27	7
Cross-currency swaps	8	100	31	42
Total currency-related instruments	**26**	**145**	**58**	**49**
Other transactions				
OTC products				
Credit default swaps [1]	0	–	0	1
Total other transactions	**0**	**–**	**0**	**1**
Total trading derivatives	**467**	**659**	**307**	**286**
Derivatives from fair value hedges				
Interest rate instruments				
OTC products				
Interest rate swaps	2,502	2,350	1,698	1,486
Total interest rate instruments	**2,502**	**2,350**	**1,698**	**1,486**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	–	10	4	0
Cross-currency swaps	53	553	136	87
Total currency-related instruments	**53**	**563**	**140**	**87**
Total derivatives from fair value hedges	**2,555**	**2,913**	**1,838**	**1,573**

[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 2014		Fair value as at 31 Dec 2013	
	positive	negative	positive	negative
Derivatives from cash flow hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	10	13	–	30
Total currency-related instruments	**10**	**13**	**–**	**30**
Total derivatives from cash flow hedges	**10**	**13**	**–**	**30**
Derivatives used as net investment hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	–	2	–	0
Total currency-related instruments	**–**	**2**	**–**	**0**
Total derivatives used as net investment hedges	**–**	**2**	**–**	**0**
Total	**3,032**	**3,587**	**2,145**	**1,889**

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

Derivatives have been entered into with the following counterparties:

€ mn	Fair value as at 31 Dec 2014		Fair value as at 31 Dec 2013	
	positive	negative	positive	negative
OECD banks	2,641	3,557	1,921	1,838
Companies and private individuals	391	30	224	51
Total	**3,032**	**3,587**	**2,145**	**1,889**

The following overview (p. 178) 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 2014

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total 31 Dec 2014
Interest rate instruments					
Interest rate swaps					
Cash inflows	223	605	2,182	820	3,830
Cash outflows	217	439	1,831	659	3,146
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	–	–	–
Caps, floors					
Cash inflows	0	2	8	3	13
Cash outflows	0	2	8	3	13
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	3,365	251	4	–	3,620
Cash outflows	3,404	248	–	–	3,652
Cross-currency swaps					
Cash inflows	98	1,371	6,414	798	8,681
Cash outflows	125	1,534	6,941	870	9,470
Other transactions					
Credit default swaps					
Cash inflows	–	0	0	–	0
Cash outflows	–	–	–	–	–
Total cash inflows	**3,686**	**2,229**	**8,608**	**1,621**	**16,144**
Total cash outflows	**3,746**	**2,223**	**8,780**	**1,532**	**16,281**

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

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€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total 31 Dec 2013
Currency-related instruments					
Spot and forward foreign exchange transactions					
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**

(75) Day-one profit or loss

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

The table below shows the development of the day-one profit 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	2014	2013
Balance as at 1 January	**27**	**10**
Additions from new transactions	15	21
Reversals through profit or loss in the period	9	4
Changes in basis of consolidation	9	–
Balance as at 31 December	**42**	**27**

(76) Maturities of financial liabilities

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

Maturities as at 31 December 2014

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

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**

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

Segment Reporting

(77) Operating segments of Aareal Bank

In the financial year 2014, 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 th e 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 commercial property financing solutions, in particular for office buildings, hotels, 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 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.

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

We operate our IT system consultancy and related advisory services for the housing and commercial property sector through our Aareon AG subsidiary, which can call upon more than 60 years in the business. With its portfolio consisting of software, services and advisory offerings, Aareon supports property companies to optimise and automate their internal and external business processes, e.g. in relation to tenants and business partners. The quality of these processes can thus be further improved overall. Aareon is active in several 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 the UK and SG|tobias and the SG|tobias^{AX} product generation in the Netherlands. Our Swedish subsidiary Incit AB, which is also represented in the Netherlands and in Norway, offers the ERP system Incit Xpand. Aareon's ERP solutions may be used by customers in various types of operating environments, depending on the product: software as a service provided through the exclusive Aareon Cloud, ASP (Application Service Providing), hosting and in-house services. ERP solutions and integrated services, together with additional services, support the process-efficient cooperation between 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 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 its Housing Industry division, Aareal Bank operates its automated mass payments system BK 01. In this context, the Bank performs payment transactions and account maintenance for its clients in Germany and integrates both in the customers' IT systems. The Housing Industry division's clients are part of the housing and commercial property industries, as well as of the utilities and waste disposal industries. The settlement of payment transactions via Aareal Bank generates deposits that contribute significantly to Aareal Bank Group's refinancing base.

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 interests and after AT 1 interest) to the portion of 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.

(78) Segment results

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	2014	2013	2014	2013	2014	2013	2014	2013
€ mn								
Net interest income	687	519	0	0	1	8	688	527
Allowance for credit losses	146	113					146	113
Net interest income after allowance for credit losses	**541**	**406**	**0**	**0**	**1**	**8**	**542**	**414**
Net commission income	4	10	163	165	-3	-10	164	165
Net result on hedge accounting	5	-6					5	-6
Net trading income/expenses	2	18					2	18
Results from non-trading assets	2	-8					2	-8
Results from investments accounted for using the equity method	0		0	0			0	0
Administrative expenses	255	201	187	177	-3	-3	439	375
Net other operating income/expenses	3	-10	4	1	-1	-1	6	-10
Negative goodwill from the acquisition of Corealcredit	154						154	
Operating profit	**456**	**209**	**-20**	**-11**	**0**	**0**	**436**	**198**
Income taxes	109	65	-8	-3			101	62
Net income/loss	**347**	**144**	**-12**	**-8**	**0**	**0**	**335**	**136**
Allocation of results								
Net income/loss attributable to non-controlling interests	16	16	3	3			19	19
Net income/loss attributable to shareholders of Aareal Bank AG	331	128	-15	-11	0	0	316	117
Allocated equity	1,327	1,151	117	101	632	690	2,076	1,942
Cost/income ratio (%)	36.2	38.5	111.9	106.7			50.6	54.7
RoE before taxes (%) [1)]	30.6	13.8	-19.4	-14.0			18.5	7.5
Employees (average)	**873**	**743**	**1,644**	**1,576**			**2,517**	**2,319**
Segment assets	**40,221**	**34,782**	**9,336**	**8,199**			**49,557**	**42,981**
Investments accounted for using the equity method	1	1	0	0			1	1
Segment investments	5	6	9	29			14	35
Segment depreciation/amortisation	8	7	13	13			21	20

[1)] Within the context of calculating earnings for the purpose of determining RoE, net interest payable on the SoFFin silent participation was deducted for the first time, to enable an assessment based on economic substance. Likewise, the SoFFin silent participation was deducted from equity used to calculate RoE. The comparative figure was adjusted accordingly.

(79) Results by geographical region

	Germany		International		Consolidation/ Reconciliation		Aareal Bank Group	
	2014	2013	2014	2013	2014	2013	2014	2013
€ mn								
Net interest income	225	154	463	373			688	527
Allowance for credit losses	11	6	135	107			146	113
Net interest income after allowance for credit losses	**214**	**148**	**328**	**266**			**542**	**414**
Net commission income	103	109	61	56			164	165
Net result on hedge accounting	2	0	3	-6			5	-6
Net trading income/expenses	1	8	1	10			2	18
Results from non-trading assets	0	0	2	-8			2	-8
Results from investments accounted for using the equity method	0		0	0			0	0
Administrative expenses	264	216	175	159			439	375
Net other operating income/expenses	-9	-2	15	-8			6	-10
Negative goodwill (day-one gain) from the acquisition of Corealcredit	154						154	
Operating profit	**201**	**47**	**235**	**151**			**436**	**198**
Allocated equity	450	287	994	965	632	690	2,076	1,942
Cost/income ratio (%)	81.6	80.4	32.1	38.1			50.6	54.7
RoE before taxes (%) [1]	41.8	12.6	19.7	11.3			18.5	7.5
Employees (average)	**1,586**	**1,437**	**931**	**882**			**2,517**	**2,319**

[1] Within the context of calculating earnings for the purpose of determining RoE, net interest payable on the SoFFin silent participation was deducted for the first time, to enable an assessment based on economic substance. Likewise, the SoFFin silent participation was deducted from equity used to calculate RoE. The comparative figure was adjusted accordingly.

(80) Consulting/Services Segment – Reconciliation of the Income Statement

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

€ 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**
	2014		0	163		0	187	4		**-20**	-8	**-12**
	2013		0	165		0	177	1		**-11**	-3	**-8**
Income statement classification – industrial enterprise												
Sales revenue	2014	185		185								
	2013	187		187								
Own work capitalised	2014	5					5					
	2013	4					4					
Changes in inventory	2014	0						0				
	2013	0						0				
Other operating income	2014	8						8				
	2013	6						6				
Cost of materials purchased	2014	22		22								
	2013	22		22								
Staff expenses	2014	131					131					
	2013	122					122					
Depreciation, amortisation and impairment losses	2014	14					14					
	2013	14					14					
Result from investments accounted for using the equity method	2014	0				0						
	2013	0				0						
Other operating expenses	2014	51					47	4				
	2013	50					45	5				
Interest and similar income/expenses	2014	0	0									
	2013	0	0									
Operating profit	**2014**	**-20**	**0**	**163**		**0**	**187**	**4**				
	2013	**-11**	**0**	**165**		**0**	**177**	**1**				
Income taxes	2014	-8									-8	
	2013	-3									-3	
Segment result	**2014**	**-12**										
	2013	**-8**										

Transparency

Remuneration Report

The remuneration report for the 2014 financial year contains detailed information on the remuneration of Aareal Bank AG Management Board members, its senior executives, and its employees. While the regulatory disclosure requirements were so far derived from sections 7 and 8 of the German Regulation on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung – "InstitutsVergV") dated 13 October 2010, and the respective separate reports have been disclosed on the Bank's homepage, for the first time Aareal Bank as a significant institution is providing a description (qualitative disclosure) of the remuneration systems on a uniform basis in the Group Annual Report for the 2014 financial year in accordance with section 16 (1) of the amendment to the InstitutsVergV dated 16 December 2013 as well as the Capital Requirements Regulation (CRR). The quantitative disclosures on the remuneration of Management Board members, employees as well as senior executives required according to the CRR will be produced only after the financial year's reporting date – and be disclosed by the end of June in the following year on Aareal Bank AG's homepage.

Aareal Bank's remuneration systems for Management Board members, employees as well as senior executives were adjusted to the regulatory requirements resulting from the amendment to the InstitutsVergV dated 16 December 2013 as well as the German Corporate Governance Kodex (the "Code") as amended on 13 May 2013. The Bank has adjusted its remuneration systems to the regulatory requirements, with the involvement of external consultants. The differing remuneration systems of Management Board members, employees as well as senior executives are based on the same framework, but also include a proportionate factor: they take into consideration the heterogeneous company structure and the different activities of various groups of employees.

(81) Remuneration system for the Management Board

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

Responsibilities and procedures of Aareal Bank AG regarding remuneration policies

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

At its meeting on 12 December 2013, the Supervisory Board of Aareal Bank AG adjusted the Board's rules of procedure with effect from 1 January 2014 and has established a Remuneration Control Committee. This Remuneration Control Committee (Vergütungskontrollausschuss) fulfils the requirements according to section 25d (12) of the German Banking Act (Kreditwesengesetz, KWG) and section 15 of the InstitutsVergV, and held nine meetings throughout the 2014 financial year. The Bank's remuneration system was adjusted with effect from 1 January 2014, involving external advisors, in order to implement the revised InstitutsVergV, as amended on 16 December 2013.

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

Success criteria and parameters

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

Performance-related remuneration

Remuneration parameters

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

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

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

The initial value of the performance-related remuneration may increase – depending on the Management Board member's degree of target achievement – up to a maximum of 150 % (previously 200 %) of the target value. If the overall target achievement level exceeds 150 %, the initial value of the performance-related remuneration will not increase any further (cap). If the overall target achievement level is 0 %, no performance-related remuneration will be awarded for the financial year concerned. Unconscionable behaviour or behaviour in breach of duties cannot be balanced out by positive performance contributions in other areas and will automatically lead to an appropriate reduction in the variable remuneration. The variable remuneration generally depends on the Supervisory Board's decision to provide for the applicable financial year an amount sufficient for all variable remuneration components to be paid out (mathematically) according to section 45 (2) sentence 1 no. 5a of the KWG and section 7 of the InstitutsVergV.

Retention of variable remuneration components and penalty criteria

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

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

With regard to the portion of the variable remuneration that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one third of the amount, as well as the associated interest, in the three years following the determination of the performance-related remuneration (retention period). Until the end of the retention period, there is no right to the relevant remuneration components. Once the deferred remuneration components for Management Board members are vested, the cash deferral is paid out in cash and the share deferral is converted into 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, that of his section, as well as any weakness in the performance of Aareal Bank Group (backtesting). The existence of a negative aspect in the performance of a Management Board member is to be assumed, in particular, if serious breaches of duty and / or performance deficiencies are discovered, which lead to the performance contributions – which were initially assumed to be positive – being later shown to have not been sustained. A negative performance contribution on the part of the section within the respective Management Board member's responsibility, or of Aareal Bank Group, is to be assumed if significant assumptions which formed the basis of the calculation of the variable remuneration are later proven to be incorrect or unsustainable. The Supervisory Board may award the deferred variable remuneration components in full, partially, or not at all. If the full amount of the bonus is not awarded, the remaining sum is forfeited, i.e. it is not carried forward into subsequent years. An award of the deferred variable remuneration components will not be made insofar and for so long as the German Federal Financial Supervisory Authority ("BaFin") forbids this according to section 45b (2) sentence 1 nos. 5a and 6 of the KWG. The entitlement no longer exists if BaFin so orders by way of a final and conclusive decision pursuant to section 45 (5) sentences 5 to 8 of the KWG.

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

Members of the Management Board may not undertake to limit or override the risk orientation of their remuneration by initiating personal protection or countermeasures (hedging ban).

Share Bonus Plan

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

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

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

Share Deferral Plan

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

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

Remuneration

The Management Board members' fixed annual salary has been raised in relation to the amended version of the InstitutsVergV dated 16 December 2013. At the same time, the initial value of Management Board members' variable remuneration (to be awarded in case of a 100% overall target achievement level) has been reduced. The target remuneration of the Management Board members (fixed annual salary and variable remuneration, given a 100% target achievement) has remained unchanged. The maximum remuneration possible (fixed annual salary plus variable remuneration, given a 150% target achievement) has been decreased by 22 % for Management Board members, due to the restriction of the overall target achievement level from 200 % to 150 %. This ensures that the requirements according to section 25a (5) of the KWG – regarding a ratio of variable to fixed remuneration of 1:1 and the maximum target achievement threshold – are respected at all times.

The following table shows the remuneration approved in the year under review: The variable remuneration components are indicated as a degree of target achievement.

Information as defined in article 4.2.4. and 4.2.5. of the Code and section 314 (1) no. 6a of the HGB

Remuneration paid	Dr Wolf Schumacher – Management Board				Hermann J. Merkens – Management Board			
	2013	2014	2014 (min)[1]	2014 (max)[2]	2013	2014	2014 (min)[1]	2014 (max)[2]
€								
Fixed remuneration	1,100,000.00	1,350,000.00	1,350,000.00	1,350,000.00	700,000.00	880,000.00	880,000.00	880,000.00
Ancillary benefits	27,751.91	28,223.89	28,223.89	28,223.89	55,758.86	58,128.36	58,128.36	58,128.36
Total	**1,127,751.91**	**1,378,223.89**	**1,378,223.89**	**1,378,223.89**	**755,758.86**	**938,128.36**	**938,128.36**	**938,128.36**
Variable remuneration based on a single-year assessment	363,000.00	364,280.00	–	420,000.00	215,160.00	208,640.00	–	240,000.00
Variable remuneration based on a multiple-year assessment								
Cash deferral 2014 (March 2018)	–	546,420.00	–	630,000.00	–	312,960.00	–	360,000.00
Share bonus 2014 (March 2018)	–	364,280.00	–	420,000.00	–	208,640.00	–	240,000.00
Share deferral 2014 (March 2020)	–	546,420.00	–	630,000.00	–	312,960.00	–	360,000.00
Cash deferral 2013 (March 2017)	544,500.00	–	–	–	322,740.00	–	–	–
Share bonus 2013 (March 2017)	363,000.00	–	–	–	215,160.00	–	–	–
Share deferral 2013 (March 2019)	544,500.00	–	–	–	322,740.00	–	–	–
Total	**1,815,000.00**	**1,821,400.00**	**–**	**2,100,000.00**	**1,075,800.00**	**1,043,200.00**	**–**	**1,200,000.00**
Benefit expense	775,493.00	770,232.00	770,232.00	770,232.00	342,021.00	334,369.00	334,369.00	334,369.00
Total remuneration	**3,718,244.91**	**3,969,855.89**	**2,148,455.89**	**4,248,455.89**	**2,173,579.86**	**2,315,697.36**	**1,272,497.36**	**2,472,497.36**

[1] Minimum amount of the remuneration component granted in the year under review. [2] Maximum amount of the remuneration component granted in the year under review.

Remuneration paid	**Dagmar Knopek – Management Board – 1 June 2013**[1]				**Thomas Ortmanns – Management Board**			
	2013	**2014**	**2014 (min)**[2]	**2014 (max)**[3]	**2013**	**2014**	**2014 (min)**[2]	**2014 (max)**[3]
€								
Fixed remuneration	408,333.33	880,000.00	880,000.00	880,000.00	700,000.00	880,000.00	880,000.00	880,000.00
Ancillary benefits	17,291.18	34,477.93	34,477.93	34,477.93	28,418.29	29,284.82	29,284.82	29,284.82
Total	**425,624.51**	**914,477.93**	**914,477.93**	**914,477.93**	**728,418.29**	**909,284.82**	**909,284.82**	**909,284.82**
Variable remuneration based on a single-year assessment	125,510.00	208,160.00	–	240,000.00	215,160.00	207,040.00	–	240,000.00
Variable remuneration based on a multiple-year assessment								
Cash deferral 2014 (March 2018)	–	312,240.00	–	360,000.00	–	310,560.00	–	360,000.00
Share bonus 2014 (March 2018)	–	208,160.00	–	240,000.00	–	207,040.00	–	240,000.00
Share deferral 2014 (March 2020)	–	312,240.00	–	360,000.00	–	310,560.00	–	360,000.00
Cash deferral 2013 (March 2017)	188,265.00	–	–	–	322,740.00	–	–	–
Share bonus 2013 (March 2017)	125,510.00	–	–	–	215,160.00	–	–	–
Share deferral 2013 (March 2019)	188,265.00	–	–	–	322,740.00	–	–	–
Total	**627,550.00**	**1,040,800.00**	**–**	**1,200,000.00**	**1,075,800.00**	**1,035,200.00**	**–**	**1,200,000.00**
Benefit expense	253,884.00	217,560.00	217,560.00	217,560.00	450,560.00	442,635.00	442,635.00	442,635.00
Total remuneration	**1,307,058.51**	**2,172,837.93**	**1,132,037.93**	**2,332,037.93**	**2,254,778.29**	**2,387,119.82**	**1,351,919.82**	**2,551,919.82**

[1] Ms Knopek was appointed to the Management Board on 1 June 2013. [2] Minimal amount of the remuneration component granted in the year under review.
[3] Maximum amount of the remuneration component granted in the year under review.

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

	Reference values for variable remuneration 2014	**Reference values for variable remuneration 2013**
€		
Dr Wolf Schumacher	1,400,000.00	1,650,000.00
Hermann J. Merkens	800,000.00	978,000.00
Dagmar Knopek	800,000.00	978,000.00
Thomas Ortmanns	800,000.00	978,000.00
Total	**3,800,000.00**	**4,584,000.00**

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

The following table shows the portion of the variable component attributable to share-based payment arrangements as well as the corresponding number of virtual shares granted in 2014/2013:

	Year	Share-based payment	
		Value (€)	Quantity (number)[1]
Dr Wolf Schumacher	2014	910,700.00	27,356.56
	2013	907,500.00	31,521.36
Hermann J. Merkens	2014	521,600.00	15,668.37
	2013	537,900.00	18,683.57
Dagmar Knopek[2]	2014	520,400.00	15,632.32
	2013	313,775.00	10,898.75
Thomas Ortmanns	2014	517,600.00	15,548.21
	2013	537,900.00	18,683.57

[1] The stated number of virtual shares granted for 2014 is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2014 (€ 33.29). The final conversion rate may only be determined after publication of the 2014 preliminary results.
[2] Ms Knopek was appointed to the Management Board on 1 June 2013.

Supplementary agreement

The exercise of virtual shares granted to members of the Management Board has been adjusted in connection with the overall adjustments made to the remuneration systems. Based on the service contracts of Management Board members effective until 31 December 2013, Management Board members were allowed to indicate the desired time of disbursement to the Chairman of the Supervisory Board in connection with the option arrangements formerly agreed upon and the respective disbursement of the earned virtual shares at the Management Board member's disposal. However, as the Management Board members' service contracts have been amended as at 1 January 2014, this option arrangement was cancelled and the Supervisory Board decided to disburse all virtual shares at the Management Board members' disposal based on former contractual agreements in 2014, using a supplementary agreement. Accordingly, this related to all virtual shares that were no longer subject to any holding or blocking period as at 26 March 2014 (and which Management Board members have been free to dispose of, in some cases since the vesting in 2007). With this one-off payment, the Management Board members voluntarily waived all rights, claims and contingent remainders arising from and in connection with these virtual shares.

Those virtual shares granted for previous financial years which were promised to Management Board members (but not vested) or were subject to a holding or retention period on 26 March 2014 will be automatically converted and paid out following the expiry of the respectively applicable holding or retention period on the basis of the weighted average price (Xetra®) of the five exchange trading days following the expiry of the period in accordance with the new service contracts of Management Board members effective from 1 January 2014.

Other remuneration

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

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

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the service contract apply to the members of the Management Board. Pursuant to these provisions, they are entitled to claim pension benefits upon completion of their 60th year of age. In the event of permanent disability, a Management Board member may be entitled to claim benefits prior to turning 61. Ms Knopek has been granted pension commitments currently still forfeitable: an entitlement to claim pension benefits upon completion of the 62nd year of age only exists at the beginning of the second term of appointment.

	2014			2013		
€ 000's	Pension claims p.a.[1]	Balance of pension obligations (DBO) as at 31 Dec 2014	Increase of pension obligations (DBO) in 2014	Pension claims p.a.[1]	Balance of pension obligations (DBO) as at 31 Dec 2014	Increase of pension obligations (DBO) in 2014
Dr Wolf Schumacher	394	7,645	2,802	379	4,843	775
Hermann J. Merkens	230	4,335	1,936	220	2,399	342
Dagmar Knopek[2]	–	738	484	–	254	254
Thomas Ortmanns	230	4,101	1,662	220	2,439	450
Total	**854**	**16,819**	**6,884**	**819**	**9,935**	**1,821**

[1] The pension claims were calculated for pension benefits paid at the earliest possible date.
[2] Mrs 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 cost incurred in the 2014 financial year in connection with the pension claims of Management Board members totalled € 1.8 million (2013: € 1.8 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 € 11.3 million in the year under review (2013: € 1.3 million). The total amount of pension obligations was € 39.1 million (2013: € 27.8 million). Of that amount, € 22.3 million related to former members of the Management Board and their surviving dependants (2013: € 18.0 million). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 0.8 million (2013: € 0.8 million).

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

In the case of a termination of a Management Board position due to a change of control, the following provisions are applicable: in the case of a compulsory loss of a Management Board position, the Management Board members are to be paid the fixed remuneration component, the performance-based remuneration as well as the contractually-agreed benefits for the remainder of the term of the contract.

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

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

During the term of a SoFFin stabilisation measure, Management Board members were not entitled to any severance pay in the event of an early termination or resignation due to a change of control. The fulfilment of a Management Board member's contractual remuneration claims arising from the employment contract were not limited by the framework agreement entered into with SoFFin.

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

The Management Board of Aareal Bank AG is responsible for the structures of the remuneration system for risk takers. The former remuneration system for risk takers has been reviewed with effect from 2014. The variable remuneration for 2015 follows the new regulations for the first time.

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

The remuneration of all employee groups consists of a fixed and a variable remuneration, plus other contractually agreed benefits, if applicable. Regarding the group of risk takers, the variable component features particular characteristics in order to provide for the specific requirements of the InstitutsVergV. The Management Board decides on the total amount of the variable remuneration for employees at the end of the financial year in a formalised, transparent and conceivable process. This total amount also includes the variable remuneration components for risk takers. The pool for the variable remuneration consists of a performance component and an income component. The performance component takes into account the target-dependant remuneration of all employees, while the income component takes into account the Group's overall profit by means of including the profit factor. The Group's overall profit depends on Aareal Bank Group's sustainable business results by taking into consideration the operating profit before taxes as well as underlying risk (measured as risk-weighted assets). The so-called profit factor is calculated by multiplying the target achievement regarding the operating profit before taxes with the target achievement regarding risk-weighted assets, finally influencing the income component. The

Bank's Management Board and Supervisory Board jointly determine the target values for the operating profit before taxes and the risk-weighted assets based on the Bank's medium-term planning no later than at the beginning of every financial year. Maximum target achievement regarding operating profit before taxes is limited to 150 %; regarding risk-weighted assets, it is limited to 125 %. In the case of a negative target achievement regarding operating profit before taxes and risk-weighted assets, not only the income component might be cancelled, but the performance component might also be set to nil. This being the case, the pool for the variable remuneration would be entirely cancelled.

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

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

Cornerstones of the risk analysis carried out

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

Aareal Bank carried out a risk analysis to identify risk takers in the financial year 2014, covering all employee groups below Management Board level, i.e. senior executives, non-tariff employees and tariff employees of Aareal Bank AG including its branches, representative offices and subsidiaries in Germany and abroad.

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

Remuneration model for risk takers

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

Risk takers' variable remuneration consists of four components:

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

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

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

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

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

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

(83) Remuneration governance

Remuneration Control Committee

In exercising its control functions, the Supervisory Board of Aareal Bank has established a Remuneration Control Committee as of 1 January 2014, which supports the Supervisory Board according to section 15 of the InstitutsVergV in conjunction with section 25d (12) of the KWG regarding the implementation of appropriate remuneration systems for Management Board members, as well as for the supervision of the remuneration systems for employees. One of the duties of the Remuneration Control Committee is to monitor the remuneration systems' influence on the risk, capital, and liquidity situation of Aareal Bank – and to ensure an appropriate alignment of the business, risk and remuneration strategies. The Remuneration Control Committee also monitors the appropriateness of the remuneration systems, responds to Supervisory Board enquiries, and reports on the appropriateness of the remuneration system's structure at least once a year by producing a remuneration report. The Remuneration Control Committee shall be convened whenever necessary, but at least four times a year.

The members of the Remuneration Control Committee are:

- Marija G. Korsch as Chairman
- York-Detlef Bülow as Deputy Chairman
- Erwin Flieger as Deputy Chairman
- Dieter Kirsch
- Prof Dr Stephan Schüller

Risk Committee

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

Remuneration Officer

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

(84) Remuneration of the Supervisory Board

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

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

The fixed remuneration is € 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 is increased by € 15,000 p.a. for each membership in a committee (with the exception of the Committee for Urgent Decisions, which is part of the Risk Committee). The fixed remuneration is increased by € 30,000 p.a. for the chairmanship of a committee (with the exception of the Committee for Urgent Decisions). The meeting attendance compensation amounts to € 1,000.00 for each meeting attended (except for meetings of the Committee for Urgent Decisions).

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

The individual amount of the remuneration for the Supervisory Board is shown in the following table. The figures in the table do not include the reimbursement for VAT (19 %).

€	Year	Fixed remuneration	Attendance fees	Total remuneration
Marija G. Korsch, Chairman (since 22 May 2013)	2014	180,000.00	35,000.00	215,000.00
	2013	103,000.00	16,000.00	119,000.00
Erwin Flieger, Deputy Chairman	2014	90,000.00	29,000.00	119,000.00
	2013	75,000.00	16,000.00	91,000.00
York-Detlef Bülow, Deputy Chairman	2014	90,000.00	28,000.00	118,000.00
	2013	75,000.00	17,000.00	92,000.00
Christian Graf von Bassewitz	2014	60,000.00	15,000.00	75,000.00
	2013	60,000.00	15,000.00	75,000.00
Manfred Behrens	2014	30,000.00	7,000.00	37,000.00
	2013	30,000.00	4,000.00	34,000.00
Thomas Hawel	2014	30,000.00	7,000.00	37,000.00
	2013	30,000.00	5,000.00	35,000.00
Dieter Kirsch	2014	60,000.00	20,000.00	80,000.00
	2013	45,000.00	10,000.00	55,000.00
Dr Herbert Lohneiß	2014	45,000.00	11,000.00	56,000.00
	2013	45,000.00	10,000.00	55,000.00
Joachim Neupel	2014	75,000.00	17,000.00	92,000.00
	2013	75,000.00	16,000.00	91,000.00
Richard Peters, Member (since 22 May 2013)	2014	30,000.00	7,000.00	37,000.00
	2013	18,250.00	3,000.00	21,250.00
Hans W. Reich, Chairman (until 22 May 2013)	2014	–	–	–
	2013	59,166.66	8,000.00	67,166.66
Prof Dr Stephan Schüller	2014	75,000.00	23,000.00	98,000.00
	2013	60,000.00	17,000.00	77,000.00
Helmut Wagner	2014	30,000.00	7,000.00	37,000.00
	2013	30,000.00	6,000.00	36,000.00
Total	**2014**	**795,000.00**	**206,000.00**	**1,001,000.00**
	2013	**705,416.66**	**143,000.00**	**848,416.66**

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2014. Therefore, no additional remuneration was paid.

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

Valuation model and valuation assumptions

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

Amount of cash-settled share-based payment transactions

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

	2014	2013
Quantity (number)		
Balance (outstanding) as 1 January	**949,366**	**737,665**
Granted	190,627	386,473
of which: vested	128,930	170,764
of which: awarded on a provisional basis	61,697	215,709
Expired	–	–
Exercised	496,169	174,772
Balance (outstanding) as 31 December	**643,824**	**949,366**
of which: exercisable	–	130,227

The fair value of the virtual shares granted during the reporting period amounts to € 6,345,981.42 (2013: € 11,126,553.70) 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 € 31.38 (2013: € 17.71).

The virtual shares outstanding at 31 December 2014 have a limited contract term. The weighted average remaining contract term of these virtual shares amounts to 429.26 days (2013: 717.08 days).

Effects on financial position and performance

The total amount expensed for share-based payment transactions was € 13.3 million during the financial year 2014 (2013: € 17.7 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 3.7 million (2013: € 4.4 million) and can be broken down to the individual members of the Management Board as follows:

	2014	2013
€		
Dr Wolf Schumacher	1,305,912	1,431,503
Hermann J. Merkens	974,595	1,753,722
Dagmar Knopek[1)]	517,672	321,192
Thomas Ortmannss	748,244	819,124
Dirk Große Wördemann[2)]	179,102	44,707

[1)] Ms Knopek was appointed to the Management Board on 1 June 2013.
[2)] Mr Große Wördemann retired with effect from 31 May 2013.

The intrinsic value of the virtual shares exercisable at the reporting date amounted to € 0 (2013: € 3.8 million), since there were no exercisable virtual shares at that date. The obligation from share-based payment transactions as at 31 December 2014 amounts to € 31.3 million (2013: € 32.1 million). It is reported in the statement of financial position in the line item "Provisions".

Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG and its subsidiaries, plus first-level managers and experts of Aareal Bank AG (other related parties in accordance with IASs).

Total remuneration of executives in key positions is analysed below:

€ 000's	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Short-term benefits	18,588	18,077
Post-employment benefits	9,310	4,170
Other long-term benefits	3,298	2,906
Termination benefits	–	–
Share-based payment	5,607	5,037
Total	**36,803**	**30,190**

Other Notes

(86) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2014	31 Dec 2013
USD	9,086	7,639
GBP	3,986	2,920
SEK	1,589	1,452
CHF	424	336
DKK	438	434
JPY	354	197
Other	452	315
Total	**16,329**	**13,293**

Foreign currency liabilities

€ mn	31 Dec 2014	31 Dec 2013
USD	9,060	7,651
GBP	3,935	2,936
SEK	1,606	1,494
CHF	419	333
DKK	445	414
JPY	298	197
Other	444	305
Total	**16,207**	**13,330**

(87) Subordinated assets

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

There were no subordinated assets in the financial year 2014 (2013: –).

(88) Leases

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

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 2014	31 Dec 2013
Aareal Bank Group as lessee		
up to 1 year	14	14
longer than 1 year, and up to 5 years	37	34
longer than 5 years	25	29
Total minimum lease payments	**76**	**77**
Aareal Bank Group as lessor		
up to 1 year	17	14
longer than 1 year, and up to 5 years	70	42
longer than 5 years	46	8
Total minimum lease payments	**133**	**64**

In the financial year, lease payments of € 20 million (2013: € 18 million) were recognised as expenses in the financial year.

(89) Trust business

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

€ mn	31 Dec 2014	31 Dec 2013
Trust assets		
Loans and advances to customers	204	300
Non-trading assets	2	1
Total trust assets	**206**	**301**
Trust liabilities		
Liabilities to banks	14	43
Liabilities to customers	192	258
Total trust liabilities	**206**	**301**

(90) Contingent liabilities and loan commitments

€ mn	31 Dec 2014	31 Dec 2013
Contingent liabilities	140	120
Loan commitments	1,466	1,852
of which: irrevocable	920	1,328

Contingent liabilities include € 26 million (2013: € 37 million) in capital guarantees extended to DEPFA Deutsche Pfandbriefbank AG (within the scope of splitting the former DePfa Group), for the purpose of providing cover against risks of default with respect to the property loan portfolio held by DEPFA Deutsche Pfandbriefbank AG. € 2 million (2013: € 4 million) in provisions related to these capital guarantees was recognised as at 31 December 2014. These capital guarantees, and the values reported under loan commitments given represent the maximum default risk to which Aareal Bank Group is exposed at the end of the reporting period.

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

(91) Consolidated statement of cash flows

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

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

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

(92) Regulatory capital and capital management

As regards meeting minimum capital ratios, Aareal Bank Group has to comply with the capital adequacy requirements set out in the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD IV), the German Banking Act (Kreditwesengesetz, KWG) and the German Solvency Regulation (SolvV) pursuant to Basel III. This requires the Bank to maintain own funds of at least 8 % of its risk-weighted assets (total capital ratio). Risk-weighted assets had to be backed by Tier 1 capital of at least 5.5 % (Tier 1 ratio). Compliance with the capital requirements has to be reported to the competent supervisory authorities on a quarterly basis. The capital requirements were complied with at all times during the reporting period.

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

Taking into account the full implementation of Basel III requirements, Aareal Bank Group considers a Common Equity Tier 1 (CET1) ratio, excluding buffers, of at least 10.75 % and a total capital (TC) ratio, excluding buffers, of 19 %-20 % to be appropriate. These ratios are considerably above the legal minimum requirements. Compliance with the minimum requirements is planned to be ensured through the generation of profits, an active dividend policy, optimisation of the capital structure, and an efficient management of risk assets.

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

Aareal Bank Group's regulatory capital is composed of the following:[1]

€ mn	31 Dec 2014 [2]
Tier 1 capital (T1)	
Subscribed capital and capital reserves	899
Eligible retained earnings	1,250
Accumulated other comprehensive income	-18
Amounts to be deducted from CET 1 capital	-22

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[1] Since 1 January 2014, regulatory indicators have been determined in accordance with CRD IV/CRR, based on carrying amounts in accordance with IFRS. Until 31 December 2013, these indicators were calculated in accordance with the German Solvency Regulation (SolvV) and based on local GAAP (book values in accordance with the German Commercial Code (HGB)). The Bank therefore decided against stating comparative amounts.

[2] After confirmation of the financial statements 2014 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 2014. The appropriation of profits is subject to approval by the Annual General Meeting.

€ mn	31 Dec 2014 [2]
Sum total of Common Equity Tier 1 (CET 1)	2,109
AT1 bond	300
Silent participation	144
Other	193
Amounts to be deducted from additional tier 1 capital	-11
Sum total of additional tier 1 (AT1) capital	626
Sum total of Tier 1 capital (T1)	**2,735**
Tier 2 capital (T2)	
Silent participation	36
Subordinated liabilities	988
Profit-participation certificates	22
Other	48
Amounts to be deducted from tier 2 capital	-3
Sum total of Tier 2 capital (T2)	**1,091**
Total capital (TC)	**3,826**

[2] After confirmation of the financial statements 2014 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 2014. 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 2014 can be analysed as follows:

	EAD	Risk-weighted assets (RWA)			Regulatory capital requirements	EAD	RWA	Regulatory capital requirements
		AIRBA	CRSA	Total				
€ mn	31 Dec 2014	31 Dec 2014	31 Dec 2014	31 Dec 2014	31 Dec 2014	31 Dec 2013	31 Dec 2013	31 Dec 2013
Credit risks	**50,659**	**11,146**	**2,542**	**13,688**	**1,095**	**44,074**	**11,786**	**943**
Companies	32,089	8,667	1,884	10,551	844	27,555	9,877	790
Institutions	6,103	674	86	760	61	3,780	465	37
Public-sector entities	11,218	0	14	14	1	11,571	19	2
Other	1,249	1,805	558	2,363	189	1,168	1,425	114
Market price risks				**497**	**40**		**264**	**21**
Operational risks				**1,307**	**104**		**1,100**	**88**
Total	**50,659**	**11,146**	**2,542**	**15,492**	**1,239**	**44,074**	**13,150**	**1,052**

(93) Related party disclosures in accordance with IAS 24

Throughout the financial year 2014, 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 82 and close members of these persons' families. The group of companies related to Aareal Bank Group consists of the companies set out in Note 102 "List of Shareholdings" as well as the companies attributable to the related persons within the meaning of IAS 24.9 (b)(vi).

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

€ mn	31 Dec 2014	31 Dec 2013
Management Board	–	–
Supervisory Board	0.0	0.5
Other related parties	0.2	–
Total	**0.2**	**0.5**

Loans extended to members of the Supervisory Board generally have a term between ten and 18 years, and bear interest at (nominal) rates between 3.5 % and 5.12 %. Collateral was provided in line with usual market practice. In the year under review, repayments amounted to € 0.4 million. Deposits from other related parties bear interest at rates between 0.05 % and 1.45 %. Interest received and paid in this context had no material impact on the consolidated financial statements.

In the year under review, a placement commission in the amount of € 0.2 million was paid to a related company.

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

(94) Subsequent events after the reporting date

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

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

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

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

(95) List of offices held – corporate governance report

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

(96) Contingencies

By means of a Letter of Comfort, Aareal Bank AG ensures that Deutsche Structured Finance GmbH, Wiesbaden; 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.

(97) Notices pursuant to section 21 (1) of the WpHG

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

On 4 February 2015, Aareal Holding Verwaltungsgesellschaft mbH, Dusseldorf, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 3 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, fell below the thresholds of 3 %, 5 %, 10 %, 15 %, 20 % and 25 % and amounted to 0.0 % of the total number of voting rights of the mentioned company at that date (corresponding to 0 of a total of 59,857,221 voting rights).

On 4 February 2015, DEPFA Holding Verwaltungsgesellschaft mit beschränkter Haftung, Dusseldorf, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 3 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, fell below the thresholds of 3 %, 5 %, 10 %, 15 %, 20 % and 25 % and amounted to 0.0 % of the total number of voting rights of the mentioned company at that date (corresponding to 0 of a total of 59,857,221 voting rights).

On 5 February 2015, Versorgungsanstalt des Bundes und der Länder, Karlsruhe, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 3 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3 % and 5 %, and amounted to 6.50 % of the total number of voting rights of the mentioned company at that date (corresponding to 3,892,679 of a total of 59,857,221 voting rights).

On 5 February 2015, Deka Investment GmbH, Frankfurt, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 3 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3 % and 5 %, and amounted to 5.58 % of the total number of voting rights of the mentioned company at that date (corresponding to 3,341,623 of a total of 59,857,221 voting rights).

Of this share of voting rights, 5.58 % (corresponding to 3,341,623 voting rights) are attributable to the Deka Investment GmbH pursuant to section 22 (1) sentence 1 No. 6 of the WpHG. Voting rights are attributed to Deka Investment GmbH by the following shareholders, whose share of voting rights in Aareal Bank AG each amounts to 3 % or more:

- VBL Versorgungsanstalt des Bundes und der Länder

At the beginning of 2015, Deutsche Asset & Wealth Management Investment GmbH, Frankfurt, Germany, sent us two notifications of voting rights. In its last notification on 10 February 2015, Deutsche Asset & Wealth Management Investment GmbH, Frankfurt, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 6 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the threshold of 5 %, and amounted to 5.12 % of the total number of voting rights of the mentioned company at that date (corresponding to 3,062,157 of a total of 59,857,221 voting rights). Of this share of voting rights, 0.41 % of the total number of voting rights (corresponding to 243,400) are attributable to it pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.

On 30 October 2014, the German Financial Markets Stabilisation Fund (SoFFin), represented by the German Federal Agency for Financial Market Stabilisation (FMSA) notified us that, on 30 October 2014, the share of voting rights held by the Federal Republic of Germany fell below the thresholds of 3 %, 5 %, 10 %, 15 %, 20 % and 25 %, and amounted to 0.00 % at that date (corresponding to 0 voting rights).

JPMorgan Asset Management (UK) Limited, London, United Kingdom, issued several notifications of voting rights during 2014. The last notification, which was issued on 14 January 2015, reported a share of voting rights of 2.97 % (1,779,370 voting rights). Of this share of voting rights, 100 % are attributable to it pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.

The Fidelity Group, Boston, Massachusetts, USA, sent us two notifications of voting rights. In its last notification on 2 May 2014, the Fidelity Group notified us that, on 30 April 2014, the share of voting rights held by FMR LLC, Boston, Massachusetts, USA, exceeded the 3 % threshold, and amounted to 3.0088 % at that date (corresponding to 1,800,994 voting rights). Of this share of voting rights, 100 % are attributable to the FMR LLC pursuant to 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 2014. The last notification, which was issued on 1 July 2014, reported a share of voting rights of 5.43 % (3,251,220 voting rights). Of this share of voting rights, 1.51 % of the total number of voting rights (corresponding to 901,220 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 2014, we did not receive any further notifications on voting rights from Dimensional Group.

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

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

(99) Employees

The number of Aareal Bank Group employees[1] at 31 December 2014 is shown below:

	31 Dec 2014	31 Dec 2013
End-of-year numbers		
Salaried employees	2,386	2,251
Executives	162	124
Total	**2,548**	**2,375**
of which: Part-time employees	441	423

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

The average number of Aareal Bank Group employees in 2014[1)] is shown below:

	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Yearly average		
Salaried employees	2,374	2,196
Executives	143	123
Total	**2,517**	**2,319**
of which: Part-time employees	435	427

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

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

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

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

The following table (p. 212) shows the carrying amounts of assets and liabilities recognised by Aareal Bank Group as at the reporting date as well as the existing off-balance sheet risk exposures that relate to unconsolidated structured entities. The carrying amounts of the assets and off-balance sheet items correspond to the Group's maximum loss exposure from interest in unconsolidated structured entities (without taking into account collateral). The size of the structured entities was determined on the basis of the net fund assets for open-ended property funds, of total assets for leased property companies, and of the nominal value of the launched total issue for asset-backed security entities.

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

31 December 2014

€ mn	Open-ended property funds	Leased property companies	Asset-backed security (ABS) companies	Total
Assets	**105**	**86**	**129**	**320**
Loans and advances to customers	105	86	–	**191**
Non-trading assets	–	–	129	**129**
Liabilities	**–**	**–**	**–**	**–**
Off-balance sheet risk exposures	**–**	**–**	**–**	**–**
Size Range of structured units	**€ 378 mn– € 1,797 mn**	**€ 7 mn– € 55 mn**	**€ 22 mn– € 2,704 mn**	

(101) Country-by-Country Reporting

The disclosure requirements refer to information on registered office, revenue, taxes on profit or loss, received government assistance as well as wage and salary earners of Aareal Bank AG, together with its foreign branches and domestic and foreign subsidiaries included in the reporting entity-structure, prior to consolidation.

For this purpose, the Bank's entities – subsidiaries as well as Aareal Bank AG's foreign branches – are allocated to our two business segments, Structured Property Financing and Consulting/Services.

Aareal Bank defines the branch offices' operating profit, which is used as a proxy for revenue, as the sum of the following consolidated income statement items (in accordance with IFRSs):

- net interest income before allowance for credit losses;
- net commission income;
- net result on hedge accounting;
- net trading income/expenses;
- results from non-trading assets;
- results from investments accounted for using the equity method;
- results from investment properties;
- net other operating income/expenses; and
- negative goodwill.

Taxes disclosed are tax expenses in accordance with IFRSs.

The number of wage and salary earners relates to average full-time equivalent staff employed during the financial year.

The following overview shows all countries where Aareal Bank AG has offices, including foreign branches and subsidiaries. Please refer to the list of shareholdings as regards the allocation of individual subsidiaries to the relevant country of domicile. Aareal Bank AG's foreign branches are located in Belgium, France, Ireland, Italy, Poland, Sweden and the UK.

2014

	Revenues	Profit or loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**858**	**459**	**109**	**1,128**
Belgium	1	–	–	6
France	11	8	2	6
Germany	699	431	93	996
Ireland	11	4	-6	10
Italy	51	-65	-4	57
Netherlands	1	1	–	–
Poland	10	7	1	7
Singapore	2	–	–	5
Spain	–	–	–	–
Sweden	–	–	–	6
Switzerland	9	9	1	–
United Kingdom	11	9	-3	7
USA	77	55	24	28
Consolidation	-25	–	1	–
Consulting/Services segment	**166**	**-22**	**-8**	**1,267**
France	20	5	1	156
Germany	138	-33	-9	774
Netherlands	17	3	–	156
Norway	–	–	–	5
Sweden	8	1	–	73
United Kingdom	9	2	–	103
Consolidation	-26	–	–	–
Total	**1,024**	**437**	**101**	**2,395**

Government assistance was not received in the year under review.

Aareal Bank Group's return on assets, calculated as the ratio of net profit to total assets, was 0.59 % as at the record date.

(102) List of shareholdings pursuant to section 313 (2) of the HGB

The list of shareholdings is disclosed pursuant to section 313 (2) of the HGB. The disclosures in relation to the companies' equity and earnings are retrieved from the financial statements based on the respective local financial reporting principles.

31 December 2014

No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated subsidiaries				
2	1st Touch Ltd.	Southampton	100.0	GBP 2.2 mn	GBP 1.1 mn 2)
3	Aareal Bank Asia Ltd.	Singapore	100.0	SGD 17.8 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 205.9 mn	USD -0.7 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	2.2	0.1 1)
10	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	221.1	0.0 3)
11	Aareal Finanz und IT Beteiligungen GmbH	Wiesbaden	100.0	495.5	0.0 3)
12	Aareal Property Services B.V. i.L.	Amsterdam	100.0	30.4	0.9 1)
13	Aareal Valuation GmbH	Wiesbaden	100.0	0.5	0.0 3)
14	Aareon AG	Mainz	100.0	84.6	9.2
15	Aareon Deutschland GmbH	Mainz	100.0	32.2	0.0 3)
16	Aareon France S.A.S.	Meudon-la Forêt	100.0	4.1	1.3 2)
17	Aareon Immobilien Projekt GmbH	Essen	51.0	0.7	-0.2
18	Aareon Nederland B.V.	Emmen	100.0	16.7	3.2 2)
19	Aareon UK Ltd.	Coventry	100.0	GBP 3.3 mn	GBP 1.1 mn 2)
20	AHBR-Grundstücksverwaltungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.2	0.0 3)
21	AHBR Projektentwicklung GmbH	Frankfurt	100.0	0.7	0.0 2)
22	Aqvatrium AB	Stockholm	100.0	SEK 383.1 mn	SEK 0.0 mn 1)
23	arsago Alternative Investments SPC	Grand Cayman	67.0	n/a	n/a
24	Aufbaugesellschaft Prager Straße mbH	Wiesbaden	100.0	0.1	0.0 1)
25	BauContact Immobilien GmbH	Wiesbaden	100.0	28.9	1.0
26	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 3)
27	BauGrund TVG GmbH	Munich	100.0	0.1	0.0 1)
28	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	3.0	2.9
29	berlinbiotechpark Management GmbH	Berlin	100.0	0.1	-0.1 2)
30	berlinbiotechpark Verwaltung GmbH	Berlin	89.6	0.2	0.0 2)

1) Preliminary figures as at 31 December 2014 2) Equity and results as at 31 December 2013
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
31	BGS-Beteiligungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.8	0.0 [3]
32	BVG – Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	216.6	0.0 [3]
33	COREALCREDIT BANK AG	Frankfurt	100.0	662.3	0.0 [3]
34	DBB Inka	Dusseldorf	100.0	100.9	0.4
35	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	1.3	-0.3
36	Deutsche Structured Finance GmbH	Wiesbaden	100.0	4.3	1.7 [1]
37	DSF berlinbiotechpark Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.1	0.0 [2]
38	DSF Elfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
39	DSF Energia Naturale S.r.l.	Rome	100.0	0.0	0.0 [2]
40	DSF Flugzeugportfolio GmbH	Wiesbaden	100.0	0.0	0.0 [3]
41	DSF Fünfzehnte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.1	0.0 [2]
42	DSF German Office Fund GmbH & Co. KG	Wiesbaden	94.0	0.4	-0.7 [1]
43	DSF Neunte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
44	DSF Solar Italien GmbH & Co. KG	Wiesbaden	100.0	0.0	0.0 [4]
45	DSF Treuhand GmbH	Frankfurt	100.0	0.1	0.0 [2]
46	DSF Vierte Verwaltungsgesellschaft mbH	Wiesbaden	100.0	2.2	0.0 [3]
47	DSF Zwölfte Verwaltungsgesellschaft mbH	Frankfurt	94.0	0.3	0.0 [2]
48	Facilitor B.V.	Enschede	51.0	1.0	0.6 [2]
49	GEV GmbH	Wiesbaden	100.0	18.0	0.0 [3]
50	GFI Gesellschaft für Investitionsberatung in Immobilien mit beschränkter Haftung	Frankfurt	100.0	0.1	0.0 [3]
51	GPP-Grundstücksgesellschaft Pariser Platz 6a mit beschränkter Haftung	Frankfurt	100.0	0.0	0.0 [3]
52	GVN-Grundstücks- und Vermögensverwaltungs-gesellschaft mit beschränkter Haftung	Frankfurt	100.0	52.5	0.0 [3]
53	IMMO Consulting S.r.l.	Rome	100.0	0.7	0.0 [1]
54	Incit AB	Mölndal	100.0	SEK 15.4 mn	SEK 1.1 mn [2]
55	Incit AS	Oslo	100.0	NOK 1.0 mn	NOK 0.0 mn [2]
56	Incit Nederland B.V.	Gorinchem	100.0	-0.6	0.1 [2]
57	IV Beteiligungsgesellschaft für Immobilien-investitionen mbH	Wiesbaden	100.0	2.1	0.1
58	Izalco Spain S.L.	Madrid	100.0	11.1	0.0 [3]
59	Jomo S.p.r.l.	Brussels	100.0	7.2	0.6 [1]
60	La Sessola Holding GmbH	Wiesbaden	100.0	104.7	-2.5 [1]
61	La Sessola S.r.l.	Rome	100.0	113.7	-5.4 [1]
62	La Sessola Service S.r.l.	Rome	100.0	2.3	-0.8 [1]
63	Main Triangel GmbH	Wiesbaden	94.0	76.6	-2.8 [1]
64	Main Triangel Gastronomie GmbH	Wiesbaden	100.0	0.3	-0.1 [1]
65	Mercadea S.r.l.	Rome	100.0	6.9	0.1 [1]
66	Mirante S.r.l.	Rome	100.0	13.9	-0.2 [1]
67	PLP Holding GmbH i.L.	Wiesbaden	100.0	0.3	0.0 [1]

[1] Preliminary figures as at 31 December 2014 [2] Equity and results as at 31 December 2013
[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	Real Verwaltungsgesellschaft mbH	Schönefeld	100.0	28.8	0.9
69	Rehabilitationsklinik Barby Besitzgesellschaft mbH	Wiesbaden	100.0	-4.6	0.0
70	Rehabilitationsklinik Templin Besitzgesellschaft mbH	Wiesbaden	100.0	-3.7	0.0
71	Sole Giano S.r.l. & Co. S.a.s.	Rome	100.0	-0.2	-0.1 [2]
72	Solon 1. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
73	Solon 2. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
74	Solon 3. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
75	Solon 4. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
76	Solon 5. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
77	Sustainable Solar Future – Hellas Limited Liability Company i.L.	Athen	99.0	0.0	0.0 [2]
78	Sustainable Solar Future Northern – Hellas Limited Liability Company i.L.	Athen	99.0	0.0	0.0 [2]
79	Sustainable Solar Thermal Future East – Crete Limited Liability Company	Heraklion	99.0	0.5	0.0 [2]
80	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99.9	4.7	0.0 [3]
	II. Joint ventures accounted for using the equity method				
81	BauGrund Immobilien-Management GmbH TREUREAL Property Management GmbH GbR	Bonn	50.0	n/a	n/a
82	DSF Zehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.1	0.0 [2]
83	SG2ALL B.V.	Huizen	50.0	0.4	0.2 [2]
	III. Associated companies accounted for using the equity method				
84	CredaRate Solutions GmbH	Cologne	25.9	2.0	0.4 [2]
85	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.4	0.0 [2]
86	Rathaus-Carrée Saarbrücken Verwaltungs GmbH i.L.	Cologne	25.0	0.1	0.0 [2]
87	Rathaus-Carrée Saarbrücken Verwaltungs GmbH & Co. KG	Cologne	25.0	0.1	0.0 [2]
88	Rehabilitationsklinik Uckermark GmbH i.L.	Templin	49.0	n/a	n/a
89	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	-0.2	0.0 [2]
90	Westhafen-Gelände Frankfurt am Main GbR	Frankfurt	33.3	0.1	0.0 [2]

[1] Preliminary figures as at 31 December 2014 [2] Equity and results as at 31 December 2013
[3] Profit transfer agreement/control and profit transfer agreement [4] Different financial year
n/a no data

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

Dunya Heß		
Aareal Property Services B.V. i.L.	Member of the Supervisory Board	
Uli Gilbert		
Terrain-Aktiengesellschaft Herzogpark	Member of the Supervisory Board	
Hans-Ulrich Kron, Bankdirektor		
Aareal Estate AG	Deputy Chairman of the Supervisory Board	
Terrain-Aktiengesellschaft Herzogpark	Deputy Chairman of the Supervisory Board	
Dr Stefan Lange, Bankdirektor		
Aareal Estate AG	Member of the Supervisory Board	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Aareal Property Services B.V. i.L.	Member of the Supervisory Board	since 25 July 2014
Corealcredit Bank AG	Member of the Supervisory Board	since 1 April 2014
Terrain-Aktiengesellschaft Herzogpark	Chairman of the Supervisory Board	
Thierry Nardon		
Corealcredit Bank AG	Member of the Supervisory Board	since 1 April 2014
Dirk Pasewald		
Aareal Property Services B.V. i.L.	Member of the Supervisory Board	
Markus Schmidt		
Aareal Property Services B.V. i.L.	Member of the Supervisory Board	until 25 July 2014

Composition of Supervisory Board's committees

Executive and Nomination Committee	
Marija G. Korsch	Chairman
Erwin Flieger	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Prof Dr Stephan Schüller	

Remuneration Control Committee	
Marija G. Korsch	Chairman
Erwin Flieger	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Dieter Kirsch	
Prof Dr Stephan Schüller	

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	

Audit Committee	
Joachim Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Christian Graf von Bassewitz	
York-Detlef Bülow	
Marija G. Korsch	

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

Supervisory Board

Marija G. Korsch, Chairman of the Supervisory Board		
Former partner of Bankhaus Metzler seel. Sohn & Co. Holding AG		
Aareal Bank AG	Chairman of the Supervisory Board	
Just Software AG	Member of the Supervisory Board	
Erwin Flieger, Deputy Chairman of the Supervisory Board		
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	until 28 February 2014
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	
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 of Swiss Life Deutschland Holding GmbH (until 31 March 2014)		
Aareal Bank AG	Member of the Supervisory Board	
tecis Finanzdienstleistungen AG	Chairman of the Supervisory Board	until 31 March 2014
Thomas Hawel*		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Deputy Chairman of the Supervisory Board	

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

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 Audit Committee	
German Chartered Accountant, tax consultant	
Aareal Bank AG	Member of the Supervisory Board

Richard Peters	
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder	
Aareal Bank AG	Member of the Supervisory Board
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board

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

* 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	until 1 December 2014
Corealcredit Bank AG	Chairman of the Supervisory Board	since 1 April 2014

Hermann Josef Merkens, Deputy Chairman 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	
Corealcredit Bank AG	Member of the Supervisory Board	since 1 April 2014
CredaRate Solutions GmbH	Deputy Chairman of the Supervisory Board	

Dagmar Knopek, Member of the Management Board	
Sales Units Structured Property Financing	
Aareal Bank Asia Limited	Member of the Board of Directors
Aareal Bank Asia Limited	CEO (Chairman)
Aareal Capital Corporation	Chairman of the Board of Directors
Aareon AG	Member of the Supervisory Board

Thomas Ortmanns, Member of the Management Board	
Housing Industry Division, 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, 2 March 2015

The Management Board

Dr Wolf Schumacher **Hermann J. Merkens** **Dagmar Knopek** **Thomas Ortmanns**

Auditors' Report

Independent Auditors' Report

To Aareal Bank AG, Wiesbaden

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aareal Bank AG, Wiesbaden and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the Notes to the consolidated financial statements for the business year from 1 January to 31 December, 2014.

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 2014 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 2014. 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, 3 March 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Transparency

Corporate Governance Statement pursuant to section 289a of the HGB

Declaration of Compliance in Accordance with Section 161 of the AktG

Aareal Bank AG has complied with the recommendations of the Government Commission "German Corporate Governance Code" (as amended on 13 May 2013) since the last Declaration of Compliance was issued in April 2014; and will continue to do so, except for the recommendations stated below.

In accordance with section 4.2.3 (2) sentence 6 of the German Corporate Governance Code (the "Code"), the amount of Management Board compensation shall be capped, both overall and for individual compensation components. In March 2014, against the background of changed regulatory requirements, and based upon a proposal by the Remuneration Control Committee, the Supervisory Board approved a new remuneration system for members of the Management Board, with effect from 1 January 2014. The new remuneration system complies with the recommendation in section 4.2.3 (2) sentence 6 of the Code. In this connection, a maximum amount ("cap") was resolved for the variable, performance-related remuneration component of the Management Board – for the 2013 financial year, and for subsequent financial years. As the only exception, no cap applies to virtual shares granted for the 2012 financial year or earlier financial years, or to virtual shares still to be granted under applicable rules governing the deferral of variable remuneration components. However, such virtual shares will be settled and disbursed for the last time in 2018, after expiry of the retention period and any applicable holding or blocking periods, based on the weighted average price (Xetra®) of the five exchange trading days following expiry of the period. All virtual shares that were no longer subject to any holding or blocking period as at 26 March 2014 (and which Management Board members have been free to dispose of, in some cases since the vesting in 2007), were disbursed to the members of the Management Board, under a separate addendum to their contracts.

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. Aareal Bank uses template no. 1 provided in the Appendix to the Code for the disclosure of Management Board remuneration; the Bank does not, however, use template no. 2. Due to the complexity involved in disclosing remuneration components disbursed, Aareal Bank will first review its disclosure procedures in 2015 before deciding whether to also include a presentation of fixed and variable remuneration disbursed in the Annual Report.

Pursuant to the German Act Implementing EU Directive 2013/36/EU (the "CRD IV Implementation Act" dated 28 August 2013), the Executive and Nomination Committee of Aareal Bank AG's Supervisory Board is required to assume additional tasks which are not supposed to be prepared by shareholder representatives on the Supervisory Board alone. Hence, the Executive and Nomination Committee also includes employee representative members, in contravention of the recommendation in section 5.3.3. of the Code. However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

Wiesbaden, December 2014

The Management Board

Dr Wolf Schumacher **Hermann J. Merkens**

Dagmar Knopek **Thomas Ortmanns**

The Supervisory Board

Marija G. Korsch (Chairman)

Corporate Governance Report

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and is considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board. Accordingly, Aareal Bank welcomes and supports the objectives and purposes of the German Corporate Governance Code, and regularly observes the amendments and extensions of the guidelines adopted by the German Government Commission on Corporate Governance.

The Supervisory Board discusses these amendments; together with the Management Board, the Supervisory Board determines to what extent Aareal Bank AG complies with – or diverges from – the recommendations of the German Corporate Governance Code. Accordingly, the Bank's Memorandum and Articles of Association, as well as the internal rules of procedure for the Management Board and the Supervisory Board, are reviewed regarding compliance, and amended as necessary. Our annual Declaration of Compliance gives information on the extent to which the Bank complies with recommendations. The Declaration of Compliance is adopted by the Management Board and the Supervisory Board, and then published on the Bank's website, where Declarations issued in past years are also archived.

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by all our employees across the enterprise, regardless of their functions and duties. Our internal Code of Conduct is an integral part of responsible corporate governance. The Code of Conduct contains binding rules governing the legal and ethical conduct of employees vis-à-vis clients, business partners, and colleagues. Aareal Bank's efforts in this context are also motivated by the desire to affirm and further strengthen the confidence placed by stakeholders – our clients, investors, and staff.

Recommendations of the German Corporate Governance Code

During 2014, the German Corporate Governance Code, as amended on 13 May 2013, was applicable. Aareal Bank's Management Board and Supervisory Board issued and signed their most recent Declaration of Compliance pursuant to section 161 of the German Public Limited Companies Act (AktG) on 4 December 2014. The Declaration was published on the Bank's website, and is included in this annual report as part of the Corporate Governance Statement.

In accordance with this Declaration, Aareal Bank AG complies with the Code, subject to the following restrictions:

In accordance with section 4.2.3 (2) sentence 6 of the German Corporate Governance Code (the "Code"), the amount of Management Board compensation shall be capped, both overall and for individual compensation components. In March 2014, against the background of changed regulatory requirements, and based upon a proposal by the Remuneration Control Committee, the Supervisory Board approved a new remuneration system for members of the Management Board, with effect from 1 January 2014. The new remuneration system complies with the recommendation in section 4.2.3 (2) sentence 6 of the Code. In this connection, a maximum amount ("cap") was resolved for the variable, performance-related remuneration component of the Management Board – for the 2013 financial year, and for subsequent financial years. As the only exception, no cap applies to virtual shares granted for the 2012 financial year or earlier financial years, or to virtual shares still to be granted under applicable rules governing the deferral of variable remuneration components. However, such virtual shares will be settled and disbursed for the last time in 2018, after expiry of the retention period and any applicable holding or blocking periods, based on the weighted average price (Xetra®) of the five exchange trading days following expiry of the period. All virtual shares that were no longer subject to any holding or blocking period as at 26 March 2014 (and which Management Board members have been free to dispose of, in some cases since the vesting in 2007), were disbursed to the members of the Management Board, under a separate addendum to their contracts.

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The Management Board

The Management Board is responsible for managing the Company. In doing so, it is obliged to act in the best interests of the Company and undertakes to increase its sustainable enterprise value. The Management Board ensures that all provisions of law are complied with, and endeavours to achieve their compliance throughout Group companies. The Management Board develops the company strategy, coordinates it with the Supervisory Board, and ensures its implementation. The Management Board ensures appropriate and sustainable risk management and risk control throughout the Company. The Management Board cooperates on the basis of trust with Aareal Bank AG's other executive bodies, and with employee representatives.

There were no conflicts of interest affecting members of the Management Board within the meaning of the Corporate Governance Code in the 2014 financial year.

Diversity

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

- An appreciation for the uniqueness of every individual and respect for their differences
- Equal opportunities at all levels
- The prevention of discrimination of any kind
- The belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals

The goals are:

- To promote Aareal Bank Group's image as 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 27 different countries. When filling positions abroad, the Bank takes care to predominantly appoint local staff.

The share of female employees in Aareal Bank Group was 45.9 % in the 2014 financial year, with women currently accounting for 25.0 % of executive positions at Aareal Bank AG. In Aareon AG, the share of female employees was 32.4 %, with 19.2 % holding executive positions.

Since the appointment of Mrs Knopek as a regular member of the Management Board, the share of female Management Board members is 25 %.

In Germany, the share of employees with a severe disability amounted to 3.5 % in 2014. This employee group is represented in the Group's German entities by a disability representative.

Equal treatment

Aareal Bank Group attaches great importance to the equal treatment of women and men, whether in the context of filling vacant positions, with regard to continuous professional development, or in terms of remuneration. Specifically, any vacancies below senior executive level are generally published throughout the Company, in the form of job advertisements that all members of staff – male or female – may apply for. When setting the remuneration of employees, we do not differentiate by gender but rely exclusively on aspects such as qualification, professional experience or training.

Likewise, qualification is the decisive criterion for the appointment of employees to positions; this is examined regularly by employee representative bodies, within the scope of their co-determination rights. The principle that qualifications and international experience are the primary criteria for choosing a candidate also applies for the Management Board.

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

Supervisory Board

The task of the Supervisory Board is to regularly advise and supervise the Management Board in the management of the Company. It is involved in decision-making that is of fundamental importance to the Company, and cooperates closely and on the basis of trust with the Management Board.

The Supervisory Board has created committees for its work. Responsibility for individual duties has been delegated to these committees. The members of the Supervisory Board and their functions in the Supervisory Board's committees are outlined in the "Description of Management Board and Supervisory Board work processes", and in the List of Offices Held, both of which form part of this annual report. The Supervisory Board reports on its duties and the events of the 2014 financial year in its report.

The option of preparing meetings separately with shareholder representatives and employee representatives is used by the Supervisory Board in exceptional cases only. However, some of the meetings have been prepared separately in 2014. Several meetings without employee representatives were held (Executive and Nomination Committee preparing the election of shareholder representatives for 2015). In accordance with the provisions of the KWG, three Supervisory Board meetings were held without the Management Board as well as eight Supervisory Board meetings with limited presence of the Management Board during the discussion of selected agenda items.

In line with section 5.2 of the Code, the Chairman of the Supervisory Board does not chair the Audit Committee: 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. External consultants have been involved in the expansion of this questionnaire in order to fulfil the new legal requirements according to section 25d (11) of the KWG. In line with these requirements, the Executive and Nomination Committee is in charge of the preparation and execution of the efficiency review. The results of this review serve to further improve the work carried out by the Supervisory Board as well as enhancing the cooperation between the Supervisory Board and Management Board. The Chairman of the Supervisory Board presented the results of the efficiency review for the year 2014 in the meeting on 4 December 2014, 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 professional development measures, and are supported to this effect by the Company.

The Report of the Supervisory Board provides a detailed review of the activities of the Supervisory Board and its Committees.

Guidelines regarding the composition of the Supervisory Board (shareholder representatives)

Key factors taken into account for nomination to the Supervisory Board are the professional aptitude and the experience of candidates – also in relation to the Group's international activities. The Supervisory Board of Aareal Bank AG believes that it is sufficiently independent. Within the framework of actual decisions concerning potential members, the Supervisory Board of Aareal Bank AG assesses the independence of the respective candidate, duly taking that independence into account.

Any individual whose circumstances may give rise to conflicts of interest cannot be considered as 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, and the subsequent search for a successor, Mr Richard Peters was elected as a member. 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 2014.

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 2014, 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

In 2014, members of the Company's executive bodies carried out one transaction involving the Company's shares, which was published, inter alia, on the website of Aareal Bank AG in accordance with section 15a of the WpHG. At the end of the financial year, aggregate shareholdings of members of executive bodies in the Company's shares were less than 1 % of the issued share capital of Aareal Bank AG.

Transactions with related parties

Related party transactions are detailed in the notes to the financial statements.

Accounting policies

Aareal Bank AG prepares the Group's accounts in accordance with International Financial Reporting Standards (IFRSs). The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The Management Board prepares the financial statements of Aareal Bank AG and the consolidated financial statements. The external auditors submit their report on the audit of the financial statements and consolidated financial statements to the Supervisory Board. The Annual General Meeting on 21 May 2014 appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the auditors for the 2014 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. They may also request to speak at the Annual General Meeting. The shareholders may also submit counter or supplemental motions to the agenda items at the Annual General Meeting, so that they participate in structuring and influencing the meeting. The Management Board and the Supervisory Board refer to shareholders' comments made during the general debate, or to motions submitted by shareholders in advance, to respond to questions, or to comment on other contributions.

Communications

Aareal Bank assigns great importance to extensive communications with all of the Bank's stakeholders. We have set ourselves the targets of actively and openly communicating with all stakeholders, taking into account the interests of all stakeholders. In this context, we make extensive use of our website to inform about current developments affecting the Group, and to provide information to all target groups at the same time. All press releases, ad-hoc disclosures, corporate presentations, as well as annual and quarterly reports published by Aareal Bank are available on the Bank's website to any interested person, and may be downloaded from there. In addition, the financial calendar is regularly updated, providing information about relevant corporate events.

Aareal Bank publishes details on the financial position and performance five times annually. On these occasions, the Management Board gives a personal account of results, within the scope of press conferences and analysts' events, as well as issuing press releases.

We are not currently broadcasting parts of the Annual General Meeting on the internet, nor is it currently possible to give instructions or cast votes online. This is because the low level of acceptance of such a service amongst our shareholders would render the related efforts and costs excessive. Aareal Bank will continue to review demand for such a service on a regular basis.

Disclosures regarding Corporate Governance standards

Aareal Bank AG is a public limited company under German law (Aktiengesellschaft – "AG") whose shares are included in the mid-cap MDAX® index. Aareal Bank AG's corporate governance practices are governed, inter alia, by legal rules applicable to public limited companies and credit institutions, and by the Company's Memorandum and Articles of Association, which are published on its website and in its Commercial Register entry (under company number HRB 13184). Based on the Memorandum and Articles of Association, the Supervisory Board has adopted internal rules of procedure for itself, and for the Management Board. Aareal Bank AG has also adopted an internal Code of Conduct, providing guidelines for correct, ethical and responsible conduct of employees and executive bodies. Moreover, Aareal Bank's corporate governance is guided by a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the Bank's business, in line with legal and regulatory rules. All members of staff have access to these documents, via common internal communications channels such as the Bank's intranet.

Description of Management Board and Supervisory Board work processes

The Supervisory Board

In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairman and two Deputy Chairmen from amongst them, for the duration of their term of office. At present, Ms Marija 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.

During the financial year under review, the Company's Supervisory Board comprised:

Marija G. Korsch, Chairman of the Supervisory Board of Aareal Bank AG

Former Partner of Bankhaus Metzler seel. Sohn & Co. Holding AG

Supervisory Board offices held: Just Software AG

Erwin Flieger, Deputy Chairman of the Supervisory Board of Aareal Bank AG

Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe

Supervisory Board offices held: Bayerische Beamten Lebensversicherung a.G., Bayerische Beamten Versicherung AG, BBV Holding AG, DePfa Holding Verwaltungsgesellschaft mbH, Neue Bayerische Beamten Lebensversicherung AG

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

Employee 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 Allgemeine Versicherung AG, SIGNAL IDUNA Holding AG, Societaet CHORVS AG

Manfred Behrens

Former CEO/Chairman of the Management Board of Swiss Life Deutschland Holding GmbH

* Employee representative to the Supervisory Board of Aareal Bank 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
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

* 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 has established five committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Committee for Urgent Decisions, the Audit Committee, and the Remuneration Control Committee.

Executive and Nomination Committee

The Executive and Nomination Committee advises the Management Board and prepares the resolutions of the Supervisory Board. The committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

Marija G. Korsch	Chairman
Erwin Flieger	Deputy Chairman
York-Detlef Bülow	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 Control Committee and adopted by the plenary meeting of the Supervisory Board). The Executive and Nomination Committee compiles profiles defining the requirements for members of the Management

Board and the Supervisory Board; based on an annual evaluation, it determines the extent to which the members of the Management Board or Supervisory Board have a need for further training, or whether other adjustments are required. Furthermore, the Executive and Nomination Committee discusses decision proposals regarding connected-party loans as well as other transactions between members of administrative, management and supervisory bodies and the Company or its subsidiaries.

Remuneration Control Committee

In accordance with section 25d (12) of the KWG, the Remuneration Control Committee monitors whether the structure of the remuneration systems for Management Board members and employees is appropriate, taking into account the impact of remuneration systems on Aareal Bank's overall risk profile. The Remuneration Control Committee prepares corresponding proposals concerning remuneration (including for members of the Management Board) for the plenary meeting of the Supervisory Board. The Remuneration Control Committee receives the information provided by Aareal Bank's Remuneration Officer pursuant to section 23 of the German Regulation on Remuneration in Financial Institutions (InstVergV) as well as the disclosure concerning the remuneration system pursuant to section 16 of the InstVergV. This 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
Erwin Flieger	Deputy Chairman
York-Delef Bülow	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:

Marija G. Korsch	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 strategy, in accordance with the MaRisk. The submission of the credit risk strategy to the plenary meeting to the Supervisory Board remains unaffected by this function, as is intended by the MaRisk.

Committee for Urgent Decisions

The Committee for Urgent Decisions is a subcommittee of the Risk Committee. Its members are elected from amongst the members of the parent committee.

The committee members are:

Marija G. Korsch	Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dr Herbert Lohneiß	
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

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	
Marija G. Korsch	

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 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

Hermann Josef Merkens,
Deputy Chairman of the Management Board

Finance, Risk Controlling, Credit Management and Workout

Dagmar Knopek,
Member of the Management Board

Sales Units Structured Property Financing

Thomas Ortmanns,
Member of the Management Board

Housing Industry Division, 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,

For Aareal Bank, the 2014 financial year was characterised by a series of positive events: the Bank passed the European Central Bank‘s Comprehensive Assessment, fully repaid the residual amount of the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin), and further strengthened its capitalisation through the placement of Additional Tier 1 capital. Aareal Bank also successfully completed the acquisition of Corealcredit.

The Supervisory Board believes that these steps demonstrate Aareal Bank AG's solid position and affirm the Company's strength. Consolidated operating profit for the 2014 financial year – including € 154 million in negative goodwill from the acquisition of Corealcredit – was € 436 million and therefore more than double the previous year's figure.

The Supervisory Board again considers Aareal Bank AG's repeated positive results as evidence for the long-term viability of the Group's business model and its operative strength.

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

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

Activities of the plenary meeting of the Supervisory Board

Seven plenary meetings of the Supervisory Board were held during the year under review, of which five were scheduled meetings. During the meetings, the members of the Supervisory Board received reports and explanations from the members of the Management Board, and discussed these in detail. One of the focal working and reporting aspects during all scheduled meetings was the approach to be taken by the Bank towards the changing market environment.

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 previous Comprehensive Assessment as well as the amendment of the German Regulation on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung – ”InstVergV“).

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

During the 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. At regular intervals, the Supervisory Board was informed of the Bank's liquidity status and the related steps taken by the Bank's Treasury. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group, 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:

The extraordinary meeting in January focused on the implementation of the amendments to the German Regulation on Remuneration in Financial Institutions (InstVergV). Matters pertaining to the financial statements were discussed in the extraordinary meeting in February.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2013 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 2014 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 2014. This meeting also discussed the annual reports submitted by Internal Audit and by the Compliance Officer.

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.

One meeting in July focused mainly on Aareal Bank Group's strategic options, and on the challenges presented in the prevailing market environment.

During the September meeting, corporate governance issues were presented and discussed, alongside other regulatory issues. The discussions on the Bank's strategic options were continued.

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

Following the new regulations of sections 25c and d of the German Banking Act (Kreditwesengesetz – "KWG"), the Supervisory Board carried out the required evaluations. The results of the evaluation conducted during the 2014 financial year were acknowledged by the members of the Supervisory Board, and were discussed in detail.

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

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

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

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

In addition to its regular meetings, the Supervisory Board convened for a separate meeting during which auditors PricewaterhouseCoopers provided information on current changes and deliberations in the regulatory and legal framework.

Activities of Supervisory Board committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Committee for Urgent Decisions, the Audit Committee, and the Remuneration Control Committee.

The Executive and Nomination Committee of the Supervisory Board convened for seven scheduled meetings and two extraordinary meetings. In the scheduled meetings, the Executive and Nomination Committee prepared the proposed resolutions of the plenary meetings of the Supervisory Board. The AT1 bond issue was discussed in one of the extraordinary meetings. Three meetings were held without the participation of the employee representative and the Management Board, since these meetings were concerned with the nomination process of shareholder representatives on the Supervisory Board to be elected at the 2015 Annual General Meeting.

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The committee members discussed these reports and market views in detail. The committee discussed the banking and regulatory environment of the Bank. The committee also regularly dealt with loans requiring approval, and transactions subject to reporting requirements.

The committee discussed individual exposures of material importance to the Bank, which were presented and explained by the Management Board. In addition, reports on current political developments were provided to the committee, together with appropriate responses. Also, detailed reports were given regarding the Bank's liquidity status and management as well as its funding.

The committee regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the committee. Besides credit and country risks, the committee concerned itself with market risks, liquidity risks, and operational risks. The committee concerned itself with the risk-bearing capacity and the capital ratios of Aareal Bank, as well as with the introduction of a Single Supervisory Mechanism (SSM) under the auspices of the ECB. The committee also decided on any other transactions requiring the Supervisory Board's approval pursuant to the Company's Memorandum and Articles of Association or the internal rules of procedure.

The Committee for Urgent Decisions is a subcommittee of the Risk Committee. It approves loans subject to approval requirements by way of circulation; for this reason, it did not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

The Audit Committee held six meetings during the year under review. During its meeting in February 2014, the Audit Committee received and discussed the preliminary results for the 2013 financial year. During its March meeting, the committee received the external auditors' report on the 2013 financial year and discussed the results with the auditors in detail. The committee members read the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of meetings held with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2014 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 2014, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2013 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 2014 were discussed at a meeting in February 2015.

In its meeting on 19 March 2015, the Audit Committee received the external auditors' detailed report on the audit and audit results for the 2014 financial year, and discussed these results extensively with the auditors and the Management Board.

During its nine meetings, the Remuneration Control Committee discussed the implementation of the amendments to the German Regulation on Remuneration in Financial Institutions (InstVergV) as well as all issues related to remuneration, fulfilling its original assignment.

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)
Marija G. Korsch	35 of 35
Erwin Flieger	29 of 29
York-Detlef Bülow *	28 of 28
Christian Graf von Bassewitz	15 of 17
Manfred Behrens	7 of 7
Thomas Hawel *	7 of 7
Dieter Kirsch *	20 of 20
Dr Herbert Lohneiß	11 of 11
Joachim Neupel	17 of 17
Richard Peters	7 of 7
Prof Dr Stephan Schüller	23 of 31
Helmut Wagner *	7 of 7

* employee representative

Financial statements and consolidated financial statements

The Supervisory Board instructed Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft, Frankfurt / Main, who were elected as auditors by the Annual General Meeting 2014, with the audit of the financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports regarding the financial statements and the consolidated financial statements, including all annexes thereto, in good time before the meeting during which the audit results were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditor participated in the meeting of the Supervisory Board, during which the financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were available to the Supervisory Board to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB, and the consolidated financial statements prepared in accordance with IFRSs, and the proposal of the Management Board regarding the appropriation of profit, and the audit report, were all examined in detail. No objections were raised to the audit results. In its meeting on 25 March 2015, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with IFRSs, and thus confirmed the financial statements of Aareal Bank AG. The Supervisory Board examined and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Special transactions

On 22 December 2013, 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 31 March 2014 (closing). The integration of Corealcredit into Aareal Bank Group was largely completed by year-end 2014.

Another important milestone was BaFin's consent to the Bank fully repaying the remaining SoFFin silent participation. The Bank thus repaid the residual amount of €300 million to SoFFin on 30 October. With the full repayment of the silent participation, SoFFin's support to Aareal Bank has therefore come to an end. The Management Board and Supervisory Board are deeply grateful to the German Federal Government, the German parliament, and to SoFFin. The decision, taken in the year 2009, to support our work in times of great uncertainty, contributed to secure the Bank's fully viable business model, in a difficult market phase. This allowed Aareal Bank – as a perfectly healthy institution, as it was back then, and continues to be – to remain on its successful path undeterred, even in a market situation that had dramatically intensified at times.

On 3 February 2015, Aareal Holding Verwaltungsgesellschaft mbH placed its 28.9 % stake in Aareal Bank AG's issued share capital with investors, in an accelerated book-building process. Market interest was very high, offering clear proof of the investment attraction of Aareal Bank shares. With the full repayment of the remaining SoFFin silent participation at the end of October 2014, the Holding's formal requirement to hold a blocking minority interest was terminated. The Supervisory Board fully confirms the Management Board's gratitude regarding the shareholders of Aareal Holding Verwaltungsgesellschaft, appreciating their constructive support of Aareal Bank over the years, in particular during the turbulent times following the financial crisis in 2007.

On 22 February 2015, Aareal Bank Group announced the acquisition of all of the shares of Westdeutsche ImmobilienBank AG ("WestImmo"), which specialises in commercial property financing. Following the acquisition of Corealcredit in the spring of 2014, Aareal Bank has once again effected a targeted investment in its core Structured Property Financing business by acquiring WestImmo, expanding its strong position on key target markets. The Supervisory Board is convinced that the Bank exploited another promising opportunity with this acquisition.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for their strong commitment during the eventful 2014 financial year. That commitment – and strong motivation – from 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.

Frankfurt, March 2015

For the Supervisory Board

Korsch

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.

$$\text{CIR} = \frac{\text{Administrative expenses}}{\begin{array}{c}\text{Net interest income + net commission income}\\ \text{+ net result on hedge accounting + net trading income/}\\ \text{expenses + results from non-trading assets}\\ \text{+ results from investments accounted for using the}\\ \text{equity method + net income from investment properties}\\ \text{+ net other operating income/expenses}\end{array}}$$

Counterparty credit risk
Counterparty credit risk can be further distinguished into credit risk, counterparty risk, issuer risk and country risk; it denotes the potential loss in value which may be incurred as a result of the default (or deterioration of credit quality) of borrowing clients, issuers of promissory note loans or securities, or of counterparties to money market, securities or derivatives transactions.

Covered bonds
"Covered" bonds is a generic term for debt securities covered by collateral. In Germany, covered bonds are mainly issued

in the form of ”Pfandbriefe” pursuant to the German Pfandbrief Act (PfandBG), which provides a legal framework for collateralisation (assets eligible for Pfandbrief cover include mortgages and public-sector loans, as well as ship and aircraft financings).

Credit default swap (CDS)
Financial contract where the risk of a credit event specified in advance (such as insolvency, failure to pay, or deterioration of credit quality) is transferred from a protection buyer to a protection seller. The protection seller receives regular premium payments from the protection buyer in exchange for the assumption of credit risk, regardless of whether a credit event has actually occurred.

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.

$$\text{Earnings per share} = \frac{\text{Operating profit ./. income taxes ./. non-controlling interest income ./. AT1 coupon (net)}}{\text{Number of ordinary shares}}$$

EBIT margin

$$\text{EBIT margin} = \frac{\text{EBIT (operating profit before interest and taxes)}}{\text{Sales revenues}}$$

Effective interest method
Method for amortising the mark-up/markdown between cost and the nominal value (premium/discount), using the effective yield of a financial asset or liability.

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).

RoE before taxes =

$$\frac{\text{Operating profit ./. non-controlling interest income ./. AT1 coupon}}{\text{Average equity (IFRS) excluding non-controlling interests, other reserves, AT1 bond, and dividends}}$$

RoE after taxes =

$$\frac{\text{Operating profit ./. income taxes ./. non-controlling interest income ./. AT1 coupon (net)}}{\text{Average equity (IFRS) excluding non-controlling interests, other reserves, AT1 bond, and dividends}}$$

Revaluation surplus
The revaluation surplus is used to recognise changes in the market value of securities and available-for-sale assets (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.

Financial Calendar

7 May 2015	Presentation of interim report as at 31 March 2015
20 May 2015	Annual General Meeting – Kurhaus, Wiesbaden
11 August 2015	Presentation of interim report as at 30 June 2015
10 November 2015	Presentation of interim report as at 30 September 2015

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