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Shaping the future.

Aareal Bank Group – Interim Report
1 January to 31 March 2017

Aareal Bank Group

Key Indicators

	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Results		
Operating profit (€mn)	71	87
Consolidated net income (€ mn)	47	60
Consolidated net income allocated to ordinary shareholders (€ mn)[1]	38	51
Cost/income ratio (%)[2]	53.1	49.2
Earnings per ordinary share (€)[1]	0.63	0.85
RoE before taxes (%)[1) 3]	9.6	12.4
RoE after taxes (%)[1) 3]	6.1	8.3

	31 Mar 2017	31 Dec 2016
Statement of financial position		
Property finance (€ mn)[4]	28,003	27,928
of which: international (€ mn)	23,651	23,423
Equity (€ mn)	2,906	3,129
Total assets (€ mn)	46,135	47,708
Regulatory indicators[5]		
Risk-weighted assets (€ mn)	13,958	14,540
Common Equity Tier 1 ratio (CET1 ratio) (%)	16.4	16.2
Tier 1 ratio (T1 ratio) (%)	19.2	19.9
Total capital ratio (TC ratio) (%)	26.5	27.5
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	16.2	15.7
Employees	2,724	2,728

	31 Mar 2017	31 Dec 2016
Fitch Ratings		
Issuer rating long-term	BBB+ (outlook: stable)	BBB+ (outlook: stable)
short-term	F2	F2
Pfandbrief rating	AAA	AAA
Moody's[6]		
Issuer rating long-term	Baa1 (outlook: stable)	Baa1 (outlook: stable)
short-term	P-2	P-2
Pfandbrief rating	AAA	AAA
Sustainability[7]		
MSCI	AA	AA
oekom	prime (C)	prime (C)
Sustainalytics	71	71

[1] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
[2] Structured Property Financing segment only
[3] On an annualised basis
[4] Excluding € 1.0 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2016: € 0.6 billion)
[5] The calculation of regulatory capital takes into account the Management and Supervisory Board's proposal for the appropriation of profits for the financial year 2016. The appropriation of profits is subject to approval by the Annual General Meeting.
[6] First published on 12 January 2017
[7] Please refer to our Sustainability Report for more details.

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

Contents

Letter from the Management Board

Dear shareholders,
business associates and staff members,

During the first three months of 2017, Aareal Bank Group operated in a market environment shaped by a variety of factors. Positive economic momentum of the past year was carried into the current period: The euro zone economy gained some ground during the first quarter; likewise, the economy in the US – where the focus was on the Federal Reserve's key interest rate hike – showed some improvement compared to the first quarters of previous years. In contrast, uncertainty concerning economic policy continued to burden the overall picture. Besides industry-specific challenges such as regulatory uncertainty, geopolitical factors (such as the impending "Brexit") as well as economic problems facing various economies provided a mixed macroeconomic perspective overall.

At the start of the year, financial market activity largely focused on the new US administration led by Donald Trump, as well as on the UK's exit from the European Union, which the British government formally applied for in March. Uncertainty regarding exact details of these issues – and their potential impact – provided grounds for speculation and led to corresponding volatility. This was exacerbated by higher energy prices, which fuelled inflation expectations on the market.

The most important central banks maintained an expansive monetary policy stance at the beginning of the year, adhering to their diverging paths in this context: whilst the US Federal Reserve (Fed) further hiked its key interest rate – last increased in December 2016 – the European Central Bank (ECB) and the Bank of Japan further maintained their accommodative monetary policies. Despite higher inflation in the first quarter of the year, negative interest rates continued to play a role; in many currency areas (including the euro zone) however, this continued to affect shorter maturities of up to three years.

Hence, the banking sector – especially in Europe – will continue to face the challenges of a low interest rate environment for the time being. These challenges also include notable competitive pressure in the segment of commercial property financing (on account of persistently high liquidity) – a segment that continues to be characterised by low margins, particularly in Europe. In contrast, margin levels in the US continue to be higher than in Europe, due to different structural aspects. Transaction volumes on commercial property markets showed a marked decline compared to the same quarter of the previous year. Nonetheless, given a lack of attractive alternative investments, property remained a sought-after asset class. Finally, the regulatory environment proved to be demanding, given existing requirements and changes in banking supervision. Especially when considering the extensive – and as yet unfinished – work the Basel Committee is undertaking to complete the Basel III regime, it is currently hardly possible to fully assess the impact on the banking sector.

Aareal Bank Group enjoyed a good start into the 2017 financial year. In a market environment that continued to be challenging, the Bank generated very solid consolidated operating profit of € 71 million (Q1 2016: € 87 million). Net interest income declined year-on-year, as expected, largely due to the planned reduction of the WestImmo and Corealcredit portfolios. The decline in net interest income was compensated by improved net commission income – mainly driven by Aareon's continued positive development – and lower administrative expenses.

In the Structured Property Financing segment, Aareal Bank Group generated operating profit of € 77 million. At € 2 million, allowance for credit losses remained at a very low level year-on-year. We affirm the forecast range of € 75 million to € 100 million for the full financial year, which is once again lower compared to the previous year. At the start of the year, Aareal Bank's new business originated in the Structured Property Financing segment virtually doubled compared with the same period of the previous year. In this context, we adhered to our consciously selective new business strategy geared towards high-margin markets such as North America; this enabled us to continue generating stable margins on new business, in a highly competitive environment. In line with the growth strategy for new business in North America, around 60 per cent of newly-originated loans were granted in the US market. New business totalled € 1.8 billion, compared to € 0.9 billion in the first quarter of 2016. Newly-originated loans accounted for almost 70 per cent of new business. The target for new business in this segment for the full year 2017 remains unchanged, at between € 7 billion and € 8 billion.

In the Consulting/Services segment, which – in line with our strategy – is set to evolve into a key growth driver for Aareal Bank Group over the years to come, the Bank's Housing Industry division further strengthened its market position, by acquiring new clients, at the beginning of the 2017 financial year. Our IT subsidiary Aareon was able to broaden its international business during the first quarter of 2017, successfully expanding its range of new digital solutions from the Aareon Smart World. In the segment's banking business, the volume of client deposits from the housing industry remained at a high level, averaging € 10.2 billion during the quarter under review (Q4 2016: € 10.0 billion), and thus in line with our medium-term target level of € 10 billion. We see this as evidence of our clients' continued confidence in Aareal Bank. Nevertheless, results from the deposit-taking business continued to be burdened by interest rates at historically low levels in the current year, leading to a segment operating loss of € 6 million.

Not least due to the ECB's current interest rate policy, we must assume that segment results will continue to be burdened by the low interest rate environment. Yet the importance of deposit-taking goes way 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.

Aareal Bank Group remained very solidly funded throughout the first quarter of 2017, executing its funding activities as planned. It maintained its inventory of long-term funding at a high level, raising € 0.9 billion on the capital markets. Specifically, it very successfully placed a benchmark € 0.5 billion Mortgage Pfandbrief issue in January, which was several times oversubscribed. As at 31 March 2016, the Bank's Tier 1 ratio was 19.2 per cent, which is comfortable on an international level. Assuming full implementation of Basel III, the fully phased-in Common Equity Tier 1 (CET1) ratio would be 16.2 per cent. This means that Aareal Bank continues to have a very solid capital base.

Aareal Bank Group's first-quarter performance, which was in line with projections, shows that we remain on the right path for this 2017 financial year. This is something we can be very satisfied with. We are consistently pursuing the priorities defined in our "Aareal 2020" strategy, in both business segments, and making very good progress. This is why, following the solid start into the current financial year, we remain confident that we will achieve our targets for 2017 and beyond. We affirm our forecast for the year as a whole, which we raised on 20 April. We see good opportunities to generate consolidated operating profit of between € 310 million and € 350 million in the current financial year – including a positive non-recurring effect in the amount of € 50 million, to be recognised in the second quarter of 2017, from a subsidiary's reversal of provisions against income – with earnings per share of between €2.85 and € 3.30. RoE before taxes for the current year is anticipated between 11 per cent and 12.5 per cent; when adjusted for the non-recurring effect mentioned above, the range is between 9 per cent and 10.5 per cent. We therefore affirm our medium-term target for return on equity of around 12 per cent before taxes.

Looking at the remainder of 2017, the macroeconomic environment is likely to continue being characterised by various uncertainty factors. Intense competition as well as pressure to adjust to regulatory changes are expected to continue unabated. Strategically, Aareal Bank Group will focus on further expediting investments into its future during the current year – further expanding its range of digital solutions, for example. At the same time, and in line with our strategy, we will continue to run down the credit portfolios of WestImmo and Corealcredit. In addition, the Bank is concentrating on the ongoing optimisation of processes and structures, having focused on the integration of its two major acquisitions during the course of previous years.

As announced at the beginning of 2017, we want to continue the Company's transformation, in line with the strategic priorities defined within the scope of "Aareal 2020". We have clearly defined our claim in this context: we will be the leading provider of smart financings, software products, and digital solutions for the property sector and related industries. We count on your support along this path, and would like to thank you for the trust you have placed in us.

For the Management Board

Yours sincerely,

Hermann J. Merkens
Chairman

Group Management Report

Report on the Economic Position

Macro-economic environment

Economy

Economic developments during the first quarter of 2017 maintained the momentum seen in 2016's final quarter. Demand increased markedly on a global level, thus favouring the European sentiment indicators. The economy in the euro zone grew significantly in the first quarter. Growth was slightly higher in the US, compared to the same period of the previous year. On the back of near-full employment and an inflation rate as targeted by the US Federal Reserve (Fed), the focus was mainly upon key interest rate hikes. However, uncertainty regarding the course of economic policy dampened the mood. China's economy entered the year with strong export and import figures, while the overheated residential property market eased slightly due to government intervention.

The unemployment rate declined slightly during the first quarter, both in the euro zone and in the European Union (EU) as a whole. Unemployment was also stable to slightly lower when looking at individual countries. Germany's unemployment rate was amongst the lowest in Europe, while it remained at a high level in Spain, despite slight decreases. Even though the reported US unemployment rate at the end of the quarter under review remained at the levels seen in December 2016, the number of people in employment actually continued to increase significantly.

Financial and capital markets, monetary policy and inflation

In the first quarter, market developments were influenced by the new US administration and the UK's formal application to leave the EU, submitted at the end of March. Much uncertainty surrounds the concrete options to specify these issues. Thus, speculation and publications in connection with both of them led to volatility. With rising energy prices, inflation expectations[1] on the market also increased.

In most currency areas, monetary policy remained expansionary in the first quarter of 2017. The European Central Bank (ECB) did not adjust its monetary policy in the quarter under review. Likewise, the Bank of Japan made no major adjustments to monetary policy, while, in the same period, Sweden's Riksbank maintained its key interest rate at -0.5 %.

The Fed, which had last raised its key interest rate by 25 basis points in December 2016, repeated this process in March, thus establishing a corridor of between 0.75 % and 1.00 % – accelerating the pace of increases.

Long-term interest rates[2] in many currency areas rose initially at the beginning of the year, before declining again slightly. At the end of the first quarter, they were slightly higher than at the 2016 year-end for the euro zone and roughly unchanged for the US dollar and pound sterling. Short-term maturities however saw a more mixed picture. Although modest rises for the US dollar, the Japanese yen and the Swedish krona were seen, short-term interest rates[3] in other currencies – such as the Canadian dollar, the Danish krone, the euro, pound sterling and the Swiss franc closed the quarter virtually unchanged from the 2016 year-end.

Negative interest rates continued to play a role in the first quarter – despite higher inflation. However, they only affected maturities up to three years in the euro zone and for the Swedish krona. In the first three months of the previous year, yields for these two currencies had been negative for maturities of up to four years. As seen in the previous year, the overall level of US dollar and pound sterling interest rates exceeded euro zone rates.

In the quarter under review, yields on long-term government bonds continued to rise – with a brief interruption – in many currency areas. Yields on

[1] Measured in terms of the USD and EUR 5Y/5Y forward swap
[2] Based on the 10-year swap rate
[3] Calculated on the basis of 3-month Euribor or the corresponding LIBOR or other comparable rates for other currencies

long-term government bonds in the UK had increased at the beginning of the year. As at quarter-end however they had fallen again, to reach a level slightly below year-end 2016. Long-term Italian government bond yields showed a more marked increase due to political uncertainty. Yields in Spain remained below US levels, whilst in Italy they were only barely lower.

Euro exchange rates against various currencies which are important to Aareal Bank – such as pound sterling, the Swedish krona and the Danish krone – showed relatively little change during the period under review. The euro appreciated marginally against the US dollar during the first quarter.

Mainly due to higher energy and rising food prices, inflation picked up noticeably in many economies during the first quarter of 2017. At just under 2 %, inflation in the euro zone was slightly higher than in the previous year's first quarter. Core inflation however was unchanged, remaining just below one per cent. Annualised inflation rose to around 2 % in the UK – partly because of the devaluation of the pound sterling compared to the same period of the previous year. US inflation increased, also thanks to a slightly better wage development, so that core inflation – excluding energy and food – rose slightly more than in the other major economies. Inflation remained moderate in China, at just under 2 %.

Regulatory environment

The environment in which banks are operating continues to be defined by highly dynamic regulatory requirements, as well as by changes in banking supervision. Especially when considering the extensive work the Basel Committee is undertaking to complete the already-implemented Basel III regime, it is currently not possible to fully assess the impact. In addition, the amendment to the Minimum Requirements for Risk Management (MaRisk) – including the new German Banking Supervisory Requirements for IT (BAIT), the EU Commission's proposals to revise supervisory regimes (CRR, CRD IV, BRRD and SRMR) as well as the EBA consultation paper "Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures", will all lead to further regulatory changes.

Following the introduction of the Single Supervisory Mechanism (SSM), Aareal Bank Group has been directly supervised by the ECB since 4 November 2014.

The ECB's Supervisory Review and Evaluation Process (SREP) ensures a common approach on the supervisory review of banks, within the framework of Pillar 2. The SREP is built around a business model analysis, an assessment of governance, as well as of the capital and liquidity risks. The results of the individual areas are aggregated in a score value, from which the ECB derives supervisory measures on holding additional capital and/or additional liquidity requirements. The ECB converted the SREP requirements from a pure CET1 ratio to a total SREP ratio (Total SREP Capital Requirement – "TSCR") with effect from 1 January 2017. This will be 9.75 % as of 1 January 2017, and includes the 8 % total capital ratio for Pillar 1 and a (Pillar 2) capital requirement of 1.75 % from the ECB's SREP. In addition, the Bank is required to hold a (phased-in) capital conservation buffer of 1.25 %, plus a countercyclical capital buffer of 0.03 % as of 2017. Aareal Bank's pure SREP-driven CET1 requirement has been 7.53 % since 1 January 2017, comprising 4.5 % for Pillar 1, the Pillar 2 capital buffer requirement of 1.75 % (as mentioned above), as well as the capital conservation buffer (1.25 %) and the countercyclical buffer (0.03 %). No further liquidity requirements were imposed upon Aareal Bank.

Sector-specific and business developments

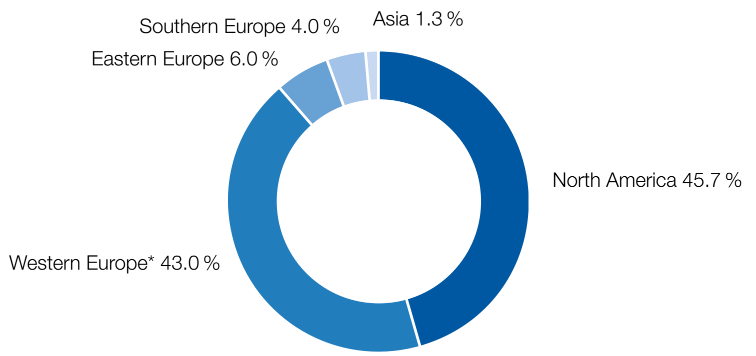
Structured Property Financing segment

Despite a slight increase in interest rates, commercial property continued to be a sought-after asset class. Global transaction volumes remained high, yet in US dollar terms, they were markedly lower than in the same period of the previous year. In some European markets however, such as Germany and Spain, volumes continued to increase. Investment yields for newly-acquired commercial property were largely stable in Europe during the first quarter, with only few markets reporting slight declines. US yields rose marginally in some markets. Rents for first-class commercial properties were virtually stable on most markets, although rents rose in some markets, and declined in others when let to new tenants.

Commercial property financing continues to be subject to considerable competitive pressure in many markets. While margins were stable in most European markets and the US during the first quarter, they also remained on a higher level in the US when compared to Europe. Pricing levels on the US market are also influenced by the market for commercial mortgage-backed securities (CMBS). Transactions in this segment continued to fall short of expectations in the first quarter of 2017.

New business 1 January - 31 March 2017

by region (%) Total volume: € 1.8 bn



* Including Germany

In a highly competitive business environment, and against the background of general uncertainty, Aareal Bank generated a significantly higher new business volume[1] in the first quarter of 2017, compared to the same period of the previous year. New business totalled € 1.8 billion during the quarter under review (Q1 2016: € 0.9 billion), benefiting from the excess business pipeline of the previous quarter. Newly-originated loans accounted for 68.9 % or € 1.2 billion (Q1 2016: 66.4 % or € 0.6 billion), with 31.1 % or € 0.6 billion in renewals (Q1 2016: 33.6 % or € 0.3 billion). At 53.0 % (Q1 2016: 40.6 %), Europe accounted for a relatively high share of new business, followed by North America with 45.7 % (Q1 2016: 54.6 %) and Asia with 1.3 % (Q1 2016: 4.8 %). Considering the higher margins and our growth strategy, most of the newly-originated loans were issued in North America (59.9 %).

Europe

In Europe, the transaction volume in commercial property was down on the previous year's first quarter by approximately one-fifth. Nevertheless, the volume can still be defined as high. The most active European markets were Germany and the UK. Volumes in Germany and Spain rose markedly year-on-year.

Yields for newly-acquired first-class commercial property in the European economic centres were virtually unchanged in many places compared to the 2016 year-end; some markets, e.g. German prime locations and in Stockholm, saw further declines. There were no yield increases for high-quality commercial property in the European economic centres during the first quarter. In the UK, yields saw marginal declines in some sub-markets, after the slight Brexit-induced increase. The underlying yield development trend applied to office, retail and logistics properties alike.

Rents for first-class office, retail and logistics properties in the European economic centres were largely stable compared to the end of 2016. In contrast, rents even rose in a few markets, e.g. in the markets for first-class office properties in Berlin and Stockholm.

The hotel markets in the European economic centres presented a positive picture during the first quarter of 2017. Occupancy ratios rose in most markets, and even markedly in some markets, such

[1] New business excluding WestImmo's private client business and local authority lending business.

as Copenhagen and Milan; also in London they rose noticeably. The indicator of average revenues per available room (important for hotel markets) also recorded an increase in most markets. In this context, the development in Paris and Brussels was particularly noteworthy: these markets recovered very well, after burdens of terrorist attacks in the past years. Likewise, average revenues per available hotel room increased significantly in London.

Aareal Bank Group originated new business of € 0.9 billion (Q1 2016: € 0.4 billion) in Europe during the first quarter of 2017. The vast majority was transacted in Western Europe, with only a few transactions in Southern and Eastern Europe, and none in Northern Europe.

North America

Transaction volumes in the North American commercial property markets were down moderately from the previous year's level. Institutional investors and listed companies were predominantly sellers.

The first quarter of 2017 was characterised by a largely constant yield development. On a national average, investment yields in the US hardly moved – compared to year-end 2016 – for office and logistics properties, whilst increasing by a few basis points for retail properties. Retail properties in Chicago and San Francisco were amongst the assets with investment yields increasing marginally above average.

Rents increased slightly overall in the US, compared to the fourth quarter of 2016, for the various types of property, with virtually constant vacancy ratios. This development also applied for many of the leading regional markets in the US.

The marginal increase in average revenues per available hotel room on the US hotel markets continued compared to the first quarter of 2016, attributable to higher average room rates; the occupancy ratios remained constant.

Aareal Bank Group originated new business of € 0.8 billion (Q1 2016: € 0.5 billion) in North America during the first quarter of 2017. This was generated exclusively in the US. The higher volume – compared with the previous year – underscores the growth strategy of Aareal Bank within the scope of its "Aareal 2020" programme for the future.

Asia

The volume of commercial property transactions in the Asia/Pacific region declined markedly from the first quarter of 2016, reflecting especially the withdrawal of institutional investors. Investment yields for newly-acquired, high-quality commercial property remained virtually stable in Beijing, Shanghai, Singapore, and Tokyo.

Rents for first-class office, retail and logistics properties in the three metropolitan areas of Beijing, Shanghai and Tokyo barely moved, displaying a stable trend. In contrast, rents for all three property types were under pressure in Singapore.

The hotel market in Singapore developed rather negatively, compared to the first quarter of 2016, with declining average revenues per available hotel room. In contrast, revenues per available hotel room rose in Beijing and Shanghai, remaining stable in Tokyo.

Aareal Bank Group originated a small volume of new business in Asia during the first quarter (Q1 2016: same low level).

Consulting/Services segment

Housing Industry division

The housing and commercial property industries have proven to be a stable market segment. Rental income generated from a highly-diversified tenant group thus guarantees a secure foundation.

At the start of the year, the industry continued to focus on a sustainable development of portfolios, especially in view of increasing digitalisation. Therefore, the Federation of German Housing and Real Estate Enterprises (Bundesverband deutscher Wohnungs- und Immobilienunternehmen – "GdW") supports the business initiative "Smart Living" founded in March, which focuses on the topic of

”networked living”, the associated technical assistance systems, and smart home applications.

The robust development continued on the German housing market – despite it being subject to continuing regional differences. Whilst demand for housing is rising in economically strong metropolitan areas, rural areas record rising vacancies. Rents offered were approx. 2.8 % higher throughout Germany in January 2017 than in the first quarter of 2016.

The Bank’s Housing Industry division further strengthened its market position early in 2017 through the acquisition of important new customers as well as intensifying existing business relationships. This brought in more business partners from the housing industry – managing more than 45,000 residential units between them - for the payments and deposit-taking businesses. We also have a well-established client base in the energy and waste disposal industries: a clientele which we are continuously expanding, especially through interface products facilitating cross-sector collaboration amongst our client groups. Examples include accounting documentation and invoicing of energy supplies.

At present, more than 3,200 housing industry clients throughout Germany are using the process-optimising products and banking services of Aareal Bank Group. The high volume of deposits from the housing industry (average of € 10.2 billion; Q4 2016: € 10.0 billion) in the first quarter of 2017 is in line with the Aareal 2020 strategic agenda. In addition to the increase in current account deposits, the share of rent deposits was also raised. All in all, this reflects the strong trust that clients place in Aareal Bank.

Aareon

Aareon’s contribution to consolidated operating profit amounted to € 7 million during the first quarter of 2017 (Q1 2016: € 7 million).

Germany

In Germany, Aareon distributes the Wodis Sigma ERP solutions, SAP® solutions, and Blue Eagle. At the start of the year, 26 property companies – some of them large clients of the Bank – managing nearly 129,000 un its in total, started using Wodis Sigma almost simultaneously. Measured in terms of converted units and based on one quarter, this is a record figure. Among these, there are still many previous GES customers who opted to change to Wodis Sigma within the framework of Aareon’s migration campaign. As expected, the favoured version is the one that uses Wodis Sigma as a service from the exclusive Aareon Cloud. Aareon is still implementing a large number of migration projects, which are developing on schedule. Capacity utilisation in the Aareon consulting business thus remains on a high level, which is why we have hired additional staff to complete the consulting team. The business volume of SAP® solutions and Blue Eagle is developing as planned, being rolled out as scheduled for a large client (25,000 units).

The digital transformation process in the German housing industry is gaining increased recognition. In this context, the digital solutions of Aareon Smart World for the networking of relevant stakeholders is enjoying an ongoing high level of interest. Business volume developed as scheduled. The Mareon service portal, Aareon Archiv kompakt, Aareon CRM and Aareon Immoblue Plus are amongst the digital solutions particularly in demand. The latter also benefits from the migration business with the ERP products.

Within the area of add-on products, Aareon was able to considerably extend its outsourcing business in Germany. Sales at the BauSecura insurance business were close to the previous year’s level during the quarter under review. Amid the business expansion for the energy utilities industry, Aareon has increased its marketing activities. A solution for the process digitalisation in the case of house moves for this target group is in the scheduled development phase.

International Business

Aareon offers country-specific ERP solutions on an international level. The roll-out of the Tobias AX ERP solution was carried out for various Dutch customers (including large clients). Aareon UK successfully acquired a further large client (nearly 11,000 units) for the ERP solution QL.net in a highly competitive environment. In addition, a major Norwegian client rolled out the ERP solution Incit Xpand. New functional features, which offer fresh business opportunities for Aareon, are being developed for a large Norwegian client in the commercial property sector. Furthermore, another major Swedish company has opted for Incit Xpand – including a digital customer portal.

Internationally, turnover with digital solutions was in line with the previous year's level in the first quarter. Aareon Nederland rolled out a customer portal (for tenants and owners) for several clients. Together with Aareon UK, Aareon Nederland is also preparing the market launch of the solution Trace & Treasury in the UK (already well-established in the Netherlands). The Trace & Treasury software enables property companies to manage their assets. Other UK customers have opted for the Aareon 360° solutions. In France, clients have signed contracts for the digital Aareon solutions. Overall, more and more clients are rolling out digital solutions, especially mobile property inspection solutions.

The acquisition of SG2ALL in 2016, and the increased business with third-party products in the UK led to higher sales revenues in the area of add-on products.

As part of optimising the Group structure, Aareon Nederland B.V. acquired the entire stake of Incit Nederland B.V. from Incit AB Sweden, with effect from 1 January 2017. Bundling activities in the Netherlands has created a sole responsibility position for the distribution of all Dutch products under the umbrella of Aareon Nederland.

Preparations in view of the introduction of the new EU General Data Protection Regulation (GDPR, effective as of 2018) are progressing as scheduled, offering further new business opportunities for the entire Aareon Group.

Financial Position and Financial Performance

Financial performance

Group

In the first quarter of the financial year, consolidated operating profit amounted to € 71 million (Q1 2016: € 87 million).

Net interest income of € 164 million showed an expected reduction from the previous year (Q1 2016: € 180 million). This is largely attributable to lower effects from early loan repayments and the planned reduction of WestImmo and former Corealcredit portfolios.

Reflecting seasonal factors, allowance for credit losses amounted to € 2 million (Q1 2016: € 2 million) and was thus in line with our expectations.

Net commission income increased slightly, to € 48 million (Q1 2016: € 46 million), which was mainly due to higher sales revenue at Aareon.

The aggregate of net trading income/expenses and the net result on hedge accounting of € -4 million (Q1 2016: € 10 million) resulted largely from the measurement and close-out of derivatives used to hedge interest rate and currency risks.

At € 139 million (Q1 2016: € 146 million), administrative expenses were reduced as expected. The decline was due in particular to lower integration costs and lower running costs for WestImmo.
Net other operating income/expenses amounted to € 4 million (Q1 2016: € -1 million).

Overall, this resulted in consolidated operating profit of € 71 million for the first three months (Q1 2016: € 87 million). Taking into consideration tax expenses of € 24 million and non-controlling interest income of € 5 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 42 million (Q1 2016: € 55 million). Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 38 million (Q1 2016:

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Net interest income	164	180
Allowance for credit losses	2	2
Net interest income after allowance for credit losses	**162**	**178**
Net commission income	48	46
Net result on hedge accounting	-3	1
Net trading income/expenses	-1	9
Result from non-trading assets	–	0
Results from investments accounted for using the equity method	–	0
Administrative expenses	139	146
Net other operating income/expenses	4	-1
Operating profit	**71**	**87**
Income taxes	24	27
Consolidated net income	**47**	**60**
Consolidated net income attributable to non-controlling interests	5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	42	55

€ 51 million). Earnings per ordinary share amounted to € 0.63 (Q1 2016: € 0.85) and return on equity (RoE) before taxes stood at 9.6 % (Q1 2016: 12.4 %).

Structured Property Financing segment

At € 77 million, operating profit generated in the Structured Property Financing segment during the first quarter was slightly lower than in the corresponding period of the previous year (Q1 2016: € 96 million).

Segment net interest income amounted to € 167 million in the first quarter of 2017, down year-on-year as expected (Q1 2016: € 182 million). This is largely attributable to the planned reduction of WestImmo and former Corealcredit portfolios.

Structured Property Financing segment result

€ mn	Quarter 1 2017	Quarter 1 2016
Net interest income	167	182
Allowance for credit losses	2	2
Net interest income after allowance for credit losses	**165**	**180**
Net commission income	1	2
Net results on hedge accounting	-3	1
Net trading income/expenses	-1	9
Result from non-trading assets	–	0
Results from investments accounted for using the equity method	–	–
Administrative expenses	89	95
Net other operating income/expenses	4	-1
Operating profit	**77**	**96**
Income taxes	26	30
Segment result	**51**	**66**

Reflecting seasonal factors, allowance for credit losses amounted to € 2 million (Q1 2016: € 2 million) and was thus in line with our expectations.

At € 89 million (Q1 2016: € 95 million), segment administrative expenses were reduced as expected. The decline was due particularly to lower integration costs and lower running costs for WestImmo.

Overall, operating profit for the Structured Property Financing segment was € 77 million in the first quarter of 2017 (Q1 2016: € 96 million). Taking tax expenses of € 26 million into consideration (Q1 2016: € 30 million), the segment result for the quarter under review was € 51 million (Q1 2016: € 66 million).

Consulting/Services segment

Sales revenue generated in the Consulting/Services segment developed slightly positively during the first quarter of 2017, totalling € 54 million (Q1 2016: € 49 million), driven particularly by Aareon's higher sales revenues. The persistent low interest rate environment continued to burden margins from the deposit-taking business that are reported in sales revenues. Furthermore, cost of materials purchased rose to € 9 million (Q1 2016: € 7 million).

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

Overall, segment operating profit in the first quarter of 2017 was € -6 million (Q1 2016: € -9 million). Aareon's contribution was € 7 million (Q1 2016: € 7 million).

After taking taxes into consideration, the segment result for the first quarter amounted to € -4 million (Q1 2016: € -6 million).

Financial position

Aareal Bank Group's consolidated total assets amounted to € 46.1 billion as at 31 March 2017, after € 47.7 billion as at 31 December 2016.

Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio[1] stood at € 28.0 billion as at

Consulting/Services segment result

€ mn	Quarter 1 2017	Quarter 1 2016
Sales revenue	54	49
Own work capitalised	1	1
Changes in inventory	0	0
Other operating income	1	1
Cost of materials purchased	9	7
Staff expenses	35	36
Depreciation, amortisation and impairment losses	3	3
Results from investments accounted for using the equity method	–	0
Other operating expenses	15	14
Interest and similar income/expenses	0	0
Operating profit	**-6**	**-9**
Income taxes	-2	-3
Segment result	**-4**	**-6**

[1] Excluding € 1.0 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by WestImmo (31 December 2016: € 0.6 billion)

31 March 2017, largely in line with the year-end level 2016 of € 27.9 billion. The planned reduction of WestImmo and former Corealcredit portfolios was compensated by strong new business originated during the first quarter. The international share of the portfolio increased slightly, to 84.5 % (31 December 2016: 83.9 %).

At the reporting date (31 March 2017), Aareal Bank Group's property financing portfolio was composed as follows, compared with year-end 2016.

Portfolio allocation by region and continent changed only marginally compared with the end of the previous year. Whilst the portfolio share of exposures in North America rose slightly (about 1.8 percentage points), in all other regions it declined slightly or remained stable.

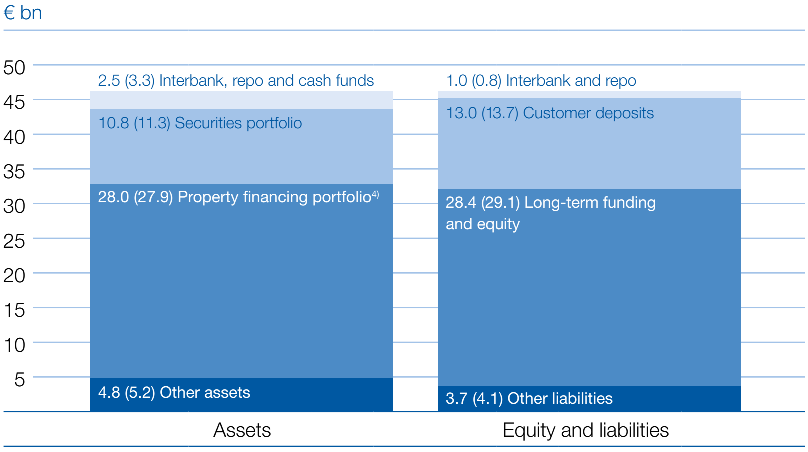
The breakdown of the portfolio by property type did not change significantly during the reporting period. The share of financings for hotel, office, residential, logistics, and retail property as well as other financings included in the overall portfolio remained almost unchanged compared to the year-end 2016.

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

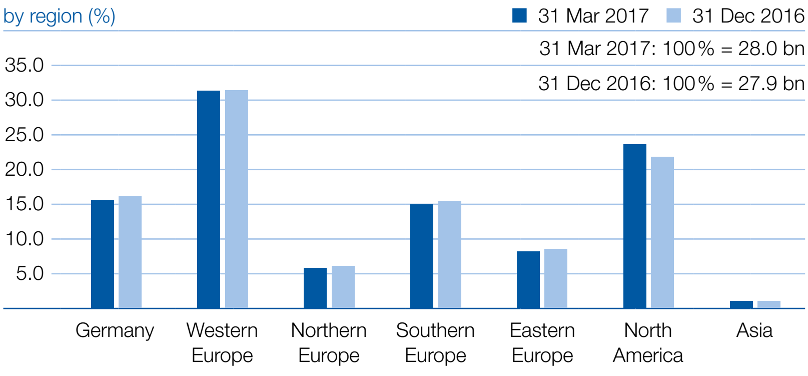
Securities portfolio

As at 31 March 2017, the nominal volume of the securities portfolio[1] was € 8.9 billion (31 December 2016: € 9.3 billion). The securities portfolio comprises three asset classes: public-sector borrowers, covered bonds and Pfandbriefe, as well as bank bonds. 99 %[2] of the overall portfolio is denominated in euro. 98 %[2] of the portfolio has an investment grade rating.[3] More than 75 % of the portfolio fulfils the requirements of "High Quality Liquid Assets" (as defined in the Liquidity Coverage Ratio (LCR)).

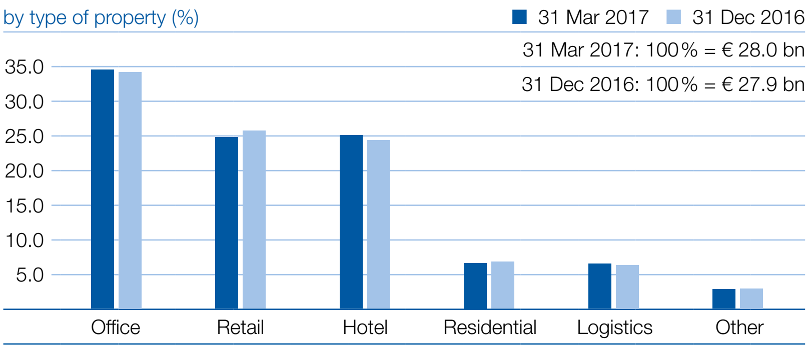
Statement of financial position – structure as at 31 Mar 2017 (31 Dec 2016)



Property financing volume[4] (amounts drawn)



Property financing volume[4] (amounts drawn)



[1] As at 31 March 2017, the securities portfolio was carried at € 10.8 billion (31 December 2016: € 11.3 billion).
[2] Details based on the nominal volume; [3] The rating details are based on the composite ratings.
[4] Excluding private client business and local authority lending business by WestImmo

Financial position

Funding and equity

Funding

Aareal Bank Group has remained very solidly funded throughout the first quarter of 2017. Total long-term refinancing as at 31 March 2017 amounted to € 25.8 billion (31 December 2016: € 26.5 billion), comprising Pfandbrief issues as well as senior unsecured and subordinated issues. As at the reporting date, Aareal Bank also had € 8.9 billion at its disposal in deposits generated from the business with the housing industry (31 December 2016: € 8.4 billion). Institutional money market investors' deposits amounted to € 4.1 billion (31 December 2016: € 4.5 billion).

The Liquidity Coverage Ratio (LCR) exceeded 150 % on the reporting days of the period under review.

Aareal Bank Group raised € 0.9 billion on the capital markets during the first quarter, comprising € 0.8 billion in Mortgage Pfandbriefe, and € 0.1 billion in senior unsecured issues. One of the highlights was the issue of a € 500 million Mortgage Pfandbrief with a maturity of 5 1/2 years in January.

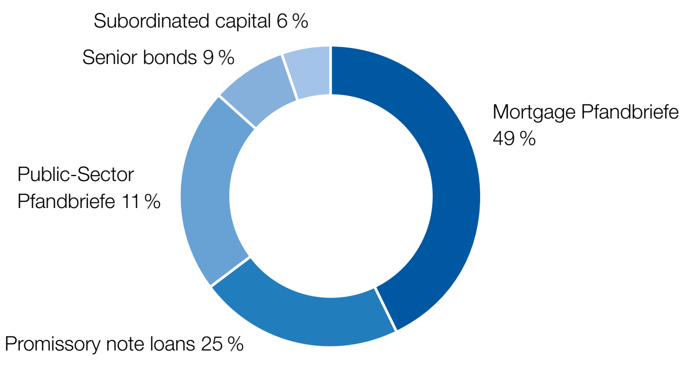
Since we conduct our business activities in a range of foreign currencies, we have secured our foreign currency liquidity over the longer term by means of appropriate measures.

Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 2,906 million as at 31 March 2017 (31 December 2016: € 3,129 million), comprising € 300 million for the Additional Tier 1 (AT 1) bond. Due to the repayment of the Capital Funding Trust, non-controlling interests were reduced to € 1 million (31 December 2016: € 242 million).

Capital market funding mix as at 31 March 2017

% Total volume: € 25.8 bn



Regulatory capital [1)]

	31 Mar 2017	31 Dec 2016
€ mn		
Common Equity Tier 1 (CET1)	2,293	2,351
Tier 1 (T1)	2,673	2,896
Total capital (TC)	3,703	3,994
%		
Common Equity Tier 1 ratio (CET1 ratio)	16.4	16.2
Tier 1 ratio (T1 ratio)	19.2	19.9
Total capital ratio (TC ratio)	26.5	27.5

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

[1)] The calculation of regulatory capital takes into account the Management and Supervisory Board's proposal for the appropriation of profits for the financial year 2016. The appropriation of profits is subject to approval by the Annual General Meeting.

Analysis of risk-weighted assets (RWA)

31 March 2017

€ mn	EAD	Risk-weighted assets (RWA)			Regulatory capital requirements
		AIRBA	CRSA	Total	
Credit risks	**47,137**	**9,696**	**2,443**	**12,139**	**971**
Companies	30,058	7,773	1,549	9,322	746
Institutions	3,376	272	67	339	27
Public-sector entities	11,743	0	21	21	2
Other	1,960	1,651	806	2,457	196
Market price risks				**189**	**15**
Credit Valuation Adjustment				**197**	**16**
Operational risks				**1,433**	**115**
Total	**47,137**	**9,696**	**2,443**	**13,958**	**1,117**

31 December 2016

€ mn	EAD	Risk-weighted assets (RWA)			Regulatory capital requirements
		AIRBA	CRSA	Total	
Credit risks	**48,844**	**9,729**	**2,665**	**12,394**	**991**
Companies	30,094	7,737	1,741	9,478	758
Institutions	3,819	346	85	431	34
Public-sector entities	12,795	0	22	22	2
Other	2,136	1,646	817	2,463	197
Market price risks				**124**	**10**
Credit Valuation Adjustment				**264**	**20**
Operational risks				**1,663**	**142**
Total	**48,844**	**9,729**	**2,665**	**14,445**	**1,163**

Risk Report

Aareal Bank Group Risk Management

The Annual Report 2016 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 duly acknowledged by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the Bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the Bank's business strategy, are adapted to the changed environment at least once a year, adopted by the Management Board, and duly acknowledged by the Supervisory Board. Suitable risk management and risk control processes are deployed to implement the risk strategies, and to ascertain the Bank's ability to bear risk.

Risk-bearing capacity and risk limits

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

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the Capital Requirements Regulation (CRR). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a Tier I ratio (calculated in accordance with the CRR) equivalent to 8% of forecast risk-weighted assets (RWA), plus buffer. Only free own funds exceeding this level are applied as potential risk cover, of which a further minimum of 10% (currently 11%) is retained as a risk cushion. This cushion is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks).

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum Tier I ratio of 8% of RWA, the value-at-risk models used to quantify risks are based on a confidence interval of 95% and a one-year holding period (250 trading days). A monthly report submitted to the Management

Risk-bearing capacity of Aareal Bank Group as at 31 March 2017
– Going-concern approach –

€ mn	31 Mar 2017	31 Dec 2016
Own funds for risk cover potential	2,598	2,598
less 8% of RWA (Tier 1 capital (T1))	1,477	1,477
Freely available funds	**1,121**	**1,121**
Utilisation of freely available funds		
Credit risks	289	317
Market risks	179	207
Operational risks	86	106
Investment risks	20	24
Total utilisation	**573**	**654**
Utilisation as a percentage of freely available funds	**51%**	**58%**

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 on page 18 summarises the Group's overall risk-bearing capacity as at 31 March 2017.

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

Credit risks

Definition

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

Risk measurement and monitoring

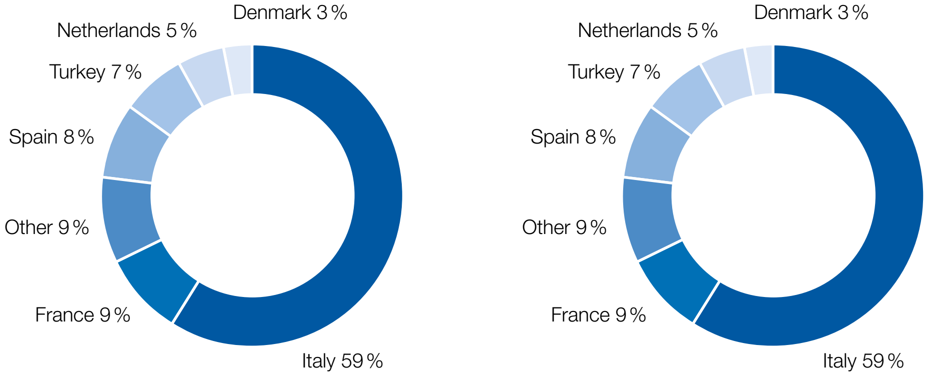
Aareal Bank's structural organisation and business processes are consistently geared towards effective and efficient risk management. Regulatory requirements are fully taken into account for the organisation of operations and workflows in the credit and trading businesses.

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

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

Individually impaired property financing[1] (amounts drawn)

by country (%) — 31 Mar 2017: 100 % = € 1.4 bn | 31 Dec 2016: 100 % = € 1.4 bn



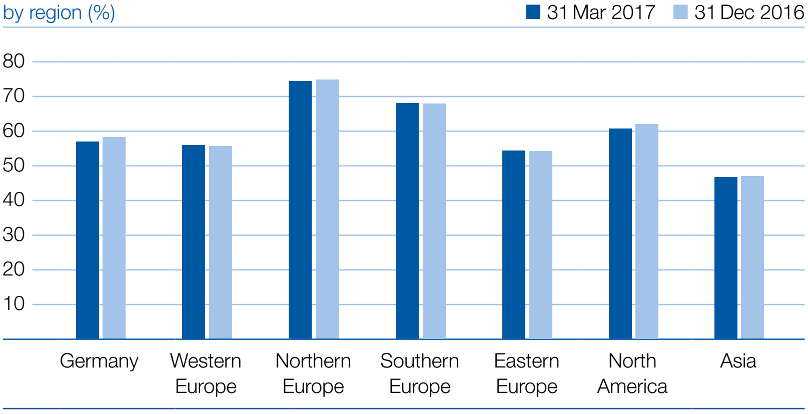
[1] Excluding private client business and local authority lending business by WestImmo

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

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

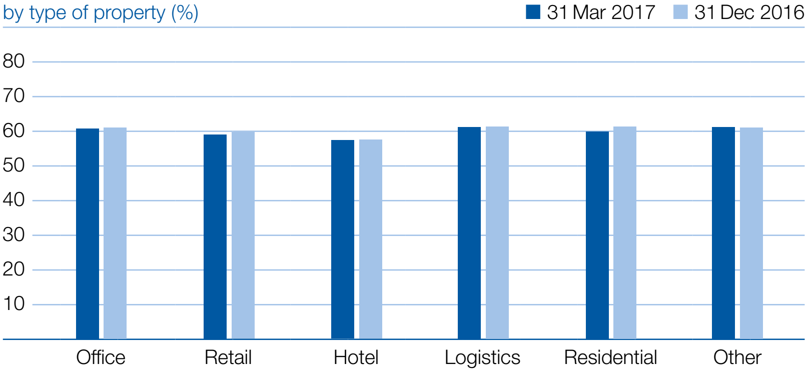
Average LTV of property financing[1)]

by region (%)



Average LTV of property financing[1)]

by type of property (%)



[1)] Excluding private client business and local authority lending business by WestImmo
Note that the loan-to-value ratios are calculated on the basis of market values, including supplementary collateral with sustainable value.

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 and manage" strategy in managing its credit portfolio – with the primary objective of holding loans extended on its balance sheet until maturity; at the same time, targeted measures – such as syndication – are deployed for actively managing the portfolio and the risks involved.

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

Country risks

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

Market price risks

Definition

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

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

Risk measurement and monitoring

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

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

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

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

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

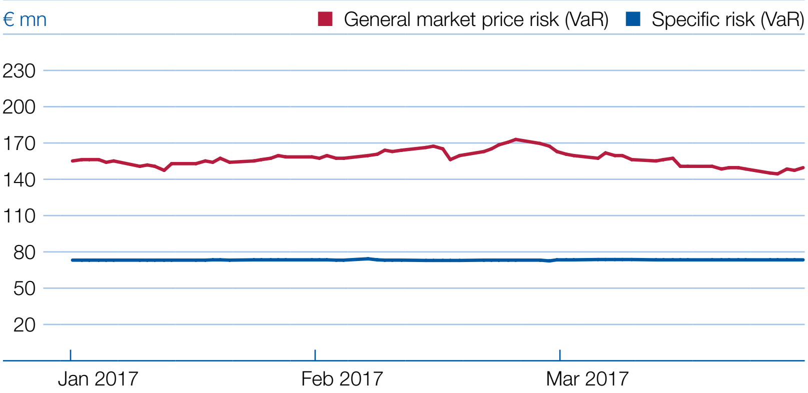
When interpreting the VaR figures stated below, it should be taken into account that these refer to the overall portfolio (thus including all non-trading positions as defined in IFRSs). Hence, the analysis provided represents a very extensive disclosure of market price risks by industry standards.

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year) 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	173.6 (305.0)	142.5 (161.1)	156.4 (224.5)	– (–)
Group VaR (interest rates)	127.6 (211.6)	102.8 (103.0)	110.6 (149.5)	– (–)
Group VaR (FX)	98.8 (185.9)	79.9 (102.2)	88.2 (135.5)	– (–)
VaR (investment fund and equities)	4.8 (5.8)	4.0 (3.5)	4.4 (4.6)	20.0 (20.0)
Aggregate VaR in the trading book	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	5.0 (5.0)
Group VaR (specific risks)	75.3 (85.9)	71.5 (62.8)	73.6 (73.3)	– (–)
Group funding risk	25.1 (23.0)	12.5 (17.2)	17.0 (19.4)	– (–)
Aggregate VaR – Aareal Bank Group	204.6 (311.5)	178.1 (174.0)	189.8 (237.5)	390.0 (390.0)

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

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year) 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	11.0 (19.3)	9.0 (10.2)	9.9 (14.2)	– (–)
Group VaR (interest rates)	8.1 (13.4)	6.5 (6.5)	7.0 (9.5)	– (–)
Group VaR (FX)	6.3 (11.8)	5.1 (6.5)	5.6 (8.6)	– (–)
VaR (investment fund and equities)	0.3 (0.4)	0.3 (0.2)	0.3 (0.3)	1.3 (1.3)
Aggregate VaR in the trading book	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Group VaR (specific risks)	4.8 (5.4)	4.5 (4.0)	4.7 (4.6)	– (–)
Group funding risk	1.6 (1.5)	0.8 (1.1)	1.1 (1.2)	– (–)
Aggregate VaR – Aareal Bank Group	12.9 (19.7)	11.3 (11.0)	12.0 (15.0)	24.7 (24.7)

General market price risk and specific risk during 2017



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 remained unchanged during the quarter under review; no limit breaches were detected.

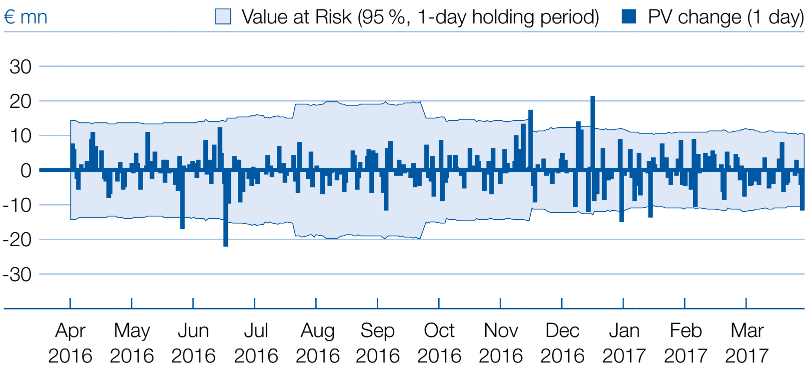
Backtesting

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). Five negative outliers at Group level occurred during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

Trading book

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

Present values and 1-day VaR during the course of 2016/2017



Liquidity risks

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

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

The appropriateness of the Bank's liquidity is assessed in a liquidity report prepared using an internal liquidity risk model: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. There were no liquidity shortages throughout the period under review. Further details are provided in the comments on the Bank's liquidity in the section on "Refinancing and Equity".

Operational risks

The Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. To the extent that they are caused by operational risks, model, strategic and reputational risks are also taken into consideration within this type of risk. Systemic risks (or their impact on operational risks) are not affected by this.

Aareal Bank's legal department compiles all information concerning any legal disputes involving Aareal Bank Group, whether in or out of court. The involvement of the legal department is based on corresponding Group-wide guidelines. The Bank's decentralised operating legal entities, as well as the legal departments of subsidiaries submit quarterly as well as event-driven reports on legal risks identified to Aareal Bank's legal department, which reports to the Management Board, also (at least) on a quarterly basis. Moreover, information about legal risks is included in operational risk reporting. 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 2016 Annual Report contains a detailed description of controlling tools employed by the Bank to manage operational risk, plus the relevant responsibilities.

The current analysis conducted using these control instruments has shown that the Bank is not exposed to disproportionate operational risks; nor did it indicate any material risk concentration.

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

Investment risks

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

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

Report on Expected Developments

In the Report on Expected Developments, we present the macro-economic environment as well as sector-specific and business developments, including Group targets, considering the resulting opportunities.

Macro-economic environment

Developments for the economy, as well as for financial and capital markets, are exposed to diverse risks and threats – which also have an impact on the commercial property markets. The economic forecast at this point in time – spring 2017 – is characterised by significant uncertainty, such as geopolitical risks and protectionist economic policies.

The low interest rate environment continues to be a risk factor, as it harbours risks for financial stability of a systemic dimension, should it persist for a longer period. Low interest rates can lead to a misallocation of investment capital, possibly resulting in asset-price bubbles. Moreover, market participants might be encouraged to take on higher levels of risk. Sudden changes in interest rates may trigger a revaluation and changes in investor behaviour, potentially leading to a collapse in asset prices. A longer-lasting period of low interest rates may delay an exit from such an environment, heightening the risks for the financial and capital markets. Low interest rates may also entice a scaling back of reform and consolidation efforts in various sectors.

A sharp increase in interest rates entails considerable risk: an excessively quick rise can hamper investments, and may have negative implications for asset prices. Moreover, emerging economies in particular will have to face capital outflows, and may have to raise their own interest rates. Although financial market players are expecting interest rates to rise further in the US, the extent – and possible resulting financial market volatility – is still an unknown factor. Turmoil in the financial and capital markets may still hurt the global economy.

In the wake of the presidential elections in the US, many economic players anticipated growth due to lower taxes and reduced regulatory requirements. However, these expectations may not fully materialise. Therefore, corrections could occur on those financial and capital markets where expectations had led to share price growth, currency or price increases.

A major risk factor in Europe is impact of the UK's exit from the EU (Brexit). Despite the minimal economic impact this had in 2016, we continue to see a high level of economic risk for the UK, as well as for the EU. A further breakup of the EU is another risk factor.

The sovereign debt crisis might potentially raise its head again in Europe: the problem of high levels of indebtedness continues to exist. Diverging monetary policy between the US and the euro zone, as well as political reorientation, could also heighten that risk.

In China, there is a danger that the sharp increase in levels of private debt could lead to a pronounced market correction. Despite a slight easing of price pressure on the Chinese residential property market, the danger of a far-reaching market correction still exists.

Economy

Despite the high number of existing uncertainty factors and burdens, economic momentum is expected to be slightly stronger than in the previous year. Growth rates of real global economic output are expected to slightly exceed the levels seen during 2016. However, risks and uncertainty factors, were they to materialise to a substantial extent, could mute the economic development, or even cause recessive tendencies in various regions.

In the euro zone, economic development is expected to remain stable, albeit without much momentum during the course of the year. The trend barometers are signalling a strengthening of industrial production and export. It is however uncertain whether private consumption will be as strong as last year, due to increased inflation. We therefore expect growth during the current year to be at the previous year's level. Structural problems in some euro zone countries, as well as increased political uncertainty, will have an additional dampening effect. A positive influencing factor for the euro zone's economy however may be the low valuation of its common currency. In line with our projections for the region as a whole, most of the euro zone countries relevant to Aareal Bank should show subdued to moderate economic development. Real GDP growth is anticipated to be lowest in Finland and Italy, followed by France and Austria, whereas expectations for Germany and the Netherlands are slightly better. Spain is showing relatively favourable growth prospects, although the real GDP growth rate is likely to significantly lag behind the high values of the previous year.

In those EU national economies which are not part of the euro zone, we expect to see a slightly higher growth rate than in euro member states this year. Growth is expected to remain high in Sweden, albeit significantly lower than in the previous two years. For the UK, we expect economic growth in line with last year's levels. For Denmark, we anticipate a slight acceleration and a generally moderate economic growth rate. The Polish economy should continue its strong growth in the current year, at levels marginally above those registered in the previous year. The Czech Republic will likely boast an ongoing stable economic development, even though the growth rate will be slightly lower than in the past. The Swiss economy remains burdened by the strong Swiss franc. However, real GDP will be able to post slightly stronger growth. After the military coup in 2016, the growth rate in Turkey turned out to be significantly lower than initially expected, and the growth rate for the current year is also anticipated to be lower year-on-year. Due to the political situation, the outlook is clouded by a high degree of uncertainty. Slightly positive growth can be expected for Russia in this year – following several years of recession. The modest increase in oil prices provides support, while the ongoing political conflicts continue to have a dampening effect.

As seen in the previous year, the US economy is expected to receive support from private consumption (which benefits from increases in wages and employment) this year. Corporate investments should contribute slightly more than in the previous year. The stable economy is likely to absorb the anticipated interest rate hikes; uncertainty remains with regard to the course the new US administration is likely to take with its economic policy. Overall, we expect a markedly higher growth rate for 2017 than in the previous year. In Canada, the negative effect of lower investments in the oil industry should diminish. Moderately rising external demand is increasingly providing support. However, private consumption is clouded by rising interest rates, as well as rising inflation. Overall, we expect a moderate increase in real economic growth for Canada, compared to last year's figure.

The depreciation of the yen and the expansionary fiscal policy will likely lead to marginal economic growth in Japan compared with the previous year, albeit subdued compared to other industrial nations. We expect the Singaporean economy to grow slightly stronger than in the previous year. In China, the trend of decreasing real GDP growth is bound to continue this year, albeit at a more moderate level than in 2016. Curbing factors are the slowdown in the housing boom, the targeted reduction of over-capacity, especially in heavy industry, and the transition to an overall lower investment ratio. We are still witnessing uncertainties with regard to the increase of macro-economic debt.

Against a background of moderate, yet positive economic development, we expect most labour markets across the euro zone as well as in other European countries to register slowly decreasing or virtually stagnating unemployment rates for 2017. The unemployment rate in the US, which is currently at a very low level, should decline further.

Financial and capital markets, monetary policy and inflation

The risks and uncertainty factors we have listed so far also apply to the financial and capital markets this year. This includes, in particular, political events already mentioned, but also any of the aforementioned risks which could, were they to materialise to a substantial extent, cause turbulence on the financial and capital markets. In the current environment, we assume volatility will remain high. However, we expect the financial and capital markets to remain receptive towards securities issues and refinancings.

The ECB's decision – taken in the previous year – to expand its bond purchases, as well as further measures, underscored our expectations for a continuation of the extremely expansive monetary policy that has been pursued in the euro zone. Various other European central banks, such as the Swedish Riksbank, are also likely to abide by their expansive fiscal policy during 2017. In the US however, further interest rate hikes are anticipated for this year, whereas the Bank of England is not expected to make any interest rate adjustments. Also, it will likely adhere to its cautious attitude regarding the exit from the EU.

In the US, further slowly rising interest rates are on the horizon, in light of further cautious key interest rate hikes. Although this may place upside pressure on interest levels in the euro zone and other EU countries, European interest rate levels are expected to remain low during the remainder of the year given the ECB's extremely loose monetary policy stance.

Inflation will increase noticeably in the euro zone and the other EU member states – in particular due to slightly stronger oil prices and improved employment rates. We anticipate an inflation rate of just under 2% for the full year 2017 – close to the ECB's target. For the US, we expect the annual average of inflation to be slightly higher than in the euro zone, and we are assuming a value of around zero per cent for Japan. The Chinese rate of inflation (above 2%) is anticipated to lead to a moderate price increase.

Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. Numerous initiatives, such as the revision of the Credit Risk Standard Approach (CRSA), the Internal Ratings-based Approaches (IRBA) and the basic approaches for operational risk and the capital floor rules are currently under discussion. EBA has also finalised its Guidelines on the collection of information related to the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

The ECB will also review the internal model of Pillar I (Target Review of Internal Models) in 2017, whose exact impact on banks – and the consequences – cannot be fully assessed at present.

Regulators have yet to come up with final details for some of these additional regulatory requirements; hence, various technical standards, guidelines and regulations still have to be finalised. In addition, EBA published a consultation paper in November 2016 on "Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures". The EU Commission made proposals to revise supervisory regimes (CRR, CRD IV, BRRD and SRMR) that implement – in particular – international banking supervision rules of the Basel Committee and the FSB (Financial Stability Board) in Europe.

To facilitate the timely implementation, we have already continued to pursue the individual issues in numerous projects – devoting considerable resources to this task.

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

Sector-specific and business developments

Structured Property Financing segment

During the year 2017, commercial property will continue to be a sought-after asset class in many markets. Thus, transaction volumes should remain on a high level, albeit lower when compared to the particularly high levels seen in the two previous years. Transaction volumes may significantly decline in individual markets, while further increasing in others. Given the shortage of available first-class properties on offer, and rising total revenue requirements, investor interest in properties outside the top segments will likely increase compared to previous years. Investor demand is thus expected to continue to support performance this year. Nonetheless, commercial property markets are also exposed to major risks and threats. An excessively sharp interest rate hike – originating from the US – may have a negative effect on performance. Moreover, other uncertainty factors and risks in the macro-economic environment are also relevant for commercial property markets.

Several factors will impact the value of commercial property[1] in the current year. Whilst the stable economy and low interest rate environment will support property values, unpredictability, political uncertainty and a potentially significant interest rate increase can reduce values.

We therefore anticipate a largely stable development in the market values of commercial property in many markets this year. However, the combination of the existing low interest rate environment and adjustments to the (often very low) returns on investment, given potential sharp interest rate hikes, pose the risk of a correction to the market values of commercial property.

We expect a stable performance in most European countries in 2017, including France, Germany, Italy, the Netherlands and Poland. Deviating from this, we expect a slightly positive development owing to the good economic situation in Denmark and Spain. The situation in the UK is subject to uncertainty because of the Brexit vote. Values could fall in some sub-markets although we anticipate a stable development overall. Property values in Turkey are expected to be negatively influenced by political uncertainty and the tense security situation.

Following the sharp decline in property values in Russia in recent years, we believe these will stabilise in the current year due to the slight economic

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

recovery. Ongoing difficult international relationships could continue to burden the situation.

Property values in the US are expected to develop slightly positively, thanks to the relatively favourable economic outlook. Rising interest rates pose a certain risk for this development, while the property markets should benefit from the expansionary fiscal policy the new administration is expected to pursue. We expect a stable performance in Canada.

Developments in commercial property values are likely to vary in Asia. Stable values are expected in China and Singapore, while prime commercial property values could continue to rise further in Japan as interest rates remain low.

The trends described above are expected to apply to office, retail and logistics properties.

We expect a slightly positive development in 2017 on the hotel markets of Europe's most significant economic centres. Paris should see a slight increase in the occupancy ratios and average revenues per available room. Occupancy ratios should be stable in the other big European cities, such as Barcelona, London and Madrid, with slightly higher average revenues per available room. The difficult political situation in Turkey will continue to have negative implications for the hotel markets.

We believe a slight improvement on average in revenues per available room is likely in North America, with stable or slightly lower occupancy ratios.

We see the hotel markets in the large Asian cities as being stable. Seasonal volatility is highly likely in all markets in 2017.

The intense competition in commercial property financing is also likely to persist in many markets during the current year, with less of an incentive for lenders to lower the margins. We anticipate a stable development in loan-to-value ratios across the various regions. Banks are expected to continue adhering to their preference for financing first-class properties in top locations. Investors' readiness to finance properties outside top locations will increase.

We have incorporated various market aspects, amongst other factors, in our assessment of new business volumes for the current year. For the Structured Property Financing segment, we anticipate new business of between € 7 billion and € 8 billion for the 2017 financial year. Aareal Bank's property portfolio should amount to between € 25 billion and € 28 billion at the end of 2017, subject to currency fluctuations.

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

Consulting/Services segment

Housing Industry division

We expect the development for the German housing and commercial property industries to be characterised by a high degree of stability in the current year, thanks mainly to largely constant rental returns and long-term financing structures.

Companies in this sector will continue to pursue sustainable portfolio optimisation. In light of the growing relevance of smart home technologies, our industry will also increase digitalisation of management, rental, and tenant communication processes.

In view of the demographic and overall economic environment, sentiment on the German residential property market should remain positive this year. The ongoing migration tendencies in prospering economic areas will probably continue to have a positive influence on housing demand, especially in large cities. Thus, price increases are to be expected particularly in good residential areas.

We continue to see good opportunities during 2017 to acquire new clients and to intensify the business relationships with our existing client base. This also applies to our payments services for utilities and the waste disposal industry. Furthermore, we continue to invest in our payment support and process optimisation offers – areas where we anticipate further potential.

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

Aareon

Within the course of the current year, Aareon will continue to pursue the growth strategy based on its strategy programme integrated in Aareal Bank Group's "Aareal 2020" programme for the future. Aareon's consolidated sales revenues are expected to rise slightly, accompanied by a steady contribution to Group results. The expansion of the digital solutions of the Aareon Smart World portfolio of products, strengthening the ERP business and tapping new areas of business will be the key growth factors. Investing in the expansion of Aareon Smart World, as well as in measures to enhance performance and efficiency, will slightly increase costs in 2017.

Aareon anticipates its advisory business to expand in Germany as the migration of GES clients to the Wodis Sigma ERP solution proceeds as planned. We also believe that sales revenues with digital solutions will continue to grow in 2017: the topic has gained considerably in importance for the housing industry, alongside burgeoning customer interest.

Aareon anticipates higher maintenance and advisory revenues in the Netherlands on the back of the ongoing market penetration of digital solutions and SG2ALL (newly acquired in 2016). For Aareon France, we expect the positive trend in maintenance will continue, together with a decline in the licensing business due to the cyclical release planning. Very strong growth in sales revenue is also expected of the digital solutions on the back of further market penetration. An increase in the advisory and licensing business for the ERP solution QL is expected in the UK for 2017, while the new ERP product generation QL.net should also be established further in the market. Demand for digital solutions – such as the products 1st Touch Mobile, 360° Tenant Portal and 360° Field Worker – should also continue to increase in this area. The Swedish Incit Group is expected to increase sales revenues stemming from Incit Xpand, in particular through a rise in business with new clients in the Scandinavian markets and, as a consequence, a more dynamic advisory business.

In view of the aforementioned, Aareon expects a slight increase in sales revenues for the 2017 financial year, together with a contribution to consolidated operating profit of between € 34 million and € 35 million.

Group targets

For the 2017 financial year, we see good opportunities to achieve consolidated operating profit of between € 310 million and € 350 million, including a positive non-recurring effect in the amount of € 50 million, to be recognised in the second quarter, from a subsidiary's reversal of provisions against income. Earnings per share (EpS) are projected in a range between € 2.85 and € 3.30. RoE before taxes for the current year is anticipated between 11 % and 12.5 %; when adjusted for the non-recurring effect mentioned above, the range is between 9 % and 10.5 %. We affirm our medium-term target RoE of at around 12 % before taxes.

Consolidated net interest income is expected at between € 620 million and € 660 million, with allowance for credit losses in a range between € 75 million and € 100 million. Net commission income is projected to be in a range between € 195 million and € 210 million. Administrative expenses are expected in a range between € 470 million and € 510 million.

In the Structured Property Financing segment, the credit portfolio is projected to stand at between € 25 billion and € 28 billion by the end of 2017, subject to currency fluctuations. We are targeting new business of between € 7 billion and € 8 billion in the current year. In the Consulting/Services segment, we expect our IT subsidiary Aareon to contribute between € 34 million and € 35 million to consolidated operating profit.

By the end of 2017, we expect the fully phased-in Common Equity Tier 1 (CET1) ratio to be moderately higher than at the end of the last financial year (31 December 2016: 15.7 % – fully phased-in). Further, we expect the Liquidity Coverage Ratio (LCR), which should be at least 100 %, to broadly remain at a very high level.

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement

€ mn	Notes	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016[1]
Interest income		187	228
Positive interest from financial liabilities		1	1
Interest expenses		21	47
Negative interest from financial assets		3	2
Net interest income	1	**164**	**180**
Allowance for credit losses	2	2	2
Net interest income after allowance for credit losses		**162**	**178**
Commission income		57	55
Commission expenses		9	9
Net commission income	3	**48**	**46**
Net result on hedge accounting	4	-3	1
Net trading income/expenses	5	-1	9
Results from non-trading assets	6	–	0
Results from investments accounted for using the equity method		–	0
Administrative expenses	7	139	146
Net other operating income/expenses	8	4	-1
Operating profit		**71**	**87**
Income taxes		24	27
Consolidated net income		**47**	**60**
Consolidated net income attributable to non-controlling interests		5	5
Consolidated net income attributable to shareholders of Aareal Bank AG		42	55
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG[2]		42	55
of which: allocated to ordinary shareholders		38	51
of which: allocated to AT1 investors		4	4
Earnings per ordinary share (in €)[3]		0.63	0.85
Earnings per AT1 unit (in €)[4]		0.04	0.04

[1] Previous year's figures were adjusted due to separate disclosure of negative interest

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

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

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

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Consolidated net income	**47**	**60**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**3**	**-22**
Remeasurements	4	-32
Taxes	-1	10
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**-2**	**-3**
Gains and losses on remeasuring AfS financial instruments	-2	-4
Reclassifications to the income statement	–	–
Taxes	0	1
Changes in hedging reserves	**-16**	**9**
Profit/loss from derivatives used to hedge future cash flows	-24	11
Reclassifications to the income statement	0	2
Taxes	8	-4
Changes in currency translation reserves	**-1**	**-2**
Profit/loss from translating foreign operations' financial statements	-1	-2
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**-16**	**-18**
Total comprehensive income	**31**	**42**
Total comprehensive income attributable to non-controlling interests	5	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	26	37

Segment Reporting

Segment Results

€ mn	Structured Property Financing		Consulting/Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Mar 2017	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2017	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2017	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2017	1 Jan - 31 Mar 2016
Net interest income	167	182	0	0	-3	-2	164	180
Allowance for credit losses	2	2					2	2
Net interest income after allowance for credit losses	**165**	**180**	**0**	**0**	**-3**	**-2**	**162**	**178**
Net commission income	1	2	45	42	2	2	48	46
Net result on hedge accounting	-3	1					-3	1
Net trading income/expenses	-1	9		0			-1	9
Results from non-trading assets		0						0
Results from investments accounted for using the equity method				0				0
Administrative expenses	89	95	51	51	-1	0	139	146
Net other operating income/expenses	4	-1	0	0	0	0	4	-1
Operating profit	**77**	**96**	**-6**	**-9**	**0**	**0**	**71**	**87**
Income taxes	26	30	-2	-3			24	27
Consolidated net income	**51**	**66**	**-4**	**-6**	**0**	**0**	**47**	**60**
Consolidated net income attributable to non-controlling interests	4	4	1	1			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	47	62	-5	-7	0	0	42	55
Allocated equity	1,853	1,627	146	109	509	695	2,508	2,431
Cost/income ratio (%)	53.1	49.2	113.4	122.4			65.9	62.2
RoE before taxes (%) [1] [2]	14.5	21.2	-19.2	-37.7			9.6	12.4
Employees (average)	**906**	**1,070**	**1,811**	**1,760**			**2,717**	**2,830**
Segment assets	**35,675**	**42,278**	**10,460**	**9,506**			**46,135**	**51,784**

[1] On an annualised basis

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

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)

			Income statement classification – bank									
€ mn			Net interest income	Net commission income	Net trading income/expenses	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 2017		0	45			51	0		**-6**	-2	**-4**
	Q1 2016		0	42	0	0	51	0		**-9**	-3	**-6**
Income statement classification – industrial enterprise												
Sales revenue	Q1 2017	54		54								
	Q1 2016	49		49								
Own work capitalised	Q1 2017	1					1					
	Q1 2016	1					1					
Changes in inventory	Q1 2017	0						0				
	Q1 2016	0						0				
Other operating income	Q1 2017	1						1				
	Q1 2016	1						1				
Cost of materials purchased	Q1 2017	9		9								
	Q1 2016	7		7								
Staff expenses	Q1 2017	35					35					
	Q1 2016	36					36					
Depreciation, amortisation and impairment losses	Q1 2017	3					3					
	Q1 2016	3					3					
Results from investments accounted for using the equity method	Q1 2017											
	Q1 2016	0				0						
Other operating expenses	Q1 2017	15					14	1				
	Q1 2016	14			0		13	1				
Interest and similar income/expenses	Q1 2017	0	0									
	Q1 2016	0	0									
Operating profit	**Q1 2017**	**-6**	**0**	**45**			**51**	**0**				
	Q1 2016	**-9**	**0**	**42**	**0**	**0**	**51**	**0**				
Income taxes	Q1 2017	-2									-2	
	Q1 2016	-3									-3	
Segment result	**Q1 2017**	**-4**										
	Q1 2016	**-6**										

Statement of Financial Position

€ mn	Notes	31 Mar 2017	31 Dec 2016
Assets			
Cash funds		1,064	1,786
Loans and advances to banks	9	1,596	1,583
Loans and advances to customers	10	31,113	31,203
Allowance for credit losses	11	-560	-554
Positive market value of derivative hedging instruments		2,218	2,481
Trading assets	12	448	502
Non-trading assets	13	9,301	9,730
Investments accounted for using the equity method		5	0
Intangible assets	14	126	126
Property and equipment	15	251	252
Income tax assets		62	68
Deferred tax assets		144	134
Other assets	16	367	397
Total		**46,135**	**47,708**
Equity and liabilities			
Liabilities to banks	17	1,891	1,703
Liabilities to customers	18	27,508	29,077
Certificated liabilities	19	8,740	8,346
Negative market value of derivative hedging instruments		2,304	2,529
Trading liabilities	20	551	652
Provisions	21	672	680
Income tax liabilities		70	71
Deferred tax liabilities		29	28
Other liabilities	22	135	127
Subordinated capital	23	1,329	1,366
Equity	24, 25, 26		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,768	1,734
AT1 bond		300	300
Other reserves		-64	-48
Non-controlling interests		1	242
Total equity		2,906	3,129
Total		**46,135**	**47,708**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2017	**180**	**721**	**1,734**	**300**	**-100**	**29**	**17**	**6**	**2,887**	**242**	**3,129**
Total comprehensive income for the period			42		3	-2	-16	-1	**26**	5	**31**
Payments to non-controlling interests										-5	**-5**
Dividends											
AT1 coupon											
Other changes			-8						**-8**	-241	**-249**
Equity as at 31 Mar 2017	**180**	**721**	**1,768**	**300**	**-97**	**27**	**1**	**5**	**2,905**	**1**	**2,906**

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2016	**180**	**721**	**1,633**	**300**	**-80**	**28**	**13**	**7**	**2,802**	**242**	**3,044**
Total comprehensive income for the period			55		-22	-3	9	-2	**37**	5	**42**
Payments to non-controlling interests										-6	**-6**
Dividends											
AT1 coupon											
Other changes			-1						**-1**		**-1**
Equity as at 31 Mar 2016	**180**	**721**	**1,687**	**300**	**-102**	**25**	**22**	**5**	**2,838**	**241**	**3,079**

Statement of Cash Flows (condensed)

€ mn	2017	2016
Cash and cash equivalents as at 1 January	**1,786**	**1,282**
Cash flow from operating activities	-1,109	-155
Cash flow from investing activities	429	702
Cash flow from financing activities	-42	20
Total cash flow	**-722**	**567**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 31 March	**1,064**	**1,849**

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 2017 was prepared pursuant to the provisions of section 37w of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37y no. 2 of the WpHG and was approved for publication by the Management Board on 2 May 2017. It comprises the present interim condensed consolidated financial statements (also referred to as the "Consolidated Financial Statements"), as well as an interim group management report (also referred to as the "Group Management Report") and was neither audited nor reviewed in accordance with section 317 of the HGB.

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.

Apart from the disposal of the investment in Mount Street Group Limited, there were no other material changes to the scope of consolidation during the period under review.

Accounting policies

The accounting policies applied in the preparation of the consolidated financial statements 2016 were also applied in the preparation of these condensed interim consolidated financial statements, including the calculation of comparative figures. There were no new financial reporting standards (IASs/IFRSs) that were required to be applied for the first time.

Notes to the Statement of Comprehensive Income

(1) Net interest income

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Interest income from		
Property loans	169	197
Promissory note loans	2	2
Other lending and money market operations	13	19
Debt securities and other fixed-income securities	3	10
Current dividend income	0	0
Total interest income	**187**	**228**
Positive interest from financial liabilities	**1**	**1**
Interest expenses for		
Bonds issued	7	11
Registered mortgage Pfandbriefe	-1	5
Promissory note loans	6	11
Subordinated capital	7	8
Money market transactions	2	7
Other interest expenses	0	5
Total interest expenses	**21**	**47**
Negative interest from financial assets	**3**	**2**
Total	**164**	**180**

At € 164 million, net interest income was lower than the previous year's figure of € 180 million. This is largely attributable to the planned reduction of WestImmo and former Corealcredit portfolios.

(2) Allowance for credit losses

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Additions	18	9
Reversals	4	5
Direct write-offs	3	0
Recoveries on loans and advances previously written off	15	2
Total	**2**	**2**

Reflecting seasonal factors, allowance for credit losses amounted to € 2 million (previous year: € 2 million) and was thus in line with our expectations. Please also refer to our explanations in Note (11).

(3) Net commission income

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Commission income from		
Consulting and other services	52	50
Trustee loans and administered loans	0	0
Securities transactions	–	–
Other lending and money market transactions	3	3
Other commission income	2	2
Total commission income	**57**	**55**
Commission expenses for		
Consulting and other services	8	7
Securities transactions	0	0
Other lending and money market transactions	0	1
Other commission expenses	1	1
Total commission expenses	**9**	**9**
Total	**48**	**46**

Net commission income increased to € 48 million (previous year: € 46 million), which was mainly due to higher sales revenue at Aareon.

(4) Net result on hedge accounting

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Ineffective portion of fair value hedges	-1	0
Ineffective portion of cash flow hedges	-2	1
Ineffective portion of net investment hedges	0	0
Total	**-3**	**1**

(5) Net trading income/expenses

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Net income/expenses from positions held for trading	-1	7
Currency translation	0	2
Total	**-1**	**9**

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

(6) Results from non-trading assets

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Result from debt securities and other fixed-income securities	–	0
of which: Loans and receivables (LaR)	–	–
Held to maturity (HtM)	–	–
Available for sale (AfS)	–	0
Result from equities and other non-fixed income securities	–	0
of which: Available for sale (AfS)	–	–
Results from equity investments (AfS)	–	0
Total	**–**	**0**

(7) Administrative expenses

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Staff expenses	75	79
Wages and salaries	59	64
Social security contributions	9	8
Pensions	7	7
Other administrative expenses	59	62
Depreciation, amortisation and impairment of property and equipment and intangible assets	5	5
Total	**139**	**146**

At € 139 million (previous year: € 146 million), administrative expenses were reduced as expected. The decline was due in particular to lower integration costs and lower running costs for WestImmo.

(8) Net other operating income/expenses

€ mn	1 Jan-31 Mar 2017	1 Jan-31 Mar 2016
Income from properties	9	5
Income from the reversal of provisions	5	0
Income from goods and services	0	0
Miscellaneous	4	5
Total other operating income	**18**	**10**
Expenses for properties	11	8
Expenses for services used	0	0
Expenses for other taxes	1	1
Miscellaneous	2	2
Total other operating expenses	**14**	**11**
Total	**4**	**-1**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	31 Mar 2017	31 Dec 2016
Money market receivables	1,411	1,458
Promissory note loans	118	119
Other loans and advances	67	6
Total	**1,596**	**1,583**

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

(10) Loans and advances to customers

€ mn	31 Mar 2017	31 Dec 2016
Property loans[1]	27,880	26,833
Promissory note loans	1,363	1,442
Other loans and advances	1,870	2,928
Total	**31,113**	**31,203**

[1] Excluding € 1.0 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by WestImmo (31 December 2016: € 0.6 billion), which are reported under "Other loans and advances".

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

(11) Allowance for credit losses

31 March 2017

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**435**	**119**	**554**	**5**	**559**
Additions	11	7	**18**	0	**18**
Utilisation	–	–	**–**	0	**0**
Reversals	3	–	**3**	1	**4**
Unwinding	8	–	**8**	–	**8**
Changes in scope of consolidation	–	–	**–**	–	**–**
Currency adjustments	-1	–	**-1**	0	**-1**
Allowance for credit losses as at 31 March	**434**	**126**	**560**	**4**	**564**

31 March 2016

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**412**	**116**	**528**	**14**	**542**
Additions	4	5	**9**	0	**9**
Utilisation	–	–	**–**	–	**–**
Reversals	4	–	**4**	1	**5**
Unwinding	8	–	**8**	–	**8**
Changes in scope of consolidation	–	–	**–**	–	**–**
Currency adjustments	-1	0	**-1**	0	**-1**
Allowance for credit losses as at 31 March	**403**	**121**	**524**	**13**	**537**

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 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.

(12) Trading assets

€ mn	31 Mar 2017	31 Dec 2016
Positive market value of trading assets	448	502
Total	**448**	**502**

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

(13) Non-trading assets

€ mn	31 Mar 2017	31 Dec 2016
Debt securities and other fixed-income securities	9,299	9,728
of which: Loans and receivables (LaR)	3,063	3,259
Held to maturity (HtM)	431	522
Available for sale (AfS)	5,805	5,947
Equities and other non-fixed income securities	1	1
of which: Available for sale (AfS)	1	1
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	1	1
Total	**9,301**	**9,730**

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

(14) Intangible assets

€ mn	31 Mar 2017	31 Dec 2016
Goodwill	76	76
Proprietary software	22	22
Other intangible assets	28	28
Total	**126**	**126**

(15) Property and equipment

€ mn	31 Mar 2017	31 Dec 2016
Land and buildings and construction in progress	220	220
Office furniture and equipment	31	32
Total	**251**	**252**

(16) Other assets

€ mn	31 Mar 2017	31 Dec 2016
Properties	226	234
Trade receivables (LaR)	43	50
Miscellaneous	98	113
Total	**367**	**397**

(17) Liabilities to banks

€ mn	31 Mar 2017	31 Dec 2016
Money market liabilities	906	813
Promissory note loans	302	352
Registered mortgage Pfandbriefe	531	496
Registered public-sector Pfandbriefe	71	21
Other liabilities	81	21
Total	**1,891**	**1,703**

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

(18) Liabilities to customers

€ mn	31 Mar 2017	31 Dec 2016
Money market liabilities	12,994	13,696
Promissory note loans	6,009	6,369
Registered mortgage Pfandbriefe	5,743	6,066
Registered public-sector Pfandbriefe	2,762	2,945
Other liabilities	0	1
Total	**27,508**	**29,077**

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

(19) Certificated liabilities

€ mn	31 Mar 2017	31 Dec 2016
Bearer mortgage Pfandbriefe	6,351	5,956
Bearer public-sector Pfandbriefe	45	45
Other debt securities	2,344	2,345
Total	**8,740**	**8,346**

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

(20) Trading liabilities

€ mn	31 Mar 2017	31 Dec 2016
Negative market value of trading assets	551	652
Total	**551**	**652**

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

(21) Provisions

€ mn	31 Mar 2017	31 Dec 2016
Provisions for pensions and similar obligations	359	359
Other provisions and contingent liabilities	313	321
Total	**672**	**680**

Changes in the discount rate require a revaluation of the amount of obligations. This is recognised directly in Other Comprehensive Income, under Changes in the reserve from defined benefit plans.

(22) Other liabilities

€ mn	31 Mar 2017	31 Dec 2016
Liabilities from outstanding invoices	8	10
Deferred income	15	15
Liabilities from other taxes	13	17
Trade payables (LaC)	12	30
Other liabilities (LaC)	87	55
Total	**135**	**127**

(23) Subordinated capital

€ mn	31 Mar 2017	31 Dec 2016
Subordinated liabilities	1,083	1,122
Profit-participation certificates	51	50
Contributions by silent partners	195	194
Total	**1,329**	**1,366**

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

(24) Equity

€ mn	31 Mar 2017	31 Dec 2016
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,768	1,734
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-97	-100
Revaluation reserve	27	29
Hedging reserves	1	17
Currency translation reserves	5	6
Non-controlling interests	1	242
Total	**2,906**	**3,129**

Due to the repayment of the Capital Funding Trust, non-controlling interests were reduced to € 1 million (31 December 2016: € 242 million).

(25) Treasury shares

No treasury shares were held during the period under review.

(26) Distributions

The Management Board and the Supervisory Board of Aareal Bank AG propose to the Annual General Meeting that a partial amount of € 119,714,442.00 of Aareal Bank AG's net retained profit of € 122,214,442.00 for the financial year 2016, as reported under the German Commercial Code (HGB), be used to distribute a dividend of € 2.00 per notional no-par value share.

In addition, on 30 April 2017, the Management Board resolved on a distribution in relation to the AT1 instruments, pursuant to the terms and conditions of the notes.

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

Notes to Financial Instruments

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

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

31 March 2017

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,218**	**–**	**2,218**	**–**
Assets held for trading	**448**	**–**	**448**	**–**
Trading derivatives	448	–	448	–
Non-trading assets available for sale	**5,805**	**5,775**	**30**	**–**
Fixed-income securities	5,804	5,774	30	–
Equities/funds	1	1	-	–
Negative market value of derivative hedging instruments	**2,304**	**–**	**2,304**	**–**
Liabilities held for trading	**551**	**–**	**551**	**–**
Trading derivatives	551	–	551	–

31 December 2016

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,481**	**–**	**2,481**	**–**
Assets held for trading	**502**	**–**	**502**	**–**
Trading derivatives	502	–	502	–
Non-trading assets available for sale	**5,948**	**5,918**	**30**	**–**
Fixed-income securities	5,947	5,917	30	–
Equities/funds	1	1	0	–
Negative market value of derivative hedging instruments	**2,529**	**–**	**2,529**	**–**
Liabilities held for trading	**652**	**–**	**652**	**–**
Trading derivatives	652	–	652	–

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 the 2017 financial year, there were no material transfers between the hierarchy levels for the various financial instruments.

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

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

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

€ mn	Carrying amount 31 Mar 2017	Fair Value 31 Mar 2017	Carrying amount 31 Dec 2016	Fair Value 31 Dec 2016
Cash on hand and balances with central banks (LaR)	1,064	1,064	1,786	1,786
Loans and advances to banks (LaR)	1,596	1,598	1,583	1,590
Loans and advances to customers (LaR)	30,553	32,516	30,649	32,697
Non-trading assets (LaR)	3,063	2,926	3,259	3,144
Other assets (LaR)	65	64	85	84
Total loans and receivables	**36,341**	**38,168**	**37,362**	**39,301**
Non-trading assets held to maturity	**431**	**434**	**522**	**525**
Non-trading assets available for sale	**5,806**	**5,806**	**5,948**	**5,948**
Positive market value of derivative hedging instruments	**2,218**	**2,218**	**2,481**	**2,481**
Assets held for trading	**448**	**448**	**502**	**502**
Liabilities to banks (LaC)	1,891	1,908	1,703	1,719
Liabilities to customers (LaC)	27,508	27,560	29,077	29,040
Certificated liabilities (LaC)	8,740	8,773	8,346	8,361
Other liabilities (LaC)	109	107	97	96
Subordinated capital (LaC)	1,329	1,398	1,366	1,424
Total liabilities measured at amortised cost	**39,577**	**39,746**	**40,589**	**40,640**
Negative market value of derivative hedging instruments	**2,304**	**2,304**	**2,529**	**2,529**
Liabilities held for trading	**551**	**551**	**652**	**652**

(29) Day-one profit or loss

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

The table below shows the development of the day-one profit or loss during the period under review. The day-one profit or loss is recognised as an item to be deducted from the carrying amount of the respective underlying derivative position:

€ mn	2017	2016
Balance as at 1 January	**12**	**27**
Additions from new transactions	1	–
Reversals through profit or loss in the period	1	4
Changes in scope of consolidation	–	–
Balance as at 31 March	**12**	**23**

(30) 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, the Bank opted for reclassification since there was no longer an active market for the securities concerned (in spite of their good quality), and due to the intention of holding 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 2017	Fair Value 31 Mar 2017	Carrying amount 31 Dec 2016	Fair Value 31 Dec 2016
from AfS to LaR	**2,864**	**2,718**	**3,044**	**2,921**
Asset-backed securities	–	–	–	–
Senior unsecured bank bonds	46	46	46	47
Covered bank bonds	114	116	237	239
Public-sector issuers	2,704	2,556	2,761	2,635
Total	**2,864**	**2,718**	**3,044**	**2,921**

If the Bank had not opted for reclassification, this would have had no effects in profit/loss before tax for the first three months of the current financial year (Q1 2016: loss of € 1 million), while € 17 million (Q1 2016: loss of € 34 million) would have been recognised in the revaluation surplus after tax.

Other Notes

(31) Contingent liabilities and loan commitments

€ mn	31 Mar 2017	31 Dec 2016
Contingent liabilities	129	114
Loan commitments	1,244	1,333
of which: irrevocable	831	901

(32) Employees

The number of Aareal Bank Group employees[1] as at 31 March 2017 is shown below:

	31 Mar 2017	31 Dec 2016
Salaried employees	2,565	2,566
Executives	159	162
Total	**2,724**	**2,728**
of which: Part-time employees	511	503

The average number of Aareal Bank Group employees in 2017[2] is shown below:

	1 Jan-31 Mar 2017	1 Jan-31 Dec 2016
Salaried employees	2,560	2,633
Executives	157	164
Total	**2,717**	**2,797**
of which: Part-time employees	511	514

(33) Related party disclosures in accordance with IAS 24

In the first three months of the 2017 financial year, there were no material transactions with related parties that would have to be reported here.

[1] This number does not include 195 employees of the hotel business (31 December 2016: 56 employees).
[2] This number does not include 126 employees of the hotel business (1 January- 31 December 2016: 175 employees).

(34) Events after the interim reporting period

On 20 April 2017, following final agreement regarding certain contractual issues with a third party which had been unresolved as at the time of Corealcredit's acquisition by Aareal Bank Group, and having received tax assessment notices, Aareal Beteiligungen AG (formerly Corealcredit) reversed € 66 million in provisions against income. These are offset by € 42 million in related expenses, with € 16 million reported in operating profit and € 26 million in taxes. The positive effect on consolidated operating profit in the second quarter of 2017 will thus total € 50 million before taxes and € 24 million after taxes. For this reason, Aareal Bank AG raised its consolidated operating profit forecast for the current year from between € 260 million and € 300 million to a range between € 310 million and € 350 million. At the same time, the earnings per share forecast for the 2017 financial year has been raised from between € 2.45 and € 2.90 to between € 2.85 and € 3.30.

There were no other material events after the end of the interim period under review.

Executive Bodies of Aareal Bank AG

Supervisory Board

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

Prof. Dr Stephan Schüller [1) 2) 3)]
Deputy Chairman of the Supervisory Board
Spokesman of the General Partners of Bankhaus Lampe KG

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

Thomas Hawel [6) 7)]
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Dieter Kirsch [2) 4) 5) 7)]
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Richard Peters [1) 3) 6)]
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder

Dr Hans-Werner Rhein [1) 4) 5)]
German Lawyer (Rechtsanwalt)

Sylvia Seignette [4) 5)]
Former CEO for Germany and Austria, Crédit Agricole CIB (formerly Calyon)

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Prof. Dr Hermann Wagner [3) 4) 5)]
Chairman of the Audit Committee
German Chartered Accountant, Tax Consultant

Beate Wollmann [7)]
Aareon Deutschland GmbH

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Chairman of the Management Board

Dagmar Knopek
Member of the Management Board

Christiane Kunisch-Wolff
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

Christof Winkelmann
Member of the Management Board

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

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Financial Calendar

31 May 2017	Annual General Meeting – Kurhaus, Wiesbaden
10 August 2017	Publication of results as at 30 June 2017
14 November 2017	Publication of results as at 30 September 2017

Locations

Structured Property Financing

Structured Property Financing

Consulting/Services

Structured Property Financing

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as at 31 March 2017

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

Corporate Responsibility Prime
rated by oekom research

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05/2017

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