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By conviction.

Aareal Bank Group – Interim Report
1 January to 31 March 2016

Aareal Bank Group

Key Indicators

	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Results		
Operating profit (€mn)	87	67
Consolidated net income (€ mn)	60	45
Consolidated net income allocated to ordinary shareholders (€ mn)[1]	51	36
Cost/income ratio (%)[2]	49.2	48.3
Earnings per ordinary share (€)[1]	0.85	0.60
RoE before taxes (%)[3]	12.4	10.3
RoE after taxes (%)[3]	8.3	6.6

	31 Mar 2016	31 Dec 2015
Statement of financial position		
Property finance (€ mn)[4]	30,137	30,894
of which: international (€ mn)	24,882	25,243
Equity (€ mn)	3,079	3,044
Total assets (€ mn)	51,784	51,948
Regulatory indicators[5]		
Risk-weighted assets (€ mn)	16,658	16,709
Common Equity Tier 1 ratio (CET1 ratio) (%)	13.6	13.8
Tier 1 ratio (T1 ratio) (%)	16.9	17.2
Total capital ratio (TC ratio) (%)	23.7	23.8
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	13.2	13.1
Employees	2,840	2,861
Rating		
Fitch Ratings, London		
long-term	BBB+ (outlook: stable)	BBB+ (outlook: stable)
short-term	F2	F2
Fitch Pfandbrief ratings	AAA	AAA
Sustainability[6]		
oekom	prime (C)	prime (C)
Sustainalytics	68	68

[1] 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 € 1.4 billion in private client business (31 December 2015: € 1.5 billion) and € 0.6 billion in local authority lending business by Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2015: € 0.6 billion)
[5] The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of profits for the financial year 2015. The appropriation of profits is subject to approval by the Annual General Meeting.
[6] Please refer to our Sustainability Report for more details.

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

Contents

Letter from the Management Board

Dear shareholders,
business associates and staff members,

Aareal Bank Group once again faced a demanding market environment during the first three months of 2016 – both in terms of economic development and against the background of industry-specific challenges. Accordingly, given a variety of uncertainty factors, there were no signs for any recovery of the global economy at the start of the year. Continued high volatility on the financial markets, extraordinarily low oil prices, as well as geopolitical factors (such as the impending referendum on whether the UK should stay within the European Union) and structural issues in various economies – all these factors have combined to prevent a more dynamic development of the global economy.

At the outset of the year, financial markets were shaped by high levels of nervousness and volatility; equity markets around the world suffered losses (in some cases to a significant extent), which were however partially retraced during the course of the quarter. In the persistent low interest rate environment, international investors continued to face a lack of attractive investment opportunities. Nonetheless, thanks to the continued high levels of liquidity, markets were able to digest new issues from banks, corporates, as well as sovereign issuers.

The most important central banks retained their very expansive monetary policy stance at the start of the year, despite embarking upon different paths: whilst the US Federal Reserve (Fed) raised its key interest rate for the first time in almost a decade in December 2015, the European Central Bank (ECB) and the Bank of Japan further loosened their respective monetary policies. There are still no signs of a turnaround in the ECB's interest rates. On the contrary: the ECB cut its key interest rate to zero per cent, further lowered negative interest rates applied to deposits of commercial banks, and further expanded its monthly bond-buying programme.

The banking sector will continue to face the known challenges from the low interest rate environment for the time being. This includes continued high competitive pressures in the attractive commercial property finance segment, low margins (especially in Europe), and moderately higher loan-to-value ratios. In contrast, margins strengthened in the US. Nonetheless, inflows of liquidity to the property asset class were markedly lower, compared to the extraordinarily high transaction volumes seen in the same quarter of the previous year. The regulatory environment will remain demanding for the foreseeable future, whereby the specific impact of various impending initiatives is still rather hard to assess.

In this challenging environment, Aareal Bank Group enjoyed a good start into the 2016 financial year. First-quarter consolidated operating profit of € 87 million exceeded the figure for the same quarter of the previous year (€ 67 million) by nearly 30 per cent. Factors contributing to this increase were higher net commission income as well as a very low level of allowance for credit losses. Net interest income rose slightly. The good results achieved in the first quarter show both of Aareal Bank Group's segments – Structured Property Financing, and Consulting/Services – performing strongly.

At € 96 million, operating profit achieved in the Structured Property Financing segment was markedly higher than the figure for the previous year. This was materially attributable to the very low level of allowance for credit losses – despite higher lending volume. The low figure reflects usual seasonal factors. The Bank affirms its forecast of allowance for credit losses in a range of € 80 million and € 120 million for the full year, which is down on the previous year. This demonstrates once again the high quality of Aareal Bank's credit portfolio. Segment net interest income rose slightly: whilst the higher lending volume – due to the acquisition of Westdeutsche ImmobilienBank AG ("WestImmo") – had a positive effect, the planned reduction of portfolios no longer in line with the Bank's strategy burdened net interest income.

At the start of the year, Aareal Bank pursued a cautious and selective new business policy in its Structured Property Financing segment, in order to offset increasing margin pressures in various markets. In line with the growth strategy for business in North America, the Bank focused on new business in the US, where it was able to benefit from higher margin levels. New business totalled € 0.9 billion, compared to € 1.8 billion in the first quarter of 2015. Newly-originated loans accounted for approximately 66 per cent of new business. The target for new business in this segment for the full year 2016 remains unchanged, at between € 7 billion and € 8 billion.

In the Consulting / Services segment, our subsidiary Aareon AG further increased sales revenue as well as profit contributions during the first quarter of 2016. Aareon is one of the Group's planned growth drivers within the framework of its "Aareal 2020" strategy presented in February. It is already very successful in exploiting the opportunities of digitalisation – for example, through its Wodis Sigma ERP solution, or the Aareon Smart World offers.

In the segment's banking business, the volume of customer deposits from the housing industry remained at a high level, averaging € 9.3 billion during the quarter under review and thus in line with the levels seen in the previous quarter (Q4 2015: € 9.0 billion). This is a sign of the continued trust our clients place in Aareal Bank. Nevertheless, results from the deposit-taking business continued to be burdened by interest rates at historically low levels, leading to a segment operating loss of € 9 million.

Not least due to the ECB's most recent interest rate decisions, we must assume that segment results will continue to be burdened by the low interest rate environment. Yet the importance of deposit-taking goes way beyond the interest margin – which is under pressure in the current market environment – generated from the deposits. 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.

With a volume of € 0.5 billion, mostly in unsecured issues, Aareal Bank pursued its capital market funding operations as planned. As at 31 March 2016, the Bank's Tier 1 ratio was 16.9 per cent, which is comfortable on an international level. Assuming full implementation of Basel III, the Common Equity Tier 1 (CET1) ratio would be13.2 per cent. This means that Aareal Bank continues to have a very solid capital base.

On the whole, we can be thoroughly satisfied with the first-quarter results for the 2016 financial year: we continued to steer our path in a challenging environment, made significant strategic decisions with our "Aareal 2020" programme for the future, and – last but not least – achieved good quarterly results. We are thus confident when looking ahead to the remainder of the year, affirming the full-year forecasts we communicated in February. We see good opportunities to generate consolidated operating profit of € 300 million to € 330 million in the current financial year. The upper end of this range slightly exceeds the record level of the past year, as adjusted for negative goodwill from the acquisition of WestImmo.

Nonetheless, as in the previous years, we will have to be prepared to accept that our business environment will not improve significantly throughout 2016. Material market trends are expected to prevail. For instance, we continue to anticipate a subdued development of the global economy, with distinct regional variations. Moreover, divergence in monetary policy between Europe and Japan on the one hand and the US on the other hand will become more evident during the course of the year. Likewise, hardly any relief is to be expected in geopolitical terms, with uncertainty and burdening factors set to remain in place. At present, there are several regulatory projects where a final decision is pending, which might impact upon our business. In the commercial property finance markets, we anticipate competitive pressures to persist in our business, especially in Europe. We have to deal with this environment – and we have proven our ability to do so in the past. Thanks to our viable strategy, and applying clearly-defined principles, we are in a position to take advantage of opportunities arising in our two business segments at any time – to the benefit of all of our stakeholders. Moreover, with our strategic agenda "Aareal 2020", we have created an action plan designed to guide Aareal Bank Group into the future. Whilst in this context the Structured Property Financing segment will remain the Group's solid foundation, the Consulting/Services segment will increasingly assume the role of a growth driver. We will emphasise the importance of learning from each other within the Group – even more so than in the past. In this manner, we will enhance the Company's overall agility, power to innovate, and readiness for change.

Our goal is clear: we want to secure the success of Aareal Bank Group, making and keeping it the partner of choice for clients, shareholders and employees.

For the Management Board

Yours sincerely,

Hermann J. Merkens
Chairman

Group Management Report

Report on the Economic Position

Macro-economic environment

Economy

Global economic development remained subdued during the first quarter of 2016, as it was during the course of 2015. Various economic indicators signalled low economic momentum for the first quarter – and such subdued development also affected the various regions. Compared to the fourth quarter of 2015, the ifo World Economic Climate index declined for Europe during the first quarter, and even more so for North America. Despite a slight increase in Asia, the WEC index remained on a low level. Uncertainty factors and burdens were too pronounced to permit any dynamic recovery of the global economy – specifically regarding financial markets volatility, extremely low crude oil prices, geopolitical risks as well as structural issues in various economies.

The unemployment rate declined slightly during the first quarter, both in the euro zone and in the European Union (EU) as a whole. Unemployment was also stable to slightly lower when looking at individual countries. Within the EU, Germany and the Czech Republic posted the lowest unemployment rates; they were especially high in Greece and Spain, albeit showing a continued slight decline. Even though the reported US unemployment rate at the end of the quarter under review remained at the levels seen in December 2015, the number of employed people increased significantly.

Financial and capital markets, monetary policy and inflation

Equity prices suffered a broad-based decline at the beginning of the year: partly, however, losses incurred during the course of the quarter could be regained. At the outset of the year, financial and capital markets were characterised by considerable nervousness and financial market volatility. Markets remained receptive, though.

Notwithstanding the fact that central banks of developed economies have now commenced pursuing different paths with regard to their monetary policy stance, they all remained clearly expansive during the first quarter of 2016. In fact, the European Central Bank (ECB) and the Bank of Japan reinforced their ultra-loose monetary policies even further: in its March meeting, the ECB Governing Council decided to lower its key interest rate from 0.05 % to zero per cent, and to move its deposit rate for commercial banks even further into negative territory, to -0.40 %. Furthermore, the ECB raised the monthly volume of its Asset Purchase Programme by € 20 billion to € 80 billion, effective April, and included euro-denominated investment-grade bonds issued by corporates (excluding banks) in the list of assets eligible for regular purchases. At the same time, the ECB resolved to implement a new series of targeted longer-term refinancing operations (TLTROs), with four-year maturities, starting in June 2016. The Bank of Japan introduced a negative interest rate (-0.1 %) on excess reserves held with the central bank, whereby only a part of such reserves will be affected. Likewise, the Swedish Riksbank reinforced its expansive monetary policy, lowering its already negative key interest rate by an additional 0.15 percentage points, to -0.50 %.

In contrast, the US Federal Reserve (the Fed) had slightly raised its key interest rate – for the first time in almost ten years – in December 2015. During the quarter under review, however, the Fed made no further adjustments to monetary policy.

Despite already being very low, long-term interest rates[1] in the currencies most relevant to Aareal Bank – including the euro as well as the US dollar and pound sterling – continued to decline significantly during the quarter under review. Long-term Swiss franc rates for ten-year maturities even entered negative territory. Short-term maturities[2] only saw little change, however. Whilst the decline in rates for the euro, Swedish krona and Japanese

[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

yen was more pronounced, given the more expansive monetary policies pursued by the respective central banks, short-term interest rates in other currencies – such as the US dollar, pound sterling, the Danish krone, Canadian dollar and the Swiss franc closed the quarter virtually unchanged from the 2015 year-end.

Negative interest rates continued to have a major impact on various European currencies. The range of terms for which euro interest rates are negative continued to expand. At the end of the quarter, euro swap rates were negative out to a maturity of four years. A similar situation prevailed for the Swedish krona, with rates negative up to three years. Likewise, rates for the Danish krone were also negative, albeit for shorter maturities. As already noted, negative interest rates were particularly pronounced for the Swiss franc. Outside Europe, the Japanese yen also saw negative interest rates for longer maturities. Even though at very low levels, interest rates for the US dollar and pound sterling were markedly higher compared to the euro, both for short-term and long-term maturities.

Yields for long-term government bonds also decreased noticeably during the first quarter of 2016. In this context, it was remarkable that yields for long-term government bonds of various euro member countries were clearly below US Treasury bond yields – not just for Germany, but also for higher-yielding countries in the euro zone such as Italy and Spain.

Euro exchange rates against various currencies which are important to Aareal Bank – such as the Swedish krona and the Danish krone – showed relatively little change during the reporting period. Whilst the euro appreciated moderately versus pound sterling and the US dollar, it lost considerable ground against the Japanese yen.

Numerous developed economies showed barely rising price levels during the first quarter of 2016: the annual average inflation rate for the euro zone was close to zero per cent. At times, there was even slight deflation – in some countries (such as Spain), this was actually even somewhat more pronounced. Inflation rates remained low in other EU countries as well (e.g. in the UK), or were slightly negative (such as in Poland). In Japan, the annual rate of inflation was at a similar level to the euro zone; whilst at around 1 %, the US inflation rate was higher in comparison, but still at a moderate level. Once again, low crude oil prices – which hit a twelve-year low[1)] after the turn of the year – were the primary contributing factor for low inflation rates. Despite a slight subsequent uptrend, they remained at a low level. Restrained macro-economic demand also contributed to the virtual absence of inflation. Inflation rates in China were slightly higher, reaching around 2 % during the first quarter of 2016, reflecting higher food prices. In contrast, Turkey and especially Russia posted markedly higher annual average inflation rates.

Regulatory environment

The environment in which banks have been operating was defined in recent years by an increasing rise in regulatory requirements, as well as by changes in banking regulation. By way of example, these developments included the implementation of the comprehensive Basel III reform package in the EU (CRR/CRD IV), multiple amendments to the Minimum Requirements for Risk Management in Banks ("MaRisk"), as well as the introduction of the Single Supervisory Mechanism (SSM) in the EU.

On 4 November 2014, the ECB had assumed responsibility for supervising banks within the euro zone. The ECB directly supervises the significant banking groups in Europe, including Aareal Bank Group.

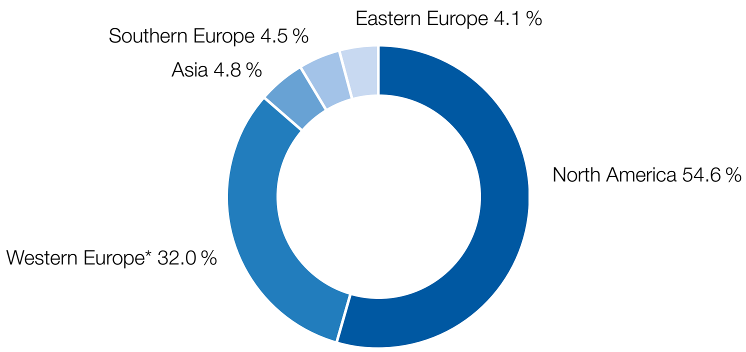
The Supervisory Review and Evaluation Process (SREP) ensures a common approach is taken by the ECB on the supervisory review of banks, within the framework of Pillar II. The SREP is built around a business model analysis, an assessment of governance and controls, as well as of the capital and liquidity risks. The results of the individual components are aggregated in a score value, from

[1)] Brent crude, quoted in US dollars

which the ECB derives supervisory measures on holding additional capital (via an SREP assessment notice) and/or additional liquidity requirements. The SREP requirement of Aareal Bank Group as at year-end 2015 was a Common Equity Tier 1 capital ratio (CET1 ratio), including capital conservation buffer, of 8.75 %.

New business 1 January-31 March 2016

by region (%) Total volume: € 0.9 bn



* Including Germany

Sector-specific and business developments

Structured Property Financing segment

In the persistent low interest rate environment, commercial property continued to be a sought-after asset class in the first quarter of 2016. However, global transaction volumes (the aggregate capital invested in newly-acquired commercial properties) showed a marked decline from the extraordinarily high levels seen in the same period of the previous year. Investment yields for newly-acquired commercial property remained low, with signs of the downtrend seen in previous periods flattening. This meant that investment yields for first-class properties remained almost constant in many markets, compared to the fourth quarter of 2015, with slight declines seen only in some places.[1] Rents for first-class commercial properties were virtually stable on most markets; although rents were rising in some markets, and declined in others when let to new tenants.

Commercial property financing has remained a highly competitive business on most markets. Margin pressure was evident especially in Europe. In the US, however, margins tended to strengthen, reaching to higher levels than in many European countries, particularly when compared to Western and Northern Europe. Pricing levels on the US market are also influenced by the market for commercial mortgage-backed securities (CMBS).

In a highly competitive business environment, and against the background of general uncertainty, Aareal Bank adopted a cautious stance regarding new business[2] at the outset of 2016: new business totalled € 0.9 billion during the quarter under review (Q1 2015: € 1.75 billion). One year ago, first-quarter new business had still benefited from an excess deal pipeline from the final quarter of 2014. No such effects were evident in the first quarter of 2016. Newly-originated loans accounted for 66.4 % or € 0.6 billion (Q1 2015: 47.4 % or € 0.83 billion), with 33.6% or €0.3 billion in renewals (Q1 2015: 52.6 % or € 0.92 billion). There were no early renewals during the first quarter. Given the higher margins in the US, and the Bank's growth strategy in that market, North America accounted for a relatively high share of new business (54.6 %; Q1 2015: 39.1 %), followed by Europe with 40.6 % (Q1 2015: 60.9 %) and Asia (4.8 %; Q1 2015: –).

Europe

Whilst interest for commercial properties in Europe remained high, transaction volumes declined noticeably compared to the first quarter of 2015. Declines worth mentioning were seen in France and the UK in particular. In this context, the decline on the UK market was probably also due to uncertainty related to the referendum on whether

[1] Falling yields are associated with rising property market values, whilst rising yields correspondingly produce falling values, all other things remaining equal.
[2] Excluding new business for private clients and local authority lending by WestImmo

the UK will stay within the EU, which will take place on 23 June 2016.

Yields for newly-acquired first-class commercial property in the European economic centres were virtually unchanged in many countries compared to the 2015 year-end; some markets saw further declines. There were hardly any yield increases for high-quality commercial property in the European economic centres during the first quarter. 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 clearly stable compared to the end of 2015. Very few markets diverged from this development and posted rising rents, such as the market for first-class office properties in Barcelona, first-class office and retail properties in Berlin, the City of London and Stockholm, as well as first-class retail properties in Brussels, Milan and Rome, and for first-class logistics properties in Stockholm and Istanbul. Falling rents were seen in the premium segments of Europe's economic centres in very isolated cases only – such as the logistics markets in Moscow and Gothenburg, for example.

The hotel markets in the European economic centres presented a mixed picture during the first quarter. Average revenue per available room, a key performance indicator for the hotel markets, improved over the corresponding period of the previous year in some markets, such as Amsterdam, Berlin, Barcelona, Madrid and Prague, whereas it declined in other markets including London and Munich. In Paris, average revenue per available hotel room decreased noticeably, as occupancy ratios clearly fell short of last year's levels – quite obviously a consequence of the terrorist attacks in November of last year. A similar development occurred in Brussels, when the occupancy ratio collapsed during March and average revenues turned negative for the first quarter of 2016.

Aareal Bank Group originated new business of € 0.4 billion (Q1 2015: € 1.07 billion) in Europe during the first quarter of 2016. The vast majority was transacted in Western Europe, with low new business in Southern and Eastern Europe, and no new business originated in Northern Europe in the first quarter.

North America (NAFTA states)

Compared to the extraordinary high transaction volumes in North America at the beginning of last year, figures for the first quarter of 2016 declined markedly, influenced in particular by declines in very large-sized investments in the US.

The downtrend in investment yields in the US already flattened during the final quarter of 2015, which led into a largely constant yield development in the first quarter of 2016. On a national average, investment yields in the US only moved by a few basis points, compared to the year-end 2015, for office, retail, and logistics properties. Slightly rising yields were observed on individual markets, such as the office property market in Boston, or the retail property market in Los Angeles.

Rents slightly increased on a national average in the US, compared to the fourth quarter of 2015, for the various types of property, with virtually constant vacancy ratios. This development also applied for many of the leading regional markets in the US.

The increase in average revenues per available hotel room on the US hotel markets, which had already been evident in recent years, continued compared to the first quarter of 2015. The moderate increase in average revenues was attributable to higher average room rates.

Aareal Bank Group originated new business of € 0.5 billion (Q1 2015: € 0.68 billion) in North America during the first quarter of 2016. This was generated exclusively in the USA.

Asia

The volume of commercial property transactions in the Asia/Pacific region also declined markedly from the first quarter of 2015. Investment yields for newly-acquired, high-quality commercial property remained virtually stable in Beijing, Shanghai, Singapore, and Tokyo – the exception being investment yields for first-class office properties in Tokyo, which showed moderate increases from a very low level.

Rents for first-class office, retail and logistics properties in the metropolitan areas of Beijing, Shanghai and Tokyo hardly changed. In contrast to this stable trend, rents for these three property types were under pressure in Singapore.

The hotel markets in Beijing, Shanghai, Singapore and Tokyo developed favourably, compared to the first quarter of 2015, with rising average revenues per available hotel room.

Aareal Bank Group originated a small volume of new business in Asia during the first quarter (Q1 2015: nil). The new business was concluded in China.

Consulting/Services segment

Bank division Housing Industry

The housing industry and the commercial property sector in Germany have proven to be stable market segments. Rental income generated from a highly-diversified tenant portfolio guarantees a sound development. This was evidenced in particular by largely constant rental income and long-term financing structures.

Corporate investments continue to focus on improving the degree and quality of energy efficiency, and creating a sustainable quality of housing. At the same time, the industry is focusing increasingly on new residential construction. As a consequence of reticent construction activity over recent years, conurbations are particularly affected by a shortage of residential space. The housing offensive launched by the German government in March has created the preconditions for subsidising the construction of affordable housing. The programme comprises tax incentives, simplifications of construction rules, as well as the provision of land and subsidies for social housing.

The positive trend on the housing market, which has prevailed for a longer period of time, continued into the first quarter, albeit with a slowing momentum of prices. Advertised rents were around 1 % higher in January 2016 than in the first quarter of 2015. Rents for new-built apartments increased by 2 % during the same period. Residential demand shifted to locations and cities which to date offered more affordable housing, in particular.

Our clients continue to make strong use of the combination of our specialist services in conjunction with automated mass electronic payments processing, together with the related advice we offer, as well as cash investment schemes. This enables us to maintain a strong position in the market, despite strong competitive pressure – which is also reflected in the acquisition of new customers: during the first quarter of 2016, we were able to win new business partners from the housing industry, managing just under 30,000 residential units.

The volume of deposits taken remained high, averaging € 9.3 billion during the quarter under review (Q4 2015: € 9.0 billion).

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

Aareon

Aareon Group pursues a profitable growth strategy. The internal project conducted in this context during 2015 was completed. The project's focus was on enhancing efficiency and performance; numerous measures continue to be implemented. Aareon's contribution to consolidated operating profit amounted to € 7 million during the quarter under review (Q1 2015: € 5 million).

Germany

In Germany, Aareon distributes the Wodis Sigma ERP solutions, SAP® solutions and Blue Eagle, as well as GES. Wodis Sigma was successfully rolled out into production for 36 enterprises managing around 100,000 units at the beginning of the year, with additional customers opting for Wodis Sigma – including many GES customers who decided to change within the scope of our migration campaign. As expected, the favoured version is the one that uses Wodis Sigma as a service from the exclusive Aareon Cloud. Migration has been progressing on schedule.

Business with digital solutions has also been developing as planned, with Aareon Smart World solutions – including the Mareon service portal, Aareon Archiv kompakt, Aareon CRM, Aareon Immoblue Plus, and Mobile Services – being particularly in demand. Digital solutions also benefit from the growing migration business related to the ERP solutions.

The BauSecura insurance business developed positively during the first quarter.

Integration of phi-Consulting GmbH, which Aareon acquired effective 1 October 2015 in order to expand its business activities onto the energy sector, is progressing on schedule and is expected to be completed in 2016.

International Business

In the Netherlands, additional customers opted for the Tobias AX ERP solution, as well as for the digital solutions Mareon, Aareon Archiv kompakt, and Aareon CRM. Integration of Square DMS B.V. (formerly Square DMS Groep B.V.), which was acquired with effect from 1 October 2015, has been progressing on schedule, strengthening our market position.

In France, two major customers were won for the French tenant portal, with one of them additionally subscribing to the 1st Touch mobile solution.

In the UK, additional customers opted for the QL ERP solution, and for digital solutions 360° and 1st Touch Mobile. Aareon continues to expedite the market launch of the recently-developed digital solution 360°. The QL ERP solution now comprises contact centre software focused on social media use, designed in order to facilitate digital communications options in a better and easier manner.

In Sweden, there was demand for our newly-developed Smart Start Incit Xpand – a pre-configured template which simplifies our customers' data migration to Incit Xpand.

Financial Position and Financial Performance

Financial performance

Group

In the first quarter of the financial year, consolidated operating profit amounted to € 87 million and was thus considerably higher than in the corresponding period of the previous year (€ 67 million).

At € 180 million, net interest income was on par with last year's level (€ 178 million). The increase in lending volume – due to the acquisition of WestImmo – had a positive effect. The net figure was burdened by the planned reduction of non-strategic portfolios, declining margins, and by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

Reflecting seasonal factors, allowance for credit losses amounted to € 2 million (previous year: € 18 million) and was thus in line with our expectations.

Net commission income increased to € 46 million (Q1 2015: € 41 million).

The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets, of € 10 million (Q1 2015: € 1 million), resulted largely from the measurement and reversal of derivatives used to hedge interest rate and currency risk.

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Net interest income	180	178
Allowance for credit losses	2	18
Net interest income after allowance for credit losses	**178**	**160**
Net commission income	46	41
Net result on hedge accounting	1	11
Net trading income/expenses	9	-7
Results from non-trading assets	0	-3
Results from investments accounted for using the equity method	0	0
Administrative expenses	146	132
Net other operating income/expenses	-1	-3
Negative goodwill from acquisitions	–	–
Operating profit	**87**	**67**
Income taxes	27	22
Consolidated net income	**60**	**45**
Consolidated net income attributable to non-controlling interests	5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	55	40

At € 146 million (Q1 2015: € 132 million), administrative expenses exceeded the level of the corresponding previous year's period, as expected. The increase was due, among other factors, to costs incurred by WestImmo as well as the bank levy, which had not been fully recognised in Q1 2015.

Net other operating income/expenses amounted to € -1 million (Q1 2015: € -3 million),

First-quarter consolidated operating profit thus stood at € 87 million (Q1 2015: € 67 million). Taking into consideration tax expenses of € 27 million and non-controlling interest income of € 5 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 55 million (Q1 2015: € 40 million). Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income attributable to ordinary shareholders stood at € 51 million (Q1 2015: € 36 million).

Structured Property Financing segment

At € 96 million, operating profit generated in the Structured Property Financing segment during the first quarter of 2016 was clearly higher than in the corresponding period of the previous year (Q1 2015: € 74 million).

The segment's net interest income amounted to € 182 million, on par with the previous year (Q1 2015: € 178 million). The increase in lending volume – due to the acquisition of WestImmo – had a positive effect. The net figure was burdened by the planned reduction of non-strategic portfolios, declining margins, and by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

Reflecting seasonal factors, allowance for credit losses amounted to € 2 million (Q1 2015: € 18 million) and was thus in line with our expectations.

At € 95 million (Q1 2015: € 84 million), the segment's administrative expenses exceeded the level of the corresponding previous year's period, as expected. The increase was due, among other factors, to costs incurred by WestImmo as well as the bank levy, which had not been fully recognised in Q1 2015.

Structured Property Financing segment result

€ mn	Quarter 1 2016	Quarter 1 2015
Net interest income	182	178
Allowance for credit losses	2	18
Net interest income after allowance for credit losses	**180**	**160**
Net commission income	2	0
Net result on hedge accounting	1	11
Net trading income/expenses	9	-7
Results from non-trading assets	0	-3
Results from investments accounted for using the equity method	–	–
Administrative expenses	95	84
Net other operating income/expenses	-1	-3
Negative goodwill from acquisitions	–	–
Operating profit	**96**	**74**
Income taxes	30	24
Segment result	**66**	**50**

Net other operating income/expenses amounted to € -1 million (Q1 2015: € -3 million).

Overall, operating profit for the Structured Property Financing segment was € 96 million in the first quarter of 2016 (Q1 2015: € 74 million). Taking tax expenses of € 30 million into consideration (Q1 2015: € 24 million), the segment result for the quarter under review was € 66 million (Q1 2015: € 50 million).

Consulting/Services segment

Sales revenue generated in the Consulting/Services segment developed positively during the first quarter of 2016, totalling € 49 million (Q1 2015: € 46 million). The persistent low interest rate

Consulting/Services segment result

€ mn	Quarter 1 2016	Quarter 1 2015
Sales revenue	49	46
Own work capitalised	1	1
Changes in inventory	0	0
Other operating income	1	1
Cost of materials purchased	7	5
Staff expenses	36	34
Depreciation, amortisation and impairment losses	3	3
Results from investments accounted for using the equity method	0	0
Other operating expenses	14	13
Interest and similar income/expenses	0	0
Operating profit	**-9**	**-7**
Income taxes	-3	-2
Segment result	**-6**	**-5**

environment continued to burden margins from the deposit-taking business that are reported in sales revenues.

Staff expenses of € 36 million for the quarter under review were slightly higher than in the same period of the previous year (Q1 2015: € 34 million). The cost of materials also increased slightly, to € 7 million (Q1 2015: € 5 million).

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

Overall, segment operating profit in the first quarter of 2016 was € -9 million (Q1 2015: € -7 million). Aareon's contribution was € 7 million (Q1 2015: € 5 million).

After taking taxes into consideration, the segment result for the first quarter amounted to € -6 million (Q1 2015: € -5 million).

Financial position

Aareal Bank Group's consolidated total assets amounted to € 51.8 billion as at 31 March 2016, after € 51.9 billion as at 31 December 2015.

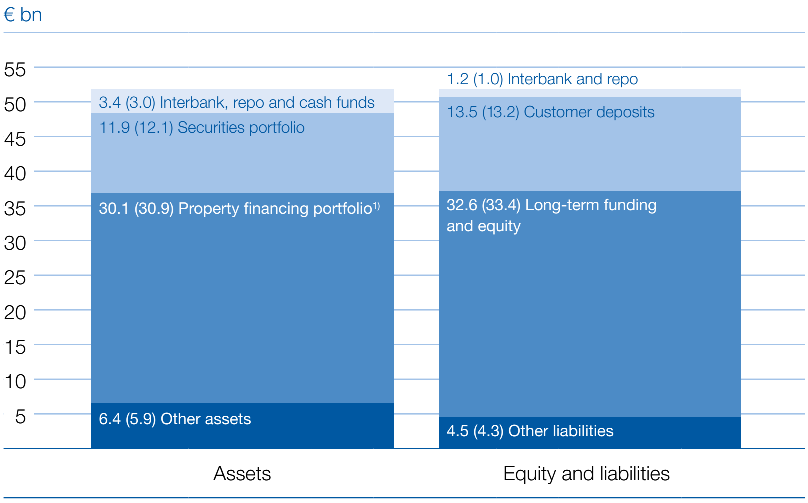
Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio[1] stood at € 30.1 billion as at 31 March 2016, a decline of approximately 2.5 % compared to the 2015 year-end figure of € 30.9 billion. This development was largely attributable to the planned reduction of non-strategic portfolios and exchange rate fluctuations. The international share of the portfolio increased slightly to 82.6 % (31 December 2015: 81.7 %).

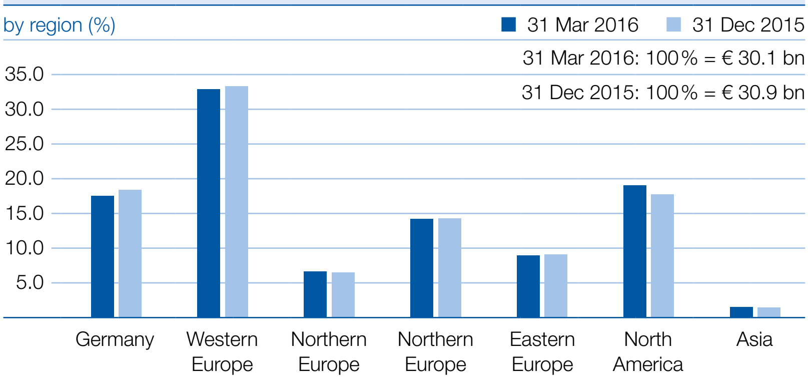
At the reporting date (31 March 2016), Aareal Bank Group's property financing portfolio was composed as follows, compared with year-end 2015.

[1] Excluding € 1.4 billion in private client business (31 December 2015: € 1.5 billion) and € 0.6 billion in local authority lending business by WestImmo (31 December 2015: € 0.6 billion)

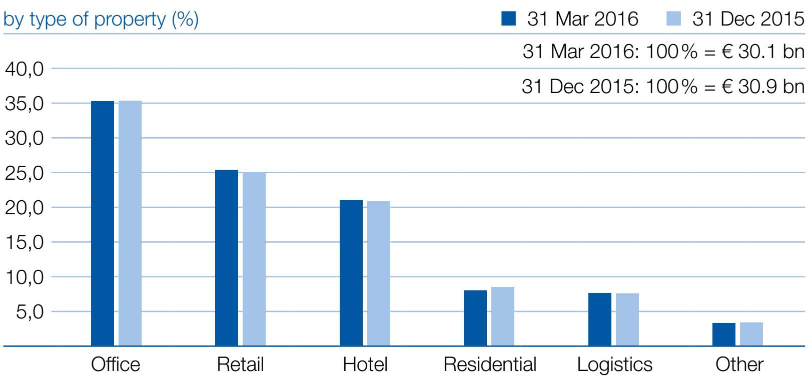
Statement of financial position – structure as at 31 Mar 2016 (31 Dec 2015)



Property financing volume[1] (amounts drawn)



Property financing volume[1] (amounts drawn)



The allocation of the portfolio by region and continent changed only marginally compared with the end of the previous year. Whilst the portfolio share of exposures in Northern Europe rose slightly by 1.3 %, it declined slowly in Germany and Western Europe. However, it remained almost stable for all other regions.

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

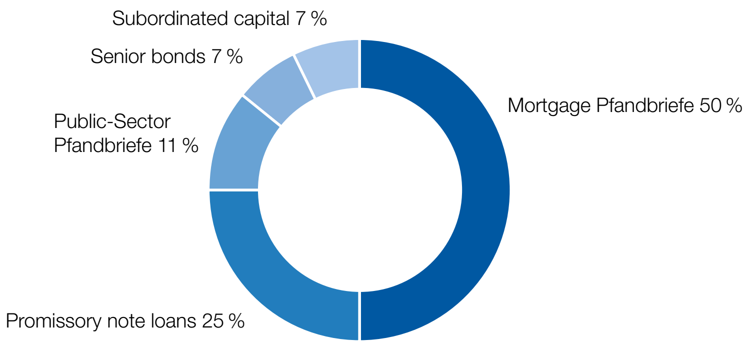
All in all, the high degree of diversification by region and property type within the property financing portfolio was maintained during the period under review.

Securities portfolio

As at 31 March 2016, the nominal volume of the securities portfolio[1] was € 9.7 billion (31 December 2015: € 10.2 billion). It comprises four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS). 98 %[2] of the overall portfolio is denominated in euro. 98 %[2] of the portfolio has an investment grade rating.[3] More than 70 % of the portfolio fulfils the requirements of "High Quality Liquid Assets" (as defined by the CRR) in the Liquidity Coverage Ratio (LCR).

Capital market funding mix as at 31 March 2016

% Total volume: € 30.1 bn



Financial position

Funding and equity

Refinancing

Aareal Bank Group has remained very solidly funded throughout the first quarter of 2016. Total long-term funding as at 31 March 2016 amounted to € 30.1 billion (31 December 2015: € 30.9 billion), comprising Pfandbrief issues as well as senior unsecured and subordinated issues. As at the reporting date, Aareal Bank also had € 8.7 billion at its disposal from deposits generated from the business with the housing industry (31 December 2015: € 8.4 billion). Institutional money market investors' deposits amounted to € 4.8 billion (31 December 2015: € 4.8 billion).

Aareal Bank Group raised € 0.5 billion on the capital market during the first quarter, the larger portion of which was unsecured issues. One of the highlights was the increase of an existing senior unsecured bond by € 150 million, to reach a benchmark volume of € 500 million.

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

Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 3,079 million as at 31 March 2016 (31 December 2015: € 3,044 million), comprising € 300 million in the Additional Tier 1 (AT1) bond and € 241 million in non-controlling interests.

[1] As at 31 March 2016, the securities portfolio was carried at € 12.3 billion (31 December 2015: € 12.1 billion).
[2] Details based on the nominal volume
[3] The rating details are based on the composite ratings.

Regulatory capital [1)]

	31 Mar 2016	31 Dec 2015
€ mn		
Common Equity Tier 1 (CET1)	2,269	2,298
Tier 1 capital (T1)	2,812	2,882
Total capital (TC)	3,940	3,977
%		
Common Equity Tier 1 ratio (CET1 ratio)	13.6	13.8
Tier 1 ratio (T1 ratio)	16.9	17.2
Total capital ratio (TC ratio)	23.7	23.8

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

Analysis of risk-weighted assets (RWA)

31 March 2016

	EAD	Risk-weighted assets (RWA)			Regulatory capital requirements
		AIRBA	CRSA	Total	
€ mn					
Credit risks	**52,583**	**10,673**	**3,855**	**14,528**	**1,162**
Companies	32,342	8,484	2,509	10,993	879
Institutions	4,448	479	104	583	47
Public-sector entities	13,261	0	21	21	2
Other	2,532	1,710	1,221	2,931	234
Market price risks				**119**	**10**
Credit Valuation Adjustment				**313**	**25**
Operational risks				**1,698**	**136**
Total	**52,583**	**10,673**	**3,855**	**16,658**	**1,333**

31 December 2015

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

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).

Report on Material Events After the Reporting Date

Following on from its announcement on 8 December 2015, Aareal Bank AG has completed the sale of all shares in its wholly-owned subsidiary, Aqvatrium AB, as at 5 April 2016. Aqvatrium is the owner of Fatburssjön 10/Fatburen, a commercial property located in Stockholm. The buyer is AMF Fastigheter AB, a wholly-owned subsidiary of AMF Pensionsförsaking AB, a pension fund domiciled in Sweden. Both the preliminary purchase price as well as the expected income only marginally deviate from the figures published before, translating into an expected positive income effect of € 58 million in the second quarter 2016, which was included in the Bank's full-year guidance for 2016 disclosed already.

No other material events occurred after the interim reporting period which would have to be reported here.

Risk Report

Aareal Bank Group Risk Management

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

Risk-bearing capacity and risk limits

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

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the Capital Requirements Regulation (CRR). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a Tier 1 ratio (calculated in accordance with the CRR) equivalent to 8 % of forecast risk-weighted assets (RWA), plus buffer. Only free own funds exceeding this level are applied as potential risk cover, of which a further minimum of 10 % (currently 15 %) is retained as a risk cushion. This cushion is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks).

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum Tier 1 ratio of 8 % of RWA, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). 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 31 March 2016.

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

Credit risks

Definition

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

Risk measurement and monitoring

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

Processes in the credit and trading businesses are designed to consistently respect the clear functional division of Sales units ("Markt") and Credit Management ("Marktfolge"), up to and including senior

Risk-bearing capacity of Aareal Bank Group as at 31 March 2016
– Going-concern approach –

€ mn	31 Mar 2016	31 Dec 2015
Own funds for risk cover potential	2,937	2,937
less 8 % of RWA (Tier 1 capital (T1))	1,606	1,606
Freely available funds	**1,331**	**1,331**
Utilisation of freely available funds		
Credit risks	299	313
Market risks	223	244
Operational risks	100	100
Investment risks	60	65
Total utilisation	**682**	**721**
Utilisation as a percentage of freely available funds	**51 %**	**54 %**

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.

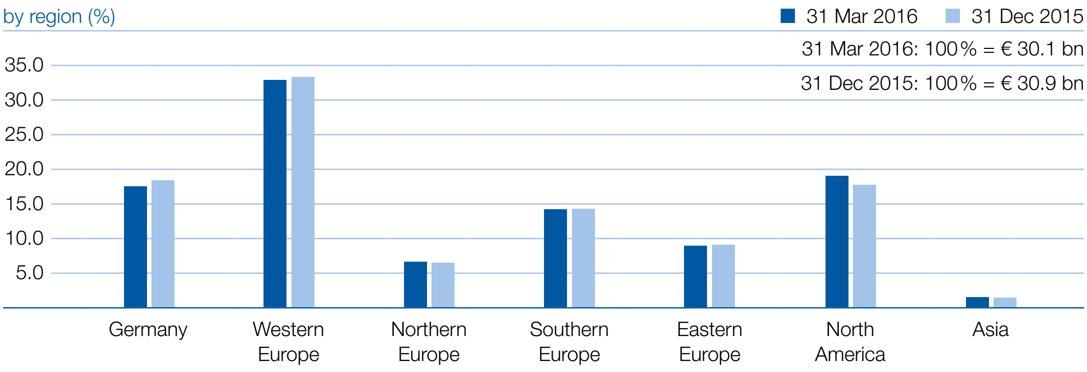
Aareal Bank employs various risk classification procedures for the initial, regular, or event-driven assessment of counterparty credit risk; these procedures are adapted specifically to meet the requirements of the relevant business activity and are subject to permanent review and improvement. Responsibility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

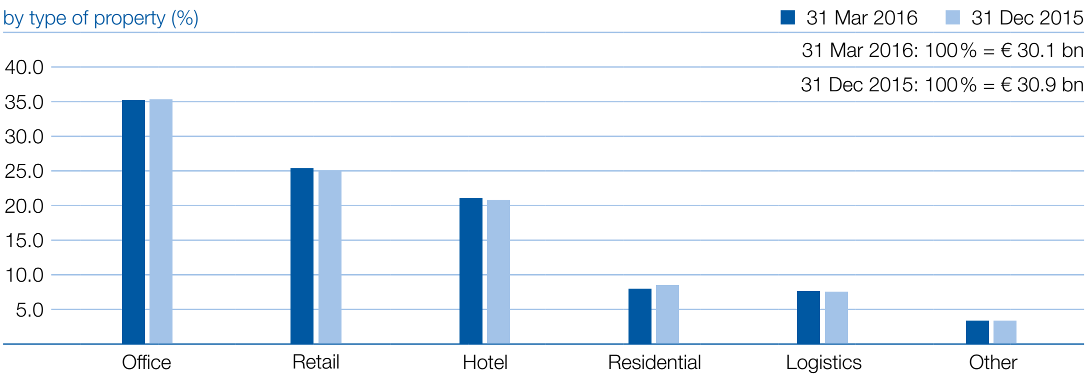
Property financing volume[1] (amounts drawn)

by region (%)



Property financing volume[1] (amounts drawn)

by type of property (%)



[1] Excluding € 1.4 billion in private client business (31 December 2015: € 1.5 billion) and € 0.6 billion in local authority lending business by WestImmo (31 December 2015: € 0.6 billion)

phase loans or residential property developers, the monitoring of payment arrears, and the regular, individual analysis of the largest exposures.

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

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

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

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

Country risks

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

Market price risks

Definition

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

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

Risk measurement and monitoring

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

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

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

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

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

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

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year) 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	242.6 (422.3)	206.3 (187.5)	222.8 (263.3)	– (–)
Group VaR (interest rates)	173.8 (404.4)	133.4 (119.5)	150.0 (216.5)	– (–)
Group VaR (FX)	146.6 (170.5)	113.5 (61.0)	128.6 (114.7)	– (–)
VaR (funds)	5.2 (4.7)	4.2 (2.8)	4.8 (3.7)	20.0 (20.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	5.0 (5.0)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	85.9 (92.0)	80.1 (72.3)	82.9 (83.8)	– (–)
Aggregate VaR – Aareal Bank Group	256.2 (428.7)	222.7 (207.5)	237.8 (277.4)	435.0 (435.0)

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

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year)				
95 %, 1-day holding period				
Aareal Bank Group – general market price risk	15.3 (26.7)	13.0 (11.9)	14.1 (16.7)	– (–)
Group VaR (interest rates)	11.0 (25.6)	8.4 (7.6)	9.5 (13.7)	– (–)
Group VaR (FX)	9.3 (10.8)	7.2 (3.9)	8.1 (7.3)	– (–)
VaR (funds)	0.3 (0.3)	0.3 (0.2)	0.3 (0.2)	1.3 (1.3)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	5.4 (5.8)	5.1 (4.6)	5.2 (5.3)	– (–)
Aggregate VaR – Aareal Bank Group	16.2 (27.1)	14.1 (13.1)	15.0 (17.5)	27.5 (27.5)

Aggregate VaR – Aareal Bank Group

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

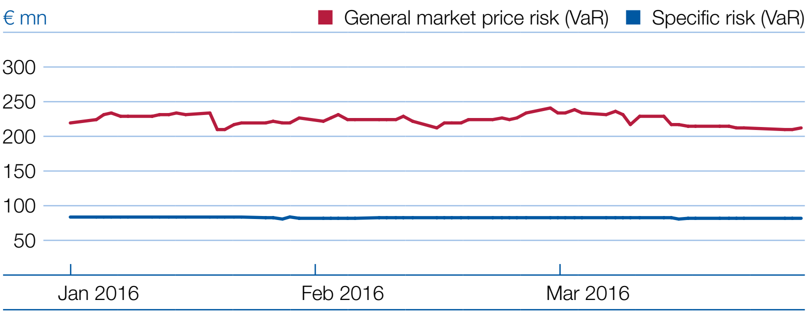
Backtesting

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

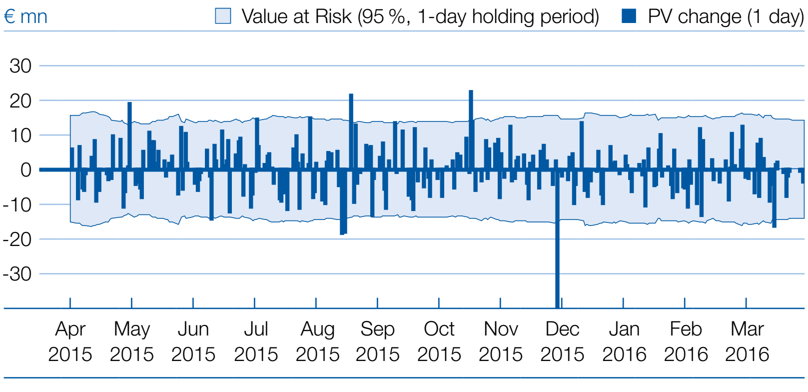
Trading book

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

General market price risk and specific risk during 2016



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



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.

Liquidity risks

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

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

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

Operational risks

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

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

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

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

Investment risks

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

Due to the special character of some exposures (e.g. marketing risks), special methods and procedures are employed to deal with investment risk. All relevant Group entities are subject to regular audits, including a review and assessment of their risk situation. A quarterly investment risk report is submitted to the Bank's Management Board.

There were no significant changes in investment risk during the period under review.

Report on Expected Developments

Macro-economic environment

Further developments for the economy, as well as for financial and capital markets are exposed to significant risks and threats – which also have an impact on the commercial property markets. In spring 2016, economic forecasts are characterised by significant uncertainty.

The persistent low interest rate environment is one material factor in this context: market participants might be induced to seek higher risk exposure, thereby increasing the risk of capital misallocation and the building of bubbles on asset markets. This may result in prices and values sharply declining, should the need for asset revaluations arise or if interest rates rise swiftly. Low interest rates may also encourage a reduction of reform and consolidation efforts.

An interest rate turnaround, however, also carries risks, and may, for example, result in investments being postponed, in pressure on assets rising, or – particularly in emerging economies – in capital outflows. For the US, financial markets have been expecting rising interest rates for quite some time. The Federal Reserve's decision to lift its key interest rate in December 2015 was a first step in that direction. However, the scope for 2016 – and corresponding financial markets volatility – remains uncertain. Turmoil in the financial and capital markets may still hurt the global economy.

Further divergence between US and euro zone monetary policies, euro zone solidarity in doubt, or questions about the European project as a whole, may result in a resurgence of the European sovereign debt crisis that could heavily burden the financial and capital markets and thus the economy. The referendum to be held on 23 June on the United Kingdom's continued membership in the EU could play an important role. Another important aspect is the refugee crisis and how it is to be overcome. Geopolitical risks, e.g. the crisis in Ukraine or the fear of growing terrorism, can also evoke uncertainty and burden economic activity, at least regionally.

Further uncertainty factors and burdens include a reform backlog, and structural economic issues in certain countries across the euro zone. China also poses major risks to the world economy and the financial and capital markets, due to excessive levels of macro-economic debt – which has risen strongly in the recent past – and the residential property boom seen in the last few years.

Economy

Against the high number of existing uncertainty factors and burdens, economic momentum is expected to remain low during 2016: growth rates of real global economic output are expected to remain at the levels seen during 2015, or slightly below. Risks and uncertainty factors could, were they to materialise to a substantial extent, further mute the economic development, or even cause recessive tendencies in certain regions.

In the euro zone, economic development is expected to remain subdued during the course of the year. As business confidence indices are weak, we are lowering our growth forecast slightly, and now expect the euro zone's real gross domestic product to grow at approximately last year's pace. Structural issues in certain countries across the euro zone and restrained demand from other regions in the world impede a more sweeping expansion. Private consumption, however, might be a supporting factor as employment levels rise modestly, wages post slightly higher growth rates, and energy price developments provide purchasing power benefits. Another positive influencing factor for the euro zone economy may be the low valuation of its common currency. In line with our projections for the region as a whole, most of the euro zone countries relevant to Aareal Bank should show subdued to moderate economic development. Based on real GDP growth rates, Italy and Austria are at the lower end of expectations, followed by Belgium and France, and slightly better expectations for Germany and the Netherlands. For Spain, we assume relatively favourable growth prospects, although real GDP growth rates are likely to lag behind the high values of the previous year. In Finland, however, economic growth should increase only slightly.

In national economies in the EU which are not part of the euro zone, we expect to see a stronger growth rate than in euro member states this year. This also applies to the UK and Sweden, albeit these two countries should grow at a slightly slower pace than in the previous year. The EU referendum in the United Kingdom could evoke uncertainty on part of investors, even more so should the UK decide to leave the EU; this could mute the UK's economic development going forward. For Denmark, we anticipate a slight acceleration and a generally moderate economic growth rate. The Polish economy should continue its strong growth in the current year. The Czech economy should also continue to post solid growth rates, even though the previous year's very high levels are unlikely to be repeated. The Swiss economy remains burdened by the strong Swiss franc. Thus, the real gross domestic product will only increase slowly – as already seen in the previous year. For Turkey, we anticipate a continued positive growth rate, albeit at a moderate rate below the level achieved in 2015. Russia will remain in recession for the time being, with another noticeable decline in real gross domestic product this year. Low oil prices, and insecurities regarding the crisis in Ukraine, are considerable burdens here.

Growth in the US economy continues to be intact and is expected to receive support especially from private consumption (which benefits from increases in wages and employment) this year. Corporate investments should also make a major contribution; in our scenario, they would hardly be affected by further interest rate hikes on the part of the Federal Reserve. As various indicators have been pointing towards a more gloomy mood at the beginning of the year, we have slightly modified our forecast. We still expect a solid growth rate, but moderately below the level achieved in 2015. The Canadian economy is strongly influenced by low oil prices. Corporate investments are being reduced, and consumption is growing only slowly. The economy might be supported by fiscal policies, though. Against this background, we expect only a slight increase in real economic growth for Canada, possibly posting a rate of growth below the already restrained value of the previous year.

The Japanese economy continues to lack momentum this year, and we expect real gross domestic product to grow only at the pace registered in 2015. Private consumption remains weak, and corporate investment should prove the main driver. In Singapore, we also anticipate an economic growth rate at the previous year's level. In China, the trend of decreasing real GDP growth rate is bound to continue, albeit at a more moderate level than in 2015. Curbing factors are the slowdown in the housing boom, the targeted reduction of over-capacity, especially in heavy industry, and the transition to an overall lower investment ratio. We are also witnessing uncertainties with regards to the increase of macro-economic debt. The decline in commodity prices has weighed on the economy in various emerging countries year-to-date (and will continue to do so during the remainder of the year), where some of these countries are also burdened by structural economic problems, adding to the factors restraining global economic growth in 2016.

Against a background of moderate, yet positive economic development, we expect labour markets in the euro zone, but also in other European countries to register slowly decreasing or virtually stagnating unemployment rates. In the US, unemployment should continue to fall; however, in view of past decreases, possibly at a slower pace.

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. In this connection, we see the low interest rate environment and the Fed's departure from its zero interest rate policy as particularly noteworthy, but also any of the aforementioned risks could, were they to materialise to a substantial extent, cause turbulences on the financial and capital markets. In the current environment, volatility is bound to remain high. However, the financial and capital markets remain receptive for securities issues and refinancings.

The ECB's decision to expand its bond purchases, as well as further measures, underscore our expectations for a continuation of the extremely expansive monetary policy that has been pursued in the euro zone; it cannot be ruled out that the ECB will reinforce that stance during the remainder of the year. Various other European central banks, such as Sweden's Riksbank, are also likely to abide by their expansive fiscal policy during 2016. The US, however, is slowly turning its back on its expansive monetary policy, with December 2015 seeing a first hike in its key interest rate. We see scope for further cautious increases during the course of the year. In the UK, we suspect that the Bank of England will refrain from interest rate hikes in the near future, given the currently low inflation and uncertainty due to the referendum.

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

As a consequence of extremely low oil prices, inflationary pressures will not be an issue in the euro zone and other EU member states in the months to come. In fact we may even see temporary deflation in some economies. For the full year 2016, we expect inflation in the euro zone and numerous other EU countries to be minimal to marginal. For the US, we expect the annual average of inflation to be low, and assume a value around zero per cent for Japan. The risk of a deep, permanent deflation in developed economies is rather small, notwithstanding an accelerated development of wages in various countries such as the UK and the US. China is not expected to differ too much from the picture we have painted for the various regions, with a slight to moderate rate of inflation.

Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. Numerous initiatives from the Basel Committee on Banking Supervision – such as the revision of the Credit Risk Standard Approach and the basic approaches for operational risk, the capital floor rules or the handling of interest rate risk exposure in the banking book – are currently being discussed, or are in a consultation process. In addition, the European Banking Authority (EBA) published a consultation paper on the future of the Internal Ratings Based Approach (IRBA); the paper discusses various methodological points and aims at harmonising the supervisory assessment methodology across all EU member states. EBA also consulted on its Guidelines on the collection of information related to the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). Finalised regulatory requirements such as the "Principles for effective risk data aggregation and risk reporting" (BCBS 239), published by the Basel Committee, are implemented through projects. On ESCB level (European System of Central Banks), the introduction of a standardised granular credit reporting system within the framework of AnaCredit (Analytical Credit Dataset) has taken shape by now. Accordingly, Aareal Bank will continue to focus on the related measures for implementation and how these will affect the Bank's business activities.

Furthermore, additional regulatory requirements of the Single Resolution Mechanism (SRM) need to be fulfilled. These include, for example, the Minimum Requirements for the Design of Recovery Plans (MaSan) on a national level, as well as the EU Bank Recovery and Resolution Directive (BRRD) at a European level. The new metrics – the Minimum Requirement for Eligible Liabilities (MREL), and Total Loss Absorbing Capacity (TLAC, according to the current state of discussion only for global institutions of systemic relevance) – that are currently being developed, also need to be applied.

Regulators have yet to come up with final details for some of these additional regulatory requirements; likewise, various technical standards, guidelines and regulations still have to be finalised or are still being consulted on, e.g. the fifth revision to the Minimum Requirements for Risk Management in Banks (MaRisk). To nevertheless facilitate the timely implementation, we have already continued to pursue the individual issues in numerous projects – devoting considerable resources to this task.

For the first time, Aareal Bank published its Leverage Ratio, as at 30 June 2015, in its Regulatory Disclosure Report. Regulators, however, still need to finalise the corresponding calibration.

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

Sector-specific and business developments

Structured Property Financing segment

Given the current low interest rate environment, combined with a high degree of investor liquidity, commercial property remains a sought-after investment this year, too. Global transaction volumes are therefore expected to remain high. However, first-quarter results for 2016 support our expectation that the previous year's very high levels constitute a ceiling. Accordingly, transaction volumes this year might see moderate – in some markets noticeable – declines. Continued investor interest for properties outside the top segments seems likely, given the shortage of first-class properties on offer. Strong investor demand is expected to continue to support performance this year. Nonetheless, commercial property markets are also exposed to major risks and threats. One such risk lies in capital misallocation and associated potential bubble-building in commercial property markets, which might send property values into a dive in case of a fundamental revaluation. A turnaround in the US Federal Reserve's interest rate policy also poses a risk for commercial property markets, should interest rate hikes be substantial – in which case they would negatively impact demand for, and the value of commercial property. Moreover, other uncertainty factors and risks in the macro-economic environment are relevant for commercial property markets.

Commercial property – and its performance[1] – will thus be subject to a variety of influencing factors this year. Whilst on the one hand, lively investor demand and the low interest rate environment provide support, on the other hand, commercial property investment yields have already reached very low levels which pose the risk of misallocation. Furthermore, subdued to moderate economic growth is the most likely scenario for various economies.

For this year, we are assuming commercial property values to remain stable this year on average for many countries, but also anticipate slight increases for some markets. According to our assessment, most European markets – including Belgium, Denmark, Finland, France, Italy, the Netherlands, Poland and Turkey, for example – will see a virtually stable performance on average. We believe that a slight increase of average property values is

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

possible in Germany, the UK and Sweden. As far as the UK is concerned, the referendum on whether the country will remain within the EU might lead to investor uncertainty; the results of the "Brexit" referendum may have a significant impact on development during the second half of the year. Spain's relatively good economic outlook also suggests a slightly positive performance. The forecast continued recession in Russia during 2016 is also likely to burden commercial property markets; we thus anticipate the Russian market to deviate from the overall trend and record a slight drop in property values.

The slightly positive outlook with regard to the US commercial property markets is supported by the high levels of liquidity in these markets and the relatively favourable economic outlook. However, potential interest rate increases, given the Fed's changed monetary policy, represent a risk to performance. We assume the average performance of Canadian markets to be stable; the performance outlook for China and Singapore this year is similar, whilst slight value increases are anticipated in Japan.

The trends described above are expected, in our view, to apply to office, retail and logistics property markets. The hotel markets of key economic centres in Europe will continue to see a slight revival – measured in an increase of average revenues per available hotel room – this year. However, hotel markets are burdened by terrorist attacks such as the recent ones in Brussels. For instance, occupancy ratios in Paris were down noticeably at the beginning of the year (compared with the same period of the previous year). Still, the market might be supported to some extent during the summer months, due to the European Football Championships which will take place then. Non-recurring effects may also influence other markets. For example, average revenues in Milan may well be down noticeably this year, after having benefited from the EXPO 2015 held there in the previous year. In contrast, the hotel market in Rome is likely to benefit from the Holy Year. A slight increase in revenues per available hotel room is possible in North America, whilst a largely stable development is assumed for the leading economic centres in Asia. Deviations on individual markets, but also seasonal fluctuations are likely during the course of 2016.

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

We have incorporated various market aspects, amongst other factors, in our assessment of new business volumes for the current year. For the Structured Property Financing segment, we anticipate new business of between € 7 billion and € 8 billion for the 2016 financial year. The credit portfolio of Aareal Bank's core business should amount to between € 25 billion and € 27 billion at the end of 2016, subject to currency fluctuations.

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

Consulting/Services segment

Bank division Housing Industry

We also expect developments within the German housing industry and commercial property sector to remain solid for the remainder of the year, thanks mainly to largely constant rental returns and long-term financing structures.

Given growing demand for affordable housing in Germany, the industry will increase its construction activity, in addition to the sustainable development of its existing property portfolios. Looking at the challenges for housing and social policies, the industry also employs serial construction techniques.

Thanks to the stable environment for the German economy, the German housing market is expected to continue its positive development. A continued increase in residential property prices is forecast for 2016, especially in conurbations. The increase in the population, combined with in insufficient construction activity, is likely to drive up rents, particulary in the big cities. Continued housing demand is also likely to have a positive effect upon prices in the vicinity of metropolitan areas.

We continue to see good opportunities during 2016 to acquire new clients and to intensify the business relationships with our existing client base. This also applies to our payments services for utilities and the waste disposal industry. Furthermore, we contine to invest in our payment support and process optimisation offers – areas where we anticipate further potential.

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

Aareon

Aareon's strategy is one of growth, and for the 2016 financial year we plan to considerably increase both consolidated sales revenues and consolidated EBIT, on the back of an ongoing migration to state-of-the-art ERP systems and the Group-wide expansion of digital solutions from the "Aareon Smart World" range. Growth in 2016 will be driven by organic activities and the acquisitions made in 2015.

Both in Germany and in International Business, efficiency enhancements in cost and organisational structures will enhance the contribution to results. For Aareon France, we expect the positive trend in maintenance to continue. Aareon UK plans to launch its next ERP product generation QL.net in 2016, with advisory business QL expected to expand. The Swedish Incit Group is expected to increase sales revenues stemming from its ERP solution Incit Xpand, in particular through a rise in business with new clients and, as a consequence, a more dynamic advisory business. Further potential lies in the intended expansion into the Finnish market.

Aareon anticipates its advisory business to expand both in Germany as the migration of GES clients to the Wodis Sigma ERP solution advances proceeds as planned and in the Netherlands where the volumes of migration to Tobias AX, another ERP solution, rise. As we expect that most new clients in Germany will choose to use the software as a service (SaaS) from the exclusive Aareon Cloud, SaaS sales revenues are likely to rise sustainably. Revenues for ERP solutions GES and Tobias (predecessor product to Tobias AX) are expected to decline, as planned.

Expanding Aareon Smart World is a major factor for success in our endeavour to further penetrate the market with digital solutions. For France and the Netherlands, we expect market penetration to advance (Aareon CRM, Aareon Archiv kompakt and Mareon). Demand for digital solutions provided by the subsidiary 1st Touch should continue to increase on the back of the 1st Touch Mobile and the 1st Touch 360° products, together with the tenant portal.

In view of the aforesaid, Aareon expects a marked increase in sales revenues and results for 2016 overall, anticipating a contribution to consolidated operating profit of between € 33 million and € 35 million.

Group targets

In spite of the prevailing uncertainty factors and challenges, we remain generally optimistic for the current 2016 financial year.

Net interest income will be burdened by a projected decline in the impact from early loan repayments, which had strongly influenced the net figure in the past year. Together with a planned reduction of non-strategic portfolios belonging to the units acquired over the past two years, net interest income is expected to decline from the previous year's level, to a range between € 700 million and € 740 million. For 2016, we anticipate positive effects from early loan repayments of € 35 million, compared to € 75 million in the previous year.

We forecast allowance for credit losses to fall to a range between € 80 million and € 120 million, reaping the benefits of a prudent risk policy over recent years. Net commission income is projected to be in a range between € 190 million and € 200 million – a marked increase over the previous year, mainly driven by the expected positive developments at Aareon. Administrative expenses are expected to decline to a range between € 520 million and € 550 million, in spite of high one-off effects of investments as well as project and integration costs.

All in all, we see good opportunities to achieve consolidated operating profit of between € 300 million and € 330 million for the current year. The upper end of this range thus slightly exceeds the record level of the past year, as adjusted for negative goodwill from the acquisition of WestImmo. We expect RoE before taxes of around 11 % for the current financial year, with earnings per share between € 2.85 and € 3.19 based on an expected tax ratio of around 31 %.

In the Structured Property Financing segment, the credit portfolio attributable to Aareal Bank's core business should amount to between € 25 billion and € 27 billion, subject to currency fluctuations. New business is targeted between € 7 billion and € 8 billion in 2016. In the Consulting / Services segment, we expect our IT subsidiary Aareon to contribute a significantly higher amount of between € 33 million and € 35 million to consolidated operating profit.

Given prevailing uncertainty with regard to future regulatory requirements, we consider a Common Equity Tier 1 ratio (CET1 – assuming full implementation of Basel III) of at least 13 % (including a management buffer of 2.25 %) to be appropriate. The Liquidity Coverage Ratio (LCR) is expected to be at least 100 %.

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement

	Notes	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
€ mn			
Interest income		226	244
Interest expenses		46	66
Net interest income	1	**180**	**178**
Allowance for credit losses	2	2	18
Net interest income after allowance for credit losses		**178**	**160**
Commission income		55	47
Commission expenses		9	6
Net commission income	3	**46**	**41**
Net result on hedge accounting	4	1	11
Net trading income/expenses	5	9	-7
Results from non-trading assets	6	0	-3
Results from investments accounted for using the equity method		0	0
Administrative expenses	7	146	132
Net other operating income/expenses	8	-1	-3
Negative goodwill from acquisitions		–	–
Operating profit		**87**	**67**
Income taxes		27	22
Consolidated net income		**60**	**45**
Consolidated net income attributable to non-controlling interests		5	5
Consolidated net income attributable to shareholders of Aareal Bank AG		55	40
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG [1]		55	40
of which: allocated to ordinary shareholders		51	36
of which: allocated to AT1 investors		4	4
Earnings per ordinary share (€)[2]		0.85	0.60
Earnings per AT1 unit (€)[3]		0.04	0.04

[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] 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.

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

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Consolidated net income	**60**	**45**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**-22**	**-32**
Remeasurements	-32	-46
Taxes	10	14
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**-3**	**47**
Gains and losses on remeasuring AfS financial instruments	-4	55
Reclassifications to the income statement	–	11
Taxes	1	-19
Changes in hedging reserves	**9**	**18**
Profit/loss from derivatives used to hedge future cash flows	11	27
Reclassifications to the income statement	2	–
Taxes	-4	-9
Changes in currency translation reserves	**-2**	**3**
Profit/loss from translating foreign operations' financial statements	-2	3
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**-18**	**36**
Total comprehensive income	**42**	**81**
Total comprehensive income attributable to non-controlling interests	5	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	37	76

Segment Reporting

Segment Results

€ mn	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Net interest income	182	178	0	0	-2	0	180	178
Allowance for credit losses	2	18					2	18
Net interest income after allowance for credit losses	**180**	**160**	**0**	**0**	**-2**	**0**	**178**	**160**
Net commission income	2	0	42	41	2	0	46	41
Net result on hedge accounting	1	11					1	11
Net trading income/expenses	9	-7	0				9	-7
Results from non-trading assets	0	-3					0	-3
Results from investments accounted for using the equity method			0	0			0	0
Administrative expenses	95	84	51	48	0	0	146	132
Net other operating income/expenses	-1	-3	0	0	0	0	-1	-3
Negative goodwill from acquisitions								
Operating profit	**96**	**74**	**-9**	**-7**	**0**	**0**	**87**	**67**
Income taxes	30	24	-3	-2			27	22
Consolidated net income	**66**	**50**	**-6**	**-5**	**0**	**0**	**60**	**45**
Consolidated net income attributable to non-controlling interests	4	4	1	1			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	62	46	-7	-6	0	0	55	40
Allocated equity	1,627	1,526	109	120	695	542	2,431	2,188
Cost/income ratio (%)	49.2	48.3	122.4	117.7			62.2	61.0
RoE before taxes (%)[1][2]	21.2	16.9	-37.7	-27.1			12.4	10.3
Employees (average)	**1,070**	**878**	**1,760**	**1,664**			**2,830**	**2,542**
Segment assets	**42,278**	**41,308**	**9,506**	**9,570**			**51,784**	**50,878**

[1] On an annualised basis

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

Segment Reporting

Consulting/Services segment – Reconciliation of the Income Statement

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

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Net trading income/expenses	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income/expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q1 2016		0	42	0	0	51	0		**-9**	-3	**-6**
	Q1 2015		0	41		0	48	0		**-7**	-2	**-5**
Income statement classification – industrial enterprise												
Sales revenue	Q1 2016	49		49								
	Q1 2015	46		46								
Own work capitalised	Q1 2016	1					1					
	Q1 2015	1					1					
Changes in inventory	Q1 2016	0						0				
	Q1 2015	0						0				
Other operating income	Q1 2016	1						1				
	Q1 2015	1						1				
Cost of materials purchased	Q1 2016	7		7								
	Q1 2015	5		5								
Staff expenses	Q1 2016	36					36					
	Q1 2015	34					34					
Depreciation, amortisation and impairment losses	Q1 2016	3					3					
	Q1 2015	3					3					
Results from investments accounted for using the equity method	Q1 2016	0				0						
	Q1 2015	0				0						
Other operating expenses	Q1 2016	14			0		13	1				
	Q1 2015	13					12	1				
Interest and similar income/expenses	Q1 2016	0	0									
	Q1 2015	0	0									
Operating profit	**Q1 2016**	**-9**	**0**	**42**	**0**	**0**	**51**	**0**				
	Q1 2015	**-7**	**0**	**41**		**0**	**48**	**0**				
Income taxes	Q1 2016	-3									-3	
	Q1 2015	-2									-2	
Segment result	**Q1 2016**	**-6**										
	Q1 2015	**-5**										

Statement of Financial Position

€ mn	Notes	31 Mar 2016	31 Dec 2015
Assets			
Cash funds		1,849	1,282
Loans and advances to banks	9	1,781	1,893
Loans and advances to customers	10	33,803	34,566
Allowance for credit losses	11	-524	-528
Positive market value of derivative hedging instruments		2,835	2,498
Trading assets	12	713	638
Non-trading assets	13	10,232	10,507
Investments accounted for using the equity method		1	1
Intangible assets	14	124	126
Property and equipment	15	267	267
Income tax assets		16	20
Deferred tax assets		243	239
Other assets	16	444	439
Total		**51,784**	**51,948**
Equity and liabilities			
Liabilities to banks	17	2,112	1,898
Liabilities to customers	18	30,527	30,360
Certificated liabilities	19	10,168	10,819
Negative market value of derivative hedging instruments		2,701	2,720
Trading liabilities	20	664	663
Provisions	21	826	783
Income tax liabilities		99	102
Deferred tax liabilities		34	34
Other liabilities	22	142	114
Subordinated capital	23	1,432	1,411
Equity	24, 25, 26		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,687	1,633
AT1 bond		300	300
Other reserves		-50	-32
Non-controlling interests		241	242
Total equity		3,079	3,044
Total		**51,784**	**51,948**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2016	**180**	**721**	**1,633**	**300**	**-80**	**28**	**13**	**7**	**2,802**	**242**	**3,044**
Total comprehensive income for the period			55		-22	-3	9	-2	**37**	5	**42**
Payments to non-controlling interests										-6	**-6**
Dividends											
AT1 coupon											
Other changes			-1						**-1**		**-1**
Equity as at 31 Mar 2016	**180**	**721**	**1,687**	**300**	**-102**	**25**	**22**	**5**	**2,838**	**241**	**3,079**

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2015	**180**	**721**	**1,357**	**300**	**-95**	**15**	**-1**	**4**	**2,481**	**242**	**2,723**
Total comprehensive income for the period			40		-32	47	18	3	**76**	5	**81**
Payments to non-controlling interests										-4	**-4**
Dividends											
AT1 coupon											
Other changes											
Equity as at 31 Mar 2015	**180**	**721**	**1,397**	**300**	**-127**	**62**	**17**	**7**	**2,557**	**243**	**2,800**

Statement of Cash Flows (condensed)

€ mn	2016	2015
Cash and cash equivalents as at 1 January	**1,282**	**184**
Cash flow from operating activities	-155	-741
Cash flow from investing activities	702	713
Cash flow from financing activities	20	-35
Total cash flow	**567**	**-63**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 31 March	**1,849**	**121**

Notes (condensed)

Basis of Accounting

Legal framework

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

This quarterly financial report for the period ended 31 March 2016 was prepared pursuant to the provisions of section 37w of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37y no. 2 of the WpHG. It comprises the present interim condensed consolidated financial statements (also referred to as the "Consolidated Financial Statements"), as well as an interim group management report (also referred to as the "Group Management Report") and was approved for publication by the Management Board on 4 May 2016.

Aareal Bank AG prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315a (1) of the 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.

There were no material changes to the scope of consolidation during the period under review.

Accounting policies

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

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

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

Annual Improvements 2010-2012 Cycle

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

IFRS 11 Accounting for Acquisitions of Interest in Joint Operations

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

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

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

IAS 16 and IAS 41 Agriculture: Bearer Plants

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

IAS 27 Equity Method in Separate Financial Statements

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

Annual Improvements 2012-2014 Cycle

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

Amendments to IAS 1 Disclosure Initiative

The amendments refer to clarifications of the concept of materiality in relation to the presentation of items in the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity as well as regarding the notes. Immaterial disclosures are not required to be made. This also applies when the disclosure is explicitly required pursuant to other standards. In addition, rules for the presentation of subtotals, the systematic ordering or grouping of the Notes, as well as the disclosures of accounting policies, have been added to IAS 1, and previous requirements have been clarified. Moreover, the amendment clarifies the separate presentation of the share of investments accounted for using the equity method in other comprehensive income in the statement of comprehensive income by items that are subsequently reclassified to the income statement and those which are not reclassified to the income statement.

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

Notes to the Statement of Comprehensive Income

(1) Net interest income

€ mn	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Interest income from		
Property loans	197	216
Public-sector loans	2	3
Other lending and money market operations	17	8
Debt and other fixed-income securities	10	17
Current dividend income	0	0
Total interest income	**226**	**244**
Interest expenses for		
Bonds issued	11	20
Registered mortgage bonds	5	6
Promissory note loans	11	16
Subordinated capital	8	9
Money market transactions	6	11
Other interest expenses	5	4
Total interest expenses	**46**	**66**
Total	**180**	**178**

(2) Allowance for credit losses

€ mn	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Additions	9	53
Reversals	5	30
Direct write-offs	0	0
Recoveries on loans and advances previously written off	2	5
Total	**2**	**18**

Reflecting seasonal factors, allowance for credit losses amounted to € 2 million (previous year: € 18 million) and was thus in line with our expectations. Please also refer to our explanations in Note (11).

(3) Net commission income

€ mn	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Commission income from		
Consulting and other services	50	44
Trustee loans and administered loans	0	0
Securities transactions	–	–
Other lending and money market operations	3	2
Other commission income	2	1
Total commission income	**55**	**47**
Commission expenses for		
Consulting and other services	7	5
Securities transactions	0	0
Other lending and money market transactions	1	0
Other commission expenses	1	1
Total commission expenses	**9**	**6**
Total	**46**	**41**

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

(4) Net result on hedge accounting

€ mn	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Ineffective portion of fair value hedges	0	8
Ineffective portion of cash flow hedges	1	3
Ineffective portion of net investment hedges	0	0
Total	**1**	**11**

(5) Net trading income/expenses

€ mn	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Net income/expenses from positions held for trading	7	4
Currency translation	2	-11
Total	**9**	**-7**

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-31 Mar 2016	1 Jan-31 Mar 2015
Result from debt securities and other fixed-income securities	0	-3
of which: Loans and receivables (LaR)	–	6
Held to maturity (HtM)	–	–
Available for sale (AfS)	0	-9
Result from equities and other non-fixed income securities	0	0
of which: Available for sale (AfS)	–	0
Designated as at fair value through profit or loss (dFVtPL)	0	–
Results from equity investments (AfS)	0	0
Total	**0**	**-3**

(7) Administrative expenses

€ mn	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Staff expenses	79	77
Other administrative expenses	62	50
Depreciation, amortisation and impairment of property and equipment and intangible assets	5	5
Total	**146**	**132**

(8) Net other operating income/expenses

€ mn	1 Jan-31 Mar 2016	1 Jan-31 Mar 2015
Income from properties	5	4
Income from the reversal of provisions	0	0
Income from goods and services	0	1
Miscellaneous	5	3
Total other operating income	**10**	**8**
Expenses for properties	8	4
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	1	1
Miscellaneous	2	6
Total other operating expenses	**11**	**11**
Total	**-1**	**-3**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	31 Mar 2016	31 Dec 2015
Money market receivables	1,564	1,509
Promissory note loans	187	192
Securities repurchase agreements	–	150
Other loans and advances	30	42
Total	**1,781**	**1,893**

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

(10) Loans and advances to customers

€ mn	31 Mar 2016	31 Dec 2015
Property loans [1]	28,571	29,344
Promissory note loans	1,520	1,457
Other loans and advances	3,712	3,765
Total	**33,803**	**34,566**

[1] Excluding € 1.4 billion in private client business (31 December 2015: € 1.5 billion) and € 0.6 billion in local authority lending business by WestImmo (31 December 2015: € 0.6 billion)

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

(11) Allowance for credit losses

31 March 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	4	5	**9**	0	**9**
Write-downs	–	–	**–**	–	**–**
Reversals	4	–	**4**	1	**5**
Unwinding	8	–	**8**	–	**8**
Changes in basis of consolidation	–	–	**–**	–	**–**
Currency adjustments	-1	0	**-1**	0	**-1**
Allowance for credit losses as at 31 March	**403**	**121**	**524**	**13**	**537**

31 March 2015

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**333**	**147**	**480**	**18**	**498**
Additions	53	–	**53**	–	**53**
Write-downs	4	–	**4**	–	**4**
Reversals	5	24	**29**	1	**30**
Unwinding	4	–	**4**	–	**4**
Changes in basis of consolidation	–	–	**–**	–	**–**
Currency adjustments	3	0	**3**	0	**3**
Allowance for credit losses as at 31 March	**376**	**123**	**499**	**17**	**516**

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	31 Mar 2016	31 Dec 2015
Positive market value of trading assets	713	638
Total	**713**	**638**

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

(13) Non-trading assets

€ mn	31 Mar 2016	31 Dec 2015
Debt securities and other fixed-income securities	10,224	10,499
of which: Loans and receivables (LaR)	3,546	3,630
Held to maturity (HtM)	600	604
Available for sale (AfS)	6,078	6,265
Equities and other non-fixed income securities	6	7
of which: Available for sale (AfS)	6	7
Designated as at fair value through profit or loss (dFVtPL)	–	–
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	2	1
Total	**10,232**	**10,507**

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

(14) Intangible assets

€ mn	31 Mar 2016	31 Dec 2015
Goodwill	75	75
Proprietary software	19	19
Other intangible assets	30	32
Total	**124**	**126**

(15) Property and equipment

€ mn	31 Mar 2016	31 Dec 2015
Land and buildings and construction in progress	246	245
Office furniture and equipment	21	22
Total	**267**	**267**

(16) Other assets

€ mn	31 Mar 2016	31 Dec 2015
Properties	263	263
Trade receivables (LaR)	40	42
Miscellaneous	141	134
Total	**444**	**439**

(17) Liabilities to banks

€ mn	31 Mar 2016	31 Dec 2015
Money market liabilities	1,173	925
Promissory note loans	393	414
Registered mortgage Pfandbriefe	463	457
Registered public-sector Pfandbriefe	33	51
Other liabilities	50	51
Total	**2,112**	**1,898**

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

(18) Liabilities to customers

€ mn	31 Mar 2016	31 Dec 2015
Money market liabilities	13,463	13,179
Promissory note loans	7,042	7,038
Registered mortgage Pfandbriefe	6,733	6,852
Registered public-sector Pfandbriefe	3,289	3,291
Other liabilities	0	0
Total	**30,527**	**30,360**

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

(19) Certificated liabilities

€ mn	31 Mar 2016	31 Dec 2015
Bearer mortgage Pfandbriefe	7,798	8,529
Bearer public-sector Pfandbriefe	71	71
Other debt securities	2,299	2,219
Total	**10,168**	**10,819**

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

(20) Trading liabilities

€ mn	31 Mar 2016	31 Dec 2015
Negative market value of trading assets	664	663
Total	**664**	**663**

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

(21) Provisions

€ mn	31 Mar 2016	31 Dec 2015
Provisions for pensions and similar obligations	367	333
Other provisions and contingent liabilities	459	450
Total	**826**	**783**

(22) Other liabilities

€ mn	31 Mar 2016	31 Dec 2015
Liabilities from outstanding invoices	8	12
Deferred income	17	14
Liabilities from other taxes	14	18
Trade payables (LaC)	12	16
Other liabilities (LaC)	91	54
Total	**142**	**114**

(23) Subordinated capital

€ mn	31 Mar 2016	31 Dec 2015
Subordinated liabilities	1,184	1,164
Profit-participation certificates	53	53
Contributions by silent partners	195	194
Total	**1,432**	**1,411**

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

(24) Equity

€ mn	31 Mar 2016	31 Dec 2015
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,687	1,633
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-102	-80
Revaluation reserve	25	28
Hedging reserves	22	13
Currency translation reserves	5	7
Non-controlling interests	241	242
Total	**3,079**	**3,044**

(25) Treasury shares

No treasury shares were held during the period under review.

(26) Distributions

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

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

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

Notes to the Financial Instruments

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

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

31 March 2016

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,835**	**–**	**2,835**	**–**
Assets held for trading	**713**	**–**	**713**	**–**
Trading derivatives	713	–	713	–
Non-trading assets available for sale	**6,084**	**6,052**	**32**	**–**
Fixed-income securities	6,078	6,048	30	–
Equities/funds	6	4	2	–
Negative market value of derivative hedging instruments	**2,701**	**–**	**2,701**	**–**
Liabilities held for trading	**664**	**–**	**664**	**–**
Trading derivatives	664	–	664	–

31 December 2015

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

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

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

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

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

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

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

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

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

€ mn	Carrying amount 31 Mar 2016	Fair value 31 Mar 2016	Carrying amount 31 Dec 2015	Fair value 31 Dec 2015
Cash on hand and balances with central banks (LaR)	1,849	1,849	1,282	1,282
Loans and advances to banks (LaR)	1,781	1,782	1,893	1,896
Loans and advances to customers (LaR)	33,279	35,264	34,038	36,156
Non-trading assets (LaR)	3,546	3,462	3,630	3,586
Other assets (LaR)	101	98	93	92
Total loans and receivables	**40,556**	**42,455**	**40,936**	**43,012**
Non-trading assets held to maturity	**600**	**604**	**604**	**606**
Non-trading assets available for sale	**6,084**	**6,084**	**6,272**	**6,272**
Positive market value of derivative hedging instruments	**2,835**	**2,835**	**2,498**	**2,498**
Assets held for trading	**713**	**713**	**638**	**638**
Liabilities to banks (LaC)	2,112	2,129	1,898	1,912
Liabilities to customers (LaC)	30,527	30,557	30,360	30,335
Certificated liabilities (LaC)	10,168	10,234	10,819	10,870
Other liabilities (LaC)	112	107	82	82
Subordinated capital (LaC)	1,432	1,419	1,411	1,441
Total liabilities measured at amortised cost	**44,351**	**44,446**	**44,570**	**44,640**
Negative market value of derivative hedging instruments	**2,701**	**2,701**	**2,720**	**2,720**
Liabilities held for trading	**664**	**664**	**663**	**663**

(29) Day-one profit or loss

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

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

€ mn	2016	2015
Balance as at 1 January	**27**	**42**
Additions from new transactions	–	0
Reversals through profit or loss in the period	4	2
Changes in basis of consolidation	–	–
Balance as at 31 March	**23**	**40**

(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, we opted for reclassification since there was no longer an active market for the securities concerned (in spite of their good quality), and due to our intention to hold 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 31 Mar 2016	Fair value 31 Mar 2016	Carrying amount 31 Dec 2015	Fair value 31 Dec 2015
from AfS to LaR	**3,199**	**3,098**	**3,262**	**3,202**
Asset-backed securities	25	25	27	27
Senior unsecured bank bonds	94	96	138	140
Covered bank bonds	242	247	298	304
Public-sector issuers	2,838	2,730	2,799	2,731
from HfT to LaR	**80**	**86**	**85**	**91**
Asset-backed securities	80	86	85	91
Total	**3,279**	**3,184**	**3,347**	**3,293**

If the Bank had not opted for reclassification, this would have resulted in a € 1 million loss (before taxes) for the first three months of the current financial year (Q1 2015: profit of € 0 million), and € -34 million (after taxes) (Q1 2015: € 54 million) would have been recognised in the revaluation surplus.

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

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

Bond portfolio as at 31 March 2016

	Carrying amount			Revaluation surplus[1]			Unrealised gains / losses[1]
	LaR + HtM	AfS	Total	LaR	AfS	Total	
€ mn							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,284	320	1,604	-42	24	-18	-57
Portugal	67	111	178	0	0	0	-8
Spain	550	63	613	-1	4	3	-12
Total	**1,901**	**494**	**2,395**	**-43**	**28**	**-15**	**-77**
Total as at 31 Dec 2015	1,884	579	2,463	-43	33	-10	-50

[1] figures given on an after-tax basis

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

The maturities of the bonds set out above are mainly within the long-term range.

The presented AfS securities with a carrying amount of € 494 million (31 December 2015: € 579 million) were allocated to Level 1 of the fair value hierarchy and measured based on quoted prices on active markets.

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

Property financing portfolio as at 31 March 2016

	Carrying amount[1]	Average LTV[2]	of which: subject to specific valuation allowances
	€ mn	%	€ mn
Greece	–		–
Ireland	–		–
Italy	3,140	71.7	832
Portugal	–		–
Spain	1,052	63.9	88
Total	**4,192**		**920**
Total as at 31 Dec 2015	4,335		924

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

Other Notes

(32) Contingent liabilities and loan commitments

€ mn	31 Mar 2016	31 Dec 2015
Contingent liabilities	162	162
Loan commitments	1,051	1,227
of which: irrevocable	674	797

(33) Employees

The number of Aareal Bank Group employees[1] at 31 March 2016 is shown below:

	31 Mar 2016	31 Dec 2015
Salaried employees	2,680	2,695
Executives	160	166
Total	**2,840**	**2,861**
of which: part-time employees	523	514

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

	1 Jan-31 Mar 2016	1 Jan-31 Dec 2015
Salaried employees	2,667	2,557
Executives	163	162
Total	**2,830**	**2,719**
of which: part-time employees	516	487

(34) Related party disclosures in accordance with IAS 24

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

[1] This number does not include 179 employees of the hotel business La Sessola Service S.r.l. (31 December 2015: 41 employees)
[2] This number does not include 111 employees of the hotel business La Sessola Service S.r.l. (31 December 2015: 132 employees)

(35) Events after the interim reporting period

Following on from its announcement on 8 December 2015, Aareal Bank AG has completed the sale of all shares in its wholly-owned subsidiary, Aqvatrium AB, as at 5 April 2016. Aqvatrium is the owner of Fatburssjön 10/Fatburen, a commercial property located in Stockholm. The buyer is AMF Fastigheter AB, a wholly-owned subsidiary of AMF Pensionsförsaking AB, a pension fund domiciled in Sweden. Both the preliminary purchase price as well as the expected income only marginally deviate from the figures published before, translating into an expected positive income effect of € 58 million in the second quarter 2016. This was already included in the Bank's full-year guidance for 2016.

No other material events occurred after the interim reporting period which would have to be reported here.

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)]
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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 of Calyon in Germany/Austria

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

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Chairman of the Management Board

Dagmar Knopek
Member of the Management Board

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

Thomas Ortmanns
Member of the Management Board

[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

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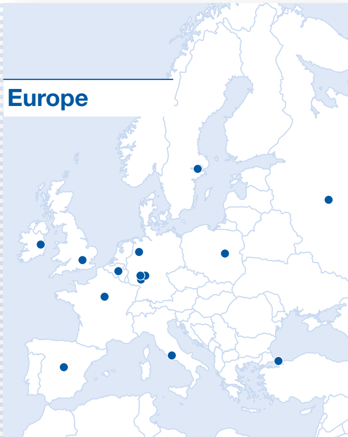
Financial Calendar

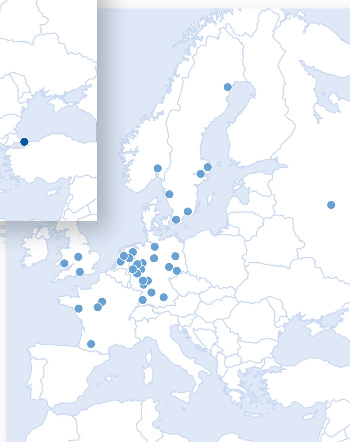
25 May 2016	Annual General Meeting – Kurhaus, Wiesbaden
11 August 2016	Presentation of interim report as at 30 June 2016
10 November 2016	Presentation of interim report as at 30 September 2016

Locations

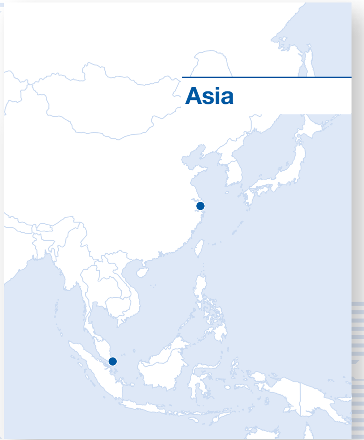
Structured Property Financing



Structured Property Financing



Consulting/Services



Structured Property Financing

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

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

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