QUALITY
made by AAREAL

#Thinking ahead.
Shaping the future.

Aareal Bank Group – Interim Report
1 January to 30 June 2017

Aareal Bank Group

Key Indicators

	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Results		
Operating profit (€ mn)	180	207
Consolidated net income (€ mn)	114	142
Consolidated net income allocated to ordinary shareholders (€ mn)[1]	100	124
Cost/income ratio (%)[2]	43.0	42.4
Earnings per ordinary share (€)[1]	1.68	2.08
RoE before taxes (%)[1][3]	13.0	15.1
RoE after taxes (%)[1][3]	8.0	10.1

	30 Jun 2017	31 Dec 2016
Statement of financial position		
Property finance (€ mn)[4]	27,172	27,928
of which: international (€ mn)	23,082	23,423
Equity (€ mn)	2,833	3,129
Total assets (€ mn)	44,113	47,708
Regulatory indicators		
Risk-weighted assets (€ mn)	13,345	14,540
Common Equity Tier 1 ratio (CET1 ratio) (%)	16.9	16.2
Tier 1 ratio (T1 ratio) (%)	19.7	19.9
Total capital ratio (TC ratio) (%)	27.6	27.5
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased-in –	16.6	15.7
Employees	2,759	2,728

	30 Jun 2017	31 Dec 2016
Fitch Ratings		
Deposit rating long-term	A- (outlook: stable)	A- (outlook: stable)
Issuer default rating long-term	BBB+ (outlook: stable)	BBB+ (outlook: stable)
short-term	F2	F2
Mortgage Pfandbrief rating	AAA (outlook: stable)	AAA (outlook: stable)
Public-sector Pfandbrief rating	AAA (outlook: stable)	AAA (outlook: stable)
Moody's[5]		
Bank deposit rating long-term	A3 (outlook: stable)	A3 (outlook: stable)
Issuer rating long-term	Baa1	Baa1
short-term	P-2	P-2
Mortgage Pfandbrief rating	Aaa	Aaa
Sustainability[6]		
MSCI	AA	AA
oekom	prime (C)	prime (C)
Sustainalytics	71	71

[1] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
[2] Structured Property Financing segment only
[3] On an annualised basis
[4] Excluding € 1.0 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by former Westdeutsche ImmobilienBank AG (former WestImmo) (31 December 2016: € 0.6 billion)
[5] First published on 12 January 2017
[6] Please refer to our Sustainability Report for more details.

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

Contents

Key Indicators	**2**
Letter from the Management Board	**4**
Interim Group Management Report	**7**
Report on the Economic Position	7
Risk Report	18
Report on Expected Developments	25
Consolidated Interim Financial Statements	**31**
Statement of Comprehensive Income	31
Statement of Financial Position	35
Statement of Changes in Equity	36
Statement of Cash Flows (condensed)	37
Notes (condensed)	38
Basis of Accounting	38
Notes to the Statement of Comprehensive Income	39
Notes to the Statement of Financial Position	43
Notes to Financial Instruments	49
Segment Reporting	54
Other Notes	58
Executive Bodies of Aareal Bank AG	59
Responsibility Statement	60
Review Report	61
Offices	**62**
Financial Calendar	**64**
Locations/Imprint	**65**

Letter from the Management Board

Dear shareholders,
business associates and staff members,

The market environment for Aareal Bank Group remained challenging during the second quarter of the 2017 financial year. Even though the economic environment during the first half of the year was shaped overall by stronger global trade, various uncertain political factors had a dampening effect on economic development. Economic growth in the euro zone remained robust during the second quarter, with Germany in particular being able to benefit from accelerating world trade activity. This was also reflected in the ifo business climate index reaching an all-time high at the end of May. In the US, growth remained rather moderate, following a weak economic performance in the first quarter, whilst the UK's – now formally requested – exit from the EU strongly influenced developments there, along with that country's early parliamentary elections on 8 June 2017.

Stable economic conditions had a stabilising effect on the financial and capital markets. Against this background, the major central banks adhered to their expansionary monetary policies, yet provided initial signals for a cautious change. As already announced in December 2016, the European Central Bank (ECB) has reduced the monthly purchase volume within the scope of its asset-buying programme by € 20 billion, to a volume of € 60 billion, effective since April 2017. In June, the US Federal Reserve (the Fed) raised the target corridor for its Fed Funds rate already for the second time this year, by 25 basis points, to between 1.00 per cent and 1.25 per cent.

Interest rate developments in the most important currencies for Aareal Bank showed a mixed picture. During the second quarter of 2017, long-term US dollar rates fell again slightly below the levels seen at the 2016 year-end, following an increase in the first quarter. In contrast, long-term euro and pound sterling rates rose slightly. Trends in short-term interest rates also remained heterogeneous, with an increase in US dollar rates and decreases in the euro and pound sterling rates compared to year-end 2016 levels. Inflation rates rose markedly in numerous economies during the first half of the year. On average, however, inflation in the euro zone still remained beneath the ECB's target during this period.

The banking sector – especially in Europe – continues to face the challenges of a low interest rate environment for the time being, together with highly dynamic regulatory requirements, as well as changes in banking supervision. Especially when considering the extensive – and as yet unfinished – work the Basel Committee is undertaking to complete the Basel III regime, it is currently hardly possible to fully assess the impact on the banking sector. The business environment in the financing of commercial properties was also characterised by uncertainty, and by persistent high competitive pressure in many markets. Transaction volumes for commercial property continued to fall during the first half of 2017, although global volumes remained at a high level. Margins also remained stable during the first half of the year, in most European markets as well as in the US. Specifically, margins in the US remained on a higher level compared to Europe. Aareal Bank particularly benefited from this trend, thanks to its flexible allocation of new business and expansion in high-margin markets such as North America, which is in line with its strategy.

During the second quarter of the 2017 financial year, Aareal Bank Group maintained strong momentum from the beginning of the year. In an environment that continued to be demanding, the Group generated consolidated operating profit of € 109 million (Q2 2016: € 120 million). As in the previous year, and as expected, results were influenced by two opposing and non-recurring effects: a positive € 50 million non-recurring item from a subsidiary's reversal of provisions against income, as already announced, was partially offset by € 24 million in provisions for personnel measures, recognised in connection with the further optimisation of structures and processes (also already communicated), within the framework of our "Aareal 2020" programme for the future presented in early 2016. Net interest income was lower, compared with the same quarter of the previous year; the decline was largely due to the continued planned reduction of the former WestImmo and Corealcredit portfolios. Moreover, one-off income from early loan repayments was lower in comparison. Consolidated net income attributable to ordinary shareholders amounted to € 62 million.

In the Structured Property Financing segment, Aareal Bank Group generated operating profit of € 115 million during the second quarter. At € 25 million, allowance for credit losses was lower year-on-year, and within expectations. We affirm the forecast range of € 75 million to € 100 million for the full financial year, which is lower compared to the previous year. In a general business framework that remained challenging, Aareal Bank generated € 2.0 billion in new business in its Structured Property Financing segment during the second quarter. This brought new business origination for the first half of the year to € 3.8 billion, keeping it on a good level – and a decent result when compared to the very dynamic first half of 2016 (H1 2016: € 4.4 billion). The development of average gross margins on newly-originated loans were particularly noteworthy: in the second quarter, they rose to more than 260 basis points (net of currency costs), whereby loan-to-value ratios remained moderate. The key driver of this development was the continued business expansion into high-margin regions such as the US, in line with the Bank's strategy. The target for new business in the Structured Property Financing segment for the full year 2017 remains unchanged, at between € 7 billion and € 8 billion.

In the Consulting/Services segment, which – in line with our "Aareal 2020" programme for the future – is set to evolve into a key growth driver for Aareal Bank Group, the Bank's Housing Industry division further strengthened its market position by acquiring new clients. Our IT subsidiary Aareon AG has continued to steer its course, with solid earnings development and another increase in sales revenues. As a result, sales revenues in the segment also rose, to € 55 million (Q2 2016: € 52 million), with a corresponding increase in consolidated net commission income. Consolidated net commission income thus showed a further slight increase. Aareon continued to consistently pursue its core growth initiatives throughout the second quarter: in fact, these are increasingly bearing fruit. For instance, recent market acceptance for Aareon's newly-developed digital solutions has grown significantly, especially in Germany, France, and the Netherlands. Aareon's sales revenues from digital solutions already amounted to € 16 million during the first half of the year – with a strongly rising trend. In the segment's banking business, the volume of client deposits from the housing industry remained at a high level, averaging € 9.6 billion during the quarter under review (Q1 2017: € 10.2 billion). To us, this is testament to the continued trust that clients place in Aareal Bank. Nevertheless, results from the deposit-taking business continued to be burdened by interest rates at historically low levels in the current year, leading to a segment operating loss of € 6 million before taxes for the second quarter.

Not least due to the ECB's persistent low-interest rate policy, we must assume – for the time being – that segment results will continue to be burdened by the low interest rate environment. Yet the importance of deposit-taking goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. For Aareal Bank, deposits from the housing industry are a strategically important additional source of funding for the property financing business, and one that is largely independent of developments on the capital markets. In addition to the German Pfandbrief and unsecured bank bonds, they represent an important pillar in the Bank's long-term funding mix.

Aareal Bank Group has remained very solidly funded throughout the first half of 2017. It maintained its inventory of long-term funding at a high level, raising € 1.1 billion on the capital markets during this period. As at 30 June 2017, the Bank's Tier 1 ratio was 19.7 per cent, which is comfortable on an international level. Assuming full implementation of Basel III, the fully phased-in Common Equity Tier 1 (CET1) ratio would be 16.6 per cent. This means that Aareal Bank continues to have a very solid capital base.

Aareal Bank Group achieved a very important milestone during the second quarter, concluding the integration of Westdeutsche ImmobilienBank AG (WestImmo), effective 30 June 2017. Having transferred its banking operations (together with the related loan and securities portfolios) to Aareal Bank, by way of a split-off, former WestImmo has since been trading under the name of Westdeutsche Immobilien Servicing AG, and focuses on the servicing of the loan portfolio transferred.

Aareal Bank Group delivers on its promises – both financially and strategically. Good results for the second quarter have shown, once again, that we are implementing our "Aareal 2020" programme for the future from a position of strength. Firstly, this encompasses our numerous strategic projects and initiatives designed to further develop operating business in our two segments. We are seeing initial successes here. Secondly, optimising our structures and processes is another key pillar: we will be focusing on this exercise in great detail this year and next, with a bundle of measures through which optimisation will swiftly take shape. With this combination, we are laying the foundations for our Group's sustained success, in a market and competitive environment that is changing rapidly.

Based on the successful business performance during the first half of 2017, we remain confident that we will achieve our targets set for 2017, and therefore maintain our full-year forecast. We continue to anticipate being able to generate consolidated operating profit of € 310 million to € 350 million in the current financial year. This would translate into earnings per share of between € 2.85 and € 3.30. We anticipate RoE for the current year in a range between 11 per cent and 12.5 per cent. We affirm our medium-term target for return on equity of around 12 per cent before taxes.

Aareal Bank Group will continue to deal with a macro-economic market environment shaped by a variety of uncertainty factors during the remainder of the year – including the persistent, intense competition as well as further changes in regulatory requirements. This is why during the second half, we will be focusing all the more on continuing to pursue the strategic direction we have embarked upon – consistently, and with the required due diligence and forward thinking. With our clearly-defined ambition of becoming the leading provider of smart financings, software products, and digital solutions for the property sector and related industries in mind, we will consistently pursue the Company's transformation process, in line with the strategic priorities defined in "Aareal 2020".

We look forward to your continued support along this path. Let us continue to write the success story of Aareal Bank Group – together. Thank you very much for your trust and confidence.

For the Management Board

Yours sincerely,

Hermann J. Merkens
Chairman

Interim Group Management Report

Report on the Economic Position

Macro-economic environment

During the first half of 2017, the economic environment was characterised by stronger global trade, leading to increasing industrial production and higher levels of investment. Various political uncertainty factors had a dampening effect.

Economy

On the basis of a strong underlying tendency, global economic output was higher in the first half of 2017 than in the same period of the previous year. Global trade rose noticeably. Likewise, global sentiment indicators reached elevated levels; however, this development did not yet feed through to the gross domestic product in all economies.

The euro zone achieved robust growth in the first half of the year; growth momentum in private consumption slowed slightly, whilst investment and export activities increased. Elevated political uncertainty in the run-up to elections in France and the Netherlands eased significantly following the results, even though the formation of the Dutch government was not completed at the end of the first half of 2017. Germany benefited from the increase in world trade; the ifo World Economic Survey index peaked in May. Spain continued its strong growth path from the past years. In Italy, growth increased significantly compared to the previous year, although the country's growth rate still ranked last among the major economies in the euro zone. In addition, problems in the Italian banking sector were still visible, with two regional institutions entering resolution. Prior to this development, Fitch Ratings had downgraded Italian government bonds from BBB+ to BBB.

Growth in numerous non-euro zone EU nations surpassed the average growth rate of their euro zone neighbours. Sweden's growth rate remained strong, albeit slightly below the previous year's figures, whereas Denmark posted significantly higher growth figures than in the same period of the previous year. Growth in Poland was also materially higher in the first half of the year, whilst in the Czech Republic growth rates remained stable.

The exit of the UK from the EU, which was formally requested on 29 March 2017, strongly influenced developments there, along with the early parliamentary elections on 8 June 2017. Several terrorist attacks added to the uncertainty. Contrary to the governing Conservative party's hopes, the election did not produce a strong mandate for the forthcoming Brexit negotiations with the EU, thus increasing the uncertainty surrounding the planned exit. Weak private consumption and a weak expansion of the services sector curbed economic growth during the first half of the year.

Due to a weak first quarter, the US posted only moderate growth in the first half of the year; it was sustained by investments and private consumption. The current growth cycle has now outlasted previous cycles.

China's economy began the year with moderate growth figures, decreasing towards mid-year. This was due to a slowdown in the residential property market, which was caused by government intervention to dampen strong price increases, and by the declining impact of previous infrastructure projects. Due to strong private debt and falling growth prospects, rating agency Moody's downgraded China's creditworthiness from A1 to A3 at the end of May, also changing the outlook from "stable" to "negative".

Unemployment rates declined slightly during the first half of the year, both in the euro zone and in the EU. Unemployment was also stable to slightly lower when looking at individual countries. Within the EU, Germany and the Czech Republic continued to post the lowest unemployment rates, whilst unemployment remained at just under 20 % in Spain, despite slight decreases. Unemployment in the US declined further from its already very low level.

Financial and capital markets, monetary policy and inflation

Amid changes to the political risk environment, investors on the financial and capital markets focused on European defensive securities towards the end of the first half of the year. The robust economic environment had an overall stabilising effect.

The European Central Bank (ECB) maintained its expansionary policy in the first half of 2017. However, as announced in December 2016, it reduced the monthly purchase volume within the scope of its asset-buying programme by € 20 billion, to a volume of € 60 billion as of April 2017. Sweden's Riksbank expanded its monetary policy in the first half of the year, increasing the planned government bond purchase volume by SEK 15 billion for the second half of the year. Due to the pending Brexit negotiations, the Bank of England (BoE) adhered to its cautious attitude, keeping its monetary policy stance unchanged.

The US Federal Reserve (Fed) raised its key interest rate corridor twice in the first half of 2017 – most recently in June – by 25 basis points, respectively. Thus, at mid-year point the Fed Funds corridor was between 1.00 % and 1.25 %.

Long-term interest rates[1)] showed a mixed picture in the first six months of 2017 across the different currency areas important for Aareal Bank. Whilst they were stable for the US dollar at the beginning of the year, they fell slightly in the second quarter, landing just below the 2016 year-end level. For the pound sterling, euro, Canadian dollar, Swedish krona, and Danish krone they were slightly higher than at the 2016 year-end, whereas long-term interest rates for the Japanese yen held the 2016 year-end level towards the end of the first half of the year.

Short-term maturities[2)] also saw a mixed picture towards the end of the first half of the year compared to year-end 2016. Whilst increasing significantly for the US dollar, short-term interest rates rose only slightly for the Swedish krona and Canadian dollar. Meanwhile, Danish krone and Swiss franc short-term interest rates remained stable during the first quarter. Pound sterling and euro zone short-term interest rates however decreased slightly.

Compared to the previous year-end, yields on long-term government bonds slightly increased in many countries in the first quarter, only to fall again during the course of the second quarter; this happened, for example, in France, Spain, and the UK. In the last days of the first half of the year, yields had significantly increased in many countries, clearly surpassing the year-end level 2016 in the two euro zone countries mentioned. Yields in Germany were clearly higher at the end of the first half of 2017, compared to the end of 2016. In the UK, however, they remained at the year-end levels from 2016. After a stable development at the beginning of the year, US yields fell in the second quarter. Due to political uncertainty, long-term Italian government bond yields showed an increase in the first quarter, before falling again notably in the second quarter.

Exchange rates of important currencies for Aareal Bank versus the euro differed during the course of the first half of 2017: the Swedish krona depreciated slightly against the euro in the period under review, whilst the Danish krone remained stable. The euro appreciated significantly against the US dollar and the Canadian dollar in the first half of the year. Pound sterling did not follow a uniform trend in the same period, but depreciated slightly towards the end of the first half of the year compared to the beginning of the year.

In the first half of 2017, inflation increased noticeably in many economies, albeit reaching a preliminary peak on numerous markets. In the first half of the year, inflation in the euro zone remained, on average, beneath the ECB's target. In addition, inflation expectations in the market again declined slightly up to the middle of the year.[3)] Inflation

[1)] Based on the 10-year swap rate
[2)] Calculated on the basis of 3-month Euribor or the corresponding LIBOR or other comparable rates for other currencies
[3)] Measured in terms of the 5y/5y EUR forward inflation swap rate

increased noticeably in the UK, partly due to the weaker pound sterling, and US inflation increased thanks to a slightly better wage development, so that core inflation – excluding energy and food – rose marginally more than in the other major economies. However, from April onwards, inflation expectations also fell slightly in the US[1], where the inflation rate of 1.6 % at the mid-year point was lower than in March 2017. At just over 1.5 %, inflation was at a low level in China at the mid-year point, possibly resulting from a weaker domestic demand.

Regulatory environment

The environment in which banks are operating continues to be defined by highly dynamic regulatory requirements, as well as by changes in banking supervision. Especially when considering the extensive work the Basel Committee is undertaking to complete the already-implemented Basel III regime, it is currently not possible to fully assess the impact. In addition, the amendment to the Minimum Requirements for Risk Management (MaRisk) – including the new German Banking Supervisory Requirements for IT (BAIT), the EU Commission's proposals to revise supervisory regimes (CRR, CRD IV, BRRD and SRMR) as well as the EBA consultation paper "Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures", will all lead to further regulatory changes.

The ECB's Supervisory Review and Evaluation Process (SREP) ensures a common approach on the supervisory review of banks, within the framework of Pillar 2. The SREP is built around a business model analysis, an assessment of governance, as well as of the capital and liquidity risks. The results of the individual areas are aggregated in a score value, from which the ECB derives supervisory measures on holding additional capital and/or additional liquidity requirements. The ECB converted the SREP requirements from a pure CET1 ratio to a total SREP ratio (Total SREP Capital Requirement – "TSCR") with effect from 1 January 2017. This has been 9.75 % since 1 January 2017, comprising the 8 % total capital ratio for Pillar 1 and a (Pillar 2) capital requirement of 1.75 % from the ECB's SREP. In addition, the Bank is required to hold a (phased-in) capital conservation buffer of 1.25 %, plus a countercyclical capital buffer of 0.03 %. Aareal Bank's pure SREP-driven CET1 requirement has been 7.53 % since 1 January 2017, comprising 4.5 % for Pillar 1, the Pillar 2 capital buffer requirement of 1.75 % (as mentioned above), as well as the capital conservation buffer (1.25 %) and the countercyclical buffer (0.03 %). No further liquidity requirements were imposed upon Aareal Bank.

Sector-specific and business developments

Structured Property Financing segment

Transaction volumes for commercial property continued to fall during the first half of 2017, although global volumes remained high. Nevertheless, volumes did increase in some European markets, e.g. in Germany and Spain. On the buying side, the share of institutional investors went down in the first half of 2017, whilst the share of listed companies focusing on property went up slightly.

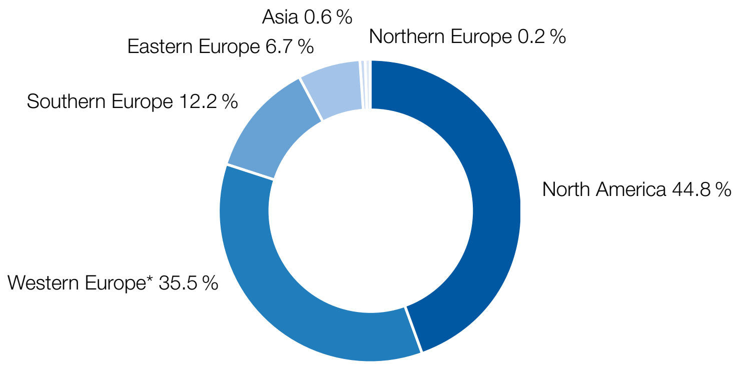
Financing of existing commercial property continued to be subject to considerable competitive pressure in many markets. While margins were stable in most European markets and the US during the first half of the year, they also remained on a higher level in the US when compared to Europe. Pricing levels on the US market are also influenced by the market for commercial mortgage-backed securities (CMBS). Transactions in this segment remained on a low level in the first half of 2017.

In a highly competitive business environment which continued to be shaped by uncertainty, Aareal Bank generated a significantly lower level of new business[2] in the second quarter of 2017 compared to the particularly strong corresponding period of the previous year. However, business is still within

[1] Measured in terms of the 5y/5y USD forward inflation swap rate
[2] New business, excluding former WestImmo's private client business and local authority lending business

New business 1 January - 30 June 2017

by region (%) Total volume: € 3.8 bn



* Including Germany

the target range. Specifically, lower new business volumes reflect a lower volume of renewals. New business originated during the second quarter amounted to € 2.0 billion (Q2 2016: € 3.5 billion), so that € 3.8 billion was generated in the first half of 2017 (H1 2016: € 4.4 billion). Newly-originated loans accounted for 72.2 % or € 2.7 billion during the first six months (H1 2016: 68.4 % / € 3.0 billion) and for 75.2 % during the second quarter (Q2 2016: 68.9 %).

At 54.6 % (Q2 2016: 68.3 %), Europe accounted for the largest share of new business, followed by North America with 44.8 % (Q2 2016: 27.6 %), and Asia with 0.6 % (Q2 2016: 4.1 %). The higher share in North America underlines our strategic agenda.

Europe

In Europe, the overall volume transacted in commercial property continued to decline in the first half of 2017. Overall, the level remained high, and transaction activity could be described as lively. Against the general trend, volumes continued to rise in Germany and Spain, whilst declining at a slightly more pronounced rate than average in France and Poland.

Compared to year-end 2016, yields for newly-acquired, first-class commercial properties declined during the first half of 2017 in many European economic centres; in part, this was due to the lack of supply of top-quality properties. Yields in the UK declined marginally in some sub-markets, having risen slightly during the same quarter of the previous year, following the Brexit vote on 23 June 2016. The underlying yield development trend applied to office, retail and logistics properties alike.

Rents for first-class office, retail and logistics properties in the European economic centres were largely stable in the first half of 2017 compared to the end of 2016. In contrast, rents even rose in a few markets, e.g. in the markets for first-class office properties in Barcelona, Berlin and Stockholm. Rents for first-class retail properties increased slightly in some markets, such as Barcelona and Milan. Only a few European economic centres witnessed declining rents in the premium segment, for example in a few retail locations in Germany.

The hotel markets in the European economic centres presented a positive picture during the first half of 2017. Occupancy ratios rose in most markets, even markedly so in certain markets such as Brussels, Milan, Paris, and Prague. The indicator of average revenues per available room (important for hotel markets) also recorded an increase in most markets. Developments in Brussels and Paris should be highlighted, as these markets recovered noticeably, as already in the first quarter of 2017, after the burdens of terrorist attacks in the past years. In London, occupancy figures rose noticeably, and average revenues per available room even improved significantly.

Aareal Bank succeeded in generating € 1.1 billion of new business in Europe during the second quarter (Q2 2016: € 2.7 billion), and therefore € 2.1 billion overall during the first half of the year (H1 2016: € 3.0 billion). Western Europe accounted for the highest share, followed by Southern, Eastern, and Northern Europe.

North America

The volume transacted in the North American property markets was down slightly compared to the first half of 2016. Nevertheless it was high, and the market was very liquid.

The first half of 2017 was characterised by a largely constant yield development. On a national average, investment yields in the US hardly moved – compared to the year-end 2016 – for office and retail properties. Slight increases in the first quarter were neutralised by declines in the second quarter.

Rents increased slightly overall, compared to the fourth quarter of 2016, for the types of property mentioned; vacancy ratios fell no further. This development also applied for many of the leading regional markets in the US.

In the first half of 2017, occupancy ratios for hotel properties rose slightly on a national average in the US, compared to the previous year. Average revenue per available hotel room on the other hand climbed at a slightly stronger rate. Both indicators showed modest growth in Canada.

Aareal Bank originated new business of € 0.9 billion in North America during the second quarter (Q2 2016: € 0.7 billion), bringing aggregate new business in North America to € 1.7 billion for the first half of the year (H1 2016: € 1.2 billion). This business was generated in the US and Canada.

Asia

Compared to the same period of the previous year, the volume transacted in commercial property in the first half of 2017 fell significantly in the Asia-Pacific region due to a weak second quarter.

Investment yields for newly-acquired, high-quality commercial property remained virtually stable in Beijing, Shanghai, Singapore, and Tokyo.

Rents for first-class office and retail properties in the three metropolitan areas of Beijing, Shanghai and Tokyo barely moved, whilst average rents for office properties in Beijing declined marginally. In contrast, rents for top office property in Tokyo saw slight increases whereas rents for both property types were under pressure in Singapore.

The development of average revenues per available hotel room was slightly positive on the hotel markets in the Asian metropolitan areas of Beijing, Shanghai and Tokyo in the first half of the year, whereas Singapore showed a decline compared to the same period of the previous year.

Aareal Bank Group concluded only minor new business in Asia during the first half of the year (H1 2016: € 0.2 billion).

Consulting/Services segment

Housing Industry division

Business development in the German housing and commercial property industries proved stable during the period under review. This was evidenced in particular by largely constant rental income and long-term financing structures. The industry is a partner of urban development in Germany. Companies were committed to construction, sustainability in their property portfolios, climate protection, and urban development with social conditions in mind.

In view of stable income and labour market developments, and rising housing demand, sentiment on the German residential property market continued to be positive during the course of the year. However, high-growth cities are especially burdened by difficult rental markets. Rents offered in the second quarter of 2017 were around 4.2 % higher than in the second quarter of 2016. Rents for new-built apartments increased slightly more moderately, by just under 3.8 %, during the same period. Regional differences are visible, as discrepancies persist between high demand in certain metropolitan areas and shrinking demand in rural areas.

The Bank's Housing Industry division further strengthened its market position in the first half of 2017 by acquiring new customers and intensifying existing business relationships. This brought in more business partners from the housing industry – managing more than 125,000 residential units between them – for the payments and deposit-taking businesses. We are also continuously expanding our client base in the energy and waste disposal industries, especially through interface products facilitating collaboration amongst our client groups across divisions. Examples include accounting documentation and invoicing of energy supplies. At present, more than 3,200 clients throughout

Germany are using the process-optimising products and banking services of Aareal Bank Group.

The high volume of deposits from the housing industry (average of € 9.6 billion; Q1 2017: € 10.2 billion) in the second quarter of 2017 is in line with the "Aareal 2020" programme for the future. The share of rent deposits was raised again. Deposits averaged € 9.9 billion during the 2017 period under review (H1 2016: € 9.4 billion). All in all, this reflects the strong trust that clients place in Aareal Bank.

Aareon

Aareon's contribution to consolidated operating profit amounted to € 15 million during the first half of 2017 (H1 2016: € 15 million).

Germany

In Germany, Aareon distributes the Wodis Sigma ERP solutions, SAP® solutions, and Blue Eagle. In the first half of the year, further clients opted for Wodis Sigma. Among these, there are still many previous GES customers who opted to change to Wodis Sigma within the framework of Aareon's migration campaign. As expected, the favoured version is the one that uses Wodis Sigma as a service from the exclusive Aareon Cloud. Aareon is still implementing a large number of migration projects, which are developing on schedule. Capacity utilisation in the Aareon consulting business thus remains on a high level.

In June, Aareon held the 27th Aareon Congress – a meeting point for the German property industry – in Garmisch-Partenkirchen, under the motto "Tackle the tasks! Shaping success!" The congress focused on digital transformation, and upon how new value creation potential for the property industry arises through new ways of interaction and data utilisation. This development is reflected by Aareon's business volume, and by the high demand for digital solutions, such as the Mareon service portal, Aareon Archiv kompakt, Aareon CRM, and Mobile Solutions. Demand also benefits from the migration business with the ERP solutions. In addition, Aareon cooperates with PropTech companies, in order to expand the integrated offer of Aareon Smart World for its clients.

Within the area of add-on products, Aareon was able to considerably extend its outsourcing business in Germany, in particular. Sales at the BauSecura insurance business were on the previous year's level during the quarter under review. Amid business expansion for the energy utilities industry, Aareon has increased its marketing activities. A solution for the process digitalisation in the case of house moves for this target group is in the scheduled pilot phase.

International Business

Aareon offers country-specific ERP solutions on an international level. In the Netherlands and the UK, Aareon has won various clients for the respective ERP solutions Tobias AX or QL.net, and has also worked alongside clients during the roll-out of these solutions.

The sales volume of digital solutions in the International Business is above the previous year's level. Aareon Nederland rolled out Mareon and a customer portal (for tenants and owners) for several customers. Together with Aareon UK, Aareon Nederland is also preparing the market launch of the Trace & Treasury solution in the UK (already in use in the Netherlands). The Trace & Treasury software enables property companies to manage their assets. New clients were also acquired for digital solutions in the UK and France; further roll-outs were implemented.

The full acquisition of the Dutch subsidiary SG2ALL in 2016, and the increased business with third-party products in the UK, led to higher sales revenues in the area of add-on products.

With effect from 1 April 2017, Aareon Nederland B.V. has taken over Kalshoven Groep B.V., Amsterdam – a specialist for the commercial property market – in its entirety. With this acquisition, Aareon is further extending activities in the commercial property industry, and supplementing its digital ecosystem Aareon Smart World with additional solutions.

Preparations in view of the introduction of the new EU General Data Protection Regulation (GDPR, effective as of 2018) are progressing as scheduled.

Financial Position and Financial Performance

Financial performance

Group

In the first six months of the financial year, consolidated operating profit amounted to € 180 million (H1 2016: € 207 million).

Net interest income totalled € 322 million, an expected reduction from the previous year (€ 357 million). This was largely due to the scheduled reduction of the former WestImmo and Corealcredit portfolios, lower non-recurring effects from early loan repayments, as well as a lack of suitable investment opportunities for our liquidity reserves, given the persistent low interest rate levels, and exchange rate fluctuations.

Allowance for credit losses amounted to € 27 million (H1 2016: € 31 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses amounted to € 56 million, while net reversals of portfolio-based allowance for credit losses stood at € 20 million.

Net commission income increased slightly, to € 97 million (H1 2016: € 93 million), which was mainly due to higher sales revenue at Aareon.

The aggregate of net trading income/expenses and the net result on hedge accounting of € -3 million (H1 2016: € 18 million) resulted largely from the measurement and close-out of derivatives used to hedge interest rate and currency risks.

At € 268 million (H1 2016: € 290 million), administrative expenses were reduced as expected, in spite of provisions recognised for planned personnel measures resulting from the optimisation of processes and structures, within the scope of the “Aareal 2020” programme for the future. The decline was due in particular to lower integration costs and lower running costs for former WestImmo, as well as lower project expenditure.

Net other operating income of € 59 million (H1 2016: expenses of € 1 million) mainly resulted from net reversals of provisions (€ 50 million) in connection with the final agreement on contractual issues with a third party, which were still pending when Aareal Bank Group acquired former Corealcredit, and the release of tax assessment notices.

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Net interest income	322	357
Allowance for credit losses	27	31
Net interest income after allowance for credit losses	**295**	**326**
Net commission income	97	93
Net result on hedge accounting	-6	1
Net trading income/expenses	3	17
Results from non-trading assets	0	61
Results from investments accounted for using the equity method	–	0
Administrative expenses	268	290
Net other operating income/expenses	59	-1
Operating profit	**180**	**207**
Income taxes	66	65
Consolidated net income	**114**	**142**
Consolidated net income attributable to non-controlling interests	6	10
Consolidated net income attributable to shareholders of Aareal Bank AG	108	132

Aareal Bank Group disclosed a corresponding income tax expense of € 26 million.

Overall, this resulted in consolidated operating profit of € 180 million for the first six months (H1 2016: € 207 million). Taking into consideration tax expenses of € 66 million and non-controlling interest income of € 6 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 108 million (H1 2016: € 132 million). Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 100 million (H1 2016: € 124 million). Earnings per ordinary share amounted to € 1.68 (H1 2016: € 2.08) and annualised return on equity (RoE) before taxes to 13.0 % (2016: 15.1 %).

Structured Property Financing segment

Operating profit in the Structured Property Financing segment amounted to € 192 million in the first half of 2017 (H1 2016: € 224 million).

Segment net interest income of € 327 million showed an expected decline from the previous year (H1 2016: € 363 million). This was largely due to the scheduled reduction of the former WestImmo and Corealcredit portfolios, lower non-recurring effects from early loan repayments, as well as a lack of suitable investment opportunities for our liquidity reserves, given the persistent low interest rate levels, and exchange rate fluctuations.

Allowance for credit losses amounted to € 27 million (H1 2016: € 31 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses amounted to € 56 million, while net reversals of portfolio-based allowance for credit losses stood at € 20 million.

At € 166 million (H1 2016: € 189 million), segment administrative expenses were reduced as expected, in spite of provisions recognised for planned personnel measures resulting from the optimisation of processes and structures, within the scope of the "Aareal 2020" programme for the future. The decline was due in particular to lower integration and lower running costs for former WestImmo, as well as lower project expenditure.

Net other operating income of € 58 million (H1 2016: expenses of € 1 million) mainly resulted from net reversals of provisions (€ 50 million) in connection with the final agreement on contractual issues with a third party, which were still pending when Aareal Bank Group acquired former Coreal-

Structured Property Financing segment result

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Net interest income	327	363
Allowance for credit losses	27	31
Net interest income after allowance for credit losses	**300**	**332**
Net commission income	3	3
Net result on hedge accounting	-6	1
Net trading income/expenses	3	17
Results from non-trading assets	0	61
Results from investments accounted for using the equity method	–	–
Administrative expenses	166	189
Net other operating income/expenses	58	-1
Operating profit	**192**	**224**
Income taxes	70	71
Segment result	**122**	**153**

credit, and the release of tax assessment notices. Aareal Bank Group disclosed a corresponding income tax expense of € 26 million.

Overall, operating profit for the Structured Property Financing segment was € 192 million in the first half of 2017 (H1 2016: € 224 million). Taking tax expenses of € 70 million into consideration (H1 2016: € 71 million), the segment result for the first six months was € 122 million (H1 2016: € 153 million).

Consulting/Services segment

Sales revenue generated in the Consulting/Services segment developed slightly positively during the first half of 2017, totalling € 109 million (H1 2016: € 101 million), driven particularly by Aareon's higher sales revenues. The persistent low interest rate environment continued to burden margins from the deposit-taking business that are reported in sales revenues.

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

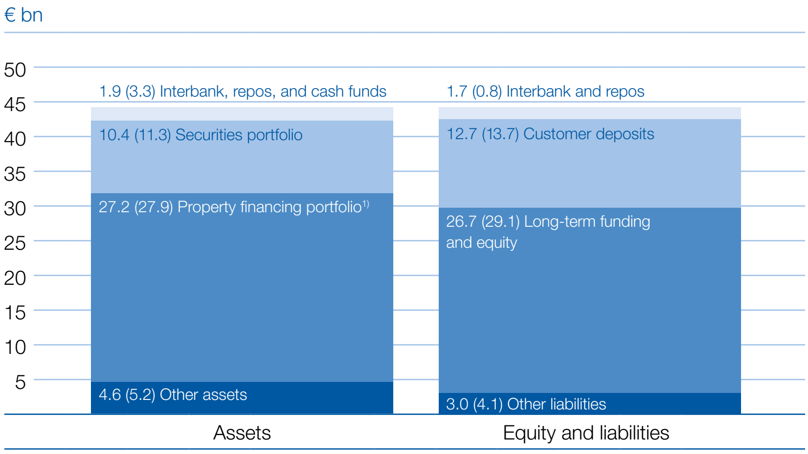
Overall, segment operating profit in the first half of 2017 was € -12 million (H1 2016: € -17 million). Aareon's contribution was € 15 million (H1 2016: € 15 million).

After taking taxes into consideration, the segment result for the first half of the year amounted to € -8 million (H1 2016: € -11 million).

Financial position

Aareal Bank Group's consolidated total assets amounted to € 44.1 billion as at 30 June 2017, after € 47.7 billion as at 31 December 2016.

Statement of financial position – structure as at 30 Jun 2017 (31 Dec 2016)



[1] Excluding € 1.0 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by former WestImmo (31 December 2016: € 0.6 billion)

Consulting/Services segment result

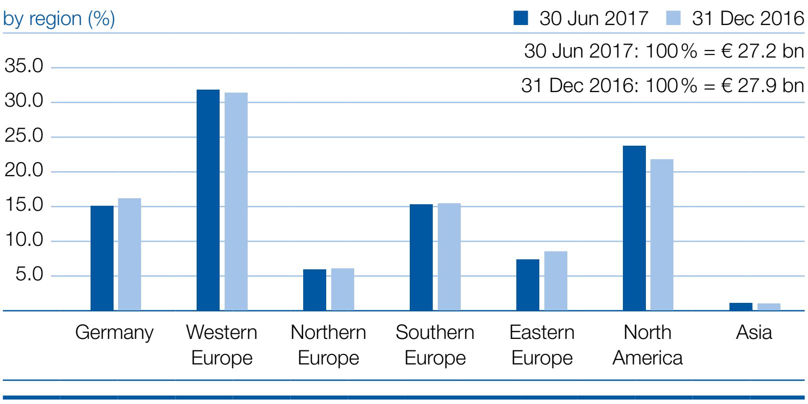
€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Sales revenue	109	101
Own work capitalised	2	3
Changes in inventory	0	0
Other operating income	2	1
Cost of materials purchased	18	16
Staff expenses	71	71
Depreciation, amortisation and impairment losses	6	6
Results from investments accounted for using the equity method	–	0
Other operating expenses	30	29
Interest and similar income/expenses	0	0
Operating profit	**-12**	**-17**
Income taxes	-4	-6
Segment result	**-8**	**-11**

Property financing portfolio

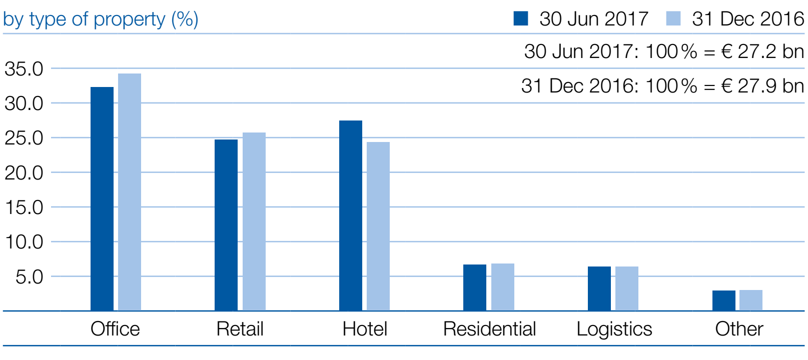
The volume of Aareal Bank Group's property financing portfolio[1] stood at € 27.2 billion as at 30 June 2017, down slightly from the year-end level 2016 (€ 27.9 billion). Factors contributing to the decline included the planned reduction of the former WestImmo and Corealcredit portfolios, as well as exchange rate developments. The international share of the portfolio increased slightly, to 84.9 % (31 December 2016: 83.9 %).

At the reporting date (30 June 2017), Aareal Bank Group's property financing portfolio was composed as follows, compared with year-end 2016:

Property financing volume[1] (amounts drawn)



Property financing volume[1] (amounts drawn)



Portfolio allocation by region and continent changed only marginally compared to the end of the previous year. Whilst the portfolio share of exposures in North America rose by about 2.0 percentage points, in all other regions it declined slightly or remained largely stable.

The breakdown of the portfolio by property type did not change significantly during the reporting period. The share of hotel property increased by 3.1 percentage points compared to the year-end 2016, whilst the share of office property was reduced by 1.9 percentage points. The share of financings for residential, logistics, and retail property as well as other financings in the overall portfolio remained almost unchanged compared to the year-end 2016.

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

Securities portfolio

As at 30 June 2017, the nominal volume of the securities portfolio[2] declined to € 8.7 billion (31 December 2016: € 9.3 billion), as scheduled, reflecting a high level of maturities and low new investments. The securities portfolio comprises three asset classes: public-sector borrowers, covered bonds and Pfandbriefe, as well as bank bonds. 99 %[3] of the overall portfolio is denominated in euro. 98 %[3] of the portfolio has an investment grade rating.[4] More than 75 % of the portfolio fulfils the requirements of "High Quality Liquid Assets" (as defined in the Liquidity Coverage Ratio (LCR)).

Financial position

Funding and equity

Funding

Aareal Bank Group has remained very solidly funded throughout the second quarter of 2017. Total long-term refinancing as at 30 June 2017 amounted to € 24.2 billion (31 December 2016: € 26.5 billion), comprising Pfandbrief issues as

[1] Excluding € 1.0 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by former WestImmo (31 December 2016: € 0.6 billion)
[2] As at 30 June 2017, the securities portfolio was carried at € 10.4 billion (31 December 2016: € 11.3 billion).
[3] Details based on the nominal volume
[4] The rating details are based on the composite ratings

well as senior unsecured and subordinated issues. As at the reporting date, Aareal Bank also had € 8.6 billion at its disposal in deposits generated from the business with the housing industry (31 December 2016: € 8.4 billion). Institutional money market investors' deposits amounted to € 4.1 billion (31 December 2016: € 4.5 billion).

The Liquidity Coverage Ratio (LCR) exceeded 150 % on the reporting days of the period under review.

Aareal Bank Group raised € 1.1 billion on the capital market during the first half of 2017, comprising € 0.9 billion in Mortgage Pfandbriefe, and € 0.2 billion in senior unsecured issues.

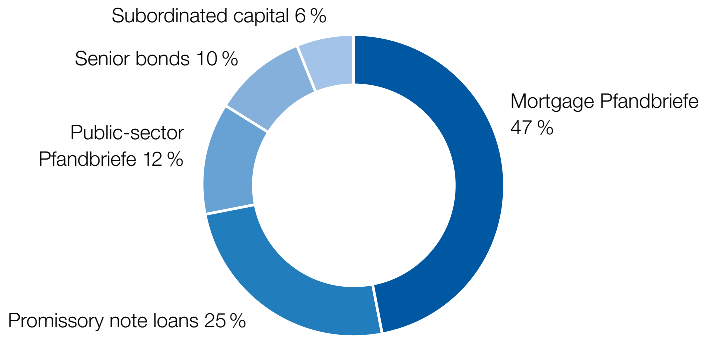
Since we conduct our business activities in a range of foreign currencies, we have secured our foreign currency liquidity over the longer term by means of appropriate measures.

Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 2,833 million as at 30 June 2017 (31 December 2016: € 3,129 million), comprising € 300 million for the Additional Tier 1 (AT 1) bond. Due to the repayment of the Capital Funding Trust, non-controlling interests were reduced to € 1 million (31 December 2016: € 242 million).

Capital market funding mix as at 30 June 2017

% Total volume: € 24.2 bn



Regulatory capital

	30 Jun 2017	31 Dec 2016
€ mn		
Common Equity Tier 1 (CET1)	2,261	2,351
Tier 1 (T1)	2,633	2,896
Total capital (TC)	3,683	3,994
%		
Common Equity Tier 1 ratio (CET1 ratio)	16.9	16.2
Tier 1 ratio (T1 ratio)	19.7	19.9
Total capital ratio (TC ratio)	27.6	27.5

Analysis of risk-weighted assets (RWA)

30 June 2017

	EAD	Risk-weighted assets (RWA)			Regulatory capital requirements
		AIRBA	CRSA	Total	
€ mn					
Credit risks	**45,674**	**9,252**	**2,247**	**11,499**	**920**
Companies	29,344	7,159	1,331	8,490	679
Institutions	3,207	438	46	484	39
Public-sector entities	11,202	0	20	20	2
Other	1,921	1,655	850	2,505	200
Market price risks				**224**	**18**
Credit Valuation Adjustment				**189**	**15**
Operational risks				**1,433**	**115**
Total	**45,674**	**9,252**	**2,247**	**13,345**	**1,068**

31 December 2016

€ mn	EAD	Risk-weighted assets (RWA) AIRBA	CRSA	Total	Regulatory capital requirements
Credit risks	**48,844**	**9,729**	**2,665**	**12,394**	**991**
Companies	30,094	7,737	1,741	9,478	758
Institutions	3,819	346	85	431	34
Public-sector entities	12,795	0	22	22	2
Other	2,136	1,646	817	2,463	197
Market price risks				**122**	**10**
Credit Valuation Adjustment				**254**	**20**
Operational risks				**1,770**	**142**
Total	**48,844**	**9,729**	**2,665**	**14,540**	**1,163**

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

Risk Report

Aareal Bank Group Risk Management

The Annual Report 2016 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of this interim report, we will once again briefly outline the key components of our risk management structure, together with the key developments during the period under review. The business policy set by the Management Board, and duly acknowledged by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the Bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the Bank's business strategy, are adapted to the changed environment at least once a year, adopted by the Management Board, and duly acknowledged by the Supervisory Board. Suitable risk management and risk control processes are deployed to implement the risk strategies, and to ascertain the Bank's ability to bear risk.

Risk-bearing capacity and risk limits

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

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the Capital Requirements Regulation (CRR). Freely available funds increased significantly during the period under review. Firstly, this was due to portfolio planning; secondly, Aareal Bank further refined its procedures, defining Tier I (T1) capital (as defined by the CRR) at a level of 7.75 % of forecast risk-weighted assets (RWA) as a deductible, in accordance with regulatory requirements. Other risks such as migration or FX lending risk are no longer deducted as a buffer, but included as risk exposure. Only free own funds exceeding this level are applied as potential risk cover, of which a further 10 % 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, business risks).

We adopt a 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 7.75 % of RWA, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The following table summarises the Group's overall risk-bearing capacity as at 30 June 2017.

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

Credit risks

Definition

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

Risk-bearing capacity of Aareal Bank Group as at 30 June 2017
– Going-concern approach –

€ mn	30 Jun 2017	31 Dec 2016
Own funds for risk cover potential	2,623	2,598
less 7.75 % (31 Dec 2016: 8 %) of RWA (Tier 1 capital (T1))	870	1,477
Freely available funds	**1,753**	**1,121**
Utilisation of freely available funds		
Credit risks	285	317
Market risks	177	207
Operational risks	86	106
Investment risks	21	24
Other risks	174	–
Total utilisation	**743**	**654**
Utilisation as a percentage of freely available funds	**42 %**	**58 %**

Risk measurement and monitoring

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

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

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

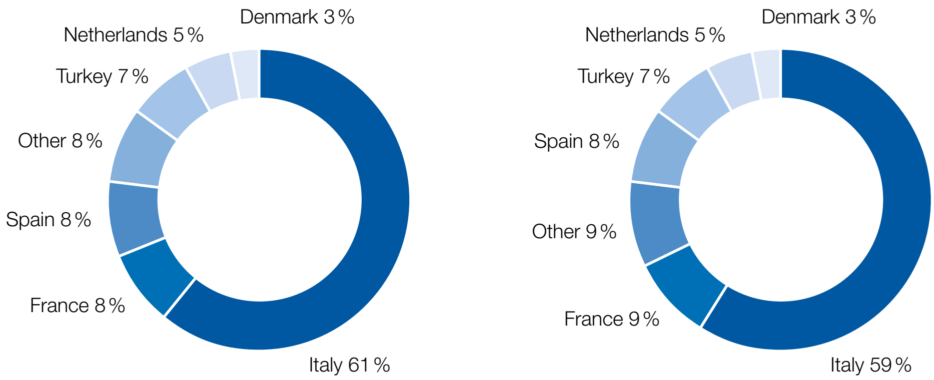
Methods used to measure, control and monitor concentration and diversification effects on a portfolio level include two different credit risk models. Based on these models, the Bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business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

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

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

Individually impaired property financing[1)]

by country (%) 30 Jun 2017: 100 % = € 1.3 bn | 31 Dec 2016: 100 % = € 1.4 bn



1) Excluding former WestImmo's private client business and local authority lending

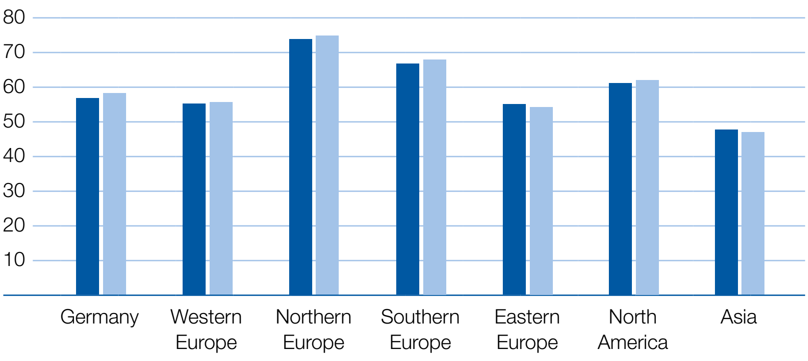
Trading activities are generally restricted to counterparties for whom the requisite limits are in place. All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Persons holding position responsibility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

In principle, Aareal Bank pursues a "buy and manage" strategy in managing its credit portfolio – with the primary objective of holding loans extended on its balance sheet until maturity; at the same time, targeted measures – such as syndication – are deployed for actively managing the portfolio and the risks involved.

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

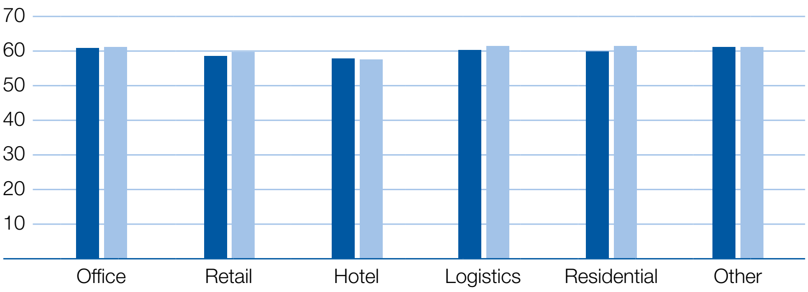
Average LTV of property financing[1)]

by region (%) ■ 30 Jun 2017 ■ 31 Dec 2016



Average LTV of property financing[1)]

by type of property (%) ■ 30 Jun 2017 ■ 31 Dec 2016



[1)] Excluding former WestImmo's private client business and local authority lending
Note that the loan-to-value ratios are calculated on the basis of market values, including supplementary collateral with sustainable value.

Country risks

Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process. The respective country limits are determined on the basis of a country risk assessment by the Bank's senior management. The Risk Controlling division is responsible for the continuous monitoring of country limits and limit utilisation, and for periodical reporting.

Market price risks

Definition

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

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

Risk measurement and monitoring

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

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

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

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

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

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

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year) 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	173.6 (305.0)	128.2 (161.1)	152.0 (224.5)	– (–)
Group VaR (interest rates)	127.6 (211.6)	90.8 (103.0)	107.7 (149.5)	– (–)
Group VaR (FX)	98.8 (185.9)	68.9 (102.2)	84.4 (135.5)	– (–)
VaR (investment fund and equities)	4.8 (5.8)	3.4 (3.5)	4.2 (4.6)	20.0 (20.0)
Aggregate VaR in the trading book	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	5.0 (5.0)
Group VaR (specific risks)	79.8 (85.9)	71.5 (62.8)	75.5 (73.3)	– (–)
Group funding risk	25.7 (23.0)	12.5 (17.2)	18.1 (19.4)	– (–)
Aggregate VaR – Aareal Bank Group	204.6 (311.5)	162.1 (174.0)	187.9 (237.5)	390.0 (390.0)

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

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year) 95%, 1-day holding period				
Aareal Bank Group – general market price risk	11.0 (19.3)	8.1 (10.2)	9.6 (14.2)	– (–)
Group VaR (interest rates)	8.1 (13.4)	5.7 (6.5)	6.8 (9.5)	– (–)
Group VaR (FX)	6.3 (11.8)	4.4 (6.5)	5.3 (8.6)	– (–)
VaR (investment fund and equities)	0.3 (0.4)	0.2 (0.2)	0.3 (0.3)	1.3 (1.3)
Aggregate VaR in the trading book	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Group VaR (specific risks)	5.0 (5.4)	4.5 (4.0)	4.8 (4.6)	– (–)
Group funding risk	1.6 (1.5)	0.8 (1.1)	1.1 (1.2)	– (–)
Aggregate VaR – Aareal Bank Group	12.9 (19.7)	10.3 (11.0)	11.9 (15.0)	24.7 (24.7)

Aggregate VaR – Aareal Bank Group

Group-wide limits are being continuously monitored as part of the analysis of the Bank's risk-bearing capacity. These limits remained unchanged during the quarter under review; no limit breaches were detected.

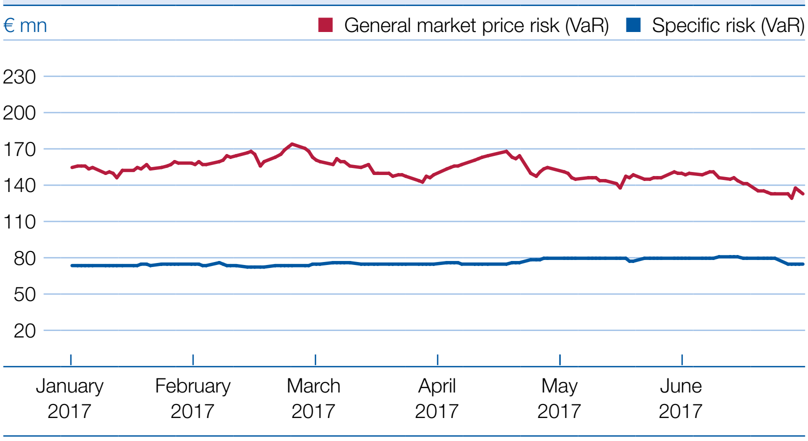
Backtesting

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

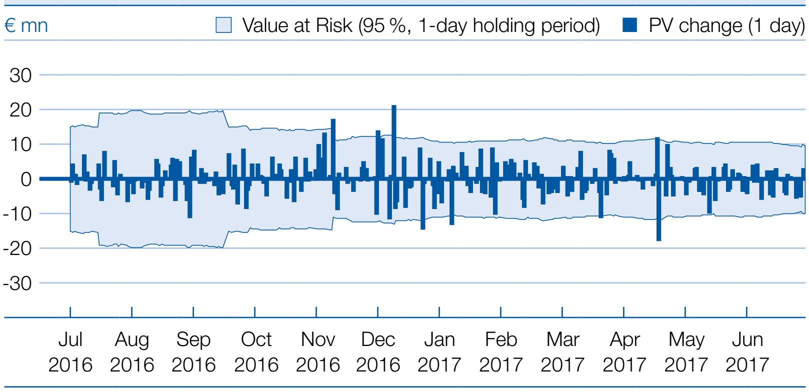
Trading book

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

General market price risk and specific risk during 2017



Present values and 1-day VaR during the course of 2016/2017



Liquidity risks

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

Treasury is responsible for managing liquidity risks, whilst Risk Controlling prepares a daily liquidity report submitted to responsible members of the Management Board. In addition, the entire Management Board is informed on a monthly basis, within the scope of an extensive risk report.

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

Operational risks

The Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. To the extent that they are caused by operational risks, model, strategic and reputational risks are also taken into consideration within this type of risk. Systemic risks (or their impact on operational risks) are not affected by this.

Aareal Bank's legal department compiles all information concerning any legal disputes involving Aareal Bank Group, whether in or out of court. The involvement of the legal department is based on corresponding Group-wide guidelines. The Bank's decentralised operating legal entities, as well as the legal departments of subsidiaries submit quarterly as well as event-driven reports on legal risks identified to Aareal Bank's legal department, which reports to the Management Board, also (at least) on a quarterly basis. Moreover, information about legal risks is included in operational risk reporting. Aareal Bank's policy for managing and monitoring operational risks is geared to achieving a risk-minimising or loss-limiting effect at an early stage, by employing a pro-active approach. The Risk Report in the 2016 Annual Report contains a detailed description of controlling tools employed by the Bank to manage operational risk, plus the relevant responsibilities.

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

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

Investment risks

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

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

Report on Expected Developments

In the Report on Expected Developments, we present the macro-economic environment as well as sector-specific and business developments, including Group targets, considering the resulting opportunities.

Macro-economic environment

Developments for the economy, as well as for financial and capital markets, are exposed to diverse risks and threats – which also have an impact on the commercial property markets. The economic forecast at this point in time – mid-year 2017 – is characterised by significant uncertainty, such as geopolitical risks and protectionist economic policies. Furthermore, falling commodity prices and weak growth in China could burden the economy.

The low interest rate environment continues to be a risk factor in many markets, as it harbours risks for financial stability of a systemic dimension, should it persist for a longer period. Low interest rates can lead to a misallocation of investment capital, possibly resulting in asset-price bubbles. Moreover, market participants are encouraged to take on higher levels of risk. Sudden changes in interest rates may trigger a revaluation and changes in investor behaviour, potentially leading to a collapse in asset prices. A longer-lasting period of low interest rates complicates an exit from such an environment, heightening the risks for the financial and capital markets. Low interest rates may also entice a scaling back of reform and consolidation efforts in various sectors.

A sharp increase in interest rates entails considerable risk: an excessively quick and sharp rise can hamper investments, and may have negative implications for asset prices. Emerging economies in particular will have to face capital outflows, and may have to raise their own interest rates. Although financial market players are expecting interest rates to rise further in the US, the extent – and possible resulting financial market volatility – is still an unknown factor. Turmoil in the financial and capital markets may still hurt the global economy.

In the wake of the change of government in the US, many economic players anticipated growth due to lower taxes and reduced regulatory requirements. However, these expectations may not fully materialise. Therefore, corrections could occur on those financial and capital markets where the aforementioned expectations have led to share price growth, currency or price increases.

A major risk factor in Europe is the impact of the UK's exit from the EU (Brexit). Despite the minimal economic impact visible until now, we continue to see a high level of economic risk for the UK, as well as for the EU. The exit of further countries from the EU cannot be ruled out. The difficult political situation in Turkey, which burdens the Turkish economy and exacerbates geopolitical risks, poses an additional risk.

The sovereign debt crisis might potentially raise its head again in Europe: the problem of high levels of indebtedness continues to exist. Diverging monetary policy between the US and the euro zone, as well as political reorientation, could also heighten that risk.

In China, there is a danger that the sharp increase in levels of private debt could lead to a pronounced market correction. Despite a slight easing of price pressure on the residential property market, the danger of a far-reaching market correction still exists.

Economy

Despite the high number of existing uncertainty factors and burdens, economic momentum is expected to be slightly stronger than in the previous year. The growth rates of real global economic output is expected to slightly exceed the level seen during 2016. However, risks and uncertainty factors, were they to materialise to a substantial extent, could mute the economic development, or even cause recessive tendencies in various regions.

In the euro zone, economic development is expected to remain stable during the course of the year. Sentiment indicators are signalling a strengthening of industrial production and export. It is however uncertain whether private consumption will be as strong as last year, due to increased inflation. Not least due to the robust growth in the first half of the year, we forecast a slightly higher growth rate for 2017 compared to the previous year, despite structural problems in some euro zone countries having a dampening effect. In line with our projections for the region as a whole, most of the euro zone countries relevant to Aareal Bank should show moderate to good economic development. Real GDP growth is anticipated to be lowest in France and Italy, with Belgium marginally above, and Austria approaching the euro zone average. Prospects for Germany and Finland are comparable to the euro zone average, whereas growth perspectives for the Netherlands and Spain are relatively favourable in comparison.

In 2017, the economic development of the EU as a whole is anticipated to be similar to that of the euro zone countries. Growth is expected to remain high in Sweden, albeit significantly lower than in the previous two years. For the UK, we expect economic growth to be in line with last year's levels. For Denmark, we anticipate slightly accelerated economic growth. The Polish economy should continue its strong growth in the current year, at levels significantly above those registered in the previous year. The Czech economy should also continue to post solid growth rates, above the previous year's level.

The Swiss economy remains burdened by the strong Swiss franc. Real GDP growth will be largely in line with the previous year's level. Economic growth in Turkey is expected to be slightly higher this year, compared to 2016; even though, historically, it is on a relatively low level. Due to the political situation, the outlook is clouded by a high degree of uncertainty. Slightly positive growth can be expected for Russia in this year – following several years of recession. The modest increase in oil prices provides support, while the ongoing political conflicts and a lack of structural reforms continue to have a dampening effect.

As seen in the previous year, the US economy is expected to receive support from private consumption (which benefits from increases in wages and employment) this year. Corporate investments should contribute slightly more than in 2016. The stable economy is likely to absorb the anticipated interest rate hikes; uncertainty remains with regard to the course the new US administration is likely to take with its economic policy. In Canada, the negative effect of lower investments in the oil industry should diminish. Moderately rising external demand is increasingly providing support. However, private consumption is expected to be weakened by rising interest rates and rising inflation. Overall, we expect a moderate increase in real economic growth for Canada, compared to last year's figure.

The depreciation of the yen and the expansionary fiscal policy will likely lead to marginal economic growth in Japan compared with the previous year, albeit subdued compared to other industrial nations. We expect the Singaporean economy to grow slightly stronger than in the previous year. In China, the trend of decreasing real GDP growth is bound to continue, albeit at a more moderate level than in 2016. Curbing factors are the slowdown in the housing boom, the targeted reduction of overcapacity, especially in heavy industry, and the transition to an overall lower investment ratio. We are still witnessing uncertainty with regard to the increase of macro-economic debt. In addition, the Chinese economic cycle could slow down.

Against a background of a positive economic development, we expect most labour markets across the euro zone as well as in other European countries to register slowly decreasing or virtually stagnating unemployment rates for 2017. In the US, unemployment should remain at a cyclical low.

Financial and capital markets, monetary policy and inflation

The risks and uncertainty factors we have listed so far also apply to the financial and capital markets this year. This includes, in particular, political events, but also any of the aforementioned risks which could, were they to materialise to a substantial extent, cause turbulence on the financial and capital markets. In the current environment, we assume volatility will remain moderate. We expect the financial and capital markets to remain receptive towards securities issues and refinancings.

The ECB's decision – taken in the previous year – to expand its asset-buying programme, as well as further measures, underscored our expectation that the extremely expansive monetary policy pursued in the euro zone would remain intact. However, it is conceivable that the ECB could announce abandonment of this course of monetary policy during the course of the year. Various other European central banks, such as the Swedish Riksbank, are also likely to abide by their expansive fiscal policy during 2017. On the other hand, the US is expected to undertake further interest rate hikes; the Fed will probably also begin to reduce its balance sheet in 2017, whereas we do not expect the Bank of England to make any interest rate adjustments. Also, it will likely adhere to its cautious attitude regarding the exit from the EU.

In the US, further slowly rising interest rates are on the horizon for 2017, in light of further key interest rate hikes. Although this may place upside pressure on interest levels in the euro zone and other EU countries, European interest rate levels are expected to remain very low during the remainder of the year given the ECB's extremely loose monetary policy stance.

Inflation will rise noticeably in the euro zone and the other EU member states – in particular due to slightly increased oil prices and improved employment rates. In the euro zone, we expect a rate of less than 2 % for the full year 2017. For the US, we expect the annual average of inflation to be slightly higher than in the euro zone, and we are assuming a value of just over zero per cent for Japan. The Chinese rate of inflation is expected to close in on 2 %, a moderate price increase.

Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. Numerous initiatives, such as the revision of the Credit Risk Standard Approach (CRSA), the Internal Ratings-based Approaches (IRBA) and the basic approaches for operational risk and the capital floor rules are currently under discussion. EBA has also finalised its Guidelines on the collection of information related to the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). In addition, SSM has developed expectations regarding the structure of ICAAP and ILAAP based on a multi-year plan.

The ECB will also review the internal model of Pillar I (Target Review of Internal Models) in 2017, whose exact impact on banks – and the consequences – cannot be fully assessed at present.

Regulators have yet to come up with final details for some of these additional regulatory requirements; hence, various technical standards, guidelines and regulations still have to be finalised. In addition, EBA published a consultation paper in November 2016 on "Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures". The EU Commission made proposals to revise supervisory regimes (CRR, CRD IV, BRRD and SRMR) that implement – in particular – international banking supervision rules of the Basel Committee and the FSB (Financial Stability Board) in Europe.

To facilitate the timely implementation, we have already continued to pursue the individual issues in numerous projects – devoting considerable resources to this task.

Moreover, the increasing volatility of requirements presents an additional challenge for institutions: besides the new requirements mentioned by way of example, this volatility is particularly a function of the concrete specifications for instruments 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 the buffer for systemic risks), or the annual results of the Supervisory Review and Evaluation Process (SREP) for individual banks, can only be planned to a certain extent. Moreover, these instruments may lead to changes in a bank's individual capital requirements, at short notice.

Sector-specific and business developments

Structured Property Financing segment

During the second half of 2017, commercial property will continue to be a sought-after asset class in many markets. Thus, global transaction volumes should remain on a high level, albeit lower when compared to the particularly high levels seen in the two previous years. Transaction volumes may decline significantly in individual markets, such as the UK, while further increasing in others, e.g. in Spain. Given the shortage of available first-class properties on offer, and rising total revenue requirements, investor interest in properties outside the top segments will likely increase compared to previous years. Investor demand is thus expected to continue to support property values this year. Nonetheless, commercial property markets are also exposed to major risks and threats. An excessively sharp interest rate hike – originating from the US – may have a negative effect on performance. Moreover, other uncertainty factors and risks in the macro-economic environment are also relevant for commercial property markets.

Several factors will impact the value[1] of commercial property in the current year. Whilst the stable economy and low interest rate environment will support property values, unpredictability, political uncertainty and a potentially significant interest rate increase can reduce values.

We therefore anticipate a largely stable development in the market values of commercial property in many markets this year. However, the combination of the existing low interest rate environment and adjustments to the (often very low) returns on investment, given potential sharp interest rate hikes, pose the risk of a correction to the market values of commercial property.

We expect a stable performance in most European countries in 2017, including Germany, France, Italy, the Netherlands and Poland. Deviating from this, we expect a slightly positive development owing to the good economic situation in Denmark and Spain. The situation in the UK is subject to uncertainty because of the Brexit vote. Values could fall in some sub-markets although we anticipate a stable development overall. Property values in Turkey might be negatively influenced by political uncertainty and the tense security situation.

Following the sharp decline in property values in Russia in recent years, we believe these will stabilise in the current year due to the slight economic recovery. Ongoing difficult international relationships could continue to burden the situation.

Overall, property values in the US are expected to develop slightly positively, thanks to the relatively favourable economic outlook. Increasing interest rates pose certain risks for this development. We also expect a stable performance in Canada.

Developments in commercial property values are likely to vary in Asia. Stable values are expected in China and Singapore, while prime commercial property values could continue to rise slightly in Japan as interest rates remain low.

The trends described above are expected to apply to office, retail and logistics properties.

We expect a slightly positive development in 2017 on the hotel markets of Europe's most significant economic centres. Paris should see a notable increase in occupancy ratios and average revenues per available room, after terrorist attacks had caused figures to decline. Occupancy ratios should be stable in the other big European cities, such as

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

Barcelona, London and Madrid, with slightly higher average revenues per available room. The difficult political situation in Turkey will continue to have negative implications for the hotel markets.

We believe a slight improvement on average in revenues per available room is likely in the US, with stable or slightly lower occupancy ratios. We expect slight increases to both indicators in Canada, not least thanks to the 150th anniversary celebrations of the foundation of the Canadian Confederation.

We expect hotel markets in many Asian metropolitan areas to show a stable development in 2017. Singapore is an exception, as slightly lower occupancy ratios and moderately declining revenues per available room are to be anticipated.

The intense competition in commercial property financing is also likely to persist in many markets during the current year, with less of an incentive for lenders to lower the margins than in the previous years. We anticipate a stable development in loan-to-value ratios across the various regions. Banks are expected to continue adhering to their preference for financing first-class properties in top locations. Investors' readiness to finance properties outside top locations will increase.

We have incorporated various market aspects, amongst other factors, in our assessment of anticipated new business volumes for the current year. For the Structured Property Financing segment, we are targeting new business of between € 7 billion and € 8 billion for the 2017 financial year. Aareal Bank Group's property financing portfolio should amount to between € 25 billion and € 28 billion at the end of 2017, subject to currency fluctuations.

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

Consulting/Services segment

Housing Industry division

We also expect developments within the German housing industry and commercial property sector to remain solid for the remainder of the year, the sector should continue to pursue sustainable portfolio optimisation. On the back of growing cost efficiency requirements, companies are also increasingly shifting their attention to digital portfolio administration processes.

Given the stable macro-economic fundamental data, the positive income and labour market perspectives, and considering constant interest rate levels, the German residential property market is likely to continue to post a stable development. In light of stronger construction activity, it is fair to expect property prices to fall in general; due to the continuing population growth and trend towards smaller households, this development however will not include some metropolitan areas.

We see good opportunities during 2017 to acquire new clients and to intensify the business relationships with our existing client base. This also applies to our payments services for utilities and the waste disposal industry. Furthermore, we invest in our payment support and process optimisation offers – areas where we anticipate further potential.

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

Aareon

Within the course of the current year, Aareon will continue to pursue the growth strategy based on its strategy programme integrated in Aareal Bank Group's "Aareal 2020" programme for the future.

Aareon's consolidated sales revenues are expected to rise slightly, accompanied by a steady contribution to Group results. The expansion of the digital solutions of the Aareon Smart World portfolio of products, strengthening the ERP business and tapping new areas of business will be the key growth factors. Investing in the expansion of Aareon Smart World, as well as in measures to enhance performance and efficiency and to integrate Kalshoven Groep, will slightly increase costs in the 2017 financial year.

Aareon anticipates its advisory business to expand in Germany as the migration of GES clients to the Wodis Sigma ERP solution proceeds as planned. We also believe that sales revenues with digital solutions will continue to grow in 2017: the topic has gained considerably in importance for the housing industry, alongside burgeoning customer interest.

Aareon expects to increase revenues from maintenance services in the Netherlands by further penetrating the market for digital solutions, and with the acquisitions of Kalshoven Groep as of 1 April 2017, as well as of SG2ALL as of 31 December 2016. For Aareon France, the positive trend in maintenance business is expected to continue. Very strong growth in sales revenue is also expected of the digital solutions on the back of further market penetration, and due to regulatory requirements for digital invoicing processes. An increase in sales revenue for the ERP solution QL is expected in the UK for 2017, while the new ERP product generation QL.net should also be established further in the market. Demand for digital solutions – such as 1st Touch Mobile, 360° Tenant Portal and 360° Field Worker – should also continue to increase in this area. The Swedish Incit Group is expected to increase sales revenues stemming from Incit Xpand, in particular through a rise in business with new clients in the Scandinavian markets and, as a consequence, a more dynamic advisory business.

In view of the aforementioned, Aareon expects a slight increase in sales revenues for the 2017 financial year, together with a contribution to consolidated operating profit of between € 34 million and € 35 million.

Group targets

For the 2017 financial year, we continue to see good opportunities to achieve consolidated operating profit of between € 310 million and € 350 million, including a positive non-recurring effect in the amount of € 50 million recognised in the second quarter, from a subsidiary's reversal of provisions against income. Earnings per share (EpS) are projected in a range between € 2.85 and € 3.30. RoE before taxes for the current year is anticipated between 11 % and 12.5 %; when adjusted for the non-recurring effect mentioned above, the range is between 9 % and 10.5 %. We affirm our medium-term target RoE of around 12 % before taxes.

Consolidated net interest income for the current financial year is expected at between € 620 million and € 660 million, with allowance for credit losses in a range between € 75 million and € 100 million. Net commission income is projected to be between € 195 million and € 210 million. Administrative expenses are expected in a range between € 470 million and € 510 million.

In the Structured Property Financing segment, the credit portfolio is projected to stand at between € 25 billion and € 28 billion by the end of 2017, subject to currency fluctuations. We are targeting new business of between € 7 billion and € 8 billion in the current year. In the Consulting/Services segment, we expect our IT subsidiary Aareon to contribute between € 34 million and € 35 million to consolidated operating profit.

By the end of 2017, we expect the fully phased-in Common Equity Tier 1 (CET1) ratio to be moderately higher than at the end of the last financial year (31 December 2016: 15.7 % – fully phased-in). Further, we expect the Liquidity Coverage Ratio (LCR), which should be at least 100 %, to broadly remain at a very high level.

Consolidated Interim Financial Statements
Statement of Comprehensive Income

Income Statement

	Notes	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016[1]
€ mn			
Interest income		374	445
Positive interest from financial liabilities		3	1
Interest expenses		47	84
Negative interest from financial assets		8	5
Net interest income	1	**322**	**357**
Allowance for credit losses	2	27	31
Net interest income after allowance for credit losses		**295**	**326**
Commission income		115	112
Commission expenses		18	19
Net commission income	3	**97**	**93**
Net result on hedge accounting	4	-6	1
Net trading income/expenses	5	3	17
Results from non-trading assets	6	0	61
Results from investments accounted for using the equity method		–	0
Administrative expenses	7	268	290
Net other operating income/expenses	8	59	-1
Operating profit		**180**	**207**
Income taxes		66	65
Consolidated net income		**114**	**142**
Consolidated net income attributable to non-controlling interests		6	10
Consolidated net income attributable to shareholders of Aareal Bank AG		108	132
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG[2]		108	132
of which: allocated to ordinary shareholders		100	124
of which: allocated to AT1 investors		8	8
Earnings per ordinary share (in €)[3]		1.68	2.08
Earnings per AT1 unit (in €)[4]		0.08	0.08

[1] Previous year's figures were adjusted due to separate disclosure of negative interest.
[2] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
[3] Earnings per ordinary share are determined by dividing the earnings allocated to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). (Basic) earnings per ordinary share correspond to (diluted) earnings per ordinary share.
[4] Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan - 30 Jun 2017	1 Jan - 30 Jun 2016
Consolidated net income	**114**	**142**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**11**	**-47**
Remeasurements	16	-68
Taxes	-5	21
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**-4**	**3**
Gains and losses on remeasuring AfS financial instruments	-6	5
Reclassifications to the income statement	–	-1
Taxes	2	-1
Changes in hedging reserves	**-19**	**9**
Profit/loss from derivatives used to hedge future cash flows	-28	11
Reclassifications to the income statement	0	2
Taxes	9	-4
Changes in currency translation reserves	**-8**	**-2**
Profit/loss from translating foreign operations' financial statements	-8	-3
Reclassifications to the income statement	–	1
Taxes	–	–
Other comprehensive income	**-20**	**-37**
Total comprehensive income	**94**	**105**
Total comprehensive income attributable to non-controlling interests	6	10
Total comprehensive income attributable to shareholders of Aareal Bank AG	88	95

Statement of Comprehensive Income

Income Statement (Quarterly Development)

€ mn	Quarter 2 2017	Quarter 2 2016[1]
Interest income	187	217
Positive interest from financial liabilities	2	0
Interest expenses	26	37
Negative interest from financial assets	5	3
Net interest income	**158**	**177**
Allowance for credit losses	25	29
Net interest income after allowance for credit losses	**133**	**148**
Commission income	58	57
Commission expenses	9	10
Net commission income	**49**	**47**
Net result on hedge accounting	-3	0
Net trading income/expenses	4	8
Results from non-trading assets	0	61
Results from investments accounted for using the equity method	–	0
Administrative expenses	129	144
Net other operating income/expenses	55	0
Operating profit	**109**	**120**
Income taxes	42	38
Consolidated net income	**67**	**82**
Consolidated net income attributable to non-controlling interests	1	5
Consolidated net income attributable to shareholders of Aareal Bank AG	66	77

[1] Previous year's figures were adjusted due to separate disclosure of negative interest.

Statement of Comprehensive Income

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

€ mn	Quarter 2 2017	Quarter 2 2017
Consolidated net income	**67**	**82**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**8**	**-25**
Remeasurements	12	-36
Taxes	-4	11
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**-2**	**6**
Gains and losses on remeasuring AfS financial instruments	-4	9
Reclassifications to the income statement	–	-1
Taxes	2	-2
Changes in hedging reserves	**-3**	**0**
Profit/loss from derivatives used to hedge future cash flows	-4	0
Reclassifications to the income statement	0	0
Taxes	1	0
Changes in currency translation reserves	**-7**	**0**
Profit/loss from translating foreign operations' financial statements	-7	-1
Reclassifications to the income statement	–	1
Taxes	–	–
Other comprehensive income	**-4**	**-19**
Total comprehensive income	**63**	**63**
Total comprehensive income attributable to non-controlling interests	1	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	62	58

Statement of Financial Position

€ mn	Notes	30 Jun 2017	31 Dec 2016
Assets			
Cash funds		870	1,786
Loans and advances to banks	9	1,146	1,583
Loans and advances to customers	10	30,177	31,203
Allowance for credit losses	11	-566	-554
Positive market value of derivative hedging instruments		2,046	2,481
Trading assets	12	465	502
Non-trading assets	13	9,034	9,730
Investments accounted for using the equity method		7	0
Intangible assets	14	133	126
Property and equipment	15	251	252
Income tax assets		47	68
Deferred tax assets		175	134
Other assets	16	328	397
Total		**44,113**	**47,708**
Equity and liabilities			
Liabilities to banks	17	2,635	1,703
Liabilities to customers	18	26,535	29,077
Certificated liabilities	19	7,813	8,346
Negative market value of derivative hedging instruments		1,900	2,529
Trading liabilities	20	333	652
Provisions	21	565	680
Income tax liabilities		36	71
Deferred tax liabilities		29	28
Other liabilities	22	160	127
Subordinated capital	23	1,274	1,366
Equity	24, 25, 26		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,699	1,734
AT1 bond		300	300
Other reserves		-68	-48
Non-controlling interests		1	242
Total equity		2,833	3,129
Total		**44,113**	**47,708**

Statement of Changes in Equity

€ mn					Other reserves						
	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Reserve from remeasurements of defined benefit plans	Revaluation surplus	Hedging reserves	Currency translation reserves	Total	Non-controlling interest[1]	Equity
Equity as at 1 Jan 2017	**180**	**721**	**1,734**	**300**	**-100**	**29**	**17**	**6**	**2,887**	**242**	**3,129**
Total comprehensive income for the period			108		11	-4	-19	-8	**88**	6	**94**
Payments to non-controlling interests										-6	**-6**
Dividends			-120						**-120**		**-120**
AT1 coupon			-16						**-16**		**-16**
Other changes			-7						**-7**	-241	**-248**
Equity as at 30 Jun 2017	**180**	**721**	**1,699**	**300**	**-89**	**25**	**-2**	**-2**	**2,832**	**1**	**2,833**

[1] Reduction due to repayment of the Capital Funding Trust

€ mn					Other reserves						
	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Reserve from remeasurements of defined benefit plans	Revaluation surplus	Hedging reserves	Currency translation reserves	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2016	**180**	**721**	**1,633**	**300**	**-80**	**28**	**13**	**7**	**2,802**	**242**	**3,044**
Total comprehensive income for the period			132		-47	3	9	-2	**95**	10	**105**
Payments to non-controlling interests										-10	**-10**
Dividends			-99						**-99**		**-99**
AT1 coupon			-16						**-16**		**-16**
Other changes			1						**1**		**1**
Equity as at 30 Jun 2016	**180**	**721**	**1,651**	**300**	**-127**	**31**	**22**	**5**	**2,783**	**242**	**3,025**

Statement of Cash Flows (condensed)

€ mn	2017	2016
Cash and cash equivalents as at 1 January	**1,786**	**1,282**
Cash flow from operating activities	-1,371	-423
Cash flow from investing activities	690	295
Cash flow from financing activities	-235	-103
Total cash flow	**-916**	**-231**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 June	**870**	**1,051**

Notes (condensed)

Basis of Accounting

Legal framework

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

This half-yearly financial report for the period ended 30 June 2017 was prepared pursuant to the provisions of section 37w of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37y no. 2 of the WpHG, and was approved for publication by the Management Board on 1 August 2017. It comprises the present interim condensed consolidated financial statements, as well as an interim group management report.

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

Reporting entity structure

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

Apart from the acquisition of Kalshoven Groep B.V. and the investment in Mount Street Group Limited, there were no other material changes to the scope of consolidation during the period under review. WestImmo has transferred its banking operations, together with the related loan and securities portfolios, to Aareal Bank by way of a split-off. The split-off became effective upon entry into WestImmo's Commercial Register as at 30 June 2017. Following the split-off, WestImmo has assumed the function of a loan servicing entity and has operated under the name of "Westdeutsche Immobilien Servicing AG" since that date.

Accounting policies

The accounting policies applied in the preparation of the consolidated financial statements 2016 were also applied in the preparation of these condensed interim consolidated financial statements, including the calculation of comparative figures. There were no new financial reporting standards (IASs/IFRSs) that were required to be applied for the first time.

As described in the 2016 Annual Report, IFRS 9 Financial Instruments introduces new rules for the accounting of financial instruments and has to be applied for the first time as at 1 January 2018. The transition results in various effects that have to be recognised in equity.

The first-time application of IFRS 9 will – according to our current assessment – result in positive equity effects from the reversal of the revaluation surplus in connection with the reclassification of IAS 39 financial instrument categories according to the new business models under IFRS 9; furthermore, we also expect negative equity effects from an increase in risk provisioning due to the introduction of the Expected Loss Model. We do not expect any material effects on Aareal Bank Group's statement of financial position from the new rules on hedge accounting. The reclassification of financial instruments according to the business models under IFRS 9 may lead to additional equity effects. The structure and allocation of financial instruments to the business models is in the responsibility of the management, and will be determined as at 31 December 2017. Overall, we only expect minor transition effects on equity as disclosed in the consolidated statement of financial position. Furthermore, the transition effects are subject to additional criteria, such as market developments, the credit quality of our clients, and changes in inventory. Therefore, Aareal Bank Group is not able to precisely forecast the effects from the adoption of IFRS 9 before the date of first-time application (1 January 2018).

Notes to the Statement of Comprehensive Income

(1) Net interest income

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016[1)]
Interest income from		
Property loans	334	386
Promissory note loans	3	4
Other lending and money market operations	30	38
Debt securities and other fixed-income securities	7	17
Current dividend income	0	0
Total interest income	**374**	**445**
Positive interest from financial liabilities	**3**	**1**
Interest expenses for		
Bonds issued	14	19
Registered Pfandbriefe	2	7
Promissory note loans	13	22
Subordinated capital	14	16
Money market transactions	4	10
Other interest expenses	0	10
Total interest expenses	**47**	**84**
Negative interest from financial assets	**8**	**5**
Total	**322**	**357**

[1)] Previous year's figures were adjusted due to separate disclosure of negative interest

At € 322 million, net interest income was lower than the previous year's figure of € 357 million. This was largely due to the scheduled reduction of the former WestImmo and Corealcredit portfolios, lower non-recurring effects from early loan repayments, as well as a lack of suitable investment opportunities for our liquidity reserves, given the persistent low interest rate levels, and exchange rate fluctuations.

(2) Allowance for credit losses

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Additions	59	37
Reversals	25	9
Direct write-offs	10	14
Recoveries on loans and advances previously written off	17	11
Total	**27**	**31**

Allowance for credit losses amounted to € 27 million (H1 2016: € 31 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses contributed € 56 million, while net reversals to portfolio-based allowance for credit losses amounted to € 20 million. Please also refer to our explanations in Note (11).

(3) Net commission income

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Commission income from		
Consulting and other services	106	102
Trustee loans and administered loans	0	1
Securities transactions	–	–
Other lending and money market transactions	5	4
Other commission income	4	5
Total commission income	**115**	**112**
Commission expenses for		
Consulting and other services	16	15
Securities transactions	0	1
Other lending and money market transactions	1	1
Other commission expenses	1	2
Total commission expenses	**18**	**19**
Total	**97**	**93**

Net commission income increased to € 97 million (previous year: € 93 million), which was mainly due to higher sales revenue at Aareon.

(4) Net result on hedge accounting

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Ineffective portion of fair value hedges	-1	0
Ineffective portion of cash flow hedges	-5	1
Ineffective portion of net investment hedges	0	–
Total	**-6**	**1**

(5) Net trading income/expenses

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Net income/expenses from positions held for trading	0	14
Currency translation	3	3
Total	**3**	**17**

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

(6) Results from non-trading assets

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Result from debt securities and other fixed-income securities	0	0
of which: Loans and receivables (LaR)	–	–
Held to maturity (HtM)	–	–
Available for sale (AfS)	0	0
Result from equities and other non-fixed income securities	0	0
of which: Available for sale (AfS)	0	0
Results from equity investments (AfS)	0	61
Total	**0**	**61**

(7) Administrative expenses

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Staff expenses	163	170
of which: Wages and salaries	131	140
Social security contributions	17	17
Pensions	15	13
Other administrative expenses	95	110
Depreciation, amortisation and impairment of property and equipment and intangible assets	10	10
Total	**268**	**290**

At € 268 million (H1 2016: € 290 million), administrative expenses were reduced as expected, in spite of provisions recognised for personnel measures resulting from the optimisation of processes and structures, within the scope of the "Aareal 2020" programme for the future. The decline was due in particular to lower integration costs and lower running costs for former WestImmo, as well as lower project expenditure.

(8) Net other operating income/expenses

€ mn	1 Jan-30 Jun 2017	1 Jan-30 Jun 2016
Income from properties	32	15
Income from the reversal of provisions	70	2
Income from goods and services	0	0
Miscellaneous	6	8
Total other operating income	**108**	**25**
Expenses for properties	26	17
Expenses for services used	0	0
Expenses for other taxes	3	2
Miscellaneous	20	7
Total other operating expenses	**49**	**26**
Total	**59**	**-1**

Net other operating income of € 59 million (H1 2016: expenses of € 1 million) mainly resulted from net reversals of provisions (€ 50 million net, comprising income from the reversal of provisions and other expenses) in connection with the final agreement on contractual issues with a third party, which were still pending when Aareal Bank Group acquired former Corealcredit, and the release of tax assessment notes. Aareal Bank Group disclosed a corresponding income tax expense of € 26 million.

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	30 Jun 2017	31 Dec 2016
Money market receivables	1,017	1,458
Promissory note loans	78	119
Other loans and advances	51	6
Total	**1,146**	**1,583**

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

(10) Loans and advances to customers

€ mn	30 Jun 2017	31 Dec 2016
Property loans [1]	27,147	26,833
Promissory note loans	1,337	1,442
Other loans and advances	1,693	2,928
Total	**30,177**	**31,203**

[1] Excluding € 1.0 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by former WestImmo (31 December 2016: € 0.6 billion), which are reported under "Other loans and advances".

Loans and advances to customers are generally allocated to the measurement category "Loans and receivables" (LaR). Property loans acquired or incurred principally for the purpose of selling or repurchasing them in the near term with a syndication covenant are allocated to the measurement category "Held for trading" (HfT).

(11) Allowance for credit losses

30 June 2017

€ 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	**435**	**119**	**554**	**5**	**559**
Additions	59	–	**59**	0	**59**
Utilisation	5	–	**5**	0	**5**
Reversals	3	20	**23**	2	**25**
Unwinding	15	–	**15**	–	**15**
Changes in basis of consolidation	–	–	**–**	–	**–**
Currency adjustments	-3	-1	**-4**	0	**-4**
Allowance for credit losses as at 30 June	**468**	**98**	**566**	**3**	**569**

30 June 2016

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**412**	**116**	**528**	**14**	**542**
Additions	26	11	**37**	0	**37**
Utilisation	6	–	**6**	–	**6**
Reversals	5	–	**5**	4	**9**
Unwinding	16	–	**16**	–	**16**
Changes in basis of consolidation	–	–	**–**	–	**–**
Currency adjustments	-1	1	**0**	0	**0**
Allowance for credit losses as at 30 June	**410**	**128**	**538**	**10**	**548**

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

(12) Trading assets

€ mn	30 Jun 2017	31 Dec 2016
Positive market value of trading assets	465	502
Total	**465**	**502**

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

(13) Non-trading assets

€ mn	30 Jun 2017	31 Dec 2016
Debt securities and other fixed-income securities	9,032	9,728
of which: Loans and receivables (LaR)	2,879	3,259
Held to maturity (HtM)	430	522
Available for sale (AfS)	5,723	5,947
Equities and other non-fixed income securities	1	1
of which: Available for sale (AfS)	1	1
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	1	1
Total	**9,034**	**9,730**

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

(14) Intangible assets

€ mn	30 Jun 2017	31 Dec 2016
Goodwill	80	76
Proprietary software	23	22
Other intangible assets	30	28
Total	**133**	**126**

(15) Property and equipment

€ mn	30 Jun 2017	31 Dec 2016
Land and buildings and construction in progress	219	220
Office furniture and equipment	32	32
Total	**251**	**252**

(16) Other assets

€ mn	30 Jun 2017	31 Dec 2016
Properties	207	234
Trade receivables (LaR)	46	50
Miscellaneous	75	113
Total	**328**	**397**

(17) Liabilities to banks

€ mn	30 Jun 2017	31 Dec 2016
Money market liabilities	1,639	813
Promissory note loans	313	352
Registered mortgage Pfandbriefe	539	496
Registered public-sector Pfandbriefe	80	21
Other liabilities	64	21
Total	**2,635**	**1,703**

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

(18) Liabilities to customers

€ mn	30 Jun 2017	31 Dec 2016
Money market liabilities	12,662	13,696
Promissory note loans	5,700	6,369
Registered mortgage Pfandbriefe	5,502	6,066
Registered public-sector Pfandbriefe	2,670	2,945
Other liabilities	1	1
Total	**26,535**	**29,077**

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

(19) Certificated liabilities

€ mn	30 Jun 2017	31 Dec 2016
Bearer mortgage Pfandbriefe	5,440	5,956
Bearer public-sector Pfandbriefe	45	45
Other debt securities	2,328	2,345
Total	**7,813**	**8,346**

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

(20) Trading liabilities

€ mn	30 Jun 2017	31 Dec 2016
Negative market value of trading assets	333	652
Total	**333**	**652**

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

(21) Provisions

€ mn	30 Jun 2017	31 Dec 2016
Provisions for pensions and similar obligations	350	359
Other provisions and contingent liabilities	215	321
Total	**565**	**680**

Changes in the discount rate require a revaluation of the amount of obligations. This is recognised directly in Other comprehensive income, under Changes in the reserve from defined benefit plans. Other provisions include € 24 million recognised for planned personnel measures resulting from the optimisation of processes and structures, within the scope of the ”Aareal 2020” programme for the future.

(22) Other liabilities

€ mn	30 Jun 2017	31 Dec 2016
Liabilities from outstanding invoices	9	10
Deferred income	15	15
Liabilities from other taxes	25	17
Trade payables (LaC)	14	30
Other liabilities (LaC)	97	55
Total	**160**	**127**

(23) Subordinated capital

€ mn	30 Jun 2017	31 Dec 2016
Subordinated liabilities	1,059	1,122
Profit-participation certificates	24	50
Contributions by silent partners	191	194
Total	**1,274**	**1,366**

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

(24) Equity

€ mn	30 Jun 2017	31 Dec 2016
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,699	1,734
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-89	-100
Revaluation surplus	25	29
Hedging reserves	-2	17
Currency translation reserves	-2	6
Non-controlling interests	1	242
Total	**2,833**	**3,129**

Due to the repayment of the Capital Funding Trust, non-controlling interests were reduced to € 1 million (31 December 2016: € 242 million).

(25) Treasury shares

No treasury shares were held during the period under review.

(26) Distributions

The Annual General Meeting of Aareal Bank AG held on 31 May 2017 resolved that a partial amount of € 119,714,442.00 of Aareal Bank AG's net retained profit of € 122,214,442.00 for the financial year 2016, as reported under the German Commercial Code (HGB), be used to distribute a dividend of € 2.00 per notional no-par value share.

In addition, on 30 April 2017, the Management Board resolved on a distribution in relation to the AT 1 instruments, pursuant to the terms and conditions of the notes.

Within Aareal Bank Group's consolidated statement of financial position, a dividend payment and a distribution on the AT 1 bond reduce the retained earnings item within consolidated equity.

Notes to Financial Instruments

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

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

30 June 2017

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Loans and advances to customers held for trading	**66**	**–**	**–**	**66**
Positive market value of derivative hedging instruments	**2,046**	**–**	**2,046**	**–**
Assets held for trading	**465**	**–**	**465**	**–**
Trading derivatives	465	–	465	–
Non-trading assets available for sale	**5,724**	**5,694**	**30**	**–**
Fixed-income securities	5,723	5,693	30	–
Equities/funds	1	1	–	–
Negative market value of derivative hedging instruments	**1,900**	**–**	**1,900**	**–**
Liabilities held for trading	**333**	**–**	**333**	**–**
Trading derivatives	333	–	333	–

31 December 2016

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Loans and advances to customers held for trading	**–**	**–**	**–**	**–**
Positive market value of derivative hedging instruments	**2,481**	**–**	**2,481**	**–**
Assets held for trading	**502**	**–**	**502**	**–**
Trading derivatives	502	–	502	–
Non-trading assets available for sale	**5,948**	**5,918**	**30**	**–**
Fixed-income securities	5,947	5,917	30	–
Equities/funds	1	1	0	–
Negative market value of derivative hedging instruments	**2,529**	**–**	**2,529**	**–**
Liabilities held for trading	**652**	**–**	**652**	**–**
Trading derivatives	652	–	652	–

The fair value of financial instruments is allocated to Level 1 of the fair value hierarchy, if it is determined on the basis of unadjusted quoted prices in active markets for identical assets or liabilities. The determination of the fair value is based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Another factor to be taken into account is whether Aareal Bank can enter into a transaction for the relevant asset or liability at the price in that market at the measurement date.

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

The property finance portfolio included in loans and advances to customers of the "Held for trading" 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.

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.

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.

In the first six months of 2017, there were no material transfers between the hierarchy levels for the various financial instruments.

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

The fair values of financial instruments recognised at fair value in the statement of financial position that are assigned to Level 3 of the fair value hierarchy amounted to € 66 million, representing additions during the period under review: The associated instruments are loans and advances to customers classified as held for trading where the add-ons for risks specific to the counterparty represent material inputs not observable on the market. An increase/decrease by 1 percentage point would lead to a decrease/increase of the fair value by approximately € 3 million.

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

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

€ mn	Carrying amount 30 Jun 2017	Fair Value 30 Jun 2017	Carrying amount 31 Dec 2016	Fair Value 31 Dec 2016
Cash on hand and balances with central banks (LaR)	870	870	1,786	1,786
Loans and advances to banks (LaR)	1,146	1,123	1,583	1,590
Loans and advances to customers (LaR)	29,545	31,382	30,649	32,697
Non-trading assets (LaR)	2,879	2,773	3,259	3,144
Other assets (LaR)	97	98	85	84
Total loans and receivables	**34,537**	**36,246**	**37,362**	**39,301**
Loans and advances to customers held for trading	**66**	**66**	**–**	**–**
Non-trading assets held to maturity	**430**	**432**	**522**	**525**
Non-trading assets available for sale	**5,724**	**5,725**	**5,948**	**5,948**
Positive market value of derivative hedging instruments	**2,046**	**2,046**	**2,481**	**2,481**
Assets held for trading	**465**	**465**	**502**	**502**
Liabilities to banks (LaC)	2,635	2,652	1,703	1,719
Liabilities to customers (LaC)	26,535	26,721	29,077	29,040
Certificated liabilities (LaC)	7,813	7,885	8,346	8,361
Other liabilities (LaC)	120	121	97	96
Subordinated capital (LaC)	1,274	1,383	1,366	1,424
Total liabilities measured at amortised cost	**38,377**	**38,762**	**40,589**	**40,640**
Negative market value of derivative hedging instruments	**1,900**	**1,900**	**2,529**	**2,529**
Liabilities held for trading	**333**	**333**	**652**	**652**

(29) Day-one profit or loss

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

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

€ mn	2017	2016
Balance as at 1 January	**12**	**27**
Additions from new transactions	1	0
Reversals through profit or loss in the period	3	10
Changes in basis of consolidation	–	–
Balance as at 30 June	**10**	**17**

(30) Reclassification of financial assets

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

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

€ mn	Carrying amount 30 Jun 2017	Fair Value 30 Jun 2017	Carrying amount 31 Dec 2016	Fair Value 31 Dec 2016
from AfS to LaR	**2,671**	**2,558**	**3,044**	**2,921**
Asset-backed securities	–	–	–	–
Senior unsecured bank bonds	46	46	46	47
Covered bank bonds	113	114	237	239
Public-sector issuers	2,512	2,398	2,761	2,635
Total	**2,671**	**2,558**	**3,044**	**2,921**

If the Bank had not opted for reclassification, this would have had no effect upon profit/loss (before tax) for the first six months of the current financial year (H1 2016: loss of € 1 million); a loss of € 8 million (after tax) (H1 2016: € loss of € 54 million) would have been recognised in the revaluation surplus.

Segment Reporting

(31) Segment Results

	Structured Property Financing		Consulting/Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2017	1 Jan - 30 Jun 2016	1 Jan - 30 Jun 2017	1 Jan - 30 Jun 2016	1 Jan - 30 Jun 2017	1 Jan - 30 Jun 2016	1 Jan - 30 Jun 2017	1 Jan - 30 Jun 2016
€ mn								
Net interest income	327	363	0	0	-5	-6	322	357
Allowance for credit losses	27	31					27	31
Net interest income after allowance for credit losses	**300**	**332**	**0**	**0**	**-5**	**-6**	**295**	**326**
Net commission income	3	3	91	85	3	5	97	93
Net result on hedge accounting	-6	1					-6	1
Net trading income/expenses	3	17		0			3	17
Results from non-trading assets	0	61					0	61
Results from investments accounted for using the equity method				0				0
Administrative expenses [1]	166	189	104	102	-2	-1	268	290
Net other operating income/expenses	58	-1	1	0	0	0	59	-1
Operating profit	**192**	**224**	**-12**	**-17**	**0**	**0**	**180**	**207**
Income taxes	70	71	-4	-6			66	65
Consolidated net income	**122**	**153**	**-8**	**-11**	**0**	**0**	**114**	**142**
Consolidated net income attributable to non-controlling interests	4	8	2	2			6	10
Consolidated net income attributable to shareholders of Aareal Bank AG	118	145	-10	-13	0	0	108	132
Allocated equity	1,813	1,614	152	114	548	728	2,513	2,456
Cost/income ratio (%)	43.0	42.4	112.8	120.2			56.3	54.9
RoE before taxes (%) [2] [3]	19.5	25.4	-17.7	-33.3			13.0	15.1
Employees (average)	**908**	**1,058**	**1,825**	**1,764**			**2,733**	**2,822**
Segment assets	**33,955**	**41,284**	**10,158**	**9,641**			**44,113**	**50,925**

[1] € 24 million in provisions for staff-related measures recognised during the first half of 2017, resulting from the optimisation of processes and structures within the scope of the "Aareal 2020" programme for the future, was allocated to the Structured Property Financing segment in full.

[2] On an annualised basis

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

(32) Segment Results (Quarterly Development)

€ mn	Structured Property Financing		Consulting/Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 2 2017	Quarter 2 2016	Quarter 2 2017	Quarter 2 2016	Quarter 2 2017	Quarter 2 2016	Quarter 2 2017	Quarter 2 2016
Net interest income	160	181	0	0	-2	-4	158	177
Allowance for credit losses	25	29					25	29
Net interest income after allowance for credit losses	**135**	**152**	**0**	**0**	**-2**	**-4**	**133**	**148**
Net commission income	2	1	46	43	1	3	49	47
Net result on hedge accounting	-3	0					-3	0
Net trading income/expenses	4	8		0			4	8
Results from non-trading assets	0	61					0	61
Results from investments accounted for using the equity method				0				0
Administrative expenses[1]	77	94	53	51	-1	-1	129	144
Net other operating income/expenses	54	0	1	0	0	0	55	0
Operating profit	**115**	**128**	**-6**	**-8**	**0**	**0**	**109**	**120**
Income taxes	44	41	-2	-3			42	38
Consolidated net income	**71**	**87**	**-4**	**-5**	**0**	**0**	**67**	**82**
Consolidated net income/loss attributable to non-controlling interests	0	4	1	1			1	5
Consolidated net income attributable to shareholders of Aareal Bank AG	71	83	-5	-6	0	0	66	77
Allocated equity	1,813	1,614	152	114	548	728	2,513	2,456
Cost/income ratio (%)	35.2	37.2	112.2	118.0			48.7	49.0
RoE before taxes (%)[2][3]	24,2	29.5	-16.9	-30.7			16.4	17.9

[1] € 24 million in provisions for staff-related measures recognised during the first half of 2017, resulting from the optimisation of processes and structures within the scope of the "Aareal 2020" programme for the future, was allocated to the Structured Property Financing segment in full.

[2] On an annualised basis

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

(33) Consulting/Services segment – Reconciliation of the Income Statement

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

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Net trading income/expenses	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income/expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	H1/2017		0	91			104	1		**-12**	-4	**-8**
	H1/2016		0	85	0	0	102	0		**-17**	-6	**-11**
Income statement classification – industrial enterprise												
Sales revenue	H1/2017	109		109								
	H1/2016	101		101								
Own work capitalised	H1/2017	2					2					
	H1/2016	3					3					
Changes in inventory	H1/2017	0						0				
	H1/2016	0						0				
Other operating income	H1/2017	2						2				
	H1/2016	1			0			1				
Cost of materials purchased	H1/2017	18		18								
	H1/2016	16		16								
Staff expenses	H1/2017	71					71					
	H1/2016	71					71					
Depreciation, amortisation and impairment losses	H1/2017	6					6					
	H1/2016	6					6					
Results from investments accounted for using the equity method	H1/2017											
	H1/2016	0				0						
Other operating expenses	H1/2017	30					29	1				
	H1/2016	29					28	1				
Interest and similar income/expenses	H1/2017	0	0									
	H1/2016	0	0									
Operating profit	**H1/2017**	**-12**	**0**	**91**			**104**	**1**				
	H1/2016	**-17**	**0**	**85**	**0**	**0**	**102**	**0**				
Income taxes	H1/2017	-4									-4	
	H1/2016	-6									-6	
Segment result	**H1/2017**	**-8**										
	H1/2016	**-11**										

(34) Consulting/Services segment – Reconciliation of the Income Statement (Quarterly Development)

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

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Net trading income/ expenses	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q2/2017		0	46			53	1		**-6**	-2	**-4**
	Q2/2016		0	43	0	0	51	0		**-8**	-3	**-5**
Income statement classification – industrial enterprise												
Sales revenue	Q2/2017	55		55								
	Q2/2016	52		52								
Own work capitalised	Q2/2017	1					1					
	Q2/2016	2					2					
Changes in inventory	Q2/2017	0						0				
	Q2/2016	0						0				
Other operating income	Q2/2017	1						1				
	Q2/2016	0			0			0				
Cost of materials purchased	Q2/2017	9		9								
	Q2/2016	9		9								
Staff expenses	Q2/2017	36					36					
	Q2/2016	35					35					
Depreciation, amortisation and impairment losses	Q2/2017	3					3					
	Q2/2016	3					3					
Results from investments accounted for using the equity method	Q2/2017											
	Q2/2016	0				0						
Other operating expenses	Q2/2017	15					15	0				
	Q2/2016	15					15	0				
Interest and similar income / expenses	Q2/2017	0	0									
	Q2/2016	0	0									
Operating profit	**Q2/2017**	**-6**	**0**	**46**			**53**	**1**				
	Q2/2016	**-8**	**0**	**43**	**0**	**0**	**51**	**0**				
Income taxes	Q2/2017	-2									-2	
	Q2/2016	-3									-3	
Segment result	**Q2/2017**	**-4**										
	Q2/2016	**-5**										

Other Notes

(35) Contingent liabilities and loan commitments

€ mn	30 Jun 2017	31 Dec 2016
Contingent liabilities	140	114
Loan commitments	1,251	1,333
of which: irrevocable	830	901

(36) Employees

The number of Aareal Bank Group employees[1] at 30 June 2017 is shown below:

	30 Jun 2017	31 Dec 2016
Salaried employees	2,598	2,566
Executives	161	162
Total	**2,759**	**2,728**
of which: Part-time employees	535	503

The average number of Aareal Bank Group employees in 2017[2] is shown below:

	1 Jan-30 Jun 2017	1 Jan- 31 Dec 2016
Salaried employees	2,574	2,633
Executives	159	164
Total	**2,733**	**2,797**
of which: Part-time employees	520	514

(37) Related party disclosures in accordance with IAS 24

No material transactions with related parties were entered into during the first half of 2017.

(38) Events after the interim reporting period

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

[1] This number does not include 297 employees of the hotel business (31 December 2016: 56 employees).
[2] This number does not include 186 employees of the hotel business (1 January-31 December 2016: 175 employees).

Executive Bodies of Aareal Bank AG

Supervisory Board

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

Prof. Dr Stephan Schüller [1) 2) 3)]
Deputy Chairman of the Supervisory Board
Spokesman of the General Partners of
Bankhaus Lampe KG

York-Detlef Bülow [1) 2) 3) 7)]
Deputy Chairman of the Supervisory Board
Aareal Bank AG

Thomas Hawel [6) 7)]
Aareon Deutschland GmbH

Dieter Kirsch [2) 4) 5) 7)]
Aareal Bank AG

Richard Peters [1) 3) 6)]
President and Chairman of the Management Board
of Versorgungsanstalt des Bundes und der Länder

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

Sylvia Seignette [4) 5)]
Former CEO for Germany and Austria,
Crédit Agricole CIB (formerly Calyon)

Elisabeth Stheeman [4) 5) 6)]
Senior Advisor, Bank of England, Prudential
Regulation Authority

Hans-Dietrich Voigtländer [2) 3) 6)]
Senior Partner at BDG Innovation +
Transformation GmbH & Co. KG

Prof. Dr Hermann Wagner [3) 4) 5)]
Chairman of the Audit Committee
German Chartered Accountant, Tax Consultant

Beate Wollmann [7)]
Aareon Deutschland GmbH

Management Board

Hermann Josef Merkens
Chairman of the Management Board

Dagmar Knopek
Member of the Management Board

Christiane Kunisch-Wolff
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

Christof Winkelmann
Member of the Management Board

[1)] Member of the Executive and Nomination Committee; [2)] Member of the Remuneration Control Committee; [3)] Member of the Audit Committee;
[4)] Member of the Risk Committee; [5)] Member of the Committee for Urgent Decisions; [6)] Member of the Technology and Innovation Committee;
[7)] Employee representative

Responsibility Statement

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

Wiesbaden, 1 August 2017

The Management Board

Hermann J. Merkens **Dagmar Knopek** **Christiane Kunisch-Wolff**

Thomas Ortmanns **Christof Winkelmann**

Review Report

To Aareal Bank AG, Wiesbaden

We have reviewed the condensed consolidated interim financial statements – comprising the statement of financial position, statement of comprehensive income, condensed statement of cash flows, statement of changes in equity and selected explanatory notes - and the interim group management report of Aareal Bank, Wiesbaden for the period from 1 January 2017 to 30 June 2017 which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Frankfurt/Main, 1 August 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefan Palm **Wirtschaftsprüfer** **(German Public Auditor)**	**Lukas Sierleja** **Wirtschaftsprüfer** **(German Public Auditor)**

Offices

Wiesbaden Head Office

Aareal Bank AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3480
Fax: +49 611 3482549

Structured Property Financing

Brussels
40 rue Joseph II-straat
1000 Brussels, Belgium
Phone: +32 2 5144090
Fax: +32 2 5144092

Istanbul
Ebulula Mardin Caddesi
Maya Meridyen Iş Merkezi
D:2 Blok · Kat. 11
34335 Akatlar-Istanbul, Turkey
Phone: +90 212 3490200
Fax: +90 212 3490299

London
6th Floor, 6,7,8 Tokenhouse Yard
London EC2R 7AS, United Kingdom
Phone: +44 20 74569200
Fax: +44 20 79295055

Madrid
Calle María de Molina 40, 4
28006 Madrid, Spain
Phone: +34 915 902420
Fax: +34 915 902436

Moscow
Business Centre "Mokhovaya"
4/7 Vozdvizhenka Street
Building 2
125009 Moscow, Russia
Phone: +7 499 2729002
Fax: +7 499 2729016

New York
Aareal Capital Corporation
250 Park Avenue
Suite 820
New York NY 10177, USA
Phone: +1 212 5084080
Fax: +1 917 3220285

Paris
29 bis, rue d'Astorg
75008 Paris, France
Phone: +33 1 44516630
Fax: +33 1 42662498

Rome
Via Mercadante, 12/14
00198 Rome, Italy
Phone: +39 06 83004200
Fax: +39 06 83004250

Shanghai
Suite 2311
Plaza 66 Phase I
1266 Nanjing West Road
Shanghai 200040, China
Phone: +86 21 62889908
Fax: +86 21 62889903

Singapore
Aareal Bank Asia Limited
3 Church Street
17-03 Samsung Hub
Singapore 049483, Singapore
Phone: +65 6372 9750
Fax: +65 6536 8162

Stockholm
Norrmalmstorg 14
11146 Stockholm, Sweden
Phone: +46 8 54642000
Fax: +46 8 54642001

Warsaw
RONDO 1 · Rondo ONZ 1
00-124 Warsaw, Poland
Phone: +48 22 5380060
Fax: +48 22 5380069

Wiesbaden
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482950
Fax: +49 611 3482020

Aareal Estate AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482446
Fax: +49 611 3483587

Aareal Valuation GmbH
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482059
Fax: +49 611 3482640

Deutsche Structured Finance GmbH
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 9714010
Fax: +49 611 971401510

Westdeutsche Immobilien Servicing AG
Grosse Bleiche 46
55116 Mainz, Germany
Phone: +49 6131 92800
Fax: +49 6131 92807200

Consulting / Services

Aareal Bank AG
Housing Industry
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482967
Fax: +49 611 3482499

Housing Industry
Berlin Branch
SpreePalais
Anna-Louisa-Karsch-Strasse 2
10178 Berlin, Germany
Phone: +49 30 88099444
Fax: +49 30 88099470

Housing Industry
Essen Branch
Alfredstrasse 220
45131 Essen, Germany
Phone: +49 201 81008100
Fax: +49 201 81008200

Housing Industry
Hamburg Branch
Neuer Dovenhof · Brandstwiete 1
20457 Hamburg, Germany
Phone: +49 40 33316850
Fax: +49 40 33316399

Housing Industry
Leipzig Branch
Neumarkt 2-4
04109 Leipzig, Germany
Phone: +49 341 2272150
Fax: +49 341 2272101

Housing Industry
Munich Branch
Prinzregentenstrasse 22
80538 Munich, Germany
Phone: +49 89 5127265
Fax: +49 89 51271264

Housing Industry
Rhine-Main Branch
Paulinenstrasse 15
65189 Wiesbaden, Germany
Hotline: +49 611 3482000
Fax: +49 611 3483002

Housing Industry
Stuttgart Branch
Büchsenstrasse 26
70174 Stuttgart, Germany
Phone: +49 711 2236116
Fax: +49 711 2236160

Aareon AG
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 3010
Fax: +49 6131 301419

Aareal First Financial Solutions AG
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 4864500
Fax: +49 6131 486471500

Deutsche Bau- und
Grundstücks-Aktiengesellschaft
Lievelingsweg 125
53119 Bonn, Germany
Phone: +49 228 5180
Fax: +49 228 518298

Deposit-taking

Dublin
Torquay Road
Foxrock Village
Dublin D18 A2N7, Ireland
Phone: +353 1 6369220
Fax: +353 1 6702785

Financial Calendar

14 November 2017	Interim Report as at 30 September 2017
23 May 2018	Annual General Meeting – Kurhaus, Wiesbaden

Locations

Structured Property Financing

Structured Property Financing

Consulting/Services

Structured Property Financing

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

Aareal Bank, Housing Industry: Berlin, Essen, Hamburg, Leipzig, Munich, Stuttgart, Wiesbaden | **Aareon AG:** Berlin, Bochum, Coventry, Dortmund, Emmen, Enschede, Gorinchem, Grathem, Hamburg, Hilversum, Hückelhoven, Karlskrona, Leipzig, Lund, Mainz, Meudon-la-Forêt, Mölndal, Munich, Nantes, Norrtalje, Orléans, Oslo, Piteå, Southampton, Stockholm, Stuttgart, Swansea, Toulouse | **Aareal First Financial Solutions AG:** Mainz | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Dresden, Düsseldorf, Frankfurt/Main, Freiburg, Hanover, Leipzig, Moscow, Munich, Wuppertal

as at 30 June 2017

Imprint
Contents:
Aareal Bank AG, Corporate Communications
Design / Layout:
S/COMPANY · Die Markenagentur GmbH, Fulda, Germany

Corporate Responsibility Prime rated by oekom research

Aareal Bank AG
Investor Relations
Paulinenstrasse 15
65189 Wiesbaden, Germany

Phone: +49 611 348 3009
Fax: +49 611 348 2637

www.aareal-bank.com

08/2017

Aareal Bank
Group