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Aareal Bank Group – Interim Report
1 January to 30 June 2015

Aareal Bank
Group

Key Indicators

	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Results		
Operating profit (€ mn)	300	284
Consolidated net income (€ mn)	254	243
Consolidated net income attributable to ordinary shareholders (€ mn)[1]	236	223
Cost/income ratio (%)[2]	45.3	36.9
Earnings per ordinary share (€)[1]	3.95	3.74
RoE before taxes (%)[1] [3]	24.6	25.3
RoE after taxes (%)[1] [3]	20.8	21.6

	30 Jun 2015	31 Dec 2014
Statement of financial position		
Property finance (€ mn)[4]	33,051	28,987
of which: international (€ mn)	26,567	22,894
Equity (€ mn)	2,949	2,723
Total assets (€ mn)	55,497	49,557
Regulatory indicators		
Risk-weighted assets (€ mn)	17,717	15,492
Common Equity Tier 1 ratio (CET1 ratio) (%)	12.5	13.6
Tier 1 ratio (T1 ratio) (%)	15.8	17.7
Total capital ratio (TC ratio) (%)	22.0	24.7
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	11.8	12.9
Employees	2,802	2,548
Rating		
Fitch Ratings, London		
long-term[5]	BBB+ (outlook: stable)	A- (outlook: negative)
short-term[5]	F2	F1
Fitch Pfandbrief ratings	AAA	AAA
oekom	prime	prime

[1] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis. SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest paid on the SoFFin silent participation (in the amount of € 10 million) was deducted from the calculation of EpS attributable to ordinary shareholders and RoE as at 30 June 2014. Likewise, the SoFFin silent participation (in the amount of € 300 million) was deducted from equity used to calculate RoE.

[2] Structured Property Financing segment only

[3] On an annualised basis

[4] Excluding € 1.6 billion in private client business and € 0.8 billion in local authority lending business by Westdeutsche ImmobilienBank AG (WestImmo).

[5] As expected, rating agency Fitch Ratings ("Fitch") downgraded the Issuer Default Ratings of numerous banks around the world on 19 May 2015, against the background of the lower willingness of many countries to support banks in the event of a crisis and the regulatory measures introduced in this context, such as the EU Single Resolution Mechanism. Within the scope of this measure, Aareal Bank AG's Issuer Default Rating was changed from A- (with a negative outlook) to BBB+ (with a stable outlook). The Bank's short-term Issuer Rating was adjusted from F1 to F2. Fitch had raised Aareal Bank AG's stand-alone Viability Rating from bbb to bbb+ on 24 February 2015, citing the Bank's robust development throughout the financial markets crisis and the continuous strengthening of its capital base, amongst other factors.

Contents

Letter from the Management Board

Dear Shareholders,
business associates and Aareal Bank staff,

Aareal Bank continued to perform in a challenging environment – with numerous macro-economic and geopolitical uncertainty factors – during the second quarter of the 2015 financial year. For example, the European sovereign debt crisis escalated once again during the quarter under review, with political and economic turmoil in Greece. The European Central Bank continued to pursue an expansive monetary policy – and not least, geopolitical tensions in Eastern Europe and in the Middle East provided additional uncertainty.

The global economy showed subdued development overall during the second quarter: whereas the euro zone economy continued to recover – despite developments in Greece – and the US economy picked up some momentum recently, the Asian economies have lost some steam. Chinese equity markets in particular sustained significant losses recently, burdening other markets.

Nevertheless, the situation on the financial and capital markets of industrial countries was favourable – albeit subject to marked volatility. Persistently high liquidity pushed European equity markets to new highs. The overall low interest rate environment is set to prevail, despite a noticeable increase in long-term interest rates during the quarter under review. The euro recovered slightly but remains under pressure, due to diverging monetary policies in the euro zone and in the United States.

For the banking sector, the impact of the low interest rate policy pursued by central banks – as well as still-unresolved details of demanding regulatory requirements – remain the key topics. In the prevailing low interest rate environment, commercial property continues to be a sought-after asset class. Investors thus continued to provide remarkable liquidity levels to the markets in the second quarter of the year. Against this background, the markets for commercial property financing have been characterised by intense competition, with associated pressure on margins.

Aareal Bank continued its successful business development in this challenging environment: consolidated operating profit of € 233 million hit a new record level. The figure includes negative goodwill in the amount of € 154 million from the acquisition of Westdeutsche ImmobilienBank AG (WestImmo), which was completed on 31 May 2015. Adjusted for this positive non-recurring effect, consolidated operating profit of € 79 million was still considerably higher than last year's figure of € 65 million – in spite of special burdens totalling € 12 million for the integration of WestImmo and of Corealcredit, which the Bank acquired one year ago, plus € 7 million for the European bank levy in 2015. These special burdens were offset to some extent by non-recurring single-digit million euro income from the sale of a property.

In our opinion, these results are further proof of Aareal Bank's excellent condition. Our business model is demonstrating its robustness – even in a challenging business environment – and our business policy with a sense of proportion is paying off. In an increasingly intense competitive environment we remain set for profitable growth.

This is also supported by the two recent acquisitions, which not only generated significant value for our shareholders but also further strengthened our market position. The takeover of WestImmo, completed during the second quarter of 2015, was Aareal Bank's second major acquisition within just over twelve months – a purchase which we have financed completely from the Bank's own funds, as was the Corealcredit acquisition. The WestImmo integration is proceeding according to plan. With this transaction, we have exploited an attractive opportunity for inorganic growth – one that creates value and is also in line with our strategy.

At € 240 million, the operating profit achieved in the Structured Property Financing segment significantly exceeded the figure for the same quarter of the previous year (€ 71 million); the figure includes the non-recurring € 154 million negative goodwill from the acquisition of WestImmo, as mentioned above. An additional positive factor was a further strong rise in net interest income: at € 192 million, this clearly exceeded the previous year's level of € 168 million. A high level of early loan repayments, low funding costs, and a considerable increase in lending volume – partly due to the acquisition of WestImmo – all had a positive effect. The net figure continued to be burdened by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

We continued to pursue our selective policy regarding new business in the Structured Property Financing segment, especially in view of margin pressure due to intensified competition, and the acquisition of WestImmo, which has led to inorganic growth in interest-bearing lending volume. Accordingly, aggregate new business of € 1.8 billion originated during the second quarter remained below the previous year's level (€ 2.6 billion), as planned; the total figure for the first half-year was € 3.6 billion (H1 2014: € 4.2 billion). We affirm our previously communicated target for new business in 2015, at € 6 billion to € 7 billion.

Allowance for credit losses in the second quarter of 2015 amounted to € 31 million (Q2 2014: € 32 million); the figure for the first half of the year was € 49 million (H1 2014: € 69 million). We affirm the forecast range of € 100 million to € 150 million for the full financial year. The development of allowance for credit losses is, in our view, clear evidence of Aareal Bank's ability to integrate newly-originated lending business – whether through organic or inorganic growth– into existing processes, and to manage these exposures in a risk-aware manner.

As in the previous periods, results in our Consulting / Services segment continued to be influenced by partially opposing factors during the second quarter of 2015. Our subsidiary Aareon AG has continued to perform in line with plans, generating operating profit of € 6 million, unchanged from the same quarter of the previous year. In the segment's banking business, the volume of client deposits from the housing industry remained at a high level, averaging € 9.2 billion during the quarter under review (Q1 2015: € 9.3 billion), and thus continues to broaden our funding base. However, sustained historically low interest rates continued to weigh on results generated from deposits this quarter, leading to a segment operating loss of € 7 million.

Given the ECB's continued expansive monetary policy, the burden on segment results from the low interest rate environment is expected to prevail for the time being. Nonetheless, the importance of the deposit-taking business in the Consulting / Services segment goes far beyond the interest margin generated from the deposits – which is under pressure in the current market environment. For Aareal Bank, deposits from the housing industry are a strategically important additional source of funding for the property financing business, and one that is largely independent of developments on the capital markets. In addition to the German Pfandbrief and unsecured bank bonds, they represent an important pillar in the Bank's long-term funding mix.

Thanks to Aareal Bank Group's very good funding status, no material long-term issues were placed during the second quarter. Our aggregate funding volume totalled approximately € 0.9 billion during the first half of the year. As at 30 June 2015, the Bank's Tier I ratio was 15.8 per cent, which is comfortable also on an international level. The Common Equity Tier I (CET1) ratio stood at 12.5 per cent. Aareal Bank thus remains very solidly financed.

In conclusion, our review of the second quarter of the 2015 financial year is – once again – positive: We continue along our path of success, in a challenging environment. Aareal Bank Group continued its positive performance, expediting the integration of the two banks acquired, Corealcredit and WestImmo, and once again achieved strong results.

We still expect the low interest rate environment to prevail during the second half of 2015, combined with substantial uncertainty concerning the geopolitical situation and the ongoing development of the European sovereign debt crisis – with respect to Greece, for example. Even though our business environment is thus likely to remain challenging, we affirm our forecast guidance for the full year 2015. We continue to see good opportunities to achieve consolidated operating profit of between € 400 million and € 430 million for the current year, including negative goodwill from the acquisition of WestImmo. We also affirm our targets for the medium term. Dealing with challenges is nothing new for Aareal Bank. We are well-equipped for the future. Aareal Bank Group is on track strategically; it is in an excellent position to leverage its decisive strengths – client proximity, in-depth market knowledge, and fast decision-making – to the benefit of shareholders, clients, and staff. We count on your support along this path.

For the Management Board

Yours Sincerely, Wolf Schumacher

Dr Wolf Schumacher
Chairman

Group Management Report

Report on the Economic Position

Macro-economic environment

The first half of 2015 was strongly influenced by developments in Greece (and especially during the second quarter, by that country's negotiations with the eurozone countries and the International Monetary Fund), as well as by discussions surrounding a potential "Grexit" from the euro zone – even though this hardly burdened economic developments outside Greece. In another noteworthy development, bond yields and long-term interest rates showed marked increases during the second quarter, following a long period of falling rates which prevailed throughout the first quarter of 2015.

Economy

Whilst the weak start of the world economy into the year was impacted by temporary factors (especially in the US), economic indicators point towards a lack of momentum in the global economy during the second quarter as well, with any expansion remaining subdued.

The slow economic recovery in the euro zone – as seen during the first quarter, with real gross domestic product growth of 0.4 % – prevailed during the second quarter, thus leading to a slight rise in economic output for the first six months of the year. Outside the euro zone, slight to moderate economic growth also prevailed in many economies during the first half of the year.

Economic policy developments were largely shaped by developments in Greece and the negotiations between the country and its creditors – especially regarding the question whether (and under which conditions) support measures would be provided. The existing support programme expired at the end of the second quarter, without any agreement on a continuation of the programme, or on new support measures being reached. As a result, Greece felt unable to make a € 1.6 billion payment to the IMF due on 30 June. The Greek government was forced to close the banks on a temporary basis, and to impose capital controls. The meetings of finance ministers as well as of the heads of government of euro member states from 10 July to 12 July 2015, together with a subsequent resolution by the Greek parliament to adopt reform measures, provided the basis for negotiations then taken up by Greece with its lenders concerning a third bailout package. Volumes being discussed are in the region of € 86 billion, for a term of three years. Moreover, Greece received a € 7 billion short-term bridge facility which was used to settle the payment due to the IMF, amongst other items.

Especially in the US, the economy was burdened by special factors at the start of the year – such as unfavourable weather and prolonged strikes. US statistical authorities thus adjusted their Q1 real gross domestic product data several times – from a slight increase (as originally reported) to a slight decrease. However, there are signs that the US economy gained momentum during the second quarter, posting sound economic growth.

The Chinese economy has been losing steam over the recent quarters: with an annualised growth rate of 7.0 % for real gross domestic product in the first and second quarter of the year, the image of subdued economic momentum prevailed. Chinese share prices fell sharply towards the end of the second quarter – a trend that carried over into the third quarter. The Japanese economy, meanwhile, showed a recovery trend during the first half of the year.

The euro zone unemployment rate declined slightly during the first six months of 2015, with most euro zone member states – as well as other members of the European Union (EU) – showing a slightly declining trend. Meanwhile, Germany clearly shows the lowest unemployment rate within the euro zone, whereas it was highest in Greece and Spain (albeit showing a tendency towards decline in the latter case). The US labour market continued its revival, with approximately 1.3 million new jobs created; the unemployment rate declined from 5.6 % at the end of 2014 to 5.3 % in June.

Financial and capital markets, monetary policy and inflation

Financial and capital markets in the advanced economies continued to develop favourably during the first half of 2015, albeit subject to marked volatility. Uncertainty related to Greece had only limited impact upon financial and capital markets outside the country. The European Central Bank (ECB) raised its emergency liquidity assistance (ELA) provided to Greek banks on several occasions.

In May, rating agency Fitch ratings changed its methodology in connection with the implementation of regulatory measures such as the EU Single Resolution Mechanism or the options for banks to receive government support. As a result, Fitch downgraded numerous banks – including Aareal Bank, whose rating was lowered from "A-" (with negative outlook) to "BBB+" (with a stable outlook). To date, this has not led to any changes in the Bank's access to the financial and capital markets.

Long-term government bond yields declined further at the beginning of the year, reaching very low levels indeed. As a consequence, the extremely low (and in some cases, negative) yields burdened demand for bonds. Together with profit-taking, this triggered a trend turnaround during the course of the first half-year, with a notable increase in bond yields and interest rates. Yield spreads between countries seen as more risky by investors (such as Italy and Spain) and those considered safe havens (Germany, for example) continued narrowing at the beginning of the year – as they had done for quite some time. During the second quarter, however, these yield spreads started widening again: at the end of the first half of 2015, they even exceeded the levels seen at the end of 2014.

Long-term interest rates[1] for the currencies most relevant to Aareal Bank – including the euro, pound sterling and the US dollar – followed a similar pattern during the first half of the year: having declined during the first months, the trend turned into a marked increase during the course of the first half-year. Long-term interest rates for most of the currencies relevant to the Bank were thus higher at the half-year point than at the end of 2014. This development was particularly pronounced for the euro, pound sterling, the Danish krone, and the Swedish krona, whereas the increase was less strong for the US dollar and the Japanese yen. Long-term interest rates for the Canadian dollar remained in line with the levels seen at the end of 2014. Diverging from the general trend, Swiss franc yields were lower compared to the beginning of the year. In contrast, short-term interest rates[2] showed little change, remaining anchored close to zero per cent; in some cases, they turned negative during the first six months of the year. At the end of the first half-year, short-term euro interest rates (up to three months) were marginally below zero per cent. Negative rates for the Danish krone[3] and the Swedish krona[4] were more pronounced – an effect that was exceeded by the Swiss franc[5], where rates turned negative for clearly longer terms (up to six years) as well.

Having lost considerable ground against the US dollar at the beginning of the year, the euro stabilised and even slightly recovered afterwards. Even so, the euro/US dollar exchange rate was significantly lower at the end of the first half of 2015, compared to the end of 2014. The same applied to the euro exchange rate versus pound sterling, Japanese yen and the Swiss franc. In this context, the Swiss franc strongly appreciated against the euro, following the Swiss National Bank's decision in January to stop maintaining (and enforcing) a minimum EUR/CHF exchange rate. At the end of the first half of the year, the euro exchange rate against the Canadian dollar and the Swedish krona was slightly lower than at the beginning of the year. The Danish National Bank maintained its currency peg against the euro; as a result, the EUR/DKK exchange rate hardly changed.

[1] Based on the 10-year swap rate
[2] Calculated on the basis of 3-month Euribor or the corresponding LIBOR or other comparable rates for other currencies
[3] Based on the Cibor reference rate
[4] Based on the Stibor reference rate
[5] Based on CHF Libor for short-term rates, and on swap rates for long-term maturities, respectively

Monetary policy in the advanced economies remained very expansive throughout the first half of 2015. The ECB further boosted its extremely expansive monetary policy stance in January, with the decision to purchase substantial quantities of sovereign bonds on the secondary markets. Together with the existing programmes to buy asset-backed securities (ABS) and covered bonds, the aggregate volume of the ECB's buying programmes is likely to amount to approximately € 60 billion each month. The ECB's sovereign bond purchases started in March, and are set to continue at least until September 2016; in any case, the central bank will continue buying until inflationary developments have come into line with their inflation target of just under 2%. According to the ECB, the objective of its bond-buying programme is to stimulate the economy, and to achieve said inflation target.

Other central banks also further intensified their expansive monetary policy during the first half of the year. The Swedish central bank moved its key interest rate to negative territory; it also launched a bond-buying programme which it increased on several occasions during the course of the first half-year. Central banks that cut their key interest rates during the first six months of 2015 included those of Denmark, Canada, Poland and Switzerland (where the latter lowered its target range). Whilst key interest rates in these countries were very low, or – in the cases of Sweden and Switzerland – negative, they were still markedly higher in China and Russia, yet central banks there also cut their rates – to 4.85 % in China and 11.50 % in Russia – most recently.

At the beginning of the year, the euro zone was still in deflation, with a rate of 0.6 % in January. This trend reversed during the following months and slight inflation rates were posted in May (+0.3 %) and June (+0.2 %). Inflation continued to be limited due to energy price developments: even though crude oil prices ended the first half-year at a higher level than at the beginning of the year, they nonetheless remained significantly lower than in the same period of the previous year. However, given subdued demand, euro zone inflation remained moderate – even without taking the energy sector into account. Other regions also saw hardly any inflationary pressure; some economies even experienced slight deflation. Numerous European countries outside the euro zone – as well as the US – posted inflation rates close to zero per cent. With the disappearance of basis effects due to the previous year's VAT increase, inflation in Japan also approached zero per cent. The inflation rate in China was moderate, at just over 1 %, whereas inflation rates in Turkey, for example (and especially Russia) were relatively high.

Regulatory environment

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

Sector-specific and business developments

Structured Property Financing segment

Key trends on the markets for commercial property and on the corresponding financing markets continued during the first half of 2015, as seen in the previous year. In the low-interest rate environment that prevails in spite of recent increases in long-term interest rates, commercial property continued to be a sought-after asset class. As investors continued to provide remarkable liquidity levels to the markets, global transaction volumes for newly-acquired commercial property remained high. Compared to previous years, investors were prepared – given a limited supply of top properties – to increasingly invest in properties with a higher risk profile. Reflecting high liquidity and demand, investment yields for newly acquired first-class properties were stable or lower compared to the

2014 year-end.[1] Developments on the rental markets were stable to positive.

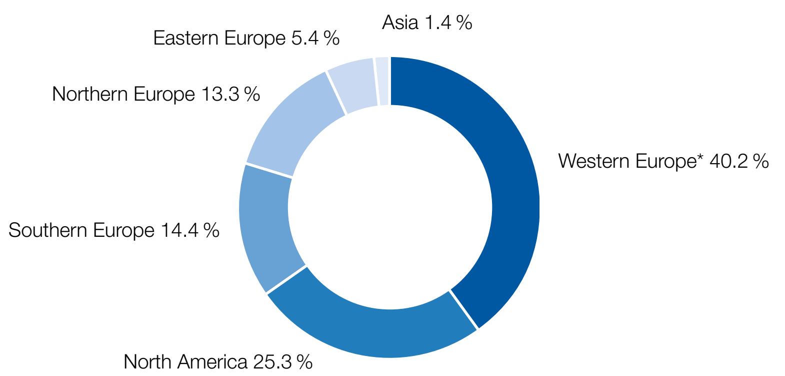
The markets for commercial property financings continued to be characterised by intense competition, with pressure on margins and a trend towards higher mortgage lending value ratios being the prevailing trends – these were visible on numerous markets in Europe and North America, as well as on Asian markets that are relevant for Aareal Bank.

Aareal Bank Group generated new business in the amount of € 1.8 billion in the second quarter of 2015 (Q2 2014: € 2.6 billion), and therefore € 3.6 billion in the first half of the year in total (H1 2014: € 4.2 billion). Newly-originated loans accounted for € 2.1 billion thereof during the first half-year (H1 2014: € 2.7 billion), equivalent to 57.1 % (H1 2014: 63.6 %). During the quarter under review, newly-originated loans totalled € 1.2 billion (Q2 2014: € 1.6 billion) of new business, or 66.1 % (Q2 2014: 61.3 %)[2].

At 73.3 % (H1 2014: 78.9 %), Europe generated the highest share of new business during the first half of 2015, followed by North America with 25.3 % (H1 2014: 17.5 %) and Asia with 1.4 % (H1 2014: 3.6 %).[3]

New business 1 January - 30 June 2015

by region (%) Total volume: € 3.6 bn



* Including Germany

Europe

The attractiveness of commercial property as an asset class has remained unchanged. Transaction volumes for newly-acquired commercial property (in euros) showed a marked 20 % year-on-year increase in the first half of 2015. Whilst in the first quarter, volume growth in Europe was driven by a strong increase in transaction volumes in the United Kingdom, the German market was the main driver during the second quarter. Nevertheless, other markets such as Italy and Spain also showed significantly higher transaction volumes. The market in France showed a mixed picture; after a slight increase in the first quarter, transaction volumes declined markedly during the second quarter, compared to the same quarter of the previous year. When looking at these developments, it is worth noting that the second quarter of 2014 was a very strong one in the French market. Transaction volumes in Eastern Europe were lower during the first six months, compared to the previous year. A number of portfolio transactions also contributed to the increase in transaction volumes in Europe.

In this market environment, investment yields for first-class commercial property – which have reached a low level in numerous European economic centres – declined even further compared to the 2014 year-end, even though they remained unchanged on various markets. The general trend of stable to falling investment yields was evident for first-class office, retail, and logistics properties.

Rents for high-quality properties remained stable in numerous European economic centres during the first six months of the year. Yet on various markets, rents increased compared with the 2014 year-end – for example, on the office property

[1] Falling yields are usually associated with rising property market values, whilst rising yields correspondingly produce falling values, all other things remaining equal.
[2] Excluding private client business and local authority lending business by WestImmo; new business in both areas was originated to a minor extent only.
[3] New business is allocated to the individual regions on the basis of the location of the properties used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile.

markets in Berlin, Barcelona, London and Stockholm, the retail property markets in Barcelona, Madrid, Milan, Rome and Paris, and on the logistics property markets in Barcelona, London and Paris. Rents for first-class commercial property declined only in individual cases, including the markets for office, retail and logistics property in Moscow, and on the market for office property in Warsaw.

Hotel markets in the European economic hubs were predominantly positive during the first half of 2015, which was characterised by a year-on-year increase in the average revenue per available hotel room. Declining average revenues were observed on individual markets – for instance, in Geneva, where the market was burdened by the strong Swiss franc, and in the Île-de-France region. In Paris, however – as well as in London – average revenues per available hotel room were virtually unchanged from the levels seen in the first half of 2014.

In Europe, Aareal Bank generated new business in the amount of € 1.6 billion in the second quarter of 2015 (Q2 2014: € 2.1 billion), and therefore € 2.7 billion in the first half of the year in total (H1 2014: € 3.3 billion). Western Europe accounted for the highest share, followed by Southern, Northern, and Eastern Europe.

North America (NAFTA states)

Strong demand for commercial property persisted in North America during the first half of 2015. Accordingly, transaction volumes were up strongly, by around 18 % compared to the same period of the previous year. On a national average for the US, yields for office and retail properties tended to fall slightly during the six months under review, compared to the 2014 year-end, whilst remaining virtually stable in the logistics sector.

And, again on a national average for the US, rents for office, retail and logistics property were up slightly from the end of 2014. The picture for the main economic hubs was comparable. Examples for more pronounced rent increases were evident on the markets for office and retail property in San Francisco – in contrast, rents on the office markets in Boston and Washington D.C., as well as for retail property in Washington D.C. rose only marginally. Vacancy ratios for the three property types were largely stable to slightly lower on a national average for the US.

Hotel markets in the US continued their upward trend during the first half of 2015, with increasing average revenues per available hotel room that were also higher year-on-year. The Canadian market also saw a slight improvement in average revenues.

Aareal Bank's new business originated in North America during the second quarter amounted to € 0.2 billion (Q2 2014: € 0.5 billion), so that € 0.9 billion was generated in the first half of 2015 (H1 2014: € 0.7 billion). The US clearly accounted for the largest share, with a minor share attributable to Canada.

Asia

Transaction volumes in the Asia/Pacific region were significantly lower during the first six months of the year, compared with the same period of the previous year, due to lower volumes in Japan and Australia. Investment yields for newly-acquired, high-quality commercial property showed a predominantly stable development in Beijing, Shanghai, and Tokyo; this applied to office, retail and logistics properties. However, yields were lower for retail and logistics properties in Singapore, whilst remaining constant for office properties there.

Rents for high-quality commercial property were predominantly stable in the four Asian metropolitan areas referred to above. Diverging from this general trend, rents on the office property markets in Singapore and Tokyo were slightly positive, whereas rents for first-class retail properties in Singapore were down slightly.

Hotel markets showed a mixed picture: whilst average revenues per available hotel room were markedly higher than in the first half of the previous year in Shanghai and Tokyo, they were notably lower in Singapore; in Beijing, they slightly exceeded the previous year's levels.

Aareal Bank originated a minor volume of new business in Asia during the second quarter, following the first quarter where no new business was generated in the Asian region (H1 2014: € 0.2 billion).

Acquisition of Westdeutsche Immobilien-Bank AG (WestImmo)

As announced on 22 February 2015, Aareal Bank Group concluded the acquisition of all shares in Westdeutsche ImmobilienBank AG ("WestImmo"), which specialises in commercial property financing. The purchase was completed with effect from 31 May 2015 (the closing date). WestImmo is therefore now a legally independent subsidiary under the umbrella of Aareal Bank Group. The (preliminary) purchase price paid amounted to € 336 million. The preliminary nature of this purchase price relates to the possibility of potential compensation payments to the seller. Further information is included in the Notes to the consolidated financial statements.

Items acquired by Aareal Bank within the scope of the acquisition included € 6.9 billion in loans and advances to customers and € 1.0 billion in financial assets. The acquisition resulted in a (preliminary) negative goodwill of € 154 million, which was recognised in income. WestImmo's operative results have been included in Aareal Bank Group's consolidated income statement, with effect from 1 June 2015. Excluding negative goodwill, WestImmo's contribution to consolidated operating profit for the first half of 2015 amounted to € 4 million (after consolidation). As part of the integration of WestImmo into Aareal Bank Group, a control and profit and loss transfer agreement was concluded.

Integration of Corealcredit's operating business

Corealcredit's banking operations were transferred to Aareal Bank AG during the second quarter of 2015. From a legal perspective, the integration took place through splitting off Corealcredit's operative banking business, and merging it into the parent entity. This process was concluded upon the entry into the Commercial Register and the transfer of operations, at which point Corealcredit's office in Frankfurt/Main turned into Aareal Bank's new Frankfurt branch. Following this split-off, Corealcredit was turned into a subsidiary with no operative activities.

Consulting/Services segment

Bank division Housing Industry

The housing and commercial property industries in Germany remained stable sectors in the second quarter of 2015. Reliable rental payments generated from a highly-diversified tenant portfolio provide a solid foundation.

The companies of the housing and commercial property industries continue their programme of sustainable building renovation, and are regarded as cornerstones of urban development. Progress regarding energy-related modernisation is particularly high in East Germany. The sector increasingly promotes the conversion of housing for the elderly, as well as the integration of new technical assistance tools.

Thanks to unbroken demand for housing, rents have continued to moderately rise during the course of the year: rents offered in April were some 3.4 % higher throughout Germany than the previous year's level, whereby rents in rural areas increased to the same extent as in the major cities.

However, differences in rental levels remained between growth regions and those subject to contraction. While structurally weak regions suffered from population drain, demand for residential accommodation increased – especially in German conurbations. The German Act for a Cap on Residential Rent Increases (Gesetz zur Mietpreisbremse), designed to slow rent increases on tight residential property markets, came into effect on 1 June 2015. According to the Act, the rent for re-letting existing apartments may only exceed the local reference rent level ("ortsübliche Vergleichsmiete") by a maximum of 10 %. The impact of the Act remains to be seen – particularly given the frequent shortfall of supply.

In view of the positive development on the residential property market, interest for German residential property portfolios prevailed: as investors' readiness to assume risk grows, investor focus is also shifting towards secondary locations offering more attractive risk/return potential. Buyers for value-added and opportunistic investments predominantly include private investors, family offices and project developers. One of the largest transactions during the quarter under review was Deutsche Annington's purchase of Süddeutsche Wohnen Group – which manages a total of 19,800 apartments – for approximately € 1.9 billion.

Our clients continue to make strong use of the combination of our specialist services in conjunction with automated mass electronic payments processing, together with the related advice we offer, as well as cash investment schemes. This enables us to maintain a strong position in the market, despite strong competitive pressure – which is also reflected in the acquisition of new customers: during the second quarter of 2015, we were able to win new business partners from the housing industry, managing just under 20,000 residential units.

The volume of deposits taken remained high, averaging € 9.2 billion during the quarter under review (Q1 2015: € 9.3 billion).

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

Aareon

Against the background of the digital transformation process affecting society and business, Aareon continues to focus on digitisation. Connected living has increasingly become a matter of everyday life. Aareon supports the European housing industry in exploiting the opportunities of digitisation, allowing companies in that sector to re-design and optimise processes, cut costs, boost revenues – and to find more comfortable solutions for customers, business partners and staff. Aareon has capitalised on this trend through its "Aareon Smart World" solutions, a concept which projects the vision of digitisation in the European property management sector. The concept was introduced in June, at the 25th Aareon Congress – the industry event hosting approximately 1,000 delegates. Entitled "InSights – life, home and work in the world of tomorrow", the Congress discussed visions of the housing industry for the future.

More customers opted for the Wodis Sigma ERP solution – including Wohnbau Mainz GmbH, which manages 10,600 residential units. Wohnbau Mainz will be using Wodis Sigma as a service from the exclusive Aareon Cloud, replacing the existing GES system. Development of Wodis Sigma Release 7, which is expected to be launched during the fourth quarter – at the Aareon Forum – is on schedule.

Business volumes generated with the GES ERP solution continued to decline, as planned in the context of the migration process to Wodis Sigma. 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 is usually involved in such processes as the preferred partner and consultant. Aareon is duly prepared for future migrations of GES customers, to ensure that such migrations are executed smoothly and safely. The new GES version 05/2015 was rolled out on schedule.

In the area of SAP solutions and Blue Eagle, Aareon is currently supporting two large-sized implementation projects. Aareon has been awarded "gold" status as SAP Channel Partner, recognising its specific expertise, quality, and distribution performance.

In the Integrated Services area, the Mareon service portal, insurance management from BauSecura, and Aareon's invoicing services, all met with demand. The Aareon Archiv kompakt digital archiving solution continues to to meet with a high level of interest, whilst Aareon's CRM and mobile services are being expanded further, in response to increasing demand.

Gesellschaft für Siedlungs- und Wohnungsbau Baden-Württemberg mbH, a housing company in Sigmaringen (Southwest Germany) managing 7,000 residential units, decided to use Aareon's IT services, outsourcing its entire IT infrastructure (which it had run in-house to date) to Aareon's data centre.

Aareon was once again awarded the highest qualification certificate in Microsoft's Partner programme: "Gold Application Development" status. Customers using Aareon's software solutions can thus be certain that the company's software complies with international Microsoft guidelines.

Aareon Group continues to make good progress in developing its international profile, with products developed in the company's various country locations increasingly being marketed on an international level. Cross-divisional and cross-border collaboration of Aareon's specialists – within the framework of the Aareon Smart World – is being organised in Aareon Competence Centres.

Aareon France SAS has rolled out its Prem'Habitat 3.0 ERP solution and its tenant portal into production for many customers: for instance, Logement Français in Courbevoie (in the Paris metropolitan area), a company managing some 80,000 residential units, began using the tenant portal provided by Aareon France. The Customer Congress hosted by Aareon France in May was also dedicated to digitisation, presenting the Aareon Smart World.

Aareon's Dutch subsidiary, Aareon Nederland B.V., acquired Wooncompagnie in Hoorn (managing approximately 13,700 units) as a customer for its Treasury solution; the company also rolled out its Tobias AX ERP solution with a number of customers, including Woonkracht 10 in Zwijndrecht, managing 11,000 units.

In the UK, additional customers opted for QL Housing, the ERP solution provided by the Aareon UK subsidiary.

Sweden's Incit AB, which also has a presence in the Netherlands and in Norway, successfully attracted several new customers for its Incit Xpand ERP solution, including a major operator in the Netherlands.

Aareon's contribution to consolidated operating profit amounted to € 11 million during the first half of the year (H1 2014: € 11 million).

Financial position and performance

Financial performance

Group

Consolidated operating profit amounted to € 300 million during the first six months of the financial year. Adjusted for the negative goodwill from the initial consolidation of WestImmo (€ 154 million), operating profit was € 146 million and thus higher than last year's corresponding figure of € 130 million.

As expected, net interest income of € 369 million was up significantly on the same period of the previous year (€ 313 million). A high level of early loan repayments, low funding costs, a considerable increase in lending volume, which was partly due to the acquisitions of Corealcredit and West-Immo, all had a positive effect. The net figure was burdened, however, by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses amounted to € 49 million (H1 2014: € 69 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses in the amount of € 104 million were partly offset by corresponding reversals of portfolio-based allowance for credit losses (including reversals of portfolio-based provisions for off-balance sheet risks from the lending business) in the amount of € 50 million.

At € 83 million (H1 2014: € 79 million), net commission income was stable.

Net trading income / expenses and the net result on hedge accounting, in the aggregate amount of € 3 million, resulted largely from the measurement of derivatives used to hedge interest rate and currency risk.

The net result from non-trading assets in the amount of € -2 million was burdened by an impairment loss on securities issued by HETA Asset Resolution AG (HETA) of € 7 million; this was partly offset by income from securities disposals in a favourable market environment. HETA securities were sold on 1 July 2015, without any material impact on income.

At € 268 million (H1 2014: € 216 million), administrative expenses were significantly higher than in the previous year, as expected. The increase was due, amongst other factors, to integration costs as well as running costs for Corealcredit and WestImmo. Expected expenditure for the bank levy increased again during the second quarter of 2015.

Net other operating income / expenses of € 10 million includes non-recurring income from the measurement of a property, in connection with the announced sale of the property.

This results overall in consolidated operating profit of € 300 million for the first six months (H1 2014: € 284 million). Taking into consideration income taxes of € 46 million and non-controlling interest income of € 10 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 244 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income attributable to ordinary shareholders stood at € 236 million (H1 2014: € 223 million).

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Net interest income	369	313
Allowance for credit losses	49	69
Net interest income after allowance for credit losses	**320**	**244**
Net commission income	83	79
Net result on hedge accounting	8	3
Net trading income/expenses	-5	4
Results from non-trading assets	-2	0
Results from investments accounted for using the equity method	0	–
Administrative expenses	268	216
Net other operating income/expenses	10	16
Negative goodwill from acquisitions	154	154
Operating profit	**300**	**284**
Income taxes	46	41
Consolidated net income	**254**	**243**
Consolidated net income attributable to non-controlling interests	10	10
Consolidated net income attributable to shareholders of Aareal Bank AG	244	233

Structured Property Financing segment

Operating profit in the Structured Property Financing segment amounted to € 240 million in the second quarter of 2015. Adjusted for the negative goodwill from the WestImmo acquisition, operating profit was € 86 million and thus higher year-on-year (Q2 2014: € 71 million).

Segment net interest income amounted to € 192 million in the second quarter of 2015, markedly higher year-on-year (Q2 2014: € 168 million). A high level of early loan repayments, low funding costs, a considerable increase in lending volume, which was partly due to the acquisition of WestImmo, all had a positive effect. The net figure was burdened, however, by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses amounted to € 31 million (Q2 2014: € 32 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses in the amount of € 56 million were partly offset by corresponding reversals of portfolio-based allowance for credit losses (including reversals of portfolio-based provisions for off-balance sheet risks from the lending business) in the amount of € 25 million.

At € 89 million (Q2 2014: € 68 million), segment administrative expenses were significantly higher than in the previous year, as expected. The increase was due, amongst other factors, to integration costs as well as running costs for WestImmo. Expected expenditure for the bank levy increased again during the second quarter of 2015. Overall, operating profit for the Structured Property Financing segment was € 240 million in the second quarter (Q2 2014: € 71 million). Taking tax expenses of € 26 million into consideration (Q2 2014: € 23 million), and adjusted for the negative goodwill from the acquisition of WestImmo, the segment result for the quarter under review was € 60 million (Q2 2014: € 48 million).

Consulting/Services segment

Sales revenue generated in the Consulting/Services segment during the second quarter of 2015, which amounted to € 47 million, was in line with the corresponding figure from the previous year. The persistent low interest rate environment continued to burden margins from the deposit-taking business that are reported in sales revenues.

Structured Property Financing segment result

€ mn	Quarter 2 2015	Quarter 2 2014
Net interest income	192	168
Allowance for credit losses	31	32
Net interest income after allowance for credit losses	**161**	**136**
Net commission income	2	1
Net result on hedge accounting	-3	1
Net trading income/expenses	2	2
Results from non-trading assets	1	0
Results from investments accounted for using the equity method	–	–
Administrative expenses	89	68
Net other operating income/expenses	12	-1
Negative goodwill from acquisitions	154	–
Operating profit	**240**	**71**
Income taxes	26	23
Segment result	**214**	**48**

Consulting/Services segment result

€ mn	Quarter 2 2015	Quarter 2 2014
Sales revenue	47	45
Own work capitalised	1	1
Changes in inventory	0	0
Other operating income	2	2
Cost of materials purchased	7	5
Staff expenses	33	32
Depreciation, amortisation and impairment losses	3	3
Results from investments accounted for using the equity method	0	–
Other operating expenses	14	14
Interest and similar income/expenses	0	0
Operating profit	**-7**	**-6**
Income taxes	-2	-2
Segment result	**-5**	**-4**

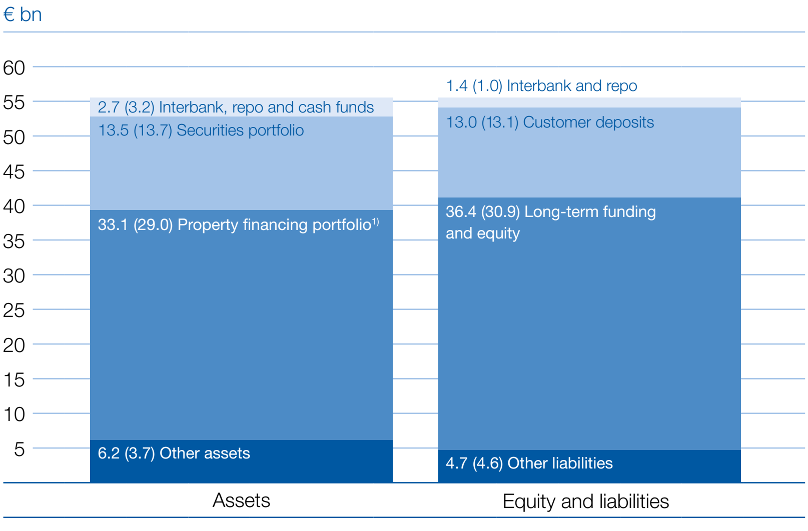
Staff expenses in the quarter under review amounted to € 33 million and were therefore slightly higher than in the same period of the previous year (Q2 2014: € 32 million).

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

Overall, segment operating profit in the second quarter of 2015 was € -7 million (Q2 2014: € -6 million). Aareon's contribution was € 6 million (Q2 2014: € 6 million).

After taking taxes into consideration, the segment result in the second quarter amounted to € -5 million (Q2 2014: € -4 million).

Statement of financial position – structure as at 30 Jun 2015 (31 Dec 2014)



Financial position

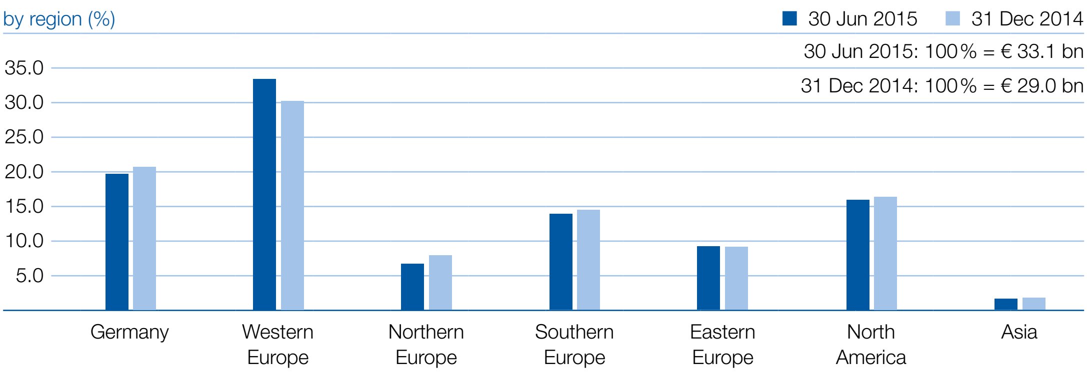
Consolidated total assets as at 30 June 2015 amounted to € 55.5 billion, after € 49.6 billion as at 31 December 2014.

Property financing portfolio

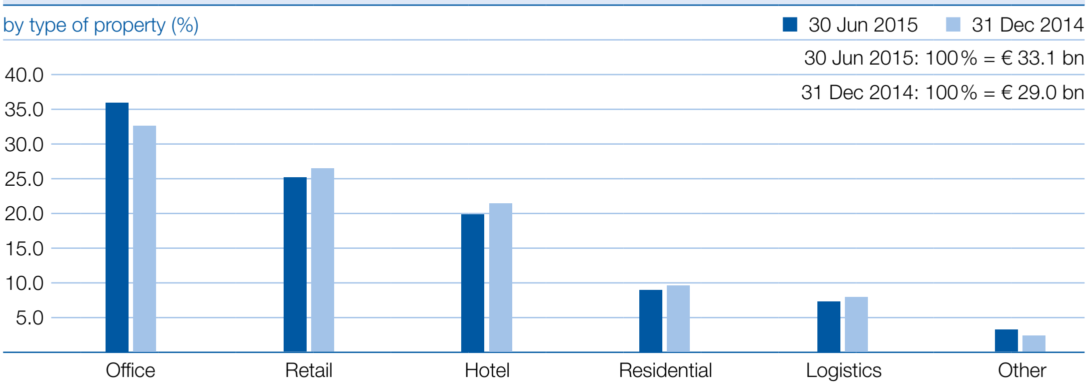
The volume of Aareal Bank Group's property financing portfolio[1] stood at € 33.1 billion as at 30 June 2015, an increase of approximately 14 % since the end of 2014 (€ 29.0 billion). The increase was attributable to the acquisition of WestImmo, which increased the commercial property financing portfolio by € 4.1 billion as at 30 June 2015. On this basis, the international share of the portfolio increased to 80.4 % (31 December 2014: 79.4 %).

[1] Excluding € 1.6 billion in private client business and € 0.8 billion in local authority lending business by WestImmo.

Property financing volume[1] (amounts drawn)



Property financing volume[1] (amounts drawn)



[1] Excluding € 1.6 billion in private client business and € 0.8 billion in local authority lending business by WestImmo.

At the reporting date (30 June 2015), Aareal Bank Group's property financing portfolio was composed as indicated above, compared with year-end 2014:

The portfolio breakdown by region and continent, compared with the end of the previous year, changed as a result of the acquisition of WestImmo. Whilst the portfolio share of exposures in Western Europe rose by approx. 3 %, it remained virtually stable (or declined slightly) for all other regions.

The breakdown of the portfolio by property type changed during the reporting period, due to the acquisition of WestImmo: the share of office property financings rose, while the shares of financings for residential property, hotels, retail and logistics properties declined slightly. Likewise, the share of other financings in the overall portfolio also increased only slightly.

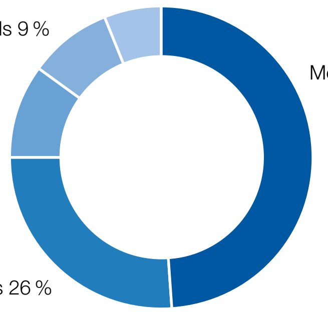
All in all, the high degree of diversification by region and property type within the property financing portfolio was maintained during the period under review.

Securities portfolio

As at 30 June 2015, the nominal volume of the securities portfolio[1] was € 11.5 billion (31 December 2014: € 11.3 billion), of which € 1.1 billion was attributable to Westdeutsche ImmobilienBank AG, which was acquired as at 31 May 2015. It comprises four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS). 97 %[2] of the overall portfolio is denominated in euro. 97 %[2] of the portfolio has an investment grade rating.[3] More than 70 % of the portfolio fulfils the requirements of "High Quality Liquid Assets" (as defined by the CRR) in the Liquidity Coverage Ratio (LCR).

Capital market funding mix as at 30 June 2015

% Total volume: € 34.0 bn



Financial position

Refinancing and equity

Refinancing

Aareal Bank Group has remained very solidly funded throughout the second quarter of 2015. Total long-term funding as at 30 June 2015 amounted to € 34.0 billion (31 December 2014: € 28.7 billion), comprising Pfandbrief issues as well as senior unsecured and subordinated issues. As at the reporting date, Aareal Bank also had € 8.2 billion at its disposal from deposits generated from the business with the housing industry (31 December 2014: € 8.3 billion). Institutional money market investors' deposits amounted to € 4.8 billion (31 December 2014: € 4.8 billion).

Thanks to Aareal Bank Group's very good funding status, no material issues were placed during the second quarter. A total of € 0.9 billion of long-term funds was raised during the first half of the year, comprising € 0.7 billion in Mortgage Pfandbriefe and € 0.2 billion in senior unsecured issues. The majority of overall issuing activities for 2015 was already completed during the first half of the year.

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

Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 2,949 million as at 30 June 2015 (31 December 2014: € 2,723 million), comprising € 300 million in the Additional Tier 1 (AT1) bond and € 242 million in non-controlling interests.

Regulatory capital

	30 Jun 2015	31 Dec 2014
€ mn		
Common Equity Tier 1 (CET1)	2,212	2,109
Tier 1 (T1)	2,791	2,735
Total capital (TC)	3,905	3,826
%		
Common Equity Tier 1 ratio (CET1 ratio)	12.5	13.6
Tier 1 ratio (T1 ratio)	15.8	17.7
Total capital ratio (TC ratio)	22.0	24.7

[1] As at 30. Juni 2015, the securities portfolio was carried at € 13.5 billion (31 December 2014: € 13.7 billion).
[2] Details based on the nominal volume
[3] The rating details are based on the composite ratings.

Analysis of risk-weighted assets (RWA)

30 June 2015

€ mn	EAD	Risk-weighted assets (RWA) AIRBA	CRSA	Total	Regulatory capital requirements
Credit risks	**56,643**	**12,760**	**2,863**	**15,623**	**1,250**
Companies	36,328	10,228	1,369	11,597	928
Institutions	6,146	569	289	858	69
Public-sector entities	11,303	0	39	39	3
Other	2,866	1,963	1,166	3,129	250
Market price risks				**519**	**41**
Operational risks				**1,575**	**126**
Total	**56,643**	**12,760**	**2,863**	**17,717**	**1,417**

31 December 2014

€ mn	EAD	Risk-weighted assets (RWA) AIRBA	CRSA	Total	Regulatory capital requirements
Credit risks	**50,659**	**11,146**	**2,542**	**13,688**	**1,095**
Companies	32,089	8,667	1,884	10,551	844
Institutions	6,103	674	86	760	61
Public-sector entities	11,218	0	14	14	1
Other	1,249	1,805	558	2,363	189
Market price risks				**497**	**40**
Operational risks				**1,307**	**104**
Total	**50,659**	**11,146**	**2,542**	**15,492**	**1,239**

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

Events After the Reporting Date

In its judgement dated 15 July 2015, the Frankfurt Higher Regional Court (Oberlandesgericht Frankfurt am Main) fully rejected the claims for damages of various hedge funds in connection with profit-participation certificates issued by former Corealcredit Bank AG (now trading as Aareal Beteiligungen AG), also rejecting the plaintiffs' appeals. Rights to further appeals were not granted. The judgement is not yet legally effective; the plaintiffs may lodge an appeal against the denial of leave to appeal with the German Federal Supreme Court. According to the Bank's view, the deadline for submission of an appeal against the denial of leave to appeal will expire in mid-August/at the end of August 2015. For this reason, it is not yet possible to reduce or release the provisions recognised for the main proceedings at the Frankfurt court ("Großes Frankfurter Verfahren"), within the scope of the business combination. To the extent that the risk protection contained in the purchase agreement for Corealcredit is no longer required, the purchase price adjustment mechanism will come into effect.

Taking tax effects into account, the ultimate total impact on Aareal Bank's results will be immaterial.

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

Risk Report

Aareal Bank Group Risk Management

The Annual Report 2014 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of this interim report, we will once again briefly outline the key components of our risk management structure, together with the key developments during the period under review. WestImmo has already been integrated into Aareal Bank Group's risk management.

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 risk strategies, as well as the Bank's business strategy, are adapted to the changed environment at least once a year, and adopted by the Management Board and the Supervisory Board. Suitable risk management and risk control processes are deployed to implement the risk strategies, and to ascertain the Bank's ability to bear risk.

Risk-bearing capacity and risk limits

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

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the Capital Requirements Regulation (CRR). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a Tier 1 ratio (calculated in accordance with Basel III) equivalent to 8 % forecast of risk-weighted assets (RWA), plus buffer. Only free own funds exceeding this level are applied as potential risk cover, of which a further 11 % 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 (page 22) summarises the Group's overall risk-bearing capacity as at 30 June 2015.

Risk-bearing capacity of the Aareal Bank Group as at 30 June 2015
– Going concern approach –

€ mn	30 Jun 2015	31 Dec 2014
Own funds for risk cover potential	2,832	2,530
less 8 % of RWA (Tier 1 capital (T1))	1,602	1,442
Freely available funds	**1,230**	**1,088**
Utilisation of freely available funds		
Credit risks	307	246
Market risks	253	205
Operational risks	94	52
Investment risks	60	38
Total utilisation	**715**	**542**
Utilisation as a percentage of freely available funds	**58 %**	**50 %**

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

Credit risks

Definition

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

Risk measurement and monitoring

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

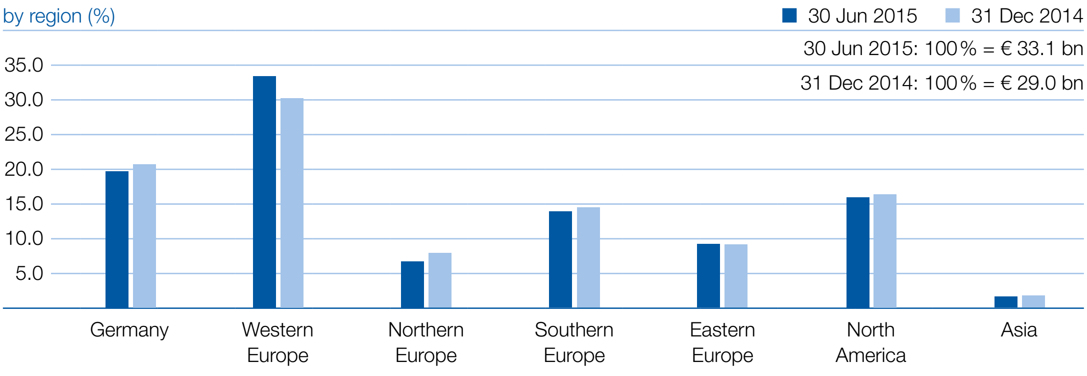
Processes in the credit and trading businesses are designed to consistently respect the clear functional division of Sales units ("Markt") and Credit Management ("Marktfolge"), up to and including senior management level. The independent Risk Controlling division is responsible for identifying, quantifying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

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

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

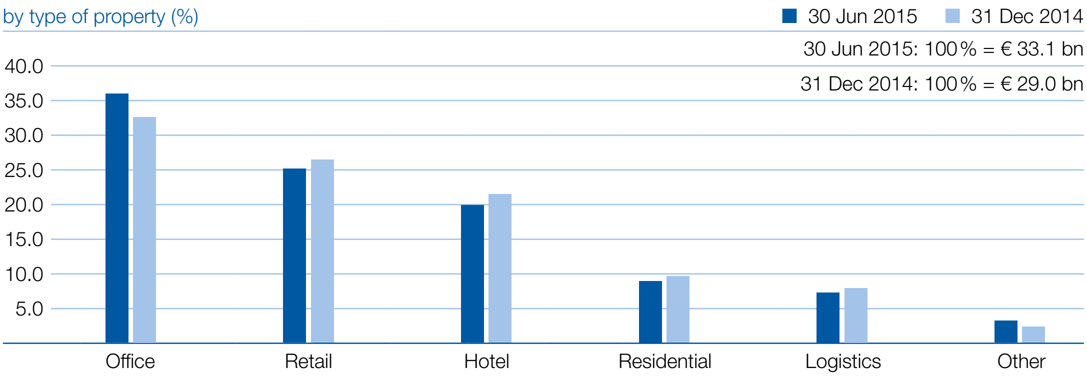
Property financing volume[1] (amounts drawn)

by region (%)



Property financing volume[1] (amounts drawn)

by type of property (%)



[1] Excluding € 1.6 billion in private client business and € 0.8 billion in local authority lending business by WestImmo.

models in question allow the Bank to include in particular, rating changes and correlation effects in the assessment of the risk concentrations.

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

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

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

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

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

Country risks

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

Market price risks

Definition

Market price risk is broadly defined as the threat of losses due to changes in market parameters. Aareal Bank Group's market price risk exposure predominantly comprises interest rate risks, whilst currency risks are largely eliminated through hedges. Commodity and other price risks are irrelevant for the Bank's business. Hence, the primary market price risk exposures are related to the relevant risk parameters of interest rates, equity prices, exchange rates, and implied volatilities. All relevant parameters are covered by our management and monitoring tools. Derivative financial instruments are primarily used as hedging instruments. Spread risks between the various yield curves (e.g. government, Pfandbrief and swap curve) are also taken into account. The risk exposure from bonds that is not related to market price or interest rate risks is managed as part of "specific risk", in particular, credit and liquidity risk exposure of the bond portfolio.

Risk measurement and monitoring

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

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

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

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

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

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

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year), 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	422.3 (224.4)	189.4 (109.1)	313.6 (148.5)	– (–)
Group VaR (interest rates)	404.4 (212.8)	174.0 (95.7)	291.9 (135.3)	– (–)
Group VaR (FX)	115.0 (58.8)	61.0 (45.3)	87.0 (51.8)	– (–)
VaR (funds)	3.8 (2.8)	2.8 (0.0)	3.5 (0.9)	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)	88.7 (135.6)	72.3 (86.6)	78.9 (102.8)	– (–)
Aggregate VaR – Aareal Bank Group	428.7 (240.9)	209.1 (142.9)	324.0 (181.9)	460.0 (390.0)

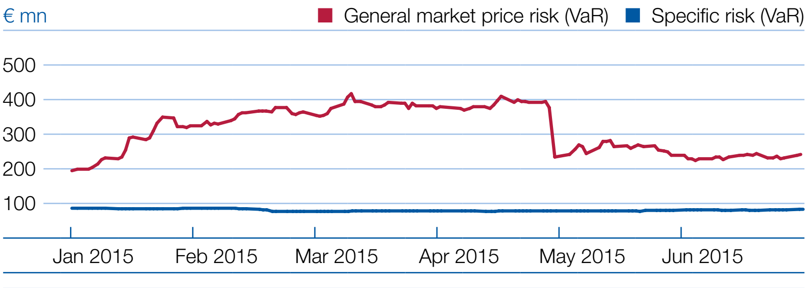
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period:

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year), 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	26.7 (14.2)	12.0 (6.9)	19.8 (9.4)	– (–)
Group VaR (interest rates)	25.6 (13.5)	11.0 (6.1)	18.5 (8.6)	– (–)
Group VaR (FX)	7.3 (3.7)	3.9 (2.9)	5.5 (3.3)	– (–)
VaR (funds)	0.2 (0.2)	0.2 (0.0)	0.2 (0.1)	1.3 (1.3)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	5.6 (8.6)	4.6 (5.5)	5.0 (6.5)	– (–)
Aggregate VaR – Aareal Bank Group	27.1 (15.2)	13.2 (9.0)	20.5 (11.5)	29.1 (24.7)

Aggregate VaR – Aareal Bank Group

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

General market price risk and specific risk during 2015



The decline in general market price risk at the end of April 2015 was driven by the regular update of statistical data and the associated decline in historical volatility for EUR/USD basis spreads.

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.

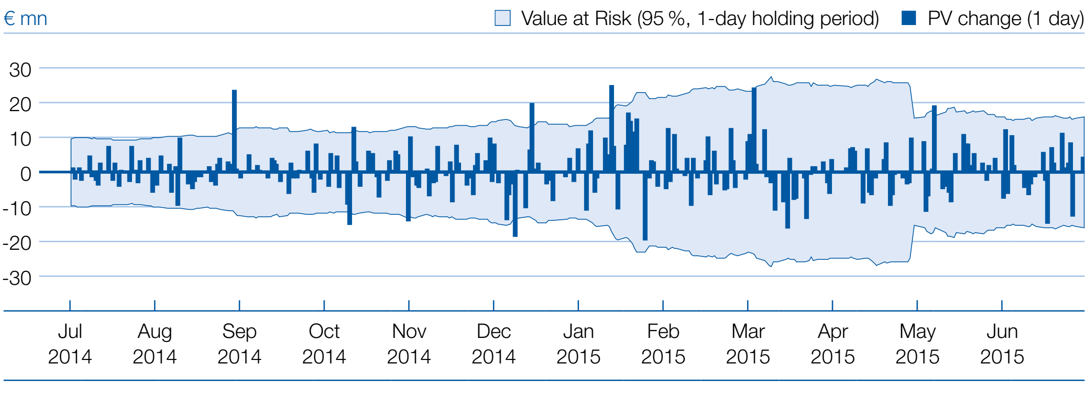
Trading book

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

Liquidity risks

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

Present values and 1-day VaR during the course of 2014/2015



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

The appropriateness of the Bank's liquidity is assessed in a liquidity report prepared using an internal liquidity risk model: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. There were no liquidity shortages throughout the period under review. The requirements of the liquidity ratio in accordance with the Liquidity Ordinance, which is relevant to liquidity management, were always complied with, as were the limits set by reference to the liquidity run-off profile. Further details are provided in the comments on the Bank's liquidity in the section on "Refinancing and Equity".

Operational risks

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

Aareal Bank's policy for managing and monitoring operational risks is geared to achieving a risk-minimising or loss-limiting effect at an early stage, by employing a pro-active approach. The Risk Report in the 2014 Annual Report contains a detailed description of controlling tools employed by the Bank to manage operational risk, plus the relevant responsibilities.

The current analysis conducted using these control instruments has shown that the Bank is not exposed to disproportionate operational risks; nor did it indicate any material risk concentration. Operational risk management also includes the reporting to the Bank's Management Board about outsourced activities and processes.

Investment risks

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

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

Report on Expected Developments

Macro-economic environment

Economy

The global economy only showed a subdued development during the first half of 2015. Even though the uptrend might be revived to some extent during the second half of the year, momentum is likely to remain subdued until the year-end. Growth rates for the full year 2015 are thus anticipated to be roughly in line with the previous year's levels. Significant burdens and uncertainty factors are likely to prevent any markedly stronger growth. Moreover, a variety of risks and uncertainty factors make global economic developments susceptible to disruption.

Uncertainty concerning further developments surrounding the Greek debt crisis is likely to prevail for some time; such uncertainty, as well as doubts regarding further developments in Greece – and hence, the euro zone – may burden economic development in the single currency area, especially at the periphery. This effect would intensify significantly in the event of a "Grexit", and might trigger a recession in some countries.

There are further burdens and uncertainty factors in Europe, including geopolitical tension (e.g. due to ongoing conflict in the Ukraine), structural economic issues and the lack of reform in certain euro zone member states, as well as the risk of deflation – the latter risk, however, has weakened recently.

The low interest rate environment poses additional threats and side-effects, as market participants might be induced to seek higher risk exposure. Also, capital misallocation and the building of bubbles on asset markets must be considered as risk factors, since they may lead to asset values recording sudden downturns if 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. 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.

Although the above-mentioned risks and uncertainty factors relate especially to the euro zone, they may feed through to global financial and capital markets and trade channels, thus significantly expanding into other regions of the world economy.

A gradual exit by the US Federal Reserve (Fed) from its zero-interest rate policy, expected for the second half of the year, also poses a risk for the global economy – especially for emerging economies, where capital outflows with burdensome effects cannot be ruled out. In China, macroeconomic debt has risen strongly in the past. Combined with high investments in construction, this poses the threat of corrections that might impair the economy and the financial system.

Conversely, the economy might benefit from the continued expansive monetary policy pursued by many central banks, and from low crude oil prices. These factors are supported by the progress made in deleveraging the private sector. Also, fiscal policy within the advanced economies can hardly be said to have any inhibiting effects any longer.

Specifically, our forecast for 2015 is as follows: the multitude of burdens and uncertainty factors suggests that economic development in the euro zone is set to remain subdued this year. Slight growth in real gross domestic product is assumed for the second half of the year, as well as for the year as a whole, with the full-year 2015 growth rate set to be somewhat stronger than in the previous year. We expect economic output for the current year to also increase slightly in various euro zone member states, including Belgium and France, whereas we assume only minor growth rates, markedly below the euro zone average, for Italy and Austria. The Finnish economy is expected to stagnate. Germany and the Netherlands have potential for growth rates slightly above the euro zone average and hence, slightly higher year-on-year. The forecast for Spain points towards significant growth this year. However, it cannot be excluded that economic development in the so-called euro zone periphery states, including Italy and Spain, is distorted by uncertainty in connection with the Greek situation.

Outside the euro zone, stronger growth – above the euro zone average – is expected, especially in the UK, Poland, Sweden and the Czech Republic – whereas growth in Denmark is likely to be in line with the euro zone this year. Considering the stronger Swiss franc, we only expect minor economic growth for Switzerland in the current year. Real growth rates of the Turkish economy are likely to be marginally higher than the previous year's levels. In Russia, we expect real gross domestic product to decline very significantly this year, given the burdens on the Russian economy from the Ukraine conflict, and the low crude oil prices.

Following the US economy's rather reluctant start into the new year, we have lowered our forecast there. We now expect economic growth rates almost in line with the previous year's figure. Nonetheless, the economy is likely to be able to accelerate during the second half of the year, compared with the first six months – driven in particular by private consumption, which is expected to benefit from an improvement on the labour market, as well as higher wage increases. At the same time, given the improved outlook on sales, corporate investment should be supportive as well. Whilst the Fed's anticipated interest rate hike – expected to occur during the second half of the year – is likely to inhibit this year's investment activity to a minor extent only, it is impossible to rule out risks from monetary and fiscal policy. An appreciation of the US dollar might have a dampening effect upon economic momentum. We have also reduced our forecast for Canada, expecting subdued growth this year that will be markedly lower than in 2014.

The Japanese economy is expected to grow only slowly this year. China loosened its monetary policy most recently, announcing fiscal measures designed to support the economy. Still, real GDP growth rates are likely to be moderately lower year-on-year, due to measures taken to cap the boom in residential property, combined with a transformation towards generally slightly lower investment ratios. The fact that the overall level of debt in the Chinese economy has risen in the past is also an uncertainty factor in this context; likewise, the massive price collapses on the Chinese equity markets are likely to burden the economy and represent another risk factor. For Singapore, we anticipate the growth rate of real gross domestic product to be slightly lower than in the previous year.

For numerous European labour markets, we anticipate unemployment rates to stagnate or decline slightly this year. Falling unemployment in the US is likely to continue during the course of the year, even though it is worth noting that unemployment rates are already low.

Financial and capital markets, monetary policy and inflation

The situation on the financial and capital markets is clearly more relaxed than in the previous years. This picture is likely to largely remain intact this year, provided that the uncertainty factors for the macro-economic environment, as mentioned above, will not materialise to a significant extent. For the euro zone, this refers particularly to uncertainty concerning further developments with respect to Greece, which might especially burden financial and capital markets in countries at the euro zone's periphery.

A divergence in monetary policy has already been evident for some time. The ECB in particular continues to pursue an extremely expansive monetary policy, reflected by significant purchases of securities (especially government bonds) and by key interest rates that are close to zero per cent. The Swedish Riksbank moved its key rate further into negative territory (-0.35 %) right after the end of the quarter. Likewise, the Bank of Japan maintains an extremely expansive stance. First slow steps towards a tightening of monetary policy – through a hike in key interest rates – are expected from the US Fed during the second half of the year, whereas such a hike by the Bank of England, originally anticipated for this year, might be postponed to 2016.

Given the anticipated interest rate hike in the US, higher interest rates are possible there during the second half of the year. In spite of rate increases which occurred during the second quarter, interest rates in the euro zone and in a number of other European countries are likely to remain at a low level. Monetary policy divergence may lead to visible shifts in exchange rates during the second half of the year, with continued weakness of the euro.

Inflationary pressure is likely to remain weak in many regions during the remainder of the year. This means that annual average inflation rates are expected to remain just above zero per cent for the euro zone, for numerous European economies outside the euro zone (such as the UK and Sweden), as well as for Japan and the US. A temporary moderate deflation cannot be ruled out either – in fact, in some countries – Poland and Spain, for example – minor deflation is the most likely scenario. Deflation might be more pronounced in Switzerland, considering the appreciation of the Swiss franc. Inflation in China is expected to be low, whereas Turkey and Russia are likely to see high inflation rates, which will be particularly pronounced in Russia.

Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. Numerous initiatives from the Basel Committee on Banking Supervision – such as the revision of the Credit Risk Standard Approach and the basic approaches for operational risk, the capital floor rules or the handling of interest rate risk exposure in the banking book – are currently being discussed, or are in a consultation process. In addition, the European Banking Authority (EBA) published a consultation paper on the future of the Internal Ratings Based Approach (IRBA); the paper discusses various methodological points and aims at harmonising the supervisory assessment methodology across all EU member states. Accordingly, Aareal Bank will continue to focus on the related measures for implementation and how these will affect the Bank's business activities.

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

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

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

Sector-specific and business developments

Structured Property Financing segment

Competition in the market for commercial property financings will remain intense during the second half of the year: this applies to Europe, North America and Asia, for most of the markets relevant to Aareal Bank. The readiness of finance providers to accept lower margins and higher loan-to-value ratios is expected to rise moderately. Given the limited supply of first-class properties in prime locations, it is fair to expect a notable revival of interest by investors – and as a consequence, by finance providers – in properties with a higher risk profile. Increases in very high-volume investments and financings are also likely.

Looking at transaction volumes, we assume a moderate year-on-year increase, both for the second half of the year and full year 2015. Given high investor liquidity – which leads to a distinct search for yield in the persistent low interest rate environment – commercial property[1] remains an attractive investment: the resulting investment demand is likely to support the development of property values, whereby the threat of a bubble cannot be ruled out. Burdens on the commercial property markets, and particularly on rental markets, may however emanate from a subdued economic development, high unemployment that prevails in numerous economies, and from marked uncertainty concerning the macro-economic environment.

Against this background, we anticipate average property values to rise in 2015 in numerous commercial property markets relevant to us, although this performance may differ across countries. France and Italy are examples of markets where we anticipate a slightly positive average performance. We assume somewhat more pronounced increases this year in Denmark, Germany, Poland, Spain and Sweden, given the more favourable economic outlook. Likewise, the UK benefits from a relatively favourable economic outlook – London is particularly popular with investors; therefore, property values in the UK are likely to increase strongly. In various markets – in Europe, including Belgium, Finland, the Netherlands, Switzerland and Turkey – we consider a largely stable performance to be likely. Uncertainty linked to the Ukraine conflict, together with the unfavourable prospects for the Russian economy, suggest a marked decline for commercial property values in Russia this year.

In contrast, average values for commercial property in the US are set to rise markedly, supported by high liquidity on the US market, as well as by the favourable economic outlook for the remainder of the year. However, higher US interest rates might have dampening effects on the property market, possibly leading to uncertainty. We assume a slight increase in average property values in Canada. Given that economic momentum in China has become less dynamic, and also considering the high level of investments in the past as well as an expected slight increase in US dollar interest rates, we anticipate a moderate decline in Chinese commercial property values. For Japan, we anticipate a moderate average increase in values, whilst a largely stable performance is expected for Singapore.

The trends described above are expected, in our view, to apply to office, retail and logistics property markets.

A mixed picture is expected in the hotel markets. On the European and Asian markets, developments in the leading economic hubs are likely to be predominantly stable to moderately positive, although some markets are set to diverge – with falling revenue indicators – and seasonal fluctuations need to be taken into account in individual markets. On average, the moderately positive development of revenues is expected to continue in North America, again with some regional and seasonal differences.

Macro-economic risks and uncertainties will also be relevant to the further development of commercial property markets. Should they materialise to a considerable extent, they might endanger the price development in the markets. In particular, this includes the prevailing low interest rate environment – which also affects property markets, given the risk of capital misallocation and the potential for bubbles. A more restrictive monetary policy in the US that leads to faster interest rate increases than anticipated might lead to uncertainty, and might burden property markets.

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

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

The forecasts are based on an assumption that the risks and uncertainty factors described above for the property markets and the macro-economic environment will not materialise to a significant extent; otherwise, they might influence business development, for example, in terms of new business.

Consulting/Services segment

Bank division Housing Industry

We expect developments within the German housing and commercial property industries to remain solid for the remainder of the year.

Sustainable portfolio development will continue to prevail in this sector. Given the different regional developments on housing markets, urban conversion or demolition plans are gaining in importance in regions subject to contraction.

Positive sentiment on the residential property market is expected to prevail until the end of the year. Due to the ongoing urbanisation trend, we expect demand for apartments in German economic centres to rise, especially in economically strong metropolitan areas, as well as in smaller large towns and university cities. However, the increase in the offered rental prices is likely to be less dynamic. Given that the cap on residential rent increases came into force in June, it remains to be seen how the new legislation will influence the development of rents and residential property values in the future.

The low interest rate environment, sound fundamental economic data, and the persistently high housing demand in densely populated regions represent attractive market conditions for investors. Therefore, demand from different investor groups for residential property is likely to remain high. Especially listed property companies from Germany and abroad will continue to invest in this segment. Given a limited supply of properties in the metropolitan areas, investors are likely to increasingly shift to regional property markets.

Deutsche Annington's takeover of Gagfah had a transaction volume of some € 8 billion, bringing investment turnover to just under € 11 billion in the first quarter of 2015 already – equivalent to 87 % of the aggregate transaction volumes seen in the previous year. Against this background, and given further takeovers which are in the pipeline for the remainder of the year, we expect transaction volumes for residential property investments to exceed the previous year's level.

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. Furthermore, we are currently focusing our investments on payment support services and process optimisation – areas where we anticipate further potential.

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

Aareon

Key factors for Aareon's development are the trend topic of digitisation in the housing industry – which is 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.

Sales revenues and EBIT in Aareon's domestic operations are forecast to remain virtually unchanged from 2014's levels: higher staff expenses and additional project costs related to strategic programmes can be offset by efficient cost management.

Aareon expects sales revenues in the ERP Products segment to remain constant, with a slight increase in profit contributions from this product line. 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. Higher capacity utilisation allows for a significant increase in the product results. Due to planned migrations, Aareon anticipates markedly lower sales revenues for GES – and hence, clearly lower product results – for GES in 2015. SAP® solutions and Blue Eagle are expected to generate constant sales revenues and profit contribution: lower revenues from licensing may be offset by higher revenues with customised solutions, assuming constant costs.

Aareon expects a stable sales revenue performance in its Integrated Services segment for 2015. Overall, the company anticipates stable product results, as high development costs for digital solutions will be offset by savings on other costs.

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's Dutch Group is expected to generate signficantly higher sales revenues and EBIT, particularly thanks to the expanded range of digital solutions offered, and an increase in advisory business. We forecast a marked increase in sales revenues for Aareon France SAS, with the positive trend set to continue, especially in terms of maintenance fees. However, results will decline year-on-year, due to the fact that 2014's results were positively influenced by one-off effects. On the UK market, Aareon anticipates higher sales revenues, with constant EBIT. The UK market is characterised by strong competition. Incit AB Group's expected potential in the Norwegian and Dutch markets already materialised during the first six months of the year, with two large orders. In addition, new possibilities have opened up on the Swedish market. High associated project volumes, accompanied by a stronger advisory business, are seen as indications for significant increases in sales revenues and results, alongside rising staff expenses and staff-related costs.

In summary, we expect Aareon to generate significantly higher sales revenues in 2015, together with a slightly higher (year-on-year) contribution to consolidated operating profit of around € 27 million.

Group targets

We continue to expect the challenging low interest rate environment to prevail during the second half of the year, combined with substantial uncertainty concerning the geopolitical situation and the ongoing development of the European sovereign debt crisis – with respect to Greece, for example.

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 is projected to be in a range between € 170 million and € 180 million.

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

All in all, we continue to see good opportunities to achieve consolidated operating profit of between € 400 million and € 430 million for the current year, including negative goodwill from the acquisition of WestImmo. The preliminary figure for negative goodwill from this acquisition has been determined at € 154 million as at 30 June 2015. As with the negative goodwill resulting from the acquisition of Corealcredit in the previous year, the negative goodwill resulting from the acquisition of WestImmo will not be included in the calculation of potential dividend payments for the 2015 financial year.

The Bank expects return on equity (RoE) before taxes to be around 16 %, and earnings per (ordinary) share (EpS) between € 4.80 and € 5.20, based on an assumed tax rate of 31.4 per cent. 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.

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement

€ mn	Notes	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Interest income		490	484
Interest expenses		121	171
Net interest income	1	**369**	**313**
Allowance for credit losses	2	49	69
Net interest income after allowance for credit losses		**320**	**244**
Commission income		97	94
Commission expenses		14	15
Net commission income	3	**83**	**79**
Net result on hedge accounting	4	8	3
Net trading income/expenses	5	-5	4
Results from non-trading assets	6	-2	0
Results from investments accounted for using the equity method		0	–
Administrative expenses	7	268	216
Net other operating income/expenses	8	10	16
Negative goodwill from acquisitions		154	154
Operating profit		**300**	**284**
Income taxes		46	41
Consolidated net income		**254**	**243**
Consolidated net income attributable to non-controlling interests		10	10
Consolidated net income attributable to shareholders of Aareal Bank AG		244	233
Earnings per share (EpS)[1]			
Consolidated net income attributable to shareholders of Aareal Bank AG		244	223
of which: attributable to ordinary shareholders[2]		236	223
of which: attributable to AT1 investors		8	–
Earnings per ordinary share (€)[2] [3]		3.95	3.74
Earnings per AT1 unit (€)[4]		0.08	–

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

[2] SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of an economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 30 June 2014 (€ 10 million) in the RoE calculation.

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

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

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Consolidated net income	**254**	**243**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**16**	**-22**
Remeasurements	24	-32
Taxes	-8	10
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**23**	**44**
Gains and losses on remeasuring AfS financial instruments	22	59
Reclassifications to the income statement	10	–
Taxes	-9	-15
Changes in hedging reserves	**18**	**5**
Profit/loss from derivatives used to hedge future cash flows	27	4
Reclassifications to the income statement	–	3
Taxes	-9	-2
Changes in currency translation reserves	**4**	**-1**
Profit/loss from translating foreign operations' financial statements	4	-1
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**61**	**26**
Total comprehensive income	**315**	**269**
Total comprehensive income attributable to non-controlling interests	10	10
Total comprehensive income attributable to shareholders of Aareal Bank AG	305	259

Statement of Comprehensive Income

Income Statement (Quarterly Development)

€ mn	Quarter 2 2015	Quarter 2 2014
Interest income	246	258
Interest expenses	55	89
Net interest income	**191**	**169**
Allowance for credit losses	31	32
Net interest income after allowance for credit losses	**160**	**137**
Commission income	50	46
Commission expenses	8	7
Net commission income	**42**	**39**
Net result on hedge accounting	-3	1
Net trading income/expenses	2	2
Results from non-trading assets	1	0
Results from investments accounted for using the equity method	0	–
Administrative expenses	136	114
Net other operating income/expenses	13	0
Negative goodwill from acquisitions	154	–
Operating profit	**233**	**65**
Income taxes	24	21
Consolidated net income	**209**	**44**
Consolidated net income attributable to non-controlling interests	5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	204	39

Statement of Comprehensive Income

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

€ mn	Quarter 2 2015	Quarter 2 2014
Consolidated net income	**209**	**44**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**48**	**-13**
Remeasurements	70	-19
Taxes	-22	6
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**-24**	**15**
Gains and losses on remeasuring AfS financial instruments	-33	20
Reclassifications to the income statement	-1	–
Taxes	10	-5
Changes in hedging reserves	**0**	**8**
Profit/loss from derivatives used to hedge future cash flows	0	8
Reclassifications to the income statement	–	3
Taxes	0	-3
Changes in currency translation reserves	**1**	**-1**
Profit/loss from translating foreign operations' financial statements	1	-1
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**25**	**9**
Total comprehensive income	**234**	**53**
Total comprehensive income attributable to non-controlling interests	5	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	229	48

Segment Reporting

Segment Results

€ mn	Structured Property Financing		Consulting/Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Net interest income	370	311	0	0	-1	2	369	313
Allowance for credit losses	49	69					49	69
Net interest income after allowance for credit losses	**321**	**242**	**0**	**0**	**-1**	**2**	**320**	**244**
Net commission income	2	2	81	80	0	-3	83	79
Net result on hedge accounting	8	3					8	3
Net trading income/expenses	-5	4					-5	4
Results from non-trading assets	-2	0					-2	0
Results from investments accounted for using the equity method			0				0	
Administrative expenses	173	124	96	93	-1	-1	268	216
Net other operating income/expenses	9	15	1	1	0	0	10	16
Negative goodwill from acquisitions	154	154					154	154
Operating profit	**314**	**296**	**-14**	**-12**	**0**	**0**	**300**	**284**
Income taxes	50	45	-4	-4			46	41
Consolidated net income	**264**	**251**	**-10**	**-8**	**0**	**0**	**254**	**243**
Consolidated net income attributable to non-controlling interests	8	8	2	2			10	10
Consolidated net income attributable to shareholders of Aareal Bank AG	256	243	-12	-10	0	0	244	233
Allocated equity	1,593	1,302	124	108	553	657	2,270	2,067
Cost/income ratio (%)	45.3	36.9	117.6	115.0			57.9	52.0
RoE before taxes (%)[1) 2)]	37.0	42.2	-26.2	-25.7			24.6	25.3
Employees (average)	**972**	**851**	**1,634**	**1,638**			**2,606**	**2,489**
Segment assets	**45,993**	**39,938**	**9,504**	**8,670**			**55,497**	**48,608**

[1)] On an annualised basis

[2)] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis. SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of an economic analysis, net interest payable on the SoFFin silent participation (€ 10 million) was deducted when determining the comparative figure as at 30 June 2014 in the RoE calculation. Likewise, the SoFFin silent participation (€ 300 million) was deducted from equity used when calculating RoE.

Segment Reporting

Segment Results (Quarterly Development)

	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	Quarter 2 2015	Quarter 2 2014	Quarter 2 2015	Quarter 2 2014	Quarter 2 2015	Quarter 2 2014	Quarter 2 2015	Quarter 2 2014
€ mn								
Net interest income	192	168	0	0	-1	1	191	169
Allowance for credit losses	31	32					31	32
Net interest income after allowance for credit losses	**161**	**136**	**0**	**0**	**-1**	**1**	**160**	**137**
Net commission income	2	1	40	40	0	-2	42	39
Net result on hedge accounting	-3	1					-3	1
Net trading income/expenses	2	2					2	2
Results from non-trading assets	1	0					1	0
Results from investments accounted for using the equity method			0				0	
Administrative expenses	89	68	48	47	-1	-1	136	114
Net other operating income/expenses	12	-1	1	1	0	0	13	0
Negative goodwill from acquisitions	154						154	
Operating profit	**240**	**71**	**-7**	**-6**	**0**	**0**	**233**	**65**
Income taxes	26	23	-2	-2			24	21
Consolidated net income	**214**	**48**	**-5**	**-4**	**0**	**0**	**209**	**44**
Consolidated net income attributable to non-controlling interests	4	4	1	1			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	210	44	-6	-5	0	0	204	39
Allocated equity	1,593	1,302	124	108	553	657	2,270	2,067
Cost/income ratio (%)	42.7	39.4	117.4	115.3			55.2	54.0
RoE before taxes (%)[1) 2)]	57.9	18.5	-26.2	-26.0			39.2	10.3

[1)] On an annualised basis

[2)] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis. SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of an economic analysis, net interest payable on the SoFFin silent participation (€ 5 million) was deducted when determining the comparative figure for the second quarter in the RoE calculation. Likewise, the SoFFin silent participation (€ 300 million) was deducted from equity used when calculating RoE.

Segment Reporting

Consulting/Services segment – Reconciliation of the Income Statement

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

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q2 2015		0	40		0	48	1		**-7**	-2	**-5**
	Q2 2014		0	40			47	1		**-6**	-2	**-4**
Income statement classification – industrial enterprise												
Sales revenue	Q2 2015	47		47								
	Q2 2014	45		45								
Own work capitalised	Q2 2015	1					1					
	Q2 2014	1					1					
Changes in inventory	Q2 2015	0						0				
	Q2 2014	0						0				
Other operating income	Q2 2015	2						2				
	Q2 2014	2						2				
Cost of materials purchased	Q2 2015	7		7								
	Q2 2014	5		5								
Staff expenses	Q2 2015	33					33					
	Q2 2014	32					32					
Depreciation, amortisation and impairment losses	Q2 2015	3					3					
	Q2 2014	3					3					
Results from investments accounted for using the equity method	Q2 2015	0				0						
	Q2 2014											
Other operating expenses	Q2 2015	14					13	1				
	Q2 2014	14					13	1				
Interest and similar income / expenses	Q2 2015	0	0									
	Q2 2014	0	0									
Operating profit	**Q2 2015**	**-7**	**0**	**40**		**0**	**48**	**1**				
	Q2 2014	**-6**	**0**	**40**			**47**	**1**				
Income taxes	Q2 2015	-2									-2	
	Q2 2014	-2									-2	
Segment result	**Q2 2015**	**-5**										
	Q2 2014	**-4**										

Statement of Financial Position

€ mn	Notes	30 Jun 2015	31 Dec 2014
Assets			
Cash funds		184	184
Loans and advances to banks	9	2,700	3,178
Loans and advances to customers	10	36,994	30,549
Allowance for credit losses	11	-542	-480
Positive market value of derivative hedging instruments		2,454	2,565
Trading assets	12	766	467
Non-trading assets	13	11,783	12,002
Investments accounted for using the equity method		1	1
Intangible assets	14	113	110
Property and equipment	15	116	96
Income tax assets		14	35
Deferred tax assets		257	240
Other assets	16	657	610
Total		**55,497**	**49,557**
Equity and liabilities			
Liabilities to banks	17	2,409	1,807
Liabilities to customers	18	32,031	27,483
Certificated liabilities	19	11,869	11,483
Negative market value of derivative hedging instruments		2,957	2,928
Trading liabilities	20	826	659
Provisions	21	773	713
Income tax liabilities		117	124
Deferred tax liabilities		25	21
Other liabilities	22	138	127
Subordinated capital	23	1,403	1,489
Equity	24, 25, 26		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,522	1,357
AT1 bond		300	300
Other reserves		-16	-77
Non-controlling interests		242	242
Total equity		2,949	2,723
Total		**55,497**	**49,557**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2015	**180**	**721**	**1,357**	**300**	**-95**	**15**	**-1**	**4**	**2,481**	**242**	**2,723**
Total comprehensive income for the period			244		16	23	18	4	**305**	10	**315**
Payments to non-controlling interests										-10	**-10**
Dividends			-72						**-72**		**-72**
AT1 coupon			-7						**-7**		**-7**
Other changes											
Equity as at 30 Jun 2015	**180**	**721**	**1,522**	**300**	**-79**	**38**	**17**	**8**	**2,707**	**242**	**2,949**

€ mn	Subscribed capital	Capital reserves	Retained earnings[1]	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2014	**180**	**721**	**1,112**	**-40**	**-50**	**-17**	**2**	**300**	**2,208**	**242**	**2,450**
Total comprehensive income for the period			233	-22	44	5	-1		**259**	10	**269**
Payments to non-controlling interests										-10	**-10**
Dividends			-45						**-45**		**-45**
Silent participation by SoFFin											
Costs associated with the silent participation by SoFFin			-10						**-10**		**-10**
Other changes			1						**1**		**1**
Equity as at 30 Jun 2014	**180**	**721**	**1,291**	**-62**	**-6**	**-12**	**1**	**300**	**2,413**	**242**	**2,655**

[1] Adjustment of previous year's figures due to completion of purchase price allocation in accordance with IFRS 3 for Corealcredit

Statement of Cash Flows (condensed)

€ mn	2015	2014
Cash and cash equivalents as at 1 January	**184**	**1,222**
Cash flow from operating activities	-694	-1,450
Cash flow from investing activities	859	-144
Cash flow from financing activities	-165	500
Total cash flow	**0**	**-1,094**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 June	**184**	**128**

Notes (condensed)

Basis of Accounting

Legal framework

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

This quarterly financial report for the period ended 30 June 2015 was prepared pursuant to the provisions of section 37w of the German Securities Trading Act (Wertpapierhandelsgesetz – ”WpHG“) in conjunction with section 37y no. 2 of the WpHG. It comprises the present interim condensed consolidated financial statements, as well as an interim group management report (see Group Management Report) and was approved for publication by the Management Board on 4 August 2015.

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

Reporting entity structure

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

GEV GmbH, Wiesbaden, a subsidiary of Aareal Bank AG, acquired all of the shares of Westdeutsche ImmobilienBank AG (WestImmo), Mainz, which specialises in commercial property financing. A corresponding sale and purchase agreement was concluded on 22 February 2015 with the previous owner, Erste Abwicklungsanstalt (EAA). The (preliminary) purchase price paid amounts to € 336 million. The preliminary nature of this purchase price relates to the possibility of potential compensation payments to the seller. The closing of the transaction was completed following approval from the respective authorities as at 31 May 2015. Accordingly, Aareal Bank Group obtained control over WestImmo and included the acquired company in the consolidated financial statements of Aareal Bank Group for the first time as at 31 May 2015 (date of initial consolidation).

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

In accordance with IFRS 3, all identifiable assets and liabilities of the acquired entity have to be measured at their fair value at the time of acquisition (closing). These fair values also represent the amounts recognised upon initial consolidation. The difference between the preliminary purchase price paid and the higher net balance of assets and liabilities acquired and measured at fair value is recognised as negative goodwill in the income statement, and directly increases the equity of Aareal Bank Group. This income amounts to € 154 million and is reported in the statement of comprehensive income in a separate item. This income primarily results from the utilisation of a favourable market environment for such transactions. Apart from favourable price-to-book valuations and attractive asset and liability spreads, limited investor interest in the European corporate property banking sector contributed to this favourable environment.

Since the acquisition was completed only shortly before the current quarterly reporting date, the allocation of the purchase price in accordance with IFRS 3 and the related determination of the fair values for assets acquired and liabilities assumed are still provisional. The final determination of fair values may yet give rise to adjustments. Therefore, it was not yet possible to fully establish the disclosures required in connection with the acquisition in accordance with IFRS 3.

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

€ mn	Fair value as at 31 May 2015 (preliminary)
Cash funds	4
Loans and advances to banks	337
Loans and advances to customers	6,885
Allowance for credit losses (portfolio-based)	-24
Positive market value of derivative hedging instruments and trading assets	891
Non-trading assets	1,035
Intangible assets	2
Property and equipment	20
Income tax assets	0
Deferred tax assets	53
Other assets	14
Total assets acquired	**9,217**
Liabilities to banks	1,090
Liabilities to customers	6,456
Certificated liabilities	662
Negative market value of derivative hedging instruments and trading liabilities	376
Provisions	111
Income tax liabilities	9
Other liabilities	6
Subordinated capital	17
Total liabilities assumed	**8,727**
Total net assets acquired	**490**
Purchase price paid (preliminary)	336
Negative goodwill	**154**

Taking into account the preliminary purchase price paid in the amount of € 336 million, the transaction led to an increase in total net assets, as shown in the consolidated statement of financial position, in the amount of the negative goodwill (€ 154 million).

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

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

The effects upon the income statement of the present interim consolidated financial statements are € 9 million in interest income and € 4 million in operating profit, both of which are attributable to WestImmo (after consolidation).

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

Accounting Policies

Unless specifically indicated otherwise, the accounting policies applied in preparation of the consolidated financial statements 2014 were also applied in preparation of these condensed interim consolidated financial statements, including the calculation of comparative figures.

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

Annual Improvements to IFRSs 2011-2013 Cycle

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

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

Notes to the Statement of Comprehensive Income

(1) Net interest income

€ mn	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Interest income from		
Property loans	429	386
Promissory note loans	7	7
Other lending and money market operations	22	43
Debt securities and other fixed-income securities	32	48
Current dividend income	0	0
Total interest income	**490**	**484**
Interest expenses for		
Bonds issued	39	55
Registered mortgage bonds	11	17
Promissory note loans	31	41
Subordinated capital	18	16
Term deposits	13	20
Payable on demand	6	14
Other interest expenses	3	8
Total interest expenses	**121**	**171**
Total	**369**	**313**

(2) Allowance for credit losses

€ mn	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Additions	113	101
Reversals	59	30
Direct write-offs	0	2
Recoveries on loans and advances previously written off	5	4
Total	**49**	**69**

Allowance for credit losses amounted to € 49 million (H1 2014: € 69 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses in the amount of € 104 million were partly offset by corresponding reversals of portfolio-based allowance for credit losses (including reversals of portfolio-based provisions for off-balance sheet risks from the lending business) in the amount of € 50 million. Please also refer to our explanations in Note (11).

(3) Net commission income

€ mn	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Commission income from		
Consulting and other services	89	86
Trustee loans and administered loans	1	1
Securities transactions	–	–
Other lending and money market operations	4	4
Other commission income	3	3
Total commission income	**97**	**94**
Commission expenses for		
Consulting and other services	11	11
Securities transactions	1	1
Securitisation transactions	–	0
Other lending and money market transactions	0	1
Other commission expenses	2	2
Total commission expenses	**14**	**15**
Total	**83**	**79**

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

(4) Net result on hedge accounting

€ mn	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Ineffective portion of fair value hedges	7	0
Ineffective portion of cash flow hedges	1	3
Ineffective portion of net investment hedges	0	0
Total	**8**	**3**

(5) Net trading income / expenses

Mio. €	01.01.- 30.06.2015	01.01.-30.06.2014
Net income/expenses from positions held for trading	7	5
Currency translation	-12	-1
Total	**-5**	**4**

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

(6) Results from non-trading assets

€ mn	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Result from debt securities and other fixed-income securities	-2	0
of which: Loans and receivables (LaR)	6	0
Held to maturity (HtM)	–	–
Available for sale (AfS)	-8	–
Result from equities and other non-fixed income securities	0	0
of which: Available for sale (AfS)	0	0
Designated as at fair value through profit or loss (dFVtPL)	–	0
Results from equity investments (AfS)	0	0
Total	**-2**	**0**

(7) Administrative expenses

€ mn	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Staff expenses	145	124
Other administrative expenses	114	82
Depreciation, amortisation and impairment of property and equipment and intangible assets	9	10
Total	**268**	**216**

(8) Net other operating income/expenses

€ mn	1 Jan-30 Jun 2015	1 Jan-30 Jun 2014
Income from properties	25	7
Income from the reversal of provisions	9	–
Income from goods and services	1	1
Miscellaneous	8	26
Total other operating income	**43**	**34**
Expenses for properties	22	7
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	3	2
Miscellaneous	8	9
Total other operating expenses	**33**	**18**
Total	**10**	**16**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	30 Jun 2015	31 Dec 2014
Money market receivables	1,677	1,737
Promissory note loans	197	120
Securities repurchase agreements	800	1,284
Other loans and advances	26	37
Total	**2,700**	**3,178**

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

(10) Loans and advances to customers

€ mn	30 Jun 2015	31 Dec 2014
Property loans [1)]	31,785	27,856
Promissory note loans	1,483	1,584
Other loans and advances	3,726	1,109
Total	**36,994**	**30,549**

[1)] Excluding € 1.6 billion in private client business and € 0.8 billion in local authority lending business by WestImmo.

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

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

(11) Allowance for credit losses

30 June 2015

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**333**	**147**	**480**	**18**	**498**
Additions	113	–	**113**	–	**113**
Write-downs	12	–	**12**	–	**12**
Reversals	9	47	**56**	3	**59**
Unwinding	10	–	**10**	–	**10**
Changes in basis of consolidation	0	24	**24**	–	**24**
Currency adjustments	3	0	**3**	0	**3**
Allowance for credit losses as at 30 June	**418**	**124**	**542**	**15**	**557**

30 June 2014

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**296**	**65**	**361**	**10**	**371**
Additions	71	30	**101**	0	**101**
Write-downs	27	–	**27**	–	**27**
Reversals	29	0	**29**	1	**30**
Unwinding	7	–	**7**	–	**7**
Changes in basis of consolidation[1]	–	18	**18**	7	**25**
Currency adjustments	0	0	**0**	0	**0**
Allowance for credit losses as at 30 June	**304**	**113**	**417**	**16**	**433**

[1] Adjustment of previous year's figures due to completion of purchase price allocation in accordance with IFRS 3 for Corealcredit

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

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

(12) Trading assets

€ mn	30 Jun 2015	31 Dec 2014
Positive market value of trading assets	766	467
Total	**766**	**467**

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

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

(13) Non-trading assets

€ mn	30 Jun 2015	31 Dec 2014
Debt securities and other fixed-income securities	11,773	11,992
of which: Loans and receivables (LaR)	4,159	4,313
Held to maturity (HtM)	1,465	833
Available for sale (AfS)	6,149	6,846
Equities and other non-fixed income securities	9	8
of which: Available for sale (AfS)	9	8
Designated as at fair value through profit or loss (dFVtPL)	–	–
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	2	2
Total	**11,784**	**12,002**

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

This rise in debt and other fixed-income securities (HtM) results from the consolidation of WestImmo. In connection with the assets acquired and liabilities assumed within the context of the acquisition of that company, please refer to our statements in the section "Reporting entity structure" in the Notes to the consolidated financial statements.

(14) Intangible assets

€ mn	30 Jun 2015	31 Dec 2014
Goodwill	66	66
Proprietary software	19	17
Other intangible assets	28	27
Total	**113**	**110**

(15) Property and equipment

€ mn	30 Jun 2015	31 Dec 2014
Land and buildings and construction in progress	94	75
Office furniture and equipment	22	21
Total	**116**	**96**

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

(16) Other assets

€ mn	30 Jun 2015	31 Dec 2014
Properties	475	444
Trade receivables (LaR)	42	38
Miscellaneous	140	128
Total	**657**	**610**

(17) Liabilities to banks

€ mn	30 Jun 2015	31 Dec 2014
Money market liabilities	1,289	855
Promissory note loans	521	374
Registered Mortgage Pfandbriefe	478	362
Registered Public-Sector Pfandbriefe	58	41
Other liabilities	63	175
Total	**2,409**	**1,807**

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

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

(18) Liabilities to customers

€ mn	30 Jun 2015	31 Dec 2014
Money market liabilities	12,936	13,071
Promissory note loans	8,182	7,970
Registered Mortgage Pfandbriefe	7,460	3,476
Registered Public-Sector Pfandbriefe	3,445	2,966
Other liabilities	0	–
Total	**32,023**	**27,483**

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

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

(19) Certificated liabilities

€ mn	30 Jun 2015	31 Dec 2014
Bearer Mortgage Pfandbriefe	8,748	8,690
Bearer Public-Sector Pfandbriefe	71	45
Other debt securities	3,050	2,748
Total	**11,869**	**11,483**

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

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

(20) Trading liabilities

€ mn	30 Jun 2015	31 Dec 2014
Negative market value of trading assets	826	659
Total	**826**	**659**

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

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

(21) Provisions

€ mn	30 Jun 2015	31 Dec 2014
Provisions for pensions and similar obligations	330	295
Other provisions and contingent liabilities	443	418
Total	**743**	**713**

The increase in provisions mainly results from the consolidation of WestImmo. In connection with the provisions assumed within the context of the acquisition of the company, please refer to our statements in the section ”Reporting entity structure” in the Notes to the consolidated financial statements.

Provisions recognised for the new European bank levy will be subject to considerable uncertainty until the Bank receives the final contribution notice in the fourth quarter of 2015.

(22) Other liabilities

€ mn	30 Jun 2015	31 Dec 2014
Liabilities from outstanding invoices	7	6
Deferred income	16	12
Liabilities from other taxes	15	17
Trade payables (LaC)	20	13
Other liabilities (LaC)	88	79
Total	**146**	**127**

(23) Subordinated capital

€ mn	30 Jun 2015	31 Dec 2014
Subordinated liabilities	1,158	1,222
Profit-participation certificates	54	73
Contributions by silent partners	191	194
Total	**1,403**	**1,489**

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

(24) Equity

€ mn	30 Jun 2015	31 Dec 2014
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,522	1,357
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-79	-95
Revaluation reserve	38	15
Hedging reserves	17	-1
Currency translation reserves	8	4
Non-controlling interests	242	242
Total	**2,949**	**2,723**

(25) Treasury shares

No treasury shares were held during the period under review.

(26) Distributions

The Annual General Meeting of Aareal Bank AG on 20 May 2015 resolved to pay a dividend of € 1.20 per no-par value share, totalling € 71,828,665.20, from net retained profit (Bilanzgewinn) of € 76,828,665.20 as reported under the German Commercial Code (HGB) for the financial year 2014. The Annual General Meeting also resolved to transfer the remaining distributable profit of € 5,000,000.00 to other retained earnings.

In accordance with the terms and conditions of the bond, the Management Board resolved to make a distribution on the AT1 bond, effective 30 April 2015.

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

Reporting on Financial Instruments

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

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

30 June 2015

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,454**	**–**	**2,454**	**–**
Assets held for trading	**766**	**–**	**766**	**–**
Trading derivatives	766	–	766	–
Non-trading assets available for sale	**6,158**	**6,071**	**87**	**–**
Fixed-income securities	6,149	6,067	82	–
Equities/funds	9	4	5	–
Negative market value of derivative hedging instruments	**2,957**	**–**	**2,957**	**–**
Liabilities held for trading	**826**	**–**	**826**	**–**
Trading derivatives	826	–	826	–

31 December 2014

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

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

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

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

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

In the first six months of 2015, there were no material transfers between the hierarchy levels for the various financial instruments.

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

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

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

€ mn	Carrying amount 30 Jun 2015	Fair value 30 Jun 2015	Carrying amount 31 Dec 2014	Fair value 31 Dec 2014
Cash on hand and balances with central banks	**184**	**184**	**184**	**184**
Loans and advances to banks (LaR)	2,700	2,701	3,178	3,177
Loans and advances to customers (LaR)	36,452	38,564	30,069	32,309
Non-trading assets (LaR)	4,159	4,001	4,313	4,125
Other assets (LaR)	103	111	86	91
Total loans and receivables	**43,414**	**45,377**	**37,646**	**39,702**
Non-trading assets held to maturity	**1,465**	**1,460**	**833**	**836**
Non-trading assets available for sale	**6,158**	**6,158**	**6,854**	**6,854**
Positive market value of derivative hedging instruments	**2,454**	**2,454**	**2,565**	**2,565**
Assets held for trading	**766**	**766**	**467**	**467**
Liabilities to banks (LaC)	2,409	2,422	1,807	1,824
Liabilities to customers (LaC)	32,023	32,145	27,483	27,563
Certificated liabilities (LaC)	11,869	11,969	11,483	11,595
Other liabilities (LaC)	115	105	98	101
Subordinated capital (LaC)	1,403	1,452	1,489	1,517
Total liabilities measured at amortised cost	**47,819**	**48,093**	**42,360**	**42,600**
Negative market value of derivative hedging instruments	**2,957**	**2,957**	**2,928**	**2,928**
Liabilities held for trading	**826**	**826**	**659**	**659**
Financial guarantee contracts	**227**	**227**	**140**	**140**
Loan commitments	**1,443**	**1,443**	**1,466**	**1,466**

(29) Day-one profit or loss

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

The table below shows the development of the day-one profit during the quarter under review. The day-one profit is recognised as an item to be deducted from the carrying amount of trading assets:

€ mn	2015	2014
Balance as at 1 January	**43**	**27**
Additions from new transactions	2	7
Reversals through profit or loss in the period	8	4
Changes in basis of consolidation	4	9
Balance as at 30 June	**41**	**39**

(30) Reclassification of financial assets

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

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

€ mn	Carrying amount 30 Jun 2015	Fair value 30 Jun 2015	Carrying amount 31 Dec 2014	Fair value 31 Dec 2014
from AfS to LaR	**3,536**	**3,359**	**3,938**	**3,727**
Asset-backed securities	28	29	27	28
Senior unsecured bank bonds	162	165	277	282
Covered bank bonds	301	310	428	447
Public-sector issuers	3,045	2,855	3,206	2,970
from HfT to LaR	**95**	**103**	**101**	**109**
Asset-backed securities	95	103	101	109
Total	**3,631**	**3,462**	**4,039**	**3,836**

If the Bank had not opted for reclassification, this would have resulted in a € 0 million profit/loss (before taxes) for the first six months of the current financial year (H1 2014: profit of € 7 million), and € 20 million (after taxes) (H1 2014: € 37 million) would have been recognised in the revaluation surplus.

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

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

Bond portfolio as at 30 June 2015

	Carrying amount			Revaluation surplus[1]			Unrealised gains / losses[1]
€ mn	LaR + HtM	AfS	Total	LaR	AfS	Total	
Greece	–	–	**–**	–	–	**–**	–
Ireland	–	–	**–**	–	–	**–**	–
Italy	1,198	332	**1,530**	-44	17	**-27**	-93
Portugal	66	112	**178**	0	1	**1**	-6
Spain	609	152	**761**	0	4	**4**	-33
Total	**1,873**	**596**	**2,469**	**-44**	**22**	**-22**	**-132**
Total as at 31 December 2014	2,013	1,135	**3,148**	-48	17	**-31**	-155

[1] figures given on an after-tax basis

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

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

The presented AfS securities with a carrying amount of € 596 million (31 December 2014: € 1,135 million) were allocated to Level 1 of the fair value hierarchy pursuant to IFRS 7, and measured based on quoted prices on active markets. No Level 2 securities were allocated to the fair value hierarchy as at the current record date (31 December 2014: € nil). No quoted market prices of the fair value hierarchy Level 1 are available for Level 2 securities as at the balance sheet date; however, measurement is also directly or indirectly based on observable market prices. Aareal Bank Group does not hold securities measured according to Level 3 of the fair value hierarchy.

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

Property financing portfolio as at 30 June 2015

	Carrying amount[1]	Average LTV[2]	Non-performing loans
	€ mn	%	€ mn
Greece	–		–
Ireland	–		–
Italy	3,140	71.6	692
Portugal	–		–
Spain	1,391	77.8	134
Total	**4,531**		**826**
Total as at 31 December 2014	4,140		599

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

Other Notes

(32) Contingent liabilities and loan commitments

	30 Jun 2015	31 Dec 2014
€ mn		
Contingent liabilities	227	140
Loan commitments	1,443	1,466
of which: irrevocable	919	920

(33) Employees

The number of Aareal Bank Group employees at 30 June 2015[1] is shown below:

	30 Jun 2015	31 Dec 2014
Salaried employees	2,641	2,386
Executives	161	162
Total	**2,802**	**2,548**
of which: Part-time employees	506	441

The increase in the number of employees mainly results from the consolidation of WestImmo as at 31 May 2015.

[1] This number does not include 185 employees of the hotel business La Sessola Service S.r.l. (31 December 2014: 20 employees)

The average number of Aareal Bank Group employees in 2015[1)] is shown below:

	1 Jan-30 Jun 2015	1 Jan-31 Dec 2014
Salaried employees	2,445	2,374
Executives	161	143
Total	**2,606**	**2,517**
of which: Part-time employees	464	435

(34) Related party disclosures in accordance with IAS 24

In the first six months of the 2015 financial year there were no material transactions with related parties that would have to be reported here.

(35) Events after the interim reporting period

In its judgement dated 15 July 2015, the Frankfurt Higher Regional Court (Oberlandesgericht Frankfurt am Main) fully rejected the claims for damages of various hedge funds in connection with profit-participation certificates issued by former Corealcredit Bank AG (now trading as Aareal Beteiligungen AG), also rejecting the plaintiffs' appeals. Rights to further appeals were not granted. The judgement is not yet legally effective; the plaintiffs may lodge an appeal against the denial of leave to appeal with the German Federal Supreme Court. According to the Bank's view, the deadline for submission of an appeal against the denial of leave to appeal will expire in mid-August/at the end of August 2015. For this reason, it is not yet possible to reduce or release the provisions recognised for the main proceedings at the Frankfurt court ("Großes Frankfurter Verfahren"), within the scope of the business combination. To the extent that the risk protection contained in the purchase agreement for Corealcredit is no longer required, the purchase price adjustment mechanism will come into effect. Taking tax effects into account, the ultimate total impact on Aareal Bank's results will be immaterial.

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

[1)] This number does not include 123 employees of the hotel business La Sessola Service S.r.l. (2014: 2 employees)

Executive Bodies of Aareal Bank AG

Supervisory Board

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

Erwin Flieger [1) 2) 4) 5)], Geretsried (until 20 May 2015)
Deputy Chairman of the Supervisory Board
(until 20 May 2015)
Chairman of the Supervisory Boards of
Bayerische Beamten Versicherungsgruppe

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

Christian Graf von Bassewitz [3) 4) 5)], Hamburg (until 20 May 2015)
Banker (ret'd.); former Spokesman of the
General Partners of Bankhaus Lampe KG

Manfred Behrens, Hannover (until 20 May 2015)
Former CEO of Swiss Life Deutschland Holding GmbH

Thomas Hawel [6) 7)], Saulheim
Aareon Deutschland GmbH

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

Dr Herbert Lohneiß [4) 5)], Gräfelfing (until 20 May 2015)
Former Chief Executive Officer of
Siemens Financial Services GmbH (ret'd)

Joachim Neupel [3) 4) 5)], Dreieich (until 20 May 2015)
Chairman of the Audit Committee (until 20 May 2015)
German Chartered Accountant, tax consultant

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

Dr Hans-Werner Rhein [1) 4) 5)], Hamburg (since 20 May 2015)
German Lawyer (Rechtsanwalt)

Prof Dr Stephan Schüller [1) 2) 3)], Hamburg
Deputy Chairman of the Supervisory Board
(since 20 May 2015)
Spokesman of the General Partners of
Bankhaus Lampe KG

Sylvia Seignette [4) 5)], Langenselbold (since 20 May 2015)
Former CEO of Calyon in Germany/Austria

Elisabeth Stheeman [4) 5) 6)], Walton-on-Thames (since 20 May 2015)
Former Global COO and member of the
Global Management Committee of Jones Lang Lasalle

Hans-Dietrich Voigtländer [2) 3) 6)], Bad Homburg (since 20 May 2015)
Former Chairman of the Management Board of
Portigon AG

Helmut Wagner [7)], Hahnheim (until 20 May 2015)
Aareon Deutschland GmbH

Prof Dr Hermann Wagner [3) 4) 5)], Frankfurt/Main (since 20 May 2015)
Chairman of the Audit Committee (since 20 May 2015)
German Chartered Accountant, tax consultant

Beate Wollmann [7)], Mainz (since 20 May 2015)
Aareon Deutschland GmbH

Management Board

Dr Wolf Schumacher
Chairman of the Management Board

Hermann Josef Merkens
Deputy Chairman of the Management Board

Dagmar Knopek
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

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

Responsibility Statement

Statement pursuant to section 37y of the German Securities Trading Act (WpHG) in conjunction with section 37w (2) no. 3 of the WpHG

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

Wiesbaden, August 4, 2015

The Management Board

Dr Wolf Schumacher **Hermann J. Merkens** **Dagmar Knopek** **Thomas Ortmanns**

Review Report

To Aareal Bank AG, Wiesbaden

We have reviewed the condensed interim consolidated financial statements – comprising the statement of financial position, statement of comprehensive income, condensed statement of cash flows, statement of changes in equity and selected explanatory notes – and the interim group management report of Aareal Bank AG, Wiesbaden, for the period from January 1, 2015 to June 30, 2015, which are part of the half-year financial report pursuant to § (Article) 37w of the WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

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

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

Frankfurt/Main, August 4, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefan Palm
Wirtschaftsprüfer
(German Public Auditor)

ppa. Kay Böhm
Wirtschaftsprüfer
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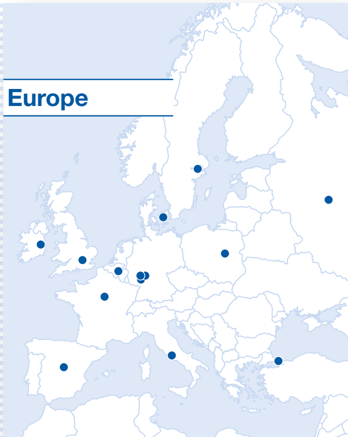
Financial Calendar

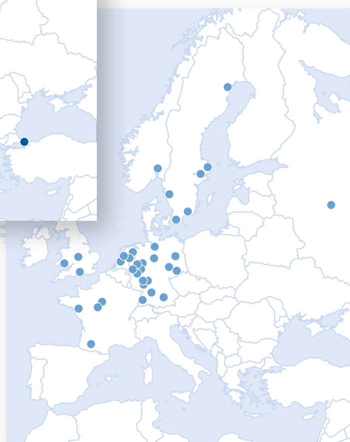
10 November 2015	Presentation of interim report as at 30 September 2015
25 May 2016	Annual General Meeting – Kurhaus, Wiesbaden

Locations

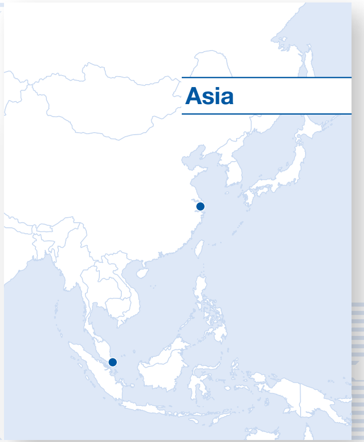
Structured Property Financing



Structured Property Financing



Consulting/Dienstleistungen



Structured Property Financing

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