



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



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In motion. By conviction.

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Consolidated Financial Statements

Statement of Comprehensive Income

Income Statement

	Notes	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn			
Interest income		1,013	1,010
Interest expenses		232	322
Net interest income	27	781	688
Allowance for credit losses	28	128	146
Net interest income after allowance for credit losses		653	542
Commission income		204	193
Commission expenses		29	29
Net commission income	29	175	164
Net result on hedge accounting	30	8	5
Net trading income/expenses	31	13	2
Results from non-trading assets	32	-17	2
Results from investments accounted for using the equity method	33	0	0
Administrative expenses	34	553	439
Net other operating income/expenses	35	41	6
Negative goodwill from acquisitions	36	150	154
Operating profit		470	436
Income taxes	37	96	101
Consolidated net income		374	335
Consolidated net income attributable to non-controlling interests		19	19
Consolidated net income attributable to shareholders of Aareal Bank AG		355	316
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾		355	294
of which: allocated to ordinary shareholders ²⁾		339	292
of which: allocated to AT1 investors ²⁾		16	2
Earnings per ordinary share (in €) ³⁾		5.66	4.87
Earnings per AT1 unit (in €) ⁴⁾		0.16	0.02

¹⁾ SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 31 December 2014 (€ 22 million) in the EpS (earnings per share) calculation.

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

³⁾ Earnings per ordinary share are determined by dividing the earnings allocated to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.

⁴⁾ Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Consolidated net income	374	335
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	15	-55
Remeasurements	22	-79
Taxes	-7	24
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	13	65
Gains and losses on remeasuring AfS financial instruments	25	90
Reclassifications to the income statement	-6	-1
Taxes	-6	-24
Changes in hedging reserves	14	16
Profit/loss from derivatives used to hedge future cash flows	21	18
Reclassifications to the income statement	-	4
Taxes	-7	-6
Changes in currency translation reserves	3	2
Profit/loss from translating foreign operations' financial statements	3	2
Reclassifications to the income statement	-	-
Taxes	-	-
Other comprehensive income	45	28
Total comprehensive income	419	363
Allocation of total comprehensive income		
Total comprehensive income attributable to non-controlling interests	19	19
Total comprehensive income attributable to shareholders of Aareal Bank AG	400	344

Statement of Financial Position

€ mn	Notes	31 Dec 2015	31 Dec 2014
Assets			
Cash funds	7, 38	1,282	184
Loans and advances to banks	8, 39	1,893	3,178
Loans and advances to customers	9, 40	34,566	30,549
Allowance for credit losses	10, 41	-528	-480
Positive market value of derivative hedging instruments	11, 42	2,498	2,565
Trading assets	12, 43	638	467
Non-trading assets	13, 44	10,507	12,002
Investments accounted for using the equity method	14, 45	1	1
Intangible assets	15, 46	126	110
Property and equipment	16, 47	267	96
Income tax assets	48	20	35
Deferred tax assets	17, 49	239	240
Other assets	18, 50	439	610
Total		51,948	49,557
Equity and liabilities			
Liabilities to banks	19, 51	1,898	1,807
Liabilities to customers	20, 52	30,360	27,483
Certificated liabilities	21, 53	10,819	11,483
Negative market value of derivative hedging instruments	11, 54	2,720	2,928
Trading liabilities	12, 55	663	659
Provisions	22, 56	783	713
Income tax liabilities	57	102	124
Deferred tax liabilities	17, 58	34	21
Other liabilities	23, 59	114	127
subordinated liabilities	24, 60	1,411	1,489
Equity	25, 61		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,633	1,357
AT1 bond		300	300
Other reserves		-32	-77
Silent participation by SoFFin		-	-
Non-controlling interests		242	242
Total equity		3,044	2,723
Total		51,948	49,557

Statement of Changes in Equity

					Other reserves				Total	Non-controlling interests	Equity
	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Reserve from remeasurements of defined benefit plans	Revaluation surplus	Hedging reserves	Currency translation reserves			
€ mn											
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			355		15	13	14	3	400	19	419
Payments to non-controlling interests										-19	-19
Dividends			-72						-72		-72
AT1 coupon			-7						-7		-7
Other changes											
Equity as at 31 Dec 2015	180	721	1,633	300	-80	28	13	7	2,802	242	3,044

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

Statement of Cash Flows

	Cash flows	
	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Consolidated net income	374	335
Write-downs, valuation allowances and write-ups on loans and advances	138	166
Additions to and reversals of loan loss provisions, net	-2	3
Amortisation, depreciation, impairment and write-ups of non-current assets	27	21
Other non-cash changes	131	170
Gains/losses on the disposal of non-current assets	10	-3
Other adjustments	-376	-304
Subtotal	302	388
Changes in loans and advances to banks	1,657	-83
Changes in loans and advances to customers	2,975	-440
Changes in trading assets	112	146
Changes in other assets from operating activities	118	14
Changes in liabilities to banks	-1,255	-1,397
Changes in liabilities to customers	-3,085	-617
Changes in certificated liabilities	-1,259	-150
Changes in trading liabilities	-165	-37
Changes in provisions	-105	-86
Changes in other liabilities from operating activities	-267	-169
Income taxes paid/income tax refunds	-66	-77
Interest received	616	987
Interest paid	-115	-514
Dividends received	-	-
Cash flow from operating activities	-537	-2,035
Proceeds from the disposal of non-trading assets and investments accounted for using the equity method	2,602	1,249
Payments for the acquisition of non-trading assets and investments accounted for using the equity method	-372	-220
Proceeds from the disposal of property and equipment, intangible assets and investment properties	0	1
Payments for the acquisition of property and equipment, intangible assets and investment properties	-35	-14
Effect of changes in reporting entity structure	-337	-346
Changes due to other investing activities	-	-
Cash flow from investing activities	1,858	670
Dividends and AT1 coupon paid	-79	-45
Changes in subordinated capital	-94	424
Changes due to other funding activities	-50	-52
Cash flow from financing activities	-223	327
Cash and cash equivalents as at 1 January	184	1,222
Cash flow from operating activities	-537	-2,035
Cash flow from investing activities	1,858	670
Cash flow from financing activities	-223	327
Cash and cash equivalents as at 31 December	1,282	184

Notes

Basis of Accounting

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

As a listed public limited company, Aareal Bank AG has prepared its consolidated financial statements for the financial year ended on 31 December 2015 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"). The reporting currency is the euro (€).

The Management Board approved the consolidated financial statements for publication on 2 March 2016.

Accounting Policies

(1) Accounting standards

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

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

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

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

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

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

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

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

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

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

The presentation of the financial position and the financial performance in the consolidated financial statements depends on the recognition and measurement methods underlying the preparation of the financial statements, as well as on assumptions made by the management in relation to uncertain future events. Any assessments required for recognition and measurement are in line with the relevant accounting standards. Estimates and assumptions are based on historical experience and other factors, such as

planning and current expectations and forecasts with respect to the occurrence of future events. The estimates and assessments themselves as well as the underlying assessment factors and estimation techniques are reviewed regularly and compared with actual outcome. In our view, the parameters used are relevant and reasonable.

The most significant estimates and assumptions of the management primarily refer to the calculation of provisions, allowances for credit losses and provisions in the lending business, the measurement of goodwill, property and tax assets and liabilities. We refer to the item-specific disclosures in this section for information related to the estimates and assumptions actually made within the context of recognition and measurement.

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

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

(2) Changes in accounting policies

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

- **Annual Improvements to IFRSs 2011-2013 Cycle**

The Annual Improvements to IFRSs 2011-2013 Cycle amends IFRS 1 by clarifying the meaning of "effective date" in the basis for conclusions. In IFRS 3 Business Combinations, the existing exception for joint ventures from the scope of IFRS 3 is reformulated. On the one hand, this is to clarify that the exception applies to any joint arrangements within the meaning of IFRS 11; on the other hand, this is to clarify that the exception only refers to the financial statements of the joint venture or the joint operation itself, but not to the accounting by the parties involved in such joint arrangement. In addition, the Annual Improvements include a clarification in relation to IFRS 13 Fair Value Measurement. The so-called "portfolio exception" used for measuring fair value applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. The Annual Improvements to IFRSs 2011-2013 Cycle include another clarification as regards IAS 40 Investment Property. The amendment clarifies that the application of IAS 40 and IFRS 3 within the framework of an acquisition of investment property are not mutually exclusive. Instead, it has to be examined – based on the criteria set out in IFRS 3 – whether such an acquisition is the acquisition of a single asset, a group of assets or a business operation within the scope of IFRS 3.

- **IFRIC 21**

IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and states that a company only recognises levies imposed by government once the activity that gives rise to a levy by law has occurred. After a change to the original date for first-time application, the standard is now required to be applied for companies within the EU for financial years beginning on or after 17 June 2014.

These amendments do not have any material consequences for the consolidated financial statements of Aareal Bank Group.

Until 31 December 2015, the following financial reporting standards (IASs/IFRSs) and interpretations (SICs and IFRICs) had been published by the International Accounting Standards Board (IASB) and adopted by the EU Commission:

New International Financial Reporting Standards/Interpretations	Issued	Endorsed	Effective Date
IFRS 14 Regulatory Deferral Accounts	January 2014	No endorsement by the EU planned	Financial years beginning on or after 1 January 2016
IFRS 15 Revenue from Contracts with Customers Effective Date of IFRS 15	May 2014 September 2015		Financial years beginning on or after 1 January 2018
IFRS 9 Financial Instruments	July 2014		Financial years beginning on or after 1 January 2018

Revised International Financial Reporting Standards	Issued	Endorsed	Effective Date
IAS 19 Defined Benefit Plans: Employee Contribution	November 2013	December 2014	Financial years beginning on or after 1 February 2015
Annual Improvements Cycle 2010-2012	December 2013	December 2014	Financial years beginning on or after 1 February 2015
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	May 2014	November 2015	Financial years beginning on or after 1 January 2016
IAS 16 Clarification of Acceptable and Methods of Depreciation and IAS 38 Amortisation	May 2014	December 2015	Financial years beginning on or after 1 January 2016
IAS 16 Agriculture: Bearer Plants and IAS 41	June 2014	November 2015	Financial years beginning on or after 1 January 2016
IAS 27 Equity Method in Separate Financial Statements	August 2014	December 2015	Financial years beginning on or after 1 January 2016
IFRS 10 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture IAS 28 Effective Date of Amendments to IFRS 10 and IAS 28	September 2014 December 2015		Date of first-time application delayed for the time being
Annual Improvements Cycle 2012-2014	September 2014	December 2015	Financial years beginning on or after 1 January 2016
IAS 1 Disclosure Initiative	December 2014	December 2015	Financial years beginning on or after 1 January 2016
IFRS 10, Investment Entities: IFRS 12 Applying the Consolidation Exception and IAS 28	December 2014		Financial years beginning on or after 1 January 2016

- **IFRS 14 Regulatory Deferral Accounts**

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

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 governs the recognition of revenue from contracts with customers based on a uniform model. The standard supersedes the current revenue recognition provisions set out in IAS 11 and IAS 18 as well as the related interpretations. IFRS 15 has to be applied by all companies that enter into contracts with customers for the delivery of goods or the provision of services unless these contracts are within the scope of other standards. Accordingly, amongst other things, financial instruments and other contractual rights or obligations within the scope of IAS 39 or IFRS 9 are excluded from the scope of IFRS 15. The core principle of IFRS 15 for revenue recognition is that an entity has to recognise revenue when the performance obligations assumed are satisfied, i.e. when control over the goods and services has been transferred. Revenue has to be recognised in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. IFRS 15 introduces a 5-step model based on which the amount and the timing of revenue recognition are determined. In addition, the standard requires additional disclosures, including, amongst other things, a disaggregation of total revenue, performance obligations, a reconciliation of opening and closing balances of contractual net assets and liabilities as well as significant judgements and estimates. In September 2015, the IASB issued "Effective Date of IFRS 15", thus delaying the date of first-time application of IFRS 15 to financial years beginning on or after 1 January 2018. In July 2015, additional adjustments and clarifications to the standard were proposed. The changes are the result of discussions within the Transition Resource Group (TRG). The TRG is an advisory body established jointly by the IASB and the FASB addresses issues in relation to the implementation of IFRS 15. Aareal Bank Group is currently reviewing the effects of the new standard on the consolidated financial statements. A final assessment is not yet possible due to the fact that the provisions have not been finalised. However, significant effects on the overall Group are not expected.

- **IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments introduces new rules for the accounting of financial instruments, and will generally replace IAS 39 Financial Instruments: Recognition and Measurement. The development of IFRS 9 was structured in three phases: "Classification and Measurement", "Impairment" and "Hedge Accounting". In July 2014, the final rules of IFRS 9 were published, the stated date for mandatory first-time application was 1 January 2018. After finalising the standard, the endorsement process was started by EFRAG in September 2014. EFRAG's final endorsement advice to the European Commission was issued on 15 September 2015. Endorsement is expected to occur in the second half of 2016.

The classification and measurement section of the new standard sets out a new model for the classification and measurement of financial assets. Subsequent measurement of financial assets will be based in future on three categories with different measurement methods and different recognition methods related to changes in value. Apart from the measurement category "Financial assets measured at amortised cost using the effective interest method", there will be in future the following categories: "Financial assets at fair value through profit or loss" as well as "Financial assets at fair value through other comprehensive income". The classification to the measurement categories is based on the criteria of business model and cash flow characteristics of the financial assets. The structure and allocation of financial instruments to the business models is in the responsibility of the management. Any associated transition effects are recognised in equity.

There are special rules for equity instruments as there is an option to measure these either through other comprehensive income or through profit or loss. The accounting rules for financial liabilities do not result in any material changes. An exception to this is the inclusion of changes from own credit

risk in case of financial liabilities measured at fair value through profit or loss. These changes may not be recognised through profit or loss, but through other comprehensive income.

The new rules for impairment (expected loss model) will replace the previous incurred loss model. The objective of this is an early (expected) measurement and recognition of allowances for credit losses. IFRS 9 prescribes three stages which are used to determine the amount of the losses to be recognised and the recognition of interest. Upon initial recognition of an asset, expected losses are recognised using the present value of a 12-month expected credit loss (Stage 1). If the credit risk increases significantly, the allowance for credit losses is increased to the total amount of lifetime expected credit losses (Stage 2). If there is objective evidence of impairment in relation to a financial asset, a specific valuation allowance has to be recognised and interest revenue has to be recognised based on the net carrying amount (Stage 3). The impairment model set out in IFRS 9 has to be applied to financial assets of the categories "Measured at amortised cost" and "Measured at fair value through other comprehensive income" as well as to loan commitments and financial guarantees. In addition, lease receivables and trade receivables are covered by the new impairment rules. We expect an increase of valuation allowances primarily in Stage 2, which will be recognised in equity at the date of transition.

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

The Bank has initiated measures to ensure a timely implementation of IFRS 9 and to review the effects and strategic implications of IFRS 9.

- **IAS 19 Defined Benefit Plans: Employee Contribution**

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

- **Annual Improvements Cycle 2010-2012**

Within the scope of the Annual Improvements Cycle, the IASB publishes clarifications and minor changes to various existing standards.

- **IFRS 11 Accounting for Acquisitions of Interest in Joint Operations**

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

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

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

- **IAS 16 and IAS 41 Agriculture: Bearer Plants**

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

- **IAS 27 Equity Method in Separate Financial Statements**

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

- **IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments relate to a situation where assets are sold or contributed to an associate or a joint venture. In future, any gain or loss resulting from the loss of control of a subsidiary which is contributed to a joint venture or an associate, has to be recognised in full by the investor when the transaction concerns a business within the meaning of IFRS 3 Business Combinations. However, if the transaction refers to assets which are not a business, only the pro-rata gain or loss (in the amount of the share held by the other investors) is recognised. In December 2015, the IASB delayed the date for the first-time application of these amendments for the time being since the issue is expected to be re-addressed within the scope of a research project in relation to the equity method.

- **Annual Improvements Cycle 2012-2014**

Within the scope of the Annual Improvements Cycles, the IASB publishes clarifications and minor changes to various existing standards.

- **Amendments to IAS 1: Disclosure Initiative**

The amendments refer to clarifications of the concept of materiality in relation to the presentation of items in the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity as well as regarding the notes. Immaterial disclosures are not required to be made. This also applies when the disclosure is explicitly required

pursuant to other standards. In addition, rules for the presentation of subtotals, the systematic ordering or grouping of the Notes, as well as the disclosures of accounting policies, have been added to IAS 1, and previous requirements have been clarified. Moreover, the amendment clarifies the separate presentation of the share of investments accounted for using the equity method in other comprehensive income in the statement of comprehensive income by items that are subsequently reclassified to the income statement and those which are not reclassified to the income statement.

- **Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities:**

- **Applying the Consolidation Exception**

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

Aareal Bank Group did not opt for early application of these standards in 2015, which are required to be applied in future financial years.

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

(3) Consolidation

Consolidation principles

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

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

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

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

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

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

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

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

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

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

Reporting entity structure

As at 31 December 2015, the reporting entity structure comprised 82 companies (2014: 90), including Aareal Bank AG as well as 72 (2014: 79) subsidiaries, two joint arrangements (2014: three) as well as seven associates (2014: seven).

GEV GmbH, Wiesbaden, a subsidiary of Aareal Bank AG, acquired all of the shares of Westdeutsche ImmobilienBank AG (WestImmo), Mainz, which specialises in commercial property financing. A corresponding sale and purchase agreement was concluded on 22 February 2015 with the previous owner, Erste Abwicklungsanstalt (EAA). The purchase price paid in cash amounts to € 337 million. The closing

of the transaction was completed following approval from the respective authorities as at 31 May 2015. Accordingly, Aareal Bank Group obtained control over WestImmo and included the acquired company in the consolidated financial statements of Aareal Bank Group for the first time as at 31 May 2015 (date of initial consolidation).

Aareal Bank has effected a targeted investment in its core Structured Property Financing business by acquiring WestImmo, further expanding its strong position as one of the leading specialists on key target markets. The reasons for the business combination also include optimising the allocation of equity capital, as well as realising potential synergies which result from the combination of both companies, due to their very similar business models.

In accordance with IFRS 3, all identifiable assets and liabilities of the acquired entity have to be measured at their fair value at the time of acquisition (closing). These fair values also represent the amounts recognised upon initial consolidation. The difference between the purchase price paid and the higher net balance of assets and liabilities acquired and measured at fair value is recognised as negative goodwill in the income statement, and directly increases the equity of Aareal Bank Group. This income amounts to € 150 million and is reported in the statement of comprehensive income in a separate item. This income primarily results from the utilisation of a favourable market environment for such transactions. Apart from favourable price-to-book valuations and attractive asset and liability spreads, limited investor interest in the European corporate property banking sector contributed to this favourable environment.

The determination of the fair value for the assets acquired and liabilities assumed, which is required for the purchase price allocation in accordance with IFRS 3, is subject to judgements, in particular with regard to cash flows and discount rates. The purchase price allocation was completed as at 31 December 2015. The completion of the purchase price allocation did not lead to any material adjustments.

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

	Fair value as at 31 May 2015
€ mn	
Cash funds	4
Loans and advances to banks	337
Loans and advances to customers	6,842
Allowance for credit losses (portfolio-based)	-19
Positive market value of derivative hedging instruments and trading assets	892
Non-trading assets	1,035
Intangible assets	2
Property and equipment	20
Income tax assets	0
Deferred tax assets	52
Other assets	8
Total assets acquired	9,173

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	Fair value as at 31 May 2015
€ mn	
Liabilities to banks	1,049
Liabilities to customers	6,454
Certificated liabilities	662
Negative market value of derivative hedging instruments and trading liabilities	376
Provisions	109
Income tax liabilities	5
Other liabilities	14
Subordinated capital	17
Total liabilities assumed	8,686
Total net assets acquired	487
Purchase price paid	337
Negative goodwill	150

Taking into account the purchase price paid in the amount of € 337 million, the transaction led to an increase in total net assets, as shown in the consolidated statement of financial position, in the amount of the negative goodwill (€ 150 million).

Within the scope of the acquisition of WestImmo, Aareal Bank assumed credit risks and, to a minor extent, legal and tax risks. These risks were considered within the context of the purchase price allocation by recognising allowances for credit losses and provisions. In connection with the assumed legal and tax risks, there are claims for reimbursement towards the seller, so that Aareal Bank AG is largely exempt from future obligations.

The costs associated with the business combination amounted to € 7 million and were recognised as administrative expenses, predominantly in the 2015 financial year.

The fair value of the accounts receivable acquired as part of the business combination amounted to € 7.2 billion as at 31 May 2015, comprising € 6.8 billion in loans and advances to customers and € 0.4 billion in loans and advances to banks. The gross amount of these receivables' contractually agreed cash flows amounted to € 7.6 billion, comprising € 7.2 billion in loans and advances to customers and € 0.4 billion in loans and advances to banks. € 85 million of contractually-agreed cash flows from these loans and advances to customers are considered uncollectable.

The effects upon the income statement of the present interim consolidated financial statements are € 75 million in interest income and € 36 million in operating profit, both of which are attributable to WestImmo. If the business combination had taken effect at the beginning of the period under review, Aareal Bank Group would probably have reported additional interest income in the amount of approximately € 54 million as well as additional operating profit of approximately € 26 million.

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

(4) Currency translation

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

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

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

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

(5) Determination of fair value

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

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

As a rule, the transaction price equals the fair value at initial recognition. In contrast, there can be differences between the initial fair value determined using a valuation technique and the transaction price. These so-called day-one gains or losses may only be recognised immediately when all the inputs on which the valuation parameters are based are observable in the market. Otherwise, the difference has to be amortised through profit or loss over the term of the transaction. Adjustments for specific counterparty risks (CVA and DVA) are not taken into account for the determination of the present value of derivatives at Aareal Bank, as they are deemed immaterial. Since the derivatives are part of highly effective collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives Transactions) which are each subject to a master collateralisation agreement, measurement adjustments to reflect any potential counterparty credit risk or own credit risk are not required. The Bank uses the overnight interest rate swap curve (OIS curve) for the measurement of derivatives secured by cash collateral.

(6) Recognition and measurement of financial instruments

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

Recognition

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

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

Measurement

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

Measurement categories in accordance with IAS 39

Loans and receivables (LaR)

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

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

In the context of assets measured at amortised cost and not subject to specific allowances for credit losses, portfolio-based allowances for credit losses are recognised for risks which have already materialised, but which cannot be allocated to individual loans and advances due to lack of knowledge. For this purpose, groups of financial assets with comparable default risk profiles are combined in portfolios. The valuation allowances are calculated using a formula-based procedure based on the following Basel III parameters used in the Advanced IRB Approach: expected loss given default (LGD), probability of default (PD) and the LIP factor. The LIP factor is a correction factor to adjust the one-year probability of default (used in Basel III) to the estimated time period, between the date the loss is incurred and the identification of the actual loss. The LIP factor is 1 for all exposure classes.

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

Held to maturity (HtM)

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

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

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

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

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

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

Available for sale (AfS)

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

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

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

in the revaluation surplus are reclassified to the income statement. If the reasons for impairment cease to exist, a reversal of the impairment loss (up to amortised cost) is recognised in income for debt securities. Amounts exceeding amortised cost as well as reversals of impairment losses of equity instruments are always recognised directly in equity in the revaluation surplus.

Financial liabilities measured at amortised cost (LaC)

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

Determination of the fair value of financial instruments

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

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

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

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

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

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

Structured products

Structured products involve a derivative which is embedded in a non-derivative financial instrument. In accordance with IAS 39, the embedded derivative has to be recognised separately from the non-deriv-

ative financial instrument if certain criteria are met. If the separation requirement as set out in IAS 39.11 applies, the host contract is accounted in line with the rules applicable for the relevant measurement category, while the separated derivative is accounted for separately as part of the trading portfolio. If the separation criteria are not met, the hybrid financial instrument is measured in its entirety based on the rules for the measurement category to which the financial instrument was allocated.

Hedging relationships

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

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

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

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

(7) Cash funds

Cash funds include cash on hand and balances with central banks. The cash funds are allocated to the measurement category "Loans and receivables" (LaR).

(8) Loans and advances to banks

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

(9) Loans and advances to customers

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

(10) Allowance for credit losses

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

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

Flat-rate specific allowances for credit losses are recognised for insignificant exposures. If there is objective evidence for an impairment of such exposures, an impairment amount is determined for homogenous groups of exposures on the basis of mathematical-statistical parameters in the calculation of the expected loss.

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

loss. The LIP factor is 1 for all exposure classes. The formula-based procedures are also subject to various assumptions and estimates.

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

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

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

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

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

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

Hedge accounting is based on clean fair values.

A distinction is made for derivatives used as hedging instruments whether these are part of a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation (see Note 6 for information on hedging relationships).

(12) Trading assets and trading liabilities

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

(13) Non-trading assets

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

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

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

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

(14) Investments accounted for using the equity method

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

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

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

(15) Intangible assets

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

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

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

Goodwill is defined as the excess of the cost of acquisition over the fair value of the Group's interest in the net assets of an acquired entity, at the time of acquisition (positive difference). Goodwill is carried

at historical cost less accumulated impairments. Any negative goodwill (badwill) arising upon acquisition is immediately charged against income.

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

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

(16) Property and equipment

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

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

	Depreciation period
Other property and equipment	
IT equipment	3-7 years
Other office furniture and equipment	5-13 years

Tenant improvements are depreciated based on the principles applicable for the relevant building. For details on recognising impairments as defined in IAS 36, please refer to the explanations in Note (15) "Intangible assets" in this section.

Gains and losses upon disposal of property and equipment are recognised in income (in net other operating income/expenses).

The costs to purchase property and equipment in the amount of up to € 150.00 (low-value assets) are expensed as they are incurred.

Any items of property and equipment with a cost of more than € 150.00, but not exceeding € 1,000.00, are combined in a collective account for the year, which is then depreciated on a straight-line basis over a period of five years.

(17) Deferred tax assets/deferred tax liabilities

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

Deferred tax assets are only recognised to the extent that we deem it probable that future taxable profits will be available against which the temporary differences and tax loss carryforwards can be utilised. Deferred taxes are calculated on the basis of country- and company-specific tax rates expected to apply at the time of the realisation of temporary differences and set-off against loss carryforwards.

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

(18) Other assets

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

(19) Liabilities to banks

The item "Liabilities to banks" comprises money market liabilities, registered mortgage Pfandbriefe, registered public sector Pfandbriefe, promissory note loans and other liabilities to banks, including deferred interest. Liabilities to banks are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(20) Liabilities to customers

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

(21) Certificated liabilities

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

(22) Provisions

The item "Provisions" comprises provisions for pensions and similar obligations, provisions for staff expenses and non-staff operating costs, provisions for risks related to unrecognised items in the lending business, provisions for legal or tax risks, as well as other provisions. Provisions are recognised when there is a present legal or constructive obligation towards third parties arising from a past event, the outflow of resources to meet this obligation is probable and the amount of the obligation can be reliably estimated. Provisions are measured on the basis of the best estimate of expenditure required to settle the obligation, in accordance with IAS 37.36. In the context of acquisitions in accordance with IFRS 3, contingent liabilities were also recognised at their expected value. These are released when the reasons for their recognition cease to exist.

Measurement is subject to several uncertainties and often requires significant estimates made by the management in relation to various factors that may not apply subsequently. The final amount of the liabilities may deviate significantly from the measurement previously made in accounting. For example, the outcome of individual legal proceedings may not be predicted with certainty.

If utilisation in the short term, i.e. within twelve months, from the obligation is not expected, the provision will be recognised at present value.

Provisions for pensions and similar obligations

Aareal Bank Group maintains various pension plans as defined in IAS 19. For the purpose of reporting pension obligations, IAS 19 makes a distinction between defined contribution plans and defined benefit plans.

Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or a fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions paid to the statutory pension insurance scheme are also classified as defined contribution plans. The contributions paid to a defined contribution plan are recorded as staff expenses.

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

The Group's obligations under defined benefit plans are recognised as a provision in the consolidated statement of financial position. These are based on general works agreements on an employee pension scheme, individual agreements with executive staff as well as individual agreements concluded with the members of the Company's senior management. Projected economic and demographic developments

as well as salary trends must be applied to the calculations of the provisions. Calculating the amount of provisions in the Group is based on actuarial opinions which are prepared by external actuaries on the basis of Aareal Bank-specific and Group-wide standardised parameters.

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

Share-based payment

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

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

(23) Other liabilities

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

(24) Subordinated capital

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

(25) Equity

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

(26) Financial guarantee contracts

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

Notes to the Statement of Comprehensive Income

(27) Net interest income

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Interest income from		
Property loans	867	829
Public-sector loans	12	14
Other lending and money market operations	77	76
Debt and other fixed-income securities	57	91
Current dividend income	–	0
Total interest income	1,013	1,010
Interest expenses for		
Bonds issued	69	99
Registered mortgage bonds	22	31
Promissory note loans	61	77
Subordinated capital	34	33
Money market transactions	33	60
Other interest expenses	13	22
Total interest expenses	232	322
Total	781	688

Interest income from property loans includes income from impaired loans (so-called unwinding) in the amount of € 22 million (2014: € 14 million). Interest income and expenses include, to a minor extent, negative interest from deposits and borrowing as well as money market and securities lending transactions.

(28) Allowance for credit losses

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Additions	183	194
Reversals	69	32
Direct write-offs	21	7
Recoveries on loans and advances previously written off	7	23
Total	128	146

The additions to the allowance for credit losses comprise specific valuation allowances and individually recognised provisions for risks in the lending business associated with unrecognised items in a total amount of € 183 million (2014: € 126 million). Additions to portfolio-based valuation allowances and provisions recognised on a portfolio level for off-balance sheet risks in the lending business were not made in the reporting period (2014: € 68 million). In the previous year, € 35 million of this portfolio-based allowance for credit losses was due to a change in individual measurement parameters, and thus non-recurring. Reversals of allowances for credit losses include € 17 million (2014: € 32 million) for specific valuation allowances and individually recognised provisions for off-balance sheet risks within the lending business as well as € 52 million (2014: –) for portfolio-based valuation allowances and provisions recognised on a portfolio level for off-balance sheet risks in the lending business.

(29) Net commission income

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Commission income from		
Consulting and other services	184	175
Trustee loans and administered loans	3	2
Securities transactions	–	–
Other lending and money market operations	8	8
Other commission income	9	8
Total commission income	204	193
Commission expenses for		
Consulting and other services	22	21
Trustee loans and administered loans	–	–
Securities transactions	1	1
Securitisation transactions	–	1
Other lending and money market transactions	1	2
Other commission expenses	5	4
Total commission expenses	29	29
Total	175	164

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

The net amount of commission income and commission expenses from financial assets and financial liabilities not measured at fair value amounts to € 6 million (2014: € 4 million).

(30) Net result on hedge accounting

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Ineffective portion of fair value hedges	7	1
Ineffective portion of cash flow hedges	1	4
Ineffective portion of net investment hedges	0	0
Total	8	5

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

(31) Net trading income/expenses

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Net income/expenses from positions held for trading	19	13
Currency translation	-6	-11
Total	13	2

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

(32) Results from non-trading assets

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Result from debt securities and other fixed-income securities	-17	-
of which: Loans and receivables (LaR)	-9	-
Held to maturity (HtM)	-5	-
Available for sale (AfS)	-3	-
Result from equities and other non-fixed income securities	0	2
of which: Available for sale (AfS)	0	2
Designated as at fair value through profit or loss (dFVtPL)	0	0
Results from equity investments (AfS)	0	0
Total	-17	2

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

In the past financial year, there were no material expenses resulting from investments accounted for using the equity method (2014: € 0 million).

(34) Administrative expenses

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Staff expenses	332	261
Other administrative expenses	201	157
Depreciation, amortisation and impairment of property and equipment and intangible assets	20	21
Total	553	439

Staff expenses include contributions to defined contribution plans in the amount of € 15 million (2014: € 14 million).

Other administrative expenses include administrative costs for research and development not eligible for capitalisation in the amount of € 5 million (2014: € 10 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the financial year 2015, which consists of the following sub-items:

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ 000's		
Auditing fees	4,252	3,563
Other assurance services	561	327
Tax advisory services	255	73
Other services	3,948	3,211
Total	9,016	7,174

Other services include, in particular, services in conjunction with the integration projects for former Corealcredit, as well as due diligence services regarding Westlmmo, related to audits concerning credit risk, risk management, and accounting. Access was largely restricted to persons holding clearance for accessing confidential information.

(35) Net other operating income/expenses

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Income from properties	55	16
Income from the reversal of provisions	16	2
Income from goods and services	3	3
Miscellaneous	35	34
Total other operating income	109	55
Expenses for properties	45	19
Write-downs of trade receivables	0	0
Expenses for other taxes	3	4
Miscellaneous	20	26
Total other operating expenses	68	49
Total	41	6

Net other operating income/expenses include non-recurring income from the completed sale of a property and the announced sale of another as well as the reversal of provisions recognised for risk protection in connection with the acquisition of Corealcredit; these provisions are no longer required.

(36) Negative goodwill from acquisitions

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

(37) Income taxes

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Current income taxes	53	68
Deferred taxes	43	33
Total	96	101

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

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Operating profit (before income taxes)	470	436
Expected tax rate	31.4 %	31.4 %
Calculated income taxes	148	137
Reconciliation to reported income taxes		
Different foreign tax burden	6	-1
Tax attributable to tax-exempt income	-47	-63
Tax attributable to non-deductible expenses	9	2
Remeasurement of deferred taxes	11	3
Taxes for previous years	-26	27
Effect of changes in tax rates	-	-
Non-controlling interests	-6	-6
Other tax effects	1	2
Reported income taxes	96	101
Effective tax rate	20 %	23 %

The expected tax rate of 31.4 % (2014: 31.4 %), including a trade tax rate of assessment of 446 %, comprises trade taxes (15.6 %), corporation taxes (15 %) and the solidarity surcharge (0.825 %; 5.5 % of corporation tax).

Notes to the Statement of Financial Position

(38) Cash funds

	31 Dec 2015	31 Dec 2014
€ mn		
Cash on hand	0	0
Balances with central banks	1,282	184
Total	1,282	184

(39) Loans and advances to banks

	31 Dec 2015	31 Dec 2014
€ mn		
Money market receivables	1,509	1,737
Promissory note loans	192	120
Securities repurchase agreements	150	1,284
Other loans and advances	42	37
Total	1,893	3,178

(40) Loans and advances to customers

	31 Dec 2015	31 Dec 2014
€ mn		
Property loans ¹⁾	29,344	27,856
Promissory note loans	1,457	1,584
Other loans and advances	3,765	1,109
Total	34,566	30,549

¹⁾ Excluding € 1.5 billion in private client business and € 0.6 billion in local authority lending business by WestImmo.

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

(41) Allowance for credit losses

31 December 2015

	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
€ mn					
Allowance for credit losses as at 1 January	333	147	480	18	498
Additions	183	–	183	0	183
Write-downs	68	–	68	1	69
Reversals	17	50	67	2	69
Unwinding	22	–	22	–	22
Reclassifications	–	–	–	-1	-1
Changes in basis of consolidation	–	19	19	–	19
Currency adjustments	3	0	3	0	3
Balance as at 31 December	412	116	528	14	542

31 December 2014

	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
€ mn					
Allowance for credit losses as at 1 January	296	65	361	10	371
Additions	126	64	190	4	194
Write-downs	45	–	45	2	47
Reversals	31	–	31	1	32
Unwinding	14	–	14	–	14
Reclassifications	–	–	–	–	–
Changes in basis of consolidation	–	18	18	7	25
Currency adjustments	1	0	1	0	1
Balance as at 31 December	333	147	480	18	498

The allowance for risks associated with recognised 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.

The increase in the balance of portfolio-based valuation allowances (changes in basis of consolidation) results from the initial consolidation of Westlmmo as at 31 May 2015. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(42) Positive market value of derivative hedging instruments

	31 Dec 2015	31 Dec 2014
€ mn		
Positive market value of fair value hedges	2,159	2,251
Positive market value of cash flow hedges	26	9
Pro rata interest receivable	313	305
Total	2,498	2,565

(43) Trading assets

	31 Dec 2015	31 Dec 2014
€ mn		
Positive market value of trading assets	638	467
Total	638	467

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

(44) Non-trading assets

	31 Dec 2015	31 Dec 2014
€ mn		
Debt and other fixed-income securities	10,499	11,992
of which: Loans and receivables (LaR)	3,630	4,313
Held to maturity (HtM)	604	833
Available for sale (AFS)	6,265	6,846
Equities and other non-fixed income securities	7	8
of which: Available for sale (AFS)	7	8
Designated as at fair value through profit or loss (dFVtPL)	–	–
Interests in affiliated companies (AFS)	–	–
Other investments (AFS)	1	2
Total	10,507	12,002

The item "Debt and other fixed-income securities" mainly consists of public-sector bonds as well as asset-covered bonds (Pfandbriefanleihen) and bank bonds. In addition, the item includes asset-backed securities in a nominal amount of € 124 million (2014: € 143 million).

Carrying amounts of negotiable non-trading assets:

	Listed		Unlisted	
	2015	2014	2015	2014
€ mn				
Debt securities and other fixed-income securities	9,863	11,954	–	7
Equities and other non-fixed income securities	–	–	–	–
Total	9,863	11,954	–	7

(45) Investments accounted for using the equity method

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

The sum total of the carrying amounts of the equity investments that are immaterial on an individual basis amounted to € 1 million (31 December 2014: € 1 million). The sum total of the Group's share in the total comprehensive income of companies accounted for using the equity method amounted to € 0 million in the year under review (1 January-31 December 2014: € 0 million).

(46) Intangible assets

	31 Dec 2015	31 Dec 2014
€ mn		
Goodwill	75	66
Proprietary software	19	17
Other intangible assets	32	27
Total	126	110

Goodwill completely refers to the Aareon sub-group (Consulting/Services segment) and can be allocated to the following business divisions defined as cash-generating units:

	31 Dec 2015 Goodwill	31 Dec 2014 Goodwill
€ mn		
Business divisions		
Germany	31	26
International Business	44	40
Total	75	66

Goodwill is generally tested for impairment in the fourth quarter of each year. The basis for the valuation is the present value of future cash flows (value in use), which are determined using medium-term projections. In this context, the projected pre-tax cash flows – determined on the basis of the three-year plan adopted by Aareon AG's Management Board and approved by the Supervisory Board – are used. Accordingly, there is an individual planning of revenue and expense items within the first three years. The parameters underlying the major assumptions are based on internal and external factors as well as on past experience. The major basis is the previous year's planning. Revenue projections are largely subject to assumptions in relation to migration plans, new business, as well as renewals of contracts and follow-up business with existing customers. At the same time, these represent the key sources for estimation uncertainty. Regular sales revenues, such as maintenance and fees from transactions with existing customers, are normally not subject to estimation uncertainty. The projections for cost of materials is derived from revenue projections. The personnel cost projections predominantly take into account the number of employees, as well as wage and salary trends. Other costs are projected based on the previous year's figures, taking into account known one-off effects. Estimation uncertainties in relation to costs arise as a result of unplanned price increases or unforeseeable one-off effects. In principle, estimation uncertainty increases if assumptions are made further into the future. Cash flows beyond the three-year horizon are determined by way of a perpetual annuity. The present values of future cash flows were determined consistently throughout the Group on the basis of a risk-adequate discount factor of 6.3 % before taxes. The discount factor is calculated based on a risk-free basic interest rate of 1.5 % plus a company-specific risk premium of 6 %, multiplied with a beta factor of 0.8. Due to the uncertainties surrounding the planning beyond the three-year horizon, we assume constant values, i.e. no further growth, to reflect our cautious view of the market environment. The recoverable amounts show a significant excess compared to the carrying amounts, which means that a deficit is not considered possible, even if the above-mentioned assumptions change dramatically. To that extent, even a likely increase of the risk-adequate discount factor by 1.0 % as well as a reduction in EBIT included in the cash flows by 5.0 % does not result in an impairment loss in the reporting period. There was no need to recognise impairment losses in the year under review.

Intangible assets developed as follows:

	2015				2014			
	Goodwill	Proprietary software	Other intangible assets	Total	Goodwill	Proprietary software	Other intangible assets	Total
€ mn								
Cost								
Balance at 1 January	123	77	77	277	123	69	71	263
Additions	9	5	10	24	0	6	3	9
Transfers	–	–	0	0	0	2	2	4
Disposals	–	0	6	6	0	0	1	1
Changes in basis of consolidation	–	–	2	2	–	–	2	2
Currency translation differences	0	0	1	1	0	0	0	0
Balance as at 31 December	132	82	84	298	123	77	77	277
Amortisation and impairment losses								
Balance at 1 January	57	60	50	167	57	56	43	156
Amortisation and impairment losses	–	3	7	10	–	6	6	12
of which: impairment losses	–	–	–	–	–	–	–	–
Write-ups	–	–	–	–	–	–	–	–
Transfers	–	–	–	–	–	-2	2	0
Disposals	–	0	5	5	0	0	1	1
Changes in basis of consolidation	–	–	–	–	–	–	–	–
Currency translation differences	0	–	0	0	0	–	0	0
Balance as at 31 December	57	63	52	172	57	60	50	167
Carrying amount as at 1 January	66	17	27	110	66	13	28	107
Carrying amount as at 31 December	75	19	32	126	66	17	27	110

(47) Property and equipment

	31 Dec 2015	31 Dec 2014
€ mn		
Land and buildings and construction in progress	245	75
Office furniture and equipment	22	21
Total	267	96

The increase in property and equipment results from the reclassification of a property from other assets to property and equipment as well as from the consolidation of Westlmmo. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

Property and equipment:

	2015			2014		
	Land and buildings and construction in progress	Office furniture and equipment	Total	Land and buildings and construction in progress	Office furniture and equipment	Total
€ mn						
Cost						
Balance at 1 January	103	64	167	102	63	165
Additions	4	8	12	1	4	5
Transfers	151	0	151	0	0	0
Disposals	0	4	4	0	4	4
Changes in basis of consolidation	34	0	34	–	1	1
Currency translation differences	0	0	0	0	0	0
Balance as at 31 December	292	68	360	103	64	167
Amortisation and impairment losses						
Balance at 1 January	28	43	71	25	42	67
Amortisation and impairment losses	5	6	11	3	6	9
of which: impairment losses	–	–	–	–	0	–
Write-ups	–	–	–	–	–	–
Transfers	–	–	–	–	0	0
Disposals	–	3	3	0	5	5
Changes in basis of consolidation	14	–	14	–	–	–
Currency translation differences	0	0	0	0	0	0
Balance as at 31 December	47	46	93	28	43	71
Carrying amount as at 1 January	75	21	96	77	21	98
Carrying amount as at 31 December	245	22	267	75	21	96

(48) Income tax assets

Income tax assets in a total amount of € 20 million as at 31 December 2015 (2014: € 35 million) include € 4 million (2014: € 5 million) expected to be realised after a period of more than twelve months.

(49) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 722 million (2014: € 805 million).

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

	31 Dec 2015	31 Dec 2014
€ mn		
Loans and advances to banks/to customers	0	0
Positive and negative market value of derivative hedging instruments	30	43
Trading assets and trading liabilities	93	139
Non-trading assets	–	–
Intangible assets	1	1
Property and equipment	–	5
Other assets/liabilities	1	1
Liabilities to banks/to customers, and certificated liabilities	678	683
Provisions	117	130
Subordinated capital	22	27
Tax loss carryforwards	19	16
Deferred tax assets	961	1,045

Of the deferred taxes on loss carryforwards, an amount of € 18 million (2014: € 12 million) is attributable to foreign subsidiaries and permanent establishments. The existing loss carryforwards may be carried forward for an unlimited period. Deferred taxes on losses carried forward were recognised to the extent that they are expected to be realised within the next five years.

Unrecognised deferred tax assets amount to € 43 million (2014: € 33 million) and relate entirely to tax loss carryforwards that are neither recognised nor subjected to valuation adjustments.

Deferred tax assets in the amount of € 13 million (2014: € 32 million) were reported under other reserves.

(50) Other assets

	31 Dec 2015	31 Dec 2014
€ mn		
Properties	263	444
Trade receivables (LaR)	42	38
Miscellaneous	134	128
Total	439	610

In the year under review, one property was reclassified to property and equipment.

(51) Liabilities to banks

	31 Dec 2015	31 Dec 2014
€ mn		
Money market liabilities	925	855
Promissory note loans	414	374
Registered mortgage Pfandbriefe	457	362
Registered public-sector Pfandbriefe	51	41
Other liabilities	51	175
Total	1,898	1,807

(52) Liabilities to customers

	31 Dec 2015	31 Dec 2014
€ mn		
Money market liabilities	13,179	13,071
Promissory note loans	7,038	7,970
Registered mortgage Pfandbriefe	6,852	3,476
Registered public-sector Pfandbriefe	3,291	2,966
Total	30,360	27,483

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

(53) Certificated liabilities

	31 Dec 2015	31 Dec 2014
€ mn		
Bearer mortgage Pfandbriefe	8,529	8,690
Bearer public-sector Pfandbriefe	71	45
Other debt securities	2,219	2,748
Total	10,819	11,483

(54) Negative market value of derivative hedging instruments

	31 Dec 2015	31 Dec 2014
€ mn		
Negative market value of fair value hedges	2,554	2,731
Negative market value of cash flow hedges	7	13
Negative market value of net investment hedges	1	2
Pro rata interest payable	158	182
Total	2,720	2,928

(55) Trading liabilities

	31 Dec 2015	31 Dec 2014
€ mn		
Negative market value of trading assets	663	659
Total	663	659

(56) Provisions

	31 Dec 2015	31 Dec 2014
€ mn		
Provisions for pensions and similar obligations	333	295
Other provisions and contingent liabilities	450	418
Total	783	713

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

Provisions for pensions and similar obligations

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

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

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

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

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

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

Brief description of the material pension plans

DePfa Bank Betriebsvereinbarung dated 14 December 1999 (BV 97)

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

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

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

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

Management Board

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

Four individual benefit commitments are fixed amount commitments related to monthly benefit payments upon retirement and disability, including a widow's pension of 60 % of the beneficiary's pension entitlement. The current benefit payments are adjusted based on the development of standard wages within the private banking sector.

Three individual benefit commitments of 23 December 2011 are aligned to the fixed annual employer contributions and the amounts from deferred compensation, which are paid to the relevant benefit account and bear interest at a rate of 4 %. The benefit assets and the assets from deferred compensation are translated into a lifelong old-age or disability pension upon the occurrence of an insured event, using actuarial principles. Annuitisation is based on biometric principles and a notional interest rate of 4 % p.a. and takes into account a guaranteed pension increase of 1 % p.a. The widow pension amounts to 60 % of the beneficiary's pension entitlement. The current benefit payments are increased annually by 1 %; there is no obligation to provide for an inflation adjustment. The old-age pension benefits based on this commitment were secured through reinsurance policies. These reinsurance policies include benefits in the case of disability or death.

DePfa Bank Dienstvereinbarung dated 30 December 1955 (DePfa 55)

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

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

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

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

BauBoden agreement dated 1 July 1968 (BauBoden 68)

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

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

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

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

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

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

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

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

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

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

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

AHB – General works agreement on additional pension benefits (company pension scheme) of former Corealcredit

The pension benefits to former employees of Allgemeine Hypothekbank AG, whose employment relationship began prior to 1 January 1994, are governed by the additional benefit arrangement dated 29 August 1995 on the basis of the complementing general works agreement dated 7 March 1995.

This benefit commitment is based on aggregate benefits derived from pension benefits for civil servants. After a waiting period of five years of service, the aggregate benefit rate is 50 % of pensionable income. For each year after completing the 37th year of age, the aggregate benefit rate increases by 1 % of pensionable income, up to a maximum 75 % of pensionable income. The entitlement amounts to at least 65 % of pensionable income in the case of (total) occupational incapacity and 75 % of pensionable income in the case of workplace accidents. Pensionable income is the annual income (calculated on the basis of 14 monthly salaries), divided by 12.

The pension benefits of the statutory pension insurance and the BVV Versicherungsverein des Bankgewerbes a.G., which are based on mandatory contributions, are taken into account in the pension determined as described. To that extent, the benefit obligation directly depends on the development of the level of pensions from the statutory pension insurance on the one hand and from the BVV on the other. As a result of the German Pension Reform Act of 1992 and the associated cuts in statutory pension insurance, the pension scheme was restructured in 1995. The main pillar of the new structure is the limitation of the Bank's deficiency guarantee for the declining level of statutory pensions due to deduction factors applied at early retirement (Rentenzugangsfaktor) and the lower adjustment of the pension value. Accordingly, the Bank continues to assume the deficiency guarantee on a pro-rata basis for the periods of service until the restructuring on 31 December 1995 in relation to the deduction factors applied at early retirement and for the reduced level of the current pension value (net adjustment factor). The reduction in the level of statutory pensions that occurred during the service periods from the restructuring date until retirement is taken into account at the expense of the beneficiary.

From the start of retirement, the AHB pension is decoupled from the development of the statutory pension and the BVV pension already prior to the restructuring since only the AHB pension is adjusted for inflation on an annual basis.

Accordingly, the obligation for the pension commitment during the qualification period is, on the one hand, directly dependent upon the development of the statutory pension and the BVV pension. On the other hand, it is fully dependent upon salary development for all years of service, even including past service. The volume of the obligation also depends upon the fluctuation of inflation and hence pension increases.

Rheinboden Hypothekbank AG – pension scheme in the version dated 1 December 1991 of former Corealcredit

The former employees of Rheinboden Hypothekbank AG are entitled to old-age and disability pensions as well as surviving dependant's benefits in accordance with the pension schemes in the version dated 1 December 1991.

The monthly benefits for employees who commenced service prior to 1 October 1978 amount to 5 % of pensionable remuneration (most recent monthly salary based on collective or individual agreements) after ten service years and increase by 0.5 % of pensionable remuneration for each service year, up to 14 % of pensionable remuneration after 15 service years. The monthly benefit entitlement increases by 0.3 % of pensionable remuneration for any additional service years, up to a maximum of 20 %. The BVV benefits are taken into account in such entitlement to the extent that these are based on employer contributions.

The benefits for employees who commenced service after 30 September 1978 amount to 0.15 % of pensionable remuneration up to the contribution ceiling as well as 1.5 % of pensionable remuneration above the contribution ceiling for each year of service between the 25th and 65th year of age. The maximum number of recognisable service years is 35.

The old-age pension under the Rheinboden pension schemes is paid after completing the 65th year of age or upon commencement of old-age pension under the statutory pension insurance scheme (full pension). In case of early retirement, the benefits are subject to deductions of 0.3 % per month of early retirement prior to the age of 65 as a partial compensation for the additional costs associated with early retirement. The surviving dependant's benefits amount to 60 % of the employee's pension entitlement for widow(er)s as well as 15 % for half-orphans and 20 % for orphans, however, in aggregate not exceeding the amount of the employee's pension entitlement.

Supplementary individual contractual arrangements were agreed with individual pensioners and leavers with vested benefits for the purpose of the transition from the old to the new Rheinboden pension scheme and the application of the BVV benefits.

In addition, individual contractual commitments apply to former management board members and general managers – currently pensioners and one leaver with vested benefits.

The adjustment of current pensions on the basis of the Rheinboden commitments is performed on the basis of the inflation allowance set out in section 16 of the German Occupational Pensions Act (BetrAVG), with the exception of a small group of approximately ten pensioners where adjustment is made pursuant to the collective agreement for banks.

Westlimmo – Pension fund rules dated 1 October 1995

The pension fund rules dated 1 October 1995 represent a defined contribution scheme. The following benefits are paid after a waiting period of five year of service: old-age pension, early old-age pension, (total) occupational incapacity pension as well as widow's and orphan's pension.

The amount of the old-age pension, the early old-age pension and the (total) occupational incapacity pension is calculated based on the sum of the pension components earned during the pensionable service period. If the pensionable service period exceeds 40 years, the monthly pension is calculated based on the sum of the highest 40 pension components earned during the pensionable service period. The amount of one pension component is derived from multiplying the reference contribution (since 2014: € 260), the personal earnings relation (relation between pensionable income and contribution ceiling of the German statutory pension insurance; earnings components above the contribution ceiling are weighted with a factor of 3.75) and the annuitisation factor in the relevant age pursuant to the annuitisation table. The amount of the early old-age pension is reduced by 0.5 % for each month in which annuity is paid prior to completing the 65th year of age. The widow's pension entitlement amounts to 60 %.

If necessary, the determination of the amount of provisions for pensions is based on the following actuarial assumptions applied consistently throughout the Group:

	31 Dec 2015	31 Dec 2014
Calculation method	Projected unit credit	Projected unit credit
Calculation basis	Actuarial tables issued by K. Heubeck in 2005	Actuarial tables issued by K. Heubeck in 2005
Actuarial assumptions (in %)		
Interest rate used for valuation	2.28	2.05
Development of salaries	2.25	2.25
Pension increase	1.86	1.86
Rate of inflation	2.00	2.00
Staff turnover rate	3.00	3.00

Development of net pension liabilities:

	Present value of pensions obligations	Fair value of plan assets	Net pension liability
€ mn			
Balance as at 1 Jan 2015	352	-57	295
Pension expense	20	-1	19
Current service cost ¹⁾	12	-	12
Net interest cost	8	-1	7
Payments	-9	-5	-14
Pension benefits paid	-11	0	-11
Employer's contributions	-	-3	-3
Contributions made by beneficiaries of defined benefit plans	2	-2	-
Remeasurements	-22	-	-22
due to experience adjustments	-1	-	-1
due to changes in financial assumptions	-19	-	-19
due to changes in demographic assumptions	-2	-	-2
Difference between actual return and return calculated using an internal rate of interest (plan assets)	-	0	0
Changes in basis of consolidation	55	-	55
Balance as at 31 Dec 2015	396	-63	333

¹⁾ Due to the resignation of Dr Schumacher, with effect from 30 September 2015, € 4,023,736 was recognised in benefit expenses, in line with his pension agreement, thus increasing the Bank's pension obligations.

	Present value of pensions obligations	Fair value of plan assets	Net pension liability
€ mn			
Balance as at 1 Jan 2014	197	-49	148
Pension expense	14	-2	12
Current service cost	5	–	5
Net interest cost	9	-2	7
Payments	-8	-4	-12
Pension benefits paid	-10	0	-10
Employer's contributions	–	-2	-2
Contributions made by beneficiaries of defined benefit plans	2	-2	–
Remeasurements	82	-2	80
due to experience adjustments	11	–	11
due to changes in financial assumptions	70	–	70
due to changes in demographic assumptions	1	–	1
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-2	-2
Changes in basis of consolidation	67	–	67
Balance as at 31 Dec 2014	352	-57	295

The weighted duration of pension liabilities is 18.4 years as at 31 December 2015 (2014: 17.3 years).

Expected maturities of the defined benefit obligation (DBO):

	31 Dec 2015	31 Dec 2014
€ mn		
Up to 1 year	12	11
More than 1 year and up to 5 years	52	48
More than 5 years and up to 10 years	75	67
Total	139	126

Contributions in the amount of € 8 million (2014: € 7 million) are expected to be paid in the financial year 2016.

Sensitivity of the defined benefit obligation (DBO) compared to the central actuarial assumptions

Based on the qualitative plan description, the valuation parameters significant for calculating the amount of the obligation were derived and corresponding calculations were made as regards sensitivity:

		Defined benefit obligation 2015	Change	Defined benefit obligation 2014	Change
		€ mn	%	€ mn	%
Present value of obligations		396		352	
Interest rate used for valuation	Increase by 1.0 percentage points	332	-16	296	-16
	Decrease by 1.0 percentage points	477	20	420	19
Development of salaries	Increase by 0.5 percentage points	403	2	358	2
	Decrease by 0.5 percentage points	387	-2	342	-3
Pension increase	Increase by 0.25 percentage points	403	2	356	1
	Decrease by 0.25 percentage points	386	-3	343	-3
Life expectancy	Increase by 1 year	412	4	370	5
	Decrease by 1 year	375	-5	335	-5

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

Plan assets can be broken down as follows:

	31 Dec 2015	31 Dec 2014
€ mn		
Cash	0	0
Equities	–	–
Investment funds	38	34
Bonds	–	–
Reinsurance	25	23
Total	63	57

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

Other provisions

Other provisions developed as follows:

	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for unrecognised items	Provisions for legal and tax risks	Miscellaneous other provisions	Total
€ mn					
Carrying amount as at 1 Jan 2015	101	18	269	30	418
Additions	85	0	5	27	117
Utilisation	57	1	7	19	84
Reversals	19	2	34	5	60
Interest	0	–	2	0	2
Reclassifications	1	-1	-1	1	0
Changes in basis of consolidation	52	–	2	0	54
Currency translation differences	3	0	–	0	3
Carrying amount as at 31 Dec 2015	166	14	236	34	450

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

Other provisions of € 450 million include € 215 million expected to be realised after a period exceeding twelve months.

Provisions for staff expenses and non-staff operating costs refer to personnel provisions in the amount of € 78 million (2014: € 75 million) and provisions for non-staff operating costs in the amount of € 88 million (2014: € 26 million). Personnel provisions consist of, among other things, provisions for bonuses, partial retirement, severance pay and existing working hours accounts. Provisions for non-staff operating expenses mainly include provisions for professional and legal advice. We expect that the major portion of these provisions will be realised within the next five years following the balance sheet date.

The provisions for legal and tax risks include, amongst others, contingent liabilities in accordance with IFRS 3 in the amount of € 131 million (2014: € 143 million).

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

Based on the current state of proceedings, a successful outcome is deemed to have a probability of more than 50 %.

In its judgement dated 15 July 2015, the Frankfurt Higher Regional Court (Oberlandesgericht Frankfurt am Main) fully rejected a claim for damages of various hedge funds (holders of profit-participation certificates). Rights to further appeals were not granted. The majority of the plaintiffs lodged an appeal against the denial of leave to appeal with the German Federal Supreme Court. For this reason, it is not yet possible at the moment to reduce or release the provisions recognised within the scope of the company acquisition. Due to risk protection agreements in connection with the acquisition of Corealcredit, the effect on Aareal Bank's earnings, taking into account tax effects, is considered immaterial, even in case of a complete prevalence. As at 31 December 2015, there may be compensation payments to the seller, in an amount between nil and € 70 million, which would lead to utilisation of the provisions recognised for this purpose – with no effect on profit or loss.

Provisions for tax risks were recognised largely to cover risks in connection with ongoing tax audits at former Corealcredit. In the year under review, provisions from the risk protection that are no longer required were partially released. We anticipate long duration of proceedings for the remaining portion.

Concerning the part of the credit portfolio of former Corealcredit that was acquired subject to credit-related purchase price discounts, as at 31 December 2015, compensation payments to the seller may occur in the future, in an amount of not more than € 9 million plus interest; such payments would also be recognised directly in equity. The potential level of such compensation payments largely corresponds to the surplus amount of future borrower payments relative to the carrying amount of the corresponding accounts receivable. Compensation payments made to the seller to date (and recognised directly in equity) totalled € 45 million. The carrying amount of the contingent considerations is € 5 million (2014: € 1 million). The item "Provisions in the lending business for unrecognised items" includes portfolio-based valuation allowances in the amount of € 6 million (2014: € 8 million).

Within the scope of the acquisition of Westlmmo, provisions for severance pay were transferred to provisions for staff expenses and non-staff operating costs. As at year-end, these amounted to € 34 million. In addition, restructuring provisions were recognised in the amount of € 27 million for Frankfurt branch. These include € 23 million for staff expenses and € 4 million for non-staff operating expenses.

(57) Income tax liabilities

Income tax liabilities in a total amount of € 102 million as at 31 December 2015 (2014: € 124 million) include € 44 million (2014: € 86 million) expected to be realised after a period of more than twelve months.

(58) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 722 million (2014: € 805 million).

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

	31 Dec 2015	31 Dec 2014
€ mn		
Loans and advances to banks/to customers	148	118
Positive and negative market value of derivative hedging instruments	133	93
Trading assets and trading liabilities	104	118
Non-trading assets	370	480
Investments accounted for using the equity method	–	–
Intangible assets	8	7
Property and equipment	3	7
Other assets/liabilities	-22	1
Liabilities to banks/to customers, and certificated liabilities	7	–
Provisions	3	–
Subordinated capital	2	2
Deferred tax liabilities	756	826

(59) Other liabilities

	31 Dec 2015	31 Dec 2014
€ mn		
Liabilities from outstanding invoices	12	6
Deferred income	14	12
Liabilities from other taxes	18	17
Trade payables (LaC)	16	13
Other liabilities (LaC)	54	79
Total	114	127

(60) Subordinated capital

	31 Dec 2015	31 Dec 2014
€ mn		
Subordinated liabilities	1,164	1,222
Profit-participation certificates	53	73
Contributions by silent partners	194	194
Total	1,411	1,489

Subordinated liabilities

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

Interest expenses for all subordinated liabilities during 2015 totalled € 45 million (2014: € 40 million). Interest was paid on subordinated liabilities at an average rate of 3.89 % (2014: 3.27 %).

Profit-participation certificates

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

	Nominal amount € mn	Issue currency	Interest rate (% p.a.)	Maturity
Registered profit-participation certificates:				
	5.0	EUR	7.22	2002-2016
	5.0	EUR	7.22	2002-2016
	5.0	EUR	6.31	2003-2017
	5.0	EUR	5.38	2004-2016
	20.0	EUR	5.95	2004-2016
	6.0	EUR	5.83	2005-2017
	46.0			

Pursuant to the terms and conditions of issue, holders of profit-participation certificates have a claim on interest payments which takes precedence over the profit entitlements of shareholders. To the extent that a distribution would cause a net loss, said interest claim would be reduced, possibly down to zero, creating a claim for backpayment during the term of the certificates at the same time.

Repayment takes place at the nominal amount (subject to any loss sharing), on the day after the Annual General Meeting passing resolutions regarding the relevant financial year. The profit-participation certificates evidence creditors' rights; they do not grant any share in the liquidation proceeds.

An amount of € 3 million (2014: € 4 million) in interest expenses was incurred with respect to profit-participation certificates issued.

Contributions by silent partners

Contributions by silent partners to Aareal Bank Group had a nominal amount of € 190 million (2014: € 190 million).

Total expenses for silent participations amounted to € 6 million (2014: € 7 million) in the 2015 financial year.

(61) Equity

	31 Dec 2015	31 Dec 2014
€ mn		
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,633	1,357
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-80	-95
Revaluation reserve	28	15
Hedging reserves	13	-1
Currency translation reserves	7	4
Non-controlling interests	242	242
Total	3,044	2,723

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (2014: € 180 million). It is divided into 59,857,221 notional no-par value shares ("unit shares") with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

Treasury shares

The General Meeting held on 20 May 2015 authorised the Management Board, pursuant to section 71 (1) No. 7 of the AktG, to purchase and sell treasury shares for the purposes of securities trading, at a price not falling below or exceeding the average closing price of the Company's share in Xetra trading (or a comparable successor system) during the three trading days on the Frankfurt Stock Exchange prior to the relevant transaction by more than 10 %. This authorisation expires on 19 May 2020. The volume of shares acquired for this purpose must not exceed 5 % of the share capital of Aareal Bank AG at the end of any day.

Furthermore, the Management Board was authorised by means of a resolution of the General Meeting on 20 May 2015, pursuant to section 71 (1) no. 8 of the AktG, to purchase own shares up to a total volume of 10 % of the share capital for purposes other than trading in treasury shares until 19 May 2020.

Shares may be acquired via the stock exchange or by means of a public offer to buy directed at all shareholders, and at purchase prices stipulated in the authorisation and based on the prevailing market price of the Company's shares. This authorisation may be exercised, in full or in part, on one or more occasions.

The shares acquired in accordance with this or an earlier authorisation may be sold, subject to Supervisory Board approval, outside the stock exchange and without an offer directed at all shareholders, subject to the exclusion of shareholders' pre-emptive rights, when the shares sold do not exceed 10 % of the share capital and the issue price is not significantly below the prevailing stock exchange price or in the event of a sale against contributions in kind, or when the shares sold are used to service rights from convertible bonds or bonds with warrants. This also applies to shares issued by subsidiaries. The treasury shares may also be given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The shares can also be withdrawn, without this withdrawal or its implementation requiring a further resolution by the General Meeting.

The Management Board was also authorised to effect the acquisition of treasury shares by using put or call options. Any acquisition of shares using derivatives is limited to 5 % of share capital. In addition, any acquisition of shares shall count towards the 10 % threshold for the authorisation for the acquisition of treasury shares. Where treasury shares are acquired using equity derivatives, the shareholders' right to enter into any option transactions with the Company is excluded in analogous application of section 186 (3) sentence 4 of the AktG.

Authorised capital

Aareal Bank has authorised capital pursuant to the resolution by the Annual General Meeting held on 23 May 2012. The Annual General Meeting authorised the Management Board to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 89,785,830 (Authorised Capital 2012) by issuance of new no-par value bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board; this authority will expire on 22 May 2017. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right, unless the Management Board exercises its authority to exclude shareholder's pre-emptive subscription rights. The Management Board may exclude shareholders' subscription rights, subject to approval by the Supervisory Board and the conditions set out below:

- a) In the event of a capital increase against cash contributions, provided that the issue price of the new shares is not significantly below the prevailing stock exchange price of the Company's listed shares at the time of the final determination of the issue price. However, this authorisation shall be subject to the proviso that the aggregate value of shares sold to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed ten per cent (10 %) of the issued share capital at the time said authorisation comes into effect or – if lower – at the time it is exercised. Any shares that were issued or sold during the term and prior to the exercising of said authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, shall count towards the above threshold of ten per cent (10 %) of the issued share capital. Said 10 % threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation;
- b) for fractional amounts arising from the determination of the applicable subscription ratio;

- c) where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by the Company or its affiliated companies, which subscription rights are required to entitle these holders to the same extent as they would have been entitled to upon exercising their conversion or option rights or upon performance of a conversion obligation, if any, thus protecting such holders against dilution;
- d) for an amount of up to € 4,000,000, to offer employees (of the Company or its affiliated companies) shares for subscription.

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

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

The authorised capital has not been utilised.

Conditional capital

Based on a resolution passed by the General Meeting on 21 May 2014, the Management Board was authorised to issue, on one or more occasions until 20 May 2019, profit-participation rights with a limited or unlimited term for contribution in cash or in kind in a total nominal amount of € 1,000,000,000. If the profit-participation rights are not issued against contribution in kind, they may be linked to a conversion right for the holder or creditor. Conversion rights may only be issued for the Company's no-par value bearer shares with a proportionate share in the Company's share capital of € 89,785,830. The issue of profit-participation rights may also be effected by domestic or foreign companies in which the Company either directly or indirectly holds a majority interest. In this case, the Company, subject to Supervisory Board approval, may guarantee such issues as well as issue shares on its own to fulfil the conversion rights. Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in relation to the profit-participation rights in certain cases.

The purpose of the authorisation passed by the Annual General Meeting on 21 May 2014 is to create Tier I capital that is eligible for regulatory purposes; it also provides for the issue of profit-participation rights with conversion obligations. It is in accordance with the various structuring alternatives for Additional Tier I capital instruments, pursuant to the Capital Requirements Regulation. For instance, a conversion obligation may be provided for if the Bank falls short of certain capital ratios (to be defined in the terms of convertible profit-participation certificates); conversion is required, in the opinion of the Company's Management Board and Supervisory Board, to safeguard the Company's continued existence; or if conversion is instructed by a supervisory authority within the scope of its powers.

Accordingly, the share capital is subject to a conditional capital increase not exceeding € 89,785,830 by issuance of up to 29,928,610 new no-par value bearer shares ("Conditional Capital 2014"). The conditional capital increase shall be implemented only insofar as (i) the holders or creditors of conversion rights from convertible profit-participation rights issued by the Company (or by an enterprise in which the

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

The new shares will be issued at the conversion price to be set as defined in the resolution passed by the General Meeting on 21 May 2014.

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

Capital reserves

The capital reserves contain premiums received upon the issuance of shares. Costs incurred within the framework of a capital increase reduce capital reserves.

Retained earnings

Retained earnings are comprised of statutory reserves (pursuant to section 150 of the AktG) of € 5 million (2014: € 5 million) and of other retained earnings of € 1,628 million (2014: € 1,352 million).

Additional Tier 1 bond (AT1 bond)

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

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

The notes constitute unsecured and subordinated obligations of the issuer.

Upon the occurrence of a trigger event, the redemption amount and the principal amount of each note shall be reduced by the amount of the relevant write-down. The write-down shall be effected pro rata with all other Additional Tier I instruments within the meaning of the CRR, the terms of which provide for a write-down upon the occurrence of the trigger event. A "trigger event" occurs if the Common Equity Tier I capital ratio, pursuant to Article 92 (1) (a) CRR or a successor provision, and determined on a consolidated basis, falls below 7.0 %. After a write-down has been effected, the principal amount and the redemption amount of each note may – subject to certain conditions – be written up in each of the

financial years of the issuer subsequent to such write-down until the full initial principal amount has been reached.

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

Revaluation surplus

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

Non-controlling interests

€ 250 million (2014: € 250 million) in preference shares issued by, among others, Aareal Capital Funding Trust, Wilmington, Delaware, U.S.A. were outstanding at the end of the financial year. The equity interest of Aareal Bank Group held in this company amounts to 0.01 %, while the remaining 99.99 % are held by non-controlling interests. Aareal Bank Group holds 100 % of the voting rights in the company. The preference shares are repaid at their nominal value and carry an exclusive right to termination for the issuer.

Interest expenses on these preference shares amounted to € 18 million (2014: € 18 million). The tax relief resulting from distributions leads to a reduction of income taxes as reported in the statement of comprehensive income.

Distributions

The Management Board of Aareal Bank AG proposes to the Annual General Meeting to pay a dividend of € 1.65 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 ATI instruments, pursuant to the terms and conditions of the notes.

Notes to Financial Instruments

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

(62) Net results of financial instruments by category

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

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Result from loans and receivables	-142	-140
Result from held-to-maturity investments	-5	0
Result from financial instruments held for trading	20	13
Result from assets designated as at fair value through profit or loss	0	0
Result from assets available for sale	11	82
of which: directly recognised in equity	13	81
Result from financial guarantee contracts	2	-3

In the current reporting period, a measurement gain from available-for-sale assets of € -2 million was reclassified from equity to the income statement (2014: € 1 million). The net result on hedge accounting amounted to € 8 million in the year under review (2014: € 5 million). The result from currency translation amounted to € -6 million in the year under review (2014: € -11 million).

The net results include measurement gains and losses, realised gains/losses on disposal, subsequent recoveries on loans and advances previously written off in relation to all financial instruments of the respective category. The result from financial instruments held for trading also includes interest and dividends as well as commissions from held-for-trading financial instruments. The hedge result from hedged items is aggregated with the hedge result from derivative hedging instruments in one line item and, similarly to the result from currency translation, shown separately.

(63) Impairment losses on financial assets

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

€ mn	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Loans and advances to banks (LaR)	–	1
Loans and advances to customers (LaR)	204	196
Non-trading assets (AfS)	6	–
Other assets (LaR)	0	0
Total	210	197

(64) Fair value hierarchy in accordance with IFRS 13

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

Determination of the fair value for financial instruments carried at fair value in the statement of financial position**Non-trading assets available for sale:**

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

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

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

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

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

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

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

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

31 December 2015

	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
€ mn				
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	-

31 December 2014

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

In the financial year 2015, fixed-income securities of the AFS category in the amount of € 48 million were reclassified from Level 2 to Level 1 (2014: € –). There was no reclassification of fixed-income securities of the same category from Level 1 to Level 2 in the reporting year (2014: € –).

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

Cash on hand and balances with central banks:

Cash funds are recognised at the IFRS carrying amount, which is considered an appropriate fair value.

Loans and advances to banks and customers classified as "Loans and receivables" as well as liabilities to banks and customers measured at amortised cost:

The property finance portfolio included in loans and advances to customers of the "Loans and receivables" category is measured using the discounted cash flow method for the purpose of the determination of fair value. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for risks specific to the counterparty as well as credit costs. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions.

Amortised cost is an adequate estimate of fair value for short-term money market transactions, current account balances and other short-term receivables and liabilities included in these classes. Quoted market prices are normally not available for promissory note loans of the "Loans and receivables" category. Therefore, they are measured through discounting the future cash flows using the currency-specific benchmark curve. The liquidity and creditworthiness components are taken into account using issuer-specific spreads.

Registered profit-participation certificates of the "Liabilities measured at amortised cost" category which are backed through assets (covered issues) are also measured using the discounted cash flow method on the basis of the benchmark curve. In addition, we take into account quoted covered bond spreads. Future contractual cash flows of uncovered issues are discounted using an interest rate adequate for Aareal Bank.

Generally, there are no quoted market prices available for the products included in loans and advances, and liabilities to banks and customers. They are allocated either to Level 2 or Level 3 of the fair value hierarchy, depending on the inputs included in the measurement model.

Non-trading assets of the "Loans and receivables" and "Held to maturity" categories:

These classes include fixed-income bonds and debt securities whose fair value is determined following the same procedure for available-for-sale non-trading assets, based on prices on active markets or valuation methods such as the discounted cash flow method; they are classified accordingly into the fair value hierarchy. They are allocated either to Level 1 or Level 2 of the fair value hierarchy, depending on whether or not sufficient stock exchange turnover is observable as at the reporting date.

For the purpose of determining fair value, the asset-backed securities held in the portfolio (mainly CMBS and RMBS) are measured using prices calculated by an independent pricing service provider; accordingly, they are allocated to Level 2 of the fair value hierarchy.

Certificated liabilities measured at amortised cost:

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

Subordinated capital equity measured at amortised cost:

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

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

31 December 2015

	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
€ mn				
Cash on hand and balances with central banks	1,282	–	1,282	–
Loans and advances to banks (loans and receivables)	1,896	–	1,868	28
Money market receivables from banks	1,672	–	1,672	–
Promissory note loans to banks	196	–	196	–
Other receivables from banks	28	–	–	28
Loans and advances to customers (loans and receivables)	36,156	–	1,529	34,627
Property loans to customers	30,695	–	0	30,695
Money market receivables from customers	1,139	–	5	1,134
Promissory note loans to customers	1,526	–	1,524	2
Other receivables from customers	2,796	–	–	2,796
Non-trading assets (loans and receivables)	3,586	2,533	1,053	–
Fixed-income securities	3,586	2,533	1,053	–
Non-trading assets held to maturity	606	519	87	–
Fixed-income securities	606	519	87	–
Liabilities to banks measured at amortised cost	1,912	–	1,832	80
Money market liabilities to banks	924	–	923	1
Registered mortgage Pfandbriefe to banks	464	–	464	–
Registered Public Sector Pfandbriefe to banks	51	–	51	–
Promissory note loans to banks	423	–	345	78
Other liabilities to banks	50	–	49	1
Liabilities to customers measured at amortised cost	30,335	–	22,292	8,043
Money market liabilities to customers	13,169	–	5,126	8,043
Registered mortgage Pfandbriefe to customers	6,914	–	6,914	–
Registered Public Sector Pfandbriefe to customers	3,319	–	3,319	–
Promissory note loans to customers	6,933	–	6,933	–
Other liabilities to customers	–	–	0	–
Certificated liabilities measured at amortised cost	10,870	1,041	9,829	–
Bearer mortgage Pfandbriefe	8,591	1,041	7,550	–
Bearer public-sector Pfandbriefe	71	–	71	–
Other debt securities	2,208	–	2,208	–
Subordinated capital measured at amortised cost	1,441	323	869	249

31 December 2014

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

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

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

	31 Dec 2015 Carrying amount	31 Dec 2015 Fair value	31 Dec 2014 Carrying amount	31 Dec 2014 Fair value
€ mn				
Cash on hand and balances with central banks (LaR)	1,282	1,282	184	184
Loans and advances to banks (LaR)	1,893	1,896	3,178	3,177
Loans and advances to customers (LaR)	34,038	36,156	30,069	32,309
Non-trading assets (LaR)	3,630	3,586	4,313	4,125
Other assets (LaR)	93	92	86	91
Total loans and receivables	40,936	43,012	37,830	39,886
Non-trading assets held to maturity	604	606	833	836
Non-trading assets available for sale	6,272	6,272	6,854	6,854
Positive market value of derivative hedging instruments	2,498	2,498	2,565	2,565
Assets held for trading	638	638	467	467
Liabilities to banks (LaC)	1,898	1,912	1,807	1,824
Liabilities to customers (LaC)	30,360	30,335	27,483	27,563
Certificated liabilities (LaC)	10,819	10,870	11,483	11,595
Other liabilities (LaC)	82	82	98	101
Subordinated capital (LaC)	1,411	1,441	1,489	1,517
Total liabilities measured at amortised cost	44,570	44,640	42,360	42,600
Negative market value of derivative hedging instruments	2,720	2,720	2,928	2,928
Liabilities held for trading	663	663	659	659

(66) Credit quality of financial assets

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

	31 Dec 2015	31 Dec 2014
€ mn		
Financial assets neither past due nor impaired		
Loans and advances to banks	1,893	3,178
Loans and advances to customers	32,934	29,185
Positive market value of derivative hedging instruments	2,498	2,565
Trading assets	638	467
Non-trading assets (LaR)	3,630	4,313
Non-trading assets (AfS)	6,273	6,856
Non-trading assets (HtM)	604	833
Other assets	89	78
Total	48,559	47,475
Financial assets that are past due but not impaired		
Loans and advances to customers	268	378
Other assets	0	0
Total	268	378
Financial assets subject to specific valuation allowances		
Loans and advances to customers	1,364	986
Other assets	19	21
Total	1,383	1,007

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

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

At Aareal Bank, property loans subject to intensified handling or handling of problem loans pursuant to the Minimum Requirements for Risk Management (MaRisk) that are not impaired individually were subjected to contractual adjustments due to financial difficulties of the borrower, in order to secure the repayment of the exposure. The portfolio of financings, adjusted during the reporting year and the previous years, totalled € 118 million on 31 December 2015. In 2014, the balance of loans adjusted due to financial difficulties of the borrower amounted to € 156 million. In the financial year 2015, loans with a carrying amount of € 3 million (2014: € 144 million) are no longer part of intensified handling or handling of problem loans due to re-ageing after the end of a two-year period of good conduct, while specific valuation allowances were recorded for loans in a carrying amount of € 30 million (2014: € 88 million). These financings are no longer included in the volume stated for contractual adjustments due to financial difficulties of the borrower for the financial year 2015. In the year under review, there were no additions to the volume of financings that were subject to adjustments made due to financial difficulties of the borrower (2014: € 71 million). There were decreases in the carrying amounts in relation to existing exposures, by a total of € 5 million (2014: € 9 million).

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

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

Breakdown by region**31 December 2015**

	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2015
€ mn						
Regions						
Germany	20	6	1	1	3	31
Western Europe	0	43	–	–	–	43
Northern Europe	3	3	–	–	4	10
Southern Europe	–	24	94	1	65	184
Eastern Europe	–	–	–	–	–	–
Total	23	76	95	2	72	268

31 December 2014

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

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

Breakdown by borrower group

31 December 2015

	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2015
€ mn						
Borrower groups						
Companies	23	72	95	1	62	253
Private individuals	0	4	0	1	10	15
Other	0	0	0	–	0	0
Total	23	76	95	2	72	268

31 December 2014

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

The past due financial assets were not impaired due to collateral provided.

On the reporting date, the amount of loans and advances of the "Other assets" category that were past due but not impaired was € 0 million (2014: € 0 million). There were no other financial assets past due but not impaired on the reporting date.

(68) Impaired financial assets

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

Breakdown by region**31 December 2015**

	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
€ mn			
Regions			
Germany	78	7	8
Western Europe	179	41	0
Northern Europe	88	44	–
Southern Europe	924	298	–
Eastern Europe	95	22	–
North America	–	–	–
Total	1,364	412	8

31 December 2014

	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
€ mn			
Regions			
Germany	106	22	10
Western Europe	111	24	–
Northern Europe	123	73	–
Southern Europe	599	198	–
Eastern Europe	35	9	–
North America	12	7	–
Total	986	333	10

Breakdown by borrower group

31 December 2015

	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowance	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business recognised in profit or loss	Direct write-offs
€ mn					
Borrower groups					
Companies	1,353	411	6	149	21
Private individuals	3	0	1	0	0
Other	8	1	1	-2	-
Total	1,364	412	8	147	21

31 December 2014

	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowance	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business recognised in profit or loss	Direct write-offs
€ mn					
Borrower groups					
Companies	979	330	7	79	2
Private individuals	4	1	3	0	0
Other	3	2	0	2	5
Total	986	333	10	81	7

As at the reporting date, the amount of portfolio-based valuation allowances for recognised items was € 116 million (2014: € 147 million) and for financial guarantees € 6 million (2014: € 8 million). Net reversals of portfolio-based valuation allowances, which are recognised through profit or loss, amounted to € 52 million (2014: net addition of € 68 million) in the year under review. Payments on loans and advances previously written off amounted to € 7 million in the year under review (2014: € 23 million).

The amount of impaired receivables of the "Other assets" category as at the reporting date was € 19 million (2014: € 21 million). The related impairment allowance amounts to € 17 million (2014: € 20 million). These receivables mainly referred to companies in Eastern Europe.

In the financial year 2015, no assets were acquired within the context of the realisation of collateral (2014: € -).

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

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

Bond portfolio as at 31 December 2015

	Carrying amount			Revaluation surplus ¹⁾			Unrealised gains/losses ¹⁾
	LaR + HtM	AfS	Total	LaR	AfS	Total	
€ mn							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,209	313	1,522	-43	27	-16	-32
Portugal	65	113	178	0	2	2	-6
Spain	610	153	763	0	4	4	-12
Total	1,884	579	2,463	-43	33	-10	-50
Total as at 31 Dec 2014	2,013	1,135	3,148	-48	17	-31	-155

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 € 579 million (2014: € 1,135 million) were completely allocated to Level I of the fair value hierarchy and measured based on quoted prices on active markets.

The following table (page 180) is a breakdown of property financing in selected European countries included in loans and advances to customers.

Property financing portfolio as at 31 December 2015

	Carrying amount ¹⁾	Average LTV ²⁾	of which: Non-performing loans
	€ mn	%	€ mn
Greece	–	–	–
Ireland	–	–	–
Italy	3,257	73.5 %	836
Portugal	–	–	–
Spain	1,078	65.7 %	88
Total	4,335		924
Total as at 31 Dec 2014	4,140		599

¹⁾ Not including valuation allowances; ²⁾ Performing loans only

(70) Reclassification of financial assets

In 2008 and 2009, Aareal Bank Group made use of the possibility to reclassify financial assets into another measurement category, in accordance with IAS 39.50A et seq.

The following table is a comparison of the carrying amounts and the fair values of the reclassified securities and also shows the measurement effects which would have arisen without reclassification in the current financial year and in the previous year:

	Reclassified assets, total				Results from fair value measurement without reclassification			
	Carrying amount at reporting date 31 Dec 2015	Fair value at reporting date 31 Dec 2015	Carrying amount previous year 31 Dec 2014	Fair value previous year 31 Dec 2014	Effect on the income statement 1 Jan-31 Dec 2015	Effect on the revaluation surplus 1 Jan-31 Dec 2015	Effect on the income statement 1 Jan-31 Dec 2014	Effect on the revaluation surplus 1 Jan-31 Dec 2014
from AfS to LaR	3,262	3,202	3,938	3,727	–	113	–	23
Asset-backed securities	27	27	27	28	–	0	–	1
Senior unsecured bank bonds	138	140	277	282	–	-6	–	-8
Covered bank bonds	298	304	428	447	–	-12	–	2
Public-sector issuers	2,799	2,731	3,206	2,970	–	131	–	28
from HfT to LaR	85	91	101	109	-1	–	14	–
Asset-backed securities	85	91	101	109	-1	–	14	–
Total	3,347	3,293	4,039	3,836	-1	113	14	23

€ mn

As in the previous year, no impairment losses had to be recognised for the reclassified financial assets in 2015. The disposal of reclassified securities resulted in the realisation of capital losses of € 10 million (2014: € 0 million). Interest income from reclassified assets amounted to € 98 million (2014: € 109 million) in the year under review. Interest income, including current interest from derivatives used to hedge economic market price risks, amounted to € 17 million (2014: € 34 million).

(71) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when currently there is a legally enforceable right to set off the recognised amounts, and when the Bank intends either to settle on a net basis – or to realise the asset and settle the liability simultaneously.

The following overviews show whether and to what extent financial instruments were actually offset as at the current reporting date. The tables also include disclosures on financial instruments that are part of an enforceable master netting or similar arrangement that do not meet the criteria for offsetting in the statement of financial position.

Financial assets as at 31 December 2015

	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
€ mn						
Derivatives	2,794	–	2,794	1,792	1,002	–
Reverse repos	150	–	150	–	150	–
Total	2,944	–	2,944	1,792	1,152	–

Financial liabilities as at 31 December 2015

	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
€ mn						
Derivatives	3,347	–	3,347	1,792	1,393	162
Repos	–	–	–	–	–	–
Total	3,347	–	3,347	1,792	1,393	162

Financial assets as at 31 December 2014

	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
€ mn						
Derivatives	2,703	–	2,703	1,825	851	27
Reverse repos	1,284	–	1,284	–	1,284	–
Total	3,987	–	3,987	1,825	2,135	27

Financial liabilities as at 31 December 2014

	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
€ mn						
Derivatives	3,598	–	3,598	1,825	1,576	197
Repos	–	–	–	–	–	–
Total	3,598	–	3,598	1,825	1,576	197

To reduce counterparty risk, Aareal Bank Group concludes standardised master agreements for financial derivatives and securities repurchase agreements, such as the ISDA Master Agreement, the German Master Agreement on Financial Derivatives or the Master Agreement for Securities Repurchase Transactions. In addition, Aareal Bank enters into collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives) in which a mutual collateralisation of all claims between the contracting parties is agreed and which include netting arrangements.

The master agreements for financial derivatives used by Aareal Bank include netting arrangements at a single transaction level (so-called "payment netting"), which provide for a netting of payments when both parties need to make payments in the same currency on the same date, as set out in the contract. Aareal Bank does not offset financial derivatives according to the rules related to payment netting, as the transactions are not settled on a net basis. Aareal Bank Group has not entered into arrangements providing for netting of derivatives across several transactions.

For securities repurchase transactions (repo), depending on the counterparty, payment or delivery netting is made. In line with the rules set out in the master agreement for repo transactions, payments or deliveries of securities may be offset when both counterparties have to make payments in the same currency on the same date, or have to deliver securities of the same type. Transactions effected on the basis of the master agreement for repo transactions generally meet the offsetting requirements of IAS 32. Aareal Bank settles on a net basis in the case of transactions within the framework of GC pooling, which means that these transactions are offset in the statement of financial position.

(72) Assets provided or accepted as collateral**Assets provided as collateral**

Aareal Bank Group has provided financial assets as collateral for its liabilities or contingent liabilities. The following overview shows the carrying amount of the collateral provided and the items of the statement of financial position in which they are reported.

	31 Dec 2015	31 Dec 2014
€ mn		
Loans and advances to banks	1,393	1,576
Loans and advances to customers	–	0
Non-trading assets	238	224
Total	1,631	1,800

The protection buyer has no right to sell or re-pledge any of financial assets pledged as collateral (2014: –).

Furthermore, Aareal Bank Group has provided cash collateral of € 6 million, reported under other assets, for the irrevocable payment obligation to the Federal Agency for Financial Market Stabilisation (FMSA) from the bank levy.

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. As at the balance sheet date, fixed-income securities received as collateral for repo transactions had a fair value of € 152 million (2014: € 1,313 million).

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions and on the collateralisation of forward transactions.

(73) Transfer of financial assets without derecognition

Aareal Bank Group sells securities subject to a take-back requirement as borrower within the framework of genuine repurchase agreements. Within the scope of such agreements, securities were transferred to lenders without resulting in the securities being derecognised since Aareal Bank Group retains the substantial risks and rewards from the securities. The risks to which Aareal Bank Group is still exposed comprise the default risk, the interest rate risk and other price risks. The equivalent values received as hedges during the transfer of securities are accounted for as liabilities to banks, or liabilities to customers. Within the context of securities repurchase transactions, the unrestricted title and the unrestricted power of disposition is transferred to the lender upon delivery of the securities. The lender has the right to sell or pledge these securities, however, he is required to retransfer securities of the same type and in the same amount as at the repurchase date.

As in previous year, no securities were part of repurchase agreements as at the balance sheet date.

(74) Derivative financial instruments

Aareal Bank Group enters into derivative financial instruments primarily in order to hedge market risks as well as for refinancing purposes. Derivatives which are designated for hedging purposes and meet the hedge accounting criteria are reported in the statement of financial position as derivative hedging instruments.

Derivatives classified as "Held for trading" are reported as "Assets or liabilities held for trading". They are also mainly used to hedge the economic market risk exposure. Spot and forward foreign exchange transactions are almost exclusively used within the context of refinancing. Credit derivatives are used to assume credit risks for the purpose of portfolio diversification.

Counterparty risks in derivative transactions are monitored by means of counterparty limits, provision of collateral and a uniform lending policy. Limits are set in accordance with the counterparty classification in internally-defined credit classes as well as ratings of Fitch IBCA, Moody's and Standard & Poor's. Collateral is generally provided in the form of cash collateral, which is released to the pledger as soon as the purpose of collateralisation ceases to exist.

Derivative transactions are generally entered into on the basis of the German Master Agreement for Financial Derivatives, or the ISDA Master Agreements only. Such master agreements provide for the netting of claims and liabilities in the event of insolvency or counterparty default, and thus further reduce counterparty risk.

Fair value hedges

Fair value hedges are entered into by Aareal Bank Group in order to hedge interest rate and currency risks inherent in securities, mortgage loans, promissory note loans, money market instruments, registered covered bonds (Namenspfandbriefe), certificated liabilities, and subordinated capital. Instruments used for fair value hedges comprise interest rate swaps as well as cross-currency swaps.

The following gains and losses result from fair value hedges in the year under review:

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Result from hedging instruments	-165	-90
Result from hedged items	172	91
Total	7	1

Cash flow hedges

Cash flow hedges are used within Aareal Bank Group exclusively to hedge future cash flows from variable-rate financial assets and liabilities.

The hedged portion of the cash flows from hedged items which are part of cash flow hedges will impact earnings of Aareal Bank Group in future as follows:

Cash flows from hedged items – Cash flow hedges as at 31 December 2015

	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
€ mn					
Cash flows from hedged assets	-7	-24	-15	43	-3

Cash flows from hedged items – Cash flow hedges as at 31 December 2014

	up to 3 months	3 months to 1 year	1 year to 5 years	mehr als 5 Jahre	Total
€ mn					
Cash flows from hedged assets	-2	-8	4	26	20

In 2015, gains determined as the effective portion of the hedge from derivatives included in cash flow hedges were recognised directly in equity at an amount of € 21 million (2014: € 18 million).

The amount from cash flow hedges transferred from hedging reserves to the income statement in the year under review can be allocated to the following income statement items:

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
€ mn		
Net interest income	0	-4
Total	0	-4

In the year under review, a gain of € 1 million (2014: € 4 million) was recognised directly in the income statement due to inefficiencies of cash flow hedges.

In addition, derivatives were entered into within Aareal Bank Group to hedge net investments in foreign operations. These derivatives are used to hedge the currency risk arising on translating the net assets of foreign Group companies to the Group's reporting currency (euro).

€ 0 million (2014: € 0 million) was recognised directly in the income statement as the ineffective portion of hedges of net investments in foreign operations.

Overview of market values of derivatives

The following table shows positive and negative market values (including pro-rata interest) of derivative financial instruments:

	Fair value as at 31 Dec 2015		Fair value as at 31 Dec 2014	
	positive	negative	positive	negative
€ mn				
Trading derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	592	507	428	501
Swaptions	–	0	–	–
Caps, floors	13	13	13	13
Total interest rate instruments	605	520	441	514
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	24	15	18	45
Cross-currency swaps	8	128	8	100
Total currency-related instruments	32	143	26	145
Other transactions				
OTC products				
Credit default swaps ¹⁾	1	–	0	–
Total other transactions	1	–	0	–
Total trading derivatives	638	663	467	659
Fair value hedge derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	2,404	1,911	2,502	2,350
Total interest rate instruments	2,404	1,911	2,502	2,350
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	–	–	–	10
Cross-currency swaps	68	801	53	553
Total currency-related instruments	68	801	53	563
Total derivatives from fair value hedges	2,472	2,712	2,555	2,913
Derivatives from cash flow hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	26	7	10	13
Total currency-related instruments	26	7	10	13
Total derivatives from cash flow hedges	26	7	10	13

¹⁾ This includes a derivative subject to the country risk of Hungary and embedded in an Austrian bank bond.

	Fair value as at 31 Dec 2015		Fair value as at 31 Dec 2014	
	positive	negative	positive	negative
€ mn				
Derivatives used as net investment hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	–	1	–	2
Total currency-related instruments	–	1	–	2
Total derivatives used as net investment hedges	–	1	–	2
Total	3,136	3,383	3,032	3,587

Derivatives have been entered into with the following counterparties:

	Fair value as at 31 Dec 2015		Fair value as at 31 Dec 2014	
	positive	negative	positive	negative
€ mn				
OECD banks	2,548	3,295	2,641	3,557
Companies and private individuals	588	88	391	30
Total	3,136	3,383	3,032	3,587

The following overview shows the cash flows of derivative financial instruments, based on the contractual maturity. The amounts shown in the table represent the contractually agreed future undiscounted cash flows. The procedure for measuring and monitoring liquidity risk is described in the Risk Report.

31 December 2015

	up to	3 months	1 year	more than	Total
	3 months	to 1 year	to 5 years	5 years	
€ mn					
Interest rate instruments					
Interest rate swaps					
Cash inflows	245	656	2,073	732	3,706
Cash outflows	200	430	1,592	614	2,836
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	0	0	0	0
Caps, floors					
Cash inflows	0	1	8	4	13
Cash outflows	0	1	8	4	13

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	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
€ mn					
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	2,458	287	112	–	2,857
Cash outflows	2,450	287	112	–	2,849
Cross-currency swaps					
Cash inflows	13	1,008	6,014	1,514	8,549
Cash outflows	30	1,191	6,961	1,575	9,757
Other transactions					
Credit default swaps					
Cash inflows	–	0	–	–	0
Cash outflows	–	–	–	–	–
Total cash inflows	2,716	1,952	8,207	2,250	15,125
Total cash outflows	2,680	1,909	8,673	2,193	15,455

31 December 2014

	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
€ mn					
Interest rate instruments					
Interest rate swaps					
Cash inflows	223	605	2,182	820	3,830
Cash outflows	217	439	1,831	659	3,146
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	–	–	–
Caps, floors					
Cash inflows	0	2	8	3	13
Cash outflows	0	2	8	3	13
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	3,365	251	4	–	3,620
Cash outflows	3,404	248	–	–	3,652
Cross-currency swaps					
Cash inflows	98	1,371	6,414	798	8,681
Cash outflows	125	1,534	6,941	870	9,470
Other transactions					
Credit default swaps					
Cash inflows	–	0	0	–	0
Cash outflows	–	–	–	–	–
Total cash inflows	3,686	2,229	8,608	1,621	16,144
Total cash outflows	3,746	2,223	8,780	1,532	16,281

(75) Day-one profit or loss

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

The table below shows the development of the day-one profit or loss during the year 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:

	2015	2014
€ mn		
Balance as at 1 January	42	27
Additions from new transactions	-3	15
Reversals through profit or loss in the period	16	9
Changes in basis of consolidation	4	9
Balance as at 31 December	27	42

(76) Maturities of financial liabilities

The following two overviews show the future undiscounted cash flows of non-derivative financial liabilities and of loan commitments.

Maturities as at 31 December 2015

	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
€ mn						
Liabilities to banks	975	57	76	472	396	1,976
Liabilities to customers	6,646	3,790	4,141	7,245	12,133	33,955
Certificated liabilities	–	813	2,254	6,674	1,443	11,184
Subordinated capital	–	19	87	340	1,274	1,720
Financial guarantee contracts	162	–	–	–	–	162
Loan commitments	1,227	–	–	–	–	1,227

Maturities as at 31 December 2014

	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
€ mn						
Liabilities to banks	925	80	104	381	384	1,874
Liabilities to customers	6,072	3,911	4,299	5,963	10,176	30,421
Certificated liabilities	1	874	1,178	8,386	1,460	11,899
Subordinated capital	–	61	49	380	1,383	1,873
Financial guarantee contracts	140	–	–	–	–	140
Loan commitments	1,466	–	–	–	–	1,466

The Risk Report includes a detailed description of the liquidity risk associated with financial liabilities.

Segment Reporting

(77) Operating segments of Aareal Bank

In the financial year 2015, segment reporting by Aareal Bank was prepared in accordance with IFRS 8 Operating Segments.

In accordance with the "management approach" set out in IFRS 8, the segment report discloses, on a segment-specific basis, financial information which is relevant for internal control of an entity and which is also used by such entity's management to make decisions on the allocation of resources as well as to measure the financial performance of segments.

Two operating segments are defined within Aareal Bank in line with internal management reporting, based on the organisational structure established according to the various products and services offered.

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

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

The **Consulting/Services segment** offers the housing and commercial property industries services and products for managing property portfolios and processing payment flows. Within this segment, our subsidiary Aareon AG and the Bank's Housing Industry division work together closely.

We operate our IT system consultancy and related advisory services for the housing and commercial property sector through our Aareon AG subsidiary, which can call upon almost 60 years in the business. Aareon offers its customers reliable, pioneering solutions in the fields of consulting, software and services to optimise IT-supported business processes in the digital age. The ERP (Enterprise Resource Planning) systems, which are tailored to the needs of the respective market, may be supplemented by further digital solutions for purposes of process optimisation. The majority of these integrated systems forms the digital ecosystem "Aareon Smart World". It connects property companies with customers, employees and business partners as well as technical "equipment" in apartments and buildings. Aareon Smart World can be

used to restructure and optimise processes. The applications may help to reduce costs, enable the creation of new business models by providing links between all participants and offer more ease-of-use in the dialogue between tenants and employees of the housing industry.

Aareon offers software solutions both in Germany and abroad that may be used in various types of operating environments: in-house services, hosting und Software as a Service (SaaS) from the exclusive Aareon Cloud. Data from Aareon's Cloud Computing is held in Aareon's certified data-processing centre in Mainz, which guarantees data security and protection at high level. After successful consulting, implementation and training, the customer receives a maintenance model which covers regular support.

In its Housing Industry division, Aareal Bank offers its customers process optimisation, electronic banking and asset management. Aareal Bank distributes BK01, the leading procedure in the German housing and property management sector for the automated settlement of mass payments. The procedure is integrated in licensed bookkeeping systems. Therefore, customers in Germany may process their payment transactions and account management from the administration software employed. Apart from the German residential and commercial property sector, the German energy and waste disposal industry is a second important customer group of the Bank's Housing Industry division. This enables the offer of further products, facilitating the cross-sector cooperation of target groups and realising synergy effects via end-to-end digital processes. The use of the payment transaction products of Aareal Bank generates deposits that contribute significantly to Aareal Bank Group's refinancing base.

(78) Segment results

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	2015	2014	2015	2014	2015	2014	2015	2014
€ mn								
Net interest income	783	687	0	0	-2	1	781	688
Allowance for credit losses	128	146					128	146
Net interest income after allowance for credit losses	655	541	0	0	-2	1	653	542
Net commission income	6	4	169	163	0	-3	175	164
Net result on hedge accounting	8	5					8	5
Net trading income/expenses	13	2	0				13	2
Results from non-trading assets	-17	2					-17	2
Results from investments accounted for using the equity method	0	0	0	0			0	0
Administrative expenses	359	255	197	187	-3	-3	553	439
Net other operating income/expenses	37	3	5	4	-1	-1	41	6
Negative goodwill from acquisitions	150	154					150	154
Operating profit	493	456	-23	-20	0	0	470	436
Income taxes	106	109	-10	-8			96	101
Consolidated net income	387	347	-13	-12	0	0	374	335
Consolidated net income attributable to non-controlling interests	16	16	3	3			19	19
Consolidated net income attributable to shareholders of Aareal Bank AG	371	331	-16	-15	0	0	355	316
Allocated equity	1,616	1,327	136	117	549	632	2,301	2,076
Cost/income ratio (%)	43.2	36.2	113.4	111.9			55.2	50.6
RoE before taxes (%)	28.1	30.6	-19.1	-19.4			18.6	18.5
Employees (average)	1,040	873	1,679	1,644			2,719	2,517
Segment assets	42,653	40,221	9,295	9,336			51,948	49,557
Investments accounted for using the equity method	1	1	0	0			1	1
Segment investments	11	5	25	9			36	14
Segment depreciation/amortisation	9	8	11	13			20	21

(79) Results by geographical region

	Germany		International		Consolidation/ Reconciliation		Aareal Bank Group	
	2015	2014	2015	2014	2015	2014	2015	2014
€ mn								
Net interest income	276	225	505	463			781	688
Allowance for credit losses	-13	11	141	135			128	146
Net interest income after allowance for credit losses	289	214	364	328			653	542
Net commission income	120	103	55	61			175	164
Net result on hedge accounting	5	2	3	3			8	5
Net trading income/expenses	5	1	8	1			13	2
Results from non-trading assets	-5	0	-12	2			-17	2
Results from investments accounted for using the equity method	0	0	0	0			0	0
Administrative expenses	329	264	224	175			553	439
Net other operating income/expenses	34	-9	7	15			41	6
Negative goodwill from acquisitions	150	154					150	154
Operating profit	269	201	201	235			470	436
Allocated equity	610	450	1,142	994	549	632	2,301	2,076
Cost/income ratio (%)	75.6	81.6	39.6	32.1			55.2	50.6
RoE before taxes (%)	42.3	41.8	14.9	19.7			18.6	18.5
Employees (average)	1,683	1,586	1,036	931			2,719	2,517

(80) Consulting/Services segment – reconciliation of the income statement**Reconciliation of the segment result from the income statement classification aligned to an industrial enterprise to a bank income statement classification (used for the purposes of segment reporting)**

			Income statement classification – bank									Segment result		
			Net interest income	Net commission income	Net trading income/expenses	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income/expenses	Impairment of goodwill	Operating profit		Income taxes	
€ mn			2015	0	169	0		0	197	5		-23	-10	-13
			2014	0	163			0	187	4		-20	-8	-12
Income statement classification – industrial enterprise														
Sales revenue	2015	193		193										
	2014	185		185										
Own work capitalised	2015	4						4						
	2014	5						5						
Changes in inventory	2015	0							0					
	2014	0							0					
Other operating income	2015	9			0				9					
	2014	8							8					
Cost of materials purchased	2015	24		24										
	2014	22		22										
Staff expenses	2015	139						139						
	2014	131						131						
Depreciation, amortisation and impairment losses	2015	12						12						
	2014	14						14						
Result from investments accounted for using the equity method	2015	0						0						
	2014	0						0						
Other operating expenses	2015	54						50	4					
	2014	51						47	4					
Interest and similar income/expenses	2015	0	0											
	2014	0	0											
Operating profit	2015	-23	0	169	0			0	197	5				
	2014	-20	0	163				0	187	4				
Income taxes	2015	-10											-10	
	2014	-8											-8	
Segment result	2015	-13												
	2014	-12												

Remuneration Report

The remuneration report for the 2015 financial year contains detailed information on the remuneration of Aareal Bank AG Management Board members, its senior executives, and its employees. As a significant institution, Aareal Bank publishes a description of its remuneration systems (qualitative disclosure) in the annual report for the 2015 financial year, in accordance with section 16 (1) of the amendment to the German Regulation on Remuneration in Financial Institutions (Institutionsvergütungsverordnung – "InstitutsVergV") dated 16 December 2013, and pursuant to the EU Capital Requirements Regulation (CRR). The Supervisory Board and the Management Board carried out the annual review of the remuneration systems, involving the Human Resources division, the Remuneration Officer, and internal control units in line with their respective functions, and supported by external legal and remuneration advisors. External advisors were retained, amongst other things, for examining the appropriateness of remuneration systems, and remuneration for members of the Management Board and employees, as well as regarding the design of the Group-wide remuneration strategy. The quantitative disclosures on the remuneration of Management Board members, employees as well as senior executives required according to the CRR will be disclosed by the end of June in the following year, on Aareal Bank AG's homepage at the latest.

According to Article 450 (1) of the CRR, institutions shall additionally disclose the information specified in the Regulation regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on their risk profile (so-called risk takers). The following section provides information on the remuneration system for Management Board members of Aareal Bank AG applicable as at 1 January 2014.

(81) Remuneration system for the Management Board

Responsibilities and procedures of Aareal Bank AG regarding remuneration policies

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board.

The Remuneration Control Committee (Vergütungskontrollausschuss) fulfils the requirements according to section 25d (12) of the German Banking Act (Kreditwesengesetz – "KWG") and section 15 of the InstitutsVergV, and held five meetings throughout the 2015 financial year.

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

Success criteria and parameters

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

Performance-related remuneration

Remuneration parameters

The level of this performance-related remuneration is determined by reference to the personal performance of each Management Board member, which is measured by the degree to which targets set in advance

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

For each financial year, the Supervisory Board sets a target level for the Common Equity Tier 1 ratio (CET1 ratio) as the measurement threshold in order to secure adherence of the regulatory capital adequacy and, starting with the 2015 financial year, a suitable liquidity measure (Liquidity Coverage Ratio – LCR). No variable remuneration will be determined for any financial year where these two targets have not been achieved. The Supervisory Board also defines the sectional and individual targets for every member of the Management Board, for each financial year.

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

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

Retention of variable remuneration components and penalty criteria

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

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

With regard to the portion of the variable remuneration that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one third of the amount, as well as the associated interest, in the three years following the determination of the performance-related remuneration (retention period). Until the end of the retention period, there is no right to the relevant remuneration components. Once the deferred remuneration components for Management Board members are vested, the cash deferral is paid out in cash and the share deferral is converted into phantom shares, subject to a two-year holding period.

In making its determination about the amount to be awarded, the Supervisory Board particularly takes into account any negative aspects of the Management Board member's performance, that of his section, as well as any weakness in the performance of Aareal Bank Group (backtesting). The existence of a negative aspect in the performance of a Management Board member is to be assumed, in particular, if serious breaches of duty and/or performance deficiencies are discovered, which lead to the performance contributions – which were initially assumed to be positive – being later shown to have not been sustained. A negative performance contribution on the part of the section within the respective Management Board member's responsibility, or of Aareal Bank Group, is to be assumed if significant assumptions which formed the basis of the calculation of the variable remuneration are later proven to be incorrect or unsustainable. The Supervisory Board may award the deferred variable remuneration components in full, partially, or not at all. If the full amount of the bonus is not awarded, the remaining sum is forfeited, i.e. it is not carried forward into subsequent years. An award of the deferred variable remuneration components will not be made insofar and for so long as the German Federal Financial Supervisory Authority ("BaFin") forbids this according to section 45 (2) sentence 1 nos. 5a and 6 of the KWG. The entitlement no longer exists if BaFin so orders by way of a final and conclusive decision pursuant to section 45 (5) sentences 5 to 8 of the KWG.

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

The contracts of Management Board members prohibit them from undertaking to limit or override the risk orientation of their remuneration by initiating personal protection or countermeasures (hedging ban).

Share Bonus Plan

According to the rules for the share bonus plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares and credited to the beneficiary. The calculation of the number of virtual shares is henceforth based on the weighted average price on the basis of five (Xetra®) exchange trading days after publication of the preliminary results for the respective financial year (subscription price). The date of publication of the preliminary results is used as the reference date. The virtual shares so determined are paid into a virtual account and are automatically and without delay converted into a cash amount and paid out following the Supervisory Board meeting which resolves to accept the annual financial statements for the third financial year following the financial year for which the virtual shares were granted ("holding period"). The conversion will be effected using the weighted average price calculated on the basis of the five (Xetra®) exchange trading days following the publication of the preliminary

business figures for the year preceding the payout. Since the 2013 financial year, the payout amount of the share bonus of a given financial year may vary depending on the share price development and has been limited to a maximum of 300 % of the agreed initial value (ceiling).

The virtual shares granted for the financial years prior to the 2014 financial year will continue to have as the applicable subscription price the weighted average price on the basis of the five (Xetra®) exchange trading days following publication of the annual financial statements for the respective financial year. The ceiling is not applicable to these virtual shares, with the exception of those virtual shares granted for the 2013 financial year.

If dividends are paid on the Company's shares during the time period between the reference date and the date of conversion into the Company's shares, a payout is made as a salary component in an amount equivalent to the dividends and the proportion of the phantom shares.

Share Deferral Plan

Under the Share Deferral Plan, a portion of the variable remuneration is credited to the beneficiary. This credit, however, does not convey an entitlement or a claim regarding a later payout or grant of virtual shares. Interest accrues on the amount credited in the form of a share deferral. The reference rate is the interest rate of the European Central Bank for deposits from private households with a term of up to one year. As above, the credit of interest does not convey an entitlement or a claim regarding the interest amount. In the three years following the credit (retention period), the Supervisory Board decides whether in each case a third of the share deferral, including interest, should be converted.

The question as to whether a third of the virtual shares is converted and, if yes, in which amount, is based on the principles set out above (see section on Retention of variable remuneration components and penalty criteria). In particular, the Supervisory Board checks the application of the penalty rules provided. Equivalent provisions to the share bonus plan are applied in the calculation of the amount of the virtual shares – except for the holding period, which is reduced from three years to two years. The ceiling value is applicable for the conversion of the virtual shares which were granted for the 2013 financial year and the following financial years, with the proviso that the payout amount following the conversion of the virtual shares of a tranche (plus interest) into a cash payment must not exceed 300 % of the share deferral (30 % of the granted variable remuneration) set for the respective financial year (which may have been reduced following the application of a penalty rule or as a result of an instruction by BaFin). The payout amount for virtual shares which were granted for prior financial years or are yet to be granted, respectively, are not subject to any ceiling.

Remuneration

Following the appointment of Mr Merkens as Deputy Chairman of the Management Board by the Supervisory Board on 4 December 2014, his salary components were adjusted effective 1 January 2015. The appointment of Mr Merkens as Chairman of the Management Board, effective 17 September 2015, required a further adjustment. Upon Dr Schumacher's resignation, effective 30 September 2015, the reference value was adjusted pro rata temporis, in line with his years of service. The target remuneration of the Management Board members (fixed annual salary and variable remuneration, given a 100 % target achievement) has remained unchanged. The requirements according to section 25a (5) of the KWG – regarding a ratio of variable to fixed remuneration of 1:1 and the maximum target achievement threshold – are complied with at all times.

The following table shows the remuneration granted in the year under review, as defined in sections 4.2.4 and 4.2.5 of the Code, and pursuant to section 314 (1) no. 6a of the HGB. The variable remuneration components are indicated as a degree of target achievement.

Remuneration granted	Hermann J. Merkens ¹⁾ – Chairman of the Management Board				Dagmar Knopek			
	2014 ³⁾	2015	2015 (min) ⁴⁾	2015 (max) ⁵⁾	2014 ³⁾	2015	2015 (min) ⁴⁾	2015 (max) ⁵⁾
€								
Fixed remuneration	880,000.00	1,214,666.67	1,214,666.67	1,214,666.67	880,000.00	880,000.00	880,000.00	880,000.00
Ancillary benefits	58,128.36	46,593.69	46,593.69	46,593.69	34,477.93	34,086.92	34,086.92	34,086.92
Total	938,128.36	1,261,260.36	1,261,260.36	1,261,260.36	914,477.93	914,086.92	914,086.92	914,086.92
Variable remuneration based on a single-year assessment	202,400.00	299,544.39	–	339,106.86	201,920.00	212,640.00	–	240,000.00
Variable remuneration based on a multiple-year assessment								
Cash deferral 2015 (March 2019)	–	449,316.59	–	508,660.29	–	318,960.00	–	360,000.00
Share bonus 2015 (March 2019)	–	299,544.39	–	339,106.86	–	212,640.00	–	240,000.00
Share deferral 2015 (March 2021)	–	449,316.59	–	508,660.29	–	318,960.00	–	360,000.00
Cash deferral 2014 (March 2018)	303,600.00	–	–	–	302,880.00	–	–	–
Share bonus 2014 (March 2018)	202,400.00	–	–	–	201,920.00	–	–	–
Share deferral 2014 (March 2020)	303,600.00	–	–	–	302,880.00	–	–	–
Total	1,012,000.00	1,497,721.96	–	1,695,534.30	1,009,600.00	1,063,200.00	–	1,200,000.00
Benefit expense	334,369.00	329,035.00	329,035.00	329,035.00	217,560.00	357,210.00	357,210.00	357,210.00
Total remuneration	2,284,497.36	3,088,017.32	1,590,295.36	3,285,829.66	2,141,637.93	2,334,496.92	1,271,296.92	2,471,296.92

Remuneration granted	Thomas Ortmanns				Dr Wolf Schumacher ²⁾			
	2014 ³⁾	2015	2015 (min) ⁴⁾	2015 (max) ⁵⁾	2014 ³⁾	2015	2015 (Min) ⁴⁾	2015 (max) ⁵⁾
€								
Fixed remuneration	880,000.00	880,000.00	880,000.00	880,000.00	1,350,000.00	1,012,500.00	1,012,500.00	1,012,500.00
Ancillary benefits	29,284.82	33,258.86	33,258.86	33,258.86	28,223.89	26,176.67	26,176.67	26,176.67
Total	909,284.82	913,258.86	913,258.86	913,258.86	1,378,223.89	1,038,676.67	1,038,676.67	1,038,676.67
Variable remuneration based on a single-year assessment	200,800.00	211,360.00	–	240,000.00	353,360.00	7,129,648.95	6,853,708.95	7,168,708.95
Variable remuneration based on a multiple-year assessment								
Cash deferral 2015 (March 2019)	–	317,040.00	–	360,000.00	–	413,910.00	–	472,500.00
Share bonus 2015 (March 2019)	–	211,360.00	–	240,000.00	–	275,940.00	–	315,000.00
Share deferral 2015 (March 2021)	–	317,040.00	–	360,000.00	–	413,910.00	–	472,500.00
Cash deferral 2014 (March 2018)	301,200.00	–	–	–	530,040.00	–	–	–
Share bonus 2014 (March 2018)	200,800.00	–	–	–	353,360.00	–	–	–
Share deferral 2014 (March 2020)	301,200.00	–	–	–	530,040.00	–	–	–
Total	1,004,000.00	1,056,800.00	–	1,200,000.00	1,766,800.00	8,233,408.95	6,853,708.95	8,428,708.95
Benefit expense	442,635.00	363,678.00	363,678.00	363,678.00	770,232.00	4,639,618.00	4,639,618.00	4,639,618.00
Total remuneration	2,355,919.82	2,333,736.86	1,276,936.86	2,476,936.86	3,915,255.89	13,911,703.62	12,532,003.62	14,107,003.62

¹⁾ Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.

²⁾ Dr Schumacher resigned with effect from 30 September 2015. € 275,940 in variable remuneration was granted to Dr Schumacher in 2015, as one-year variable remuneration for the 2015 financial year. For the remaining term of the Management Board contract, the contractually agreed fixed remuneration of € 3,354,045.95, lost variable remuneration components of € 3,433,663.00, as well as the equivalent of company-car use of € 66,000 were disbursed as one-off payments. Due to the resignation of Dr Schumacher, with effect from 30 September 2015, € 4,023,736 was recognised in benefit expenses, in line with his pension agreement, thus increasing the Bank's pension obligations.

³⁾ The disclosures differ slightly from the previous year's figures, due to the fact that the variable remuneration components payable to members of the Management Board were slightly corrected downwards after preparing the annual report.

⁴⁾ Minimal amount of the remuneration component granted in the year under review.

⁵⁾ Maximum amount of the remuneration component granted in the year under review.

The following table shows the remuneration disbursed in the year under review, as defined in sections 4.2.4 and 4.2.5 of the Code. It also outlines disbursements under variable remuneration components related to multiple years, which expired during the year under review.

Remuneration paid 2015	Hermann J. Merkens ¹⁾ Chairman of the Management Board	Dagmar Knopek	Thomas Ortmanns	Dr Wolf Schumacher ²⁾	Dirk Große Wördemann ³⁾
€					
Fixed remuneration	1,214,667.00	880,000.00	880,000.00	1,012,500.00	–
Ancillary benefits	46,594.00	34,087.00	33,259.00	26,177.00	–
Total	1,261,261.00	914,087.00	913,259.00	1,038,677.00	–
Variable remuneration based on a single-year assessment	202,400.00	201,920.00	200,800.00	7,207,069.00	–
Variable remuneration based on a multiple-year assessment	–	–	–	–	–
Cash deferral 2011 (April 2015)	–	–	–	–	97,015.00
Cash deferral 2012 (April 2015)	102,411.00	–	102,411.00	172,779.00	83,143.00
Cash deferral 2013 (April 2015)	109,269.00	63,740.00	109,269.00	184,350.00	–
Share bonus 2011 (May 2015)	370,183.00	–	370,183.00	370,183.00	488,267.00
Share deferral 2011 (April 2015)	–	–	–	–	250,492.00
Dividends	47,428.00	13,228.00	47,380.00	80,378.00	39,471.00
Total	831,691.00	278,888.00	830,043.00	8,014,759.00	958,388.00
Benefit expense	329,035.00	357,210.00	363,678.00	4,639,618.00	–
Total remuneration	2,421,987.00	1,550,185.00	2,106,980.00	13,693,054.00	958,388.00

¹⁾ Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.

²⁾ Dr Schumacher resigned with effect from 30 September 2015. € 353,360 in variable remuneration was disbursed to Dr Schumacher in 2015, as one-year variable remuneration for the 2014 financial year. For the remaining term of the Management Board contract, the contractually agreed fixed remuneration of € 3,354,045.95, lost variable remuneration components of € 3,433,663.00, as well as the equivalent of company-car use of € 66,000 were disbursed as one-off payments. Due to the resignation of Dr Schumacher, with effect from 30 September 2015, € 4,023,736 was recognised in benefit expenses, in line with his pension agreement, thus increasing the Bank's pension obligations. This was not an allocation for the financial year under review.

³⁾ Mr Große Wördemann resigned as at 31 May 2013.

The following initial values for variable remuneration at an overall target achievement level of 100 % were agreed upon in the service contracts of the Management Board members:

	Reference values for variable remuneration 2015	Reference values for variable remuneration 2014
€		
Hermann J. Merkens ¹⁾	1,130,356.19	800,000.00
Dagmar Knopek	800,000.00	800,000.00
Thomas Ortmanns	800,000.00	800,000.00
Dr Wolf Schumacher ²⁾	1,050,000.00	1,400,000.00
Total	3,780,356.19	3,800,000.00

¹⁾ Mr Merkens was appointed Deputy Chairman of the Management Board, effective 4 December 2014, at which time the reference value for his variable remuneration was adjusted to € 1,020,000. This reference value was raised further, to € 1,400,000, upon his appointment to Chairman of the Management Board, effective 17 September 2015.

²⁾ Dr Schumacher resigned with effect from 30 September 2015.

No benefits were granted to any member of the Management Board by third parties with respect to his/her Management Board activities during the year under review.

The following table shows the portion of the variable component attributable to share-based payment arrangements as well as the corresponding number of virtual shares granted in 2015/2014:

	Year	Share-based payment	
		Value (€)	Quantity (number) ¹⁾
Hermann J. Merkens ²⁾	2015	748,860.98	25,698.73
	2014 ⁴⁾	506,000.00	15,199.76
Dagmar Knopek	2015	531,600.00	18,242.96
	2014 ⁴⁾	504,800.00	15,163.71
Thomas Ortmanns	2015	528,400.00	18,133.15
	2014 ⁴⁾	502,000.00	15,079.60
Dr Wolf Schumacher ³⁾	2015	689,850.00	23,673.64
	2014 ⁴⁾	883,400.00	26,536.50

¹⁾ The stated number of virtual shares granted for 2015 is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2015 (€ 29.14). The final conversion rate may only be determined after publication of preliminary results for 2015.

²⁾ Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.

³⁾ Dr Schumacher resigned with effect from 30 September 2015.

⁴⁾ The disclosures differ slightly from the previous year's figures, due to the fact that the variable remuneration components payable to members of the Management Board were slightly corrected downwards after preparing the annual report.

Other remuneration

Aareal Bank AG provides a company car to every Management Board member, which may also be used for private purposes.

Every Management Board member is covered by the group accident insurance in case of death or invalidity.

In addition, Aareal Bank AG bears the costs incurred for certain security expenses.

The ancillary benefits shown in the tables are equivalent to the total of such other remuneration.

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the service contract apply to the members of the Management Board. Management Board members who were appointed prior to 1 January 2013 are entitled to claim pension benefits upon completion of their 60th year of age. For members of the Management Board who were appointed [on or] after 1 January 2013, claims arise upon completion of their 62nd year of age. In the event of permanent disability, a Management Board member may be entitled to claim benefits prior to turning 60 or 62, respectively.

	2015			2014		
	Pension claims p. a. ¹⁾	Balance of pension obli- gations (DBO) as at 31 Dec 2015	Increase of pension obli- gations (DBO) in 2015	Pension claims p. a. ¹⁾	Balance of pension obli- gations (DBO) as at 31 Dec 2014	Increase of pension obli- gations (DBO) in 2014
€ 000's						
Hermann J. Merkens ²⁾	244	4,664	329	230	4,335	1,936
Dagmar Knopek	125	1,095	357	–	738	484
Thomas Ortmanns	242	4,465	364	230	4,101	1,662
Dr Wolf Schumacher ³⁾	441	12,285	4,640	394	7,645	2,802
Total	1,052	22,509	5,690	854	16,819	6,884

¹⁾ The pension claims were calculated for pension benefits paid at the earliest possible date.

²⁾ Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.

³⁾ Due to the resignation of Dr Schumacher, with effect from 30 September 2015, € 4,023,736 was recognised in benefit expenses, in line with his pension agreement.

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions, to the extent that these are based on defined benefit plans. If the payments refer to defined contribution plans, the guaranteed amount is adjusted by 1 % p.a. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to half-orphans and orphans amount to 10 % and not more than 25 %, respectively. Service cost incurred in the 2015 financial year in connection with the pension claims of members of the Management Board totalled € 2.8 million (2014: € 1.8 million). The present value of the pension obligations for current members of the Management Board as well as for former members of the Management Board and their surviving dependants increased by € 4.2 million in the year under review (2014: € 11.3 million). The total amount of pension obligations was € 43.3 million (2014: € 39.1 million). Of that amount, € 33.1 million related to former members of the Management Board and their surviving dependants (2014: € 22.3 million). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 0.8 million (2014: € 0.8 million).

However, severance payments may be included in individual termination agreements. Pursuant to the contracts entered into with the members of the Management Board, in the case of an early termination of a Management Board position without good cause within the meaning of section 4.2.3. of the Code, payments (including contractually-agreed benefits) are limited to twice the annual remuneration (severance cap) as well as to the remainder of the term of the contract.

In the case of a termination of a Management Board position due to a change of control, the following provisions are applicable: in the case of a compulsory loss of a Management Board position, the Management Board members are to be paid the fixed remuneration component, the performance-based remuneration as well as the contractually-agreed benefits for the remainder of the term of the contract. The performance-related remuneration is subject to the above-mentioned conditions; that is, in particular the deferral periods, the holding periods and the penalty rules are applicable. In addition, the extent to which sectional and individual targets were achieved on average during the last three years prior to the termination of the Management Board position will be used as a basis to determine the target achievement level for the remaining term of the contract. In the case of a voluntary termination of the Management Board position following a change of control, the members of the Management Board merely

receive the fixed remuneration and the contractually agreed benefits. In this case, there is no entitlement to the variable remuneration component.

The total amount of payments in the case of termination due to a change of control is limited to 150 % of the severance cap of an employment contract, in accordance with section 4.2.3. of the Code.

(82) Risk takers (employees and senior executives who exert a material influence on the institution's overall risk profile according to section 18 (1) and (2) of the InstitutsVergV)

The remuneration system for risk takers is subject to the same basic conditions as the remuneration system for Management Board members, and is also aligned with the business and risk strategy of Aareal Bank AG or Aareal Bank Group, respectively. These remuneration systems form part of Aareal Bank AG's efforts to ensure that employees' remuneration is in line with market conditions and the performance achieved. At the same time, they help to align the Bank's remuneration intentions with current regulatory requirements. In this context, Aareal Bank aims to respect the interests of employees, management and shareholders alike, while safeguarding the positive development of the Bank on a sustainable basis. The structure of the variable remuneration does not provide incentives to assume inappropriately high risks: it promotes the performance, target and results orientation of employees and senior executives.

The remuneration of all employee groups consists of a fixed and a variable remuneration, plus other contractually agreed benefits, if applicable. Regarding the group of risk takers, the variable component features particular characteristics in order to provide for the specific requirements of the InstitutsVergV.

The Management Board decides on the total amount of the variable remuneration for employees at the end of the financial year in a formalised, transparent and conceivable process. This total amount also includes the variable remuneration components for risk takers. The pool for the variable remuneration consists of a performance component and a profit component. The performance component takes into account the target-dependant remuneration of all employees, while the profit component takes into account the Group's overall profit by means of including the profit factor. The Group's overall profit depends on Aareal Bank Group's sustainable business results by taking into consideration the operating profit before taxes as well as underlying risk (measured as risk-weighted assets). The so-called profit factor is calculated by multiplying the target achievement regarding the operating profit before taxes with the target achievement regarding risk-weighted assets, finally influencing the profit component. The Bank's Management Board and Supervisory Board jointly determine the target values for the operating profit before taxes and the risk-weighted assets based on the Bank's medium-term planning no later than at the beginning of every financial year. Maximum target achievement regarding operating profit before taxes is limited to 150 %; regarding risk-weighted assets, it is limited to 125 %. In the case of a negative target achievement regarding operating profit before taxes and risk-weighted assets, not only the profit component might be cancelled, but the performance component might also be set to nil. This being the case, the pool for the variable remuneration would be entirely cancelled.

Performance measurement on Group level additionally requires the Common Equity Tier 1 ratio as a measurement threshold in order to ensure adherence of the regulatory capital adequacy. In the case of a negative overall success of the Bank in the current financial year or an insufficient capital adequacy or liquidity situation, the Management Board may set the pool for the variable remuneration to nil. The capital and liquidity indicators eventually used by the Management Board to gradually reduce the pool for the variable remuneration will be applied according to the requirements of a recovery plan going forward.

The Management Board may take additional quantitative and/or qualitative success factors into account for the adjustment of the overall pool if exceptional and unexpected market developments occur, or substantial special projects need to be conducted during the year.

Cornerstones of the risk analysis carried out

The InstitutsVergV stipulates that the remuneration system of Aareal Bank AG (as a significant institution) needs to fulfil special requirements regarding "employees who exert a material influence on the institution's overall risk profile" (so-called risk takers). In order to identify this group of employees, Aareal Bank carries out an independent risk analysis, selecting the respective employees based on a uniform set of criteria. In addition, Aareal Bank AG (as a parent institution) has to identify risk takers on Group level. Aareal Bank carried out a risk analysis to identify risk takers in the financial year 2015, covering all employee groups below Management Board level, i.e. senior executives, non-tariff employees and tariff employees of Aareal Bank AG including its branches, representative offices and subsidiaries in Germany and abroad.

The identification of the entities and risk takers affected is being repeated annually to ensure the fulfilment of the InstitutsVergV's requirements at all times. Additional checks are carried out for newly hired employees and in the case of internal changes of function.

Remuneration model for risk takers

The determination of the variable remuneration (total incentive) for risk takers takes into account the Group's overall profit, the individual employee's performance contribution as well as the performance contribution of the organisational unit. The target for risk takers whose activities can clearly be allocated to a single business segment shall be assigned as the pro-rata share of their business segment (Structured Property Financing or Consulting/Services) in the operating profit before taxes. Risk takers whose activities can be allocated to staff and corporate services divisions, or to Credit Management, shall be assigned as target the cost-reduction target of the respective division.

Risk takers' variable remuneration consists of four components:

- cash component,
- share component,
- restricted cash award and
- restricted virtual share award.

The amount of the contractually agreed individual variable remuneration (target total incentives) of a risk taker is limited to 50 % of the fixed remuneration; in case of certain sales functions, it is limited to 100 % of the fixed remuneration following a resolution of the Annual General Meeting pursuant to section 25a (5) of the KWG. This ensures that the variable remuneration of an individual employee does not exceed 100 % of his/her fixed remuneration (or in the case of certain international sales functions, the ratio of 1:2 is respected) if a target achievement of 200 % is achieved.

Risk takers of the second-tier management level are entitled to receive 40 % of the individual total incentives immediately at the end of the reference period (other risk takers: 60 %). The immediate entitlement refers to an amount of 50 % to the cash component, which shall be disbursed in the year following the end of the reference period, and to an amount of 50 % to the share component, which consists of virtual shares entitled to dividends (and forming the ground for cash disbursement claims). However,

such cash amounts may only be disbursed after a two-year holding period. The payout amount corresponds to the weighted average price of Aareal Bank AG shares on Xetra® (as shown on Bloomberg) on the five exchange trading days following the publication of the preliminary results for the financial year preceding the payout date. The ceiling value is applicable for the conversion of the virtual shares which were granted for the 2014 financial year and the following financial years, with the proviso that the payout amount following the conversion of the virtual shares of a tranche (plus dividends) into a cash payment must not exceed 300 % of the share component of a given financial year.

An option right shall be given to the risk taker regarding the actual payout date; after the end of the holding period and after the regular payout date, the risk taker may determine further payout dates within a period of three years.

Risk takers of the second-tier management level shall initially be promised (but not granted) 60 %, other risk takers 40 %, of their individual total incentives. 50 % thereof relates to the restricted cash award, which shall be disbursed in equal proportions over a three-year period (interest shall be calculated pro rata temporis) (cash deferral). The remaining 50 % will be included in the restricted virtual share award (share deferral), representing virtual shares entitled to dividends in form of a share component. The risk taker is entitled to receive one third of his claims after one, two and three years, respectively; the earliest possible payout of each tranche takes place after a holding period of at least one year after creation of the entitlement. An option right will be given to the risk taker regarding the actual payout date of each tranche; after the end of the holding period and after the regular payout date, the risk taker may determine further payout dates within a period of three years for each tranche. The payout amount of a tranche is limited to 300 % of the share deferral promised (but not granted) to the risk taker for the respective year under evaluation. The payout amount is calculated based on the number of virtual shares and the corresponding share price (= weighted average price of Aareal Bank AG shares on Xetra® (as shown on Bloomberg) on the five exchange trading days following the publication of the preliminary results for the financial year preceding the first/second/third payout year).

Regarding the creation of entitlements of deferred portions of the variable remuneration, i.e. the tranches of the cash deferral including accrued interest and the tranches of the share deferral including virtual dividends, penalty rules have to be considered. For the purpose of these regulations, a penalty-triggering event shall be defined as a negative performance contribution of the risk taker him/herself, his/her organisational unit or a negative overall performance of the institution or Aareal Bank Group, which may result in a reduction or cancellation of the deferred portions of the variable remuneration. For the purpose of these regulations, a risk taker's negative performance contribution is to be assumed, for instance, if serious breaches of duty and/or performance deficiencies are discovered, which lead to the performance contributions – which were initially assumed to be positive – being later shown to have not been sustained (backtesting). Serious breaches of duty could be, for instance, misconduct giving rise to an extraordinary termination of the employment relationship with the risk taker, a breach of the hedging ban or violations of other fundamental regulations, such as the Code of Conduct or compliance guidelines.

(83) Remuneration governance

Remuneration Control Committee

The Remuneration Control Committee supports the Supervisory Board, according to section 15 of the InstitutsVergV in conjunction with section 25d (12) of the KWG, regarding the appropriate structuring of remuneration systems for Management Board members, as well as for the supervision of the remuneration systems for employees. One of the duties of the Remuneration Control Committee is to monitor the remuneration systems' influence on the risk, capital, and liquidity situation of Aareal Bank – and to ensure an appropriate alignment of the business, risk and remuneration strategies. The Remuneration Control Committee also monitors the appropriateness of the remuneration systems, responds to Supervisory Board enquiries, and reports on the appropriateness of the remuneration system's structure at least once a year by producing a remuneration report. The Remuneration Control Committee shall be convened whenever necessary, but at least four times a year. The composition of the Remuneration Control Committee is outlined in more detail in the chapter "Report of the Supervisory Board/Description of Management Board and Supervisory Board work processes".

Risk Committee

The Risk Committee verifies whether the incentives created by the remuneration system take the Company's risk, capital and liquidity structure into account, as well as the probability and timing of income. The Remuneration Control Committee's duties remain unaffected.

Remuneration Officer

Aareal Bank has appointed a Remuneration Officer, to carry out duties in accordance with section 24 of the InstitutsVergV. These duties include supporting the Supervisory Board and the Remuneration Control Committee in structuring and monitoring the remuneration system. The Remuneration Officer is obliged to respond to queries of the Remuneration Control Committee's Chairman. The Remuneration Officer reports on the appropriate structure of the remuneration systems in the form of a remuneration report at least once a year. Due to the responsibility of monitoring the appropriateness of the remuneration systems on a continuing basis, the Remuneration Officer is being included in the conceptional new drafting (and future development), as well as in the application of the remuneration systems. In particular, the Remuneration Officer plays an active part in the transparent and conceivable process for the determination of the total amount available for variable remuneration, the annual review of penalty rules, the regularly carried out (at least spot checks) review of appropriate compliance structures, the monitoring of the hedging ban (and potential violations), the drafting of the annual remuneration report (pursuant to section 16 of the InstitutsVergV in connection with art. 450 of the CRR) as well as the review of the risk taker analysis.

(84) Remuneration of the Supervisory Board

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. The Annual General Meeting held on 20 May 2015 passed a resolution for adjustments to the remuneration system for Supervisory Board members, with effect from 1 January 2015.

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

The fixed remuneration is € 50,000.00 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive three times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration is increased for each membership in a committee (with the exception of the Committee for Urgent Decisions, which is part of the Risk Committee). This additional fixed remuneration amounts to € 20,000 p.a. for membership of the Risk Committee and the Audit Committee; fixed remuneration is increased by € 40,000 p.a. for the chairmanship of one of these committees. Additional fixed remuneration for membership of the other committees amounts to € 15,000 p.a.; or € 30,000 p.a. for the chairmanship of such other committee.

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

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

The individual amount of the remuneration for the Supervisory Board is shown in the following table. Statutory value-added tax in the amount of 19 % will be reimbursed on top of the figures shown in the table.

	Year	Fixed remuneration	Attendance fees	Total remuneration
€				
Marija Korsch	2015	332,257.92	39,270.00	371,527.92
Chairman	2014	180,000.00	35,000.00	215,000.00
Erwin Flieger	2015	57,847.22	14,280.00	72,127.22
Deputy Chairman (until 20 May 2015)	2014	90,000.00	29,000.00	119,000.00
Prof Dr Stephan Schüller	2015	148,750.00	29,750.00	178,500.00
Deputy Chairman (since 20 May 2015)	2014	75,000.00	23,000.00	98,000.00
York-Detlef Bülow	2015	148,750.00	29,750.00	178,500.00
Deputy Chairman	2014	90,000.00	28,000.00	118,000.00
Christian Graf von Bassewitz	2015	41,650.00	8,330.00	49,980.00
(until 20 May 2015)	2014	60,000.00	15,000.00	75,000.00
Manfred Behrens	2015	23,138.89	3,570.00	26,708.89
(until 20 May 2015)	2014	30,000.00	7,000.00	37,000.00

	Year	Fixed remuneration	Attendance fees	Total remuneration
€				
Thomas Hawel	2015	70,457.92	10,710.00	81,167.92
	2014	30,000.00	7,000.00	37,000.00
Dieter Kirsch	2015	101,150.00	19,040.00	120,190.00
	2014	60,000.00	20,000.00	80,000.00
Dr Herbert Lohneiß (until 20 May 2015)	2015	32,394.44	4,760.00	37,154.44
	2014	45,000.00	11,000.00	56,000.00
Joachim Neupel (until 20 May 2015)	2015	50,905.56	8,330.00	59,235.56
	2014	75,000.00	17,000.00	92,000.00
Richard Peters	2015	96,026.39	17,850.00	113,876.39
	2014	30,000.00	7,000.00	37,000.00
Dr Hans-Werner Rhein (since 20 May 2015)	2015	62,094.86	11,900.00	73,994.86
	2014	–	–	–
Sylvia Seignette (since 20 May 2015)	2015	51,136.94	8,330.00	59,466.94
	2014	–	–	–
Elisabeth Stheeman ¹⁾ (since 20 May 2015)	2015	52,180.56	9,000.00	61,180.56
	2014	–	–	–
Hans-Dietrich Voigtländer (since 20 May 2015)	2015	84,010.69	14,280.00	98,290.69
	2014	–	–	–
Helmut Wagner (until 20 May 2015)	2015	23,138.89	3,570.00	26,708.89
	2014	30,000.00	7,000.00	37,000.00
Prof Dr Hermann Wagner (since 20 May 2015)	2015	80,358.06	11,900.00	92,258.06
	2014	–	–	–
Beate Wollmann (since 20 May 2015)	2015	36,526.39	4,760.00	41,286.39
	2014	–	–	–
Total	2015	1,492,774.73	249,380.00	1,742,154.73
	2014	795,000.00	206,000.00	1,001,000.00

¹⁾ Income tax plus solidarity surcharge for the Supervisory Board member subject to limited tax liability was declared pursuant to section 50a (1) no. 4 of the German Income Tax Act (Einkommensteuergesetz – "EStG"), and paid to the German Central Tax Office (Bundeszentralamt für Steuern).

Depending on the period of service on the Supervisory Board, remuneration is paid on a pro-rata basis.

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2015. Therefore, no additional remuneration was paid.

(85) Additional disclosures pursuant to IFRS 2 regarding share-based payment arrangements**Valuation model and valuation assumptions**

The obligations resulting from all of the described share-based payment arrangements as at the balance sheet date correspond to the remuneration granted, discounted to the balance sheet date. The discount period corresponds to the period from the balance sheet date to the earliest exercise or payout date per plan and per tranche. The discount is based on the Euribor swap rate applicable as at the relevant balance sheet date, depending on the term.

Amount of cash-settled share-based payment transactions

The total amount of outstanding virtual shares in relation to the above-mentioned share-based payment arrangements changed as follows:

	2015	2014
Quantity (number)		
Balance (outstanding) as at 1 January	643,824	949,366
Granted	503,290	190,627
of which: vested	362,140	128,930
of which: awarded on a provisional basis	141,150	61,697
Expired	–	–
Exercised	262,305	496,169
Balance (outstanding) as at 31 December	884,809	643,824
of which: exercisable	–	–

The fair value of the virtual shares granted during the reporting period amounts to € 14,665,882.84 (2014: € 6,345,981.42) as at the balance sheet date.

The virtual shares exercised during the reporting period were converted at a weighted average price of the Aareal Bank AG share of € 38.30 (2014: € 31.38).

The virtual shares outstanding at 31 December 2015 have a limited contract term. The weighted average remaining contract term of these virtual shares amounts to 389.43 days (2014: 429.26 days).

Effects on financial position and performance

The total amount expensed for share-based payment transactions was € 10.0 million during the financial year 2015 (2014: € 13.3 million). The portion of the total amount expensed attributable to members of the Management Board amounted to € 3.3 million (2014: € 3.7 million) and can be broken down to the individual members of the Management Board as follows.

	2015	2014
€		
Hermann J. Merkens ¹⁾	860,758	974,595
Dagmar Knopek	593,536	517,672
Thomas Ortmanns	717,971	748,244
Dr Wolf Schumacher ²⁾	1,018,459	1,305,912
Dirk Große Wördemann ³⁾	125,615	179,102

¹⁾ Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.

²⁾ Dr Schumacher resigned with effect from 30 September 2015.

³⁾ Mr Große Wördemann resigned as at 31 May 2013.

The intrinsic value of the virtual shares exercisable at the reporting date amounted to € 0 (2014: € 0), since there were no exercisable virtual shares at that date. The obligation from share-based payment transactions as at 31 December 2015 amounted to € 28.4 million (2014: € 31.3 million). It is reported in the statement of financial position in the line item "Provisions".

Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG. To ensure a presentation that is in line with industry standards, members of management or supervisory bodies of the Bank's subsidiaries, as well as members of Aareal Bank AG's first management or expert levels are no longer deemed to be other related parties, as defined by IFRSs.

Total remuneration of executives in key positions is analysed below:

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014 ¹⁾
€ 000's		
Short-term benefits	6,848	6,100
Post-employment benefits	5,690	6,884
Other long-term benefits	1,468	1,438
Termination benefits	6,854	–
Share-based payments	2,446	2,396
Total	23,306	16,818

¹⁾ The previous year's figures were adjusted due to the introduction of a more restrictive definition.

Provisions for pension obligations concerning key executives totalled € 10.2 million as at 31 December 2015.

Other Notes

(86) Assets and liabilities in foreign currency

Foreign currency assets

	31 Dec 2015	31 Dec 2014
€ mn		
USD	9,529	9,086
GBP	4,392	3,986
SEK	1,353	1,589
CHF	483	424
DKK	447	438
JPY	–	354
Other	417	452
Total	16,621	16,329

Foreign currency liabilities

	31 Dec 2015	31 Dec 2014
€ mn		
USD	9,551	9,060
GBP	4,326	3,935
SEK	1,444	1,606
CHF	478	419
DKK	455	445
JPY	–	298
Other	399	444
Total	16,653	16,207

(87) Subordinated assets

In the event of insolvency or liquidation of the issuer, subordinated assets are those subordinate to the claims of all other creditors.

There were no subordinated assets in the financial year 2015 (2014: –).

(88) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or a series of payments the right to use an asset for an agreed period of time. In accordance with IAS 17, leases where a material part of risks and rewards incidental to ownership of the leased assets remains with the lessor are classified as operating leases. Where substantially all risks and rewards are transferred to the lessee, the lease is classified as a finance lease. The provisions of IFRIC 4 were complied with as regards the application of IAS 17. Aareal Bank Group acts both as lessor and lessee. All rental contracts are classified as operating leases. They mainly refer to rented or let property.

Properties leased by the Group are reported under other assets.

Payments received or made under operating leases are recognised in income, on a straight-line basis over the term of the lease.

Maturity of minimum lease payments under operating leases

	31 Dec 2015	31 Dec 2014
€ mn		
Aareal Bank Group as lessee		
up to 1 year	15	14
longer than 1 year, and up to 5 years	41	37
longer than 5 years	20	25
Total minimum lease payments	76	76
Aareal Bank Group as lessor		
up to 1 year	2	17
longer than 1 year, and up to 5 years	4	70
longer than 5 years	4	46
Total minimum lease payments	10	133

In the financial year, lease payments of € 17 million (2014: € 20 million) were recognised as expenses in the financial year.

(89) Trust business

Aareal Bank Group's trust business at the balance sheet date is analysed below:

	31 Dec 2015	31 Dec 2014
€ mn		
Trust assets		
Loans and advances to customers	203	204
Non-trading assets	2	2
Total trust assets	205	206
Trust liabilities		
Liabilities to banks	15	14
Liabilities to customers	190	192
Total trust liabilities	205	206

(90) Contingent liabilities and loan commitments

	31 Dec 2015	31 Dec 2014
€ mn		
Contingent liabilities	162	140
Loan commitments	1,227	1,466
of which: irrevocable	797	920

Contingent liabilities include € 23 million (2014: € 26 million) in capital guarantees extended to DEPFA Deutsche Pfandbriefbank AG (within the scope of splitting the former DePfa Group), for the purpose of providing cover against risks of default with respect to the property loan portfolio held by DEPFA Deutsche Pfandbriefbank AG. € 1 million (2014: € 2 million) in provisions related to these capital guarantees was recognised as at 31 December 2015. In addition, this item includes the irrevocable payment obligation regarding the bank levy. These and the values reported under loan commitments given represent the maximum default risk to which Aareal Bank Group is exposed at the end of the reporting period.

Furthermore, the Bank is involved in legal disputes. Based on a legal analysis, successful outcome of these disputes is more likely than not. Essentially, these are legal disputes with borrowers (or former borrowers) who claim damages against the Bank. These are included in the table above, with a probability-weighted amount of € 40 million (2014: € 53 million), but have not been recognised as liabilities. We estimate the maximum default risk in the low triple-digit million range. The duration of proceedings depends on the complexity of each individual litigation, and the legal remedies available in each case. Likewise, the final amount in the event of defeat may vary considerably, depending upon the duration of proceedings and the legal remedies. Refunds of litigation costs are possible. Accordingly, the recognition of contingent liabilities is also subject to estimation uncertainties.

(91) Consolidated statement of cash flows

Aareal Bank Group's statement of cash flows records cash flows pertaining to the areas of operating activities, investing activities and financing activities for the period under review. The starting point of the consolidated statement of cash flows is the amount of cash and cash equivalents, consisting of cash on hand, balances with central banks as well as public-sector debt instruments and bills of exchange eligible for refinancing at central banks.

The definition of the term "operating activities" is consistent with the composition of the operating profit in the statement of comprehensive income. Cash flows from investing activities include proceeds from and payments in relation to property and equipment, non-trading assets and investment properties. Cash flows from financing activities include cash flows from transactions with providers of equity capital.

In connection with the assets acquired and liabilities assumed, as well as the purchase price paid within the context of the acquisition of WestImmo, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(92) Regulatory capital and capital management

As regards meeting minimum capital ratios, Aareal Bank Group has to comply with the capital adequacy requirements set out in the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD IV), the German Banking Act (Kreditwesengesetz, KWG) and the German Solvency Regulation (SolV) pursuant to Basel III. This requires the Bank to maintain own funds of at least 8 % of its risk-weighted assets (total capital ratio). Any additional country-specific capital requirements are taken into account. Risk-weighted assets had to be backed by Tier 1 capital of at least 6 % (Tier 1 ratio). Compliance with the capital requirements has to be reported to the competent supervisory authorities on a quarterly basis. The capital requirements were complied with at all times during the reporting period.

The objective of capital management within Aareal Bank Group is compliance with the legal minimum capital requirements, ensuring that internally targeted capital ratios are achieved, taking into account the full implementation of Basel III requirements, as well as the provision of a sufficient capital cushion to ensure, at any time, the Group's capacity to act. Funds are allocated to the individual business segments within the framework of capital management, aiming at optimising the return on equity.

The SREP requirement for Aareal Bank Group at the end of 2015 was a Common Equity Tier 1 (CET1) ratio of 8.75 %, including the capital conservation buffer.

Given prevailing uncertainty with regard to future regulatory requirements, we consider a fully phased-in Common Equity Tier 1 (CET1) ratio of at least 13 % (including a 2.25 % management buffer) to be appropriate. These ratios are considerably above the legal minimum requirements. Compliance with the minimum requirements is planned to be ensured through the generation of profits, an active dividend policy, optimisation of the capital structure, and an efficient management of risk assets.

Within the context of capital management, projections are made on a regular basis showing the changes of the individual capital components and risk-weighted assets, as well as the resulting capital ratios. This is reported regularly within the framework of management reporting. The strategic allocation of capital to the individual business segments is incorporated in the Group's annual overall planning process.

Aareal Bank Group's regulatory capital is composed of the following:

	31 Dec 2015 ¹⁾	31 Dec 2014
€ mn		
Tier 1 capital (T1)		
Subscribed capital and capital reserves	899	899
Eligible retained earnings	1,479	1,250
Accumulated other comprehensive income	-47	-18
Amounts to be deducted from CET1 capital	-33	-22
Sum total of Common Equity Tier 1 (CET1)	2,298	2,109
AT1 bond	300	300
Silent participations	126	144
Other	169	193
Amounts to be deducted from additional tier 1 capital	-11	-11
Sum total of additional tier 1 (AT1) capital	584	626
Sum total of Tier 1 capital (T1)	2,882	2,735

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	31 Dec 2015 ¹⁾	31 Dec 2014
€ mn		
Tier 2 capital (T2)		
Silent participations	54	36
Subordinated liabilities	965	988
Profit-participation certificates	11	22
Other	72	48
Amounts to be deducted from tier 2 capital	-7	-3
Sum total of Tier 2 capital (T2)	1,095	1,091
Total capital (TC)	3,977	3,826

¹⁾ After confirmation of Aareal Bank AG's financial statements for 2015. 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.

The regulatory measurement of risk-weighted assets (RWA) in the area of credit risks is based on both the Advanced Internal Ratings Based Approach (AIRBA) and on the standardised approach (CRSA). RWA as at 31 December 2015 can be analysed as follows:

	EAD 31 Dec 2015	Risk-weighted assets (RWA)			Regulatory capital requirements 31 Dec 2015	EAD 31 Dec 2014	RWA 31 Dec 2014	Regulatory capital requirements 31 Dec 2014
		AIRBA 31 Dec 2015	CRSA 31 Dec 2015	Total 31 Dec 2015				
€ mn								
Credit risks	53,053	10,629	4,029	14,658	1,173	50,659	13,688	1,095
Companies	33,463	8,481	2,647	11,128	890	32,089	10,551	844
Institutions	4,455	462	101	563	45	6,103	760	61
Public-sector entities	12,507	0	20	20	2	11,218	14	1
Other	2,628	1,686	1,261	2,947	236	1,249	2,363	189
Market price risks				124	10		168	14
Credit Valuation Adjustment				264	21		329	26
Operational risks				1,663	133		1,307	104
Total	53,053	10,629	4,029	16,709	1,337	50,659	15,492	1,239

(93) Related party disclosures in accordance with IAS 24

Throughout the financial year 2015, the Bank has reported purchases and sales subject to reporting requirements under No. 6.6 of the German Corporate Governance Code, as well as under section 15a of the German Securities Trading Act (WpHG) to BaFin, the German financial services regulatory agency, without delay, and also published such details on its website. Furthermore, Aareal Bank AG has undertaken in its Code to disclose on its website, without delay, each reported purchase or sale by members of the Management Board or the Supervisory Board.

The group of related parties of Aareal Bank Group comprises the members of management or supervisory bodies and close members of these persons' families. The members of management or supervisory bodies of Aareal Bank AG's subsidiaries, plus first-level managers and experts of Aareal Bank AG are no longer classified as other related parties in accordance with IAS, in line with the typical approach used in the industry. The group of companies related to Aareal Bank Group consists of the companies set out in Note 102 "List of Shareholdings" as well as the companies attributable to the related persons within the meaning of IAS 24.9 (b)(vi).

The following list provides an overview of existing related party transactions:

	31 Dec 2015	31 Dec 2014
€ mn		
Management Board	–	–
Supervisory Board	0	0
Other related parties ¹⁾	–	–
Total	0	0

¹⁾ The previous year's figure was adjusted due to a narrower definition.

The loan extended to one member of the Supervisory Board in the amount of € 0.04 million has a term of ten years and bears interest at a (nominal) rate of 5.12 %. Collateral was provided in line with usual market practice. Interest received and paid in this context had no material impact on the consolidated financial statements.

In addition, there were no further significant transactions within the meaning of IAS 24.

(94) Events after the reporting date

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

(95) List of offices held – corporate governance report

The List of Offices Held, which has been deposited with the Commercial Register at the Wiesbaden District Court, includes all offices held in German and foreign companies. Like the Corporate Governance Report, the list is available, free of charge, from Aareal Bank AG in Wiesbaden, or from the internet on www.aareal-bank.com.

(96) Contingencies

By means of a Letter of Comfort, Aareal Bank AG guarantees that Aareal Bank Capital Funding LLC, Wilmington, is able to fulfil its contractual obligations.

By means of a Letter of Comfort in favour of the Monetary Authority of Singapore, Aareal Bank AG has undertaken to ensure that Aareal Bank Asia Ltd. is able to fulfil its obligations at any time.

(97) Disclosures pursuant to section 160 (1) no. 8 of the AktG

Pursuant to the German Securities Trading Act (WpHG), any investor whose shareholding in a listed company reaches, exceeds or falls short of certain threshold values in terms of voting rights (whether by purchase, sale or by any other means) must notify the Company and the German Federal Financial Supervisory Authority. The lowest threshold for this notification requirement is 3 %. 100 % of Aareal Bank AG shares are held in free float.

As at 31 December 2015, we were aware of the following shareholders holding a share in the voting rights of at least 3 % pursuant to section 21 (1) of the WpHG:

	Location	Total ¹⁾	Notification date
Responsible entity			
VBL	Karlsruhe	6.50 %	3 February 2015
DEKA	Frankfurt	5.58 %	3 February 2015
Dimensional Fund	Austin	3.04 %	29 May 2012
Allianz Global Investors GmbH	Frankfurt	4.88 %	13 November 2015
FMR LLC, Boston (Fidelity Group)	Boston	3.45 %	29 May 2015
Deutsche Asset & Wealth Management Investment GmbH	Frankfurt	4.80 %	11 November 2015

¹⁾ Voting interests held directly and indirectly

(98) Declaration of Compliance in accordance with Section 161 of the AktG

The Management Board and the Supervisory Board issued the Declaration of Compliance as stipulated in section 161 of the AktG, and made this Declaration available to shareholders. It is available to the public on the Company's website on <http://www.aareal-bank.com/en/about-us/corporate-governance/declaration-of-compliance/>.

(99) Employees

The number of Aareal Bank Group employees¹⁾ at 31 December 2015 is shown below:

	31 Dec 2015	31 Dec 2014
<i>Yearly average</i>		
Salaried employees	2,695	2,386
Executives	166	162
Total	2,861	2,548
of which: Part-time employees	514	441

The annual average number of Aareal Bank Group employees in 2015²⁾ is shown below:

	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
<i>Yearly average</i>		
Salaried employees	2,557	2,374
Executives	162	143
Total	2,719	2,517
of which: Part-time employees	487	435

(100) Nature and extent of interests in unconsolidated structured entities

In accordance with IFRS 12.24, the nature and extent of interests in unconsolidated structured entities as well as the nature of, and changes in, the risks associated with such interests have to be disclosed in the annual report. An interest in a structured entity arises from a contractual and non-contractual involvement which entitles the Group to receive variable returns from the relevant activities of the structured entity. Examples for this are equity or debt instruments of structured entities or the provision of financing, collateral and guarantees to structured entities.

Structured entities are companies where voting rights or similar rights are not the dominant factor to assess control of the company. The relevant activities of structured entities are directed by means of contractual arrangements; any voting rights relate to administrative tasks only. Structured entities are characterised by features or attributes such as restricted activities, a narrow and well-defined objective and/or insufficient equity. In addition, structured entities may relate to financings in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks. Examples of structured entities are securitisation vehicles, asset-backed financings and some investment funds.

¹⁾ This number does not include 41 (2014: 20) employees of the hotel business La Sessola Service S.r.l.

²⁾ This number does not include 132 (2014: 2) employees of the hotel business La Sessola Service S.r.l.

Aareal Bank Group interacts with structured entities such as open-ended property funds, leased property companies and asset-backed security companies. The Group's business relationships are restricted to the provision of financings to structured entities in the form of loans or guarantees and to the holding of debt instruments issued by structured entities. The leased property companies were established by third parties for the financing of particular transactions and have the legal form of a German private limited company with a limited liability company as general partner (GmbH & Co KG) where Aareal Bank Group holds marginal interests in some cases. In the year under review and the previous year, Aareal Bank Group did not provide any non-contractual support for unconsolidated structured entities.

The following table shows the carrying amounts of assets and liabilities recognised by Aareal Bank Group as at the reporting date as well as the existing off-balance sheet risk exposures that relate to unconsolidated structured entities. The carrying amounts of the assets and off-balance sheet items correspond to the Group's maximum loss exposure from interests in unconsolidated structured entities (without taking into account collateral). The size of the structured entities was determined on the basis of the net fund assets for open-ended property funds, of total assets for leased property companies, and of the nominal value of the launched total issue for asset-backed security entities.

The addition to loans and advances to customers in relation to open-ended property funds is the result of the acquisition of Westdeutsche ImmobilienBank AG.

31 December 2015

	Open-ended property funds	Leased property companies	Asset-backed security (ABS) companies	Total
€ mn				
Assets	514	41	118	673
Loans and advances to customers	514	41	–	555
Non-trading assets	–	–	118	118
Liabilities	–	–	–	–
Off-balance sheet risk exposures	–	–	–	–
Size Range of structured units	€ 61 mn– € 13,195 mn	€ 14 mn– € 50 mn	€ 19 mn– € 2,500 mn	

31 December 2014

	Open-ended property funds	Leased property companies	Asset-backed security (ABS) companies	Total
€ mn				
Assets	105	86	129	320
Loans and advances to customers	105	86	–	191
Non-trading assets	–	–	129	129
Liabilities	–	–	–	–
Off-balance sheet risk exposures	–	–	–	–
Size Range of structured units	€ 378 mn - € 1,797 mn	€ 7 mn - € 55 mn	€ 22 mn - € 2,704 mn	

(101) Country-by-Country Reporting

The disclosure requirements refer to information on registered office, revenue, profit or loss, taxes on profit or loss, received government assistance as well as wage and salary earners of Aareal Bank AG, together with its foreign branches and domestic and foreign subsidiaries included in the reporting entity-structure, prior to consolidation.

For this purpose, the Bank's entities – subsidiaries as well as Aareal Bank AG's foreign branches – are allocated to our two business segments, Structured Property Financing and Consulting/Services.

Aareal Bank defines the branch offices' operating profit, which is used as a proxy for revenue, as the sum of the following consolidated income statement items (in accordance with IFRSs):

- net interest income before allowance for credit losses;
- net commission income;
- net result on hedge accounting;
- net trading income/expenses;
- results from non-trading assets;
- results from investments accounted for using the equity method;
- results from investment properties;
- net other operating income/expenses; and
- negative goodwill.

Taxes disclosed are tax expenses in accordance with IFRSs.

The number of wage and salary earners relates to average full-time equivalent staff employed during the financial year.

The following overview shows all countries where Aareal Bank AG has offices, including foreign branches and subsidiaries. Please refer to the list of shareholdings as regards the allocation of individual subsidiaries to the relevant country of domicile. Aareal Bank AG's foreign branches are located in Belgium, France, Ireland, Italy, Poland, Sweden and the United Kingdom.

2015

	Revenues	Profit or loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	982	494	106	1,193
Belgium	2	-1	-	4
France	8	5	3	6
Germany	815	384	91	1,039
Ireland	1	-5	6	10
Italy	52	35	-13	79
Netherlands	-	-	-	-
Poland	10	6	1	7
Singapore	3	2	-	5
Spain	-	-	-	-
Sweden	18	14	1	7
Switzerland	1	1	-1	-
United Kingdom	14	11	2	7
USA	61	42	16	29
Consolidation	-3	0	0	-
Consulting/Services segment	172	-24	-10	1,281
France	20	4	1	162
Germany	114	-35	-12	763
Netherlands	18	6	1	171
Norway	-	-	-	6
Sweden	11	1	-	79
United Kingdom	9	-	-	100
Consolidation	0	-	-	-
Total	1,154	470	96	2,474

Government assistance was not received in financial year 2015.

Aareal Bank Group's return on assets, calculated as the ratio of net profit to total assets, was 0.68 % as at the record date.

2014

	Revenues	Profit or loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	858	459	109	1,128
Belgium	1	–	–	6
France	11	8	2	6
Germany	699	431	93	996
Ireland	11	4	-6	10
Italy	51	-65	-4	57
Netherlands	1	1	–	–
Poland	10	7	1	7
Singapore	2	–	–	5
Spain	–	–	–	–
Sweden	–	–	–	6
Switzerland	9	9	1	–
United Kingdom	11	9	-3	7
USA	77	55	24	28
Consolidation	-25	–	1	–
Consulting/Services segment	166	-22	-8	1,267
France	20	5	1	156
Germany	138	-33	-9	774
Netherlands	17	3	–	156
Norway	–	–	–	5
Sweden	8	1	–	73
United Kingdom	9	2	–	103
Consolidation	-26	–	–	–
Total	1,024	437	101	2,395

(102) List of shareholdings

The list of shareholdings is disclosed pursuant to section 313 (2) of the HGB. The disclosures in relation to the companies' equity and earnings are retrieved from the financial statements based on the respective local financial reporting principles.

31 December 2015

No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden			
I. Fully-consolidated subsidiaries					
2	1st Touch Ltd.	Southampton	100.0	GBP 2.4 mn	GBP 0.2 mn ²⁾
3	Aareal Bank Asia Ltd.	Singapur	100.0	SGD 17.2 mn	SGD 2.2 mn ¹⁾
4	Aareal Bank Capital Funding LLC	Wilmington	100.0	250.0	0.0
5	Aareal Bank Capital Funding Trust	Wilmington	100.0	0.0	0.0
6	Aareal Beteiligungen AG	Frankfurt	100.0	297.8	0.0 ³⁾
7	Aareal Capital Corporation	Wilmington	100.0	USD 217.8 mn	USD 12.0 mn ¹⁾
8	Aareal Estate AG	Wiesbaden	100.0	2.8	0.0 ³⁾
9	Aareal First Financial Solutions AG	Mainz	100.0	3.2	0.0 ³⁾
10	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.3	0.1 ¹⁾
11	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	229.7	0.0 ³⁾
12	Aareal Valuation GmbH	Wiesbaden	100.0	0.5	0.0 ³⁾
13	Aareon AG	Mainz	100.0	94.9	10.3
14	Aareon Deutschland GmbH	Mainz	100.0	33.9	0.0 ³⁾
15	Aareon France S.A.S.	Meudon-la Forêt	100.0	6.2	2.7 ²⁾
16	Aareon Immobilien Projekt GmbH	Essen	100.0	0.7	0.0 ³⁾
17	Aareon Nederland B.V.	Emmen	100.0	17.8	2.3 ²⁾
18	Aareon UK Ltd.	Coventry	100.0	GBP 4.1 mn	GBP 0.8 mn ²⁾
19	AHBR-Grundstücksverwaltungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.9	0.0 ³⁾
20	AHBR Projektentwicklung GmbH	Frankfurt	100.0	0.7	0.0 ¹⁾
21	Aqvatrium AB	Stockholm	100.0	SEK 338.9 mn	SEK -43.5 mn ¹⁾
22	arsago Alternative Investments SPC	Grand Cayman	67.0	n/a	n/a
23	BauContact Immobilien GmbH	Wiesbaden	100.0	26.3	-0.6
24	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 ³⁾
25	BauGrund TVG GmbH	Munich	100.0	0.1	0.0 ¹⁾
26	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	3.1	3.0 ¹⁾
27	BGS-Beteiligungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.8	0.0 ³⁾
28	BVG – Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	216.6	0.0 ³⁾
29	DBB Inka	Dusseldorf	100.0	101.3	0.5

¹⁾ Preliminary figures as at 31 December 2015 ²⁾ Equity and results as at 31 December 2014

³⁾ Profit transfer agreement / control and profit transfer agreement ⁴⁾ Different financial year

n/a no data

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No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ mn	€ mn
30	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	1.4	0.1 ¹⁾
31	Deutsche Structured Finance GmbH	Wiesbaden	100.0	4.5	0.2 ¹⁾
32	DSF Elfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 ²⁾
33	DSF Flugzeugportfolio GmbH	Wiesbaden	100.0	0.0	0.0 ³⁾
34	DSF German Office Fund GmbH & Co. KG	Wiesbaden	94.0	1.0	-1.0 ¹⁾
35	DSF Neunte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 ²⁾
36	DSF Solar Italien GmbH & Co. KG	Wiesbaden	100.0	0.0	0.0 ⁴⁾
37	DSF Vierte Verwaltungsgesellschaft mbH	Wiesbaden	100.0	2.2	0.0 ³⁾
38	DSF Zwölfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.3	0.0 ²⁾
39	Facilitor B.V.	Enschede	100.0	1.3	0.3 ²⁾
40	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	30.0	0.0 ³⁾
41	GEV Beteiligungsgesellschaft mbH	Wiesbaden	100.0	0.1	0.0 ¹⁾
42	GEV GmbH	Wiesbaden	100.0	18.0	0.0 ³⁾
43	GFI Gesellschaft für Investitionsberatung in Immobilien mit beschränkter Haftung	Frankfurt	100.0	0.1	0.0 ³⁾
44	GPP-Grundstücksgesellschaft Pariser Platz 6a mit beschränkter Haftung	Frankfurt	100.0	0.1	0.0 ³⁾
45	GVN-Grundstücks- und Vermögensverwaltungs-gesellschaft mit beschränkter Haftung	Frankfurt	100.0	52.5	0.0 ³⁾
46	IMMO Consulting S.r.l.	Rom	100.0	0.5	0.1 ¹⁾
47	Incit AB	Mölnädal	100.0	SEK 20.7 mn	SEK 5.3 mn ²⁾
48	Incit AS	Oslo	100.0	NOK -0.9 mn	NOK -1.9 mn ²⁾
49	Incit Nederland B.V.	Gorinchem	100.0	-0.5	0.1 ²⁾
50	IV Beteiligungsgesellschaft für Immobilien-investitionen mbH	Wiesbaden	100.0	2.3	0.0
51	Izalco Spain S.L.	Madrid	100.0	11.1	0.0 ³⁾
52	Jomo S.p.r.l.	Brussels	100.0	6.7	-0.4 ¹⁾
53	La Sessola Holding GmbH	Wiesbaden	100.0	96.9	-33.0 ¹⁾
54	La Sessola S.r.l.	Rome	100.0	126.1	-9.8 ¹⁾
55	La Sessola Service S.r.l.	Rome	100.0	2.7	-2.4 ¹⁾
56	Mercadea S.r.l.	Rome	100.0	6.9	0.0 ¹⁾
57	Mirante S.r.l.	Rome	100.0	13.4	-0.5 ¹⁾
58	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 ³⁾
59	Participation Neunte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 ³⁾
60	phi-Consulting GmbH	Bochum	100.0	1.1	0.2 ¹⁾
61	Real Verwaltungsgesellschaft mbH	Schönefeld	100.0	26.9	0.1
62	Sedum Grundstücksverwaltungsgesellschaft mbH & Co.Vermietungs KG	Mainz	94.9	-0.9	-0.2 ¹⁾
63	Solon 1. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
64	Solon 2. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
65	Solon 3. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
66	Solon 4. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0

¹⁾ Preliminary figures as at 31 December 2015 ²⁾ Equity and results as at 31 December 2014

³⁾ Profit transfer agreement / control and profit transfer agreement ⁴⁾ Different financial year

n/a no data

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No.	Company name	Registered office	Share in capital	Equity	Results
			%	€ mn	€ mn
67	Square DMS Groep B.V.	Grathem	100.0	-0.1	0.8 ²⁾
68	Square Document Management Systems B.V.	Grathem	100.0	1.9	0.8 ²⁾
69	Square Document Management Systems Research B.V.	Grathem	100.0	0.1	0.0 ²⁾
70	Sustainable Solar Thermal Future East – Crete Limited Liability Company	Heraklion	99.0	0.5	0.0 ²⁾
71	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99.9	4.7	0.0 ³⁾
72	Terrain Beteiligungen GmbH	Wiesbaden	94.0	49.8	18.2 ¹⁾
73	Westdeutsche ImmobilienBank AG	Mainz	100.0	451.9	0.0 ³⁾
II. Joint Arrangements					
74	Konsortium BauGrund/TREUREAL	Bonn	50.0	0.0	0.0 ¹⁾
75	SG2ALL B.V.	Huizen	50.0	0.3	0.2 ²⁾
III. Associates					
76	CredataRate Solutions GmbH	Cologne	25.9	2.2	0.2 ²⁾
77	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.4	0.0 ²⁾
78	Rathaus-Carrée Saarbrücken Verwaltungs GmbH i.L.	Cologne	25.0	0.1	0.0 ²⁾
79	Rathaus-Carrée Saarbrücken Verwaltungs GmbH & Co. KG i.L.	Cologne	25.0	0.1	0.0 ²⁾
80	Rehabilitationsklinik Uckermark GmbH i.L.	Templin	49.0	n/a	n/a
81	Westhafen Haus GmbH & Co. Projektentwicklungs KG i.L.	Frankfurt	25.0	-0.2	0.0 ²⁾
82	Westhafen-Gelände Frankfurt am Main GbR i.L.	Frankfurt	33.3	0.1	0.0 ²⁾

¹⁾ Preliminary figures as at 31 December 2015 ²⁾ Equity and results as at 31 December 2014

³⁾ Profit transfer agreement / control and profit transfer agreement ⁴⁾ Different financial year

n/a no data

(103) Offices held by employees of Aareal Bank AG pursuant to 340a (4) No. 1 of the HGB

This disclosure refers to all offices in statutory supervisory bodies of large corporations held by employees of Aareal Bank AG:

Dr Stefan Lange, Bank Director		
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board	since 16 October 2015

(104) Executive bodies of Aareal Bank AG – Offices held in accordance with section 285 no. 10 of the German Commercial Code (HGB) in conjunction with section 125 (1) sentence 5 of the German Public Limited Companies Act (Aktiengesetz – "AktG")

Supervisory Board

Marija Korsch, Chairman of the Supervisory Board

Former partner of Bankhaus Metzler seel. Sohn & Co. Holding AG

Aareal Bank AG	Chairman of the Supervisory Board
Just Software AG	Member of the Supervisory Board

Erwin Flieger, Deputy Chairman of the Supervisory Board (until 20 May 2015)

Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe

Aareal Bank AG	Deputy Chairman of the Supervisory Board	until 20 May 2015
Bayerische Beamten Lebensversicherung a.G.	Chairman of the Supervisory Board	
Bayerische Beamten Versicherung AG	Chairman of the Supervisory Board	
BBV Holding AG	Chairman of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Chairman of the Supervisory Board	
Neue Bayerische Beamten Lebensversicherung AG	Chairman of the Supervisory Board	

Prof Dr Stephan Schüller, Deputy Chairman of the Supervisory Board (since 20 May 2015)

Spokesman of the General Partners of Bankhaus Lampe KG

Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015
Aareal Bank AG	Deputy Chairman of the Supervisory Board	since 20 May 2015
DePfa Holding Verwaltungsgesellschaft mbH	Deputy Chairman of the Supervisory Board	
Universal-Investment-Gesellschaft mbH	Member of the Supervisory Board	
Howaldt & Co. Investmentaktiengesellschaft TGV	Member of the Supervisory Board	since 20 November 2015

York-Detlef Bülow*, Deputy Chairman of the Supervisory Board

Aareal Bank AG

Aareal Bank AG	Deputy Chairman of the Supervisory Board
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Christian Graf von Bassewitz (until 20 May 2015)

Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG

Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015
Bank für Sozialwirtschaft Aktiengesellschaft	Member of the Supervisory Board	
Deutscher Ring Krankenversicherungsverein a.G.	Deputy Chairman of the Supervisory Board	
SIGNAL IDUNA Allgemeine Versicherung AG	Member of the Supervisory Board	
SIGNAL IDUNA Holding AG	Member of the Supervisory Board	
Societaet CHORVS AG	Member of the Supervisory Board	

Manfred Behrens (until 20 May 2015)

Former CEO/Chairman of the Management Board of Swiss Life Deutschland Holding GmbH

Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015
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* Employee representative member of the Supervisory Board of Aareal Bank AG

Thomas Hawel*		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Deputy Chairman of the Supervisory Board	

Dieter Kirsch*		
Aareal Bank AG		
Aareal Bank AG	Member of the Supervisory Board	

Dr Herbert Lohneiß (until 20 May 2015)		
Former Chief Executive Officer of Siemens Financial Services GmbH (retired)		
Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015
UBS Global Asset Management (Deutschland) GmbH	Member of the Supervisory Board	

Joachim Neupel, Chairman of the Audit Committee of the Supervisory Board (until 20 May 2015)		
German Public Auditor and tax advisor		
Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015

Richard Peters		
President and Chairman of the Management Board of the Versorgungsanstalt des Bundes und der Länder		
Aareal Bank AG	Member of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board	

Dr Hans-Werner Rhein (since 20 May 2015)		
German Lawyer (Rechtsanwalt)		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015
Deutsche Familienversicherung AG	Chairman of the Supervisory Board	
Gothaer Allgemeine Versicherung AG	Member of the Supervisory Board	

Sylvia Seignette (since 20 May 2015)		
Former CEO for Germany and Austria, Calyon		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015

Elisabeth Stheeman (since 20 May 2015)		
Senior Advisor, Bank of England, Prudential Regulation Authority		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015
TLG Immobilien AG	Member of the Supervisory Board	
Courno	Member of the Supervisory Board	
Redefine International PLC	Member of the Supervisory Board	22 April 2015 until 30 August 2015

Hans-Dietrich Voigtländer (since 20 May 2015)		
Senior Partner of BDG Innovation + Transformation GmbH & Co. KG		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015

* Employee representative member of the Supervisory Board of Aareal Bank AG

Helmut Wagner* (until 20 May 2015)**Aareon Deutschland GmbH**

Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015
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Prof Dr Hermann Wagner, Chairman of the Audit Committee (since 20 May 2015)**German Chartered Accountant, tax consultant**

Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015
btu beraterpartner Holding	Member of the Supervisory Board	
PEH Wertpapier Deutschland	Member of the Supervisory Board	
Deutsche Mittelstand Real Estate AG	Chairman of the Supervisory Board	
Squadra Immobilien GmbH & Co. KGaA	Member of the Supervisory Board	

Beate Wollmann* (since 20 May 2015)**Aareon Deutschland GmbH**

Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015
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* Employee representative member of the Supervisory Board of Aareal Bank AG

Composition of Supervisory Board's committees**Executive and Nomination Committee**

Marija Korsch	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Richard Peters	
Dr Hans-Werner Rhein	

Technology and Innovation Committee

Hans-Dietrich Voigtländer	Chairman
Marija Korsch	Deputy Chairman
Thomas Hawel	
Richard Peters	
Elisabeth Stheeman	

Audit Committee

Prof Dr Hermann Wagner	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
York-Detlef Bülow	
Marija Korsch	
Richard Peters	
Hans-Dietrich Voigtländer	

Remuneration Control Committee

Marija Korsch	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Dieter Kirsch	
Hans-Dietrich Voigtländer	

Risk Committee

Marija Korsch	Chairman
Elisabeth Stheeman	Deputy Chairman
Dieter Kirsch	
Dr Hans-Werner Rhein	
Sylvia Seignette	
Prof Dr Hermann Wagner	

Committee for Urgent Decisions

Marija Korsch
Elisabeth Stheeman
Dieter Kirsch
Dr Hans-Werner Rhein
Sylvia Seignette
Prof Dr Hermann Wagner

Management Board

Dr Wolf Schumacher, Chairman of the Management Board (untils 17 September 2015)

Corporate Communications, Investor Relations, Corporate Development, Human Resources, Legal, Compliance, Audit and Operations

Aareon AG	Member of the Supervisory Board	until 17 September 2015
Aareal Beteiligungen AG (former Corealcredit)	Chairman of the Supervisory Board	until 17 September 2015
Westdeutsche ImmobilienBank AG	Chairman of the Supervisory Board	from 1 June 2015 to 18 September 2015

Hermann Josef Merkens, Chairman of the Management Board (until 17 September 2015 Deputy Chairman of the Management Board)

Finance, Risk Controlling, Participating Interests, Credit Management. Portfolio Management and Workout, since 17 September 2015 responsible for the following divisions: Corporate Communications, Investor Relations, Corporate Development, incl. Sustainability, Human Resources, Legal, Compliance and Operations

Aareal Estate AG	Chairman of the Supervisory Board	
Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Capital Corporation	Member of the Board of Directors	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Aareon AG	Deputy Chairman of the Supervisory Board	until 26 March 2015
Aareon AG	Chairman of the Supervisory Board	since 26 March 2015
Aareal Beteiligungen AG (former Corealcredit)	Deputy Chairman of the Supervisory Board	until 21 December 2015
Aareal Beteiligungen AG (former Corealcredit)	Chairman of the Supervisory Board	since 21 December 2015
CredaRate Solutions GmbH	Deputy Chairman of the Supervisory Board	
Westdeutsche ImmobilienBank AG	Deputy Chairman of the Supervisory Board	from 1 June 2015 to 16 October 2015
Westdeutsche ImmobilienBank AG	Chairman of the Supervisory Board	since 16 October 2015

Dagmar Knopek, Member of the Management Board

Sales Units Structured Property Financing

Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Bank Asia Limited	CEO (Chairman)	
Aareal Capital Corporation	Chairman of the Board of Directors	
Aareon AG	Member of the Supervisory Board	
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board	since 16 October 2015

Thomas Ortmanns, Member of the Management Board

Housing Industry, Treasury, Organisation, Information Technology and Organisation, Audit

Aareal First Financial Solutions AG	Chairman of the Supervisory Board	
Aareon AG	Chairman of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	
HypZert GmbH	Member of the Supervisory Board	
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board	since 16 October 2015

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Wiesbaden, 1 March 2016

The Management Board



Hermann J. Merkens



Dagmar Knopek



Thomas Ortmanns

Auditors' Report

Independent Auditors' Report

To Aareal Bank AG, Wiesbaden

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aareal Bank AG, Wiesbaden and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the Notes to the consolidated financial statements for the business year from 1 January to 31 December, 2015.

Board of Managing Directors' responsibility for the Consolidated Financial Statements

The Board of Managing Directors of Aareal Bank AG, Wiesbaden is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Board of Managing Directors is also responsible for the internal controls as the Board of Managing Directors determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

According to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at 31 December 2015 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Group Management Report

We have audited the accompanying group management report of Aareal Bank AG, Wiesbaden for the business year from 1 January to 31 December 2015. The Board of Managing Directors is responsible for the preparation of the group management report in accordance with the requirements of German commercial law applicable pursuant to § 315a Abs. 1 HGB. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the group management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the group management report to obtain reasonable assurance about whether the group management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 Abs. 3 Satz 1 HGB we state, that our audit of the group management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and group management report, the group management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 2 March 2016

**PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft**

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

**ppa. Kay Böhm
Wirtschaftsprüfer
(German Public Auditor)**