
# WE CREATE THE SPACE FOR SUCCESS

Aareal Bank Group – Interim Report
1 January to 31 March 2014

Aareal Bank Group

# Key Indicators

| | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| **Income statement**[1] | | |
| Operating profit (€ mn) | 215 | 47 |
| Consolidated profit (€ mn) | 185 | 22 |
| Cost/income ratio (%)[2] | 34.3 | 42.2 |
| Earnings per share (€) | 3.18 | 0.45 |
| RoE before taxes (%)[3] | 35.7 | 7.4 |
| RoE after taxes (%)[3] | 32.2 | 4.8 |

| | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| **Statement of financial position**[4] | | |
| Property finance (€ mn) | 28,644 | 24,550 |
| of which: international (€ mn) | 21,294 | 20,802 |
| Equity (€ mn) | 2,653 | 2,450 |
| Total assets (€ mn) | 49,732 | 42,981 |
| | | |
| **Regulatory indicators**[4][5][6] | | |
| Risk-weighted assets (€ mn) | 16,437 | |
| Common equity tier 1 ratio (%) – fully phased –[7] | 11.9 | |
| Common equity tier 1 ratio (%) | 14.0 | |
| Tier 1 ratio (%) | 15.9 | |
| Total capital ratio (%) | 21.5 | |
| | | |
| **Employees**[4] | 2,538 | 2,375 |
| | | |
| **Rating** | | |
| Fitch Ratings, London | | |
| long-term[8] | A- (outlook: negative) | A- (outlook: stable) |
| short-term[8] | F1 (outlook: negative) | F1 (outlook: stable) |
| Fitch Pfandbrief ratings | AAA | AAA |
| oekom | prime | prime |

[1] Q1/2014 including negative goodwill from the acquisition of COREALCREDIT BANK AG (Corealcredit)
[2] Structured Property Financing segment only
[3] On an annualised basis
[4] Including Corealcredit
[5] After confirmation of Aareal Bank AG's financial statements for 2013. The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of net profit for the financial year 2013. The appropriation of profits is subject to approval by the General Meeting.
[6] Since 1 January 2014, regulatory indicators have been determined in accordance with CRD IV/CRR, based on carrying amounts in accordance with IFRSs. Until 31 December 2013, the rules of the German Solvency Regulation (SolvV) were applied for this purpose, based on carrying amounts in accordance with HGB. The Bank therefore decided against stating comparative amounts.
[7] Excluding the silent participation of the Financial Markets Stabilisation Fund (SoFFin)
[8] At the end of the first quarter of 2014, rating agency Fitch Ratings changed its outlook for the Long-Term Issuer Default Rating (IDR) of 18 banks within the European Union from "stable" to "negative". The corresponding outlook for an additional 18 European commercial banks remained "negative". This revision reflects a global re-assessment of government support for banks.

# Contents

# Letter from the Management Board

Dear Shareholders,
business associates and Aareal Bank staff,

Macroeconomic trends observed during the previous quarters continued to prevail during the first three months of the 2014 financial year. The business environment for Aareal Bank and the banking sector as a whole largely continued to show a slight uptrend, whilst the international financial and capital markets offered numerous banks, enterprises and sovereign issuers the opportunity of placing securities at attractive terms.

At the beginning of the year, underlying economic momentum continued to show varied development across the globe. Generally, upward trends within the euro zone have stabilised. Even though the stabilisation of the countries at Europe's southern periphery – for instance, in Italy or Spain – continued, economic growth remained weak there. Most European countries outside the euro zone posted moderate growth during the first quarter of the year. In the United States, the business climate suffered a marked deterioration at the beginning of the year, not least because of an extraordinarily hard winter. Whilst growth rates in China remained high by international comparison, indicators suggest a slowdown in economic expansion. In Japan, there were signs of continued economic upturn during the first quarter.

At the start of the year, long-term government bond yields of advanced economies declined – including the southern European periphery countries such as Italy and Spain. The yields of government bonds issued by these countries showed a more pronounced decline than those of Germany or France, for example, which investors generally consider to be relatively safe investments.

However, significant tensions emerged on the financial and capital markets of various emerging market economies at the start of the year. International investors withdrew capital to a significant extent, leading to a marked devaluation of certain local currencies. These tensions are likely to have been caused by a combination of several factors, which led to a re-assessment of the risk/return outlook for various emerging economies. Such factors included the US Federal Reserve's tapering of bond purchases, increased political tension in various countries, as well as a revision of long-term growth prospects in light of structural aspects. In some countries – such as Turkey – the local currency managed to regain some value during the course of the quarter.

The banking sector as a whole remained the subject of numerous regulatory initiatives. One focal aspect was ECB's comprehensive assessment, which includes a regulatory risk assessment, an asset quality review, and a stress test. The comprehensive assessment is being carried out ahead of the transfer of supervisory responsibility to the ECB. All banks directly supervised by the ECB – including Aareal Bank – are subject to this assessment, which will last until the autumn of this year.

Furthermore, at the end of the first quarter, rating agency Fitch Ratings changed its outlook for the Long-Term Issuer Default Rating (IDR) of 18 banks within the European Union from "stable" to "negative"; The corresponding outlook for an additional 18 European commercial banks remained "negative". This revision reflects a global re-assessment of government support for banks.

In this environment, Aareal Bank succeeded in posting another very good set of results for the first quarter of 2014. Consolidated operating profit for the first quarter amounted to € 215 million. The figure includes a non-recurring positive effect, due to negative goodwill in the amount of € 150 million from the acquisition of COREALCREDIT BANK AG (Corealcredit), which was completed on 31 March 2014. Still, even discounting this one-off effect, we can be very satisfied with the first-quarter results. Adjusted for this effect, consolidated operating profit of € 65 million was up by more than 40 per cent year-on-year (Q1 2013: €47 million). The further improvement in net interest income contributed to this increase.

Given that the closing of the Corealcredit transaction took place on 31 March 2014, Corealcredit's operative results will be included in Aareal Bank Group's consolidated income statement for the first time in the second quarter of this year. Accordingly, the results adjusted for negative goodwill, as well as all other income statement items for the first quarter, exclusively reflect the performance of Aareal Bank Group in its structure to date.

Our very good performance during the first quarter shows that the steady upward trend which Aareal Bank has shown over recent years has continued unabatedly during the current financial year. We owe this performance to our strong market position, to the robustness of our business model – which has proven its strength during challenging phases – and to the Bank's sustainable business policy, which has determined our actions over the past few years, and will continue to do so. The positive trend visible in the results for the quarter under review is all the more encouraging since we realised it in an environment where competition in the international commercial property finance business has further intensified significantly – this applied to most European countries as well as to North America and Asia. In this context, the competitive environment during the first quarter was shaped in particular by the continued strong investor focus on first-class properties in prime locations.

Operating profit in the Structured Property Financing segment amounted to € 71 million – plus the € 150 million negative goodwill from the acquisition of Corealcredit – and significantly exceeded the corresponding quarter of the previous year (Q1 2013: € 51 million). In spite of further-intensified competition for attractive transactions, new business remained at a high level, totalling € 1.6 billion during the first quarter. Given a lower volume of loans for renewal, the figure was slightly below the previous year's level (Q1 2013: €2.0 billion); the share of newly-originated loans increased to a high level of 67.4 per cent (Q1 2013: 59.5 per cent). We affirm our communicated target for new business in 2014, at € 8 billion to € 9 billion.

Aareal Bank recognised € 37 million in allowance for credit losses for the first quarter of 2014. The figure was lower compared to the previous quarter (Q4 2013: € 39 million), yet higher than in the first quarter of 2013 (€ 17 million); it comprised a very low level of specific allowance for credit losses – at € 6 million, this reflects the high quality of our credit portfolio, plus € 31 million in portfolio-based allowance for credit losses. The latter was largely due to a change in measurement parameters for determining the portfolio-based valuation allowance, and thus non-recurring. This does not affect the forecast for the year as a whole (€ 100 million to € 150 million).

As in the previous period, results in our Consulting/Services segment continued to be influenced by two key factors during the quarter under review. On the one hand, our subsidiary Aareon AG has performed in line with plans. Following a fourth quarter characterised by high licence fees (which is a usual feature in this line of business), the first quarter was shaped – as in the previous years – by the contributions of consultancy, maintenance, and software rental fees. The digitisation of processes – a trend for which Aareon already expanded its product range during the 2013 financial year, positioning itself accordingly in the housing industry – continues to remain the focus of research and development activities. Aareon's international business also remained positive during the first quarter.

On the other hand, the segment's banking business remained burdened by the historically low interest rate levels. Against this background, the fact that we succeeded in further boosting the volume of customer deposits from the housing industry – to an average of € 8.1 billion at the end of the quarter – is good news. Once again, we see this as evidence of the high level of trust which the Bank continues to enjoy as the long-standing lead bank to the German housing industry.

And even though we currently have to tolerate that the current interest rate environment burdens our segment results, the importance of the deposit-taking business in the Consulting/Services segment clearly 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. Particularly in the light of upcoming regulatory changes, we view the deposit-taking business as one of our strategic competitive advantages.

Our funding activities on the capital markets were once again very successful during the first quarter of 2014: we raised an aggregate of € 1.7 billion in long-term funds, through various refinancing instruments, and thus continue to maintain our long-term funding at a very high level. As at 31 March 2014, the Tier 1 ratio was 15.9 per cent, which is comfortable on an international level. The Common equity tier 1 ratio was 14.0 per cent. Aareal Bank thus remains very solidly financed and already complies today with the capital and liquidity requirements under CRD IV, which will be gradually implemented between now and the end of 2018.

Our summary assessment of business developments during the first quarter of the 2014 financial year is thus positive. We continued to leverage our strengths in an environment characterised by intensified competition, we completed the acquisition of Corealcredit, and we posted very strong first-quarter results.

Looking at these achievements, we are confident that we will be able to maintain Aareal Bank's positive development in the future. At the same time, we closely monitor the changes in our business environment. On the one hand, we expect economic developments in the euro zone to slightly improve further during the course of the year, as key sentiment indicators have moved higher and uncertainty concerning the development of the European sovereign debt crisis has declined. On the other hand, the global economy – and especially the euro zone economy – is highly susceptible to disruption, setting the stage for continued strong support by central banks – and by the ECB. Yet this also means that any recovery will not necessarily be supported by fundamental developments; giving rise to the threat of a defence against risks to monetary stability (or the stability of the euro system) taking too much time, coming too late, or being too tentative. Such risks may in turn trigger systemic risks of substantial scale. Therefore, significant risks and uncertainty factors prevail, not least in view of political tension between Russia and the Ukraine.

Against this background, we affirm the forecasts we have already communicated for the 2014 financial year. Specifically, in spite of the one-off effect related to allowance for credit losses, we anticipate being able to generate consolidated operating profit of € 370 million to € 390 million, including the negative goodwill from the acquisition of Corealcredit. Adjusted for this non-recurring effect, we anticipate consolidated operating profit of between € 220 million and € 240 million.

Even though the scope of medium-term threats has risen, we remain confident that we will be able to achieve the targets we have set for ourselves. Aareal Bank is perfectly healthy and in an excellent position to further strengthen its market position in the future – as, after all, the results for the quarter under review have shown. The trust our clients place in Aareal Bank, the expertise of our employees, as well as the Bank's swift and non-bureaucratic decision-making processes – thanks to its mid-sized structure – are key success factors. We will continue to work hard in deploying these factors, through a wise business policy and prudent management – to the benefit of Aareal Bank, its staff and its shareholders.

**For the Management Board**

Yours Sincerely, Wolf Schumacher

**Dr Wolf Schumacher**
**Chairman**

# Group Management Report

## Report on the Economic Position

### Macro-economic environment

#### Economy

Various indicators suggest that the slight economic uptrend that started during the course of last year continued into the first quarter of 2014 – even though some economic indicators weakened during the final weeks of the quarter.

Whilst according to the indicators published, the euro zone economy is likely to have posted an increase – with a stabilising uptrend, the underlying economic momentum remained weak. Nonetheless, it is fair to assume that the stabilising trends have prevailed in the countries on the southern periphery of Europe, such as Italy and Spain. Most European countries outside the euro zone posted moderate growth trends during the first quarter of the year.

In the United States, the business climate suffered a marked deterioration at the beginning of the year, likely due to the extraordinarily hard winter – indicating a weakening of the recovery seen during the first quarter. In the autumn of 2013, US fiscal policy was still characterised by the dispute over the Federal budget and the statutory debt ceiling, with only short-term temporary solutions being agreed upon. During the first quarter of 2014, however, the US political parties managed to reach an agreement on the Federal budget for the current budget year, as well as on the debt ceiling – which was raised, and is expected to be sufficient to accommodate new debt scheduled for issuance up until March 2015.

Whilst economic indicators in China point towards a slowdown in economic expansion, growth rates there are still high by international standards.
In Japan, there were signs of continued economic recovery.

The situation on European labour markets has been stabilising for several months now; the euro zone unemployment rate was virtually unchanged during the first quarter of 2014. Unemployment only rose in few countries – including Italy – during the first quarter; in some countries, it even declined marginally. In the US, the increase in employment faltered, with the unemployment rate remaining virtually constant during the first quarter – probably attributable to the hard winter in particular.

#### Financial and capital markets, monetary policy and inflation

The environment on the international financial and capital markets continued to offer numerous banks, enterprises and sovereign issuers the opportunity of placing securities – including numerous Pfandbriefe and other covered bonds – at attractive terms during the first quarter of 2014. Right at the beginning of the year, Aareal Bank was successful in issuing a € 500 million Mortgage Pfandbrief, followed by a € 300 million subordinated issue in March.

At the end of the first quarter, rating agency Fitch Ratings changed its outlook for the Long-Term Issuer Default Rating (IDR) of 18 banks within the European Union from "stable" to "negative"; It is worth noting that this revision – which also affected Aareal Bank's rating – was not related to any specific institution, but rather reflects an industry-wide issue to be seen in the context of a global re-assessment of government support for banks.

Long-term government bond yields of developed economies declined during the quarter under review. Remarkably, yields of countries at the southern European periphery such as Italy and Spain showed a more pronounced decline than those of Germany or France, for example, which investors consider as relatively safe investments. As such, the trend towards a convergence of yield spreads between these country groups continued, even though a notable yield differential prevailed. At the beginning of the year, the European Stability Mechanism (ESM) concluded its rescue programme for Spain, which the country had drawn upon in an amount of € 41.3 billion in order to recapitalise its banks.

However, significant tensions emerged on the financial and capital markets of various emerging market economies at the start of the year, when international investors withdrew capital to a significant extent, leading to a marked devaluation of local currencies. These tensions are likely to have been caused by a combination of several factors, which led to a re-assessment of the risk/return outlook for various emerging economies. Such factors included the US Federal Reserve's tapering of bond purchases (which enhanced the attractiveness of US government securities for investors), increased political tension in various countries, as well as a revision of long-term growth prospects of these economies in light of structural aspects. Central banks in some of the countries affected responded to capital outflows and currency devaluations by raising their key interest rates. This increase was especially pronounced in Turkey (up by 5.5 percentage points, to 10.0 %); likewise, Russia raised its key interest rate at the beginning of March (by 1.5 percentage points, to 7.0 %). In some countries – such as Turkey – the local currency managed to regain some value during the course of the quarter.

In the developed economies, central banks maintained key interest rates unchanged, at a low level. Although the US Federal Reserve reduced the volume of its monthly bond-purchasing programme on several occasions, monetary policy remained clearly expansive – not just in the US, but also in the other developed economies. In February, the Bank of Japan not only renewed its lending stimulation programme, which would have expired in March – it significantly increased its size.

Long-term interest rates[1] markedly declined during the first quarter for all of the major currencies in which we are active. The decline was somewhat less pronounced for the Japanese yen, where interest rates were already very low indeed. At the same time, short-term interest rates[2] in the various currencies remained virtually unchanged, at a very low level.

The value of the euro vis-à-vis most of the major currencies in which we do business only changed marginally during the quarter under review. The euro only appreciated notably against the Canadian dollar, whilst it slightly lost value against the Japanese yen at the end of the quarter.

Inflation in the euro zone remained muted during the quarter under review, with an average annual rate of 0.7 %, showing a further falling trend, while inflation in the US was slightly higher, yet still moderate. Low inflationary pressure was predominantly attributable to low energy prices. The Japanese economy showed a slight deflation, or virtually stable consumer prices, over the past several years. In connection with an impending VAT increase in April and in view of the extremely expansive monetary policy (which targets an inflation rate of around 2 %), the annualised inflation rate rose to approximately 1.5 %.

### Regulatory environment

The emphasis in the banking sector remains on the various regulatory and reform measures. However, the question as to what the cumulative impact will be for banks and the real economy has yet to be answered. The focus shifted in particular to the extensive ECB comprehensive assessment, which includes a regulatory risk assessment, an asset quality review and a stress test. All banks which will come under direct ECB supervision began to implement the assessment before the responsibility for supervision was transferred to the ECB; the assessment will run until autumn 2014.

The environment in which the banks were operating continued to be defined in recent years by an ever more rapid rise in regulatory requirements. These include the comprehensive Basel II framework and its implementation in the EU (CRD I), the implementation of the "Sydney Press Release" in the EU and the revision of the regulation on large-volume loans (CRD II), the implementation of the short-term package of measures of the Basel Com-

[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

mittee (CRD III) and the Basel III reform package (CRR/CRD IV), their implementation in national law, as well as the various amendments to the Minimum Requirements for Risk Management (MaRisk).

## Sector-specific and business developments

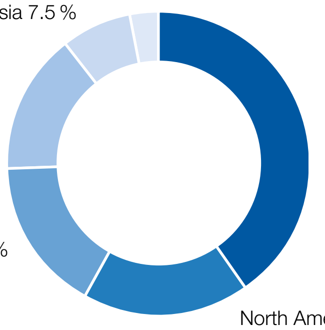
### Structured Property Financing segment

The volume of new business amounted to € 1.6 billion during the first quarter of 2014 (Q1 2013: € 2.0 billion). Specifically, the volume of renewals was lower year-on-year, due to a lower level of loans set for renewal. The share of newly-originated loans in total new business amounted to 67.4 % in the quarter under review (Q1 2013: 59.5 %). At 74.5 % (Q1 2013: 80.3 %), we achieved the highest share of new business in Europe, followed by North America with 18.0 % (Q1 2013: 16.4 %) and Asia with 7.5 % (Q1 2013: 3.3 %).[1)]

The volume of Aareal Bank Group's property financing portfolio stood at € 28.6 billion as at 31 March 2014, up by approximately 17 % since the end of the previous year. The increase was attributable to the acquisition of COREALCREDIT BANK AG (Corealcredit). Corealcredit accounted for a share in the property financing portfolio of € 3.4 billion.

**New business 1 January - 31 March 2014**

by region (%) Total volume: € 1.6 bn




3) Including Germany

The commercial property financing business continued to be characterised by intense competition during the first quarter of 2014; this applied to most European countries as well as to North America and Asia. Competition intensified in the southern European countries, where it had been less pronounced last year. In some markets, lenders showed a higher willingness to accept higher loan-to-value ratios and lower margins.

Investors increasingly acquired properties with a higher risk profile. Against the background of a limited supply of prime properties in top locations, investors showed a growing interest in properties in secondary locations, and in properties offering higher potential for creating value, e.g. within the scope of extensive modernisation measures. Global transaction volumes increased notably during the quarter under review, compared to the same quarter of the previous year. Commercial property markets showed a stable to slightly positive development during the quarter under review, compared to the final quarter of 2013. Rents for first-class properties were predominantly stable to slightly increasing, whilst yields tended to be stable to slightly lower.[2)]

#### Europe

Rents for first-class office and retail properties, as well as logistics properties, were stable compared to the previous quarter in by far the most European economic centres. Few markets in the premium segment – including for example the markets for high-quality office properties in Amsterdam, London, Munich and Stockholm; high-quality retail properties in Berlin, Hamburg, Munich and Vienna; and high-quality logistics properties in Berlin and Rotterdam – diverged, showing increased

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

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

rents. There were only a few locations in the first-class segment of the leading economic centres where rents were falling – for example, office properties in Copenhagen and Prague as well as logistics properties in Moscow.

Developments in the hotel markets in the important European cities – measured in terms of the important indicator of average revenues per available hotel room – showed a mixed picture. Whilst the indicator was higher, compared to the first quarter of 2013, in various centres such as for example Barcelona, Berlin, Brussels, Copenhagen, London, Madrid and Milan, it decreased – on average – in Munich, Paris, Prague and Rotterdam, for example. Warsaw is an example of almost constant average revenues per available room.

Investor interest in commercial property remained high during the first quarter, and transaction volumes in Europe rose compared to the same period of the previous year. A notable increase was evident in Germany, whilst transaction volumes in France and the UK remained roughly unchanged. The readiness to invest in property outside the segment of first-class properties in corresponding locations increased, also reflecting high levels of investor liquidity and a certain shortage of supply in this segment. Overall, investor readiness to assume risk has noticeably increased since the spring of 2013. First-class commercial property yields available to investors upon purchase were stable or – in some cases – slightly lower in the economic centres, compared with the previous quarter, however, there were no rising yields for prime properties in the European economic centres.

We generated new business of € 1.2 billion in Europe in the first quarter of 2014. Western Europe accounted for the highest share, followed by Northern, Eastern and Southern Europe, with the latter accounting for the lowest share.

### North America (NAFTA states)

A slight increase in rents, which was already observed in the fourth quarter of 2013, continued into the first quarter of 2014 on a national average in the United States – this applied to office, retail and logistics properties. This development was visible in most of the major American cities, such as Boston, New York City and Los Angeles. More pronounced rent increases were observed on the San Francisco office market, for example, whilst the office market in Washington D.C. and the market for retail properties in Chicago were examples of divergence from the generally positive trend in rents, showing virtually stable rental levels. Vacancy ratios in the US fell slightly on a national average.

The North American hotel sector saw a noticeable increase in average revenues per available hotel room in the previous year. This uptrend was maintained during the first quarter of 2014, compared to the same quarter of the previous year. Driven by higher occupancy ratios as well as by higher average room rates, revenues in the US increased noticeably. The indicator also improved in Canada, and in Mexico, where the increase was particularly strong.

The volume of commercial property transactions conducted in North America during the period under review increased further over the first quarter of 2013, by a considerable margin. The increase in transaction volumes was particularly pronounced in the United States.

Investment yields for newly-acquired commercial property in the US further fell slightly compared to the previous quarter.

Our new business in North America amounted to € 0.3 billion in the first quarter of 2014. This was originated exclusively in the United States.

### Asia

In the big Asian cities, rental development for first-class commercial property showed a mixed picture. Rents for high-quality office properties in Beijing declined slightly, whilst on average they were largely unchanged in Shanghai and Tokyo. Market rents in Singapore rose. In these metropolitan areas, rents for first-class retail properties increased, albeit only marginally in Beijing and Shanghai. Rents for prime logistics properties in Beijing, Shanghai and Singapore were virtually constant, whilst they declined in Tokyo.

Average revenues per available hotel room rose on the hotel markets in Shanghai and Singapore during the first quarter of 2014, compared to the corresponding period of the previous year; in Tokyo, a significant increase was observed whereas the indicator declined on average in Beijing.

Transaction volumes in the Asia / Pacific region declined against the first quarter of 2013, with the exception of Japan. Investment yields for newly-acquired, high-quality commercial property remained virtually stable in Beijing, Shanghai and Tokyo; this applied to office, retail and logistics properties. The Tokyo logistics market was an exception: here, yields for first-class properties declined. In contrast, yields for both first-class office and retail properties in Singapore increased, whilst they remained constant for corresponding logistics properties.

We generated new business of € 0.1 billion in Asia in the first quarter of 2014. This was originated entirely in Japan.

### Acquisition of COREALCREDIT BANK AG (Corealcredit)

Aareal Bank Group closed the acquisition of Corealcredit, announced on 22 December 2013: the purchase was completed with effect from 31 March 2014 (closing date). Corealcredit is now a legally independent subsidiary under the umbrella of Aareal Bank Group. The (provisional) purchase price paid amounted to € 343 million. In accordance with contractual agreements, this purchase price is subject to adjustments which are now being calculated in relation to the closing date. As part of the impending integration of Corealcredit into Aareal Bank Group, there are plans to enter into a control and profit and loss transfer agreement shortly.

## Consulting / Services segment

### Bank division Housing Industry

The housing industry and the commercial property sector have proven to be a stable market segment. Rental income generated from a highly-diversified tenant portfolio guarantees a solid foundation. Corporate investments continue to focus on improving the degree and quality of energy efficiency, and creating a sustainable quality of housing. To strengthen its long-term commitment to sustainability, the housing industry has subscribed to the German Sustainability Code (Deutscher Nachhaltigkeitskodex – "DNK") and refines the Code in line with industry-specific developments.

The long-standing stable trend on the housing market remained intact at the beginning of the year. Advertised rents for new-built properties were around 1 % higher in January 2014 than in the first quarter of 2013. Rents in the major cities increased by 2 % during the same period. High demand for residential space was particularly evident in conurbations, university cities, and holiday regions. In this context, rental momentum was particularly focused on good and very good residential locations.

Owing to the robust development of the German economy and the favourable situation on the housing market, the focus of investors on housing property remained strong at the beginning of 2014. Insurance companies and pension funds continue to show their interest in housing property as a relatively safe form of investment. During the first quarter of 2014, the investment market was characterised by large capital market transactions, such as various acquisitions by Deutsche Annington, involving some 41,000 flats as well as the purchase of 18,000 flats by Buwog, a subsidiary of Immofinanz.

Our clients continue to make strong use of the combination of our specialist services in conjunction with automated mass electronic payments processing, together with the related advice we offer, as well as cash investment schemes. This enables us to maintain a strong position in the market, despite strong competitive pressure – which is also evident in new client acquisition; the business partners acquired in the first quarter of 2014 currently manage just under 21,000 residential units between them.

The volume of deposits was increased again, to average € 8.1 billion during the quarter under review (Q4 2013: € 7.7 billion).

On the other hand, 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 institutional 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 capital market environment, Aareal Bank therefore sees this business as representing a particular competitive advantage.

### Aareon

At the beginning of a year, Aareon's business is traditionally characterised by numerous production roll-outs of ERP solutions and Integrated Services for property industry customers. These also developed on schedule this year.

The digitisation of processes – a trend for which Aareon already expanded its product range during the 2013 financial year, positioning itself accordingly in the housing industry – continues to remain the focus of research and development activities. Essentially, this involves deploying IT resources in order to optimise external and internal processes. Housing enterprises enhance their integration with business partners (B2B), tenants (B2C) and their field service staff (B2E). This is enhanced by networking devices (M2M) and objects via the internet (the "internet of things"). At present, the focus is on digital document management, customer relationship management (CRM), and mobile solutions.

In its ERP Products segment, Aareon already refined its Wodis Sigma ERP solution in 2013, in order to even better leverage the concept of digitisation – integrating mobile property inspection using tablet computers as well as the new Aareon CRM portal site. Market response to these developments has been positive across the board, and the delivery of Wodis Sigma as a service from the exclusive Aareon Cloud is growing in popularity.

Demand was visible in the ERP product line – SAP® solutions and Blue Eagle – in Aareon's advisory solutions for SAP® and for consultancy services.

Business volumes generated with the established GES ERP system declined slightly, as planned. Numerous GES customers are in the process of reviewing their long-term IT strategy, or have already done so. This often goes hand in hand with the decision to migrate from GES to Wodis Sigma. Many of these customers are already successful users of Wodis Sigma. Aareon has the necessary resources in place for future migrations of GES customers, to ensure that such migrations are executed smoothly and safely.

In the Integrated Services area, particularly strong the Mareon service portal, the BauSecura insurance management, Aareon's invoicing services, as well as for Aareon Archiv kompakt, the digital archiving solution launched in 2013, met with increased demand.

Aareon's international business remained positive during the first quarter: all subsidiaries successfully rolled out new customer installations at the start of the year, winning new customers in the process. Aareon's Dutch subsidiary SG|automatisering bv, Emmen, cooperates with the French subsidiary Aareon France in the field of research and development activities within Aareon Group. The objective here is to develop a solution for the Dutch market over the medium term, based on Aareon France's tried-and-tested CRM system. Furthermore, SG|automatisering will celebrate its 35th anniversary this year. In the UK, the mobile services provided by 1st Touch met with increased demand. The integration of the Swedish subsidiary Incit AB, Mölndal, which was acquired in 2013, into Aareon Group has made good progress.

Profit before taxes for the quarter under review totalled € 5 million (Q1 2013: € 5 million).

## Financial position and performance

### Financial performance

#### Group

Consolidated operating profit for the first quarter amounted to € 215 million. The figure includes a non-recurring effect in the amount of € 150 million from the acquisition of Corealcredit, which was completed on 31 March 2014. Adjusted for this non-recurring effect, consolidated operating profit of € 65 million was up by more than 40 per cent year-on-year (Q1 2013: € 47 million). Among others, the good net interest income contributed to this increase.

Net interest income of € 144 million for the first three months of the 2014 financial year was up significantly on the same period of the previous year (€ 121 million). This was due, in particular, to the higher volume of the credit portfolio, whilst margins and funding costs developed as expected. Net interest income for the first quarter included approximately € 4 million in non-recurring effects from early repayments.

**Consolidated net income of Aareal Bank Group[1)]**

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| Net interest income | 144 | 121 |
| Allowance for credit losses | 37 | 17 |
| **Net interest income after allowance for credit losses** | **107** | **104** |
| Net commission income | 40 | 38 |
| Net result on hedge accounting | 2 | -3 |
| Net trading income/expenses | 2 | 6 |
| Results from non-trading assets | 0 | -1 |
| Results from investments accounted for using the equity method | – | – |
| Administrative expenses | 102 | 92 |
| Net other operating income/expenses | 16 | -5 |
| Negative goodwill from the acquisition of Corealcredit | 150 | – |
| **Operating profit** | **215** | **47** |
| Income taxes | 20 | 15 |
| **Net income/loss** | **195** | **32** |
| **Allocation of results** | | |
| Net income/loss attributable to non-controlling interests | 5 | 5 |
| Net income/loss attributable to shareholders of Aareal Bank AG | 190 | 27 |
| **Appropriation of profits** | | |
| Net income/loss attributable to shareholders of Aareal Bank AG | 190 | 27 |
| Silent participation by SoFFin | 5 | 5 |
| **Consolidated profit/loss** | **185** | **22** |

[1)] Since the acquisition of Corealcredit took effect on 31 March 2014 (the closing date), Corealcredit's operative results will be included in Aareal Bank Group's consolidated income statement for the first time in the second quarter of 2014. Accordingly, the results adjusted for negative goodwill, as well as all other income statement items for the first quarter of 2014, exclusively reflect the performance of Aareal Bank Group in its structure to date.

Allowance for credit losses rose to € 37 million in the first quarter (Q1 2013: € 17 million), comprising € 6 million in specific allowance for credit losses plus € 31 million in portfolio-based allowance for credit losses recognised. The higher amount of portfolio-based allowance for credit losses was largely due to a change in individual measurement parameters, and thus non-recurring. However, this does not affect the forecast allowance for credit losses for the year as a whole (€ 100 million to € 150 million).

Net commission income rose to € 40 million, up slightly year-on-year (Q1 2013: € 38 million).

Administrative expenses totalled € 102 million (Q1 2013: € 92 million). The increase was largely attributable to higher project-related costs (including costs incurred in relation to the acquisition of Corealcredit) as well as to regulatory measures such as the asset quality review.

Net other operating income/expenses includes € 18 million in non-recurring income from the reversal of provisions for settlement risks.

The negative goodwill is related to the acquisition of Corealcredit, which was completed on 31 March 2014. It represents the difference between the (provisional) purchase price paid and the higher net balance of assets and liabilities acquired and measured at fair value. Further information is included in the section ”Reporting entity structure” in the notes to the consolidated financial statements.

Taking into consideration income taxes of € 20 million and non-controlling interest income of € 5 million, net income attributable to shareholders of Aareal Bank AG amounted to € 190 million. Taking into consideration the net interest payable on the SoFFin silent participation, consolidated profit stood at € 185 million.

### Structured Property Financing segment

First-quarter operating profit for the Structured Property Financing segment amounted to € 221 million. The figure includes a non-recurring effect in the amount of € 150 million from the acquisition of Corealcredit, which was completed on 31 March 2014. Adjusted for this non-recurring effect, segment operating profit of € 71 million was up significantly year-on-year (Q1 2013: € 51 million). The good net interest income contributed to this increase.

Segment net interest income of € 143 million for the first three months of the 2014 financial year was up significantly on the same period of the previous year (€ 118 million). This was due, in particular, to the higher volume of the credit portfolio, whilst margins and funding costs developed as expected. Net interest income for the first quarter included approximately € 4 million in non-recurring effects from early repayments.

Allowance for credit losses rose to € 37 million in the first quarter (Q1 2013: € 17 million), comprising € 6 million in specific allowance for credit losses plus € 31 million in portfolio-based allowance for credit losses recognised. The higher amount of portfolio-based allowance for credit losses was largely due to a change in individual measurement parameters, and thus non-recurring. However, this does not affect the forecast allowance for credit losses for the year as a whole (€ 100 million to € 150 million).

At € 56 million, administrative expenses in the first quarter were up year-on-year (Q1 2013: € 50 million). The increase was largely attributable to higher project-related costs (including costs incurred in relation to the acquisition of Corealcredit) as well as to regulatory measures such as the asset quality review.

Net other operating income/expenses includes € 18 million in non-recurring income from the reversal of provisions for settlement risks.

The negative goodwill is related to the acquisition of Corealcredit, which was completed on 31 March 2014. It represents the difference between the (provisional) purchase price paid and the higher net balance of assets and liabilities acquired and measured at fair value. Further

**Structured Property Financing segment result**[1)]

| € mn | Quarter 1 2014 | Quarter 1 2013 |
|---|---|---|
| Net interest income | 143 | 118 |
| Allowance for credit losses | 37 | 17 |
| **Net interest income after allowance for credit losses** | **106** | **101** |
| Net commission income | 1 | 2 |
| Net result on hedge accounting | 2 | -3 |
| Net trading income/expenses | 2 | 6 |
| Results from non-trading assets | 0 | -1 |
| Results from investments accounted for using the equity method | – | – |
| Administrative expenses | 56 | 50 |
| Net other operating income/expenses | 16 | -4 |
| Negative goodwill (day-one gain) from the acquisition of Corealcredit | 150 | – |
| **Operating profit** | **221** | **51** |
| Income taxes | 22 | 16 |
| **Segment result** | **199** | **35** |

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

Overall, operating profit for the Structured Property Financing segment was € 221 million (Q1 2013: € 51 million). Taking into consideration tax expenses of € 22 million (Q1 2013: € 16 million), the segment result in the quarter under review was € 199 million (Q1 2013: € 35 million.

### Consulting/Services segment

Sales revenue generated in the Consulting/Services segment during the first quarter of 2014, which amounted to € 46 million, was up year-on-year (Q1 2013: € 44 million). The increase was attributable, amongst other factors, to Aareon's acquisition of Incit AB Group, consolidated with effect from 1 July 2013. In contrast, the persistent low interest rate environment continued to burden the margins from the deposit-taking business that are reported in sales revenues.

At € 32 million, staff expenses during the quarter under review were up year-on-year (Q1 2013: € 29 million). The increase was attributable, amongst other factors, to Aareon's acquisition of Incit AB Group, which was consolidated with effect from 1 July 2013.

On the whole, other items were roughly unchanged from the previous year.

Overall, segment operating profit in the first quarter of 2014 was € -6 million (Q1 2013: € -4 million). Aareon's contribution was € 5 million (Q1 2013: € 5 million).

After taking taxes into consideration, the segment result for the quarter under review amounted to € -4 million (Q1 2013: € -3 million).

[1)] Since the acquisition of Corealcredit took effect on 31 March 2014 (the closing date), Corealcredit's operative results will be included in Aareal Bank Group's consolidated income statement for the first time in the second quarter of 2014. Accordingly, the results adjusted for negative goodwill, as well as all other income statement items for the first quarter of 2014, exclusively reflect the performance of Aareal Bank Group in its structure to date.

**Consulting/Services segment result**

| € mn | Quarter 1 2014 | Quarter 1 2013 |
|---|---|---|
| Sales revenue | 46 | 44 |
| Own work capitalised | 1 | 1 |
| Changes in inventory | 0 | 0 |
| Other operating income | 1 | 0 |
| Cost of materials purchased | 6 | 5 |
| Staff expenses | 32 | 29 |
| Depreciation, amortisation and impairment losses | 4 | 3 |
| Results from investments accounted for using the equity method | – | – |
| Other operating expenses | 12 | 12 |
| Interest and similar income/expenses | 0 | 0 |
| **Operating profit** | **-6** | **-4** |
| Income taxes | -2 | -1 |
| **Segment result** | **-4** | **-3** |

## Financial position

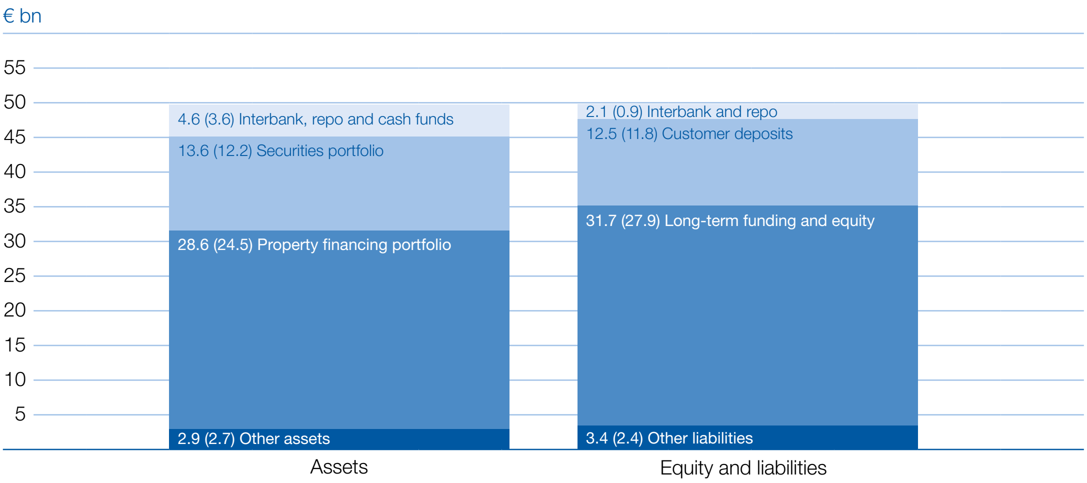
Corealcredit was included in the consolidated financial statements of Aareal Bank Group for the first time on the reporting date of 31 March 2014. Accordingly, the consolidated statement of financial position includes all balance-sheet items of Corealcredit.

Aareal Bank Group's total assets as at 31 March 2014 amounted to € 49.7 billion, after € 43.0 billion as at 31 December 2013.

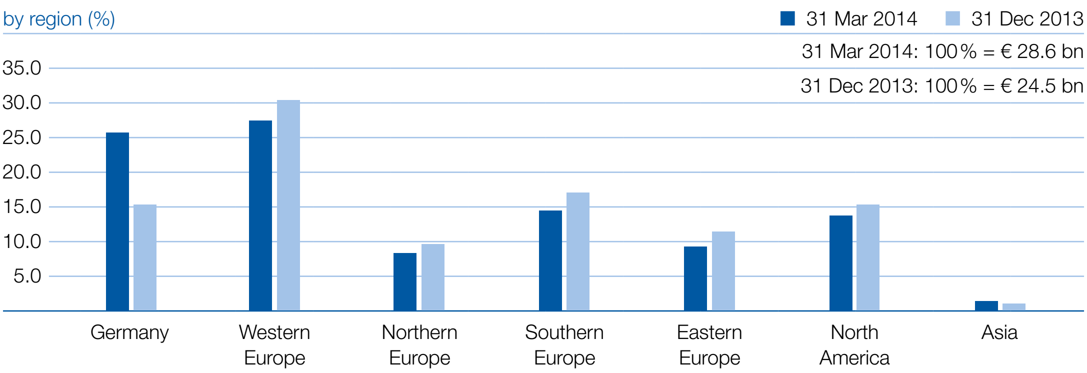
### Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio stood at € 28.6 billion as at 31 March 2014, an increase of approximately 17 %

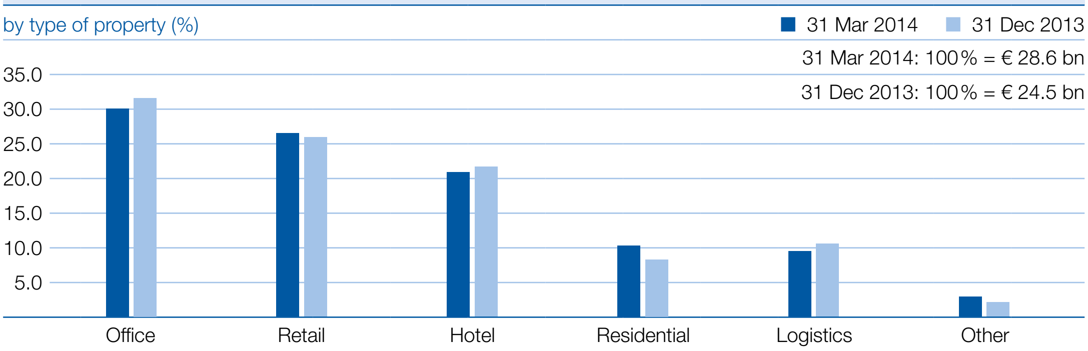
**Statement of financial position – structure as at 31 Mar 2014 (31 Dec 2013)**



**Property financing volume (amounts drawn)**




**Property financing volume (amounts drawn)**




since the end of 2013 (€ 24.5 billion). The increase was largely attributable to the acquisition of Corealcredit. The acquisition, effective 31 March 2014, exclusively increased the German property financing portfolio, by € 3.4 billion. Accordingly, the international share of the portfolio fell to 74.3 % (31 December 2013: 84.7 %).

At the reporting date, Aareal Bank Group's property financing portfolio was composed as indicated above, compared with year-end 2013.

The acquisition of Corealcredit led to a marked increase in the portfolio share attributable to Germany. Accordingly, the share of other regions in the entire property financing portfolio mostly declined.

The portfolio breakdown by property type remained largely unchanged during the period under review. Only the share of housing property finance showed a more pronounced increase, reflecting the Corealcredit takeover.

### Securities portfolio

As at 31 March 2014, the nominal volume of the securities portfolio[1] was € 11.9 billion (31 December 2013: € 10.8 billion), of which € 1.4 billion was attributable to Corealcredit, which was acquired as at 31 March 2014. The securities portfolio comprises four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS).

[1] As at 31 March 2014, the securities portfolio was carried at € 13.6 billion (31 December 2013: € 12.2 billion).

97 %[1)] of the total figure is denominated in euros, and 98 %[1)] have an investment-grade rating[2)].

## Financial position

### Refinancing and equity

#### Refinancing

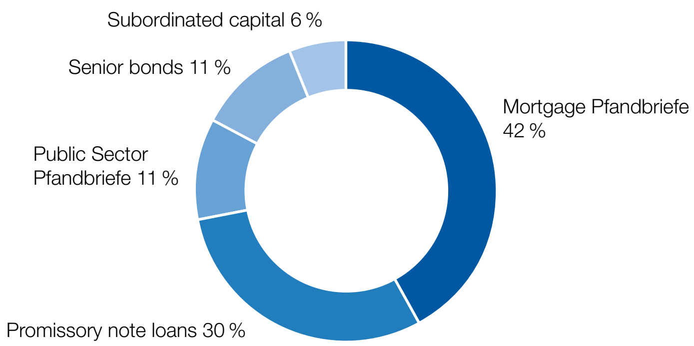
Aareal Bank Group continued to successfully conduct its funding activities during the first quarter of 2014, thereby securing its very solid liquidity situation. Total long-term funding as at 31 March 2014 amounted to € 29.6 billion (31 December 2013: € 26.0 billion), of which € 3.2 billion was attributable to Corealcredit, which was acquired as at 31 March 2014. This comprises Pfandbrief issues, senior unsecured and subordinated issues. Aareal Bank also had € 7.6 billion (31 December 2013: € 7.0 billion) at its disposal from deposits generated from the business with the housing industry, as well as institutional money market investor deposits in the amount of € 4.9 billion (31 December 2013: € 4.8 billion).

Aareal Bank raised a total of € 1.7 billion in long-term funds on the capital market during the first quarter. This sum comprised Mortgage Pfandbriefe in the amount of € 0.7 billion, unsecured refinancing of € 0.6 billion, as well as subordinated liabilities of € 0.4 billion. Aareal Bank has therefore maintained its long-term funding at a high level.

Of the various privately- and publicly-placed issues, particular mention should be made of the five-year, € 500 million Aareal Bank Mortgage Pfandbrief.

**Capital market funding mix as at 31 March 2014**

% Total volume: € 29.6 bn




We also successfully placed a € 300 million subordinated bond on the capital market in March 2014.

As a result of 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

As at 31 March 2014, Aareal Bank Group's consolidated equity amounted to € 2,1 billion, excluding the SoFFin silent participation and trust preferred securities.

**Regulatory indicators**[3)4)]

| | 31 Mar 2014 |
|---|---|
| € mn | |
| Common equity tier 1 | 2,295 |
| Tier 1 | 2,620 |
| Total capital | 3,534 |
| Risk-weighted assets (incl. market risk) | 16,437 |
| % | |
| Common equity tier 1 ratio | 14.0 |
| Tier 1 ratio | 15.9 |
| Total capital ratio | 21.5 |

[1)] Details based on the nominal volume
[2)] All rating details are based on composite ratings.
[3)] After confirmation of Aareal Bank AG's financial statements for 2013. The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of net profit for the financial year 2013. The appropriation of profits is subject to approval by the General Meeting.
[4)] Since 1 January 2014, regulatory indicators have been determined in accordance with CRD IV/CRR, based on carrying amounts in accordance with IFRSs. Until 31 December 2013, the rules of the German Solvency Regulation (SolvV) were applied for this purpose, based on carrying amounts in accordance with HGB. The Bank therefore decided against stating comparative amounts.

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

31 March 2014[1]

| € mn | EAD | Risk-weighted assets (RWA) | | | Regulatory capital requirements |
|---|---|---|---|---|---|
| | | AIRBA | CRSA | Total | |
| **Credit risks** | **51,195** | **10,898** | **3,599** | **14,497** | **1,160** |
| Companies | 30,882 | 9,149 | 2,403 | 11,552 | 924 |
| Institutions | 5,330 | 690 | 123 | 813 | 65 |
| Public-sector entities | 13,414 | 0 | 16 | 16 | 1 |
| Other | 1,569 | 1,059 | 1,057 | 2,116 | 170 |
| **Market price risks** | | | | **656** | **52** |
| **Operational risks** | | | | **1,284** | **103** |
| **Total** | **51,195** | **10,898** | **3,599** | **16,437** | **1,315** |

RWA acquired through the takeover of Corealcredit were determined in accordance with the Credit Risk Standard Approach (CRSA).

## Report on Material 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 2013 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of this interim report, we will once again briefly outline the key components of our risk management structure, together with the key developments during the period under review.

The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and in strict consideration of 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 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.

[1] Since 1 January 2014, regulatory indicators have been determined in accordance with CRD IV/CRR, based on carrying amounts in accordance with IFRSs. Until 31 December 2013, the rules of the German Solvency Regulation (SolvV) were applied for this purpose, based on carrying amounts in accordance with HGB. The Bank therefore decided against stating comparative amounts.

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

| €mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Own funds for risk cover potential | 2,530 | 2,504 |
| less 8 % minimum Common equity tier 1 | 1,442 | 1,282 |
| **Freely available funds** | **1,088** | **1,222** |
| **Utilisation of freely available funds** | | |
| Credit risks | 279 | 225 |
| Market risks | 180 | 220 |
| Operational risks | 51 | 44 |
| Investment risks | 37 | 28 |
| **Total utilisation** | **548** | **516** |
| **Utilisation as a percentage of freely available funds** | **50 %** | **42 %** |

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 German Solvency Regulation (SolvV). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a Common equity tier 1 ratio (calculated in accordance with Basel III) of 8 %. Only free own funds exceeding this level are applied as potential risk cover, of which a further 12 % is retained as a risk cushion. This cushion is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks).

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum Common equity tier 1 ratio of 8 %, 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 Bank's overall risk exposure as at 31 March 2014.

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

## Credit riks

### Definition

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

### Risk measurement and monitoring

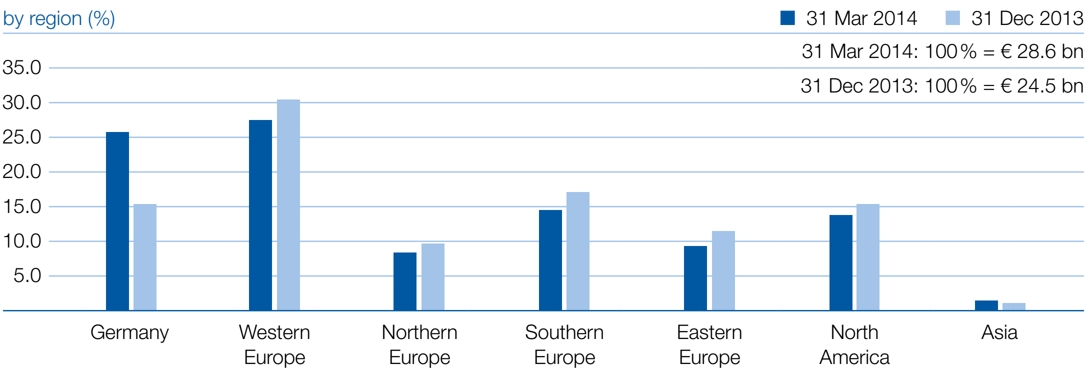
Aareal Bank's structural organisation and business processes are consistently geared towards effective and professional risk management. Regulatory requirements are fully taken into account for the organisation of operations and workflows in the credit and trading business.

Processes in the credit and trading businesses are designed to consistently respect the clear functional separation of Sales units and Credit Management, 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.

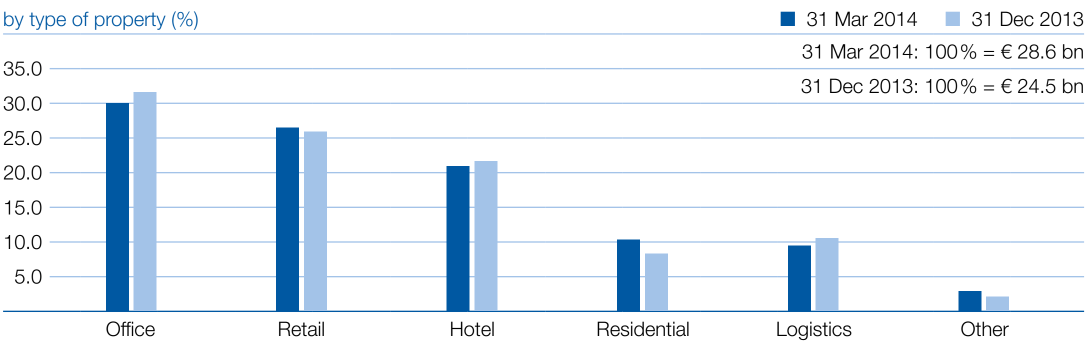
Aareal Bank employs various risk classification procedures for the initial, regular, or event-driven assessment of counterparty risk; these procedures are adapted specifically to meet the requirements of the relevant business activity and are subject to permanent review and improvement. Responsibility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

Methods used to measure, control and monitor concentration and diversification effects on a portfolio level include two diverse 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.

#### Property financing volume (amounts drawn)




#### Property financing volume (amounts drawn)



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

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

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

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

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

### Country risks

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

### Market price risks

#### Definition

Market price risk is broadly defined as the threat of losses due to changes in market parameters. Aareal Bank'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 risk parameters 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 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's 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 |
|---|---|---|---|---|
| **Q1 2014 (2013 year-end values) 95%, 250-day holding period** | | | | |
| Aareal Bank Group – general market price risk | 181.7 (260.8) | 129.4 (137.1) | 149.0 (184.5) | – (–) |
| Group VaR (interest rates) | 167.2 (248.8) | 113.0 (136.2) | 135.7 (177.3) | – (–) |
| Group VaR (FX) | 58.8 (46.5) | 53.0 (31.2) | 57.0 (39.0) | – (–) |
| VaR (funds) | 0.3 (7.0) | 0.3 (0.3) | 0.3 (3.6) | 20.0 (20.0) |
| Aggregate VaR in the trading book (incl. specific VaR) | 0.0 (0.0) | 0.0 (0.0) | 0.0 (0.0) | 5.0 (5.0) |
| Trading book VaR (interest rates) | 0.0 (0.0) | 0.0 (0.0) | 0.0 (0.0) | – (–) |
| Trading book VaR (FX) | 0.0 (0.0) | 0.0 (0.0) | 0.0 (0.0) | – (–) |
| VaR (equities) | 0.0 (0.0) | 0.0 (0.0) | 0.0 (0.0) | – (–) |
| Group VaR (specific risks) | 135.6 (227.7) | 110.8 (132.9) | 123.4 (183.6) | – (–) |
| Aggregate VaR – Aareal Bank Group | 226.7 (318.6) | 171.7 (205.2) | 193.6 (262.2) | 390.0 (400.0) |

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

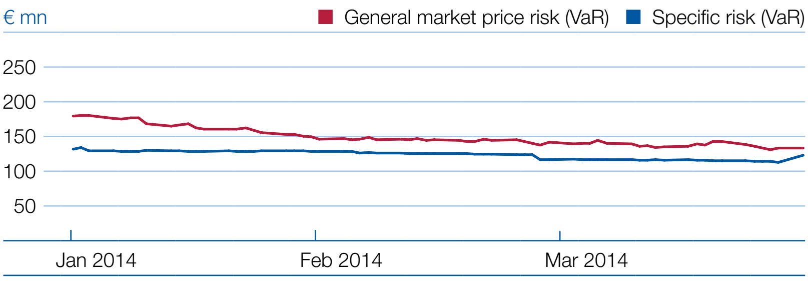
| € mn | MAX | MIN | Mean | Limit |
|---|---|---|---|---|
| **Q1 2014 (2013 year-end values)** **95%, 1-day holding period** | | | | |
| Aareal Bank Group – general market price risk | 11.5 (16.5) | 8.2 (8.7) | 9.4 (11.7) | – (–) |
| Group VaR (interest rates) | 10.6 (15.7) | 7.1 (8.6) | 8.6 (11.2) | – (–) |
| Group VaR (FX) | 3.7 (2.9) | 3.4 (2.0) | 3.6 (2.5) | – (–) |
| VaR (funds) | 0.0 (0.4) | 0.0 (0.0) | 0.0 (0.2) | 1.3 (1.3) |
| Aggregate VaR in the trading book (incl. specific VaR) | 0.0 (0.0) | 0.0 (0.0) | 0.0 (0.0) | 0.3 (0.3) |
| Trading book VaR (interest rates) | 0.0 (0.0) | 0.0 (0.0) | 0.0 (0.0) | – (–) |
| Trading book VaR (FX) | 0.0 (0.0) | 0.0 (0.0) | 0.0 (0.0) | – (–) |
| VaR (equities) | 0.0 (0.0) | 0.0 (0.0) | 0.0 (0.0) | – (–) |
| Group VaR (specific risks) | 8.6 (14.4) | 7.0 (8.4) | 7.8 (11.6) | – (–) |
| Aggregate VaR – Aareal Bank Group | 14.3 (20.1) | 10.9 (13.0) | 12.2 (16.6) | 24.7 (25.3) |

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

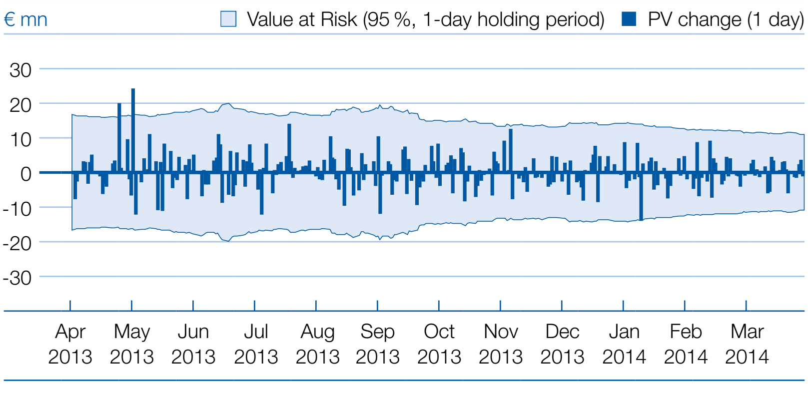
### Backtesting
The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper 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). No 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

**General market price risk and specific risk during 2014**




**Present values and 1-day VaR during 2013/2014**



to assign transactions to the trading portfolio as defined by the German Banking Act. Given that no such trades were concluded during the period under review, trading book risks played a negligible role in the overall risk scenario.

### Liquidity risks

Liquidity risk in the narrower sense is defined as the risk that current or future payment obligations cannot be met in full or on time. Aareal Bank'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

Aareal 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 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 semi-annual 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 semi-annual basis. Moreover, information about legal risks is also 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 2013 Annual Report contains a detailed description of controlling tools employed by the Bank to manage operational risk, plus the relevant responsibilities.

Within the scope of the acquisition of Corealcredit, Aareal Bank also assumed legal, tax and credit risks. These risks were assessed on a conservative basis and are hedged comprehensively.

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.

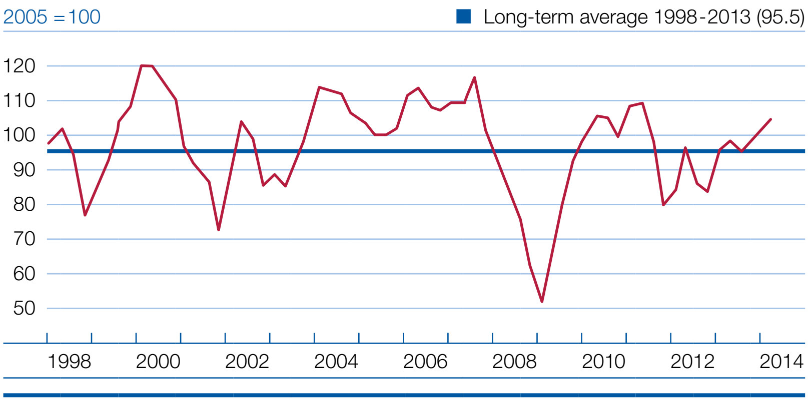
Operational risk management also includes the reporting to the Bank's Management Board about outsourced activities and processes.

### 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.

**ifo Global Economic Climate***




* Arithmetic mean of the assessment of the current situation and expected developments,
Source: ifo World Economic Survey (WES) I/2014

## Report on Expected Developments

### Macro-economic environment

#### Economy

Indicators currently point towards a slight improvement of economic activity, compared to the previous year. Various sentiment indicators have improved and uncertainty concerning the development of the European sovereign debt crisis is less widespread than in 2013. Bearing in mind the considerable burdening factors – such as the high level of unemployment in many European countries – we only anticipate a slight, somewhat reluctant recovery. The global economy will therefore grow at a rate that is slightly above the previous year's level.

However, this trend still lacks broad fundamental support, giving rise to the growing danger of a defence against risks to monetary stability (or the stability of the euro system) taking too much time, or being too tentative. Such risks may in turn trigger systemic risks of substantial scale.

This means that considerable risks and uncertainty factors remain; the global economy – and especially the euro zone economy – is highly susceptible to disruption. One key uncertainty factor that is new lies in the political tension between Russia and the Ukraine, together with the political and economic responses of the West and the consequences of any potential Russian retaliatory measures. This crisis might turn into a severe burden on economic development, particularly in Europe – through trade channels, a potential increase in commodity prices, as well as through financial cross-relationships.

The European sovereign debt crisis continues to be another uncertainty factor. Despite the continued relief on financial and capital markets during the first quarter of 2014, a renewed appearance of uncertainty – which would burden financial and capital markets as well as overall economic demand – cannot be ruled out. In the event of a serious escalation of the sovereign debt crisis, the economy might fall into a deep recession; however, this is not a scenario which we currently deem probable.

A quick exit from expansive monetary policy – particularly by the US Federal Reserve – constitutes a risk for the global economy, as related interest rate increases might burden corporate investments more strongly than is currently assumed. A combination of several factors, including the tapering of bond purchases by the Fed, led investors to reassess the risk/return outlook for various emerging economies during the first quarter of the year, and to pull out capital. This is likely to further burden some of the emerging market economies and will constitute a serious risk factor for these countries during the remainder of the year.

Deflation also cannot be ruled out, especially in the euro zone: this would likely subdue private consumption and the propensity of enterprises to invest, which would noticeably burden economic development.

For the euro zone, we expect the slight economic recovery seen during the previous quarters to continue – also given the fact that uncertainty related to the sovereign debt crisis has been diminishing for quite some time now. Still, real gross domestic product is expected to only grow in a slow and gradual manner, due to the high level of unemployment in many places and with a view to the above-mentioned risk and uncertainty factors. This expected development is supported by a restrictive fiscal policy, albeit less pronounced than in previous years. Looking at individual countries, growth is likely to be slow in Belgium and France, for example. We also anticipate a slight increase in real economic output in Italy, the Netherlands and Spain, where we see a further stabilisation of the economy. We expect real economic output for Finland to be virtually unchanged, whilst we forecast higher – yet moderate – growth rates in Germany and Austria. Economic growth will be somewhat stronger – compared to euro zone member states – for many European countries outside the euro zone, including the Czech Republic, Denmark, Poland, Sweden, Switzerland, and the UK. In view of political tension and the potential economic consequences, we are cautious on developments in Russia and assume that the economy will only grow gradually. The Turkish economy is likely to grow at a noticeably lower rate compared to the previous year.

Whilst the unusually hard winter has burdened the US economy, we anticipate distinct growth there during the remainder of the year, with annualised growth rates that are noticeably stronger than in the previous year. This forecast is based on an improved economic environment, with a recovery trend on residential property markets, a reduced debt burden of private households and the clear decline in unemployment last year. Moreover, the compromises reached on the Federal budget and the debt ceiling during the first quarter of 2014 have contained uncertainty regarding financial policy. A moderate increase in interest rates is likely to follow the expected reduction ("tapering") of the US Federal Reserve's extensive bond purchases, or the Fed's exit from such purchases. The economic forecast for the US is based on the assumption that these interest rate rises will not compromise investments to a major extent – nonetheless, this represents a risk to economic development. In Canada, real gross domestic product is expected to grow a little less quicker than in the previous year, whereas Mexico should see a noticeable increase in its GDP growth rate.

For Japan, we expect moderate economic growth, roughly in line with last year's levels. Developments will be supported by a growing world economy as well as the exchange-rate-driven improvement in Japan's competitiveness, whereas the VAT increase is likely to dampen the economy during the remainder of the year. In China, real gross domestic product is expected to grow slightly less strongly than in the previous year, whereby growth rates remain high by international standards. We also assume a slightly lower growth rate for Singapore, compared to the previous year, considering the subdued outlook for private consumption.

Unemployment levels in many European countries will see only marginal changes, or a slight decline – meaning that unemployment is set to remain at elevated levels in the southern European countries in particular. In the US, stronger economic growth points towards a continuation of the marked decline in the unemployment rate.

#### Financial and capital markets, monetary policy and inflation

Some easing has been evident on the financial and capital markets for quite some time. There are no signs for any material changes to this situation in the developed economies during the current year. However, some emerging market economies might experience renewed tension, should investors continue to pull out capital to a significant extent in the future.

Whilst the impact of the European sovereign debt crisis has declined, related risks remain in this context. The financial and capital markets may still be very susceptible to shocks, should the sovereign debt crisis escalate.

In view of the low inflationary pressure, we assume that most central banks of developed economies will keep their key interest rates low. This would indicate that, under current conditions, short-term interest rates are also expected to remain at low levels. Any further reduction or termination of bond purchases by the Fed might lead to a moderate increase in long-term interest rates in the United States and other regions. Whilst risk premiums for euro zone periphery states are likely to remain in place in the current year, they are likely to further narrow considerably – provided there is no new uncertainty in connection with the European sovereign debt crisis.

Against the background of a slight, reluctant economic recovery, we consider inflationary pressure to be low. However, if commodity prices were to rise significantly – also for Western Europe – due to the tensions between Russia and the Ukraine, this might lead to a marked increase in inflation. Our view that this year's average inflation rate in the euro zone will be marginally lower than in 2013 remains unchanged. However, a deflationary scenario cannot be ruled out in this context. We anticipate low to moderate inflation levels for many European economies outside the euro zone. Inflation is also expected to be moderate in the US and Japan, whereas China will see slightly higher levels. Clearly higher inflation rates are conceivable in Russia and Turkey, however.

### Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. Accordingly, Aareal Bank will continue to focus on the related measures for implementation and how these will affect the Bank's business activities.

The ECB's comprehensive assessment in particular has raised requirements and ties up additional resources. Furthermore, additional regulatory requirements will need to be dealt with. These include, on a national level, the Minimum Requirements for the Design of Recovery Plans ("MaSan"), as well as the establishment of a framework for the restructuring and resolution of banks and securities firms on a European level, in order to ensure effective crisis management and orderly resolution.

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

## Sector-specific and business developments

### Structured Property Financing segment

At present, the market for commercial property financing is characterised by intense competition, and it is fair to expect the intensity of competition, which further increased compared to the previous year, to prevail during the course of this year. In general, the willingness of finance providers to accept lower margins and higher loan-to-value ratios in the developed economies is likely to noticeably increase further. The assumption of intense competition is not only valid for numerous countries in Europe, but also for North America as well as China and Japan. Diverging from this scenario, despite some more reluctance to provide finance in Southern Europe, a moderate easing of lending conditions is also expected in Italy and Spain.

Whilst lenders are expected to adhere to their preferred interest in financing first-class commercial properties in corresponding locations, we believe that financing offers for properties with a higher risk profile, and for large-volume projects, will pick up noticeably.

Developments on the commercial property markets[1] are influenced on the one hand by the expected slight economic recovery – accompanied in Europe by high unemployment in many countries – and by the high degree of investor liquidity on the other hand. For investors holding significant liquidity and chasing yield in a low interest rate environment, commercial property might continue to be attractive as a form of investment, which would stimulate demand on commercial property markets.

Considering the slow economic recovery and high unemployment levels, we believe that commercial property rents and values in numerous European countries are likely to remain stable on average. This expectation covers a broad range of countries; examples include Sweden in Northern Europe, Belgium in Western Europe, Poland in Eastern Europe, as well as Russia and Turkey. It is currently impossible to gauge the implications of political tension between Russia and the Ukraine on the Russian commercial property market. We also anticipate a stable development of property values and rents in Italy and Spain. In contrast, we expect property values and rents to slightly decline, on a country average, in France and – to a somewhat more pronounced extent – in the Netherlands. Thanks to strong demand for commercial property in Germany and the United Kingdom, combined with a favourable economic outlook, we expect property values and rents to appreciate noticeably there. For Denmark we expect a slight increase.

Taking the high levels of liquidity and investor demand into account, together with economic growth, we expect moderate increases in rents and market values for commercial property in the United States. This outlook also incorporates the expected moderate increase in long-term interest rates, which will have a dampening effect. We assume property values and rents in Canada to remain stable, and have the same expectation for Singapore. For Japan, we forecast a markedly positive trend. Considering expected interest rate increases, we adopt a more reluctant stance in our assessment for China, assuming property values to decline slightly on a country average.

The developments outlined above should, in our view, tend to apply to office, retail and logistics property markets. On the hotel markets in Europe and Asia, we see the possibility for average revenues per available hotel room to remain roughly in line with the previous year. However, this forecast needs to take into account a relatively high degree of revenue volatility, with individual markets likely to show divergence. The uptrend in North America is likely to continue.

The trend of growing investor interest in properties with a higher risk profile is likely to continue during the course of this year, with high levels of investor liquidity and a shortage of prime property playing a role in this context. Accordingly, we expect to see a clear increase in liquidity flows into markets outside the premium segment.

Macro-economic risks and uncertainty factors will continue to be relevant for the further development of the commercial property markets. If these factors were to materialise in a way that places a significant burden on economic developments, or the economy falls into a marked recession, this would likely trigger significant declines in property values and rents. Moreover, there is a risk of interest rates (as a result of a scaling-back of the Fed's expansive monetary policies) rising significantly beyond expectations, which would noticeably dampen the development of property values. Conversely, limited supply – due to the low level of completions over recent years, in Europe and the US – may provide support to commercial property markets.

We have determined our target for new business in line with market conditions and expected economic developments, amongst other things. Our target for aggregate new business originated this year is unchanged, at between € 8 billion and € 9 billion.

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

We want to continue to use club deals and syndicated financing in the future, to allow us to participate in large-volume financings and to diversify risk.

Our property financing portfolio will show a marked increase this year, compared to the year-end 2013, primarily due to the acquisition of Corealcredit. The regional focus will continue to be on Western Europe and North America; we continue to strive for a broad diversification by region and by property type.

These forecasts are based on the assumption that uncertainty and risks related to the macroeconomic environment and the property markets will not materialise to any significant extent, for example, in the form of a deep recession. If this were to happen, new business might be influenced, with a noticeable reduction in newly.

## Consulting/Services segment

### Bank division Housing Industry

We also expect developments within the German housing industry and commercial property sector to remain solid for the remainder of the year, thanks mainly to largely constant rental returns and long-term financing structures. Companies in the sector will continue to pursue a sustainable development of their portfolios, largely aimed at improving the properties' energy efficiency.

Given the improvement in the domestic economy and rising employment levels, the positive development on the housing market is expected to continue. Residential property prices in conurbations are forecast to increase by between 3 % and 5 % in 2014. A shortage of housing is expected especially in growth regions, whereas residential property prices are more likely to remain unchanged in regions with weak economic performance.

With developments in the capital markets remaining difficult to calculate, safety-oriented investors are also expected to remain active in the residential property sector in the months ahead. Large listed companies and special investment funds will continue to invest in residential property, both directly and indirectly. Due to limited supply, investor interest is focused predominantly on medium-sized portfolio segments in high-growth main and regional centres.

We expect transaction volumes on the market for residential property investments to remain high, at a level of around € 10 billion.

We see good opportunities during 2014 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.

Looking at the volume of deposits taken, we expect the positive trend to continue, particularly in relation to current account balances and rent deposits. However, interest rate levels – which are relevant for income from the deposit-taking business – have remained very low. Against this background, we anticipate further pressure 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

The digitisation of communication in the property industry, and the related use of CRM solutions and mobile applications, are becoming increasingly important. In this context, the IT trend of cloud computing will become further established on the market for property management software.

For 2014, Aareon expects a slight increase in earnings before interest and taxes (EBIT), primarily driven by the acquisition of Sweden's Incit AB in 2013, the continued migration of GES clients to Wodis Sigma, and strong growth among its international subsidiaries.

EBIT in Aareon's domestic operations is forecast to remain virtually unchanged from 2013's levels. A slight increase in sales revenues will be offset by higher personnel and other staff-related costs, as well as higher project-related costs.

Aareon expects unchanged sales revenues and EBIT in its ERP products segment in 2014, with a strong increase in sales revenues anticipated for the Wodis Sigma product line. Decisive factors will be activities that are designed to gradually increase the level of migrations, and to boost the need for consultancy services – with a view to growing advisory and licence fees. Business in the GES product line during the financial year under review was largely characterised by major one-off projects, and the implementation of SEPA. Given the non-recurring character of these effects and the continued migration of GES clients to Wodis Sigma, Aareon expects markedly lower product revenues in 2014.

The company continues to expect stable sales revenues from the SAP® solutions and Blue Eagle product line.

Significant sales revenue growth is expected in the Integrated Services segment; contributing factors include demand for the Aareon CRM and Mobile Services solutions (launched in 2013) and the Aareon Archiv kompakt product. In this context, Aareon also anticipates a positive development of sales revenues in Integrated Services consulting. Thanks to a high level of development work, EBIT in this segment is set to remain at the previous year's level.

In its International Business segment, Aareon expects significant EBIT growth, also reflecting the acquisition of Sweden's Incit AB. At the same time, we also forecast significant increases in sales revenues and results for Aareon's other international subsidiaries.

Overall, Aareon forecasts a marked increase in sales revenues for the next year, with EBIT of around € 28 million, slightly higher year-on-year, and an EBIT margin of around 16 %.

## Group targets

We have incorporated the acquisition of Corealcredit into our forecasts for the 2014 financial year.

We expect net interest income in the 2014 financial year to rise to between € 610 and € 640 million. Net interest income is set to benefit from good margins from the previous years' lending business, a larger credit portfolio, low funding costs, as well as the acquisition of Corealcredit. The low interest rate environment continues to have negative implications for net interest income, both in relation to the deposit-taking business and – because of the lack of attractive investment opportunities – for the liquidity reserves.

Despite a larger loan portfolio, Aareal Bank continues to forecast allowance for credit losses in a range of € 100 million to € 150 million, which is slightly more optimistic than in the previous year. As in previous years, the Bank cannot rule out additional allowance for unexpected credit losses that may be incurred during 2014.

Net commission income is projected to increase slightly, to between € 170 million and € 180 million.

Administrative expenses are expected in the region of € 430 million to € 450 million. A material reason for the projected increase over the previous year is the acquisition of Corealcredit.

Overall, we believe there is a good chance to achieve consolidated operating profit of between € 370 million and € 390 million for the current financial year, including the negative goodwill from the acquisition of Corealcredit. Adjusted for this non-recurring effect, we anticipate consolidated operating profit of between € 220 million and € 240 million.

Excluding said non-recurring effect, return on equity (RoE) before taxes is projected to be around 9 %.

New business of between € 8 billion and € 9 billion is expected for the Structured Property Financing segment in 2014.

In the Consulting/Services segment, we anticipate a slightly higher result before taxes for Aareon of around € 28 million.

# Consolidated Financial Statements
# Statement of Comprehensive Income

## Income Statement

| € mn | Notes | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|---|
| Interest income | | 226 | 204 |
| Interest expenses | | 82 | 83 |
| **Net interest income** | 1 | **144** | **121** |
| Allowance for credit losses | 2 | 37 | 17 |
| **Net interest income after allowance for credit losses** | | **107** | **104** |
| Commission income | | 48 | 44 |
| Commission expenses | | 8 | 6 |
| **Net commission income** | 3 | **40** | **38** |
| Net result on hedge accounting | 4 | 2 | -3 |
| Net trading income/expenses | 5 | 2 | 6 |
| Results from non-trading assets | 6 | 0 | -1 |
| Results from investments accounted for using the equity method | | – | – |
| Administrative expenses | 7 | 102 | 92 |
| Net other operating income/expenses | 8 | 16 | -5 |
| Negative goodwill from the acquisition of Corealcredit | 9 | 150 | - |
| **Operating profit** | | **215** | **47** |
| Income taxes | | 20 | 15 |
| **Net income/loss** | | **195** | **32** |
| | | | |
| **Allocation of results** | | | |
| Net income/loss attributable to non-controlling interests | | 5 | 5 |
| Net income/loss attributable to shareholders of Aareal Bank AG | | 190 | 27 |
| | | | |
| **Appropriation of profits** | | | |
| Net income/loss attributable to shareholders of Aareal Bank AG | | 190 | 27 |
| Silent participation by SoFFin | | 5 | 5 |
| **Consolidated profit/loss** | | **185** | **22** |
| | | | |
| € | | | |
| Earnings per share | | 3.18 | 0.45 |
| Diluted earnings per share | | 3.18 | 0.45 |

Earnings per share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of shares outstanding during the reporting period.

# Statement of Comprehensive Income

## Reconciliation from Net Income/Loss to Total Comprehensive Income

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| **Net income/loss** | **195** | **32** |
| Items that will not be reclassified subsequently to profit or loss | | |
| **Changes in the reserve from defined benefit plans** | **-9** | **–** |
| Result from defined benefit plans | -13 | – |
| Taxes | 4 | – |
| Items that are reclassified subsequently to profit or loss | | |
| **Changes in revaluation surplus** | **29** | **20** |
| Gains and losses on remeasuring AfS financial instruments | 39 | 27 |
| Reclassifications to the income statement | – | – |
| Taxes | -10 | -7 |
| **Changes in hedging reserves** | **-3** | **2** |
| Profit/loss from derivatives used to hedge future cash flows | -4 | 2 |
| Reclassifications to the income statement | – | – |
| Taxes | 1 | 0 |
| **Changes in currency translation reserves** | **0** | **0** |
| Profit/loss from translating foreign operations' financial statements | 0 | 0 |
| Reclassifications to the income statement | – | – |
| Taxes | – | – |
| **Other comprehensive income** | **17** | **22** |
| **Total comprehensive income** | **212** | **54** |
| **Allocation of total comprehensive income** | | |
| Total comprehensive income attributable to non-controlling interests | 5 | 5 |
| Total comprehensive income attributable to shareholders of Aareal Bank AG | 207 | 49 |

# Segment Reporting

## Segment Results

| € mn | Structured Property Financing | | Consulting/ Services | | Consolidation/ Reconciliation | | Aareal Bank Group | |
|---|---|---|---|---|---|---|---|---|
| | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
| Net interest income | 143 | 118 | 0 | 0 | 1 | 3 | 144 | 121 |
| Allowance for credit losses | 37 | 17 | | | | | 37 | 17 |
| **Net interest income after allowance for credit losses** | **106** | **101** | **0** | **0** | **1** | **3** | **107** | **104** |
| Net commission income | 1 | 2 | 40 | 39 | -1 | -3 | 40 | 38 |
| Net result on hedge accounting | 2 | -3 | | | | | 2 | -3 |
| Net trading income/expenses | 2 | 6 | | | | | 2 | 6 |
| Results from non-trading assets | 0 | -1 | | | | | 0 | -1 |
| Results from investments accounted for using the equity method | | | | | | | | |
| Administrative expenses | 56 | 50 | 46 | 42 | 0 | 0 | 102 | 92 |
| Net other operating income/expenses | 16 | -4 | 0 | -1 | 0 | 0 | 16 | -5 |
| Negative goodwill from the acquisition of Corealcredit | 150 | | | | | | 150 | |
| **Operating profit** | **221** | **51** | **-6** | **-4** | **0** | **0** | **215** | **47** |
| Income taxes | 22 | 16 | -2 | -1 | | | 20 | 15 |
| **Net income/loss** | **199** | **35** | **-4** | **-3** | **0** | **0** | **195** | **32** |
| **Allocation of results** | | | | | | | | |
| Net income/loss attributable to non-controlling interests | 4 | 4 | 1 | 1 | | | 5 | 5 |
| Net income/loss attributable to shareholders of Aareal Bank AG | 195 | 31 | -5 | -4 | 0 | 0 | 190 | 27 |
| Allocated equity | 1,258 | 1,197 | 103 | 85 | 999 | 948 | 2,360 | 2,230 |
| Cost/income ratio (%) | 34.3 | 42.2 | 114.5 | 111.7 | | | 49.8 | 59.0 |
| RoE before taxes (%) [1] | 69.1 | 15.7 | -26.4 | -26.0 | | | 35.7 | 7.4 |
| **Employees (average)** | **806** | **739** | **1,642** | **1,535** | | | **2,448** | **2,274** |
| **Segment assets** | **41,156** | **38,593** | **8,576** | **6,533** | | | **49,732** | **45,126** |

[1] On an annualised basis

# Segment Reporting

## Consulting/Services Segment – Reconciliation of the Income Statement

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

| € mn | | | Income statement classification – bank | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Net interest income | Net commission income | 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** |
| | **Q1 2014** | | 0 | 40 | | | 46 | 0 | | **-6** | -2 | **-4** |
| | **Q1 2013** | | 0 | 39 | | | 42 | -1 | | **-4** | -1 | **-3** |
| **Income statement classification – industrial enterprise** | | | | | | | | | | | | |
| Sales revenue | Q1 2014 | 46 | | 46 | | | | | | | | |
| | Q1 2013 | 44 | | 44 | | | | | | | | |
| Own work capitalised | Q1 2014 | 1 | | | | | 1 | | | | | |
| | Q1 2013 | 1 | | | | | 1 | | | | | |
| Changes in inventory | Q1 2014 | 0 | | | | | | 0 | | | | |
| | Q1 2013 | 0 | | | | | | 0 | | | | |
| Other operating income | Q1 2014 | 1 | | | | | | 1 | | | | |
| | Q1 2013 | 0 | | | | | | 0 | | | | |
| Cost of materials purchased | Q1 2014 | 6 | | 6 | | | | | | | | |
| | Q1 2013 | 5 | | 5 | | | | | | | | |
| Staff expenses | Q1 2014 | 32 | | | | | 32 | | | | | |
| | Q1 2013 | 29 | | | | | 29 | | | | | |
| Depreciation, amortisation and impairment losses | Q1 2014 | 4 | | | | | 4 | | | | | |
| | Q1 2013 | 3 | | | | | 3 | | | | | |
| Results from investments accounted for using the equity method | Q1 2014 | | | | | | | | | | | |
| | Q1 2013 | | | | | | | | | | | |
| Other operating expenses | Q1 2014 | 12 | | | | | 11 | 1 | | | | |
| | Q1 2013 | 12 | | | | | 11 | 1 | | | | |
| Interest and similar income / expenses | Q1 2014 | 0 | 0 | | | | | | | | | |
| | Q1 2013 | 0 | 0 | | | | | | | | | |
| **Operating profit** | **Q1 2014** | **-6** | **0** | **40** | | | **46** | **0** | | | | |
| | **Q1 2013** | **-4** | **0** | **39** | | | **42** | **-1** | | | | |
| Income taxes | Q1 2014 | -2 | | | | | | | | | -2 | |
| | Q1 2013 | -1 | | | | | | | | | -1 | |
| **Segment result** | **Q1 2014** | **-4** | | | | | | | | | | |
| | **Q1 2013** | **-3** | | | | | | | | | | |

# Statement of Financial Position

| € mn | Notes | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|---|
| **Assets** | | | |
| Cash funds | | 1,402 | 1,222 |
| Loans and advances to banks | 10 | 3,367 | 2,531 |
| Loans and advances to customers | 11 | 29,960 | 25,924 |
| Allowance for credit losses | 12 | -396 | -361 |
| Positive market value of derivative hedging instruments | | 2,072 | 1,838 |
| Trading assets | 13 | 304 | 307 |
| Non-current assets held for sale and discontinued operations | | – | – |
| Non-trading assets | 14 | 11,916 | 10,668 |
| Investments accounted for using the equity method | | 1 | 1 |
| Intangible assets | 15 | 108 | 107 |
| Property and equipment | 16 | 98 | 98 |
| Income tax assets | | 54 | 24 |
| Deferred tax assets | | 265 | 110 |
| Other assets | 17 | 581 | 512 |
| **Total** | | **49,732** | **42,981** |
| **Equity and liabilities** | | | |
| Liabilities to banks | 18 | 2,834 | 1,589 |
| Liabilities to customers | 19 | 27,877 | 25,476 |
| Certificated liabilities | 20 | 11,655 | 10,124 |
| Negative market value of derivative hedging instruments | | 1,816 | 1,603 |
| Trading liabilities | 21 | 528 | 286 |
| Provisions | 22 | 666 | 289 |
| Income tax liabilities | | 138 | 36 |
| Deferred tax liabilities | | 9 | 9 |
| Other liabilities | 23 | 126 | 203 |
| Subordinated capital | 24 | 1,430 | 916 |
| Equity | 25, 26 | | |
| Subscribed capital | | 180 | 180 |
| Capital reserves | | 721 | 721 |
| Retained earnings | | 1,297 | 1,112 |
| Other reserves | | -88 | -105 |
| Silent participation by SoFFin | | 300 | 300 |
| Non-controlling interests | | 243 | 242 |
| Total equity | | 2,653 | 2,450 |
| **Total** | | **49,732** | **42,981** |

# Statement of Changes in Equity

| € mn | Subscribed capital | Capital reserves | Retained earnings | 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 | | | 190 | -9 | 29 | -3 | 0 | | 207 | 5 | 212 |
| Payments to non-controlling interests | | | | | | | | | | -4 | -4 |
| Dividends | | | | | | | | | | | |
| Silent participation by SoFFin | | | | | | | | | | | |
| Costs associated with the silent participation by SoFFin | | | -5 | | | | | | -5 | | -5 |
| Other changes | | | | | | | | | | | |
| **Equity as at 31 Mar 2014** | **180** | **721** | **1,297** | **-49** | **-21** | **-20** | **2** | **300** | **2,410** | **243** | **2,653** |

| € mn | Subscribed capital | Capital reserves | Retained earnings | 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 2013** | **180** | **721** | **1,020** | **-39** | **-99** | **-13** | **4** | **300** | **2,074** | **243** | **2,317** |
| Total comprehensive income for the period | | | 27 | | 20 | 2 | 0 | | 49 | 5 | 54 |
| Payments to non-controlling interests | | | | | | | | | | -4 | -4 |
| Dividends | | | | | | | | | | | |
| Silent participation by SoFFin | | | | | | | | | | | |
| Costs associated with the silent participation by SoFFin | | | -5 | | | | | | -5 | | -5 |
| Other changes | | | | | | | | | | | |
| **Equity as at 31 Mar 2013** | **180** | **721** | **1,042** | **-39** | **-79** | **-11** | **4** | **300** | **2,118** | **244** | **2,362** |

# Statement of Cash Flows (condensed)

| € mn | 2014 | 2013 |
|---|---|---|
| **Cash and cash equivalents as at 1 January** | **1,222** | **3,667** |
| Cash flow from operating activities | -129 | -343 |
| Cash flow from investing activities | -204 | 389 |
| Cash flow from financing activities | 513 | -24 |
| **Total cash flow** | **180** | **22** |
| Effect of changes in exchange rates | 0 | 0 |
| **Cash and cash equivalents as at 31 March** | **1,402** | **3,689** |

# Notes (condensed)

## Basis of Accounting

### Legal framework

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

This quarterly financial report for the period ended 31 March 2014 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, as well as an interim group management report (see Group Management Report) and was approved for publication by the Management Board on 28 April 2014.

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.

Aareal Finanz und IT Beteiligungen GmbH (formerly Aareal IT Beteiligungen GmbH), Wiesbaden, a subsidiary of Aareal Bank AG, acquired all of the shares of COREALCREDIT BANK AG (Corealcredit), Frankfurt/Main, which specialises in commercial property financing in Germany. A corresponding agreement was concluded on 22 December 2013 with the previous owner, a fund owned by financial investor Lone Star (seller). The (provisional) cash purchase price amounted to € 343 million. The closing was completed after the approval of the respective authorities and the fulfilment of additional conditions as at 31 March 2014. Accordingly, Aareal Bank Group obtained control over Corealcredit and included the acquired company in the consolidated financial statements of Aareal Bank Group as at 31 March 2014 (date of initial consolidation).

Through the acquisition of Corealcredit, Aareal Bank has exploited an attractive opportunity for external growth at a favourable point in time. With this transaction, Aareal Bank further expands its position as one of the leading specialists in commercial property financing. The reasons for the business combination also include optimising the allocation of equity as well as realising potential synergies which result from the combination of both companies, due to their very similar business models.

In accordance with IFRS 3, all identifiable assets and liabilities of the acquired entity have to be measured at their fair value at the time of acquisition (closing). These fair values also represent the amounts recognised upon initial consolidation. The excess of the net assets (i.e. the balance of assets and liabilities acquired and measured at fair value) over the (preliminary) purchase price paid is recognised as a negative goodwill in the income statement and directly increases the equity of Aareal Bank Group. This income amounts to € 150 million and is reported in the statement of comprehensive income in a separate item. This income primarily results from the utilisation of a favourable market environment for such transactions.

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

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

| € mn | Fair value as at 31 Mar 2014 (preliminary) |
|---|---|
| Cash funds | 9 |
| Loans and advances to banks | 845 |
| Loans and advances to customers | 3,278 |
| Allowance for credit losses (portfolio-based) | -18 |
| Positive fair values of derivative hedging instruments and trading assets | 81 |
| Non-trading assets | 1,387 |
| Intangible assets | 2 |
| Property and equipment | 1 |
| Income tax assets | 30 |
| Deferred tax assets | 157 |
| Other assets | 90 |
| **Total assets acquired** | **5,862** |
| | |
| Liabilities to banks | 1,273 |
| Liabilities to customers | 1,997 |
| Certificated liabilities | 1,143 |
| Negative fair values of derivative hedging instruments and trading liabilities | 320 |
| Provisions incl. contingent liabilities | 383 |
| Income tax liabilities | 103 |
| Other liabilities | 13 |
| Subordinated capital | 137 |
| **Total liabilities assumed** | **5,369** |
| | |
| **Total net assets acquired** | **493** |
| Negative goodwill | 150 |
| **(Preliminary) purchase price paid** | **343** |

The costs associated with the business combination amounted to € 9 million and were recognised as administrative expenses, predominantly in the 2013 financial year.

Within the scope of the acquisition of Corealcredit, Aareal Bank assumed legal, tax and credit risks. These risks were assessed on a conservative basis and have been hedged comprehensively in the financial statements. The obligations in connection with the risks assumed are recognised in the statement of financial position at fair value, in line with the related claims for reimbursement or recourse. Accordingly, recognition and measurement in the IFRS consolidated financial statements differ from recognition and measurement in the financial statements of Corealcredit prepared under the German Commercial Code. Ongoing litigation mainly refers to legal actions initiated by holders of profit-participation certificates of Corealcredit in relation to loss assumption in the past, which – according to the plaintiffs – was unjustified. This has led to strongly reduced repayments compared to the nominal receivables at final maturity of the profit-participation certificates. Tax risks relate to risks from ongoing tax audits. The seller of Corealcredit provided cash collateral to cover individual credit risks. Measurement is subject to several uncertainties and often requires significant estimates made by the management. The final amount of the cash outflows may deviate significantly from the measurement previously made in accounting. The time period and the actual amount of any potential cash outflows in connection with liabilities assumed cannot be determined exactly.

The income statement of the present interim consolidated financial statements does not include income or net income/loss generated by Corealcredit since the first-time consolidation was effected at the end of the reporting period.

### Accounting policies

Unless specifically indicated otherwise, the accounting policies applied in the preparation of the consolidated financial statements 2013 were also applied in the preparation of these condensed interim consolidated financial statements, including the calculation of comparative figures.

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

**IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28**

IFRS 10 replaces the guidance on control and consolidation included in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. The standard changes the definition of "control". According to the new definition, the same criteria are applied to all companies to determine whether a company controls an investee. The amendments to IFRS 10, which relate to investment entities, introduce new rules regarding the inclusion of controlled subsidiaries at investment entities. The application of IFRS 10 did not have any effects on the reporting entity structure of Aareal Bank.

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers that previously was applicable to the accounting for joint ventures. IFRS 11 governs the accounting for situations in which a company has joint control over a joint venture or a joint operation. The new standard eliminates the proportionate consolidation of joint ventures. In future, joint ventures will have to be accounted for using the equity method. In case of a joint operation, assets, liabilities, income and expenses directly attributable to the joint operator have to be recorded in the consolidated financial statements of that joint operator. The first-time application of IFRS 11 did not result in any adjustments required to be recorded within Aareal Bank Group.

IFRS 12 clarifies the disclosures required to be made by companies that apply the new standards IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. This standard replaces the disclosure requirements currently included in IAS 27, IAS 28 and IAS 31. The disclosure obligations set out in IFRS 12 are required to be applied to the fullest extent as at 31 December 2014.

**Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**
The amendments clarify some details in relation to offsetting financial assets and financial liabilities. As before, financial assets and financial liabilities are offset only when a company has a legally enforceable right to set off, and intends either to settle on a net basis or to realise the asset and settle the related liability simultaneously. The clarifications do not have any impact on the financial statements of Aareal Bank Group.

**Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)**
The amendments to IAS 39 provide companies relief from provisions related to the discontinuation of hedge accounting. Changes to derivative contracts required as a result of the introduction new laws or regulations, such as a switch to a central clearing counterparty, do not lead to a discontinuation of the hedging relationship in accordance with IAS 39. The amendments to IAS 39 have not had any material consequences for the consolidated financial statements of Aareal Bank.

**IFRIC 21**
IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and states that a company recognises levies imposed by government not until the activity that gives rise to a levy by law has occurred. The first-time application of IFRIC 21 does not have any impact on the financial statements of Aareal Bank Group. IFRIC 21 has yet to be incorporated into European law.

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

# Notes to the Statement of Comprehensive Income

## (1) Net interest income

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| Interest income from | | |
| Property loans | 174 | 157 |
| Public-sector loans | 3 | 4 |
| Other lending and money market operations | 26 | 17 |
| Debt and other fixed-income securities | 23 | 26 |
| Current dividend income | 0 | 0 |
| **Total interest income** | **226** | **204** |
| Interest expenses for | | |
| Bonds issued | 28 | 25 |
| Registered mortgage Pfandbriefe | 8 | 6 |
| Promissory note loans | 21 | 22 |
| Subordinated capital | 7 | 6 |
| Term deposits | 10 | 17 |
| Payable on demand | 7 | 7 |
| Other banking transactions | 1 | 0 |
| **Total interest expenses** | **82** | **83** |
| **Total** | **144** | **121** |

## (2) Allowance for credit losses

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| Additions | 43 | 20 |
| Reversals | 3 | 2 |
| Direct write-offs | 1 | 1 |
| Recoveries on loans and advances previously written off | 4 | 2 |
| **Total** | **37** | **17** |

The additions to the allowance for credit losses include an amount of € 31 million related to the recognition of portfolio-based valuation allowances. The recognition of these valuation allowances is attributable to a change in measurement parameters used for the determination of the portfolio-based valuation allowance and, to that extent, is largely a one-off effect. Our forecast for the entire financial year (€ 100-150 million) is not affected by this one-off effect. Please also refer to our statements in Note (12).

### (3) Net commission income

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| Commission income from | | |
| Consulting and other services | 43 | 40 |
| Trustee loans and administered loans | 1 | 1 |
| Securities transactions | – | – |
| Other lending and money market operations | 2 | 2 |
| Other commission income | 2 | 1 |
| **Total commission income** | **48** | **44** |
| Commission expenses for | | |
| Consulting and other services | 6 | 5 |
| Securities transactions | 0 | 0 |
| Other lending and money market operations | 1 | 0 |
| Other commission expenses | 1 | 1 |
| **Total commission expenses** | **8** | **6** |
| **Total** | **40** | **38** |

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

### (4) Net result on hedge accounting

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| Ineffective portion of fair value hedges | -1 | -3 |
| Ineffective portion of cash flow hedges | 3 | 0 |
| Ineffective portion of net investment hedges | 0 | 0 |
| **Total** | **2** | **-3** |

### (5) Net trading income/expenses

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| Net income/expenses from positions held for trading | 3 | 7 |
| Currency translation | -1 | -1 |
| **Total** | **2** | **6** |

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

### (6) Results from non-trading assets

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| Result from debt securities and other fixed-income securities | 0 | 0 |
| of which: Loans and receivables (LaR) | 0 | 0 |
| Available for sale (AfS) | – | – |
| Result from equities and other non-fixed income securities | 0 | -1 |
| of which: Available for sale (AfS) | 1 | – |
| Designated as at fair value through profit or loss (dFVtPL) | -1 | -1 |
| Results from equity investments (AfS) | 0 | - |
| **Total** | **0** | **-1** |

### (7) Administrative expenses

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| Staff expenses | 59 | 55 |
| Other administrative expenses | 38 | 32 |
| Depreciation, amortisation and impairment of property and equipment and intangible assets | 5 | 5 |
| **Total** | **102** | **92** |

### (8) Net other operating income/expenses

| € mn | 1 Jan-31 Mar 2014 | 1 Jan-31 Mar 2013 |
|---|---|---|
| Income from properties | 4 | 2 |
| Income from the reversal of provisions | – | 0 |
| Income from goods and services | 1 | 1 |
| Miscellaneous | 20 | 4 |
| **Total other operating income** | **25** | **7** |
| Expenses for properties | 4 | 2 |
| Expenses for services used | 0 | 0 |
| Write-downs of trade receivables | 0 | 0 |
| Expenses for other taxes | 1 | 0 |
| Miscellaneous | 4 | 10 |
| **Total other operating expenses** | **9** | **12** |
| **Total** | **16** | **-5** |

Miscellaneous other operating income includes one-off income in the amount of € 18 million from the reversal of provisions for settlement risks.

### (9) Negative goodwill from the acquisition of Corealcredit

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

## Notes to the Statement of Financial Position

### (10) Loans and advances to banks

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Money market receivables | 2,719 | 2,373 |
| Promissory note loans | 207 | 122 |
| Securities repurchase agreements | 400 | – |
| Other loans and advances | 41 | 36 |
| **Total** | **3,367** | **2,531** |

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

The increase in loans and advances to banks mainly results from the consolidation of Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities 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.

### (11) Loans and advances to customers

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Property loans | 27,751 | 23,848 |
| Promissory note loans | 1,516 | 1,435 |
| Other loans and advances | 693 | 641 |
| **Total** | **29,960** | **25,924** |

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

This increase in property loans mainly results from the consolidation of Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities 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.

## (12) Allowance for credit losses

**31 March 2014**

| € mn | Specific valuation allowances | Portfolio based valuation 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 | 11 | 31 | **42** | 1 | **43** |
| Write-downs | 19 | – | **19** | – | **19** |
| Reversals | 3 | 0 | **3** | – | **3** |
| Unwinding | 3 | – | **3** | – | **3** |
| Changes in basis of consolidation | – | 18 | **18** | 4 | **22** |
| Currency adjustments | 0 | 0 | **0** | 0 | **0** |
| **Allowance for credit losses as at 31 March** | **282** | **114** | **396** | **15** | **411** |

**31 December 2013**

| € mn | Specific valuation allowances | Portfolio based valuation 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** | **218** | **84** | **302** | **18** | **320** |
| Additions | 151 | – | **151** | 0 | **151** |
| Write-downs | 50 | – | **50** | 3 | **53** |
| Reversals | 9 | 19 | **28** | 5 | **33** |
| Unwinding | 12 | – | **12** | – | **12** |
| Changes in basis of consolidation | – | – | **–** | – | **–** |
| Currency adjustments | -2 | 0 | **-2** | – | **-2** |
| **Allowance for credit losses as at 31 December** | **296** | **65** | **361** | **10** | **371** |

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.

Additions to the portfolio-based valuation allowance (additions) in the first quarter of 2014 are mainly attributable to a harmonisation related to the inclusion of the so-called LIP factor (LIP – Loss Identification Period). While previously different LIP factors were used for each exposure class in the context of the determination of the portfolio-based valuation allowance, the LIP factor was generally harmonised to 1 for all exposure classes as at 31 March 2014. The effect from the adjustment of the LIP factor amounts to € 35 million. The forecast in relation to the allowance for credit losses for the entire financial year (€ 100-150 million) is not affected by this.

The increase in the balance of portfolio-based valuation allowances (changes in basis of consolidation) results from the initial consolidation of Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities 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.

### (13) Trading assets

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Positive market value of trading assets | 304 | 307 |
| **Total** | **304** | **307** |

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

### (14) Non-trading assets

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Debt and other fixed-income securities | 11,894 | 10,647 |
| of which: Loans and receivables (LaR) | 4,139 | 4,259 |
| Held to maturity (HtM) | 1,240 | – |
| Available for sale (AfS) | 6,515 | 6,388 |
| Equities and other non-fixed income securities | 20 | 20 |
| of which: Available for sale (AfS) | 20 | 20 |
| Designated as at fair value through profit or loss (dFVtPL) | – | – |
| Interests in affiliated companies (AfS) | – | – |
| Other investments (AfS) | 2 | 1 |
| **Total** | **11,916** | **10,668** |

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

This increase in debt and other fixed-income securities mainly results from the consolidation of Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities 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.

### (15) Intangible assets

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Goodwill | 66 | 66 |
| Proprietary software | 13 | 14 |
| Other intangible assets | 29 | 27 |
| **Total** | **108** | **107** |

### (16) Property and equipment

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Land and buildings and construction in progress | 77 | 77 |
| Office furniture and equipment | 21 | 21 |
| **Total** | **98** | **98** |

### (17) Other assets

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Properties | 421 | 413 |
| Trade receivables (LaR) | 28 | 34 |
| Miscellaneous | 132 | 65 |
| **Total** | **581** | **512** |

### (18) Liabilities to banks

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Money market liabilities | 2,094 | 838 |
| Promissory note loans | 401 | 385 |
| Registered mortgage Pfandbriefe | 241 | 254 |
| Registered public-sector Pfandbriefe | 44 | 46 |
| Other liabilities | 54 | 66 |
| **Total** | **2,834** | **1,589** |

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

This increase in money market liabilities mainly results from the consolidation of Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities 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.

### (19) Liabilities to customers

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Money market liabilities | 12,625 | 11,779 |
| Promissory note loans | 8,501 | 7,802 |
| Registered mortgage Pfandbriefe | 3,659 | 3,186 |
| Registered public-sector Pfandbriefe | 3,092 | 2,709 |
| **Total** | **27,877** | **25,476** |

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 Corealcredit as at 31 March 2014. In connection with the assets acquired and liabilities 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.

### (20) Certificated liabilities

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Bearer mortgage Pfandbriefe | 8,463 | 7,179 |
| Bearer public-sector Pfandbriefe | 61 | 35 |
| Other debt securities | 3,131 | 2,910 |
| **Total** | **11,655** | **10,124** |

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

The rise in bearer mortgage Pfandbriefe mainly results from the consolidation of Corealcredit. In connection with the assets acquired and liabilities 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.

### (21) Trading liabilities

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Negative market value of trading assets | 528 | 286 |
| **Total** | **528** | **286** |

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 initial consolidation of Corealcredit. In connection with the assets acquired and liabilities 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.

### (22) Provisions

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Provisions for pensions and similar obligations | 230 | 148 |
| Other provisions, including contingent liabilities | 436 | 141 |
| **Total** | **666** | **289** |

The increase in provisions for pensions and similar obligations debt and the increase in other provisions mainly results from the consolidation of Corealcredit. In connection with the provisions assumed and recognised 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.

### (23) Other liabilities

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Liabilities from outstanding invoices | 5 | 8 |
| Deferred income | 13 | 11 |
| Liabilities from other taxes | 24 | 29 |
| Trade payables (LaC) | 10 | 9 |
| Other liabilities (LaC) | 74 | 146 |
| **Total** | **126** | **203** |

### (24) Subordinated capital

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Subordinated liabilities | 1,034 | 524 |
| Profit-participation certificates | 167 | 166 |
| Contributions by silent partners [1] | 229 | 226 |
| **Total** | **1,430** | **916** |

[1] The silent participation by SoFFin is classified as equity in accordance with IFRSs; it is therefore not reported under contributions by silent partners, but as a separate item in equity.

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

The increase in subordinated liabilities mainly results from the consolidation of Corealcredit. In connection with the assets acquired and liabilities 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.

The Bank also issued subordinated liabilities in the nominal amount of € 391 million during the period under review.

### (25) Equity

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Subscribed capital | **180** | 180 |
| Capital reserves | 721 | 721 |
| Retained earnings | 1,297 | 1,112 |
| Other reserves | | |
| Reserve from remeasurements of defined benefit plans | -49 | -40 |
| Revaluation reserve | -21 | -50 |
| Hedging reserves | -20 | -17 |
| Currency translation reserves | 2 | 2 |
| Silent participation by SoFFin | 300 | 300 |
| Non-controlling interests | 243 | 242 |
| **Total** | **2,653** | **2,450** |

### (26) Treasury shares

No treasury shares were held during the period under review.

### (27) Dividends

The Management Board of Aareal Bank AG proposes to the Annual General Meeting to pay a dividend of € 0.75 per no-par value share, totalling € 44,892,915.75, from net retained profit of € 49,892,915.75 as reported under the German Commercial Code (HGB) for the financial year 2013. The Management Board also proposes to the Annual General Meeting to transfer the remaining distributable profit of € 5,000,000.00 to other retained earnings.

Within Aareal Bank Group's consolidated statement of financial position, a dividend payment reduces the retained earnings item within consolidated equity.

## Reporting on Financial Instruments

### (28) 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 the individual hierarchy levels is based on the inputs used for fair value measurement.

**31 March 2014**

| € mn | Total Fair value | Fair value level 1 | Fair value level 2 | Fair value level 3 |
|---|---|---|---|---|
| **Positive market value of derivative hedging instruments** | **2,072** | **–** | **2,072** | **–** |
| **Assets held for trading** | **304** | **–** | **304** | **–** |
| Trading derivatives | 304 | – | 304 | – |
| **Non-trading assets available for sale** | **6,535** | **6,444** | **91** | **–** |
| Fixed-income securities | 6,515 | 6,441 | 74 | – |
| Equities/funds | 20 | 3 | 17 | – |
| **Negative market value of derivative hedging instruments** | **1,816** | **–** | **1,816** | **–** |
| **Liabilities held for trading** | **528** | **–** | **528** | **–** |
| Trading derivatives | 528 | – | 528 | – |

**31 December 2013**

| € mn | Total Fair value | Fair value level 1 | Fair value level 2 | Fair value level 3 |
|---|---|---|---|---|
| **Positive market value of derivative hedging instruments** | **1,838** | **–** | **1,838** | **–** |
| **Assets held for trading** | **307** | **–** | **307** | **–** |
| Trading derivatives | 307 | – | 307 | – |
| **Non-trading assets available for sale** | **6,408** | **6,318** | **90** | **–** |
| Fixed-income securities | 6,388 | 6,315 | 73 | – |
| Equities/funds | 20 | 3 | 17 | – |
| **Negative market value of derivative hedging instruments** | **1,603** | **–** | **1,603** | **–** |
| **Liabilities held for trading** | **286** | **–** | **286** | **–** |
| Trading derivatives | 286 | – | 286 | – |

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

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

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

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

In the first three months of 2014, there were no 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.

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

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

| € mn | Carrying amount 31 Mar 2014 | Fair value 31 Mar 2014 | Carrying amount 31 Dec 2013 | Fair value 31 Dec 2013 |
|---|---|---|---|---|
| **Cash on hand and balances with central banks** | **1,402** | **1,402** | **1,222** | **1,222** |
| Loans and advances to banks (LaR) | 3,367 | 3,366 | 2,531 | 2,530 |
| Loans and advances to customers (LaR) | 29,564 | 31,412 | 25,563 | 27,298 |
| Non-trading assets (LaR) | 4,139 | 3,952 | 4,259 | 4,018 |
| Other assets (LaR) | 77 | 65 | 62 | 67 |
| **Total loans and receivables** | **37,147** | **38,795** | **32,415** | **33,913** |
| **Non-trading assets held to maturity** | **1,240** | **1,240** | **–** | **–** |
| **Non-trading assets available for sale** | **6,535** | **6,535** | **6,408** | **6,408** |
| **Positive market value of derivative hedging instruments** | **2,072** | **2,072** | **1,838** | **1,838** |
| **Assets held for trading** | **304** | **304** | **307** | **307** |
| Liabilities to banks (LaC) | 2,834 | 2,848 | 1,589 | 1,601 |
| Liabilities to customers (LaC) | 27,877 | 27,853 | 25,476 | 25,412 |
| Certificated liabilities (LaC) | 11,655 | 11,730 | 10,124 | 10,192 |
| Other liabilities (LaC) | 90 | 83 | 163 | 156 |
| Subordinated capital (LaC) | 1,430 | 1,449 | 916 | 914 |
| **Total liabilities measured at amortised cost** | **43,886** | **43,963** | **38,268** | **38,275** |

>

| € mn | Carrying amount 31 Mar 2014 | Fair value 31 Mar 2014 | Carrying amount 31 Dec 2013 | Fair value 31 Dec 2013 |
|---|---|---|---|---|
| **Negative market value of derivative hedging instruments** | **1,816** | **1,816** | **1,603** | **1,603** |
| **Liabilities held for trading** | **528** | **528** | **286** | **286** |
| **Financial guarantee contracts** | **122** | **122** | **120** | **120** |
| **Loan commitments** | **1,518** | **1,518** | **1,852** | **1,852** |

### (30) 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 | 2014 | 2013 |
|---|---|---|
| **Balance as at 1 January** | **27** | **10** |
| Additions from new transactions | 2 | 7 |
| Changes in basis of consolidation | 9 | – |
| Reversals through profit or loss in the period | 1 | 1 |
| **Balance as at 31 March** | **37** | **16** |

### (31) Reclassification of financial assets

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

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

| € mn | Carrying amount 31 Mar 2014 | Fair value 31 Mar 2014 | Carrying amount 31 Dec 2013 | Fair value 31 Dec 2013 |
|---|---|---|---|---|
| **from AfS to LaR** | **3,761** | **3,562** | **3,849** | **3,600** |
| Asset-backed securities | 26 | 26 | 27 | 27 |
| Senior unsecured bank bonds | 299 | 307 | 372 | 380 |
| Covered bank bonds | 497 | 516 | 495 | 509 |
| Public-sector issuers | 2,939 | 2,713 | 2,955 | 2,684 |
| **from HfT to LaR** | **117** | **114** | **121** | **115** |
| Asset-backed securities | 117 | 114 | 121 | 115 |
| **Total** | **3,878** | **3,676** | **3,970** | **3,715** |

If the Bank had not opted for reclassification, this would have resulted in a € 4 million gain (before taxes) for the first three months of the current financial year (Q1 2013: gain of € 6 million), and € 33 million (after taxes) (Q1 2013: € 36 million) would have been recognised in the revaluation surplus.

### (32) Bond and property financing portfolio in selected European countries

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

**Bond portfolio as at 31 March 2014**

| | Carrying amount | | | Revaluation surplus[1] | | | Unrealised gains/losses[1] |
|---|---|---|---|---|---|---|---|
| € mn | LaR + HtM | AfS | Total | LaR + HtM | AfS | Tiotal | |
| Greece | – | – | – | – | – | – | – |
| Ireland | – | – | – | – | – | – | – |
| Italy | 1,098 | 698 | 1,796 | -47 | -1 | -48 | -96 |
| Portugal | 63 | 176 | 239 | 0 | -4 | -4 | -8 |
| Spain | 742 | 205 | 947 | -3 | 4 | 1 | -35 |
| **Total** | **1,903** | **1,079** | **2,982** | **-50** | **-1** | **-51** | **-139** |
| Total as at 31 Dec 2013 | 1,834 | 952 | 2,786 | -51 | -22 | -73 | -177 |

[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 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 € 1,066 million (2013: € 939 million) were allocated to Level 1 of the fair value hierarchy pursuant to IFRS 7 and measured based on quoted prices on active markets. Securities with a carrying amount of € 13 million (2013: € 13 million) were allocated to Level 2 of the fair value hierarchy. No quoted market prices of the fair value hierarchy level 1 were available for these 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 31 March 2014**

| | Carrying amount[1] | Average LTV | Non-performimg loans |
|---|---|---|---|
| | € mn | % | € mn |
| Greece | – | | – |
| Ireland | – | | – |
| Italy | 2,942 | 70.3 | 419 |
| Portugal | – | | – |
| Spain | 1,032 | 89.0 | 92 |
| **Total** | **3,974** | | **511** |
| Total as at 31 Dec 2013 | 4,174 | | 515 |

[1] Not including valuation allowances

## Other Notes

### (33) Contingent liabilities and loan commitments

| € mn | 31 Mar 2014 | 31 Dec 2013 |
|---|---|---|
| Contingent liabilities on guarantees and indemnity agreements | 122 | 120 |
| Loan commitments | 1,518 | 1,852 |
| of which: irrevocable | 981 | 1,328 |

### (34) Employees

The number of Aareal Bank Group employees at 31 December 2014 is shown below:

| | 31 Mar 2014 | 31 Dec 013 |
|---|---|---|
| Salaried employees | 2,397 | 2,251 |
| Executives | 141 | 124 |
| **Total** | **2,538** | **2,375** |
| of which: Part-time employees | 440 | 423 |

The increase in the number of employees mainly results from the consolidation of Corealcredit as at 31 March 2014.

The average number of Aareal Bank Group employees in 2014 is shown below:

| | 1 Jan-31 Mar 2014 | 1 Jan-31 Dec 2013 |
|---|---|---|
| Salaried employees | 2,316 | 2,196 |
| Executives | 132 | 123 |
| **Total** | **2,448** | **2,319** |
| of which: Part-time employees | 428 | 427 |

### (35) Related party disclosures in accordance with IAS 24

In the first three months of the 2014 financial year, there were no material transactions with related parties that would have to be reported here.

### (36) 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.

## Executive Bodies of Aareal Bank AG

### Supervisory Board

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

**Erwin Flieger [1) 2) 4) 5)], Geretsried**
Deputy Chairman of the Supervisory Board
Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe

**York-Detlef Bülow [1) 2) 3) 6)], Messel**
Deputy Chairman of the Supervisory Board
Aareal Bank AG

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

**Manfred Behrens, Hannover**
CEO/Chairman of the Management Board of Swiss Life Deutschland Holding GmbH

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

**Dieter Kirsch [2) 4) 6)], Nackenheim**
Aareal Bank AG

**Dr. Herbert Lohneiß [4) 5)], Gräfelfing**
Former Chief Executive Officer of Siemens Financial Services GmbH (ret'd)

**Joachim Neupel [3) 4) 5)], Dreieich**
Chairman of the Audit Committee
German Chartered Accountant, tax consultant

**Richard Peters, Kandel**
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder

**Prof. Dr. Stephan Schüller [1) 2) 3)], Hamburg**
Spokesman of the General Partners of Bankhaus Lampe KG

**Helmut Wagner [6)], Hahnheim**
Aareon Deutschland GmbH

### Management Board

**Dr Wolf Schumacher**
Chairman of the Management Board

**Dagmar Knopek**
Member of the Management Board

**Hermann Josef Merkens**
Member of the Management Board

**Thomas Ortmanns**
Member of the Management Board

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

# Offices

## Wiesbaden Head Office

**Aareal Bank AG**
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3480
Fax: +49 611 3482549

## Structured Property Financing

**Brussels**
40 rue Joseph II-straat
1000 Brussels, Belgium
Phone: +32 2 5144090
Fax: +32 2 5144092

**Copenhagen**
St. Kirkestræde 1, 3
1073 Kopenhagen K, Denmark
Phone: +45 3369 1818
Fax: +45 70 109091

**Istanbul**
Ebulula Mardin Caddesi
Maya Meridyen Iş Merkezi
D:2 Blok · Kat. 11
34335 Akatlar-Istanbul, Turkey
Phone: +90 212 3490200
Fax: +90 212 3490299

**London**
38 Lombard Street
London EC3V 9BS, United Kingdom
Phone: +44 20 74569200
Fax: +44 20 79295055

**Madrid**
Calle María de Molina 40, 4
28006 Madrid, Spain
Phone: +34 915 902420
Fax: +34 915 902436

**Moscow**
Business Centre "Mokhovaya"
4/7 Vozdvizhenka Street
Building 2
125009 Moscow, Russia
Phone: +7 499 2729002
Fax: +7 499 2729016

**New York**
Aareal Capital Corporation
250 Park Avenue
Suite 820
New York NY 10177, USA
Phone: +1 212 5084080
Fax: +1 917 3220285

**Paris**
29 bis, rue d'Astorg
75008 Paris, France
Phone: +33 1 44516630
Fax: +33 1 42662498

**Rome**
Via Mercadante, 12/14
00198 Rome, Italy
Phone: +39 06 83004200
Fax: +39 06 83004250

**Shanghai**
Suite 2902
Tower 2 Plaza 66
No. 1266 Nanjing West Road
Jing An District
Shanghai 200040, P.R. of China
Phone: +86 21 62889908
Fax: +86 21 62889903

**Singapore**
Aareal Bank Asia Limited
3 Church Street
# 17-03 Samsung Hub
Singapore 049483, Singapore
Phone: +65 6372 9750
Fax: +65 6536 8162

**Stockholm**
Hamngatan 11
11147 Stockholm, Sweden
Phone: +46 8 54642000
Fax: +46 8 54642001

**Warsaw**
RONDO 1
Rondo ONZ 1
00-124 Warsaw, Poland
Phone: +48 22 5380060
Fax: +48 22 5380069

**Wiesbaden**
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482950
Fax: +49 611 3482020

**Aareal Estate AG**
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482446
Fax: +49 611 3483587

**Aareal Valuation GmbH**
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482059
Fax: +49 611 3482640

**Corealcredit Bank AG**
Grüneburgweg 58-62
60322 Frankfurt/Main, Germany
Phone: +49 69 71790
Fax: +49 69 7179100

**Deutsche Structured Finance GmbH**
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 9714010
Fax: +49 611 971401510

## Consulting / Services

**Aareal Bank AG**
**Housing Unit**
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482967
Fax: +49 611 3482499

**Housing Unit**
**Berlin Branch**
Wallstrasse 9-13
10179 Berlin, Germany
Phone: +49 30 88099444
Fax: +49 30 88099470

**Housing Unit**
**Essen Branch**
Alfredstrasse 220
45131 Essen, Germany
Phone: +49 201 81008100
Fax: +49 201 81008200

**Housing Unit**
**Hamburg Branch**
Neuer Dovenhof · Brandstwiete 1
20457 Hamburg, Germany
Phone: +49 40 33316850
Fax: +49 40 33316399

**Housing Unit**
**Leipzig Branch**
Neumarkt 2-4
04109 Leipzig, Germany
Phone: +49 341 2272150
Fax: +49 341 2272101

**Housing Unit**
**Munich Branch**
Prinzregentenstrasse 22
80538 Munich, Germany
Phone: +49 89 5127265
Fax: +49 89 51271264

**Housing Unit**
**Rhine-Main Branch**
Paulinenstrasse 15
65189 Wiesbaden, Germany
Hotline: +49 611 3482000
Fax: +49 611 3483002

**Housing Unit**
**Stuttgart Branch**
Büchsenstrasse 26
70174 Stuttgart, Germany
Phone: +49 711 2236116
Fax: +49 711 2236160

**Aareon AG**
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 3010
Fax: +49 6131 301419

**Aareal First Financial Solutions AG**
Isaak-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 4864500
Fax: +49 6131 486471500

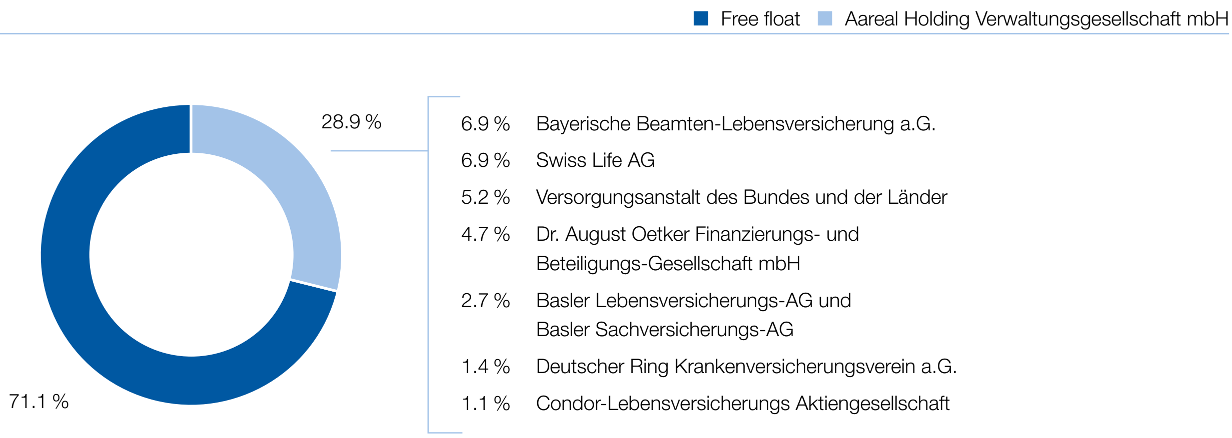
**Deutsche Bau- und Grundstücks-Aktiengesellschaft**
Lievelingsweg 125
53119 Bonn, Germany
Phone: +49 228 5180
Fax: +49 228 518298

## Deposit-taking

**Dublin**
4 Custom House Plaza · IFSC
Dublin 1, Ireland
Phone: +353 1 6369220
Fax: +353 1 6702785

# Shareholder Structure | Financial Calendar

## Shareholder Structure




as at 31 March 2014

## Financial Calendar

| | |
|---|---|
| 21 May 2014 | Annual General Meeting – Kurhaus, Wiesbaden |
| 12 August 2014 | Presentation of interim report as at 30 June 2014 |
| 11 November 2014 | Presentation of interim report as at 30 September 2014 |

# Locations


Structured Property Financing

Consulting / Services

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

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

as at 31 March 2014

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**Aareal Bank AG**
Investor Relations
Paulinenstrasse 15
65189 Wiesbaden, Germany

Phone: +49 611 348 3009
Fax: +49 611 348 2637

www.aareal-bank.com

05/2014

Aareal Bank Group