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

Aareal Bank Group

Key Indicators

	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Results[1]		
Operating profit (€ mn)	382	350
Consolidated net income (€ mn)	310	288
Consolidated net income allocated to ordinary shareholders (€ mn)[2]	283	259
Cost/income ratio (%)[3]	44.9	36.9
Earnings per ordinary share (€)[2]	4.73	4.32
RoE before taxes (%)[2][4]	20.3	20.3
RoE after taxes (%)[2][4]	16.4	16.6

	30 Sep 2015	31 Dec 2014
Statement of financial position		
Property finance (€ mn)[5]	31,150	28,987
of which: international (€ mn)	25,225	22,894
Equity (€ mn)	2,992	2,723
Total assets (€ mn)	53,876	49,557
Regulatory indicators		
Risk-weighted assets (€ mn)	17,147	15,492
Common Equity Tier 1 ratio (CET1 ratio) (%)	12.8	13.6
Tier 1 ratio (T1 ratio) (%)	16.2	17.7
Total capital ratio (TC ratio) (%)	22.6	24.7
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	12.1	12.9
Employees	2,819	2,548
Rating		
Fitch Ratings, London		
long-term[6]	BBB+ (outlook: stable)	A- (outlook: negative)
short-term[6]	F2	F1
Fitch Pfandbrief ratings	AAA	AAA
oekom	prime	prime

[1] Adjustment of previous year's figures due to completion of purchase price allocation in accordance with IFRS 3 for COREALCREDIT BANK AG (Corealcredit).

[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 economic analysis, net interest paid on the SoFFin silent participation (in the amount of € 15 million) was deducted from the calculation of EpS allocated to ordinary shareholders and RoE as at 30 September 2014. Likewise, the SoFFin silent participation (in the amount of € 300 million) was deducted from equity used to calculate RoE.

[3] Structured Property Financing segment only

[4] On an annualised basis

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

[6] As expected, rating agency Fitch Ratings ("Fitch") downgraded the Issuer Default Rating 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.

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

Contents

Letter from the Management Board

Dear shareholders,
business associates and staff members,

Once again, the business environment for Aareal Bank Group proved to be challenging during the third quarter of 2015. In addition to known burdening factors, such as the still unresolved European sovereign debt crisis and prevailing historically low interest rates, new uncertainty factors emerged during recent months – including escalating tensions in the Middle East and concerns about the Chinese economy.

Meanwhile, the global economy remained subdued: whilst the euro zone economy is still recovering only slowly, and positive economic development in the US continues, economic momentum in Asia has remained slow, with China being the most serious uncertainty factor at present. Following the long rally in Chinese equities, forecasts of a further slowdown in Chinese economic growth triggered turbulence on local equity markets. It was only through massive intervention by the Chinese government that some calm was restored on these markets.

In the wake of the uncertainties in China, the situation on the financial and capital markets deteriorated again slightly during the third quarter. European equity markets were very volatile, and the German blue-chip DAX index suffered a sharp correction following the highs seen at the end of August. Yet the prevailing low interest rate environment presents only few attractive investment alternatives for international investors: accordingly, market prices stabilised at slightly lower levels, in spite of increased uncertainty.

Moreover, given the still very high liquidity levels, capital markets remained very receptive to issues placed by banks as well as corporate and sovereign issuers. During the third quarter, long-term interest rates fell back to the low levels seen at the beginning of the year. There are still no signs of any turnaround in the European Central Bank's key interest rates, and the US Federal Reserve also remains hesitant to start reversing its monetary policy. Nonetheless, the markets continue to expect an earlier interest rate hike in the US than in the euro zone – which is keeping the euro under pressure versus the US dollar.

This means that the banking sector as a whole is on hold – waiting for an interest rate turnaround, whilst the impact of central banks' low interest rate policy is leaving an ever deeper impact on banks' financial statements. On the regulatory side, there is no relief either – on the contrary: the specifics of new requirements are becoming increasingly clear, raising the necessity for each individual institution to analyse the impact on its business model in detail, and to develop responses for the challenges associated with the various conceivable scenarios.

In our Structured Property Financing segment, the impact of the low interest rate environment and the unrestricted flow of liquidity into the property asset class becomes particularly evident: there continues to be a lack of first-class properties available, which means that an increasing number of established (as well as new) market participants are locked into ever-increasing competition for the financing of such properties, in most of the markets relevant to Aareal Bank. In this context, the readiness of finance providers to accept significantly lower margins and, to a moderate degree, higher loan-to-value ratios, has risen throughout the year.

Aareal Bank is well prepared to deal with this development, which has been recognisable for some time. Thanks to our recent acquisitions, we have succeeded in taking additional lending volumes – with attractive margins – onto our books. Moreover, we remain committed to our conservative policy, which is strictly oriented toward risk and return in the current environment.

Our year-to-date performance has shown, once again, just how viable our strategy is and how sustainable our business policy is proving to be. As in the previous quarters, we have achieved very good results for the third quarter of the current financial year. Consolidated operating profit of € 82 million from July to September was up by almost a quarter on the previous year's figure of € 66 million. Consolidated operating profit for the first three quarters (including negative goodwill from the acquisition of Westdeutsche ImmobilienBank (WestImmo), which was closed on 31 May 2015) thus amounted to € 382 million – another marked increase compared to the first nine months of 2014, the Bank's record year to date. After deduction of the imputed net interest payable on the Additional Tier 1 (AT1) bond, consolidated net income for the first nine months allocated to ordinary shareholders amounted to € 283 million (9m 2014: € 259 million); the figure for the third quarter was € 47 million (Q3 2014: € 36 million).

The strong increase in operating profit during the period from July to September was largely driven by another strong rise in net interest income, which was up by almost a fifth, year-on-year. There are several reasons for this. Firstly, we continued to see high early loan repayments; secondly, funding costs have remained at their historically low levels; thirdly, a significant year-on-year increase in lending volume – predominantly due to the acquisition of WestImmo – had a positive effect. In contrast, as in the previous quarters, net interest income was burdened by a lack of attractive investment opportunities for the Bank's liquidity reserves, due to the persistent low interest rate environment.

Meanwhile, the integration of WestImmo into Aareal Bank Group is progressing according to plan. We achieved another milestone with WestImmo's successful technical integration in mid-October. Despite the significant portfolio increase, due to the acquisition, allowance for credit losses was virtually unchanged compared with the previous year, and thus remained within the pro-rata forecast range. We consider the development of allowance for credit losses as further evidence for the quality of our credit portfolio.

Similarly to our Structured Property Financing segment, developments observed in the previous quarters also prevailed during the third quarter in our second segment, Consulting/Services: our subsidiary Aareon AG, which is setting the standard as the market leader in IT services for the housing industry, continued to develop according to plan. Aareon further expanded its expertise through the acquisition of two smaller companies in the Netherlands and in Germany after the end of the quarter under review.

In the segment's banking business, the volume of customer deposits from the housing industry declined slightly, but remained at a high level, averaging € 8.6 billion during the third quarter. Nonetheless, sustained historically low interest rates continued to weigh on results generated from deposits this quarter, leading to a negative segment contribution to operating profit by the Consulting/Services segment of € 7 million.

We nevertheless consider the Consulting/Services segment a key pillar of our strategy, also when looking ahead: on the one hand, Aareon has extensive potential for further growth, including beyond the housing industry. On the other hand, the importance of the deposit-taking business 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.

We were active in capital market issuance during the third quarter, but only on a very selective basis; and by the end of the quarter, we had already achieved our funding targets for the year as a whole. At present, we are only undertaking funding activities for 2016 on an opportunistic basis. Our liquidity situation is comfortable. We have already fully implemented the liquidity requirements under Basel III known to date. Thanks to our capitalisation, which remains very solid, we also already comply with the Basel III capital requirements. As at 30 September 2015, our Tier 1 ratio was 16.2 per cent, which is comfortable also on an international level. Assuming full implementation of Basel III, the Bank's Common Equity Tier 1 (CET1) ratio would be 12.1 per cent.

In conclusion, our review of the third quarter of the 2015 financial year is very positive, given the outlined developments: Aareal Bank has remained successfully on track in a challenging environment. This makes us confident for the remainder of 2015 – in spite of manifold macro-economic and geopolitical uncertainty factors, as well as prevailing industry-specific challenges we have to deal with.

In view of the successful business development during the first nine months of the financial year, we have raised our full-year guidance: net interest income, Aareal Bank's most important source of income, is now projected in a range between € 760 million and € 800 million, up from our previous forecast of € 720 million to € 760 million. Overall, we now anticipate a further increase in consolidated operating profit for the full year, to between € 450 million and € 460 million; so far, we had forecast a range between € 400 million and € 430 million.

Aareal Bank Group enjoys an excellent position in its markets. Throughout the last years, the Group has demonstrated – time and again – its ability to readily seize opportunities in its business segments, based on a viable strategy and clearly-defined principles – finding the right answers to the challenges posed by competition and regulation. Our sustained success, which was once again evident in the good results for the third quarter, is based on this combination of strategic clarity and tactical flexibility, combined with outstanding expertise, a deep market understanding and consistent client orientation.

We are well positioned for future challenges which will arise on the capital markets as well as through growing digitisation, which is also affecting the banking business. Our two business segments monitor changes in their respective markets closely. They have the full strategic ability to exploit any opportunities that arise. Our ambition is to keep creating added value for our clients, staff and shareholders. Aareal Bank's Management Board is confident that we will succeed in doing so in the future.

For the Management Board

Yours sincerely,

Hermann Merkens
Chairman

Group Management Report

Report on the Economic Position

Macro-economic environment

Economy

The development of the global economy during the first three quarters of 2015 was restrained; burdens and uncertainty factors were too pronounced to permit more dynamic development.

Even though economic development in the euro zone showed signs of an upturn during the course of the year to date, the pace of economic growth was restrained to moderate. Likewise, this applied to many of the individual member states. Economic policy developments were largely shaped by developments in Greece, and the negotiations between the country and its creditors. After Greece's support programme – which expired in the spring – was extended to the end of June, no new agreement was reached until the new expiry date. As a result, Greece was unable to make an outstanding payment to the International Monetary Fund (IMF). The Greek government was also forced to close the banks on a temporary basis and to impose capital controls. However, an agreement was eventually reached, consisting of a new three-year, € 86 billion support programme, provided by the European Stability Mechanism (ESM). Economic development in some non-euro zone European Union (EU) states was more dynamic than in the euro zone. The UK, Poland, Sweden and the Czech Republic in particular should be mentioned here. In contrast, falling commodity prices and uncertainty in conjunction with the Ukraine conflict weighed heavily on Russia's economy.

The economy in the US got off to a slow start this year, as a result of temporary factors such as adverse weather conditions and the dockworkers' strike, which has meanwhile ended. However, during the course of the year, the US economy has been able to embark on a solid growth path, supported in particular by private consumption. Canada, on the other hand, which is a key exporter of raw materials, saw its economy dampened by the fall in commodity prices.

The Chinese economy has been losing steam for quite some time. Economic momentum there has been noticeably subdued during the first three quarters of the year. China's equity markets were subject to a very pronounced price correction during the summer months. Japan's economic development has been inconsistent over the course of the current year. While real gross domestic product picked up considerably in the first quarter, it has since deteriorated, with the Japanese economy being burdened by economic weakness in the Asian region.

The euro zone unemployment rate eased slightly during the first three quarters of 2015, with individual euro zone member states – as well as other EU members – showing a slightly declining trend for the most part. Germany clearly showed 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). Recovery on the labour market in the US has continued through the course of the year, with growing employment and a decline in the unemployment rate. Japan's labour market was robust.

Financial and capital markets, monetary policy and inflation

Although financial and capital markets in the advanced economies were reasonably receptive in the first three quarters of 2015, they were subject to marked volatility.

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, the ratings of numerous banks were downgraded. This is also the case for Aareal Bank, whose rating was lowered by one notch from A- (with negative outlook) to BBB+ (with a stable outlook). However, this has not led to any material changes with regard to the Bank's access to the financial and capital markets.

Long-term government bond yields declined further at the beginning of the year. Nevertheless, the extremely low interest rates led to a dampening of demand for bonds. This, together with profit-taking, temporarily led to a notable increase in bond yields, although they came under downside pressure again in the third quarter. At the end of the third quarter, their level almost equated to that at year-end 2014. Some long-term government bond yields were slightly higher (e.g. ten-year French or Spanish government bonds) and others were slightly lower (e.g. Italian or Swedish bonds). Yield differentials in the euro zone – between countries (such as Italy and Spain) that were considered riskier by investors, and countries that are viewed as safe havens, such as Germany – fluctuated in line with the changing yields. After tightening initially at the start of the year, spreads widened considerably, before tightening set in again as yields fell in the third quarter.

Long-term interest rates[1)] in the most important currencies for Aareal Bank portrayed a similar trend to that of government bond yields during the first three quarters. At the end of the third quarter, the long-term euro, Danish krone and Swedish krona interest rates were slightly above the level at year-end 2014, whilst long-term pound sterling and Japanese yen rates were roughly unchanged. Lower rates were seen for the US dollar, the Canadian dollar and the Swiss franc. Short-term interest rates[2)] were subject to minimal fluctuations, and were close to year-end 2014 values at the end of the third quarter – for example, for pound sterling and US dollar – whilst euro rates turned slightly negative. However, short-term interest rates for the Canadian dollar, the Swedish krona and the Swiss franc recorded greater declines. Short-term Danish krone rates also fell slightly below zero per cent. Swedish krona interest rates up to three years were also in negative territory at the end of the quarter. Negative interest rates were particularly pronounced for the Swiss franc, with considerably longer terms (recently, up to eight years) being affected by negative interest rates as well.

The euro's external value fell sharply against the US dollar at the start of the year, although it subsequently stabilised and even gained slightly in value. Even so, the euro/US dollar exchange rate was significantly lower at the end of the third quarter, compared to the end of 2014. The euro also fell vis-a-vis the pound sterling, the Japanese yen and the Swiss franc compared to year-end 2014, but gained against the Canadian dollar – especially in the third quarter. The Danish National Bank maintained its currency peg against the euro; as a result, the EUR/DKK exchange rate hardly moved. The euro exchange rate against the Swedish krona at the end of the third quarter was roughly in line with the level at the end of 2014. With regard to the performance of exchange rates, it was noteworthy that China devalued its currency relative to the US dollar in the third quarter. This step was associated with China's new exchange rate strategy, which should allow greater flexibility and orientation on the market signals.

Monetary policy in the advanced economies remained very expansive throughout the first three quarters of 2015. The European Central Bank (ECB) in particular extended its expansive policy this year, buying significant volumes of government bonds on the secondary market since March. The ECB's sovereign bond purchases 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 year. The Swedish Riksbank led its benchmark interest rate into negative territory, and lowered it most recently to -0.35 % in July. It also launched a bond purchase programme, which it has subsequently increased several times. Central banks that cut their key interest rates during the first three quarters of

[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

2015 included those of Denmark, Canada, Poland and Switzerland (where the latter lowered its target range). China's central bank also lowered its key interest rate several times this year, most recently to 4.60% in August. It also reduced the minimum reserve requirements for commercial banks. A first increase in the key interest rates by the US Federal Reserve (Fed) was the subject of much debate. However, as at the end of September it had made no amendments to a corridor that has now remained unchanged at between 0.00 and 0.25% since December 2008.

With deflation prevailing in the euro zone at the start of the year, an annual inflation rate marginally above the zero per cent mark took hold in the months ahead. However, low oil prices drove it back again marginally into negative territory at a rate of -0.1%. Besides energy prices, muted demand also contributed to the absence of an increase in prices. Other regions also saw hardly any inflationary pressure; some economies experienced slight deflation (e.g. in Poland). Numerous European countries outside the euro zone – as well as the US – posted inflation rates close to (or around) zero per cent. With the disappearance of basis effects in April due to the previous year's VAT increase, inflation in Japan also approached zero per cent. China's annual inflation rate was moderate, ranging largely between 1% and 2% during the course of the current year.

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

The material trends of the previous year remained intact on the commercial property markets and the corresponding financing markets during the first three quarters of 2015. Commercial property, as an asset class, continued to be in demand. Despite an interim increase in interest rates, demand was driven by the high levels of liquidity held by investors and the prevailing low interest rate environment. Global transaction volumes for newly acquired commercial property thus remained high. Faced with a limited supply of first-class properties, buyers were prepared to invest increasingly in properties with a higher risk profile with regard to quality, rental situation and location. Investment yields for newly-acquired first-class properties were stable or continued to fall relative to the end of 2014.[1] Developments on the rental markets were stable to positive.

Competition on the financing markets for commercial property was intense. Margins came under noticeable pressure during the course of the year to date, to an extent that was expected. At the same time, there was a noticeable tendency towards lending at higher loan-to-value ratios. This was visible on numerous markets in Europe and North America, as well as on Asian markets that are relevant for Aareal Bank.

Aareal Bank Group succeeded in generating new business[2] in the amount of € 2.7 billion in the third quarter of 2015 (Q3 2014: € 3.4 billion), and therefore € 6.3 billion in the first three quarters in total (9m 2014: € 7.6 billion). Newly-originated loans extended in the previous quarter amounted to € 0.9 billion (Q3 2014: € 2.3 billion), thus accounting for 33.4% of new business (Q3 2014: 67.1%). The volume of newly-originated loans extended in the first three quarters amounted to

[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 new business for private clients and local authority lending by WestImmo

€ 3.0 billion (9m 2014: € 5.0 billion) or 47.1 % (9m 2014: 65.1 %). Early renewals meanwhile considerably impacted on the volume of renewals.

In the first three quarters of 2015, Europe accounted for 79.3 % (9m 2014: 78.5 %) of new business for Aareal Bank, North America contributed 19.9 % (18.4 %) and Asia 0.8% (3.1 %).[1)]

Europe

Commercial property remained a popular investment class in Europe in the prevailing low interest rate environment. Transaction volumes for newly-acquired commercial property, measured in euros, increased considerably in the third quarter compared to the corresponding period of the previous year. This was also the case during the first three quarters as a whole. Growth in transaction volumes was particularly strong in Germany – Europe's second-largest market. Other markets in Western Europe, such as the UK (Europe's largest market) as well as in Northern and Southern Europe, also contributed to the increase during the first three quarters. On the other hand, France reported lower overall transaction volumes for the first nine months of the year, although there was evidence of an upward trend in the third quarter, following a weaker second quarter. Total transaction volumes fell in the majority of Central and Eastern European countries during the first three quarters.

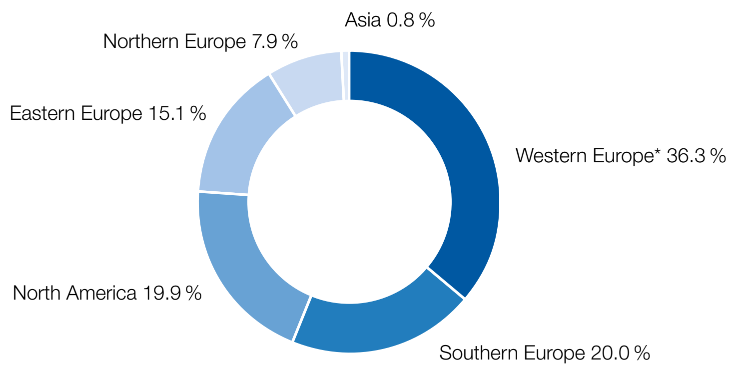
Against the background of pronounced demand for commercial property and the low interest rate environment, investment yields for first-class commercial properties in several of Europe's economic centres have declined in the course of the year compared to the end of 2014, but they remained virtually unchanged on some markets. In contrast, they remained virtually unchanged on few markets for high-quality commercial property in European economic hubs. The general trend of investment yields was evident for first-class office and retail, as well as for logistics properties. Yields for first-class commercial properties have therefore reached a low level in numerous European economic centres.

Rents for new lettings of high-quality properties in many of Europe's economic centres showed a stable to rising trend compared to the end of 2014. Rents rose during the third quarter (and hence, compared to the year-end 2014), for example, on the markets for first-class office property in Amsterdam, Barcelona, Frankfurt / Main, Madrid and Stockholm; on the retail property market in Amsterdam, London's West End and Stockholm; and on the logistics property market in Brussels. Rents for first-class commercial property declined only in individual cases in the first three quarters of 2015, including the markets for office, retail and logistics property in Moscow, and on the market for office property in Warsaw.

A positive development took hold on the hotel markets of most of Europe's economic hubs. Average revenues per available hotel room in the first three quarters were higher than in the corresponding period of the previous year. Barcelona, Copenhagen, Madrid, Milan, Prague, and Warsaw, as well as the main German economic centres, were examples of growth in average revenues. On the other hand, average revenues fell in Geneva,

New business 1 January - 30 September 2015

by region (%) Total volume: € 6.3 bn



* Including Germany

[1)] 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.

whose market was burdened by the strong Swiss franc, as well as in the Île de France region. Average revenues per available hotel room in Paris itself and in London increased marginally.

Aareal Bank Group's new business in Europe in the third quarter amounted to € 2.3 billion (Q3 2014: € 2.7 billion), so that a total of € 5.0 billion was generated in the first three quarters of 2015 (9m 2014: € 6.0 billion). Western Europe accounted for the highest share, followed by Southern, Eastern, and Northern Europe.

North America (NAFTA states)

Demand for commercial property in North America remained high, and led to a marked increase in transaction volumes in the third quarter as well as in the first three quarters of 2015 as a whole, compared to the respective year-on-year periods. On a national average, yields for commercial property fell compared to the end of 2014, thus reflecting the strong demand in the US during the first three quarters. The yield decline in retail property was particularly pronounced, compared to a slight reduction in office and logistics properties.

Rents rose moderately on a US national average for office, retail and logistics properties compared to the end of the previous year. Vacancy ratios fell slightly at the same time. In the course of the year to date, the increase in rents was particularly strong on the office and retail market in San Francisco, for example, but was comparatively minor, e.g. on the office market in Washington D.C.

With regard to the US hotel market, last year's growth on a national average in revenues per available hotel room continued during the first three quarters of the current year.

Aareal Bank Group succeeded in generating € 0.3 billion of new business in North America during the third quarter of 2015 (Q3 2014: € 0.7 billion), and therefore € 1.3 billion overall in the first three quarters of the year (9m 2014: € 1.4 billion). The US clearly accounted for the largest share thereof.

Asia

Transaction volumes in the Asia-Pacific region fell significantly in the third quarter in total, compared to the corresponding period of the previous year. Exchange rate effects also played a role here. In contrast, transaction volumes in China increased noticeably. Investment yields for newly acquired first-class commercial properties were stable or fell slightly in the first three quarters of the year in Beijing, Shanghai, Singapore and Tokyo. High-quality office property yields in these large cities remained stable in the first three quarters of 2015. First-class retail and logistics properties painted a somewhat mixed picture. Yields for these eased in Singapore and Tokyo, as well as on the logistics market in Shanghai. On the other hand, a stable trend prevailed on the corresponding retail markets in Beijing and Shanghai, as well as on Beijing's logistics market.

Rents for first-class commercial property in all four Asian cities mentioned were stable, or developed positively compared to the end of 2014, especially in China's big two cities of Beijing and Shanghai. However, rents for first-class logistics properties fell in Shanghai, thus deviating from the general trend. Retail properties in the premium segment in Tokyo reported a particularly strong increase in rents.

The average revenues per available hotel room increased in Beijing, Shanghai and – particularly pronounced – Tokyo, in the first three quarters, compared to the corresponding period of the previous year. In Singapore, on the other hand, this indicator decreased.

Aareal Bank Group originated only a small volume of new business in Asia during the first three quarters (9m 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 of Aareal Bank Group. The purchase price paid amounted to € 337 million. Further information is included in the Notes to the consolidated financial statements.

Within the scope of the acquisition, loans and advances to clients in the amount of € 6.9 billion and financial assets in the amount of € 1.0 billion were acquired. 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 period under review amounted to € 14 million (after consolidation and including integration expenses). 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 AG's new Frankfurt branch. Following the split-off of the banking operations, Corealcredit was turned into a subsidiary with no operative activities, and is now called Aareal Beteiligungen AG.

Consulting/Services segment

Bank division Housing Industry

Business development in the German housing and commercial property industries has proven to be stable during the third quarter of 2015, too. The industry is considered to be the pacemaker for the development of contemporary living in Germany. Corporate investments continue to focus on improving energy efficiency, and on creating housing tailored to the needs of senior citizens.

The stable development on the residential property market in Germany remained intact during the year, even though the increase in house prices lost some of its momentum. While structurally weak areas reported higher vacancies, demand for living space increased in the urban areas. Areas in the wider vicinity of those economic centres benefited in particular from growing demand. Rents offered were approximately 0.4 % higher in July than at the start of the year.

The vacancy ratio of the Federation of German Housing Enterprises (GdW Wohnungsunternehmen) continues to vary regionally. Apartment vacancies increased moderately to 9.2 % in the East German Federal states, whereas vacancies in the West German states fell slightly, to 2.1 %.

Thanks to Germany's economic stability, and also the considerable stability in the value of residential property, demand continued on the transaction market. Multi-family homes in particular continue to represent a popular asset class for investors. The trend that has been observed for quite some time, where listed property management companies as well as other large property owners try to gain additional market share through acquisitions and takeovers is influencing the buyer structure. Public limited property companies in particular have further strengthened their dominance on the buyer side.

Our clients from the housing and property sectors – and from the utilities and waste disposal industries – continue to make strong use of the combination of our specialist services in conjunction with automated mass electronic payments processing. They also use the related advice we offer, as well as the Bank's cash investment schemes. This enables us to maintain a strong position in the market, despite strong competitive pressure – which is also reflected in new client acquisition: during the third quarter of 2015, we were able to win new business partners from the housing industry who are managing just over 60,000 residential units.

The volume of deposits taken remained high, averaging € 8.6 billion during the quarter under review (Q2 2015: € 9.2 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

In the course of the digital transformation process affecting both society and business, Aareon continues to focus on digitisation as well as on the classic ERP business. 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 responded to this trend with the range of solutions known as Aareon Smart World. Aareon launched the "Connect" digital industry service in September, which informs the housing industry on a continuous basis about the digitisation trends and the opportunities they offer. Connect offers added value to the property management companies for their day-to-day work, by means of practical examples, check lists, concept papers and webinars.

The consolidation trend continued in the German housing industry, leading to business combinations. To date, these developments have had no material impact on Aareon's sales revenues.

Additional clients have opted for the Wodis Sigma ERP solution, including many clients that are migrating from GES to Wodis Sigma. As expected, the favoured version is the one that uses the ERP solution as a service from the exclusive Aareon Cloud. 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 reliably and safely.

In the area of SAP® solutions and Blue Eagle, Aareon is currently supporting two large-sized implementation projects that began in 2014, among other things. Preparations for the release changeover from Blue Eagle 6.4 to 6.5 in November are running on schedule.

In the Integrated Services area, insurance management services from BauSecura as well as the Mareon service portal have seen demand. The Aareon Archiv kompakt digital archiving solution continues to meet with a high level of interest, whilst Aareon's CRM and mobile services are being expanded further, in response to increasing demand. Another nationwide utility, Frankfurt-based Süwag Vertrieb AG & Co. KG, has opted for the Aareon invoicing service.

Aareon offers its customers a very high level of certified data protection, as well as very pronounced data security. In this context, TÜV Saarland recertified the Aareon data centre in Mainz as an "Audited data centre – level 3tekPlus" for two years.

In response to the changing requirements in a digital working world, Aareon is one of the first 100 pilot companies to conduct the INQA (Initiative Neue Qualität der Arbeit – New Quality of Work Initiative) audit. In July 2015, the Bertelsmann foundation awarded Aareon the so-called new entry certification. The city of Mainz also honoured Aareon for its exemplary environmental performance as a Mainz-based ÖKOPROFIT operation.

On an international level, the energy service provider ista and Aareon expanded their successful, long-standing cooperation in Germany into the rest of Europe in September. The objective here is to offer integrated and secure solutions for more user transparency, efficient invoicing and innovative services in digital buildings throughout France, Sweden and Norway. Besides the advancing digitisation of the housing industry, the extended strategic cooperation between ista and Aareon is based in particular on implementing the European Energy Efficiency Directive (EED).

The development of further digital solutions and the transfer of knowledge on an international level are making progress.

Several key customers of Aareon France SAS have started productive operations of ERP solution Prem Habitat Release 1 or 2, including for example Néolia, in Montbéliard, with 30,000 units. Aareon France presented the new concept for a responsive housing industry – "Hagilité" – at the largest congress for the social housing industry, held in France in September. Information and practical examples relating to digital solutions for the institutional housing industry are presented on a website.

The French residential property market is also consolidating, which has not impacted on Aareon to date.

The Dutch subsidiary Aareon Nederland B.V. has meanwhile rolled out the ERP solution Tobias AX for several customers, including GroenWest, Woerden with some 12,000 units and WOONopMAAT, in Heemskerk, with around 9,000 units. Furthermore, advisory projects were in particular demand among Aareon Nederland customers. Within the scope of Aareon Smart World, several Dutch customers have already decided in favour of the Mareon Aareon Archiv kompakt service portal and for the CRM solution, which was developed on the basis of the Aareal France solution.

Moreover, Aareon Nederland was appointed a member of the 2015 Microsoft Dynamics President's Club. This means that Aareon is one of the top 5 % performing Microsoft Dynamics partners worldwide. Membership of the Microsoft Dynamics President's Club is restricted to Dynamics partners that excel in the areas of customer satisfaction, business success and growth. The emphasis lies in particular on the successful implementation of innovative solutions that meet the specific requirements of their customers.

A new act (Woningwet) for social property management companies came into force in the Netherlands, which leads to more transparency among social property management companies and offers opportunities for the future.

The UK market is highly competitive. Additional customers have signed contracts for the QL ERP solution provided by Aareon UK. The important Together Housing Group, with 35,000 units, has opted for the mobile services of 1st Touch.

Release 1 of Incit Xpand Smart Start was developed by Aareon's Swedish subsidiary, Incit AB. This makes it easier for smaller and medium-sized property management companies to implement the Incit Xpand ERP solution. Additional clients have opted in favour of Incit Expand. BIM (Building Information Modelling) is a major market trend in digitisation in the housing industry that is already being offered by Incit.

Aareon's contribution to consolidated operating profit amounted to € 16 million for the first nine months of the 2015 financial year (9m 2014: € 16 million).

Financial position and performance

Financial performance

Group

Consolidated operating profit amounted to € 382 million during the first nine months of the financial year. Adjusted for the negative goodwill from the initial consolidation of WestImmo (€ 154 million), operating profit was € 228 million and thus markedly higher year-on-year (9m 2014: € 196 million).

As expected, net interest income of € 583 million was up significantly on the same period of the previous year (€ 494 million). A high level of early loan repayments, a considerable increase in lending volume, which was partly due to the acquisitions of Corealcredit and 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 € 86 million (9m 2014: € 105 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses in the amount of € 150 million were partly offset by reversals of portfolio-based allowance for credit losses (including reversals of portfolio-based provisions for off-balance sheet risks from the lending business) in an amount of € 57 million.

At € 123 million (9m 2014: € 116 million), net commission income was stable.

The aggregate of net trading income/expenses and the net result on hedge accounting of € 13 million (9m 2014: € 2 million) resulted largely from the measurement and reversal of derivatives used to hedge interest rate and currency risk.

Consolidated net income of Aareal Bank Group[1)]

€ mn	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Net interest income	583	494
Allowance for credit losses	86	105
Net interest income after allowance for credit losses	**497**	**389**
Net commission income	123	116
Net result on hedge accounting	5	3
Net trading income/expenses	8	-1
Results from non-trading assets	-15	0
Results from investments accounted for using the equity method	0	0
Administrative expenses	415	325
Net other operating income/expenses	25	14
Negative goodwill from acquisitions	154	154
Operating profit	**382**	**350**
Income taxes	72	62
Consolidated net income	**310**	**288**
Consolidated net income attributable to non-controlling interests	15	14
Consolidated net income attributable to shareholders of Aareal Bank AG	295	274

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

The net result from non-trading assets in the amount of -€ 15 million (9m 2014: € 0 million) was burdened by an impairment loss on securities issued by HETA Asset Resolution AG (HETA) as well as by a restructuring of the securities portfolio in conjunction with RWA management; this was partly offset by a positive net trading income/expenses figure.

At € 415 million (9m 2014: € 325 million), administrative expenses were significantly higher than in the previous year, as expected. The increase was due, among other factors, to integration and running costs at Corealcredit and WestImmo, expenses for the bank levy as well as compensation payments in connection with the changes on the Management Board.

Net other operating income/expenses of € 25 million include non-recurring income from the sale of a property and the reversal of provisions recognised for Corealcredit.

This results overall in consolidated operating profit of € 382 million for the first nine months (9m 2014: € 350 million). Taking into consideration income taxes of € 72 million and non-controlling interest income of € 15 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 295 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stands at € 283 million (9m 2014: € 259 million).

Structured Property Financing segment

At € 89 million, operating profit generated in the Structured Property Financing segment during the third quarter of 2015 was clearly higher than in the corresponding period of the previous year (€ 74 million).

Segment net interest income amounted to € 214 million in the third quarter of 2015, markedly higher year-on-year (Q3 2014: € 182 million). A high level of early loan repayments, and a considerable increase in lending volume – 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.

Structured Property Financing segment result

€ mn	Quarter 3 2015	Quarter 3 2014
Net interest income	214	182
Allowance for credit losses	37	36
Net interest income after allowance for credit losses	**177**	**146**
Net commission income	2	1
Net result on hedge accounting	-3	0
Net trading income/expenses	13	-5
Results from non-trading assets	-13	0
Results from investments accounted for using the equity method	0	0
Administrative expenses	101	64
Net other operating income/expenses	14	-4
Negative goodwill from acquisitions	–	–
Operating profit	**89**	**74**
Income taxes	29	23
Segment result	**60**	**51**

Allowance for credit losses amounted to € 37 million (Q3 2014: € 36 million), and was thus in line with our expectations. Net additions to specific allowance for credit losses in the amount of € 49 million were partly offset by reversals of portfolio-based allowance for credit losses (including additions to portfolio-based provisions for off-balance sheet risks from the lending business) in an amount of € 7 million.

At € 101 million (Q3 2014: € 64 million), segment administrative expenses were significantly higher than in the previous year, as expected. The increase was due, among other factors, to integration and running costs at WestImmo as well as compensation payments in connection with the changes on the Management Board.

Net other operating income / expenses of € 14 million include non-recurring income from the reversal of provisions recognised for Corealcredit.

Overall, operating profit for the Structured Property Financing segment was € 89 million in the third quarter (Q3 2014: € 74 million). Taking tax expenses of € 29 million into consideration (Q3 2014: € 23 million), the segment result for the quarter under review was € 60 million (Q3 2014: € 51 million).

Consulting / Services segment

Sales revenue generated in the Consulting / Services segment during the third quarter of 2015 amounted to € 44 million, which 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.

Staff expenses in the quarter under review amounted to € 35 million and were therefore slightly higher than in the same period of the previous year (Q3 2014: € 32 million).

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

Overall, segment operating profit in the third quarter of 2015 was € -7 million (Q3 2014: € -8 million). Aareon's contribution was € 5 million (Q3 2014: € 5 million).

Consulting / Services segment result

€ mn	Quarter 3 2015	Quarter 3 2014
Sales revenue	44	42
Own work capitalised	2	2
Changes in inventory	0	0
Other operating income	2	2
Cost of materials purchased	5	6
Staff expenses	35	32
Depreciation, amortisation and impairment losses	3	4
Results from investments accounted for using the equity method	0	–
Other operating expenses	12	12
Interest and similar income / expenses	0	0
Operating profit	**-7**	**-8**
Income taxes	-3	-2
Segment result	**-4**	**-6**

After taking taxes into consideration, the segment result for the third quarter amounted to € -4 million (Q3 2014: € -6 million).

Financial position

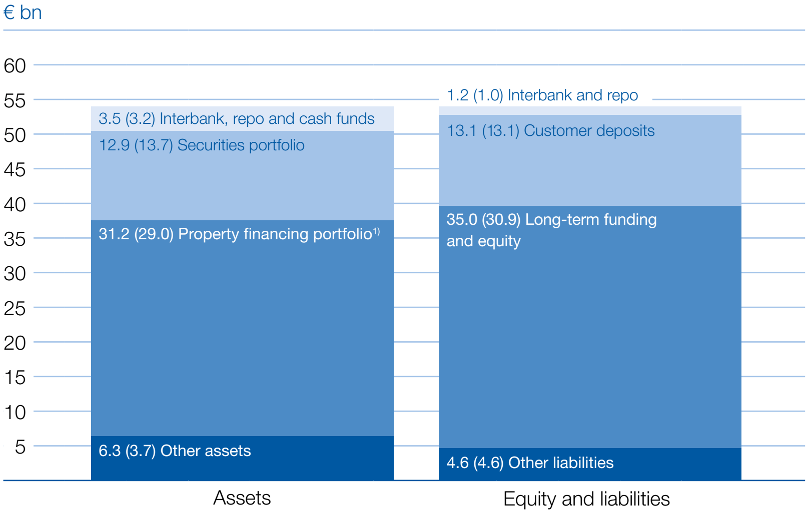
Consolidated total assets as at 30 September 2015 amounted to € 53.9 billion, after € 49.6 billion as at 31 December 2014.

Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio[1] stood at € 31.2 billion as at 30 September 2015, an increase of approximately 7.5 % over the 2014 year-end figure of € 29.0 billion. The development during the year was marked mainly by the acquisition of WestImmo as well as by high unscheduled repayments in the credit portfolio. As at 30 September 2015, the property financing portfolio increased by € 2.2 billion as a result of these opposing effects. On this basis, the international share of the portfolio increased slightly to 81.0 % (31 December 2014: 79.4 %).

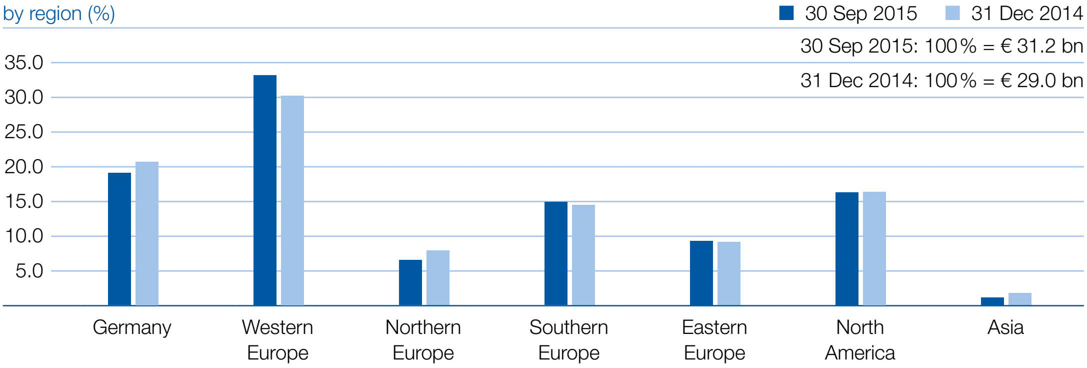
At the reporting date (30 September 2015), Aareal Bank Group's property financing portfolio was composed as follows, compared with year-end 2014.

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



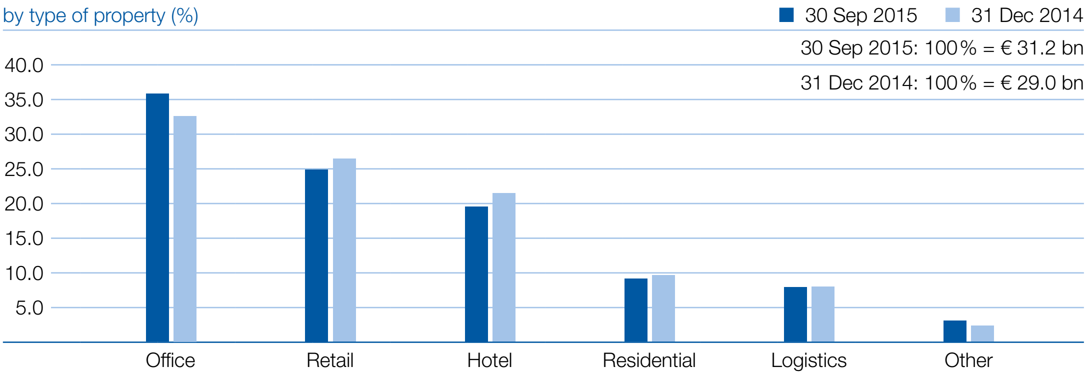
The portfolio breakdown by region and continent, compared with the end of the previous year, changed as a result of the acquisition of WestImmo. Whilst the portfolio share of exposures in Western Europe rose by approx. 3 %, it declined slightly in Germany and Northern Europe. However, it remained almost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

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

Property financing volume[1] (amounts drawn)

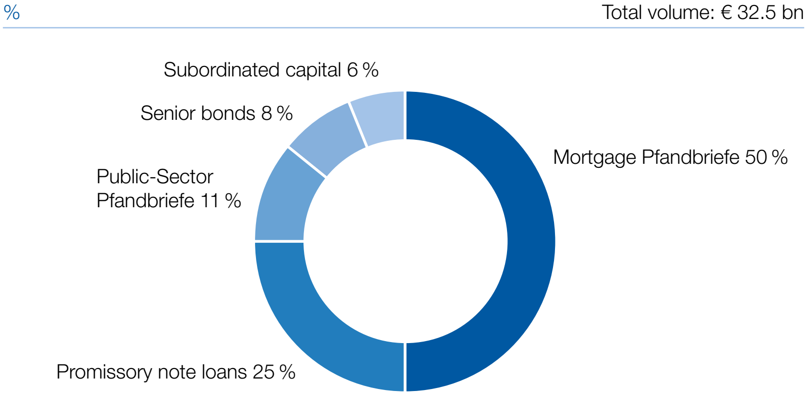


[1] Excluding € 1.6 billion in private client business and € 0.8 billion in local authority lending business by WestImmo

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 share of financings for residential property, for hotels and for retail property all declined slightly. Likewise, the share of other financings in the overall portfolio also increased only slightly, while the share of logistics properties remained largely unchanged.

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.

Capital market funding mix as at 30 September 2015



Securities portfolio

As at 30 September 2015, the nominal volume of the securities portfolio[2] was € 10.8 billion (31 December 2014: € 11.3 billion). It comprises four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS). 98 %[3] of the overall portfolio is denominated in euro. 98 %[3] of the portfolio has an investment grade rating.[4] 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).

Financial position

Refinancing and equity

Refinancing

Aareal Bank Group has remained very solidly funded throughout the third quarter of 2015. Total long-term funding as at 30 September 2015 amounted to € 32.5 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 € 8.3 billion at its disposal from deposits

[2] As at 30 September 2015, the securities portfolio was carried at € 12.9 billion (31 December 2014: € 13.7 billion).
[3] Details based on the nominal volume
[4] The rating details are based on the composite ratings.

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).

Aareal Bank Group raised € 0.3 billion on the capital market during the third quarter, including a particularly notable USD 300 million unsecured bond issue. A total of € 1.3 billion in long-term funds was raised during the first nine months of the year, comprising € 0.7 billion in Mortgage Pfandbriefe and € 0.6 billion in senior unsecured issues. These issuing activities enabled Aareal Bank to cover all existing funding requirements for 2015.

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 € 2,992 million as at 30 September 2015 (31 December 2014: € 2,723 million), including € 300 million in the Additional Tier 1 (AT1) bond and € 242 million in non-controlling interests.

Regulatory capital

	30 Sep 2015	31 Dec 2014
€ mn		
Common Equity Tier 1 (CET1)	2,203	2,109
Tier 1 (T1)	2,779	2,735
Total capital (TC)	3,878	3,826
%		
Common Equity Tier 1 ratio (CET1 ratio)	12.8	13.6
Tier 1 ratio (T1 ratio)	16.2	17.7
Total capital ratio (TC ratio)	22.6	24.7

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).

Analysis of risk-weighted assets (RWA)

30 September 2015

	EAD	Risk-weighted assets (RWA)			Regulatory capital requirements
		AIRBA	CRSA	Total	
€ mn					
Credit risks	**54,713**	**12,495**	**2,515**	**15,010**	**1,201**
Companies	34,019	10,022	1,177	11,199	896
Institutions	6,548	658	189	847	68
Public-sector entities	11,472	0	23	23	2
Other	2,674	1,815	1,126	2,941	235
Market price risks				**184**	**15**
Credit Valuation Adjustment				**345**	**27**
Operational risks				**1,608**	**129**
Total	**54,713**	**12,495**	**2,515**	**17,147**	**1,372**

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				**168**	**14**
Credit Valuation Adjustment				**329**	**26**
Operational risks				**1,307**	**104**
Total	**50,659**	**11,146**	**2,542**	**15,492**	**1,239**

Events After the Reporting Date

There have been no 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. When WestImmo was merged into Aareal Bank Group, it was integrated into the Group's risk management at the same time.

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 15 % is retained as a risk cushion. This cushion is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks).

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum Tier 1 ratio of 8 % of RWA, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The table above summarises the Group's overall risk-bearing capacity as at 30 September 2015.

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".

Risk-bearing capacity of the Aareal Bank Group as at 30 September 2015

– Going concern approach –

€ mn	30 Sep 2015	31 Dec 2014
Own funds for risk cover potential	2,937	2,530
less 8 % of RWA (Tier 1 capital (T1))	1,606	1,442
Freely available funds	**1,331**	**1,088**
Utilisation of freely available funds		
Credit risks	298	246
Market risks	216	205
Operational risks	94	52
Investment risks	68	38
Total utilisation	**676**	**542**
Utilisation as a percentage of freely available funds	**51 %**	**50 %**

Credit risks

Definition

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

Risk measurement and monitoring

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

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

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

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

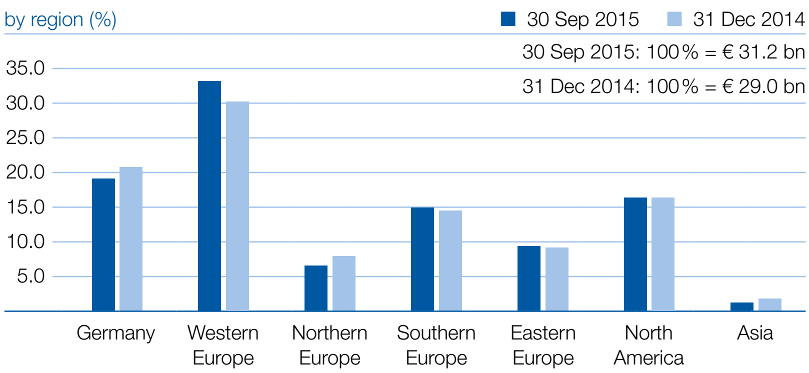
The Bank uses specific tools to monitor individual exposures on an ongoing basis where this is required: besides the tools already described, this includes rating reviews, monitoring of construction phase loans or residential property developers, the monitoring of payment arrears, and the regular, individual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

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

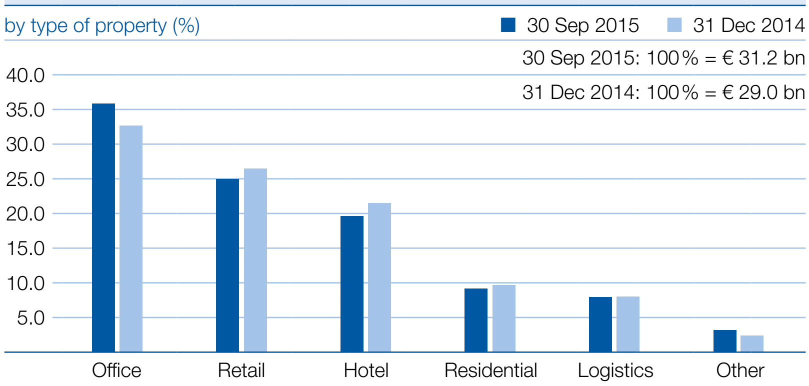
Trading activities are generally restricted to counterparties for whom the requisite limits are in place. All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Persons holding position responsibility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

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

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

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

Country risks

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

Market price risks

Definition

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

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

Risk measurement and monitoring

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

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

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

By their very nature, VaR calculations are based on numerous assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances which are factored into calculations for a period of up to five years, using the average residual amount of deposits observed in the past.

Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures). Aareal Bank Group's consolidated equity is not taken into account as a risk-mitigating item. This tends to overstate VaR, demonstrating the conservative approach adopted in our risk measurement processes.

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

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

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year), 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	422.3 (224.4)	187.5 (109.1)	279.7 (148.5)	– (–)
Group VaR (interest rates)	404.4 (212.8)	126.9 (95.7)	246.7 (135.3)	– (–)
Group VaR (FX)	157.6 (58.8)	61.0 (45.3)	101.7 (51.8)	– (–)
VaR (funds)	4.2 (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)	92.0 (135.6)	72.3 (86.6)	82.6 (102.8)	– (–)
Aggregate VaR – Aareal Bank Group	428.7 (240.9)	207.5 (142.9)	292.8 (181.9)	435.0 (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:

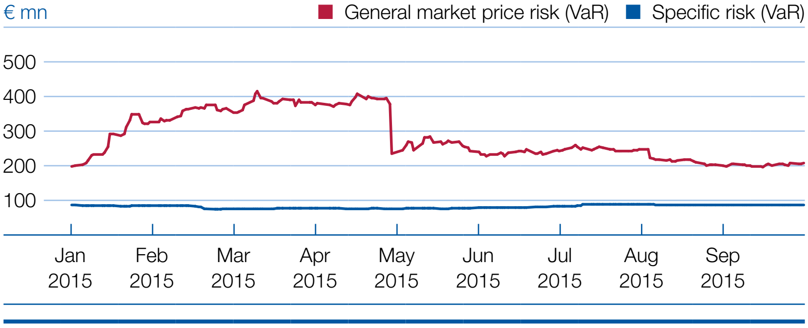
€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year), 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	26.7 (14.2)	11.9 (6.9)	17.7 (9.4)	– (–)
Group VaR (interest rates)	25.6 (13.5)	8.0 (6.1)	15.6 (8.6)	– (–)
Group VaR (FX)	10.0 (3.7)	3.9 (2.9)	6.4 (3.3)	– (–)
VaR (funds)	0.3 (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)	5.8 (8.6)	4.6 (5.5)	5.2 (6.5)	– (–)
Aggregate VaR – Aareal Bank Group	27.1 (15.2)	13.1 (9.0)	18.5 (11.5)	27.5 (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. During the quarter under review the statistical model upon which the Group's VaR methodology is based was expanded, in order to better reflect the observed development of market data – specifically, the low-interest rate environment. At the same time, the Group's risk-bearing capacity was updated and the limits thus derived were adjusted accordingly. No limit breaches were detected even after this re-calibration.

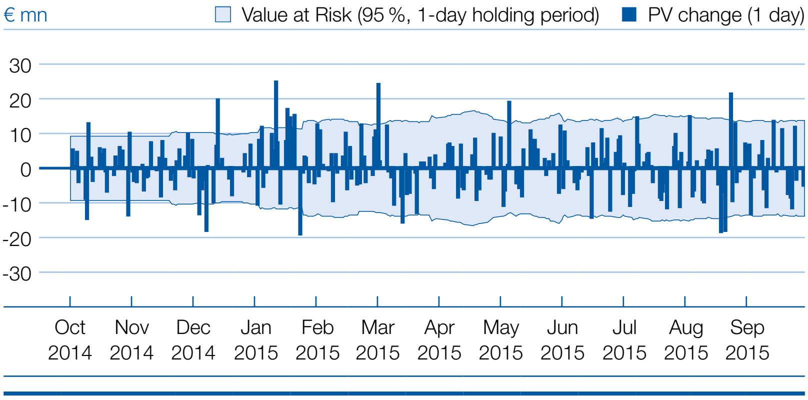
Backtesting
The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper 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). 10 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.

General market price risk and specific risk during 2015



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



Liquidity risks

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

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

The appropriateness of the Bank's liquidity is assessed in a liquidity report prepared using an internal liquidity risk model: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. There were no liquidity shortages throughout the period under review. 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 remained subdued in the year to date. For the remainder of 2015, this trend is expected to continue, and we anticipate the full-year real growth rate for the world economy to be at the previous year's level. At the time being, the uncertainty and burdening factors are too pronounced for the global economy to markedly gain momentum in the short term.

Following the agreement between the euro zone countries and Greece over another bailout package, previously pressing worries about Greece leaving the euro zone have diminished considerably, yet in the medium and long term the further development of the European sovereign debt crisis remains uncertain. In addition, the extremely low interest rate environment poses major risks, as market participants might be induced to seek higher risk exposure, and various sectors might reduce consolidation efforts. Also, capital misallocation may materialise and asset markets might start to form bubbles. The high level of liquidity may lead asset prices to rise more than justified by fundamentals, resulting in sudden downturns in the event of a reassessment. Misallocation risks rise proportionately as long as the low interest rate environment persists. There is, however, 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.

There are additional burdens and uncertainty factors for further economic development, including the lack of reform in some euro zone member states, structural economic issues, the risk of deflation – the latter, however, seems to have weakened compared to the beginning of the year – as well as geopolitical tension (e.g. the ongoing conflict in the Ukraine). All of these factors may significantly expand into non-European regions via financial and capital markets as well as trade channels.

The weakness in emerging economies is currently slowing down the global economy and will continue to do so during the remainder of the year. China, in particular, poses major risks to the world economy due to the excessive macro-economic debt – that has risen strongly in the past – and the recent residential property boom. Another risk factor is the US Federal Reserve's (eventual) interest rate hike, expected to occur at the end of the current year, or in spring 2016, which holds the threat of burdensome capital outflows for some emerging markets.

But there are also developments fostering the global economy as the deleveraging processes in the private sectors of some major economies such as the UK and the US has been concluded. In many countries, fiscal policies are currently providing some support and will continue to do so. Moreover, oil importing countries are benefiting from low crude oil prices.

Specifically, our forecast for 2015 is as follows: considerable burdens and uncertainty factors suggest that economic growth in the euro zone is set to be restrained for the remainder of the year, and thus for 2015 as a whole. However, full-year growth in real gross domestic product is likely to be somewhat stronger than in the previous year. Spain is the driver of this year's euro zone economic growth, and should achieve a remarkable rise in real gross domestic product. The Netherlands should also register economic growth rates above the euro zone average. Following weaker than expected growth rates in the first quarters of 2015, we slightly lowered our estimates for Germany to full-year real gross domestic product growth in line with the euro zone average and the German economy's rate of the previous year. While we expect slight to moderate economic output growth for Belgium and France, we assume only minor real GDP growth rates for Italy and Austria. The Finnish economy is expected to stagnate.

Outside the euro zone, a more dynamic economic development – well above the euro zone average – is expected for some EU countries this year, especially in the UK, Poland, Sweden and the Czech Republic, whereas the growth rate in Denmark is likely to be slightly above the euro zone's level. Considering the stronger Swiss franc, real gross domestic product in Switzerland is likely to increase only slightly. The Turkish economy is expected to grow approximately at previous year's levels. In Russia, the economy is showing signs of a significant decline in real economic output for this year. The Russian economy is burdened by low commodity prices and uncertainties arising from the Ukraine conflict.

The US economy clearly continues its upward trend for the rest of the year and thus for 2015 as a whole. Real economic output is thus expected to grow at a rate comparable to the previous year. Improvement on the labour market, coupled with higher wage increases, creates rising private incomes and stimulates consumption. Low crude oil prices and corporate investment should provide further support. As Canada is an exporter of raw materials, its economy is currently burdened by low commodity prices. We therefore expect marginal growth in Canada that will be markedly lower than in 2014.

Given the economic weakness in the Asian region, we forecast slow growth in Japan this year. The Chinese economy has been losing steam for some time now and is likely to continue to slow down in the near term, which is why real economic growth in 2015 will be moderately lower year-on-year. The economic development is also inhibited by measures taken to cap the boom in residential property, combined with a transformation towards generally slightly lower investment ratios. The uncertainty factors mentioned above, such as the increased overall level of debt in the Chinese economy and the massive price collapses of Chinese equities, must also be taken into consideration. We have revised our forecast for Singapore, and now expect a moderate growth rate for 2015, markedly below the previous year's figure.

On numerous European labour markets, we anticipate seasonally-adjusted unemployment rates to stagnate during the last quarter, resulting in a slow decrease in unemployment within the euro zone as well as in various other European labour markets for the year as a whole. The US is likely to register a pronounced drop in the unemployment rate, and a significant increase in employment numbers for the year as a whole, with a further possible slow decline in unemployment during the remainder of the year.

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, although volatility has recently risen again. This picture is likely to largely remain intact this year, provided that the uncertainty factors for the macroeconomic environment, as mentioned above, will not materialise to a significant extent.

A divergence in monetary policy has already been evident for some time. The ECB in particular is pursuing an extremely expansive monetary policy, and intends to continue its bond purchase programme at least until September 2016. Other central banks will also maintain an extremely expansive monetary policy, for example the Bank of Japan and the Swedish Riksbank. On the other hand, first steps towards a slow tightening of monetary policy are expected from the US Fed. The question now is when exactly the Fed will start raising key interest rates. We expect this to happen in winter 2015-2016 or the first half of 2016. Such a hike by the Bank of England, originally anticipated for this year, is likely to be postponed to 2016.

A hike in the Fed's key interest rates might result in a moderate interest rate increase in the US. Particularly in the euro zone, but also in a number of other European countries, interest rates are expected to remain at a low level this year. Monetary policy divergence – especially when the Fed decides to raise interest rates – may lead to visible shifts in exchange rates and to the euro remaining weak.

Inflationary pressure is likely to remain weak during the remainder of the year. For numerous economies and regions (including the euro zone, the UK, Sweden, Japan and the US), the average inflation rate for the full year will remain close to zero per cent. In some countries – Poland and Spain, for example – a minor deflation is likely. Considering the appreciation of the Swiss franc, deflation might be more pronounced in Switzerland. Inflation in China is expected to remain at a low, moderate level for the remainder of the year, while Turkey, and in particular Russia, are likely to continue to see high inflation rates as a result of their currencies' depreciation.

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. On ESCB level (European System of Central Banks), the introduction of a standardised granular credit reporting system within the framework of AnaCredit (Analytical Credit Dataset) has taken shape by now. Accordingly, Aareal Bank will continue to focus on the related measures for implementation and how these will affect the Bank's business activities.

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

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: As a result, transaction volumes remain high in 2015 and investment demand is likely to support the development of property values in the remainder of the year. The threat of a bubble, however, cannot be ruled out. Commercial property markets are thus also subject to the overall uncertainties and risks of the macro-economic environment. A sustained subdued economic development and persistent high levels of unemployment in a variety of countries might dampen rental markets.

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 development. Property values in the UK are likely to increase markedly. The economic outlook is relatively favourable, and the country – particularly London – is especially popular with investors. For Belgium, Finland, the Netherlands, Switzerland and Turkey, we consider a largely stable performance to be likely on average. After commercial property values on the Russian market already

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

declined at the beginning of the year, it is fair to assume that uncertainty linked to the Ukraine conflict and unfavourable economic prospectsfor Russia will result in a marked decline for commercial property in Russia this year.

In the US market for commercial properties, a high degree of liquidity combined with a positive economic outlook make a pronounced average increase in values likely this year. We assume a slight increase in average property values in Canada. Given that economic momentum in China has become less dynamic when compared with previous years, the uncertainties surrounding that slowdown and also considering the high level of investments in the past, we anticipate a moderate decline in Chinese commercial property markets on average. For Japan, we assume a moderate average increase in values, whilst a largely stable performance is expected for Singapore.

The expectations described above should apply, in our view, to office, retail and logistics property markets.

Numerous hotel markets in the leading economic hubs of Europe and Asia begin to show a moderately to noticeably positive development this year when looking at the average revenue per available room, a key performance indicator in these markets. Some markets such as Geneva and Singapore, however, are set to diverge and register a negative performance for the full year. The average outlook for North American hotel markets is also moderately positive.

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.

Competition in the market for commercial property financings is expected to remain intensive during the remainder of the year: this applies to Europe and North America as well as to Asia, for most of the markets relevant to Aareal Bank. The readiness of finance providers to accept significantly lower margins and, to a moderate degree, higher loan-to-value ratios, has prevailed during the current year. There are no indications for this trend to end or reverse during the last quarter. There is also a continued demand for high-volume commercial property investments and financings in the market.

New business for Aareal Bank was originally expected to range between € 6 billion and € 7 billion. Reflecting the year-to-date business development and the prospects for the remainder of the year, we raise our estimate for this year to a range between € 8 billion and € 9 billion. 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 industry and commercial property sector to also remain stable until the end of the year. Sustainable portfolio development will continue to prevail. Member companies of the Federation of German Housing Enterprises (GdW) plan to increase investments in their existing properties by close to 14 % this year to almost € 12.4 billion. Given the rise in building demand in metropolitan areas, these companies furthermore plan to expand their investments in new buildings by approximately 26 %.

In the fourth quarter of 2015, we expect the positive trend on the housing market to remain intact. Due to the ongoing urbanisation trend, the demand for living space in urban areas continues to rise. The shortage of living space in Germany's large cities suggests price increases, particularly in the surrounding communities.

As the interest rate environment remains favourable for investors and sellers realise high prices, the general conditions suggest a continued strong momentum in the market for housing property transactions. In particular, the interest in housing investments in German metropolitan areas is likely to remain high. Given limited opportunities in this segment, buyers are increasingly willing to invest in secondary locations with a higher risk profile.

Against the background of low capital costs and the use of economies of scale, further acquisitions may be on the horizon until year-end. Based on record revenues of approximately € 17 billion in the first half-year and continued demand, the transaction volume for the full year is expected to exceed € 20 billion.

We continue to 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 slight 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, amongst other things.

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 – 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. EBIT should increase slightly on the back of a significant rise in sales revenues.

Aareon Nederland Group is expected to generate significantly 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. On the Swedish market, we expect further projects. High associated project volumes, accompanied by a stronger advisory business, are seen as indications for a significant increase in sales revenues and a slight increase in results, alongside rising staff expenses and staff-related costs.

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

Group targets

Given the manifold macro-economic and geopolitical uncertainty factors, as well as industry-specific challenges, we continue to anticipate a very challenging business environment to prevail during the remainder of the year.

In view of the successful business development during the first nine months of the financial year, we raise our full-year guidance: net interest income is now expected in a range between € 760 million and € 800 million (previously: € 720 million to € 760 million). We continue to forecast allowance for credit losses in a range of € 100 million to € 150 million. As in the previous years, the Bank cannot rule out additional allowance for unexpected credit losses that may be incurred during the current year.

Net commission income for 2015 is projected to be in an unchanged range between € 170 million and € 180 million. Likewise, the range for administrative expenses remains unchanged, at € 520 million to € 550 million.

Overall, we now expect consolidated operating profit to be between € 450 million and € 460 million, including negative goodwill from the acquisition of WestImmo. To date, we had forecast a range between € 400 million and € 430 million. The preliminary figure for negative goodwill from the acquisition is also unchanged, at € 154 million. As already stated, and in line 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.

We expect RoE 2015 before taxes to be around 18 % (previously: around 16 %), and earnings per ordinary share (EpS) of between € 5.40 to € 5.51 (previously: € 4.80 and € 5.20), based on an assumed full-year tax ratio of 31.4 %. Adjusted for non-recurring income from the acquisition of WestImmo, we expect RoE before taxes of 11-11.5 % (previously: around 10 %), with EpS in a range between € 2.83 and € 2.95 (previously: € 2.30 to € 2.70).

New business in the Structured Property Financing segment is now projected in a range between € 8 billion and € 9 billion during the 2015 financial year (previously: between € 6 billion and € 7 billion).

In the Consulting/Services segment, we continue to expect our IT subsidiary Aareon to contribute approximately € 27 million to results before taxes.

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement[1)]

€ mn	Notes	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Interest income		759	745
Interest expenses		176	251
Net interest income	1	**583**	**494**
Allowance for credit losses	2	86	105
Net interest income after allowance for credit losses		**497**	**389**
Commission income		145	137
Commission expenses		22	21
Net commission income	3	**123**	**116**
Net result on hedge accounting	4	5	3
Net trading income/expenses	5	8	-1
Results from non-trading assets	6	-15	0
Results from investments accounted for using the equity method		0	0
Administrative expenses	7	415	325
Net other operating income/expenses	8	25	14
Negative goodwill from acquisitions		154	154
Operating profit		**382**	**350**
Income taxes		72	62
Consolidated net income		**310**	**288**
Consolidated net income attributable to non-controlling interests		15	14
Consolidated net income attributable to shareholders of Aareal Bank AG		295	274
Earnings per share (EpS)[2)]			
Consolidated net income attributable to shareholders of Aareal Bank AG		295	259
of which: allocated to ordinary shareholders[3)]		283	259
of which: allocated to AT1 investors		12	–
Earnings per ordinary share (€)[3)4)]		4.73	4.32
Earnings per AT1 unit (€)[5)]		0.12	–

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

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

3) SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 30 September 2014 (€ 15 million) in the EpS (earnings per share) calculation.

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

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

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income[1)]

€ mn	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Consolidated net income	**310**	**288**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**12**	**-36**
Remeasurements	17	-52
Taxes	-5	16
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**20**	**64**
Gains and losses on remeasuring AfS financial instruments	30	87
Reclassifications to the income statement	-2	–
Taxes	-8	-23
Changes in hedging reserves	**20**	**14**
Profit/loss from derivatives used to hedge future cash flows	29	16
Reclassifications to the income statement	–	4
Taxes	-9	-6
Changes in currency translation reserves	**1**	**2**
Profit/loss from translating foreign operations' financial statements	1	2
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**53**	**44**
Total comprehensive income	**363**	**332**
Total comprehensive income attributable to non-controlling interests	15	14
Total comprehensive income attributable to shareholders of Aareal Bank AG	348	318

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

Statement of Comprehensive Income

Income Statement (Quarterly Development)

€ mn	Quarter 3 2015	Quarter 3 2014
Interest income	270	261
Interest expenses	56	80
Net interest income	**214**	**181**
Allowance for credit losses	37	36
Net interest income after allowance for credit losses	**177**	**145**
Commission income	47	43
Commission expenses	7	6
Net commission income	**40**	**37**
Net result on hedge accounting	-3	0
Net trading income/expenses	13	-5
Results from non-trading assets	-13	0
Results from investments accounted for using the equity method	0	0
Administrative expenses	147	109
Net other operating income/expenses	15	-2
Negative goodwill from acquisitions	–	–
Operating profit	**82**	**66**
Income taxes	26	21
Consolidated net income	**56**	**45**
Consolidated net income attributable to non-controlling interests	5	4
Consolidated net income attributable to shareholders of Aareal Bank AG	51	41

Statement of Comprehensive Income

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

€ mn	Quarter 3 2015	Quarter 3 2014
Consolidated net income	**56**	**45**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**-4**	**-14**
Remeasurements	-7	-20
Taxes	3	6
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**-3**	**20**
Gains and losses on remeasuring AfS financial instruments	8	28
Reclassifications to the income statement	-12	–
Taxes	1	-8
Changes in hedging reserves	**2**	**9**
Profit/loss from derivatives used to hedge future cash flows	2	12
Reclassifications to the income statement	–	1
Taxes	0	-4
Changes in currency translation reserves	**-3**	**3**
Profit/loss from translating foreign operations' financial statements	-3	3
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**-8**	**18**
Total comprehensive income	**48**	**63**
Total comprehensive income attributable to non-controlling interests	5	4
Total comprehensive income attributable to shareholders of Aareal Bank AG	43	59

Segment Reporting

Segment Results[1)]

€ mn	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Net interest income	584	493	0	0	-1	1	583	494
Allowance for credit losses	86	105					86	105
Net interest income after allowance for credit losses	**498**	**388**	**0**	**0**	**-1**	**1**	**497**	**389**
Net commission income	4	3	120	116	-1	-3	123	116
Net result on hedge accounting	5	3					5	3
Net trading income/expenses	8	-1					8	-1
Results from non-trading assets	-15	0					-15	0
Results from investments accounted for using the equity method	0	0	0				0	0
Administrative expenses	274	188	143	139	-2	-2	415	325
Net other operating income/expenses	23	11	2	3	0	0	25	14
Negative goodwill from acquisitions	154	154					154	154
Operating profit	**403**	**370**	**-21**	**-20**	**0**	**0**	**382**	**350**
Income taxes	79	68	-7	-6			72	62
Consolidated net income	**324**	**302**	**-14**	**-14**	**0**	**0**	**310**	**288**
Consolidated net income attributable to non-controlling interests	13	12	2	2			15	14
Consolidated net income attributable to shareholders of Aareal Bank AG	311	290	-16	-16	0	0	295	274
Allocated equity	1,613	1,326	127	109	557	643	2,297	2,078
Cost/income ratio (%)	44.9	36.9	117.1	116.4			56.9	51.9
RoE before taxes (%)[2)3)]	30.8	33.9	-24.5	-26.8			20.3	20.3
Employees (average)	**1,018**	**860**	**1,654**	**1,646**			**2,672**	**2,506**
Segment assets	**44,583**	**40,592**	**9,293**	**9,266**			**53,876**	**49,858**

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

[2)] On an annualised basis

[3)] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis. SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation (€ 15 million) was deducted when determining the comparative figure as at 30 September 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)

€ mn	Structured Property Financing		Consulting/Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 3 2015	Quarter 3 2014	Quarter 3 2015	Quarter 3 2014	Quarter 3 2015	Quarter 3 2014	Quarter 3 2015	Quarter 3 2014
Net interest income	214	182	0	0	0	-1	214	181
Allowance for credit losses	37	36					37	36
Net interest income after allowance for credit losses	**177**	**146**	**0**	**0**	**0**	**-1**	**177**	**145**
Net commission income	2	1	39	36	-1	0	40	37
Net result on hedge accounting	-3	0					-3	0
Net trading income/expenses	13	-5					13	-5
Results from non-trading assets	-13	0					-13	0
Results from investments accounted for using the equity method	0	0	0				0	0
Administrative expenses	101	64	47	46	-1	-1	147	109
Net other operating income/expenses	14	-4	1	2	0	0	15	-2
Negative goodwill from acquisitions								
Operating profit	**89**	**74**	**-7**	**-8**	**0**	**0**	**82**	**66**
Income taxes	29	23	-3	-2			26	21
Consolidated net income	**60**	**51**	**-4**	**-6**	**0**	**0**	**56**	**45**
Consolidated net income attributable to non-controlling interests	5	4	0	0			5	4
Consolidated net income attributable to shareholders of Aareal Bank AG	55	47	-4	-6	0	0	51	41
Allocated equity	1,613	1,326	127	109	557	643	2,297	2,078
Cost/income ratio (%)	44.4	37.1	116.2	119.6			55.1	51.8
RoE before taxes (%)[1)2)]	19.4	18.9	-22.4	-29.3			12.4	10.5

[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 third 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**
	Q3/2015		0	39		0	47	1		**-7**	-3	**-4**
	Q3/2014		0	36			46	2		**-8**	-2	**-6**
Income statement classification – industrial enterprise												
Sales revenue	Q3/2015	44		44								
	Q3/2014	42		42								
Own work capitalised	Q3/2015	2					2					
	Q3/2014	2					2					
Changes in inventory	Q3/2015	0						0				
	Q3/2014	0						0				
Other operating income	Q3/2015	2						2				
	Q3/2014	2						2				
Cost of materials purchased	Q3/2015	5		5								
	Q3/2014	6		6								
Staff expenses	Q3/2015	35					35					
	Q3/2014	32					32					
Depreciation, amortisation and impairment losses	Q3/2015	3					3					
	Q3/2014	4					4					
Results from investments accounted for using the equity method	Q3/2015	0				0						
	Q3/2014											
Other operating expenses	Q3/2015	12					11	1				
	Q3/2014	12					12	0				
Interest and similar income / expenses	Q3/2015	0	0									
	Q3/2014	0	0									
Operating profit	**Q3/2015**	**-7**	**0**	**39**		**0**	**47**	**1**				
	Q3/2014	**-8**	**0**	**36**		**0**	**46**	**2**				
Income taxes	Q3/2015	-3									-3	
	Q3/2014	-2									-2	
Segment result	**Q3/2015**	**-4**										
	Q3/2014	**-6**										

Statement of Financial Position

€ mn	Notes	30 Sep 2015	31 Dec 2014
Assets			
Cash funds		387	184
Loans and advances to banks	9	3,294	3,178
Loans and advances to customers	10	35,131	30,549
Allowance for credit losses	11	-568	-480
Positive market value of derivative hedging instruments		2,620	2,565
Trading assets	12	758	467
Non-trading assets	13	11,219	12,002
Investments accounted for using the equity method		1	1
Intangible assets	14	111	110
Property and equipment	15	115	96
Income tax assets		12	35
Deferred tax assets		230	240
Other assets	16	566	610
Total		**53,876**	**49,557**
Equity and liabilities			
Liabilities to banks	17	2,191	1,807
Liabilities to customers	18	31,181	27,483
Certificated liabilities	19	11,425	11,483
Negative market value of derivative hedging instruments		2,827	2,928
Trading liabilities	20	777	659
Provisions	21	783	713
Income tax liabilities		91	124
Deferred tax liabilities		27	21
Other liabilities	22	174	127
Subordinated capital	23	1,408	1,489
Equity	24, 25, 26		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,573	1,357
AT1 bond		300	300
Other reserves		-24	-77
Non-controlling interests		242	242
Total equity		2,992	2,723
Total		**53,876**	**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			295		12	20	20	1	**348**	15	**363**
Payments to non-controlling interests										-15	**-15**
Dividends			-72						**-72**		**-72**
AT1 coupon			-7						**-7**		**-7**
Other changes											
Equity as at 30 Sep 2015	**180**	**721**	**1,573**	**300**	**-83**	**35**	**19**	**5**	**2,750**	**242**	**2,992**

€ 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			274	-36	64	14	2		**318**	14	**332**
Payments to non-controlling interests										-14	**-14**
Dividends			-45						**-45**		**-45**
Silent participation by SoFFin											
Costs associated with the silent participation by SoFFin			-15						**-15**		**-15**
Other changes			-2						**-2**		**-2**
Equity as at 30 Sep 2014	**180**	**721**	**1,324**	**-76**	**14**	**-3**	**4**	**300**	**2,464**	**242**	**2,706**

[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	-1,031	-1,264
Cash flow from investing activities	1,394	-301
Cash flow from financing activities	-160	421
Total cash flow	**203**	**-1,144**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 September	**387**	**78**

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 September 2015 was prepared pursuant to the provisions of section 37y no. 3 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37x (3) of the WpHG. It comprises the present interim condensed consolidated financial statements (also referred to as the "Consolidated Financial Statements"), as well as an interim group management report (also referred to as the "Group Management Report") and was approved for publication by the Management Board on 3 November 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 purchase price paid amounts to € 337 million. The closing of the transaction was completed following approval from the respective authorities as at 31 May 2015. Accordingly, Aareal Bank Group obtained control over WestImmo and included the acquired company in the consolidated financial statements of Aareal Bank Group for the first time as at 31 May 2015 (date of initial consolidation).

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

In accordance with IFRS 3, all identifiable assets and liabilities of the acquired entity have to be measured at their fair value at the time of acquisition (closing). These fair values also represent the amounts recognised upon initial consolidation. The difference between the purchase price paid and the higher net balance of assets and liabilities acquired and measured at fair value is recognised as negative goodwill in the income statement, and directly increases the equity of Aareal Bank Group. This income amounts to € 154 million as at 30 September and is reported in the statement of comprehensive income in a separate item. It 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 transaction was only completed shortly before the end of the second quarter 2015, 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. There have been no material adjustments to the purchase price allocation since the date of initial consolidation. The final determination of fair values may yet give rise to material adjustments. Therefore, it was not yet possible to completely 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 (provisional)
Cash funds	4
Loans and advances to banks	337
Loans and advances to customers	6,886
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	**9,218**
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	**491**
Purchase price paid	337
Negative goodwill	**154**

Taking into account the purchase price paid in the amount of € 337 million, the transaction led to an increase in total net assets, as shown in the consolidated statement of financial position, in the amount of the negative goodwill (€ 154 million).

Within the scope of the acquisition of WestImmo, Aareal Bank assumed credit risks as well as 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 fair value of the accounts receivable acquired as part of the business combination amounted to € 7.2 billion as at 31 May 2015, comprising € 6.9 billion in loans and advances to customers and € 0.3 billion in loans and advances to banks.

The effects upon the income statement of the present interim consolidated financial statements are € 43 million in interest income and € 14 million in operating profit (after consolidation and including integration expenses), both of which are attributable to WestImmo.

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 Sep 2015	1 Jan-30 Sep 2014
Interest income from		
Property loans	659	597
Promissory note loans	10	11
Other lending and money market operations	46	66
Debt securities and other fixed-income securities	44	71
Current dividend income	0	0
Total interest income	**759**	**745**
Interest expenses for		
Bonds issued	55	78
Registered mortgage bonds	18	25
Promissory note loans	46	60
Subordinated capital	26	24
Money market transactions	26	48
Other interest expenses	5	16
Total interest expenses	**176**	**251**
Total	**583**	**494**

(2) Allowance for credit losses

€ mn	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Additions	161	143
Reversals	68	29
Direct write-offs	1	3
Recoveries on loans and advances previously written off	8	12
Total	**86**	**105**

Allowance for credit losses amounted to € 86 million (previous year: € 105 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses in the amount of € 150 million were partly offset by reversals of portfolio-based allowance for credit losses (including reversals of portfolio-based provisions for off-balance sheet risks from the lending business) in an amount of € 57 million. Please also refer to our explanations in Note (11).

(3) Net commission income

€ mn	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Commission income from		
Consulting and other services	131	125
Trustee loans and administered loans	1	2
Securities transactions	–	–
Other lending and money market operations	7	6
Other commission income	6	4
Total commission income	**145**	**137**
Commission expenses for		
Consulting and other services	16	15
Securities transactions	1	1
Securitisation transactions	–	0
Other lending and money market transactions	1	1
Other commission expenses	4	4
Total commission expenses	**22**	**21**
Total	**123**	**116**

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

(4) Net result on hedge accounting

€ mn	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Ineffective portion of fair value hedges	4	-1
Ineffective portion of cash flow hedges	1	4
Ineffective portion of net investment hedges	0	0
Total	**5**	**3**

(5) Net trading income/expenses

€ mn	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Net income/expenses from positions held for trading	16	8
Currency translation	-8	-9
Total	**8**	**-1**

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

(6) Results from non-trading assets

€ mn	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Result from debt securities and other fixed-income securities	-15	0
of which: Loans and receivables (LaR)	-7	0
Held to maturity (HtM)	-5	–
Available for sale (AfS)	-3	0
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	0
Results from equity investments (AfS)	0	0
Total	**-15**	**0**

(7) Administrative expenses

€ mn	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Staff expenses	236	192
Other administrative expenses	164	117
Depreciation, amortisation and impairment of property and equipment and intangible assets	15	16
Total	**415**	**325**

(8) Net other operating income/expenses

€ mn	1 Jan-30 Sep 2015	1 Jan-30 Sep 2014
Income from properties	37	11
Income from the reversal of provisions	13	1
Income from goods and services	2	2
Miscellaneous	26	28
Total other operating income	**78**	**42**
Expenses for properties	34	14
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	8	3
Miscellaneous	11	11
Total other operating expenses	**53**	**28**
Total	**25**	**14**

Net other operating income/expenses of € 25 million include non-recurring income from the sale of a property and the reversal of provisions recognised for Corealcredit.

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	30 Sep 2015	31 Dec 2014
Money market receivables	1,662	1,737
Promissory note loans	193	120
Securities repurchase agreements	1,420	1,284
Other loans and advances	19	37
Total	**3,294**	**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 Sep 2015	31 Dec 2014
Property loans [1]	30,100	27,856
Promissory note loans	1,483	1,584
Other loans and advances	3,548	1,109
Total	**35,131**	**30,549**

[1] Excluding private client business and 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 September 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	161	–	**161**	–	**161**
Write-downs	12	–	**12**	–	**12**
Reversals	11	56	**67**	1	**68**
Unwinding	15	–	**15**	–	**15**
Changes in basis of consolidation	0	24	**24**	–	**24**
Currency adjustments	-3	0	**-3**	0	**-3**
Allowance for credit losses as at 30 September	**453**	**115**	**568**	**17**	**585**

30 September 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	111	32	**143**	0	**143**
Write-downs	39	–	**39**	–	**39**
Reversals	29	–	**29**	1	**30**
Unwinding	11	–	**11**	–	**11**
Changes in basis of consolidation[1]	–	18	**18**	7	**25**
Currency adjustments	2	0	**2**	0	**2**
Allowance for credit losses as at 30 September	**330**	**115**	**445**	**16**	**461**

[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 Sep 2015	31 Dec 2014
Positive market value of trading assets	758	467
Total	**758**	**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 Sep 2015	31 Dec 2014
Debt securities and other fixed-income securities	11,210	11,992
of which: Loans and receivables (LaR)	3,793	4,313
Held to maturity (HtM)	1,279	833
Available for sale (AfS)	6,138	6,846
Equities and other non-fixed income securities	6	8
of which: Available for sale (AfS)	6	8
Designated as at fair value through profit or loss (dFVtPL)	–	–
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	3	2
Total	**11,219**	**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.

(14) Intangible assets

€ mn	30 Sep 2015	31 Dec 2014
Goodwill	66	66
Proprietary software	19	17
Other intangible assets	26	27
Total	**111**	**110**

(15) Property and equipment

€ mn	30 Sep 2015	31 Dec 2014
Land and buildings and construction in progress	94	75
Office furniture and equipment	21	21
Total	**115**	**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 Sep 2015	31 Dec 2014
Properties	390	444
Trade receivables (LaR)	45	38
Miscellaneous	131	128
Total	**566**	**610**

(17) Liabilities to banks

€ mn	30 Sep 2015	31 Dec 2014
Money market liabilities	1,124	855
Promissory note loans	502	374
Registered Mortgage Pfandbriefe	484	362
Registered Public-Sector Pfandbriefe	55	41
Other liabilities	26	175
Total	**2,191**	**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 Sep 2015	31 Dec 2014
Money market liabilities	13,054	13,071
Promissory note loans	7,644	7,970
Registered Mortgage Pfandbriefe	7,119	3,476
Registered Public-Sector Pfandbriefe	3,364	2,966
Other liabilities	0	–
Total	**31,181**	**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 Sep 2015	31 Dec 2014
Bearer Mortgage Pfandbriefe	8,688	8,690
Bearer Public-Sector Pfandbriefe	71	45
Other debt securities	2,666	2,748
Total	**11,425**	**11,483**

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

(20) Trading liabilities

€ mn	30 Sep 2015	31 Dec 2014
Negative market value of trading assets	777	659
Total	**777**	**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 Sep 2015	31 Dec 2014
Provisions for pensions and similar obligations	338	295
Other provisions and contingent liabilities	445	418
Total	**783**	**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. Considerable uncertainty in relation to determining the provision amount for the new European bank levy will prevail until receipt of the notification on the Bank’s contribution in the fourth quarter of 2015.

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. To a large extent, the judgement is not yet legally effective; the majority of the plaintiffs lodged an appeal against the denial of leave to appeal with the German Federal Supreme Court. For this reason, it is not yet possible at the moment to reduce or release the provisions recognised 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 is deemed immaterial overall.

(22) Other liabilities

€ mn	30 Sep 2015	31 Dec 2014
Liabilities from outstanding invoices	9	6
Deferred income	17	12
Liabilities from other taxes	20	17
Trade payables (LaC)	19	13
Other liabilities (LaC)	109	79
Total	**174**	**127**

(23) Subordinated capital

€ mn	30 Sep 2015	31 Dec 2014
Subordinated liabilities	1,163	1,222
Profit-participation certificates	52	73
Contributions by silent partners	193	194
Total	**1,408**	**1,489**

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

(24) Equity

€ mn	30 Sep 2015	31 Dec 2014
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,573	1,357
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-83	-95
Revaluation reserve	35	15
Hedging reserves	19	-1
Currency translation reserves	5	4
Non-controlling interests	242	242
Total	**2,992**	**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 for the past interest rate period, 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 September 2015

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,620**	**–**	**2,620**	**–**
Assets held for trading	**758**	**–**	**758**	**–**
Trading derivatives	758	–	758	–
Non-trading assets available for sale	**6,144**	**6,049**	**95**	**–**
Fixed-income securities	6,138	6,045	93	–
Equities/funds	6	4	2	–
Negative market value of derivative hedging instruments	**2,827**	**–**	**2,827**	**–**
Liabilities held for trading	**777**	**–**	**777**	**–**
Trading derivatives	777	–	777	–

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 nine 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 Sep 2015	Fair value 30 Sep 2015	Carrying amount 31 Dec 2014	Fair value 31 Dec 2014
Cash on hand and balances with central banks	**387**	**387**	**184**	**184**
Loans and advances to banks (LaR)	3,294	3,297	3,178	3,177
Loans and advances to customers (LaR)	34,563	36,495	30,069	32,309
Non-trading assets (LaR)	3,793	3,697	4,313	4,125
Other assets (LaR)	95	94	86	91
Total loans and receivables	**41,745**	**43,583**	**37,646**	**39,702**
Non-trading assets held to maturity	**1,279**	**1,281**	**833**	**836**
Non-trading assets available for sale	**6,144**	**6,144**	**6,854**	**6,854**
Positive market value of derivative hedging instruments	**2,620**	**2,620**	**2,565**	**2,565**
Assets held for trading	**758**	**758**	**467**	**467**
Liabilities to banks (LaC)	2,191	2,204	1,807	1,824
Liabilities to customers (LaC)	31,181	31,112	27,483	27,563
Certificated liabilities (LaC)	11,425	11,477	11,483	11,595
Other liabilities (LaC)	138	139	98	101
Subordinated capital (LaC)	1,408	1,398	1,489	1,517
Total liabilities measured at amortised cost	**46,343**	**46,330**	**42,360**	**42,600**
Negative market value of derivative hedging instruments	**2,827**	**2,827**	**2,928**	**2,928**
Liabilities held for trading	**777**	**777**	**659**	**659**
Financial guarantee contracts	**173**	**173**	**140**	**140**
Loan commitments	**1,285**	**1,285**	**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	**42**	**27**
Additions from new transactions	2	11
Reversals through profit or loss in the period	13	6
Changes in basis of consolidation	4	9
Balance as at 30 September	**35**	**41**

(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 (p. 62) compares the carrying amounts of the reclassified assets to their fair values.

€ mn	Carrying amount 30 Sep 2015	Fair value 30 Sep 2015	Carrying amount 31 Dec 2014	Fair value 31 Dec 2014
from AfS to LaR	**3,419**	**3,306**	**3,938**	**3,727**
Asset-backed securities	27	28	27	28
Senior unsecured bank bonds	148	150	277	282
Covered bank bonds	300	308	428	447
Public-sector issuers	2,944	2,820	3,206	2,970
from HfT to LaR	**89**	**96**	**101**	**109**
Asset-backed securities	89	96	101	109
Total	**3,508**	**3,402**	**4,039**	**3,836**

If the Bank had not opted for reclassification, this would have resulted in a € 1 million loss (before taxes) for the first nine months of the current financial year (9m 2014: profit of € 12 million), and € 71 million (after taxes) (9m 2014: € 46 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 September 2015

	Carrying amount			Revaluation surplus[1]			Unrealised gains / losses[1]
€ mn	LaR + HtM	AfS	Total	LaR	AfS	Total	
Greece	–	–	**–**	–	–	**–**	–
Ireland	–	–	**–**	–	–	**–**	–
Italy	1,217	344	**1,561**	-43	23	**-20**	-55
Portugal	66	114	**180**	0	2	**2**	-5
Spain	612	152	**764**	0	4	**4**	-29
Total	**1,895**	**610**	**2,505**	**-43**	**29**	**-14**	**-89**
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 € 610 million (31 December 2014: € 1,135 million) were allocated to Level 1 of the fair value hierarchy 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: € –). 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 September 2015

	Carrying amount [1]	Average LTV [2]	Non-performing loans
	€ mn	%	€ mn
Greece	–		–
Ireland	–		–
Italy	3,104	73.5	738
Portugal	–		–
Spain	1,468	76.4	133
Total	**4,572**		**871**
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

€ mn	30 Sep 2015	31 Dec 2014
Contingent liabilities	173	140
Loan commitments	1,285	1,466
of which: irrevocable	895	920

(33) Employees

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

	30 Sep 2015	31 Dec 2014
Salaried employees	2,656	2,386
Executives	163	162
Total	**2,819**	**2,548**
of which: Part-time employees	511	441

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

The average number of Aareal Bank Group employees in 2015[2] is shown below:

	1 Jan-30 Sep 2015	1 Jan-31 Dec 2014
Salaried employees	2,510	2,374
Executives	162	143
Total	**2,672**	**2,517**
of which: Part-time employees	477	435

(34) Related party disclosures in accordance with IAS 24

In the first nine 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

There have been no 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 171 employees of the hotel business La Sessola Service S.r.l. (31 December 2014: 20 employees)
[2] This number does not include 141 employees of the hotel business La Sessola Service S.r.l. (31 December 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 (until 17 September 2015)
Chairman of the Management Board
(until 17 September 2015)

Hermann Josef Merkens
Chairman of the Management Board
(since 17 September 2015)

Dagmar Knopek
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

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

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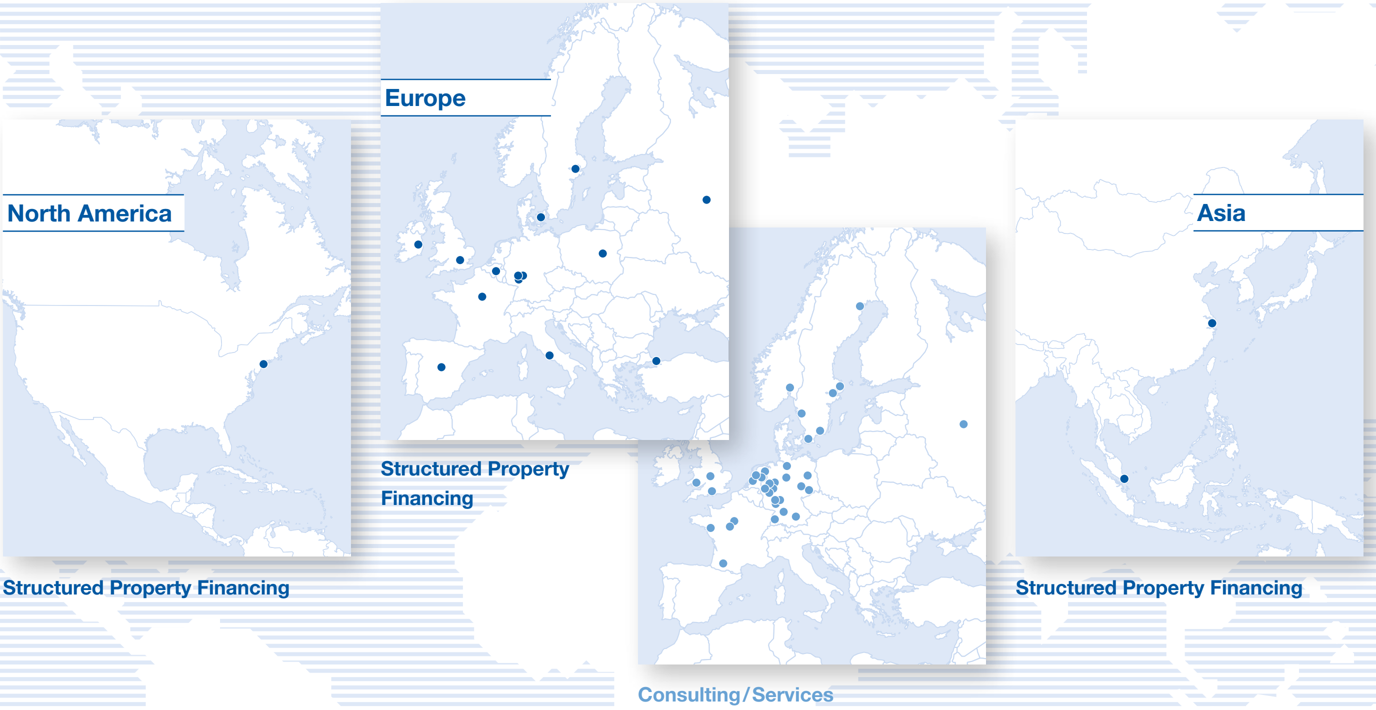
Financial Calendar

25 February 2016	Presentation of preliminary results for the 2015 financial year
30 March 2016	Presentation of annual report as at 31 December 2015
10 May 2016	Presentation of interim report as at 31 March 2016
25 May 2016	Annual General Meeting – Kurhaus, Wiesbaden
11 August 2016	Presentation of interim report as at 30 June 2016
10 November 2016	Presentation of interim report as at 30 September 2016

Locations



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as at 30 September 2015

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

Corporate Responsibility Prime
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11/2015

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