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2014

Aareal Bank AG – Annual Report 2014

Aareal Bank

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Management Report

Fundamental information about the Group

The Group's business model

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

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

Aareal Bank Group's business model comprises two segments:

Structured Property Financing

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

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

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

Consulting/Services

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

We operate the IT systems consultancy and related advisory services for the housing and commercial property industries through our Aareon AG subsidiary, which looks back at almost 60 years experience. With its portfolio consisting of software, services and advisory offerings, Aareon supports property companies to optimise and automate their internal and external business processes, e.g. in relation to tenants and business partners. The quality of these processes can thus be further improved overall. Aareon is active in several European countries, with Germany being its core market. The Enterprise Resource Planning (ERP) product portfolio for efficient process planning comprises Wodis Sigma, SAP® solutions and Blue Eagle as well as the GES system. Aareon's international subsidiaries also offer ERP systems that are tailored to meet the needs of the respective market. These are Prem'Habitat and PortalImmo Habitat in France, QL in the UK and SG|tobias and the SG|tobias^AX product generation in the Netherlands. Our Swedish subsidiary Incit AB, which is also represented in the Netherlands and in Norway, offers the ERP system Incit Xpand. Clients can use Aareon's ERP solutions in different operating environments, depending on the product: software as a service provided through the exclusive Aareon Cloud, ASP

(Application Service Providing), hosting and in-house services. ERP solutions and integrated services, together with additional services, support the process-efficient cooperation between property companies and their business partners. Integrated services are incorporated directly in the ERP solutions and share the same database. These services include, for example, the Mareon service portal, the Aareon invoicing service, Aareon Archiv kompakt, insurance management with BauSecura, Customer Relationship Management (CRM) solutions and mobile services. This range is complemented by sector-specific advisory services for all products and services.

In its Housing Industry division, Aareal Bank markets its automated mass payments system BK01. In this context, the Bank performs payment transactions and account maintenance for its clients in Germany and integrates both in the customers' IT systems. The Housing Industry division's clients are part of the housing and commercial property industries, as well as of the utilities and waste disposal industries. The settlement of payment transactions via Aareal Bank generates deposits that contribute significantly to Aareal Bank Group's refinancing base.

Management system

Aareal Bank Group is managed using key financial performance indicators, taking the Group's risk-bearing capacity into account. Management takes place primarily at Group level, and is additionally differentiated by business segment. Group management is based on medium-term Group planning, prepared annually, which is geared towards the Group's long-term business strategy. An extensive (management) reporting system regularly provides the information required for management and monitoring purposes.

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

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

The preservation of capital and the ability to distribute dividends are additional financial performance indicators applicable to Aareal Bank AG.

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

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

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

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

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

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

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

In the Consulting/Services segment, management of the Group entities allocated to the segment is oriented on specific indicators, depending on each entity's business focus – primarily the contribution to consolidated operating profit. We also use specific performance indicators that are typical for consulting and services in the IT business, the focus of this segment. These include indicators relating to regular client satisfaction surveys, as well as capacity utilisation indicators in the consultancy business. The volume of deposits is a key performance parameter in the Bank's Housing Industry division.

Report on the Economic Position

Macro-economic environment

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

Economy

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

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

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

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

Annual rate of change in real gross domestic product in %

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

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

Financial and capital markets, monetary policy and inflation

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

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

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

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

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

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

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

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

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

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

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

The low interest rate environment in Europe continued to solidify. Long-term interest rates[1] for the major currencies in which the Bank is active fell considerably, to very low levels – whereas short-term interest rates[2] in many of the relevant currencies fluctuated only slightly, with a more pronounced decline seen for the Swedish krona, and – to a minor extent – the euro.

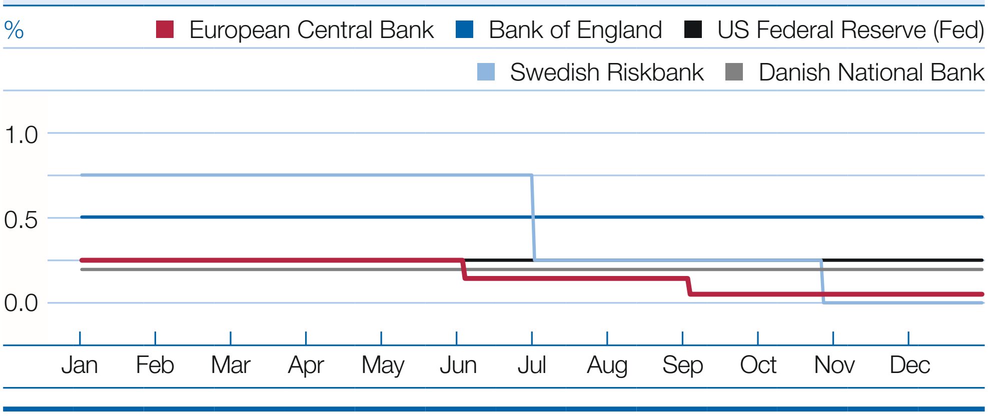
The euro exchange rate fell significantly against some foreign currencies, with a particularly pronounced decline against the US dollar from the mid-year point onwards. The euro also declined noticeably against pound sterling and the Canadian dollar. The euro's depreciation against the Swiss franc was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

Monetary policy has remained very expansive in the advanced economies. However, decisions taken by central banks during the course of the year showed that these have embarked upon diverging paths.

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

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

Key rate developments in 2014[1]



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

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

Regulatory environment

The emphasis in the banking sector remains on the various regulatory and reform measures. Many measures were adopted during the period under review, while others were still being discussed or prepared. The question as to what the cumulative impact will be for banks and the real economy has yet to be answered. The focus was on the ECB's extensive Comprehensive Assessment. All banks directly supervised by the ECB began to implement the assessment before the responsibility for supervision was transferred to the ECB; the exercise ran until autumn 2014. Aareal Bank has also been directly supervised by the ECB since 4 November 2014.

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

Sector-specific and business developments

Structured Property Financing segment

During 2014 the transaction markets for commercial property were characterised by a high degree of investor liquidity, against the background of a prevailing low interest rate environment. In this environment, commercial property was a sought-after asset class – as expressed by a notable increase in global transaction volumes (the aggregate capital directly invested in newly-acquired commercial properties). Investor interest was broadly diversified across regions, property types and sizes. Intense investor competition for first-class properties in top locations led to a reduction of investment yields[1] in numerous markets, with investors showing more interest in secondary cities, or properties with a higher risk profile – which thus offer higher potential yields.

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

Competition in commercial property finance intensified further during the year under review: property financings were more easily available, and the financing market more liquid, compared to the previous years. Competition was very intense in numerous financing markets. Whilst finance providers focused especially on first-class properties (in corresponding locations) – a segment where competition was particularly intense – the tightness of supply in this market segment shifted interest to other segments, regarding providers of finance and investors alike. Intensified competition was evident in margins and loan-to-value ratios, for example: the willingness of many finance providers to accept lower margins and higher loan-to-value ratios increased. Likewise, lenders were more prepared to grant large-sized loans. However, on numerous markets they were reluctant to finance speculative new construction projects, even though a certain degree of revitalisation was noticeable concerning project development on some markets. These developments were evident in Europe, in North America and in various Asian countries. In various countries where competition had been less intense in the past, such as Italy and Spain, it grew markedly during the year under review. Still, margins are still noticeably higher in these countries – and loan-to-value ratios lower – than in the particularly liquid European markets, such as Germany and the UK. Alternative finance providers played a role regarding more intense competition, albeit to a varying extent across different regions. In the US, the importance of non-bank financing, such as from life assurance companies, commercial mortgage-backed securities (CMBS) and debt funds, was particularly strong. In Europe, alternative finance providers increasingly focused on the UK in particular, but also on other major markets such as Germany and France. Finance providers outside the commercial banking sector have continuously gained market share in Europe over recent years. In Asia, alternative finance providers were particularly active on the Japanese market.

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

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

At 76.1% (2013: 75.7%), Aareal Bank Group generated the highest share of new business 2014 in Europe, followed by North America with 21.6% (2013: 20.7%) and Asia with 2.3% (2013: 3.6%).[3] The Bank

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

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

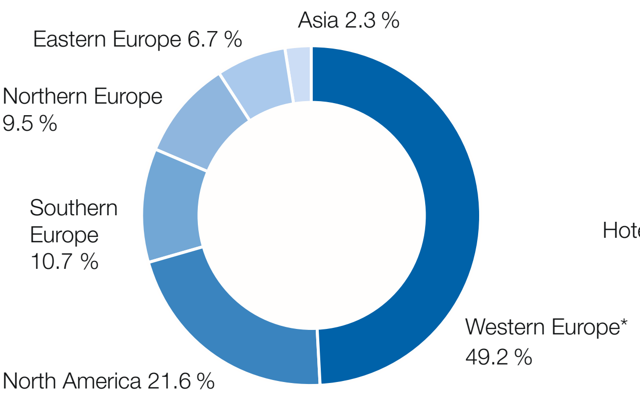
[3] New business is allocated to the individual regions on the basis of the location of the property used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile.

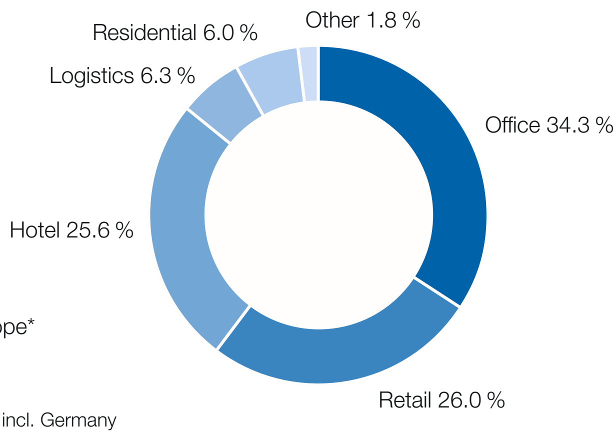
generated new business both through its regional sales units and through its teams of sector specialists, covering financing solutions for hotels, shopping centres, and logistics properties.

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

New business 2014

by region | by type of property





* incl. Germany

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

Developments in the commercial property markets in the individual regions

Europe

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

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

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

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

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

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

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

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

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

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

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

North America (NAFTA states)

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

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

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

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

Asia

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

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

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

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

Acquisition of Corealcredit Bank AG

Aareal Bank Group closed the acquisition of Corealcredit, announced on 22 December 2013: the purchase was completed with effect from 31 March 2014 (closing date). Corealcredit is now a legally independent subsidiary under the umbrella of Aareal Bank Group. The (preliminary) purchase price paid amounted to € 346 million. The preliminary nature of this purchase price relates to the possibility of potential compensation payments to the seller. As part of the integration of Corealcredit into Aareal Bank Group, a control and profit and loss transfer agreement was concluded.

Supervision by the European Central Bank and Comprehensive Assessment

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

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

Aareal Bank achieved thoroughly convincing results during this extensive bank audit – both in terms of the Asset Quality Review (AQR) conducted by the ECB, which included a review of the valuation and classification of the Bank's loan exposures, as well as in relation to the subsequent stress test coordinated by the European Banking Authority (EBA). The stress test analysed the impact of changes in the macroeconomic environment on the Bank's capital ratios, in different scenarios. Thanks to the good results achieved in both tests of the Comprehensive Assessment, the ECB has not imposed any measures upon Aareal Bank.

Consulting/Services segment

Bank Division Housing Industry

The German housing and commercial property industries continued to show solid overall development in 2014. Existing long-term financing structures and stable rental income (thanks to the highly diversified tenant base) contributed to this trend, among other factors. The industry continued to focus on a sustainable development of portfolios, with an emphasis on increasing energy efficiency and the creation of residential space suitable for the elderly. The housing and property companies that are organised in the German Federation of German Housing and Real Estate Enterprises (Bundesverband deutscher Wohnungs- und Immobilienunternehmen – "GDW") and its regional federations, invested more than € 11 billion in the future of their portfolios.

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

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

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

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

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

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

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

Aareon

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

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

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

Aareon's decade-long successful cooperation with SAP AG reached a new milestone during 2014, achieving new SAP partner status of Value Added Reseller. The new partner status extends the existing certifications as Partner Center of Expertise, SAP Certified Provider of Hosting Services, and SAP Certified Provider of Application Management Services. The latest release of the Blue Eagle Standard ERP system – Release 6.4 – was rolled out in November 2014.

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

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

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

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

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

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

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

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

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

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

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

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

Net Assets, Financial Position, and Financial Performance

Financial performance

Aareal Bank AG closed the financial year 2014 – which was characterised by a challenging market and competitive environment, as in the previous year – with an operating profit (excluding loan loss provisions) of € 262.8 million (2013: € 248.6 million).

The aggregate of net interest income and net commission income amounted to € 526.5 million, up € 51.3 million compared to the previous year. Interest income from lending and money-market transactions fell by € 5.6 million year-on-year, whilst interest income from securities declined by € 30.7 million. Interest expenses were down by € 104.7 million. Current income totalled € 0.0 million during the year under review (2013: € 3.5 million). Net commission income of € 7.9 million was down € 13.6 million year-on-year.

Administrative expenses (including depreciation and amortisation of intangible assets and tangible fixed assets) of € 255.2 million were € 22.8 million higher than in the previous year, mainly due to higher non-staff expenses, including those in conjunction with regulatory measures such as the ECB's Comprehensive Assessment.

Net other operating income and expenses declined by € 14.4 million year-on-year, to € -8.5 million.

The balance of provisions for loan losses and the result from securities held as liquidity reserve amounted to € -191.3 million (2013: € -130.0 million). This figure includes expenditure for specific and general loan loss provisions. Securities held as liquidity reserve were revalued strictly at the lower of cost or market; the item also includes capital gains and losses realised on this portfolio.

Net other income and expenses of € -32.6 million (2013: € -42.5 million) includes the results and revaluation of subsidiaries, the results from investment securities and non-income taxes.

Taking into account a net income tax liability of € 37.9 million (2013: tax refund claim of € 26.2 million), the Bank posted net income of € 76.8 million (2013: € 49.9 million), which permitted Aareal Bank AG to achieve its targets of preserving capital, and its ability to distribute dividends.

Net assets

Aareal Bank AG's total assets as at 31 December 2014 amounted to € 43.1 billion, after € 42.0 billion as at 31 December 2013. The increase was mainly due to higher lending volume.

Net assets are dominated by the property financing business and securities investments.

The book value of debt securities and other fixed-income securities amounted to € 10.3 billion as at 31 December 2014 (31 December 2013: € 11.1 billion). These securities holdings comprise four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS).

Property financing portfolio

Portfolio structure

The volume of Aareal Bank AG's property financing portfolio stood at € 24.1 billion as at 31 December 2014, an increase of approximately 7% over the 2013 year-end figure of € 22.6 billion.

Aareal Bank AG's property financing portfolio comprises financings of office, residential and retail properties, as well as logistics properties, hotel properties and other financings; the portfolio is distributed across the regions of Europe, North America and Asia.

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

Financial position

Interbank and repo business

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

Aareal Bank AG participated in the European Central Bank's long-term refinancing operations (LTRO) during recent years. The remaining volume of € 600 million was fully repaid before maturity during 2014. There were no liabilities vis-à-vis Deutsche Bundesbank or the ECB as at 31 December 2014.

Customer deposits

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

Funding and equity

Funding structure

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

As at 31 December 2014, the long-term refinancing portfolio amounted to € 24.5 billion, comprising € 15.3 billion in Mortgage Pfandbriefe and Public Sector Pfandbriefe, € 7.6 billion in unsecured funding, € 1.3 billion in subordinated funding, plus € 0.3 billion in Additional Tier 1 capital.

Refinancing activities

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

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

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

Furthermore, Aareal Bank was in the position to repay the remaining € 300 million SoFFin silent participation at the end of October. In mid-November, Aareal Bank AG issued Additional Tier 1 (AT1) capital through a € 300 million perpetual note with a coupon of 7.625%. The AT1 securities issued comply with the applicable Capital Requirements Regulation (CRR), thereby qualifying in full as Additional Tier 1 capital. The issue further strengthens Aareal Bank's regulatory capital base.

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

Equity

Regulatory capital[1]

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

[2)] After confirmation of Aareal Bank AG's 2014 financial statements.
The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2014 is subject to approval by the Annual General Meeting.

Our employees

Personnel data as at 31 December 2014

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

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

Age structure and fluctuation

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

Remuneration system

The remuneration systems are based on remuneration principles that apply throughout Aareal Bank Group. The remuneration structures for the Management Board, employees and executive staff at Aareal Bank AG were adjusted according to these principles to meet the regulatory requirements of the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstitutsVergV"), as amended on 16 December 2013, and the German Corporate Governance Code (Deutscher Corporate Governance Kodex – the "Code"), as amended on 13 May 2013, incorporating external advisors and the employee representative bodies of Aareal Bank AG and Bank-related subsidiaries. The modified systems came into effect as at 1 January 2014.

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

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

Qualification and training programmes

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

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

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

In 2014, the focus was on Aareal Academy's specialist seminars, held in cooperation between Human Resources and the Bank's specialist divisions. Within the scope of the strategic personnel development programme, Human Resources thus developed tailor-made training programmes that were adjusted to meet the Bank's various functions and requirements. The development of new, internal training measures follows the principle of "colleagues learn from colleagues". In line with this principle, experts are called in as advisors, thus guaranteeing that current professional topics are dealt with and new knowledge is imparted. To help these experts grow in their role as advisors and build a network, Aareal Bank held its second Speakers' Day in October 2014, providing Aareal Bank experts with an opportunity to discuss learning trends and material, and to work on their presentation skills in workshops dealing with body language and voice awareness.

Aareal Bank Group views its training and CPD activities as an investment in its own employees, and therefore in the future of the entire Group. The "Structured Appraisal and Target Setting Dialogue", Aareal Bank's employee review, is the starting point for individual development plans. Every year, each employee discusses his or her personal development with the responsible manager, agreeing upon concrete measures. Once again, more than 1,000 development measures were agreed in this manner at the start of 2014. As a result of these plans, 2,800 employees participated in Aareal Bank's training measures during the year under review.

The outcome of this systematic Human Resources development approach is that Aareal Bank employees invested an average of 3.3 days in professional development seminars and workshops during 2014.

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

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

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

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

Promoting the next generation

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

Besides Aareal Bank's trainee programme and the restoration of Aareon's trainee programme in 2013, new entrants starting out in Aareal Bank Group can take advantage of a range of training programmes. Aareon AG offers vocational training in various careers: office management, IT applications developer, IT system integrator. It also offers the dual course of study: "Business Administration – Property Manager", in cooperation with the College of Advanced Vocational Studies in Leipzig and cooperated with DHBW Mannheim on the "Business Administration – Exhibition, Congress and Event Management" and business informatics courses of study. During their training, participants benefit from additional education and take over responsibilities early on. As at year-end 2014, Aareon employed 14 vocational trainees and three students from the College of Advanced Vocational Studies.

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

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

Within the scope of promoting the next generation, Aareal Bank Group also offers students the opportunity to gain their first impressions of the professional world and Group divisions by actively participating in internships. The work placement programme was continued successfully during the year under review, and broadened to include cooperation with Stiftung Deutsche Sporthilfe over a programme for graduate athletes looking to enter working life after their career in sports.

Work-life balance

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

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

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

For the last seven years, Aareon has been certified as a family-friendly company by berufundfamilie gemeinnützige GmbH, a non-profit organisation. Aareon's staff policy services include the promotion of workplace flexibility through part-time work and home working. At the end of 2014, Aareon had 132 (17.0%) part-time positions (2013: 143, 18.5%) and 88 (11.3%) home working places (2013: 85, 11.0%). Aareon also works together with a family service company that supports employees on matters relating to childcare as well as onset of a care situation, and, together with another company, offers places at a day nursery and nursery school at a daycare centre in Mainz, where the nursery school places are free of charge for Aareon employees. The family service's advisory offer was broadened to include psychosocial support. Given the demographic changes and higher retirement ages, personnel policies that take account of different life stages are becoming increasingly important. Therefore, Aareon placed special emphasis on the further development of these policies. Also in 2014, berufundfamilie gemeinnützige GmbH, a non-profit organisation, certified Aareon as a family-friendly company.

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

Health

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

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

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

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

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

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

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

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

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

Diversity

During 2013, the Management Board made an express commitment to diversity in Aareal Bank Group, publishing it on the Internet and Intranet. This defines diversity as follows:

- An appreciation for the uniqueness of every individual and respect for their differences,
- equal opportunities at all levels,
- the prevention of discrimination of any kind
- actively representing and living the belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals.

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

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

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

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

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

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

Equal treatment

It is very important for Aareal Bank Group that men and women are treated equally, in relation to recruitment decisions and further development through qualification measures, as well as with regard to remuneration in the Company. As a rule, all vacant positions below executive staff level are filled within the scope of an internal recruitment procedure. All employees may apply for the advertised positions.

The employees' remuneration is, so to speak, not differentiated by gender, but – aside from the individual performance – solely on the basis of aspects such as qualification, experience and education.

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

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

Events after the reporting date

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

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

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

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

Risk Report

Aareal Bank AG is the parent company of Aareal Bank Group. Aareal Bank AG has entered into profit and loss transfer agreements, or control and profit and loss transfer agreements, with numerous Group entities. The economic risks of these entities are thus reflected in Aareal Bank AG's risk profile. Moreover, the funding of Aareal Bank Group is managed centrally by Aareal Bank AG. The parent company therefore monitors and manages the Group's risks, based on uniform, Group-wide policies. Against this background, the risk report provided below outlines the risk management system at Group level.

Aareal Bank Group Risk Management

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

Risk management – scope of application and areas of responsibility

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

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

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

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

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

Process-independent monitoring: Audit

Strategies

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

Risk-bearing capacity and risk limits

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

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the Capital Requirements Regulation (CRR). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a Tier 1 ratio (calculated in accordance with Basel III) equivalent to 8% of risk-weighted assets (RWA). Only free own funds exceeding this level are applied as potential risk cover, of which a further 12% is retained as a risk cushion. This cushion is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks).

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum Tier 1 ratio of 8% of RWA, the value-at-risk models used to quantify risks are based on a confidence interval of 95% and a one-year holding period (250 trading days). A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The following table summarises the Group's overall risk-bearing capacity as at 31 December 2014.

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

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

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

Stress testing

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

Organisational structure and workflows

Lending business

Division of functions and voting

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

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

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

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

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

Process requirements

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

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

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

Early risk detection procedures

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

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

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

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

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

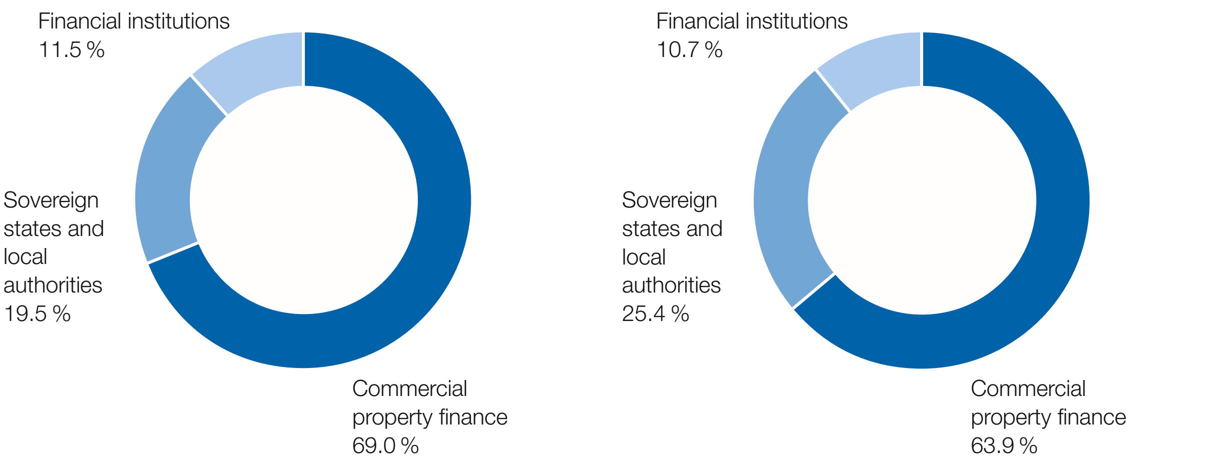
Risk classification procedures

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

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

Breakdown of exposure by rating procedure

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



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

Property financing business

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

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

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

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

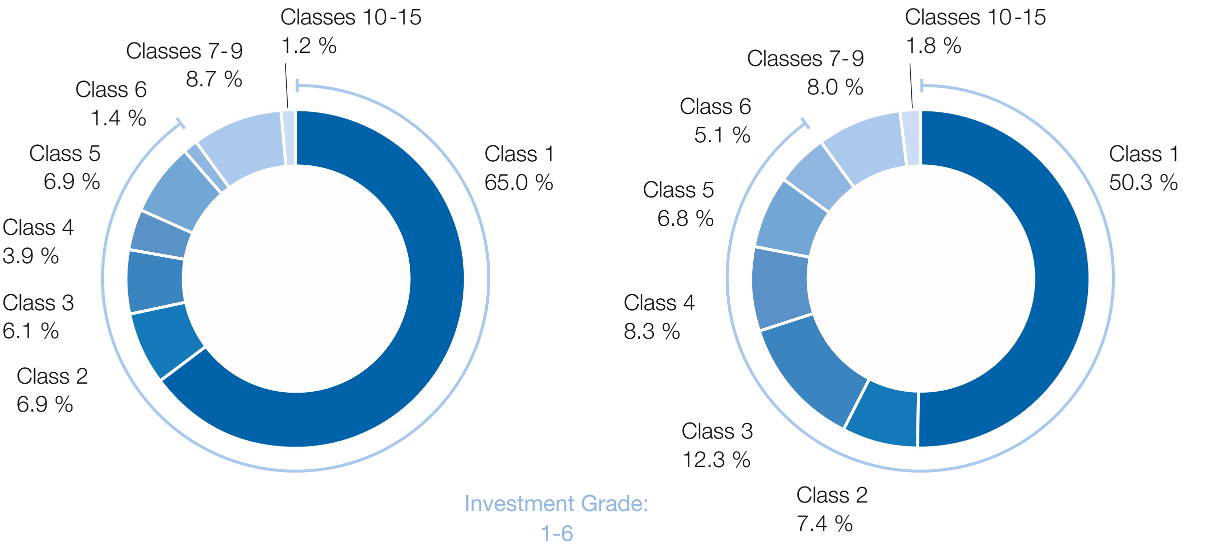
When evaluating collateral, haircuts are applied or recovery rates used, depending on the type of collateral involved and specific realisation factors. For financings of domestic properties, recovery rates are taken from a pool of data used across the Bank, whilst recovery rates for international properties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

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

The diagrams shown below depict the distribution of lending volume by EL classes as at 31 December 2013 and 31 December 2014, based on the maximum current or future drawdown. The distribution excludes exposures for which no rating has been concluded, or which are in default (as defined under Basel II).

Large-sized commercial property finance

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

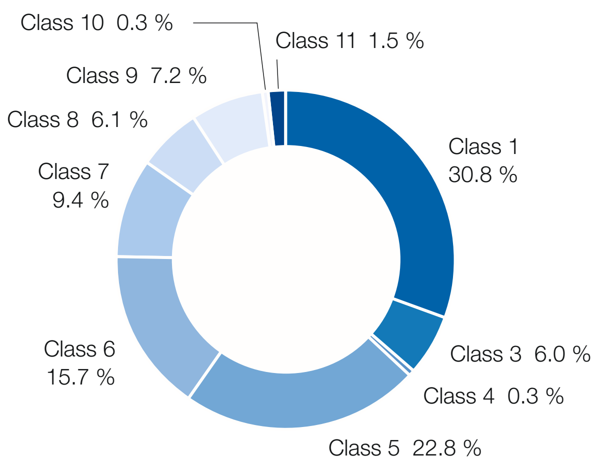


Financial institutions

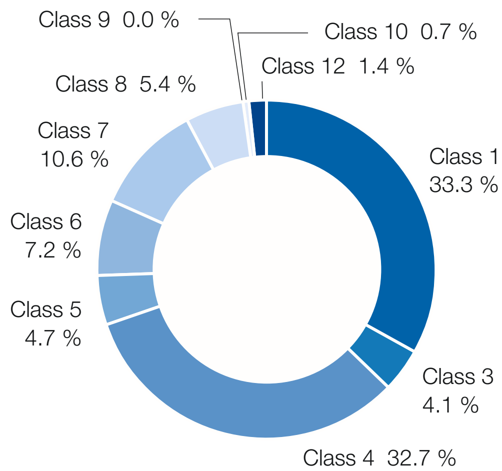
Aareal Bank employs an internal rating procedure for financial institutions, which incorporates qualitative and quantitative factors as well as our client's group affiliation, to classify the risk exposure to banks, financial services providers, securities firms, public-sector development banks, and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

Financial institutions

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



Classes 2, 12-18: 0%



Classes 2, 11, 13-18: 0%

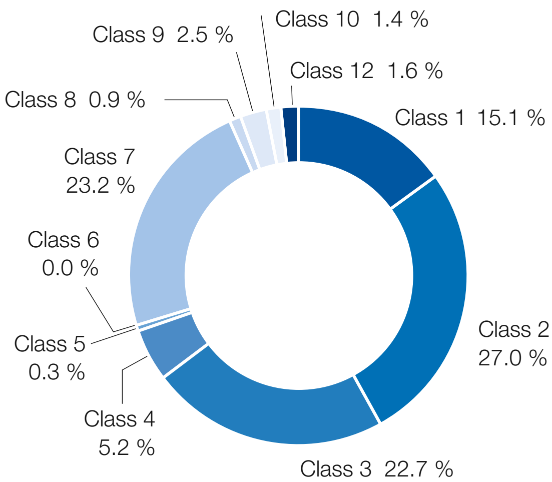
Sovereign states and local authorities

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

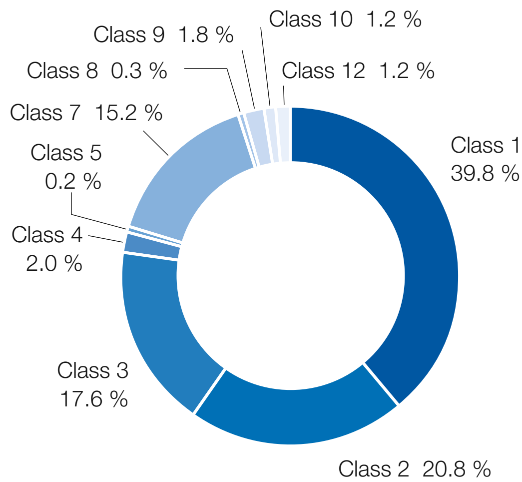
In general, the risk classification procedures employed by the Bank are dynamic methods which are permanently adapted to changing risk structures and market conditions.

Sovereign states and local authorities

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



Classes 11, 13-20: 0%



Classes 6, 11, 13-20: 0%

Trading activities

Functional separation

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

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

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

The detailed assignment of responsibilities is outlined below.

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

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

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

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

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

Process requirements

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

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

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

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

Risk exposure by type of risk

Credit risks

Definition

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

Credit risk strategy

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

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

Risk measurement and monitoring

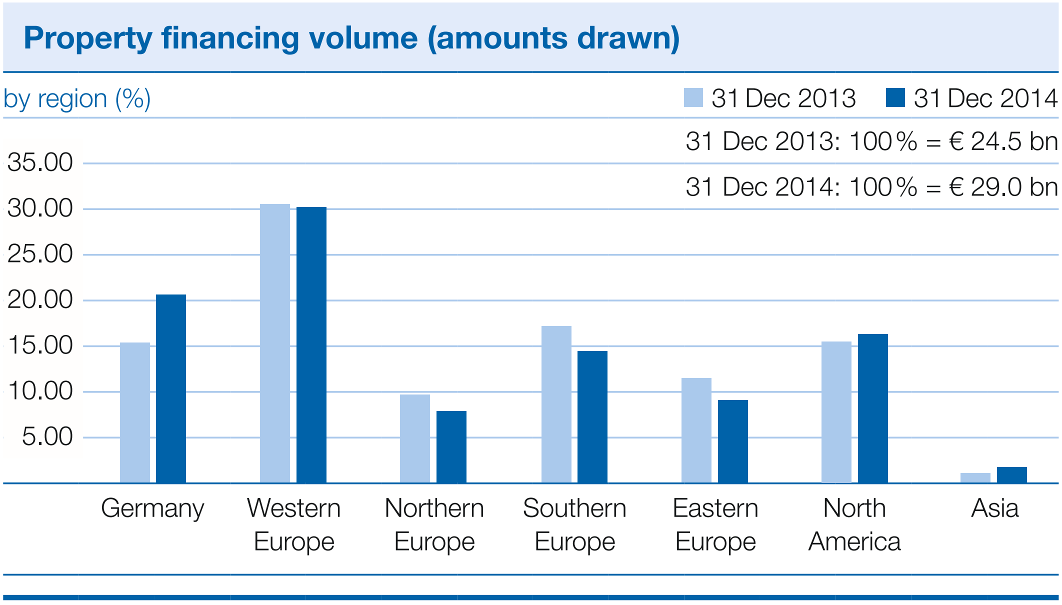
The credit business is subject to a variety of risk measurement and monitoring processes. This includes the application of two different credit risk models incorporating concentration and diversification effects at a portfolio level, from which both the expected and unexpected loss (credit-value-at-risk)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

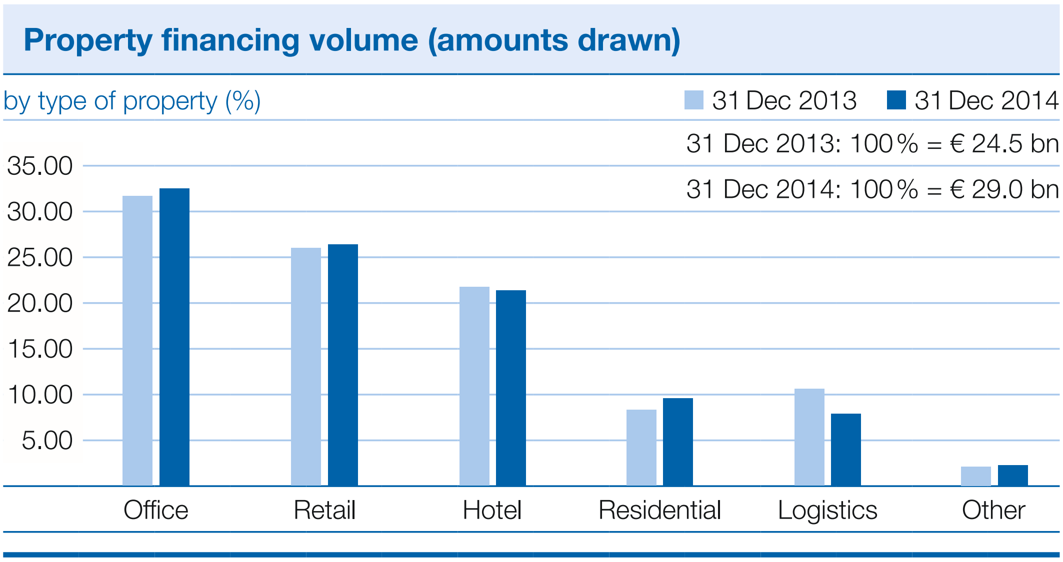
Based on the results of these models, the Bank's decision-makers are regularly informed of the performance and risk content of property finance exposures, and of business with financial institutions. The models permit to identify, measure, monitor and manage risks at a portfolio level.

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

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

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





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

Trading activities are generally restricted to counterparties for whom the requisite limits are in place. Replacement and settlement risks are taken into account when determining counterparty limit usage. Persons holding position responsibility are informed about relevant limits and their current usage without delay. Trading activities also require the establishment of issuer limits.

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

Credit risk mitigation

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

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

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

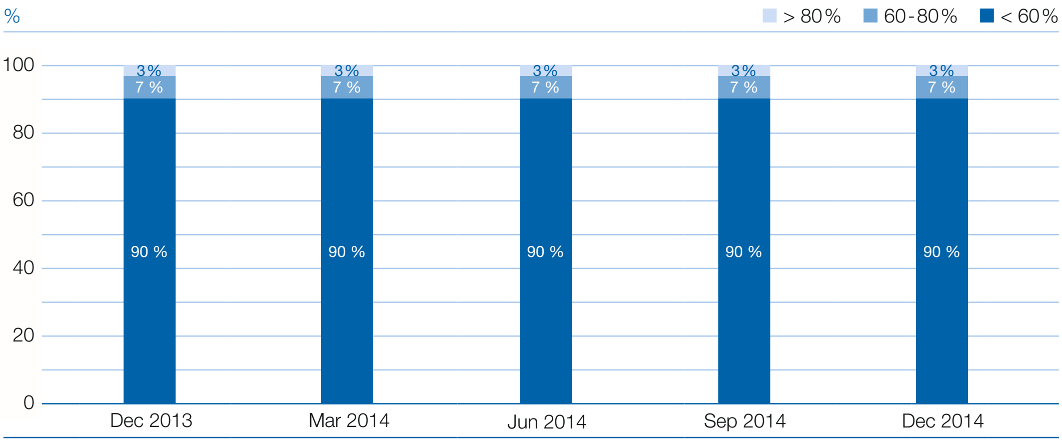
To mitigate credit risk, the Bank also accepts collateralisation through a pledge of shareholdings in property companies or special-purpose entities not listed on a stock exchange. The Bank has set out detailed provisions governing the valuation of such collateral.

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

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

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

Property financing portfolio by LtV range (quarterly comparison)



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

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

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

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

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

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

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

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

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

Country risk

Definition

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

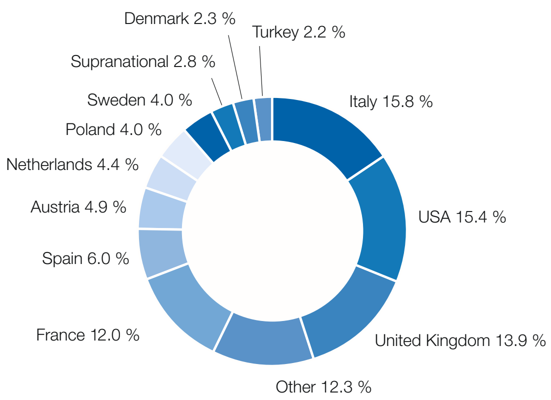
Country risk measurement and monitoring

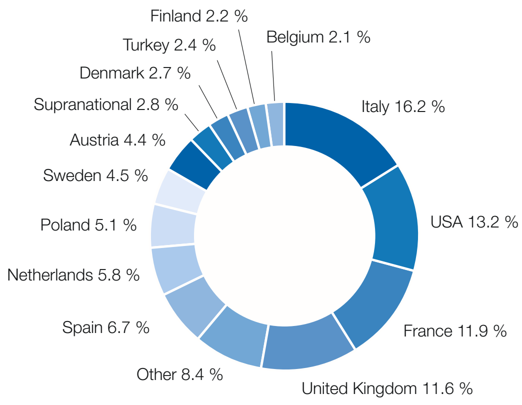
Country risk exposure is managed using a cross-divisional process. The Counterparty and Country Limit Committee carries out a risk assessment of the relevant countries, grades them in country risk groups, and conducts an annual review in terms of country rating. The limits are set by the Management Board.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

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

Breakdown of country exposure in the international business

% 31 Dec 2014 | 31 Dec 2013





Market price risks

Definition

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

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

Risk measurement and monitoring

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

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

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

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

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

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

€ mn	MAX	MIN	Mean	Limit
2014 (2013 year-end values) 95%, 250-day holding period				
Aareal Bank Group - general market price risk	224.4 (260.8)	109.1 (137.1)	148.5 (184.5)	- (-)
Group VaR (interest rates)	212.8 (248.8)	95.7 (136.2)	135.3 (177.3)	- (-)
Group VaR (FX)	58.8 (46.5)	45.3 (31.2)	51.8 (39.0)	- (-)
VaR (funds)	2.8 (7.0)	0.0 (0.3)	0.9 (3.6)	20.0 (20.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	5.0 (5.0)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	- (-)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	- (-)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	- (-)
Group VaR (specific risks)	135.6 (227.7)	86.6 (132.9)	102.8 (183.6)	- (-)
Aggregate VaR - Aareal Bank Group	240.9 (318.6)	142.9 (205.2)	181.9 (262.2)	390.0 (400.0)

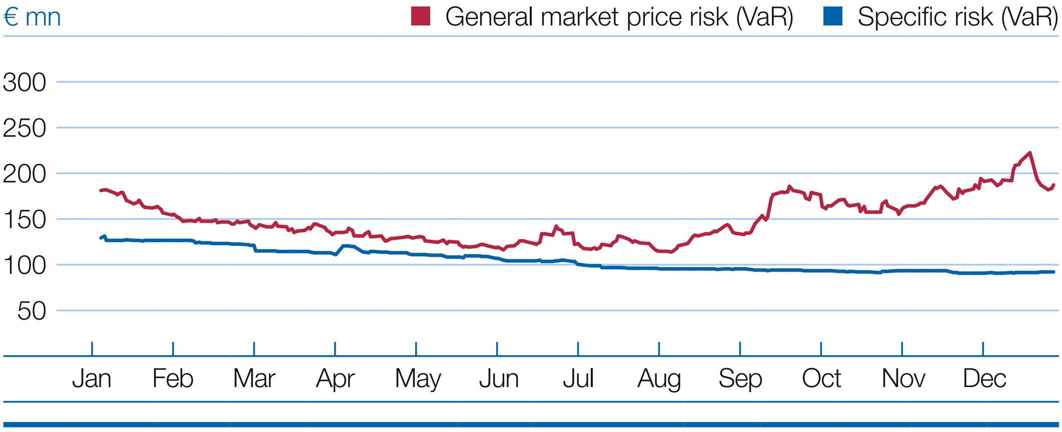
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period:

€ mn	MAX	MIN	Mean	Limit
2014 (2013 year-end values) 95 %, 1-day holding period				
Aareal Bank Group - general market price risk	14.2 (16.5)	6.9 (8.7)	9.4 (11.7)	- (-)
Group VaR (interest rates)	13.5 (15.7)	6.1 (8.6)	8.6 (11.2)	- (-)
Group VaR (FX)	3.7 (2.9)	2.9 (2.0)	3.3 (2.5)	- (-)
VaR (funds)	0.2 (0.4)	0.0 (0.0)	0.1 (0.2)	1.3 (1.3)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	- (-)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	- (-)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	- (-)
Group VaR (specific risks)	8.6 (14.4)	5.5 (8.4)	6.5 (11.6)	- (-)
Aggregate VaR - Aareal Bank Group	15.2 (20.1)	9.0 (13.0)	11.5 (16.6)	24.7 (25.3)

Aggregate VaR – Aareal Bank Group

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

General market price risk and specific risk during 2014

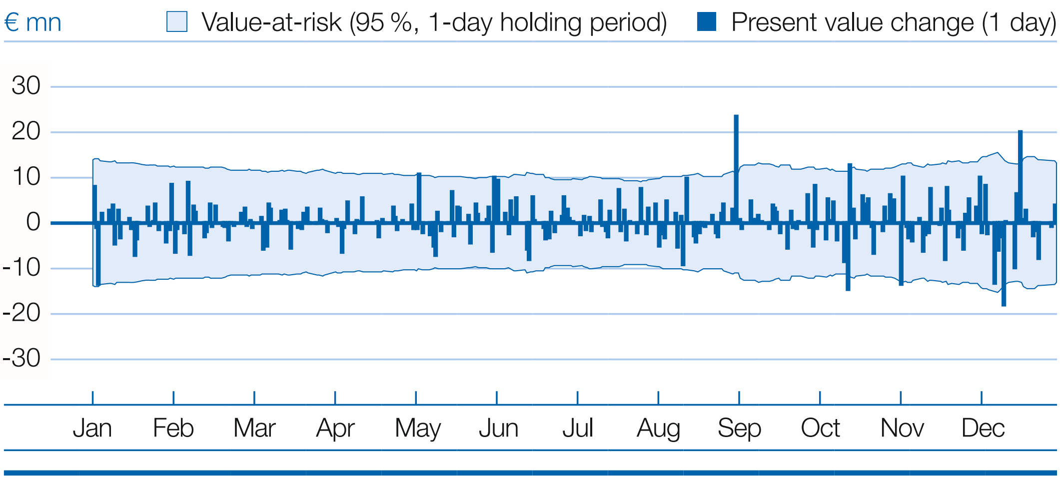


Specific risk fell during the course of 2014, owing to a market recovery, with narrowing credit spreads and volatilities, as the solvency problems eased in some European countries. The increase in general market price risk exposure during the second half of the year reflected general developments on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

Backtesting

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

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



Stress testing

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

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

The worst-case scenario used in the financial year under review was a hypothetical scenario, where a deteriorating financial markets crisis caused bond and CDS spreads to widen due to rating downgrades, combined with an appreciation of the euro and unchanged interest rate markets. This scenario implied a present value loss of 26% of the stressed aggregate risk cover limit as at year-end 2014. No breach of set limits occurred during the year under review.

Interest rate sensitivity

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

Interest rate gap analysis

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

Trading book

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the German Banking Act. Given that no such trades were concluded during 2014, trading book risks played a negligible role in the overall risk scenario.

Liquidity risks

Definition

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

Risk measurement and monitoring

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

a) Cash flow forecast

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

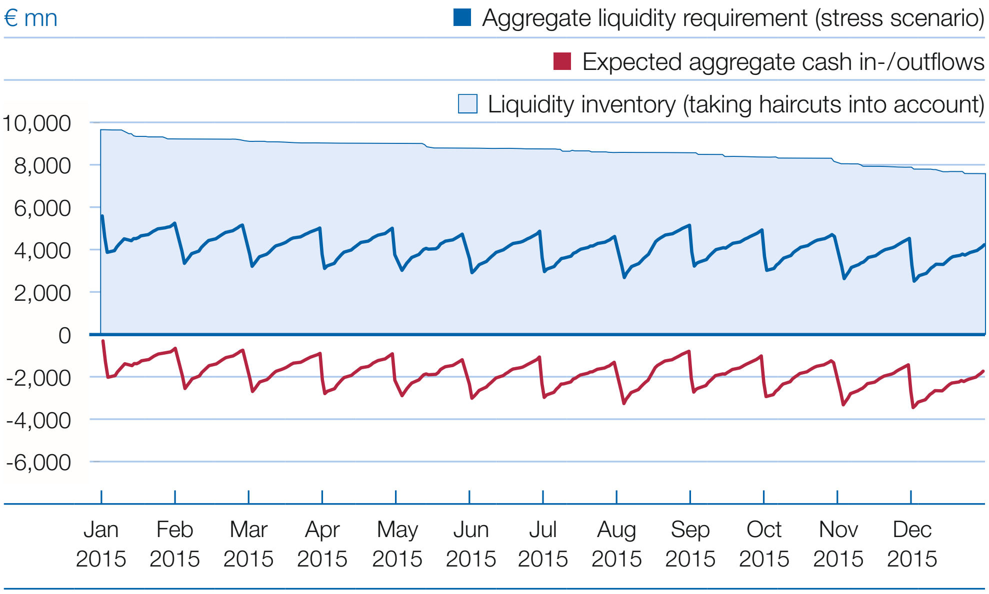
b) Liquidity run-off profile

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

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

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

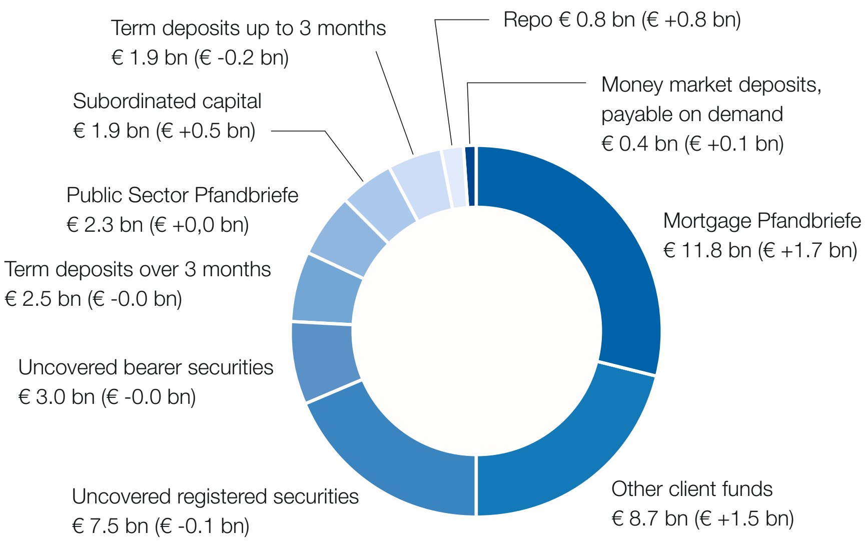
Liquidity



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

Refinancing portfolio diversification by product

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



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

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

Liquidity Ordinance
The requirements of the liquidity ratio in accordance with the Liquidity Ordinance, which is relevant to liquidity management, were always complied with throughout the year 2014, as were the limits set by reference to the liquidity run-off profile.

Operational risks

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

Risk measurement and monitoring

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

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

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

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

The three tools described above are used to prepare the regular risk reporting to the Bank's senior management. The responsibility for implementing operative risk-reducing measures rests with those responsible for the Bank's risk management. The utilisation of freely available funds for operational risks – as part of the Bank's risk-bearing capacity – are determined using the regulatory standardised approach.

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

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

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

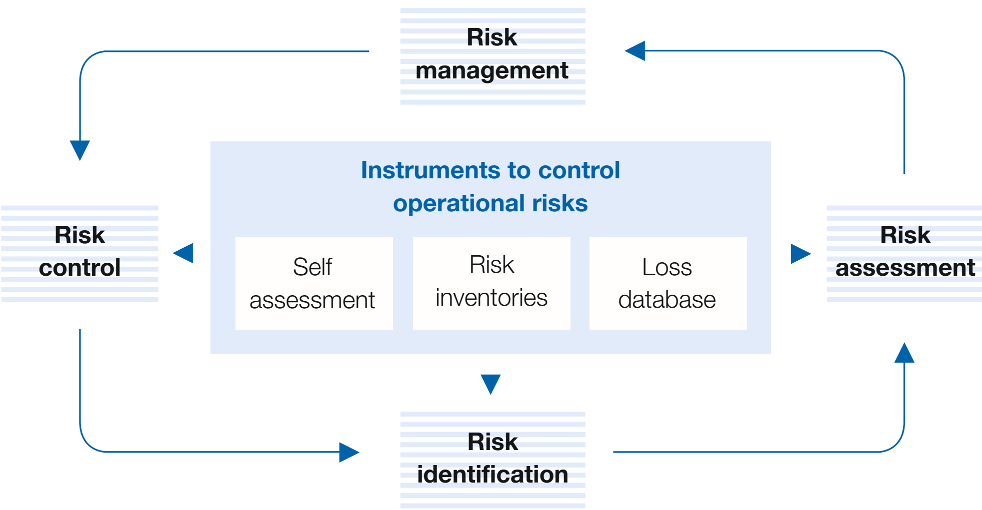
The legal department reports to the Management Board, (at least) on a semi-annual basis, as well as on an event-driven basis. Moreover, information about legal risks is included in operational risk reporting.

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

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

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

Management of operational risks



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

Investment risks

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

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

Definition

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

Risk measurement and monitoring

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

The existing procedures used to measure and monitor risk exposure are supplemented by subjecting the equity portfolio to regular stress testing.

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

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

Other risks

Definition

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

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

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

Risk measurement and monitoring

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

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

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

Accounting-related Internal Control and Risk Management System

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

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

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

Organisation of the accounting-related ICS and RMS

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

Primary responsibility for accounting and financial reporting lies with the Finance division. Finance manages the centralised processes for preparing Aareal Bank AG's annual and interim financial statements. Amongst other tasks, Finance is responsible for preparing the financial statements (including the management report) in accordance with the German Commercial Code (German GAAP – "HGB"), and monthly reporting packages; the division is also responsible for developing accounting guidelines in accordance with the HGB, and IT guidelines.

The number of employees within Aareal Bank AG's Finance division is adequate, as are their qualifications. Furthermore, they possess the necessary knowledge and experience relevant for their functions.

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

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

To perform its tasks, Internal Audit has full and unrestricted information rights with respect to activities, processes and IT systems of Aareal Bank AG. Internal Audit is informed on a regular basis about material changes related to the Internal Control and Risk Management System.

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

Components of the accounting-related ICS and RMS

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

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

Various guidelines exist for activities and processes. These guidelines are set out in the Written Set of Procedural Rules of Aareal Bank AG and available for inspection for all employees. There are requirements as regards data entry and control – as well as data storage – which have to be observed in general by all of the Bank's posting units. If necessary, results are reconciled across divisions or companies.

Activities required within the scope of preparing the financial statements are defined by internal accounting instructions. Aareal Bank AG's voucher documentation rules set out the rules governing accounting vouchers for all of the Bank's posting entities. Legal requirements and the relevant accounting standards are set out in detail in the accounting instructions, and by reference to the plan of accounts. The Finance division regularly reviews these documents, and updates them if necessary. The valuation techniques used, as well as the underlying parameters, are controlled regularly, and adjusted if necessary. Where valuation units (Bewertungseinheiten) are used for measurement purposes, defined criteria are reviewed on a regular basis. For further information on measurement, please refer to the relevant notes to the consolidated financial statements.

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

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

Adherence of accounting to generally accepted accounting principles is ensured by both preventive and detective controls within the accounting process itself, as well as through a comprehensive review of processed data. The preparation of the consolidated financial statements is characterised by multiple analyses and plausibility checks. Besides the evaluation of individual accounting issues, these include comparisons of periods, and between plan and actual data. Reconciliation of balances and positions with clients and counterparties is carried out in line with existing regulations. Control processes in accordance with MaRisk have been implemented for credit risk provisioning. Reconciliations take place between the main ledger and upstream position-management systems, as well as on the level of individual accounts. Adequate control processes have been implemented for both manual and automated accounting transactions. Additional control processes are in place to ascertain the complete recording of all transactions in the Bank's accounting systems.

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

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

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

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

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

Report on Expected Developments

Macro-economic environment

Economy

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

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

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

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

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

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

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

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

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

Financial and capital markets, monetary policy and inflation

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

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

Inflationary pressure is set to remain at a low level in numerous European economies throughout 2015: annual average inflation in the euro zone may well be close to zero, and might possibly turn negative for some time. There is a risk of deflation in the euro zone. In some countries – Spain, for example – moderate deflation is the most likely scenario. Yet inflationary pressure is also low outside the euro zone, with low inflation (or minor deflation) around the zero per cent line expected for numerous European economies. Russia and Turkey, in contrast, are likely to experience markedly higher inflation rates. We anticipate low inflation in the US. The inflation rate in Japan will likely be influenced by the value-added tax increase planned for October 2015; we anticipate a moderate annual inflation rate, slightly lower than the previous year's figure. A moderate inflation rate, slightly below the level seen in 2014, is also conceivable for China.

Regulatory environment

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

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

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

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

Sector-specific and business developments

Structured Property Financing segment

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

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

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

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

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

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

a moderate decline in property values. We expect a virtually stable performance for Singapore, whilst we assume a moderate increase for Japan.

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

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

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

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

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

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

Consulting/Services segment

Bank division Housing Industry

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

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

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

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

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

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

Aareon AG

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

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

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

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

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

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

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

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

Company and Group targets

Key targets of Aareal Bank AG are the preservation of capital and the ability to distribute dividends. These are taken into account in Group planning; no single-entity planning is prepared for Aareal Bank AG. Accordingly, the following statements refer to Group planning in accordance with IFRSs.

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

Net interest income is expected in a range between € 720 million and € 760 million.

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

Net commission income for 2015 is projected to be in a range between € 170 million and € 180 million.

Administrative expenses, including one-off effects related to the acquisition of WestImmo, are expected in the region of € 520 million to € 550 million.

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

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

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

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

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

Corporate Governance Statement pursuant to section 289a of the HGB

The Corporate Governance Statement, including the Declaration of Compliance pursuant to section 161 of the AktG, disclosures regarding Corporate Governance standards, the description of work processes for the Management Board and the Supervisory Board, as well as Aareal Bank AG's Corporate Governance Report, are publicly available on the Company's website, at http://www.aareal-bank.com/investor-relations/corporate-governance/. Reference is made to the details disclosed there.

Principles of remuneration of members of the Management Board and the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

In making its determination about the amount to be awarded, the Supervisory Board particularly takes into account any negative aspects of the Management Board member's performance, that of his section, as well as any weakness in the performance of Aareal Bank Group (backtesting). The existence of a negative aspect in the performance of a Management Board member is to be assumed, in particular, if serious breaches of duty and/or performance deficiencies are discovered, which lead to the performance contributions – which were initially assumed to be positive – being later shown to have not been sustained.

A negative performance contribution on the part of the section within the respective Management Board member's responsibility, or of Aareal Bank Group, is to be assumed if significant assumptions which formed the basis of the calculation of the variable remuneration are later proven to be incorrect or unsustainable. The Supervisory Board may award the deferred variable remuneration components in full, partially, or not at all. If the full amount of the bonus is not awarded, the remaining sum is forfeited, i.e. it is not carried forward into subsequent years. An award of the deferred variable remuneration components will not be made insofar and for so long as German Federal Financial Supervisory Authority ("BaFin") forbids this according to section 45b (2) sentence 1 nos. 5a and 6 of the German Banking Act (Kreditwesengesetz – "KWG"). The entitlement no longer exists if BaFin so orders by way of a final and conclusive decision pursuant to section 45 (5) sentences 5 to 8 of the KWG.

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

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

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

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

The fixed remuneration is € 30,000 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive two and a half times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration is increased by € 15,000 p.a. for each membership in a committee (with the exception of the Committee for Urgent Decisions, which is part of the Risk Committee). The fixed remuneration is increased by € 30,000 p.a. for the chairmanship of a committee (with the exception of the Committee for Urgent Decisions). The meeting attendance compensation amounts to € 1,000.00 for each meeting attended (except for meetings of the Committee for Urgent Decisions).

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

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

Disclosures in accordance with section 289 (4) of the German Commercial Code (HGB)

Composition of subscribed capital

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

Restrictions affecting voting rights or the transfer of shares

The German Financial Markets Stabilisation Fund (SoFFin) agreed to provide a stabilisation measure to the Bank in March 2009, in the form of a silent participation. In the context of this stabilisation measure, SoFFin and the Bank's main shareholder, Aareal Holding Verwaltungsgesellschaft mbH ("Aareal Holding") entered into an agreement under which Aareal Holding has undertaken to maintain its stake in the Bank's capital (currently 15,916,881 shares) throughout the term of the recapitalisation, and to act in SoFFin's interest when casting certain votes during the General Meeting (or to seek SoFFin's opinion prior to such a poll). Furthermore, Aareal Holding has undertaken to exercise its voting rights for resolutions to be adopted by a General Meeting in such a way that Aareal Holding will retain its blocking minority. This agreement was cancelled concurrently with the full repayment of the silent participation to SoFFin, on 30 October 2014.

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

Shareholdings exceeding 10% of voting rights

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

Shares with special rights granting the holder supervisory powers

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

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

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

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

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

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

Authorisation of the Management Board to issue or repurchase shares

Authorised capital

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

The authorised capital has not been utilised.

Conditional capital

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

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

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

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

[1] Regulation 575/2013/EU

Authorisation to purchase treasury shares

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

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

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

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

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

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

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

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

Annual Financial Statements

Income statement of Aareal Bank AG
for the period from 1 January to 31 December 2014

€ mn			2014		2013
Expenses					
Interest expenses			**878.2**		982.9
Commission expenses			**10.9**		8.3
General administrative expenses					
a) Staff costs					
aa) Wages and salaries	95.0			96.6	
ab) Social security contributions, pensions and other employee benefits	22.5	117.5		17.8	
including for pensions 12.3 (2013: 7.8)					
b) Other administrative expenses		134.2	**251.7**	114.3	228.7
Amortisation, depreciation and write-downs of intangible and tangible fixed assets			**3.5**		3.7
Other operating expenses			**26.7**		12.7
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions			**191.3**		130.0
Amortisation and write-downs on participations, interests in affiliated companies, and investment securities			**-**		13.8
Expenses for assumption of losses			**40.6**		33.6
Net income taxes			**-37.9**		26.2
Other taxes not reported under other operating expenses			**1.0**		0.4
Net income			**76.8**		49.9
Total expenses			**1,442.8**		**1,490.2**
Net income / net loss			**76.8**		49.9
Profit carried forward from the previous year			**-**		-
Withdrawals from retained earnings					
from the reserve for shares in a parent or majority investor			**-**		-
from other retained earnings			**-**		-
Transfer to retained earnings					
to the reserve for shares in a parent or majority investor			**-**		-
to other retained earnings			**-**		-
Net retained profit			**76.8**		**49.9**

€ mn		2014		2013
Income				
Interest income from				
a) Lending and money market transactions	1,062.9		1,068.5	
b) Fixed-income securities and debt register claims	333.9	**1,396.8**	364.6	1,433.1
Current income from				
a) Equities and other non-fixed-income securities	-		-	
b) Participating interests	0.0		0.0	
c) Interests in affiliated companies	-	**0.0**	3.5	3.5
Income from profit pools, profit transfer agreements and partial profit transfer agreements		**4.4**		5.2
Commission income		**18.8**		29.8
Income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets		**4.6**		-
Other operating income		**18.2**		18.6
Total income		**1,442.8**		**1,490.2**

Balance sheet of Aareal Bank AG as at 31 December 2014

€ mn			2014		2013
Assets					
Cash funds					
a) Cash on hand		0.0		0.0	
b) Balances with central banks		179.2	**179.2**	1,223.0	1,223.0
including: with Deutsche Bundesbank 144.2 (2013: 1,196.1)					
Loans and advances to banks					
a) Loans secured by charges on real property		31.7		8.6	
b) Loans to local authorities		76.6		102.2	
c) Other loans and advances		3,610.0	**3,718.3**	2,639.5	2,750.3
including: payable on demand 2,647.6 (2013: 743.8)					
collateralised by pledged securities 1,765.0 (2013: -)					
Loans and advances to customers					
a) Loans secured by charges on real property		22,927.1		21,670.0	
b) Loans to local authorities		1,180.7		1,212.1	
c) Other loans and advances		3,007.5	**27,115.3**	2,613.7	25,495.8
including: collateralised by pledged securities - (2013: -)					
Debt and other fixed-income securities					
a) Money market instruments		-		-	
b) Bonds and notes					
ba) Public-sector issuers	7,489.1			7,575.3	
including: with Deutsche Bundesbank 6,731.4 (2013: 6,646.1)					
bb) Other issuers	1,923.2	9,412.3		2,084.0	
including: with Deutsche Bundesbank 1,753.6 (2013: 1,917.9)					
c) Own bonds		879.0	**10,291.3**	1,416.8	11,076.1
Nominal amount 874.2 (2013: 1,409.2)					
Equities and other non-fixed income securities			**110.1**		141.6
Participating interests			**1.3**		1.3
including: interests in banks 0.8 (2013: 0.8)					
interests in financial services providers - (2013: -)					
Interests in affiliated companies			**1,099.5**		710.0
including: interests in banks 9.0 (2013: 8.8)					
interests in financial services providers - (2013: -)					
Trust assets			**49.0**		73.3
including: Trustee loans 47.5 (2013: 71.8)					
Intangible assets					
a) Internally generated industrial property rights and similar rights and assets		-		-	
b) Purchased concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets		2.0		2.0	
c) Goodwill		-		-	
d) Advance payments made		-	**2.0**	-	2.0
Tangible fixed assets			**11.0**		11.3
Other assets			**27.1**		136.1
Prepaid expenses					
a) From new issues and lending		146.7		153.6	
b) Other		56.1	**202.8**	49.9	203.5
Deferred tax assets			**256.3**		171.0
Total assets			**43,063.2**		**41,995.3**

€ mn			2014		2013
Equity and liabilities					
Liabilities to banks					
a) Outstanding registered mortgage Pfandbriefe		304.4		237.9	
b) Outstanding registered public sector Pfandbriefe		19.8		42.8	
c) Other liabilities		1,825.4	**2,149.6**	1,462.2	1,742.9
including: payable on demand 837.5 (2013: 775.3)					
Liabilities to customers					
a) Outstanding registered mortgage Pfandbriefe		2,599.3		2,998.9	
b) Outstanding registered public sector Pfandbriefe		2,043.7		2,231.2	
c) Savings deposits					
ca) With an agreed notice period of three months	-			-	
cb) With an agreed notice period of more than three months	-	-		-	
d) Other liabilities		19,969.5	**24,612.5**	19,556.5	24,786.6
including: payable on demand 6,553.2 (2013: 5,009.5)					
Certificated liabilities					
a) Bonds issued					
aa) Mortgage Pfandbriefe	8,248.3			8,150.8	
ab) Public sector Pfandbriefe	45.0			35.0	
ac) Other debt securities	3,189.8	11,483.1		3,413.8	
b) Other certificated liabilities		-	**11,483.1**	-	11,599.6
including: money market instruments - (2013: -)					
Trust liabilities			**49.0**		73.3
including: Trustee loans 47.5 (2013: 71.8)					
Other liabilities			**623.9**		175.2
Deferred income					
a) From new issues and lending		76.5		46.5	
b) Other		72.5	**149.0**	62.8	109.3
Deferred tax liabilities			**18.0**		18.7
Provisions					
a) Provisions for pensions and similar obligations		92.6		86.1	
b) Tax provisions		34.0		31.7	
c) Other provisions		97.5	**224.1**	102.9	220.7
Subordinated liabilities			**1,322.9**		752.2
including: maturing within two years 74.5 (2013: 37.5)					
Profit-participation certificates			**66.8**		157.0
including: maturing within two years 17.0 (2013: 102.0)					
Additional Tier 1 capital instruments			**302.6**		-
Fund for general banking risks			**167.6**		167.6
Equity					
a) Subscribed capital		179.6		179.6	
Contributions by silent partners		190.2		520.2	
b) Capital reserve		727.8		727.8	
c) Retained earnings					
ca) Legal reserve	4.5			4.5	
cb) Reserve for treasury shares	-			-	
cc) Statutory reserves	-			-	
cd) Other retained earnings	715.2	719.7		710.2	
d) Net retained profit		76.8	**1,894.1**	49.9	2,192.2
Total equity and liabilities			**43,063.2**		**41,995.3**

€ mn		2014		2013
Contingent liabilities				
a) Contingent liabilities from discounted forwarded bills	-		-	
b) Liabilities from guarantees and indemnity agreements	165.2		205.0	
c) Liability from the pledging of collateral for third-party liabilities	-	**165.2**	-	205.0
Other commitments				
a) Repurchase obligations from securities repurchase agreements	-		-	
b) Placement and underwriting obligations	-		-	
c) Irrevocable loan commitments	4,641.0	**4,641.0**	1,186.7	1,186.7

Notes

Basis of accounting

The financial statements of Aareal Bank AG for the financial year 2014 were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – ”HGB”) and the supplementary regulations of the German Public Limited Companies Act (Aktiengesetz – ”AktG”) and the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – ”RechKredV”).

Accounting and valuation principles

Loans and advances

Loans and advances to banks and customers are carried at amortised cost, including deferred interest. Premiums and discounts are shown under deferred items, in accordance with section 340e (2) of the HGB. Credit risks are accounted for by setting aside provisions in the amount of the expected loss, using prudent estimates.

Portfolio-based valuation allowances are recognised for risks which have already materialised, but which cannot be allocated to individual loans and advances due to lack of knowledge. For this purpose, groups of financial assets with comparable default risk profiles are combined in portfolios. The valuation allowances are calculated using a formula-based procedure based on the following Basel III parameters used in the advanced IRB Approach: expected loss given default (LGD), probability of default (PD) and the LIP (Loss Identification Period) 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. In the financial year 2014, the LIP factor approach was harmonised. While different LIP factors were used until 31 December 2013 for each exposure class in the context of the determination of the general valuation allowance, the LIP factor has been generally harmonised to 1 for all exposure classes as at 31 March 2014. This resulted in expenses from additions to the general valuation allowance of € 35 million.

Securities

Bonds and other fixed-income securities, as well as equities and other non-fixed income securities, are measured strictly at the lower of cost or market value, as prescribed for current assets (“strenges Niederstwertprinzip”). Bonds and other fixed-income securities that are intended to be held permanently, are carried at the lower of cost or market value; the carrying amount needs to be written down to the lower market value only if the impairment is permanent (gemildertes Niederstwertprinzip). Where the reasons for the write-down no longer apply, write-ups are made in accordance with section 253 (5) of the HGB.

Participating interests, interests in affiliated companies, intangible assets and tangible assets

Participating interests and interests in affiliated companies are stated at cost. Tangible assets and purchased intangible assets are stated at cost less depreciation/amortisation. Write-downs are required in the event of impairments in value deemed to be other than temporary.

Where the reasons for the write-down no longer apply, write-ups are recognised for participating interests, interests in affiliated companies, intangible assets and tangible assets in accordance with section 253 (5) of the HGB. Where land and buildings were acquired to salvage loans and have been in the possession of the Bank for more than five years, these are reported under tangible fixed assets. Additions of low-value commercial goods ("geringwertige Wirtschaftsgüter") of not more than € 150 are fully written off in the year of acquisition, and accounted for as disposals. In addition, Aareal Bank AG made use of the simplification rule pursuant to section 6 (2a) of the German Income Tax Act (Einkommensteuergesetz – "EStG").

The option to disclose a net amount, pursuant to section 340c (2) of the HGB has been exercised.

Deferred taxes

If there are differences between the book value of assets, liabilities, deferred income and prepaid expenses and their related tax bases which are expected to be reversed in later financial years, any resulting net tax burden is recognised as a deferred tax liability and any resulting net tax benefit is recognised as a deferred tax asset, in accordance with section 274 of the HGB. Tax loss carryforwards are taken into account in the calculation of deferred tax assets, based on the level of the potential losses to be offset within the next five years. Deferred taxes are measured using the company- and country-specific tax rates expected to apply at the time of the realisation of temporary differences and the offsetting of loss carryforwards. The Bank discloses deferred taxes on a gross basis, in accordance with section 274 (1) sentence 3 of the HGB.

Liabilities

Liabilities are shown on the balance sheet at the settlement amount. The difference between the settlement amount and the initial book value of liabilities is recognised under deferred items, and amortised over the term of the liability.

Provisions

Provisions are recognised in the amount of the required settlement amount, as determined based on prudent commercial judgement. Pursuant to section 253 (2) sentence 1 of the HGB, provisions with a remaining term of more than one year have to be discounted using the market interest rate of the past seven years applicable for their average remaining term.

Provisions for pensions and similar obligations are determined based on actuarial principles. Provisions for pensions are recognised at the settlement amount taking into account future wage, salary and pension trends and applying the average market interest rate applicable for an assumed remaining term of 15 years as disclosed by Deutsche Bundesbank, except where the applicable remaining term of the respective pension plan is shorter. In accordance with section 240 (2) of the HGB, pension obligations are generally determined based on inventory records established as at the balance sheet date. Pursuant to section 241 (3) of the HGB, the relevant group of eligible persons may also be recorded as at a date within the last three months prior to, or within the first two months after, the balance sheet date, provided that the pension obligations may be measured properly as at the balance sheet date. This is ensured by using forecast interest rates. Reference is made to the notes to the balance sheet.

Provisions for taxes and other provisions have been set aside for existing legal or constructive obligations in the settlement amount, as required by prudent commercial judgement.

Currency translation

Currency translation complies with the principles set out in sections 256a and 340h of the HGB.

Assets that are denominated in foreign currency and treated as fixed assets and that are not hedged specifically in the same currency (specific cover), are carried at historical cost, unless the exchange rate change is of a permanent nature, in which case a write-down has to be recognised.

Other assets and liabilities denominated in foreign currency or forward foreign exchange transactions are classified as specific cover and are measured at the middle spot rate (ECB reference middle rate) on the balance sheet date. Hence, income and expenses from currency translation were recognised in the income statement.

The Bank decomposes foreign exchange forward transactions which are used to hedge interest-bearing balance sheet items into an agreed spot base and the swap rate, recognising a deferred asset or liability equivalent to the net aggregate difference between the spot base and the exchange rates prevailing on the reporting date. Forward premiums or discounts are amortised in net interest income over the term of the transaction.

Currency translation income and expenses are reported in net other operating income/expense.

Trading portfolio

The Bank held no financial instruments for trading as at the balance sheet date.

Hedging relationships

The Bank establishes hedging relationships within the meaning of section 254 of the HGB. Accordingly, fixed-income securities of the liquidity reserve in the amount of € 4,813.1 million are hedged against changes in value attributable to interest rate risk, on the basis of so-called "micro hedges". In this context, the underlying transaction and the hedge generally are acquired within the framework of so-called "asset swap packages", i.e. they are so-called "perfect hedges" where all value-affecting factors between the hedged portion of the underlying transaction substantially correspond to the hedging portion of the hedge. The prospective effectiveness of the hedging relationship, which refers to the period until the security's final maturity, is proven, based on the so-called "Critical Terms Match Method". Regression and correlation coefficients are used as criteria to measure retrospective effectiveness.

This is presented in the financial statements using the so-called "Net Hedge Presentation Method" (“Einfrierungsmethode”). Under this method, the cumulative change in the value of the underlying transaction is determined on the basis of the hedged risk, and compared to the changes in the value of the hedge. The hedged risk amounts to € 724.3 million and corresponds to the cumulative increase of the fair value of assets since inception of the hedging relationship. This increase is not shown in the income statement on a net basis, after including hedge transactions. Any previously existing ineffectiveness based on the hedged risk is reflected in a provision for hedging relationships. The changes in value attributable to the hedged risk are reflected on a portfolio basis, in the form of a write-down on the security concerned.

The Bank continues to establish hedging relationships between repurchased own bonds in a nominal amount of € 875.9 million and the corresponding securitised liabilities.

Fair value measurement of interest rate instruments of the banking book

In addition, the Bank uses derivative financial instruments of the banking book (non-trading book), above all interest rate swaps, for the purpose of controlling interest rate risk (interest spread risk) as part of overall management of the Bank. In accordance with HGB, these instruments represent "pending transactions" which are not recognised in the balance sheet. They form a "hedging relationship", together with the recognised interest-bearing assets and liabilities of the banking book. In accordance with IDW RS BFA 3, this hedging relationship has to be reviewed as to whether losses are anticipated, taking into account expected expenses to be required for funding, risk management and administration in relation to managing the banking book. Currently, the Bank has two equally suitable methods available to determine provisions for anticipated losses: the P&L based approach referring to certain time periods, and the (static) present value method. The Bank uses the present value method. Under this method, a provision has to be recognised when the book value of the banking book exceeds the present value of the banking book, i.e. if there are net unrealised losses in the banking book. The present value is derived from the cash flows of the financial instruments included in the banking book, discounted to the balance sheet date. Potential future risk costs are considered by adjusting the applicable interest rate used for the discounting of cash flows. The administrative expenses relating to the banking book are derived from cost accounting and deducted on a lump-sum basis. No provision for anticipated losses had been recognised as at the balance sheet date, since the present value of the banking book is higher than the book value as at 31 December 2014.

Derivatives

Derivative financial instruments are considered pending transactions, and are therefore generally not recorded in the balance sheet.

Exchange-traded derivatives are measured at their quoted market price. The market price of over-the-counter (OTC) derivatives is determined using standard valuation models commonly accepted in the financial industry, such as the present value technique and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

Acquired as well as issued structured products are generally accounted for as groups of uniform assets and liabilities in accordance with IDW RS HFA 22.

Structured products subject to significantly higher or additional risks or rewards are accounted for separately as individual receivables or liabilities.

Notes to the income statement

Income by geographical segment

The aggregate of (i) interest income, (ii) current income on equities and other non-fixed income securities, and on participating interests and interests in affiliated companies, (iii) commission income and (iv) other operating income is broken down by the following regions, in accordance with section 34 of the RechKredV.

€ mn	2014	2013
Germany	583.0	677.9
Europe / Americas / Asia	850.8	807.1
Total	**1,433.8**	**1,485.0**

The previous year's figures were adjusted due to the introduction of a more precise calculation methodology.

Administration and intermediation services rendered to third parties

Administration and intermediation services rendered to third parties concerned the administration and intermediation of loans and trust assets.

Other operating income and expenses

Other operating income totals € 18.2 million (2013: € 18.6 million) and comprises income from the reversal of provisions in the amount of € 12.9 million as well as income under agency contracts for other Group subsidiaries in the amount of € 2.2 million.

Other operating expenses total € 26.7 million (2013: € 12.7 million) and include expenses for subsidiaries in the amount of € 5.4 million, which are attributable to agency contracts for other Group companies. The result from currency translation amounted to € -10.3 million (2013: € 2.5 million). In addition, the item includes expenses in the amount of € 5.5 million from unwinding of discounts of provisions, after offsetting with income from plan assets used for pension obligations pursuant to section 246 (2) sentence 2 of the HGB.

Net income taxes

The net income tax position amounts to an income of € 37.9 million (2013: expense of € 26.2 million), of which an expense of € 38.9 million included in current taxes is payable in Germany: this figure comprises € 11.3 million in corporation tax and solidarity surcharge and € 12.5 million in trade tax payable for the current year, as well as € 15.1 million in tax expense for previous years. The net income tax position also includes € 73.9 million in income from the capitalisation of deferred taxes and € 2.9 million in expenses for the Bank's foreign branch offices.

The tax reconciliation is used to determine why the tax expense (current taxes and deferred taxes) reported in the income statement differs from the expense calculated using the expected tax rate of 31.4% (2013: 31.2%), which represents the current tax rate in Germany (trade tax rate of 15.6%, corporation tax rate of 15% and solidarity surcharge of 5.5%).

€ mn	31 Dec 2014	31 Dec 2013
Income before income taxes	38.9	76.1
Expected income tax expenses; tax rate: 31.4 % (2013: 31.2 %) (of wich: 15.6% trade taxes, 15.0% corporation taxes and 0.8% solidarity surcharge)	12.2	23.8
Reconciliation		
Different foreign tax burden	-2.9	-1.3
Tax attributable to tax-exempt income	-50.7	-18.1
Tax attributable to non-deductible expenses	8.0	14.1
Remeasurement of deferred taxes	0.0	2.4
Prior-period actual taxes	18.5	5.3
Effect of change in tax rates	0.1	0.0
Other tax effects	-23.1	0.0
Reported income tax expenses	-37.9	26.2
Effective tax rate (%)	-97.6	34.4

Other effects result from the first-time recognition of deferred tax assets in connection with the acquisition of Corealcredit Bank AG during the 2014 financial year.

Prohibition of distribution

A total amount of € 240.5 million in profits is subject to a prohibition of distribution, pursuant to section 268 (8) of the HGB, of which € 238.3 million is attributable to the balance resulting from recognised deferred tax assets and recognised deferred tax liabilities. A prohibition of distribution applies to a net amount of € 2.2 million (after fair-value netting of assets), pursuant to section 246 (2) sentence 2 of the HGB.

Notes to the balance sheet

Securities negotiable at a stock exchange

The following table is a breakdown of securities negotiable at a stock exchange included in the balance sheet line items, including accrued interest.

€ mn	Listed 31 Dec 2014	Unlisted 31 Dec 2014
Debt and other fixed-income securities	10,291.3	0.0
Equities and other non-fixed income securities	0.0	0.0
Participating interests	-	-
Interests in affiliated companies	0.0	3.2

Hedging relationships as defined by section 254 of the HGB have been created with respect to negotiable securities in an aggregate amount of € 5,792.31 million (2013: € 6,288.9 million).

Bonds and notes of € 10,291.3 million (2013: € 11,076.1 million) (including accrued interest) reported under debt and other fixed-income securities include € 1,337.48 million (2013: € 1,475.0 million) in securities which are not eligible as collateral with Deutsche Bundesbank. Of that amount, € 298.58 million (2013: € 290.8 million) relate to sovereign foreign-currency bonds, which are eligible for securities lending.

The total amount of the balance sheet item „interests in affiliated companies“ consists of interests in Aareal First Financial Solutions AG and Deutsche Bau- und Grundstücks-Aktiengesellschaft.

Bonds of selected European countries

The following table is an overview of the bonds issued by public-sector entities and bank bonds of selected European countries, included in the item "debt securities and other fixed-income securities":

Bond values as at 31 Dec 2014

€ mn		Greece	Ireland	Italy	Portugal	Spain	Total
Bonds issued by public-sector entities (liquidity reserve)*							
	Nominal amount			430		25	**455**
	Book value			431		26	**457**
	Fair value			507		33	**540**
Bonds issued by public-sector entities (securities held as fixed assets) *							
	Nominal amount			839	155	312	**1,306**
	Book value			858	156	314	**1,328**
	Fair value			1,105	170	298	**1,573**
Covered bank bonds (liquidity reserve)							
	Nominal amount			70	60	165	**295**
	Book value			71	62	173	**306**
	Fair value			74	72	176	**322**
Covered Bank Bonds (securities held as fixed assets)							
	Nominal amount					283	**283**
	Book value					291	**291**
	Fair value					315	**315**
Senior unsecured bank bonds (liquidity reserve)							
	Nominal amount						
	Book value						
	Fair value						
Senior unsecured bank bonds (securities held as fixed assets)							
	Nominal amount						
	Book value						
	Fair value						
Total	**Nominal amount**			**1,339**	**215**	**785**	**2,339**

* All bonds issued by public-sector debtors, including government-guaranteed bonds.

Bond values as at 31 Dec 2013

€ mn		Greece	Ireland	Italy	Portugal	Spain	Total
Bonds issued by public-sector entities (liquidity reserve)*							
	Nominal amount			430		25	**455**
	Book value			415		26	**441**
	Fair value			462		30	**492**
Bonds issued by public-sector entities (securities held as fixed assets) *							
	Nominal amount			839	155	312	**1,306**
	Book value			859	156	314	**1,329**
	Fair value			900	144	266	**1,310**
Covered bank bonds (liquidity reserve)							
	Nominal amount			70	60	195	**325**
	Book value			71	57	204	**332**
	Fair value			74	64	210	**348**
Covered Bank Bonds (securities held as fixed assets)							
	Nominal amount					353	**353**
	Book value					363	**363**
	Fair value					379	**379**
Senior unsecured bank bonds (liquidity reserve)							
	Nominal amount			13			**13**
	Book value			12			**12**
	Fair value			13			**13**
Senior unsecured bank bonds (securities held as fixed assets)							
	Nominal amount			0			**-**
	Book value			0			**-**
	Fair value			0			**-**
Total	**Nominal amount**			**1,352**	**215**	**885**	**2,452**

* All bonds issued by public-sector debtors, including government-guaranteed bonds.

Investment fund units

The following table is an analysis of investment fund assets where more than 10% of the fund units are held.

€ mn	Book value 31 Dec 2014	Market value 31 Dec 2014	Book value 31 Dec 2013	Market value 31 Dec 2013
DBB INKA	100.9	100.9	100.4	100.4
Aareal Altersvorsorge BV 97	34.2	34.2	0.0	0.0
Arsago Multistrategie	9.2	9.7	40.7	40.7
Total	**144.3**	**144.8**	**141.1**	**141.1**

DBB INKA is an investment fund as defined under German law (Sondervermögen) which invests in assets permitted under the German Investment Act (Investmentgesetz – "InvG"), observing the principle of risk diversification.

Aareal Altersvorsorge BV 97 is an investment fund as defined under German law (Sondervermögen), which invests in assets permitted under the Investment Directive, observing the principle of risk diversification. This investment fund is protected from access by all creditors, and is only intended to settle liabilities from retirement benefit obligations vis-à-vis employees.

The Arsago Multistrategie fund is a multi-strategy hedge fund which uses derivative instruments to gain exposure to various interest rate, currency and macro strategies.

During the financial year, the first partial redemption of the units held in the Arsago Multistrategie fund was realised.

Daily fund unit redemption is subject to certain restrictions. The value of investment fund units as defined by sections 168 and 278 of the German Capital Investment Act (Kapitalanlagegesetzbuch – "KAGB") is € 144.8 million. During the financial year under review, no distributions were made under the fund. There are € 0.5 million of hidden reserves from the Arsago Multistrategie fund.

Subordinated assets

The following items comprise subordinated assets in the amount shown:

€ mn	31 Dec 2014	31 Dec 2013
Loans and advances to banks	-	-
Loans and advances to customers	4.6	4.6
Debt and other fixed-income securities	-	-
Equities and other non-fixed income securities	-	0.4
Other assets	-	-

Movements in fixed assets

The changes in fixed assets are presented in the fixed assets development schedule shown below.

The values shown for debt and other fixed-income securities include additions and disposals, as well as changes in inventory due to the amortisation of premiums and discounts (excluding accrued interest).

€ mn	Debt and other fixed-income securities	Participating interests	Interests in affiliated companies	Intangible assets	Tangible assets: Office furniture and equipment	Tangible assets: Land and buildings
Cost						
Balance as at 1 Jan 2014	**3,983.0**	**2.3**	**780.5**	**37.9**	**33.6**	**0.1**
Additions	0.0	0.0	422.2	0.9	2.3	0.0
Disposals	508.3	0.0	35.2	0.1	1.9	0.0
Changes in inventory / transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31 Dec 2014	**3,474.7**	**2.3**	**1,167.5**	**38.7**	**34.0**	**0.1**
Depreciation, amortisation and write-downs						
Balance as at 1 Jan 2014	**0.0**	**1.0**	**70.5**	**35.9**	**22.4**	**0.0**
Depreciation and amortisation	0.0	0.0	0.0	0.8	2.6	0.0
Write-downs	0.0	0.0	0.1	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	1.9	0.0
Transfers	0.0	0.0	0.0	0.0	0.0	0.0
Write-ups	0.0	0.0	2.6	0.0	0.0	0.0
As at 31 Dec 2014	**0.0**	**1.0**	**68.0**	**36.7**	**23.1**	**0.0**
Book value as at 31 Dec 2014	**3,474.7**	**1.3**	**1,099.5**	**2.0**	**10.9**	**0.1**
Book value as at 31 Dec 2013	**3,983.0**	**1.3**	**710.0**	**2.0**	**11.2**	**0.1**

As at 31 December 2014, the securities held as fixed assets include an ABS portfolio of high credit quality, bonds of North American financial institutions as well as securities issued by Eastern and Southern European debtors. The following performance was recognised:

€ mn	Book value 31 Dec 2014	Market value 31 Dec 2014	Book value 31 Dec 2013	Market value 31 Dec 2013
Asset-backed securities	142.1	137.2	162.5	141.8
Bank bonds	446.2	470.6	489.8	518.5
Covered bonds	403.4	446.9	722.6	764.6
Public-sector issuer	2,483.0	3,081.7	2,608.1	2,781.1
Total	**3,474.7**	**4,136.4**	**3,983.0**	**4,206.0**

Securities with a nominal amount of € 3,478.7 million were not measured at the lower of cost or market. For some of the securities issued by public-sector entities and the ABS portfolio, the book value in the amount of € 320.3 million and € 121.6 million, respectively, is higher than the market value of € 294.3 million and € 116.5 million, respectively. An examination of cost vs. market values as at 31 December 2014 did not indicate any permanent impairment.

The option to aggregate non-trading assets, pursuant to section 34 (3) of the RechKredV, has been exercised.

The Bank has rented the majority of business land and buildings used for its business operations from one of its subsidiaries.

Other assets

Other assets include, in particular, receivables from profit distributions (€ 4.4 million) and € 19.2 million in tax receivables.

In the previous year, other assets included, in particular, € 111.9 million in assets recognised from currency translation, € 5.1 million in receivables from profit distributions and € 18.5 million in tax receivables.

Deferred taxes

As at 31 December 2014, € 256.3 million (2013: € 171.0 million) in deferred tax assets and € 18.0 million (2013: € 18.7 million) in deferred tax liabilities were reported on the balance sheet. Deferred taxes are recorded in the amount of the assumed tax burden or relief in coming financial years, and are measured using the company- and country-specific tax rates expected to apply at the time of the realisation of temporary differences and the offsetting of loss carryforwards.

For Germany, we generally used a corporate income tax rate (including solidarity surcharge) of 15.8% and a municipal trade tax rate, depending on the multiplier set by the relevant local authorities. This results in an overall tax rate of 31.4% for Germany.

Deferred tax assets were largely recognised for valuation differences for loans and advances to customers compared to their tax base, provisions for impending losses from executory contracts, as required under German commercial law, prepaid expenses for collected loan fees as well as on provisions for pensions. Deferred tax assets in the amount of € 11.6 million (2013: € 6.8 million) were recognised for loss carryforwards, relating exclusively to foreign permanent establishments of Aareal Bank AG. Corealcredit Bank AG's deferred tax assets were initially recognised in 2014, in the amount of € 23.1 million. The investment was acquired in 2014, and an income tax group established under a profit and loss transfer agreement with Aareal Bank AG.

Deferred tax liabilities were recognised primarily for flat-rate specific provisions on receivables of the permanent establishment in Rome.

Other liabilities

Other liabilities include profit entitlements from silent participations in the amount of € 34.8 million, of which € 8.3 million become legally payable only after the balance sheet date, in accordance with the profit appropriation decision of the Annual General Meeting. In addition, other liabilities included € 532.1 million in liabilities recognised from currency translation, € 40.1 million in liabilities from profit and loss transfer agreements and € 6.4 million in tax liabilities.

In the previous financial year, other liabilities largely included € 39.5 million in profit entitlements from silent participations, of which € 6.3 million became legally payable only after the balance sheet date, in accordance with the profit appropriation decision of the Annual General Meeting. In addition, € 35.3 million in liabilities from profit and loss transfer agreements and tax liabilities of € 16.2 million were recognised.

Provisions for pensions and similar obligations

The values determined in the actuarial pension report are based on the methods and assumptions described below. In this context, the collection of personnel data and the determination of the forecast interest rate were made as at 1 October 2014 (cut-off date), not as at the balance sheet date:

	31 Dec 2014	31 Dec 2013
Actuarial method applied:	Projected unit credit method	Projected unit credit method
Fundamental assumptions for calculation:		
Discount rate in %	4.55	4.90
Expected w age and salary increases in %	2.25	2.25
Mortality tables used	"Richttafeln 2005G" mortality tables by Prof Dr Klaus Heubeck	"Richttafeln 2005G" mortality tables by Prof Dr Klaus Heubeck

Assets which are held exclusively for the purpose of fulfilling pension obligations are netted against provisions for pensions, within the framework of a Contractual Trust Agreement (CTA) where the trustee is acting on behalf of both parties (in the capacity of an administrative trustee and security trustee).

€ mn	31 Dec 2014	31 Dec 2013
Pension obligation	148.8	135.2
Fair value of plan assets	56.2	49.1
Cost of plan assets	54.0	45.1
Provisions for pensions and similar obligations	**92.6**	**86.1**

The plan assets comprise the following items, all of which are exclusively reserved to meet Aareal Bank AG's pension obligations vis-à-vis its active and retired employees in Germany.

€ mn	31 Dec 2014	31 Dec 2013
Fund units	34.2	13.1
Bonds	-	15.6
Reinsurance cover	22.0	20.4
Fair value of plan assets	**56.2**	**49.1**

The following table shows the income and expenses in relation to pension obligations and the associated plan assets that were offset and recognised in the income statement of the reporting year.

€ mn	31 Dec 2014	31 Dec 2013
Interest cost on pension obligations	6.5	6.3
Income from plan assets	3.5	2.0
Net interest cost	**3.0**	**4.3**

Subordinated liabilities

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

Total interest expenses for subordinated liabilities of € 58.1 million include € 27.2 million in deferred interest not yet due.

Aareal Bank AG has € 250.0 million in subordinated equity from Aareal Capital Funding LLC, Wilmington, at its disposal. The amount exceeds 10% of the aggregate nominal value of all subordinated liabilities; this bears interest at 7.135%. These subordinated funds are due for repayment on 31 December 2026. The Bank has had a right to terminate, on a quarterly basis, since 31 December 2006; the creditors do not have any early termination rights.

Profit-participation certificates

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

The profit-participation certificates recognised on the balance sheet are eligible as own funds pursuant to Article 63 in conjunction with Article 484 et seq. of the Capital Requirements Regulation (CRR) in the amount of € 22.0 million.

€ mn	Nominal amount	Issue currency	Interest rate (% p.a.)	Maturity
Registered profit-participation certificates:				
	5.0	EUR	7.220	2002 - 2016
	5.0	EUR	7.220	2002 - 2016
	5.0	EUR	6.310	2003 - 2017
	10.0	EUR	5.750	2004 - 2014
	2.0	EUR	5.470	2004 - 2014
	5.0	EUR	5.480	2004 - 2014
	5.0	EUR	5.380	2004 - 2016
	20.0	EUR	5.950	2004 - 2016
	6.0	EUR	5.830	2005 - 2017
	63.0			

Pursuant to the terms and conditions of issue, holders of profit-participation certificates have a claim on interest payments which takes precedence over the profit entitlements of shareholders. Where a distribution during the term of the profit-participation certificates 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), after the Annual General Meeting passes resolutions regarding the relevant financial year.

€ 6.7 million in interest expenses were incurred in 2014 with respect to profit-participation certificates issued.

The profit-participation certificates evidence creditors' rights; they do not grant any share in the liquidation proceeds.

Additional Tier 1 capital instruments

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% p.a., 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 1 instruments within the meaning of the CRR, the terms of which provide for a write-down upon the occurrence of the trigger event. A "trigger event" occurs if the Common Equity Tier 1 capital ratio pursuant to Article 92 (1) (a) of the CRR or a successor provision, determined on a consolidated basis of the issuer, falls below 7.0%. After a write-down has been effected, the principal amount and the redemption amount of each note may – subject to certain conditions – be written up in each of the financial years of the issuer subsequent to such write-down until the full initial principal amount has been reached.The notes may be redeemed, in whole but not in part, at any time at the option of the issuer, subject to the prior consent of the competent supervisory authority, upon not less than 30 and not more than 60 days' prior notice of redemption at their redemption amount (taking into account a potential write-down) together with interest accrued until the redemption date (to the extent that interest payment is not cancelled or ruled out in accordance with the terms and conditions of the notes), when the tax or regulatory reasons set out in the terms and conditions of the notes apply. The issuer may also redeem the notes, in whole but not in part, at any time, subject to the prior consent of the competent supervisory authority, upon not less than 30 days' notice of redemption with effect as at 30 April 2020 for the first time and, thereafter, with effect as at each interest payment date at their redemption amount together with interest (if any) accrued to the redemption date.

The interest expenses (interest not yet due) for the notes amount to € 2.6 million.

Purchase of treasury shares

The Management Board was authorised by the Annual General Meeting held on 19 May 2010 pursuant to section 71 (1) no. 7 of the German Stock Corporation Act (AktG) to purchase and sell treasury shares until 18 May 2015 for the purposes of securities trading at prices that may not be higher or lower than 10% than the average closing price of the shares in Xetra® (or a comparable successor system) of the Frankfurt Stock Exchange during the three trading days prior to purchase. The volume of shares acquired for this purpose must not exceed 5% of the share capital of Aareal Bank AG at the end of any given day.

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

The Management Board is authorised - subject to certain conditions and subject to exclusion of shareholders' pre-emptive rights - to effect the sale of any treasury shares acquired in accordance with this authorisation, via channels other than the stock exchange or an offer to all shareholders. The Management Board is authorised to call in any of the shares acquired under this authorisation, without any further resolutions by the General Meeting being necessary.

Said authorities were not utilised. No treasury shares were held at the end of the year under review.

Development of shareholders' equity reported on the balance sheet

	Subscribed capital	Capital reserves	Retained earnings		Net retained profit	Equity
			Legal reserve	Other retained earnings		
€ mn	capital					
Balance as at 1 Jan 2014	**699.8**	**727.8**	**4.5**	**710.2**	**49.9**	**2,192.2**
Capital increase	0.0	0.0	-	-	-	0.0
(of which: contributions by silent partners)	(520.2)	-	-	-	-	(520.2)
Transfer from net retained profit 2013	-	-	-	5.0	-5.0	-
Dividends distributed in 2014	-	-	-	0.0	-44.9	-44.9
Transfer from net income 2014	-	-	-	-	76.8	76.8
Repayment of silent participation	-330.0	-	-	-	-	-330.0
As at 31 Dec 2014	**369.8**	**727.8**	**4.5**	**715.2**	**76.8**	**1,894.1**
(of which: contributions by silent partners)	(190.2)	-	-	-	-	(190.2)

Subscribed capital amounts to € 179.6 million (2013: € 179.6 million) and is divided into 59,857,221 (2013: 59,857,221) bearer shares with a proportionate share in the share capital of € 3.00 per share.

On 31 March 2009, the German Financial Markets Stabilisation Fund (SoFFin) provided a € 525.0 million silent participation to Aareal Bank AG, as agreed upon as part of the package of support measures on 15 February 2009. This perpetual silent participation bears interest at 9% p.a. On 16 July 2010, Aareal Bank AG repaid a first tranche of € 150.0 million of the € 525.0 million silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin), and made a second partial repayment in the amount of € 75.0 million on 28 April 2011. Having obtained approval from the German Federal Financial Supervisory Authority (BaFin) on 29 October 2014 to repay the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin) in full, Aareal Bank repaid the residual amount of

€ 300.0 million to SoFFin on 30 October 2014. In accordance with the repayment agreement, Aareal Bank will additionally pay interest accruing until the next regular maturity date on 31 March 2015 to SoFFin. Furthermore, in line with existing contractual stipulations, the agreement provides for a pro rata temporis share due to SoFFin in any dividends distributed by Aareal Bank, by way of a dividend-linked interest add-on for the 2014 financial year. With the full repayment of the silent participation, SoFFin's support to Aareal Bank has therefore come to an end.

The Bank utilises the rules set out in section 2a of the KWG in conjunction with Article 7 of the CRR pursuant to which regulatory indicators of own funds can only be determined at Group level. As a result, regulatory details no longer need to be disclosed at a single-entity level in this context.

Authorised capital

Aareal Bank has authorised capital pursuant to the resolution by the Annual General Meeting held on 23 May 2012. Accordingly, the Management Board is authorised to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 89,785,830 (Authorised Capital 2012) by issuance of new bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board; this authority will expire on 22 May 2017. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right, unless the Management Board exercises its authority to exclude shareholder's pre-emptive subscription rights. The Management Board may exclude shareholders' subscription rights, subject to approval by the Supervisory Board and the conditions set out below:

a) In the event of a capital increase against cash contributions, provided that the issue price of the new shares is not significantly below the prevailing stock exchange price of the Company's listed shares at the time of the final determination of the issue price. However, this authorisation shall be subject to the proviso that the aggregate value of shares sold to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed ten per cent (10%) of the 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 share capital. Said ten-per-cent threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation;
b) for fractional amounts arising from the determination of the applicable subscription ratio;
c) where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by the Company or its affiliated companies, which subscription rights are required to entitle these holders to the same extent as they would have been entitled to upon exercising their conversion or option rights or upon performance of a conversion obligation, if any, thus protecting such holders against dilution;
d) for an amount of up to € 4,000,000, to offer employees (of the Company or its affiliated companies) shares for subscription.

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

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

The authorised capital has not been utilised.

Conditional capital

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

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

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

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

Contingent liabilities and other commitments

The Bank has off-balance contingent liabilities and irrevocable loan commitments. During the term of these obligations, the Bank regularly reviews whether any losses can be expected from the utilisation of such contingent liabilities. This assessment is primarily made due to the credit risk analysis. Any losses that can be expected according to this analysis are recognised in the balance sheet as provisions.

The contingent liabilities primarily result from guarantee and indemnity agreements with banks in the amount of € 88.0 million (2013: € 107.1 million). These include € 26.5 million (2013: € 37.0 million) in maximum default 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 pbb Deutsche Pfandbriefbank AG.

Liabilities did not have to be recognised for obligations from indemnity agreements vis-à-vis third parties and other obligations, which were entered into in favour of affiliated companies, as the underlying liabilities are likely to be fulfilled by the affiliated companies. Therefore, we do not expect any utilisation in this regard.

Irrevocable loan commitments are made up of credit and loan commitments, of which € 2,862.9 million (2013: € 72.0 million) are granted to domestic borrowers and € 1,778.1 million (2013: € 1,114.7 million) to foreign borrowers.

Unrecognised transactions and other obligations

Leasing: Aareal Bank AG is the lessee mainly of operating leases. Rental and lease contracts relate to the buildings of the Bank's head office in Wiesbaden used for the Bank's operations, and of the foreign branch offices and representative offices as well as to the vehicle fleet and certain operating and office equipment. In all cases, the contracts are so-called operating leases which are not recognised in the financial statements of the Bank. The key benefit of such contracts is a lower amount of capital lock-up compared to an acquisition, and the elimination of realisation risk. At the moment, there are no indications that risks may result from the lease term.

[1] Regulation 575/2013/EU

Disclosures on repurchase agreements and derivatives are presented in the following section of the Notes.

The financial amounts subject to legal disputes are within the mid two-digit million range. Based on a legal analysis, successful outcome of these disputes is more likely than not, and therefore, no liabilities are recognised in the financial statements.

Maturity groupings

€ mn	31 Dec 2014	31 Dec 2013
Loans and advances to banks	**3,718.3**	**2,750.3**
with a residual term of		
Payable on demand	2,647.6	743.8
Up to 3 months	288.0	1,534.9
Between 3 months and 1 year	344.2	25.6
Between 1 year and 5 years	88.2	86.0
More than 5 years	32.4	8.6
Pro rata interest	317.9	351.4
Loans and advances to customers	**27,115.3**	**25,495.8**
with a residual term of		
Payable on demand	259.4	115.8
Up to 3 months	1,052.2	725.8
Between 3 months and 1 year	3,205.7	3,049.1
Between 1 year and 5 years	16,331.1	16,385.5
More than 5 years	6,110.6	5,072.5
Indefinite maturity	-	-
Pro rata interest	156.3	147.1
Debt and other fixed-income securities maturing in the following year (nominal amount)	**1,226.0**	**1,226.3**
Liabilities to banks	**2,149.6**	**1,742.9**
with a residual term of		
Payable on demand	837.4	775.3
Up to 3 months	325.0	141.1
Between 3 months and 1 year	157.8	69.2
Between 1 year and 5 years	289.0	291.3
More than 5 years	311.2	218.6
Pro rata interest	229.2	247.4
Savings deposits with an agreed notice period of more than three months	**0.0**	**0.0**
With a residual term of		
Up to 3 months	0.0	0.0
Between 3 months and 1 year	0.0	0.0
Between 1 year and 5 years	0.0	0.0
Pro rata interest	0.0	0.0
Other deposits from customers	**24,612.5**	**24,786.6**
With a residual term of		
Payable on demand	6,553.1	5,009.5
Up to 3 months	3,497.4	4,165.2
Between 3 months and 1 year	3,741.0	3,778.1
Between 1 year and 5 years	3,888.7	4,063.7
More than 5 years	6,697.2	7,492.8
Pro rata interest	235.1	277.3
Bonds issued maturing in the following year (nominal amount)	**2,056.8**	**2,415.0**
Other certificated liabilities	**0.0**	**0.0**

Prepaid expenses and deferred income

Prepaid expenses and deferred income primarily include upfront payments as well as any premiums and discounts on registered bonds, claims under promissory note loans, issued bonds and other loans as well as fee portions with interest-paying characteristics, which have been amortised over the relevant terms.

Prepaid expenses in the amount of € 202.8 million (2013: € 203.5 million) primarily include € 3.2 million (2013: € 4.8 million) in premiums on originated loans, in accordance with section 340e (2) sentence 3 of the HGB and € 143.5 million (2013: € 148.8 million) in discounts on bonds issued and borrowings pursuant to section 250 (3) of the HGB. The item also includes € 50.2 million (2013: € 45.6 million) from upfront payments/option premiums in connection with derivatives.

€ 72.4 million (2013: € 62.5 million) of deferred income (total 2014: € 149.0 million; total 2013: € 109.3 million) refers to upfront payments/option premiums in connection with derivatives, while € 11.0 million (2013: € 6.1 million) refers to discounts on originated loans, in accordance with section 340e (2) sentence 2 of the HGB, and to fee portions with interest-paying characteristics in the amount of € 65.1 million (2013: € 39.6 million).

Trust business

€ mn	Trust assets 31 Dec 2014
Loans and advances to banks	0
Loans and advances to customers	47.5
Equities and other non-fixed income securities	1.5
Total	**49.0**

€ mn	Trust liabilities 31 Dec 2014
Liabilities to banks	13.8
Liabilities to customers	35.2
Total	**49.0**

€ mn	Trust assets 31 Dec 2013
Loans and advances to banks	0
Loans and advances to customers	71.8
Equities and other non-fixed income securities	1.5
Total	**73.3**

€ mn	Trust liabilities 31 Dec 2013
Liabilities to banks	18.8
Liabilities to customers	54.5
Total	**73.3**

Notes on affiliated companies and enterprises with a participatory interest

	Affiliated companies 2014		Enterprises with a participatory interest 2014		Affiliated companies 2013		Enterprises with a participatory interest 2013	
€ mn	Certificated	Not certificated	Certificated	Not certificated	Certificated	Not certificated	Certificated	Not certificated
Loans and advances to banks	-	481.0	-	-	-	-	-	-
Loans and advances to customers	-	2,843.4	-	-	-	2,561.0	-	-
Debt and other fixed-income securities	-	-	-	-	-	-	-	-
Liabilities to banks	-	379.1	-	-	-	-	-	-
Liabilities to customers	-	616.2	-	0.0	-	408.1	-	-
Certificated liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	250.0	-	-	-	250.0	-	-

Transactions with related parties are carried out on an arm's length basis. Our relationships to related parties are detailed in the section "Loans to executive bodies of Aareal Bank AG" as well as in the Remuneration Report.

Shareholdings

The following disclosures are made pursuant to section 285 (11) of the HGB:

No.	Company name	Registered office	Share in capital in %	Equity € mn	Results € mn
1	Aareal Bank AG	Wiesbaden	100,0		
2	1st Touch Ltd	Southampton	100,0	GBP 2.2 mn	GBP 1.1 mn 2)
3	Aareal Bank Asia Limited	Singapore	100,0	SGD 17.8 mn	SGD 0.3 mn 1)
4	Aareal Bank Capital Funding LLC	Wilmington	100,0	250,0	0,0
5	Aareal Bank Capital Funding Trust	Wilmington	100,0	0,0	0,0
6	Aareal Capital Corporation	Wilmington	100,0	USD 205.9 mn	USD -0.7 mn 1)
7	Aareal Estate AG	Wiesbaden	100,0	2,8	0,0 3)
8	Aareal First Financial Solutions AG	Mainz	100,0	3,2	0,0 3)
9	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94,9	2,2	0,1 1)
10	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100,0	221,1	0,0 3)
11	Aareal Finanz und IT Beteiligungen GmbH	Wiesbaden	100,0	495,5	0,0 3)
12	Aareal Property Services B.V. i.L.	Amsterdam	100,0	30,4	0,9 4)
13	Aareal Valuation GmbH	Wiesbaden	100,0	0,5	0,0 3)
14	Aareon AG	Mainz	100,0	84,6	9,2
15	Aareon Deutschland GmbH	Mainz	100,0	32,2	0,0 3)
16	Aareon France S.A.S.	Meudon-la Forêt	100,0	4,1	1,3 2)
17	Aareon Immobilien Projekt GmbH	Essen	51,0	0,7	-0,2
18	Aareon Nederland B.V.	Emmen	100,0	16,7	3,2 2)
19	Aareon UK Ltd.	Coventry	100,0	GBP 3.3 mn	GBP 1.1 mn 2)
20	AHBR-Grundstücksverwaltungsgesellschaft mit beschränkter Haftung	Frankfurt	100,0	0,2	0,0 3)
21	AHBR Projektentwicklung GmbH	Frankfurt	100,0	0,7	0,0 2)
22	Aqvatrium AB	Stockholm	100,0	SEK 383.1 mn	SEK 0.0 mn 1)
23	arsago Alternative Investments SPC	Grand Cayman	67,0	n/a	n/a
24	Aufbaugesellschaft Prager Straße mbH	Wiesbaden	100,0	0,1	0,0
25	BauContact Immobilien GmbH	Wiesbaden	100,0	28,9	1,0
26	BauGrund Immobilien-Management GmbH	Bonn	100,0	0,5	0,0 3)
27	BauGrund TVG GmbH	Munich	100,0	0,1	0,0 1)
28	BauSecura Versicherungsmakler GmbH	Hamburg	100,0	3,0	2,9
29	berlinbiotechpark Management GmbH	Berlin	100,0	0,1	-0,1 2)
30	berlinbiotechpark Verwaltung GmbH	Berlin	89,6	0,2	0,0 2)
31	BGS-Beteiligungsgesellschaft mit beschränkter Haftung	Frankfurt	100,0	0,8	0,0 3)
32	BVG - Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100,0	216,6	0,0 3)
33	Capital Funding GmbH & Co. KG	Frankfurt	100,0	0,0	0,0 5)
34	COREALCREDIT BANK AG	Frankfurt	100,0	662,3	0,0 3)
35	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100,0	1,3	-0,3
36	Deutsche Structured Finance GmbH	Wiesbaden	100,0	4,3	1,7 1)
37	DSF berlinbiotechpark Verwaltungsgesellschaft mbH	Frankfurt	100,0	0,1	0,0 2)

1) Preliminary figures as at 31 December 2014; 2) Equity and results as at 31 December 2013; 3) Profit transfer agreement / control and profit transfer agreement
4) Different financial year; 5) 10% of voting rights, diverging from the equity interest held; n/a no data

No.	Company name	Registered office	Share in capital in %	Equity € mn	Results € mn
38	DSF Elfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
39	DSF Energia Naturale S.r.l.	Rome	100.0	0.0	0.0 [2]
40	DSF Flugzeugportfolio GmbH	Wiesbaden	100.0	0.0	0.0 [3]
41	DSF Fünfzehnte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.1	0.0 [2]
42	DSF German Office Fund GmbH & Co. KG	Wiesbaden	94.0	0.4	-0.7 [1]
43	DSF Neunte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
44	DSF Solar Italien GmbH & Co. KG	Wiesbaden	100.0	0.0	0.0 [4]
45	DSF Treuhand GmbH	Frankfurt	100.0	0.1	0.0 [2]
46	DSF Vierte Verwaltungsgesellschaft mbH	Wiesbaden	100.0	2.2	0.0 [3]
47	DSF Zwölfte Verwaltungsgesellschaft mbH	Frankfurt	94.0	0.3	0.0 [2]
48	Facilitor B.V.	Enschede	100.0	1.0	0.6 [2]
49	GEV GmbH	Wiesbaden	100.0	18.0	0.0 [3]
50	GFI Gesellschaft für Investitionsberatung in Immobilien mit beschränkter Haftung	Frankfurt	100.0	0.1	0.0 [3]
51	GPP-Grundstücksgesellschaft Pariser Platz 6a mit beschränkter Haftung	Frankfurt	100.0	0.0	0.0 [3]
52	GVN-Grundstücks- und Vermögensverwaltungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	52.5	0.0 [3]
53	IMMO Consulting S.r.l.	Rome	100.0	0.7	0.0 [1]
54	Incit AB	Mölndal	100.0	SEK 15.4 mn	SEK 1.3 mn [2]
55	Incit AS	Oslo	100.0	NOK 1.0 mn	NOK 0.0 mn [2]
56	Incit Nederland B.V.	Gorinchem	100.0	-0.6	0.1 [2]
57	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	2.1	0.1 [1]
58	Izalco Spain S.L.	Madrid	100.0	11.1	0.0 [3]
59	Jomo S.p.r.l.	Brussels	100.0	7.2	0.6 [1]
60	La Sessola Holding GmbH	Wiesbaden	100.0	104.7	-2.5 [1]
61	La Sessola S.r.l.	Rome	100.0	113.7	-5.4 [1]
62	La Sessola Service S.r.l.	Rome	100.0	2.3	-0.8 [1]
63	Main Triangel GmbH	Wiesbaden	94.0	76.6	-2.8 [1]
64	Main Triangel Gastronomie GmbH	Wiesbaden	100.0	0.3	-0.1 [1]
65	Mercadea S.r.l.	Rome	100.0	6.9	0.1 [1]
66	Mirante S.r.l.	Rome	100.0	13.9	-0.2 [1]
67	PLP Holding GmbH i.L.	Wiesbaden	100.0	0.3	0.0 [4]
68	Real Verwaltungsgesellschaft mbH	Schönefeld	100.0	28.8	0.9 [1]
69	Rehabilitationsklinik Barby Besitzgesellschaft mbH	Wiesbaden	100.0	-4.6	0.0
70	Rehabilitationsklinik Templin Besitzgesellschaft mbH	Wiesbaden	100.0	-3.7	0.0
71	Sole Giano S.r.l. & Co. S.a.s.	Rome	100.0	-0.2	-0.1 [2]
72	Solon 1. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
73	Solon 2. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
74	Solon 3. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
75	Solon 4. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
76	Solon 5. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
77	Sustainable Solar Future - Hellas Limited Liability Company i.L.	Athen	99.0	0.0	0.0 [2]
78	Sustainable Solar Future Northern - Hellas Limited Liability Company i.L.	Athen	99.0	0.0	0.0 [2]
79	Sustainable Solar Thermal Future East - Crete Limited Liability Company	Heraklion	99.0	0.5	0.0 [2]
80	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99.9	4.7	0.0 [3]
81	BauGrund Immobilien-Management GmbH TREUREAL Property Management GmbH GbR	Bonn	50.0	n/a	n/a
82	CredaRate Solutions GmbH	Cologne	25.9	2.0	0.4 [2]
83	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.4	0.0 [2]
84	DSF Zehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.1	0.0 [2]
85	Rathaus-Carrée Saarbrücken Verwaltungs GmbH i.L.	Cologne	25.0	0.1	0.0 [2]
86	Rathaus-Carrée Saarbrücken Verwaltungs GmbH & Co. KG	Cologne	25.0	0.1	0.0 [2]
87	Rehabilitationsklinik Uckermark GmbH i.L.	Templin	49.0	n/a	n/a
88	SG2ALL B.V.	Huizen	50.0	0.4	0.2 [2]
89	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	-0.2	0.0 [2]
90	Westhafen-Gelände Frankfurt am Main GbR	Frankfurt	33.3	0.1	0.0 [2]

1) Preliminary figures as at 31 December 2014; 2) Equity and results as at 31 December 2013; 3) Profit transfer agreement / control and profit transfer agreement
4) Different financial year; 5) 10% of voting rights, diverging from the equity interest held; n/a no data

Assets pledged as collateral

Assets in the amount stated were pledged for the following liabilities:

€ mn	31 Dec 2014	31 Dec 2013
Liabilities to banks	1,801.8	1,976.8
Liabilities to customers	0.0	0.0
Total	**1,801.8**	**1,976.8**

Repurchase agreements

The carrying amount of the assets recognised in the balance sheet and pledged under repo agreements in the amount of € 249.5 million (excluding pro-rata interest) related exclusively to securities subject to repurchase transactions (2013: € – million)

Assets and liabilities in foreign currencies

The aggregate equivalent amount of assets denominated in foreign currencies was € 12,698.7 million (2013: € 10,337.2 million) at the balance sheet date, while liabilities totalled € 1,180.1 million (2013: € 669.6 million). Foreign currency balances are partly offset by equivalent foreign exchange forwards and currency swaps.

Forward transactions

The following forward transactions had been entered into as at 31 December 2014:

- **Transactions based on interest rates**

  Caps, floors, swaptions, interest rate swaps
- **Transactions based on exchange rates**

  Spot and forward foreign exchange transactions, cross-currency interest rate swaps
- **Other transactions**

  Credit default swaps, other forward transactions

Interest-rate based transactions and cross-currency interest rate swaps are primarily used to hedge against interest rate and exchange rate fluctuations. Spot and forward foreign exchange transactions are almost exclusively used for refinancing purposes. Credit derivatives are primarily used to assume credit risks for the purpose of portfolio diversification. The credit default swaps entered into for that purpose are reviewed as to whether a provision for anticipated losses shall be recognised based on pre-determined criteria.

Remaining terms and future cash flows of derivatives are broken down in the following table:

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total 31 Dec 2014
31 Dec 2014					
Interest rate instruments					
Interest rate swaps					
Cash inflows	205.7	563.3	2,032.6	783.0	3,584.6
Cash outflows	202.8	387.4	1,682.6	632.9	2,905.7
Forward rate agreements					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Swaptions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Caps, floors					
Cash inflows	0.2	1.7	7.6	2.5	12.0
Cash outflows	0.2	1.7	7.6	2.5	12.0
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	3,343.2	245	-	-	3,588.4
Cash outflows	3,382.1	245	-	-	3,626.6
Cross-currency swaps					
Cash inflows	97.7	1,370.6	6,413.8	798.1	8,680.2
Cash outflows	125.0	1,534.0	6,941.2	869.8	9,470.0
Other transactions					
Credit default swaps					
Cash inflows	-	0.4	0.4	-	0.8
Cash outflows	-	-	-	-	-
Options, futures					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Other derivative transactions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Total cash inflows	**3,646.8**	**2,181.2**	**8,454.4**	**1,583.6**	**15,866.0**
Total cash outflows	**3,710.1**	**2,167.6**	**8,631.4**	**1,505.2**	**16,014.3**

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total 31 Dec 2013
31 Dec 2013					
Interest rate instruments					
Interest rate swaps					
Cash inflows	228.6	638.4	2,473.4	939.0	4,279.4
Cash outflows	222.5	420.3	2,169.6	980.9	3,793.3
Forward rate agreements					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Swaptions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Caps, floors					
Cash inflows	0.7	4.4	10.0	1.5	16.6
Cash outflows	0.7	4.4	10.0	1.5	16.6
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	2,871.4	17	-	-	2,888.8
Cash outflows	2,847.8	17	-	-	2,865.2
Cross-currency swaps					
Cash inflows	540.8	2,020.5	4,955.1	106.0	7,622.4
Cash outflows	548.8	2,033.9	4,976.2	107.7	7,666.6
Other transactions					
Credit default swaps					
Cash inflows	0.1	0.4	0.9	-	1.4
Cash outflows	-	-	-	-	-
Options, futures					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Other derivative transactions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Total cash inflows	**3,641.6**	**2,681.1**	**7,439.4**	**1,046.5**	**14,808.6**
Total cash outflows	**3,619.8**	**2,476.0**	**7,155.8**	**1,090.1**	**14,341.7**

The following table shows positive and negative market values, aggregated by product level (without taking into account collateral or netting agreements):

Unless a quoted market price is available, derivatives are measured using generally accepted methods on the basis of current market parameters (yield curves, volatility factors, etc.). Methods used include standard methods and models such as discounted cash flow analyses and option pricing models. Structured products are measured after they have been split into their individual components. Fair values, including accrued interest, are given for derivative financial instruments not recognised at fair value as at 31 December 2014.

€ mn	Nominal amount as at 31 Dec 2014	Market value as at 31 Dec 2014 positive	Market value as at 31 Dec 2014 negative	Market value as at 31 Dec 2013 positive	Market value as at 31 Dec 2013 negative
Interest rate instruments					
OTC products					
Interest rate swaps	44,972.4	2,720.3	2,568.4	1,931.4	1,706.1
Swaptions	-	-	-	-	-
Caps, floors	4,551.8	11.8	11.7	16.2	16.1
Forward rate agreements		-	-	-	-
Total interest rate instruments	**49,524.2**	**2,732.1**	**2,580.1**	**1,947.6**	**1,722.2**
Currency-related instruments					
OTC products					
Spot and forward foreign exchange transactions	3,581.8	17.8	55.0	31.1	7.2
Cross-currency swaps	8,643.3	70.0	667.6	166.4	158.2
Total currency-related instruments	**12,225.1**	**87.8**	**722.6**	**197.5**	**165.4**
Other transactions					
OTC products [1)]					
Credit default swaps	65.0	0.2	-	0.1	1.1
Credit linked notes		-	-	-	-
Other derivative transactions		-	-	-	-
Exchange-traded		-	-	-	-
Futures		-	-	-	-
Total other transactions	**65.0**	**0.2**	**0.0**	**0.1**	**1.1**
Total	**61,814.3**	**2,820.1**	**3,302.7**	**2,145.2**	**1,888.7**

[1)] This includes derivatives subject to the country risk of Hungary and embedded in an Austrian bank bond.

The year-on-year increase in market values of hedging derivatives carried as liabilities is attributable to exchange rate developments, in addition to the changes in interest rates. Currency hedges are largely used to hedge foreign exchange risk in the lending business.

Derivatives have been entered into with the following counterparties:

€ mn	Market value as at 31 Dec 2014 positive	Market value as at 31 Dec 2014 negative	Market value as at 31 Dec 2013 positive	Market value as at 31 Dec 2013 negative
OECD public-sector authorities				
OECD banks	2,513.9	3,275.6	1,921.4	1,837.9
Non-OECD banks				
Companies and private individuals	306.2	27.1	223.8	50.8
Total	**2,820.1**	**3,302.7**	**2,145.2**	**1,888.7**

Remuneration Report

The remuneration report for the 2014 financial year contains detailed information on the remuneration of Aareal Bank AG Management Board members, its senior executives, and its employees. While the regulatory disclosure requirements were so far derived from sections 7 and 8 of the German Regulation on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung – "InstitutsVergV") dated 13 October 2010, and the respective separate reports have been disclosed on the Bank's homepage, for the first time Aareal Bank as a significant institution is providing a description (qualitative disclosure) of the remuneration systems on a uniform basis in the Group Annual Report for the financial year 2014 in accordance with section 16 (1) of the amendment to the InstitutsVergV dated 16 December 2013, as well as the EU Capital Requirements Regulation (CRR). The quantitative disclosures on the remuneration of Management Board members, employees as well as senior executives required according to the CRR will be produced only after the financial year's reporting date - and be disclosed by the end of June in the following year on Aareal Bank AG's homepage.

Aareal Bank's remuneration systems for Management Board members, employees as well as senior executives were adjusted to the regulatory requirements resulting from the amendment to the InstitutsVergV from 16 December 2013 as well as the German Corporate Governance Kodex (the “Code”) as amended on 13 May 2013. The Bank has adjusted its remuneration systems to the regulatory requirements, with the involvement of external consultants. The differing remuneration systems of Management Board members, employees as well as senior executives are based on the same framework, but also include a proportionate factor: they take into consideration the heterogeneous company structure and the different activities of various groups of employees.

Remuneration system for the Management Board

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

Responsibilities and procedures of Aareal Bank AG regarding remuneration policies

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

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

The Supervisory Board defines – before the beginning, but no later than immediately after the beginning of every financial year – the Management Board members' targets 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 and multiple-year targets is fixed for each financial year, with a weighting of 45% (annual target) to 55% (multiple-year target) taken as a guideline. Until now, the target system envisaged a weighting of 60% for the annual target and 40% for the preceding three-year target.

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

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

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

Retention of variable remuneration components and penalty criteria

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

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

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

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

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

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

Share Bonus Plan

According to the rules for the share bonus plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares and credited to the beneficiary. The calculation of the number of virtual shares is henceforth based on the weighted average price on the basis of five (Xetra®) exchange trading days after publication of the preliminary results for the respective financial year (subscription price). The date of publication of the preliminary results is used as the reference date. The virtual shares so determined are paid into a virtual account and are automatically and without delay converted into a cash amount and paid out following the Supervisory Board meeting which resolves to accept the annual financial statements for the third financial year following the financial year for which the virtual shares were granted ("holding period"). The conversion will be effected using the weighted average price calculated on the basis of the five (Xetra®) exchange trading days following the publication of the preliminary business figures for the year preceding the payout. As of financial year 2013, the payout amount of the share bonus of a given financial year may vary depending on the share price development and is limited to a maximum of 300% of the agreed initial value (ceiling).

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

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

Share Deferral Plan

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

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

Remuneration

The Management Board members' fixed annual salary has been raised in relation to the amendment to the InstitutsVergV dated 16 December 2013. At the same time, the initial value of Management Board members' variable remuneration (to be awarded in case of a 100% overall target achievement level) has been reduced. The target remuneration of the Management Board members (fixed annual salary and variable remuneration, given a 100% target achievement) has remained unchanged. The maximum remuneration possible (fixed annual salary plus variable remuneration, given a 150% target achievement) has been decreased by 22% for Management Board members, due to the restriction of the overall target achievement level from 200% to 150%. This ensures that the requirements according to section 25a (5) of the KWG – regarding a ratio of variable to fixed remuneration of 1:1 and the maximum target achievement threshold – are respected at all times.

The following table shows the remuneration approved in the year under review: The variable remuneration components are indicated as a degree of target achievement.

Information as defined in sections 4.2.4. and 4.2.5. of the Code

Remuneration granted	Dr Wolf Schumacher Management Board				Hermann J. Merkens Management Board			
€	2013	2014	2014 (min) [2]	2014 (max) [3]	2013	2014	2014 (min) [2]	2014 (max) [3]
Fixed remuneration	1,100,000.00	1,350,000.00	1,350,000.00	1,350,000.00	700,000.00	880,000.00	880,000.00	880,000.00
Ancillary payments	27,751.91	28,223.89	28,223.89	28,223.89	55,758.86	58,128.36	58,128.36	58,128.36
Total	**1,127,751.91**	**1,378,223.89**	**1,378,223.89**	**1,378,223.89**	**755,758.86**	**938,128.36**	**938,128.36**	**938,128.36**
1-year variable remuneration	363,000.00	364,280.00	-	420,000.00	215,160.00	208,640.00		240,000.00
Multi-year variable remuneration								
Cash deferral 2014 (March 2018)	-	546,420.00	-	630,000.00	-	312,960.00	-	360,000.00
Share bonus 2014 (March 2018)	-	364,280.00	-	420,000.00	-	208,640.00	-	240,000.00
Share deferral 2014 (March 2020)	-	546,420.00	-	630,000.00	-	312,960.00	-	360,000.00
Cash deferral 2013 (March 2017)	544,500.00	-	-	-	322,740.00	-	-	-
Share bonus 2013 (March 2017)	363,000.00	-	-	-	215,160.00	-	-	-
Share deferral 2013 (March 2019)	544,500.00	-	-	-	322,740.00	-	-	-
Total	**1,815,000.00**	**1,821,400.00**	**-**	**2,100,000.00**	**1,075,800.00**	**1,043,200.00**	**-**	**1,200,000.00**
Benefit expenses	775,493.00	770,232.00	770,232.00	770,232.00	342,021.00	334,369.00	334,369.00	334,369.00
Total remuneration	**3,718,244.91**	**3,969,855.89**	**2,148,455.89**	**4,248,455.89**	**2,173,579.86**	**2,315,697.36**	**1,272,497.36**	**2,472,497.36**

Remuneration granted	Dagmar Knopek Management Board 1 June 2013 [1]				Thomas Ortmanns Management Board			
€	2013	2014	2014 (min) [2]	2014 (max) [3]	2013	2014	2014 (min) [2]	2014 (max) [3]
Fixed remuneration	408,333.33	880,000.00	880,000.00	880,000.00	700,000.00	880,000.00	880,000.00	880,000.00
Ancillary payments	17,291.18	34,477.93	34,477.93	34,477.93	28,418.29	29,284.82	29,284.82	29,284.82
Total	**425,624.51**	**914,477.93**	**914,477.93**	**914,477.93**	**728,418.29**	**909,284.82**	**909,284.82**	**909,284.82**
1-year variable remuneration	125,510.00	208,160.00	-	240,000.00	215,160.00	207,040.00	-	240,000.00
Multi-year variable remuneration								
Cash deferral 2014 (March 2018)	-	312,240.00	-	360,000.00	-	310,560.00	-	360,000.00
Share bonus 2014 (March 2018)	-	208,160.00	-	240,000.00	-	207,040.00	-	240,000.00
Share deferral 2014 (March 2020)	-	312,240.00	-	360,000.00	-	310,560.00	-	360,000.00
Cash deferral 2013 (March 2017)	188,265.00	-	-		322,740.00	-	-	-
Share bonus 2013 (March 2017)	125,510.00	-	-		215,160.00	-	-	-
Share deferral 2013 (March 2019)	188,265.00	-	-		322,740.00	-	-	-
Total	**627,550.00**	**1,040,800.00**	**-**	**1,200,000.00**	**1,075,800.00**	**1,035,200.00**	**-**	**1,200,000.00**
Benefit expenses	253,884.00	217,560.00	217,560.00	217,560.00	450,560.00	442,635.00	442,635.00	442,635.00
Total remuneration	**1,307,058.51**	**2,172,837.93**	**1,132,037.93**	**2,332,037.93**	**2,254,778.29**	**2,387,119.82**	**1,351,919.82**	**2,551,919.82**

[1] Ms Knopek was appointed to the Management Board on 1 June 2013.
[2] Minimum amount of the remuneration component granted in the year under review
[3] Maximum amount of the remuneration component granted in the year under review

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

€	Reference values for variable remuneration 2014	Reference values for variable remuneration 2013
Dr Wolf Schumacher	1,400,000.00	1,650,000.00
Hermann J. Merkens	800,000.00	978,000.00
Dagmar Knopek	800,000.00	978,000.00
Thomas Ortmanns	800,000.00	978,000.00
Total	**3,800,000.00**	**4,584,000.00**

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

The following table shows the portion of the variable component attributable to share-based payment arrangements as well as the corresponding number of virtual shares granted in 2014/2013:

	Year	Share-based payment	
		Value (€)	Quantity (number)[1]
Dr Wolf Schumacher	2014	910,700.00	27,356.56
	2013	907,500.00	31,521.36
Hermann J. Merkens	2014	521,600.00	15,668.37
	2013	537,900.00	18,683.57
Dagmar Knopek [2)]	2014	520,400.00	15,632.32
	2013	313,775.00	10,898.75
Thomas Ortmanns	2014	517,600.00	15,548.21
	2013	537,900.00	18,683.57

[1)] The stated number of virtual shares granted for 2014 is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2014 (€33.29). The final conversion rate may only be determined after publication of preliminary results for 2014.

[2] Ms Knopek was appointed to the Management Board on 1 June 2013.

Supplementary agreement

The exercise of virtual shares granted to members of the Management Board has been adjusted in connection with the overall adjustments made to the remuneration systems. Based on the service contracts of Management Board members effective until 31 December 2013, Management Board members were allowed to indicate the desired time of disbursement to the Chairman of the Supervisory Board in connection with the option arrangements formerly agreed upon and the respective disbursement of the earned virtual shares at the Management Board member’s disposal. However, as the Management Board members' service contracts have been amended as at 1 January 2014, this option arrangement was cancelled and the Supervisory Board decided to disburse all virtual shares at the Management Board members' disposal based on former contractual agreements in 2014, using a supplementary agreement. Accordingly, this related to all virtual shares that were no longer subject to any holding or blocking period as at 26 March 2014 (and which Management Board members have been free to dispose of, in some cases since the vesting in 2007). With this one-off payment, the Management Board members voluntarily waived all rights, claims and contingent remainders arising from and in connection with these virtual shares.

Those virtual shares granted for previous financial years which were promised to Management Board members (but not vested) or were subject to a holding or retention period on 26 March 2014 will be automatically converted and paid out following the expiry of the respectively applicable holding or retention period on the basis of the weighted average price (Xetra®) of the five exchange trading days following the expiry of the period in accordance with the new service contracts of Management Board members effective from 1 January 2014.

Other remuneration

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

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

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the service contract apply to the members of the Management Board. Pursuant to these provisions, they are entitled to claim pension benefits upon completion of their 60th year of age. In the event of permanent disability, a Management Board member may be entitled to claim benefits prior to turning 61. Ms Knopek has been granted pension commitments currently still forfeitable: an entitlement to claim pension benefits upon completion of the 62nd year of age only exists at the beginning of the second term of appointment.

	2014			2013		
	Pension claims p.a.[1)]	Balance of pension obligations as at 31 Dec 2014	Increase of pension obligations in 2014	Pension claims p.a.[1)]	Balance of pension obligations as at 31 Dec 2013	Increase of pension obligations in 2013
€ 000´s						
Dr Wolf Schumacher	394	4,791	951	379	3,840	761
Hermann J. Merkens	230	2,221	500	220	1,721	334
Dagmar Knopek [2)]	-	515	286	-	229	229
Thomas Ortmanns	230	2,416	535	220	1,881	424
Total	**854**	**9,943**	**2,272**	**819**	**7,671**	**1,748**

[1)] Pension claims were calculated based on the earliest possible pension payment.
[2)] Ms Knopek currently does not meet the vesting criteria for the pension claims.

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions, to the extent that these are based on defined benefit plans. If the payments refer to defined contribution plans, the guaranteed amount is adjusted by 1% p.a. The pension paid to widows amounts to 60% of the pension of the member of the Management Board, while pensions to half-orphans and orphans amount to 10% and not more than 25%, respectively. Service cost incurred in the 2014 financial year in connection with the pension claims of members of the Management Board totalled € 2.0 million (2013: € 1.4 million). The pension obligations for current members of the Management Board as well as for former members of the Management Board and their surviving dependants increased by € 3.1 million in the year under review (2013: € 1.7 million). The total amount of pension obligations was € 26.1 million (2013: € 22.9 million). Of that amount, € 16.1 million related to former members of the Management Board and their surviving dependants (2013: € 15.4 million). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 0.8 million (2013: € 0.8 million).

The agreements concluded with members of the Management Board do not include any obligation to make severance payments in case of an early termination of employment relationships. However, severance payments may be included in individual termination agreements. In the case of an early termination of a Management Board position without good cause within the meaning of section 4.2.3. of the Code, payments (including contractually-agreed benefits) are limited to twice the annual remuneration (severance cap) as well as to the remainder of the term of the contract.

In the case of a termination of a Management Board position due to a change of control, the following provisions are applicable: in the case of a compulsory loss of a Management Board position, the Management Board members are to be paid the fixed remuneration component, the performance-based remuneration, as well as the contractually-agreed benefits for the remainder of the term of the contract. The performance-related remuneration is subject to the above-mentioned conditions; that is, in particular the deferral periods, the holding periods and the penalty rules are applicable. In addition, the extent to which sectional and individual targets were achieved on average during the last three years prior to the termination of the Management Board position will be used as a basis to determine the target achievement level for the remaining term of the contract. In the case of a voluntary termination of the Management Board position following a change of control, the members of the Management Board merely receive the fixed remuneration and the contractually agreed benefits. In this case, there is no entitlement to the variable remuneration component.

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

During the term of a SoFFin stabilisation measure, Management Board members were not entitled to any severance pay in the event of an early termination or a change of control. The fulfilment of a Management Board member's contractual remuneration claims arising from the employment contract are not limited by the framework agreement entered into with SoFFin.

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

The Management Board of Aareal Bank AG is responsible for the structures of the remuneration system for risk takers. The former remuneration system for risk takers has been reviewed with effect from 2014. The variable remuneration for 2015 follows the new regulations for the first time.

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

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

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

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

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

Cornerstones of the risk analysis carried out

The InstitutsVergV stipulates that the remuneration system of Aareal Bank AG (as a significant institution) needs to fulfil special requirements regarding "employees who exert a material influence on the institution's overall risk profile" (so-called risk takers). In order to identify this group of employees, Aareal Bank carries out an independent risk analysis, selecting the respective employees based on a uniform set of criteria. In addition, Aareal Bank AG (as a parent institution) has to identify risk takers on Group level.

Aareal Bank carried out a risk analysis to identify risk takers in the financial year 2014, covering all employee groups below Management Board level, i.e. senior executives, non-tariff employees and tariff employees of Aareal Bank AG including its branches, representative offices and subsidiaries in Germany and abroad.

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

Remuneration model for risk takers

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

Risk takers' variable remuneration consists of four components:

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

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

Risk takers of the second-tier management level are entitled to receive 40% of the individual total incentives immediately at the end of the reference period (other risk takers: 60%). The immediate entitlement refers to an amount of 50% to the cash component, which shall be disbursed in the year following the end of the reference period, and to an amount of 50% to the share component, which consists of virtual shares entitled to dividends (and forming the ground for cash contribution claims). However, such cash contribution may only be disbursed after a two-year holding period. The payout amount corresponds to the weighted average price of Aareal Bank AG shares on Xetra® (as shown on Bloomberg) on the five exchange trading days following the publication of the preliminary results for the financial year preceding the payout date. The ceiling value is applicable for the conversion of the virtual shares which were granted for the 2014 financial year and the following financial years, with the proviso that the payout amount following the conversion of the virtual shares of a tranche (plus dividends) into a cash payment must not exceed 300% of the share component set 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.

Remuneration governance

Remuneration Control Committee

In exercising its control functions, the Supervisory Board of Aareal Bank has established a Remuneration Control Committee as of 1 January 2014, which supports the Supervisory Board according to section 15 of the InstitutsVergV in conjunction with section 25d (12) of the KWG regarding the implementation of appropriate remuneration systems for Management Board members, as well as for the supervision of the remuneration systems for employees. One of the duties of the Remuneration Control Committee is to monitor the remuneration systems' influence on the risk, capital, and liquidity situation of Aareal Bank – and to ensure an appropriate alignment of the business, risk and remuneration strategies. The Remuneration Control Committee also monitors the appropriateness of the remuneration systems, responds to Supervisory Board enquiries, and reports on the appropriateness of the remuneration system's structure at least once a year by producing a remuneration report. The Remuneration Control Committee shall be convened whenever necessary, but at least four times a year.

The members of the Remuneration Control Committee are:

- Marija G. Korsch as Chairman
- York-Detlef Bülow as Deputy Chairman
- Erwin Flieger as Deputy Chairman
- Dieter Kirsch
- Prof Dr Stephan Schüller

Risk Committee

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

Remuneration Officer

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

Remuneration of the Supervisory Board

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

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

The fixed remuneration is € 30,000 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive two and a half times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration is increased by € 15,000 p.a. for each membership in a committee (with the exception of the Committee for Urgent Decisions, which is part of the Risk Committee). The fixed remuneration is increased by € 30,000 p.a. for the chairmanship of a committee (with the exception of the Committee for Urgent Decisions). The meeting attendance compensation amounts to € 1,000.00 for each meeting attended (except for meetings of the Committee for Urgent Decisions).

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

The individual amount of the remuneration for the Supervisory Board is shown in the following table. 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 G. Korsch,	2014	180,000.00	35,000.00	215,000.00
Chairman (since 22 May 2013)	2013	103,000.00	16,000.00	119,000.00
Erwin Flieger,	2014	90,000.00	29,000.00	119,000.00
Deputy Chairman	2013	75,000.00	16,000.00	91,000.00
York-Detlef Bülow,	2014	90,000.00	28,000.00	118,000.00
Deputy Chairman	2013	75,000.00	17,000.00	92,000.00
Christian Graf von Bassewitz	2014	60,000.00	15,000.00	75,000.00
	2013	60,000.00	15,000.00	75,000.00
Manfred Behrens	2014	30,000.00	7,000.00	37,000.00
	2013	30,000.00	4,000.00	34,000.00
Thomas Hawel	2014	30,000.00	7,000.00	37,000.00
	2013	30,000.00	5,000.00	35,000.00
Dieter Kirsch	2014	60,000.00	20,000.00	80,000.00
	2013	45,000.00	10,000.00	55,000.00
Dr. Herbert Lohneiß	2014	45,000.00	11,000.00	56,000.00
	2013	45,000.00	10,000.00	55,000.00
Joachim Neupel	2014	75,000.00	17,000.00	92,000.00
	2013	75,000.00	16,000.00	91,000.00
Richard Peters,	2014	30,000.00	7,000.00	37,000.00
Member (since 22 May 2013)	2013	18,250.00	3,000.00	21,250.00
Hans W. Reich,	2014	-	-	-
Chairman (until 22 May 2013)	2013	59,166.66	8,000.00	67,166.66
Prof. Dr. Stephan Schüller	2014	75,000.00	23,000.00	98,000.00
	2013	60,000.00	17,000.00	77,000.00
Helmut Wagner	2014	30,000.00	7,000.00	37,000.00
	2013	30,000.00	6,000.00	36,000.00
Total	**2014**	**795,000.00**	**206,000.00**	**1,001,000.00**
	2013	**705,416.66**	**143,000.00**	**848,416.66**

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2014. Therefore, no additional remuneration was paid.

Additional disclosure on share-based remuneration

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:

Quantity (number)	2014	2013
Balance (outstanding) at 1 January	**790,176**	**622,495**
Granted	135,575	328,513
of which: vested	98,972	136,816
of which: awarded on a provisional basis	36,603	191,697
Expired	-	-
Exercised	395,864	160,832
Balance (outstanding) at 31 December	**529,887**	**790,176**
of which: exercisable	-	130,227

The fair value of the virtual shares granted during the reporting period amounts to € 6,345,981.42 (2013: € 11,126,553.70) as at the balance sheet date.

The virtual shares exercised in the reporting period were converted at a weighted average price of the Aareal Bank AG share in the amount of € 31.38 (2013: € 17.71).

The virtual shares outstanding at 31 December 2014 have a limited contract term. The weighted average remaining contract term of these virtual shares amounts to 429.26 days (2013: 717.08 days).

Effects on financial position and performance

The total amount expensed for share-based payment transactions was € 13.3 million during the financial year 2014 (2013: € 17.7 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 3.7 million (2013: € 4.4 million) and can be broken down to the individual members of the Management Board as follows.

€	2014	2013
Dr Wolf Schumacher	1,305,912	1,431,503
Hermann J. Merkens	974,595	1,753,722
Dagmar Knopek [1]	517,672	321,192
Thomas Ortmanns	748,244	819,124
Dirk Große Wördemann [2]	179,102	44,707

[1] Ms Knopek was appointed to the Management Board on 1 June 2013.
[2] Mr Große Wördemann retired with effect from 31 May 2013.

The intrinsic value of the virtual shares exercisable at the reporting date amounted to €0 (2013: € 3.8 million), since there were no exercisable virtual shares at that date. The obligation from share-based payment transactions as at 31 December 2014 amounts to € 31.3 million (2013: € 32.1 million). It is reported in the statement of financial position in the line item "Provisions".

Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG and its subsidiaries, plus first-level managers and experts of Aareal Bank AG (other related parties in accordance with IASs).

Total remuneration of executives in key positions is analysed below:

€ 000's	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Short-term employee benefits	17,138	14,101
Post-employment benefits	2,569	2,285
Other long-term benefits	2,802	2,325
Termination benefits	1,500	-
Share-based payment	4,721	4,009
Total	**28,730**	**22,720**

Other disclosures

Declaration pursuant to section 28 of the German Pfandbrief Act (Pfandbriefgesetz)

Public-sector lending

Total volume of outstanding public-sector Pfandbriefe and of the related cover assets in terms of nominal value and present value (section 28 (1) nos. 1 and 3 of the PfandBG):

31 December 2014

€ mn	Cover assets pool	Pfandbriefe outstanding	Excess cover
Nominal value	**2,348.4**	**2,061.1**	**287.3**
of which: Derivatives	-	-	-
Present value	**3,120.6**	**2,801.0**	**319.6**
of which: Derivatives	161.0	-	-
Risk-adjusted net present value *	**3,007.8**	**2,697.4**	**310.4**

*dynamic method pursuant to section 5 PfandBarwertV / static method pursuant to section 6 PfandBarwertV

31 December 2013

€ mn	Cover assets pool	Pfandbriefe outstanding	Excess cover
Nominal value	**2,534.1**	**2,256.7**	**277.4**
of which: Derivatives	-	-	-
Present value	**3,039.5**	**2,807.2**	**232.3**
of which: Derivatives	131.7	-	-
Risk-adjusted net present value *	**3,039.4**	**2,807.2**	**232.2**

*dynamic method pursuant to section 5 PfandBarwertV / static method pursuant to section 6 PfandBarwertV

Maturity structure of outstanding public-sector Pfandbriefe and fixed-interest periods of the related cover assets (section 28 (1) no. 2 of the PfandBG):

31 December 2014

€ mn	Cover assets pool	Pfandbriefe outstanding
Up to 6 months	47.6	-1.8
Between 6 months and 12 months	112.2	73.4
Between 12 months and 18 months	99.7	49.5
Between 18 months and 2 years	57.9	47.2
Between 2 years and 3 years	213.1	163.8
Between 3 years and 4 years	253.0	389.8
Between 4 years and 5 years	153.0	93.8
Between 5 years and 10 years	638.7	565.7
More than 10 years	773.2	679.7
Total	**2,348.4**	**2,061.1**

31 December 2013

€ mn	Cover assets pool	Pfandbriefe outstanding
Up to 1 year	158.5	210.6
Between 1 year and 2 years	172.6	72.1
Between 2 years and 3 years	186.2	97.2
Between 3 years and 4 years	233.1	164.3
Between 4 years and 5 years	316.0	378.2
Between 5 years and 10 years	662.0	610.9
More than 10 years	805.7	723.4
Total	**2,534.1**	**2,256.7**

Breakdown of assets used as cover assets for public-sector Pfandbriefe (based on their nominal value), by borrower's/guarantor's country of domicile, in line with section 28 (3) no. 1 of the PfandBG:

31 December 2014

	Sovereign state	Public-sector entities		Other	Total
€ mn		regional	municipal		
Germany	12.4	1,357.2	18.3	337.9	1,725.8
EU institutions	-	-	-	121.4	121.4
France	55.0	-	-	-	55.0
Italy	39.0	-	-	-	39.0
Japan	-	-	20.0	-	20.0
Austria	197.2	25.0	-	25.0	247.2
Poland	25.0	-	-	-	25.0
Spain	-	115.0	-	-	115.0
Total	**328.6**	**1,497.2**	**38.3**	**484.3**	**2,348.4**

31 December 2013

€ mn	Sovereign state	Public-sector entities regional	municipal	Other	Total
Germany	13.0	1,385.6	18.7	426.2	1,843.5
EU institutions	-	-	-	111.4	111.4
France	105.0	-	-	-	105.0
Italy	114.0	-	-	-	114.0
Japan	-	-	20.0	-	20.0
Austria	150.2	25.0	-	-	175.2
Poland	25.0	-	-	-	25.0
Sweden	25.0	-	-	-	25.0
Spain	-	115.0	-	-	115.0
Total	**432.2**	**1,525.6**	**38.7**	**537.6**	**2,534.1**

Additional cover assets (section 28 (1) nos. 4 and 5 of the PfandBG)

31 December 2014

€ mn	Equalisation claims pursuant to section 20 (2) no. 1	Money claims pursuant to section 20 (2) no. 2 Total	of which: covered bonds within the meaning of Art. 129 of EU Regulation No. 575/2013	Total
Countries				
	-	-	-	-
Total	-	-	-	-

31 December 2013

In accordance with section 28 (5) of the PfandBG, the aggregate amount of additional cover assets pursuant to section 20 (2) no. 2 of the PfandBG was € 0.0 million.

Additional figures for outstanding Pfandbriefe and related cover assets:

	2014	
Outstanding Pfandbriefe	**2,061.1**	**€ mn**
of which: share of fixed-income Pfandbriefe	76.1	%
Cover assets pool	**2,348.4**	**€ mn**
of which: total amount of receivables above the percentage limits set out in section 20 (2) of the PfandBG	-	€ mn
of which: share of fixed-income cover assets	80.0	%

Net present value pursuant to section 6 of the German Regulation of the Net Present Value of Pfandbriefe (Pfandbrief-Barwertverordnung) per foreign currency:

€ mn	Balance of assets and liabilities
Currency	
EUR	310.5
GBP	-0.1

There were no such payment arrears of 90 days or more in the reporting period, nor in the comparable period of the previous year.

Mortgage lending

Total volume of outstanding public-sector Pfandbriefe and of the related cover assets in terms of nominal value and present value (section 28 (1) nos. 1 and 3 of the PfandBG):

31 December 2014

€ mn	Cover assets pool	Pfandbriefe outstanding	Excess cover
Nominal value	**13,492.4**	**10,770.9**	**2,721.5**
of which: Derivatives	-219.0	-	-
Present value	**14,859.9**	**11,570.3**	**3,289.6**
of which: Derivatives	38.3	-	-
Risk-adjusted net present value *	**14,873.1**	**11,670.2**	**3,202.9**

*dynamic method pursuant to section 5 PfandBarwertV / static method pursuant to section 6 PfandBarwertV

31 December 2013

€ mn	Cover assets pool	Pfandbriefe outstanding	Excess cover
Nominal value	**12,953.3**	**10,599.2**	**2,354.1**
of which: Derivatives	64.6	48.4	-
Present value	**13,877.7**	**11,085.2**	**2,792.5**
of which: Derivatives	178.2	-	-
Risk-adjusted net present value *	**14,138.6**	**11,441.7**	**2,696.9**

*dynamic method pursuant to section 5 PfandBarwertV / static method pursuant to section 6 PfandBarwertV

Maturity structure of outstanding mortgage Pfandbriefe and fixed-interest periods of the related cover assets (section 28 (1) no. 2 of the PfandBG):

31 December 2014

€ mn	Cover assets pool	Pfandbriefe outstanding
Up to 6 months	886.7	800.9
Between 6 months and 12 months	783.2	263.4
Between 12 months and 18 months	1,160.5	1,388.7
Between 18 months and 2 years	1,276.3	1,009.0
Between 2 years and 3 years	1,971.2	1,900.1
Between 3 years and 4 years	2,338.0	1,997.1
Between 4 years and 5 years	2,055.4	1,179.1
Between 5 years and 10 years	2,836.1	1,819.4
More than 10 years	185.0	413.2
Total	**13,492.4**	**10,770.9**

31 December 2013

€ mn	Cover assets pool	Pfandbriefe outstanding
Up to 1 year	2,263.2	1,501.5
Between 1 year and 2 years	1,606.9	1,172.4
Between 2 years and 3 years	2,796.0	2,283.6
Between 3 years and 4 years	1,859.9	1,349.6
Between 4 years and 5 years	1,963.1	1,685.7
Between 5 years and 10 years	2,187.8	2,362.9
More than 10 years	276.4	243.5
Total	**12,953.3**	**10,599.2**

Breakdown of assets used as cover (based on their nominal value) by their amount (section 28 (2) sentence 1 no. 1a of the PfandBG)

31 December 2014

€ mn	Cover assets pool 2014
Distribution of the amounts measured at nominal value by volume	
Up to € 300 thousand	12.5
More than € 300 thousand up to € 1 million	73.2
More than € 1 million up to € 10 million	849.1
More than € 5 million	11,341.3
Total	**12,276.1**

31 December 2013

€ mn	Cover assets pool 2013
Distribution of the amounts measured at nominal value by volume	
Up to € 300 thousand	13.8
More than € 300 thousand up to € 1 million	459.8
More than € 5 million	11,035.6
Total	**11,509.2**

Additional cover assets pursuant to section 28 (1) nos. 4, 5 and 6 of the PfandBG:

31 December 2014

€ mn	Equalisation claims pursuant to section 19 (1) no. 1	Money claims pursuant to section 19 (1) no. 2 – Total	Money claims pursuant to section 19 (1) no. 2 – of which: covered bonds within the meaning of Art. 129 of EU Regulation No. 575/2013	Debt securities pursuant to section 19 (1) no. 3	Total
Countries					
Germany	-	-	-	799.4	**799.4**
EU institutions	-	-	-	286.0	**286.0**
France	-	-	-	265.0	**265.0**
Austria	-	-	-	85.0	**85.0**
Total	**-**	**-**	**-**	**1,435.4**	**1,435.4**

31 December 2013

In the previous year, the aggregate amount of the receivables recorded in the cover register within the meaning of section 19 (1) nos. 2 and 3 of the PfandBG totalled € 1,379.4 million.

Additional figures for outstanding Pfandbriefe and related cover assets:

	2014	
Outstanding Pfandbriefe	**10,770.9**	**€ mn**
of which: share of fixed-income Pfandbriefe	48.0	%
Cover assets pool	**13,492.4**	**€ mn**
of which: total amount of receivables above the limits set out in section 13 (1) of the PfandBG	-	€ mn
of which: total amount of receivables above the percentages set out in section 19 (1) no. 2 of the PfandBG	-	€ mn
of which: total amount of receivables above the percentages set out in section 19 (1) no. 3 of the PfandBG	-	€ mn
of which: share of fixed-income cover assets	37.3	%
Volume-weighted average age of receivables (seasoning)	**4.3**	**years**
Weighted average mortgage lending value ratio based on mortgage lending value	**56.3**	**%**
Weighted average mortgage lending value ratio based on market value	**37.5**	**%**

Net present value pursuant to section 6 of the German Regulation of the Net Present Value of Pfandbriefe (Pfandbrief-Barwertverordnung) per foreign currency:

€ mn	Balance of assets and liabilities 2014
Currency	
CAD	19.8
CHF	-17.7
CZK	12.1
DKK	32.2
EUR	3,088.2
GBP	-0.5
NOK	-4.4
SEK	54.3
USD	57.4

Distribution of the amounts measured at nominal value and used to cover mortgage Pfandbriefe by countries in which the real property collateral is located (section 28 (2) sentence 1 no. 1b,c of the PfandBG):

31 December 2014

€ mn	Commercial property							Residential property						
	Building plots only	New buildings not yet yielding returns	Office buildings	Retail property	Industrial	Other	**Total**	Building plots only	New buildings not yet yielding returns	Condominiums	One- and two-family homes	Multi-family homes	**Total**	**Total cover assets pool**
Belgium			49.7	95.2	9.0	109.4	263.3							263.3
Denmark		19.6	78.2	10.4	3.7	46.5	158.4		6.5				6.5	164.9
Germany			562.7	280.6	321.7	214.4	1,379.4	0.8		0.4	3.9	541.5	546.6	1,926.0
Finland			62.5	134.4			196.9							196.9
France		15.1	1,011.7	147.8	343.2	246.4	1,764.2					4.7	4.7	1,768.9
United Kingdom			390.9	847.3	147.9	538.7	1,924.8							1,924.8
Italy			561.8	318.5	35.4	49.5	965.2					86.2	86.2	1,051.4
Canada			47.5			89.7	137.2							137.2
Netherlands			99.6	154.4	87.7	225.8	567.5					155.0	155.0	722.5
Austria				102.3			102.3							102.3
Poland			164.2	481.9	22.9	11.0	680.0							680.0
Sweden	0.1		218.6	327.0	123.8	44.6	714.1							714.1
Switzerland						183.0	183.0							183.0
Slovakia					2.2		2.2							2.2
Spain		20.6	20.0	465.3	19.8	62.4	588.1							588.1
Czech Republic			52.4		14.5	50.8	117.7							117.7
USA		262.6	703.3	504.3		200.2	1,670.4					62.4	62.4	1,732.8
Total	**0.1**	**317.9**	**4,023.1**	**3,869.4**	**1,131.8**	**2,072.4**	**11,414.7**	**0.8**	**6.5**	**0.4**	**3.9**	**849.8**	**861.4**	**12,276.1**

31 December 2013

€ mn	Commercial property: Building plots only	Commercial property: New buildings not yet yielding returns	Commercial property: Office buildings	Commercial property: Retail property	Commercial property: Industrial	Commercial property: Other	Commercial property: Total	Residential property: Building plots only	Residential property: New buildings not yet yielding returns	Residential property: One-family homes	Residential property: Multi-family homes	Residential property: Flats/apartments	Residential property: Total	Total cover assets pool
Belgium			139.1	95.2	9.0	38.9	282.2							282.2
Denmark		1.6	81.7	10.4	5.7	52.1	151.5		16.6				16.6	168.1
Germany			583.6	242.3	456.1	250.7	1,532.7	0.8		3.9	539.5	0.5	544.7	2,077.4
Estonia				26.8			26.8							26.8
Finland			20.9	166.4	5.4	20.5	213.2							213.2
France		48.2	887.0	66.9	227.6	329.0	1,558.7				4.7		4.7	1,563.4
United Kingdom			344.7	645.0	116.3	302.4	1,408.4							1,408.4
Italy			689.0	383.8	46.7	69.1	1,188.6				82.4		82.4	1,271.0
Canada			45.5			50.4	95.9							95.9
Netherlands			145.9	174.4	91.9	239.9	652.1				155.0		155.0	807.1
Austria				47.9			47.9							47.9
Poland		41.1	303.8	429.1	100.8	11.0	885.8							885.8
Sweden			203.6	244.1	213.5	47.3	708.5							708.5
Switzerland						159.2	159.2							159.2
Slovakia					2.2		2.2							2.2
Spain		20.6	40.0	446.1	20.5	62.4	589.6							589.6
Czech Republic	3.8		65.9		14.5	59.1	143.3							143.3
USA	25.3	212.0	188.1	347.0		225.0	997.4				61.8		61.8	1,059.2
Total	**29.1**	**323.5**	**3,738.8**	**3,325.4**	**1,310.2**	**1,917.0**	**10,644.0**	**0.8**	**16.6**	**3.9**	**843.4**	**0.5**	**865.2**	**11,509.2**

Arrears from mortgage loans used to cover mortgage Pfandbriefe (section 28 (2) no. 2 of the PfandBG)

€ mn	Aggregate payments which are at least 90 days overdue 2014	Total amount of these receivables, to the extent that the relevant amount overdue is not less than 5% of the receivable 2014	Aggregate payments which are at least 90 days overdue 2013
Belgium	-	-	-
Denmark	-	-	-
Germany	-	-	-
Finland	-	-	-
France	-	-	-
United Kingdom	-	-	-
Italy	1.0	-	0.7
Canada	-	-	-
Netherlands	-	-	-
Austria	-	-	-
Poland	-	-	-
Sweden	-	-	-
Switzerland	-	-	-
Slovakia	-	-	-
Spain	0.1	-	-
Czech Republic	-	-	-
USA	-	-	-
Total	**1.1**	**-**	**0.7**

Additional disclosures on mortgage receivables (section 28 (2) no. 4 of the PfandBG)

In the financial year 2014, the Bank did not acquire any properties for the purpose of loss prevention (2013: none).

As at 31 December 2014, there were no foreclosures or forced administration procedures pending, and neither had any foreclosures been carried out (2013: none).

As at 31 December 2014, interest payments were overdue in the amount of € 2.9 million (2013: € 3.7 million) for commercial property and in the amount of € 0.0 million (2013: € 0.0 million) for residential property.

Contingencies

By means of a letter of comfort, Aareal Bank AG ensures that Deutsche Structured Finance GmbH, Wiesbaden, DSF Zwölfte Verwaltungsgesellschaft mbH, Frankfurt, and Aareal Bank Capital Funding LLC, Wilmington, are able to fulfil their contractual obligations.

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

Consolidated financial statements

As the parent company of Aareal Bank Group, Aareal Bank AG, Wiesbaden, prepares consolidated financial statements. The consolidated financial statements will be deposited with the Register of Companies at the Wiesbaden District Court (Amtsgericht, HRB 13 184) and will also be available from Aareal Bank AG in Wiesbaden, Germany.

Loans to executive bodies of Aareal Bank

Throughout the financial year 2014, the Bank has reported transactions subject to reporting requirements within the meaning of 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 extended principles related to the German Corporate Governance Code to disclose on its website, without delay, each reported purchase or sale of the shares of the Company and its subsidiaries as well as options and other derivatives related to these by members of the Management Board or the Supervisory Board.

The following list provides an overview of existing loans to related parties:

€ mn	31 Dec 2014	31 Dec 2013
Management Board	-	-
Supervisory Board	0.0	0.5
Other related parties	-	-
Total	0.0	0.5

Loans extended to members of the Supervisory Board generally have a term between ten and 18 years, and bear interest at (nominal) rates between 3.5% and 5.12%. Collateral was provided in line with usual market practice. In the year under review, repayments amounted to € 0.4 million.

Employees

The average staffing level is shown below:

Yearly average	1 Jan-31 Dec 2014	1 Jan-31 Dec 2013
Salaried employees	844	840
Executives	28	27
Total	**872**	**867**
of which: Part-time employees	176	168

Auditors' fees

The total fees charged by the auditor for the financial year 2014 are as follows:

€ 000's	
Category	
Audit services	2,288.2
Other assurance services	186.6
Tax advisory services	35.3
Other services	2,945.0
Total	**5,455.1**

Notices pursuant to section 21 (1) of the WpHG

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

On 4 February 2015, Aareal Holding Verwaltungsgesellschaft mbH, Dusseldorf, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 3 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, fell below the thresholds of 3%, 5%, 10%, 15%, 20% and 25% and amounted to 0.0% of the total number of voting rights of the mentioned company at that date (corresponding to 0 of a total of 59,857,221 voting rights).

On 4 February 2015, DEPFA Holding Verwaltungsgesellschaft mit beschränkter Haftung, Dusseldorf, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 3 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, fell below the thresholds of 3%, 5%, 10%, 15%, 20% and 25% and amounted to 0.0% of the total number of voting rights of the mentioned company at that date (corresponding to 0 of a total of 59,857,221 voting rights).

On 5 February 2015, Versorgungsanstalt des Bundes und der Länder, Karlsruhe, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 3 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3% and 5%, and amounted to 6.50% of the total number of voting rights of the mentioned company at that date (corresponding to 3,892,679 of a total of 59,857,221 voting rights).

On 5 February 2015, Deka Investment GmbH, Frankfurt, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 3 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3% and 5%, and amounted to 5.58% of the total number of voting rights of the mentioned company at that date (corresponding to 3,341,623 of a total of 59,857,221 voting rights).

Of this share of voting rights, 5.58% (corresponding to 3,341,623 voting rights) are attributable to the Deka Investment GmbH pursuant to section 22 (1) sentence 1 no. 6 of the WpHG. Voting rights are attributed to

Deka Investment GmbH by the following shareholders, whose share of voting rights in Aareal Bank AG each amounts to 3% or more:

- VBL Versorgungsanstalt des Bundes und der Länder

At the beginning of 2015, Deutsche Asset & Wealth Management Investment GmbH, Frankfurt, Germany, sent us two notifications of voting rights. In its last notification on 10 February 2015, Deutsche Asset & Wealth Management Investment GmbH, Frankfurt, Germany, notified us pursuant to section 21 (1) of the WpHG that, on 6 February 2015, its share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the threshold of 5%, and amounted to 5.12% of the total number of voting rights of the mentioned company at that date (corresponding to 3,062,157 of a total of 59,857,221 voting rights). Of this share of voting rights, 0.41% of the total number of voting rights (corresponding to 243,400) are attributable to it pursuant to section 22 (1) sentence 1 no. 6 of the WpHG.

On 30 October 2014, the German Financial Markets Stabilisation Fund (SoFFin), represented by the German Federal Agency for Financial Market Stabilisation (FMSA) notified us that, on 30 October 2014, the share of voting rights held by the Federal Republic of Germany fell below the thresholds of 3%, 5%, 10%, 15%, 20% and 25%, and amounted to 0.00% at that date (corresponding to 0 voting rights).

JPMorgan Asset Management (UK) Limited, London, United Kingdom, issued several notifications of voting rights during 2014. The last notification, which was issued on 14 January 2015, reported a share of voting rights of 2.97% (1,779,370 voting rights). Of this share of voting rights, 100% are attributable to it pursuant to section 22 (1) sentence 1 no. 6 of the WpHG.

The Fidelity Group, Boston, Massachusetts, USA, sent us two notifications of voting rights. In its last notification on 2 May 2014, the Fidelity Group notified us that, on 30 April 2014, the share of voting rights held by FMR LLC, Boston, Massachusetts, USA, exceeded the 3% threshold, and amounted to 3.0088% at that date (corresponding to 1,800,994 voting rights). Of this share of voting rights, 100% are attributable to the FMR LLC pursuant to section 22 (1) sentence 1 no. 6 in conjunction with sentence 2 of the WpHG.

Allianz Global Investors Europe GmbH, Frankfurt, issued several notifications of voting rights during 2014. The last notification, which was issued on 1 July 2014, reported a share of voting rights of 5.43% (3,251,220 voting rights). Of this share of voting rights, 1.51% of the total number of voting rights (corresponding to 901,220 of a total of 59,857,221 voting rights) are attributable to it pursuant to section 22 (1) sentence 1 no. 6 of the WpHG.

Dimensional Group, Austin, Texas, USA, notified us on 4 June 2012 that, as at 29 May 2012, it held the following amount of voting rights:

Dimensional Fund Advisors LP, Austin, Texas, USA, 3.04% (1,820,026 voting rights); attribution of all voting rights pursuant to section 22 (1) sentence 1 no. 6 of the WpHG.

Dimensional Holdings Inc., Austin, Texas, USA, 3.04% (1,820,026 voting rights); attribution of all voting rights pursuant to section 22 (1) sentence 1 no. 6 in conjunction with section 22 (1) sentence 2 of the WpHG.

In 2014, we did not receive any notifications on voting rights from Dimensional Group.

Corporate Governance Code

The declaration regarding the German Corporate Governance Code, pursuant to section 161 of the AktG, has been submitted and has been published on our website: http://www.aareal-bank.com/investor-relations/corporate-governance/entsprechenserklaerung-gemaess-161-aktg/.

Proposal on the appropriation of profits

The Management Board of Aareal Bank AG proposes to the Annual General Meeting that a partial amount of € 71,828,665.20 of Aareal Bank AG's net retained profit of € 76,828,665.20 for the financial year 2014, as reported under the German Commercial Code (HGB), be used to distribute a dividend of € 1.20 per notional no-par value share.

The Management Board also proposes to the Annual General Meeting to transfer the remaining distributable profit of € 5,000,000.00 to other retained earnings.

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 Stock Corporation Act (AktG)

Supervisory Board

Marija G. Korsch, Chairman of the Supervisory Board		
Former Executive at Bankhaus Metzler seel. Sohn & Co. Holding AG		
Aareal Bank AG	Chairman of the Supervisory Board	
Just Software AG	Member of the Supervisory Board	
Erwin Flieger, Deputy Chairman of the Supervisory Board		
Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Bayerische Beamten Lebensversicherung a.G.	Chairman of the Supervisory Board	
Bayerische Beamten Versicherung AG	Chairman of the Supervisory Board	
BBV Holding AG	Chairman of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Chairman of the Supervisory Board	
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH	Member of the Supervisory Board	until 28 February 2014
Neue Bayerische Beamten Lebensversicherung AG	Chairman of the Supervisory Board	
York-Detlef Bülow*, Deputy Chairman of the Supervisory Board		
Aareal Bank AG		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Christian Graf von Bassewitz		
Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	
Bank für Sozialwirtschaft Aktiengesellschaft	Member of the Supervisory Board	
Deutscher Ring Krankenversicherungsverein a.G.	Deputy Chairman of the Supervisory Board	
SIGNAL IDUNA Allgemeine Versicherung AG	Member of the Supervisory Board	
SIGNAL IDUNA Holding AG	Member of the Supervisory Board	
Societaet CHORVS AG	Member of the Supervisory Board	

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

Manfred Behrens		
CEO of Swiss Life Deutschland Holding GmbH (until 31 March 2014)		
Aareal Bank AG	Member of the Supervisory Board	
tecis Finanzdienstleistungen AG	Chairman of the Supervisory Board	until 31 March 2014
Thomas Hawel*		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Deputy Chairman of the Supervisory Board	
Dieter Kirsch*		
Aareal Bank AG		
Aareal Bank AG	Member of the Supervisory Board	
Dr Herbert Lohneiß		
Former Chief Executive Officer of Siemens Financial Services GmbH (retired)		
Aareal Bank AG	Member of the Supervisory Board	
UBS Global Asset Management (Deutschland) GmbH	Member of the Supervisory Board	
Joachim Neupel, Chairman of the Audit Committee		
German Chartered Accountant, tax consultant		
Aareal Bank AG	Member of the Supervisory Board	
Richard Peters		
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder		
Aareal Bank AG	Member of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board	
Prof Dr Stephan Schüller		
Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Deputy Chairman of the Supervisory Board	
Universal-Investment-Gesellschaft mbH	Member of the Supervisory Board	
Helmut Wagner*		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	

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

Management Board

Dr Wolf Schumacher, Chairman of the Management Board		
Corporate Communications, Investor Relations, Corporate Development, Human Resources, Legal, Compliance, Audit and Operations		
Aareon AG	Member of the Supervisory Board	
EBS European Business School gGmbH	Member of the Supervisory Board	until 1 December 2014
Corealcredit Bank AG	Chairman of the Supervisory Board	since 1 April 2014
Hermann Josef Merkens, Deputy Chairman of the Management Board		
Finance, Risk Controlling, Participating Interests, Credit Management and Workout		
Aareal Estate AG	Chairman of the Supervisory Board	
Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Capital Corporation	Member of the Board of Directors	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Aareon AG	Member of the Supervisory Board	
Corealcredit Bank AG	Member of the Supervisory Board	since 1 April 2014
CredaRate Solutions GmbH	Deputy Chairman of the Supervisory Board	
Dagmar Knopek, Member of the Management Board		
Sales Units Structured Property Financing		
Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Bank Asia Limited	CEO (Chairman)	
Aareal Capital Corporation	Chairman of the Board of Directors	
Aareon AG	Member of the Supervisory Board	
Thomas Ortmanns, Member of the Management Board		
Institutional Housing Unit, Treasury, Organisation, Information Technology		
Aareal First Financial Solutions AG	Chairman of the Supervisory Board	
Aareon AG	Chairman of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	
HypZert GmbH	Member of the Supervisory Board	

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

Dunya Heß		
Aareal Property Services B.V. i.L.	Member of the Supervisory Board	
Uli Gilbert		
Terrain-Aktiengesellschaft Herzogpark	Member of the Supervisory Board	
Hans-Ulrich Kron, Bank Director		
Aareal Estate AG	Deputy Chairman of the Supervisory Board	
Terrain-Aktiengesellschaft Herzogpark	Deputy Chairman of the Supervisory Board	
Dr Stefan Lange, Bank Director		
Aareal Estate AG	Member of the Supervisory Board	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Aareal Property Services B.V. i.L.	Member of the Supervisory Board	since 25 July 2014
Corealcredit Bank AG	Member of the Supervisory Board	since 1 April 2014
Terrain-Aktiengesellschaft Herzogpark	Chairman of the Supervisory Board	
Thierry Nardon		
Corealcredit Bank AG	Member of the Supervisory Board	since 1 April 2014
Dirk Pasewald		
Aareal Property Services B.V. i.L.	Member of the Supervisory Board	
Markus Schmidt		
Aareal Property Services B.V. i.L.	Member of the Supervisory Board	until 25 July 2014

Composition of Supervisory Board committees

Executive and Nomination Committee	
Marija G. Korsch	Chairman
Erwin Flieger	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Prof Dr Stephan Schüller	

Committee for Urgent Decisions	
Marija G. Korsch	Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dr Herbert Lohneiß	
Joachim Neupel	

Audit Committee	
Joachim Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Christian Graf von Bassewitz	
York-Detlef Bülow	
Marija G. Korsch	

Remuneration Control Committee	
Marija G. Korsch	Chairman
Erwin Flieger	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Dieter Kirsch	
Prof Dr Stephan Schüller	

Risk Committee	
Marija G. Korsch	Chairman
Dr Herbert Lohneiß	Deputy Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dieter Kirsch	
Joachim Neupel	

Responsibility statement

Statement pursuant to section 37v (2) no. 3 of the WpHG

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

Wiesbaden, 2 March 2015

The Management Board

Dr Wolf Schumacher Hermann J. Merkens Dagmar Knopek Thomas Ortmanns

Auditors' report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Aareal Bank AG, Wiesbaden, for the business year from 1 January to 31 December, 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 3 March 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefan Palm	ppa. Kai Böhm
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

For Aareal Bank, the 2014 financial year was characterised by a series of positive events: the Bank passed the European Central Bank's Comprehensive Assessment, fully repaid the residual amount of the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin), and further strengthened its capitalisation through the placement of Additional Tier 1 capital. Aareal Bank also successfully completed the acquisition of Corealcredit.

The Supervisory Board believes that these steps demonstrate Aareal Bank AG’s solid position and affirm the Company’s strength. Consolidated operating profit for the 2014 financial year – including € 154 million in negative goodwill from the acquisition of Corealcredit – was € 436 million and therefore more than double the previous year’s figure.

The Supervisory Board again considers Aareal Bank AG’s repeated positive results as evidence for the long-term viability of the Group’s business model.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of the Company. The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, upon all the issues important to the Bank. The Management Board reported on the Group's situation, business development, key financial indicators and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and on risk control and risk management measures taken within the Group. The Supervisory Board also received comprehensive reports on the development of business segments, and on operative and strategic planning. The Supervisory Board was informed about, and involved in, all important decisions. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board and a decision taken. In cases where resolutions needed to be passed in between scheduled Supervisory Board meetings, such resolutions were passed by way of circulation or via conference calls.

Furthermore, between the meetings of the Supervisory Board, the Chairman of the Management Board kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, both orally and in writing, on all material developments of the Company. The Chairman of the Management Board maintained close contact with the Chairman of the Supervisory Board, in order to discuss key issues and important decisions personally.

Activities of the plenary meeting of the Supervisory Board

Seven plenary meetings of the Supervisory Board were held during the year under review, of which five were scheduled meetings. During the meetings, the members of the Supervisory Board received reports and explanations from the members of the Management Board, and discussed these in detail. One of the focal working and reporting aspects during all scheduled meetings was the approach to be taken by the Bank towards the changing market environment.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory framework, in great detail. During the year under review, this included the decisions to establish a uniform European Banking Authority under the auspices of the European Central Bank and the previous Comprehensive Assessment as well as the amendment of the German Regulation on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung – "InstVergV").

Throughout the financial year, in the course of all meetings as well as during the periods between meetings, the Management Board informed the Supervisory Board about economic and market developments and their potential impact on Aareal Bank Group, in a timely, complete and comprehensible manner. This included detailed explanations of the appropriate measures taken in response to the challenges arising from general market developments, in particular the prevailing low interest rate environment.

During the scheduled plenary meetings of the Supervisory Board, the Management Board reported to the Supervisory Board regularly and comprehensively; these reports also covered the development of the Structured Property Financing and Consulting / Services segments, focusing on current economic developments. At regular intervals, the Supervisory Board was informed of the Bank's liquidity status and the related steps taken by the Bank's Treasury. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group, on the basis of actual figures and projections. The Management Board also reported regularly on the quality of the property financing portfolio, against the background of general market trends and expected changes on the various property markets.

The focal points of the various Supervisory Board meetings are presented below:

The extraordinary meeting in January focused on the implementation of the amendments to the German Regulation on Remuneration in Financial Institutions (InstVergV). Matters pertaining to the financial statements were discussed in the extraordinary meeting in February.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2013 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. In addition, the proposal regarding the selection and subsequent appointment of the external auditor for the Annual General Meeting was discussed. This also included the scope and focal points of the audit for the 2014 financial year, as defined by the Supervisory Board. Other issues covered in the meeting in March included the preparations for the Annual General Meeting in May 2014. This meeting also discussed the annual reports submitted by Internal Audit and by the Compliance Officer.

The purpose of the May meeting of the Supervisory Board was to follow up on the Annual General Meeting of Aareal Bank AG, which preceded the meeting.

One meeting in July focused mainly on Aareal Bank Group's strategic options, and on the challenges presented in the prevailing market environment.

During the September meeting, corporate governance issues were presented and discussed, alongside other regulatory issues. The discussions on the Bank’s strategic options were continued.

In the December meeting, the Management Board reported on the Group's corporate planning. The Management Board submitted and explained the corporate planning in detail to the Supervisory Board. Corporate governance issues were discussed as well: The requisite resolutions were passed and implemented. Furthermore, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the German Public Limited Companies Act (Aktiengesetz – "AktG"), which was subsequently published on the Bank's website.

Following the new regulations of sections 25c and d of the German Banking Act (Kreditwesengesetz – "KWG"), the Supervisory Board carried out the required evaluations. The results of the evaluation conducted during the 2014 financial year were acknowledged by the members of the Supervisory Board, and were discussed in detail.

Strategy documents were regularly submitted to, and discussed by the Supervisory Board, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk). The results of the regular review of the Company's remuneration system were reported to the Supervisory Board. The Supervisory Board determined that the Company's remuneration system is appropriate.

The Chairmen of Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions submitted by the plenary meeting in detail.

Any Supervisory Board decisions which were taken by way of circulation were discussed at the subsequent meeting, to ensure that the members were able to reconcile the implementation of such decisions.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

In addition to its regular meetings, the Supervisory Board convened for a separate meeting during which auditors PricewaterhouseCoopers provided information on current changes and deliberations in the regulatory and legal framework.

Activities of Supervisory Board committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Committee for Urgent Decisions, the Audit Committee, and the Remuneration Control Committee.

The Executive and Nomination Committee of the Supervisory Board convened for seven scheduled meetings and two extraordinary meetings. In the scheduled meetings, the Executive and Nomination Committee prepared the proposed resolutions of the plenary meetings of the Supervisory Board. The AT1 bond issue was discussed in one of the extraordinary meeting. Three meetings were held without the participation of the employee representative and the Management Board, since these meetings were concerned with the nomination process of shareholder representatives on the Supervisory Board to be elected at the 2015 Annual General Meeting.

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The committee members discussed these reports and market views in detail. The committee discussed the banking and regulatory environment of the Bank. The committee also regularly dealt with loans requiring approval, and transactions subject to reporting requirements. The committee discussed individual exposures of material importance to the Bank, which were presented and explained by the Management Board. In addition, reports on current political developments were provided to the committee, together with appropriate responses. Also, detailed reports were given regarding the Bank's liquidity status and management as well as its funding.

The committee regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the committee. Besides credit and country risks, the committee concerned itself with market risks, liquidity risks, and operational risks. The committee concerned itself with the risk-bearing capacity and the capital ratios of Aareal Bank, as well as with the introduction of a Single Supervisory Mechanism (SSM) under the auspices of the ECB. The committee also decided on any other transactions requiring the Supervisory Board’s approval pursuant to the Company’s Memorandum and Articles of Association or the internal rules of procedure.

The Committee for Urgent Decisions is a sub-committee of the Risk Committee. It approves loans subject to approval requirements by way of circulation; for this reason, it did not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

The Audit Committee held six meetings during the year under review. During its meeting in February 2014, the Audit Committee received and discussed the preliminary results for the 2013 financial year. During its March meeting, the committee received the external auditors' report on the 2013 financial year and discussed the results with the auditors in detail. The committee members read the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of meetings held with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2014 during the same meeting.

Proceedings at the meetings in August and November included information given to the committee on supplementary topics, such as measures to implement changed regulatory requirements. In addition to a report on the audit progress, the Management Board presented and explained the updated Group planning to the committee during its December meeting. The committee also received reports submitted by Internal Audit and by the Compliance Officer, requesting and receiving detailed explanations. It discussed and duly noted the review of the internal control system, which was carried out in accordance with applicable law.

Furthermore, during the committee meetings in February, May, August and November 2014, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2013 prior to publication, in accordance with the German Corporate Governance Code; the committee members discussed the reports with the Management Board. As in the financial year under review, the preliminary results for 2014 were discussed at a meeting in February 2015.

In its meeting on 19 March 2015, the Audit Committee received the external auditors' detailed report on the audit and audit results for the 2014 financial year, and discussed these results extensively with the auditors and the Management Board.

During its nine meetings, the Remuneration Control Committee discussed the implementation of the amendments to the German Regulation on Remuneration in Financial Institutions (InstVergV) as well as all issues related to remuneration, fulfilling its original assignment.

Where members of the Supervisory Board were unable to attend a meeting, they had announced their absence in advance, giving reasons. If material decisions were on the agenda, these Supervisory Board members submitted written instructions for the casting of their votes, or cast their votes afterwards, in writing. Attendance of Supervisory Board members at meetings is shown in the table below.

Member of the Supervisory Board	Number of meetings attended / number of meetings (plenary and committee meetings)
Marija G. Korsch	35 of 35
Erwin Flieger	29 of 29
York-Detlef Bülow*	28 of 28
Christian Graf von Bassewitz	15 of 17
Manfred Behrens	7 of 7
Thomas Hawel*	7 of 7
Dieter Kirsch*	20 of 20
Dr Herbert Lohneiß	11 of 11
Joachim Neupel	17 of 17
Richard Peters	7 of 7
Prof Dr Stephan Schüller	23 of 31
Helmut Wagner*	7 of 7

* employee representative

Financial statements and consolidated financial statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were elected as auditors by the Annual General Meeting 2014, with the audit of the financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports regarding the financial statements and the consolidated financial statements, including all annexes thereto, in good time before the meeting during which the audit results were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditor participated in the meeting of the Supervisory Board, during which the financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were available to the Supervisory Board to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB, and the consolidated financial statements prepared in accordance with IFRSs, and the proposal of the Management Board regarding the appropriation of profit, and the audit report, were all examined in detail. No objections were raised to the audit results. In its meeting on 25 March 2015, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with IFRSs, and thus confirmed the financial statements of Aareal Bank AG. The Supervisory Board examined and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Special transactions

On 22 December 2013, Aareal Bank Group announced the acquisition of all of the shares of COREAL-CREDIT BANK AG ("Corealcredit"), Frankfurt/Main, which specialises in commercial property financing in Germany. A corresponding agreement was concluded on 31 March 2014 (closing). The integration of Corealcredit into Aareal Bank Group was largely completed by year-end 2014.

Another important milestone was BaFin's consent to the Bank fully repaying the remaining SoFFin silent participation. The Bank thus repaid the residual amount of €300 million to SoFFin on 30 October. With the full repayment of the silent participation, SoFFin's support to Aareal Bank has therefore come to an end. The Management Board and Supervisory Board are deeply grateful to the German Federal Government, the German parliament, and to SoFFin. The decision, taken in the year 2009, to support our work in times of great uncertainty, contributed to secure the Bank's fully viable business model, in a difficult market phase. This allowed Aareal Bank – as a perfectly healthy institution, as it was back then, and continues to be – to remain on its successful path undeterred, even in a market situation that had dramatically intensified at times.

On 3 February 2015, Aareal Holding Verwaltungsgesellschaft mbH placed its 28.9% stake in Aareal Bank AG's issued share capital with investors, in an accelerated book-building process. Market interest was very high, offering clear proof of the investment attraction of Aareal Bank shares. With the full repayment of the remaining SoFFin silent participation at the end of October 2014, the Holding's formal requirement to hold a blocking minority interest was terminated. The Supervisory Board fully confirms the Management Board's gratitude regarding the shareholders of Aareal Holding Verwaltungsgesellschaft, appreciating their constructive support of Aareal Bank over the years, in particular during the turbulent times following the financial crisis in 2007.

On 22 February 2015, Aareal Bank Group announced the acquisition of all of the shares of Westdeutsche ImmobilienBank AG ("WestImmo"), which specialises in commercial property financing. Following the acquisition of Corealcredit in the spring of 2014, Aareal Bank has once again effected a targeted investment in its core Structured Property Financing business by acquiring WestImmo, expanding its strong position on key target markets. The Supervisory Board is convinced that the Bank exploited another promising opportunity with this acquisition.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for their strong commitment during the eventful 2014 financial year. That commitment – and strong motivation – from all employees of Aareal Bank Group made the Company's success possible, and thus enabled the Bank to successfully master the challenges of recent months.

Frankfurt, March 2015

For the Supervisory Board

Korsch

Marija G. Korsch (Chairman)

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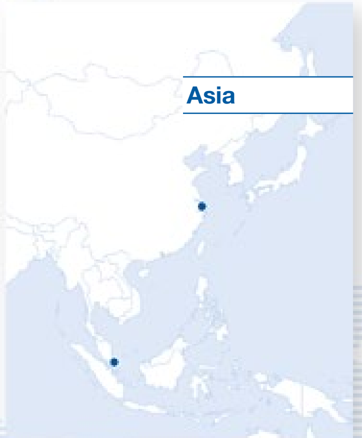
Financial Calendar

7 May 2015	Presentation of interim report as at 31 March 2015
20 May 2015	Annual General Meeting – Kurhaus Wiesbaden
11 August 2015	Presentation of interim report as at 30 June 2015
10 November 2015	Presentation of interim report as at 30 September 2015

Structured Property Financing

Structured Property Financing

Consulting / Services



Structured Property Financing

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

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

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