Aareal Bank is a 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. Exchange-listed Aareal Bank AG prepares its financial statements in accordance with IFRSs.

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Income Statement

€ mn	Note	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015 [1]
Interest income		847	1.017
Positive interest from financial liabilities		3	0
Interest expenses		137	232
Negative interest from financial assets		12	4
Net interest income	27	**701**	**781**
Allowance for credit losses	28	97	128
Net interest income after allowance for credit losses		**604**	**653**
Commission income		234	204
Commission expenses		41	29
Net commission income	29	**193**	**175**
Net result on hedge accounting	30	0	8
Net trading income/expenses	31	19	13
Results from non-trading assets	32	67	-17
Results from investments accounted for using the equity method	33	0	0
Administrative expenses	34	547	553
Net other operating income/expenses	35	30	41
Negative goodwill from the acquisition of WestImmo		–	150
Operating profit		**366**	**470**
Income taxes	36	132	96
Consolidated net income		**234**	**374**
Consolidated net income attributable to non-controlling interests		19	19
Consolidated net income attributable to shareholders of Aareal Bank AG		215	355
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG [2]		215	355
of which: allocated to ordinary shareholders		199	339
of which: allocated to AT1 investors		16	16
Earnings per ordinary share (in €) [3]		3.33	5.66
Earnings per AT1 unit (in €) [4]		0.16	0.16

[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 Dec 2016	1 Jan-31 Dec 2015
Consolidated net income	**234**	**374**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	**-20**	**15**
Remeasurements	-29	22
Taxes	9	-7
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**1**	**13**
Gains and losses on remeasuring AfS financial instruments	3	25
Reclassifications to the income statement	0	-6
Taxes	-2	-6
Changes in hedging reserves	**4**	**14**
Profit/loss from derivatives used to hedge future cash flows	2	21
Reclassifications to the income statement	4	–
Taxes	-2	-7
Changes in currency translation reserves	**-1**	**3**
Profit/loss from translating foreign operations' financial statements	-2	3
Reclassifications to the income statement	1	–
Taxes	–	–
Other comprehensive income	**-16**	**45**
Total comprehensive income	**218**	**419**
Allocation of total comprehensive income		
Total comprehensive income attributable to non-controlling interests	19	19
Total comprehensive income attributable to shareholders of Aareal Bank AG	199	400

Statement of Financial Position

€ mn	Note	31 Dec 2016	31 Dec 2015
Assets			
Cash funds	7, 37	1,786	1,282
Loans and advances to banks	8, 38	1,583	1,893
Loans and advances to customers	9, 39	31,203	34,566
Allowance for credit losses	10, 40	-554	-528
Positive market value of derivative hedging instruments	11, 41	2,481	2,498
Trading assets	12, 42	502	638
Non-trading assets	13, 43	9,730	10,507
Investments accounted for using the equity method	14, 44	0	1
Intangible assets	15, 45	126	126
Property and equipment	16, 46	252	267
Income tax assets	47	68	20
Deferred tax assets	17, 48	134	239
Other assets	18, 49	397	439
Total		**47,708**	**51,948**
Equity and liabilities			
Liabilities to banks	19, 50	1,703	1,898
Liabilities to customers	20, 51	29,077	30,360
Certificated liabilities	21, 52	8,346	10,819
Negative market value of derivative hedging instruments	11, 53	2,529	2,720
Trading liabilities	12, 54	652	663
Provisions	22, 55	680	783
Income tax liabilities	56	71	102
Deferred tax liabilities	17, 57	28	34
Other liabilities	23, 58	127	114
Subordinated liabilities	24, 59	1,366	1,411
Equity	25, 60		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,734	1,633
AT1 bond		300	300
Other reserves		-48	-32
Non-controlling interests		242	242
Total equity		3,129	3,044
Total		**47,708**	**51,948**

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 interests	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			215		-20	1	4	-1	**199**	19	**218**
Payments to non-controlling interests										-19	**-19**
Dividends			-99						**-99**		**-99**
AT1 coupon			-16						**-16**		**-16**
Other changes			1						**1**		**1**
Equity as at 31 Dec 2016	**180**	**721**	**1,734**	**300**	**-100**	**29**	**17**	**6**	**2,887**	**242**	**3,129**

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bonds	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 interests	Equity
Equity as at 1 Jan 2015	**180**	**721**	**1,357**	**300**	**-95**	**15**	**-1**	**4**	**2,481**	**242**	**2,723**
Total comprehensive income for the period			355		15	13	14	3	**400**	19	**419**
Payments to non-controlling interests										-19	**-19**
Dividends			-72						**-72**		**-72**
AT1 coupon			-7						**-7**		**-7**
Other changes											
Equity as at 31 Dec 2015	**180**	**721**	**1,633**	**300**	**-80**	**28**	**13**	**7**	**2,802**	**242**	**3,044**

Statement of Cash Flows

€ mn	Cashflow 1 Jan - 31 Dec 2016	Cashflow 1 Jan - 31 Dec 2015
Consolidated net income	**234**	**374**
Write-downs, valuation allowances and write-ups on loans and advances	136	138
Additions to and reversals of loan loss provisions, net	-8	-2
Amortisation, depreciation, impairment and write-ups of non-current assets	38	27
Other non-cash changes	-584	131
Gains / losses on the disposal of non-current assets	-69	10
Other adjustments	-163	-376
Subtotal	**-479**	**302**
Changes in loans and advances to banks	319	1,657
Changes in loans and advances to customers	3,513	2,975
Changes in trading assets	94	112
Changes in other assets from operating activities	-154	118
Changes in liabilities to banks	-116	-1,255
Changes in liabilities to customers	-1,061	-3,085
Changes in certificated liabilities	-2,436	-1,259
Changes in trading liabilities	-55	-165
Changes in provisions	-179	-105
Changes in other liabilities from operating activities	-110	-267
Income taxes paid	-115	-66
Interest received	840	616
Interest paid	-334	-115
Dividends received	–	–
Cash flow from operating activities	**-210**	**-537**
Proceeds from the disposal of non-trading assets and investments accounted for using the equity method	971	2,602
Payments for the acquisition of non-trading assets and investments accounted for using the equity method	-168	-372
Proceeds from the disposal of property and equipment, intangible assets and investment properties	8	0
Payments for the acquisition of property and equipment, intangible assets and investment properties	-34	-35
Effect of changes in reporting entity structure	116	-337
Changes due to other investing activities	–	–
Cash flow from investing activities	**893**	**1,858**
Dividends and AT1 coupon paid	-114	-79
Changes in subordinated capital	-46	-94
Changes due to other funding activities	-19	-50
Cash flow from financing activities	**-179**	**-223**
Cash and cash equivalents as at 1 January	**1,282**	**184**
Cash flow from operating activities	-210	-537
Cash flow from investing activities	893	1,858
Cash flow from financing activities	-179	-223
Cash and cash equivalents as at 31 December	**1,786**	**1,282**

Notes
Basis of Accounting

Aareal Bank AG is a 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.

As a listed public limited company, Aareal Bank AG has prepared its consolidated financial statements for the financial year ended on 31 December 2016 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"). The reporting currency is the euro (€).

The consolidated financial statements were released for publication by the Management Board on 1 March 2017, and have been deposited with the Register of Companies at the Wiesbaden District Court (Amtsgericht, HRB 13 184) and are also available from Aareal Bank AG in Wiesbaden, Germany.

Accounting Policies

(1) Accounting standards

Recognition and measurement within Aareal Bank Group are based on accounting policies applied consistently throughout the Group. The consolidated financial statements are prepared on a going concern basis.

We generally apply accounting policies – and the presentation of financial statements – consistently, in order to ensure the comparability of financial statements over time.

Information is presented in accordance with the principle of materiality. Minor differences may occur regarding the figures stated, due to rounding.

The Bank observes the general prohibition of setting off assets against liabilities. To the extent that the criteria of IAS 12.74 are met, deferred tax assets and deferred tax liabilities are offset. If the requirements set out in IAS 32.42 are met, financial assets and liabilities are reported on a net basis.

Income and expenses are recognised on an accrual basis and recorded in the income statement in the period to which they relate.

Interest income and expenses are recognised using the effective interest method. It is no longer recorded if the cash inflow from interest payments is no longer deemed likely. Interest from derivatives designated for hedge accounting and economic hedging relationships is included in net interest income. Negative interest from financial assets and positive interest from financial liabilities are reported separately in the income statement. These assets and liabilities are deposits as well as money market and securities repurchase transactions.

Dividend income is recognised when there is a corresponding legal title.

Commission income and expenses are recognised either on the basis of the accounting method used for the related financial instruments, or the purpose. Commissions for services provided over a specific time period are deferred over the period in which services are performed.

Revenue received in connection with consulting projects, training, license and maintenance agreements and hosting or outsourcing services, is recorded when services have been performed or when goods or products have been delivered. The recognition of revenue from implementation services within the framework of projects is based on the percentage-of-completion method. License revenue is deemed to be realised when there is an agreement signed by both parties without a right of rescission, the product has been delivered in its entirety, the license fee is fixed, and payment is probable. Maintenance services are realised proportionately over the contractual performance period.

In the preparation of the financial statements, assets and liabilities were primarily measured using amortised cost or fair value. Which measurement method will actually be used for a particular item is defined by the applicable accounting standard. Financial instruments are accounted for in accordance with the classification and measurement principles as defined in IAS 39. Derivative hedging instruments are accounted for on the basis of the provisions for hedge accounting.

The presentation of the financial position and the financial performance in the consolidated financial statements depends on the recognition and measurement methods underlying the preparation of the financial statements, as well as on estimates and assumptions made by the management in relation to uncertain future events. Any assessments required for recognition and measurement are prepared in line with the relevant accounting standards. Estimates and assumptions are based on historical experience and other factors, such as planning and current expectations and forecasts with respect to the occurrence of future events. The estimates and assessments themselves as well as the underlying assessment factors and estimation techniques are reviewed regularly and compared with actual outcome. In our view, the parameters used are relevant and reasonable.

The most significant estimates and assumptions of the management primarily refer to the calculation of provisions, allowances for credit losses and provisions in the lending business, the measurement of goodwill, property and tax assets and liabilities. We refer to the item-specific disclosures in this section for information related to the estimates and assumptions actually made within the context of recognition and measurement.

An asset is recognised in the statement of financial position when it is probable that an associated future economic benefit will flow to the Company and the asset can be measured reliably.

A liability is recognised if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when the settlement amount of the liability can be measured with sufficient reliability.

(2) Changes in accounting policies

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

- **IAS 19 Defined Benefit Plans: Employee Contribution**
  The amendments to IAS 19 include a clarification regarding the recognition of employee contributions made to defined benefit plans paid by the employees themselves for service elements. Contributions by employees or third parties reduce the ultimate costs of benefit commitments and are therefore accounted for on the basis of accounting policies for benefit commitments.

- **Annual Improvements Cycle 2010-2012**
  The Annual Improvements Cycle 2010-2012 resulted in a collection of clarifications and minor amendments to different standards. The amendment to IFRS 2 mainly consists of a clarification of the definition for "vesting condition" by adding definitions for "service condition" and "performance condition" to Appendix A of the standard. The amendments to IFRS 3 related to the classification of contingent consideration as debt or equity pursuant to IFRS 3.40. According to the latest amendments, only contingent considerations transferred as part of a business combination and fulfilling the definition of a financial instrument shall be considered for classification, while the reference to "other applicable IFRSs" was deleted. If a contingent consideration is classified as a financial liability, it shall be recognised at fair value and all resulting effects shall be recognised through profit or loss. The amendments to IFRS 8 clarified the aggregation of operating segments and the reconciliation of segments' assets to the entity's assets as disclosed in the statement of financial position. The amendment to IFRS 13 clarified that short-term receivables and liabilities may not be subject to discounting if the effect of not discounting

is immaterial. The amendments to IAS 16 and 38 provide clarification on the restatement of accumulated depreciation in case of a revaluation of assets. The amendment to IAS 24 broadens the definition of "related parties" to include entities (and group companies of such entities) providing key management personnel services to the reporting entity, without any other form of close relationship being in place between the two companies within the meaning of IAS 24 (so-called "management entities").

- **IFRS 11 Accounting for Acquisitions of Interests in Joint Operations**
  The amendments to IFRS 11 govern the recognition of acquisitions of interests in joint operations in which the activity constitutes a business within the meaning of IFRS 3 Business Combinations. In such cases, the acquirer has to apply the principles on business combinations accounting set out in IFRS 3. Moreover, disclosure requirements of IFRS 3 apply in these cases. In addition, the amendment clarifies that, in the context of the acquisition of additional interests, previously held interests in a joint operation are not remeasured if joint control is retained.

- **IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**
  The amendment includes guidance for determining an acceptable method of depreciation and amortisation. The amendment clarifies that depreciation of property, plant and equipment on the basis of revenue from the goods produced by such property, plant and equipment is not appropriate. In addition, rules are introduced pursuant to which future reductions in the selling price of goods and services are an indication of their economic obsolescence and, therefore, an indication for the decline of potential future economic benefits of the assets required for the production of such goods or services.

- **IAS 16 and IAS 41 Agriculture: Bearer Plants**
  In accordance with the amendments, bearer plants – such as grape vines, rubber trees and oil palms – which are used to harvest the produce of biological assets over several accounting periods, without being sold as agricultural produce, have to be accounted for in the same way as property, plant and equipment pursuant to IAS 16, since their use is similar. However, the produce growing on bearer plants continues to be accounted for in accordance with IAS 41 in future.

- **IAS 27 Equity Method in Separate Financial Statements**
  As a result of the amendment, the equity method is re-introduced as an accounting option for interests in subsidiaries, joint ventures and associates in separate financial statements of an investor. The existing options for measurement at cost or in accordance with IAS 39/IFRS 9 continue to apply.

- **Annual Improvements Cycle 2012-2014**
  The Annual Improvements Cycle 2012-2014 resulted in a collection of clarifications and minor amendments to different standards. The amendments to IFRS 5 include guidance for cases in which an entity reclassifies an asset directly from "held for sale" to "held for distribution to owners". The presentation and measurement requirements as described in IFRS 5 still apply after direct reclassification. A further amendment concerns IFRS 7, clarifying in which cases servicing contracts – where the selling entity retains any of the contractual rights or obligations inherent in the transferred financial asset – form the basis for continuing involvement within the meaning of IFRS 7. The amendments also specify that there is no explicit disclosure requirement regarding the offsetting of financial assets and liabilities in condensed interim financial statements. The amendment to IAS 19 relates to the interest rate used for discounting defined benefit pension obligations. The amendment clarifies that the depth of the market for high quality corporate bonds should be assessed "at currency level", i.e. corporate bonds from the entire euro zone should be taken into account for assessments relating to the euro

zone. The amendment to IAS 34 affects disclosures "elsewhere in the interim report". Such information may be provided directly in the respective interim report, or in other documents which shall always be subject to a cross-reference provided in the interim report.

- **Amendments to IAS 1: Disclosure Initiative**
  The amendments refer to clarifications of the concept of materiality in relation to the presentation of items in the statement of financial position, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity as well as regarding the Notes. Immaterial disclosures are not required to be made. This also applies when the disclosure is explicitly required pursuant to other standards. In addition, rules for the presentation of subtotals, the systematic ordering or grouping of the Notes, as well as the disclosures of accounting policies, have been added to IAS 1, and previous requirements have been clarified. Moreover, the amendment clarifies the separate presentation of the share of investments accounted for using the equity method in other comprehensive income in the statement of comprehensive income by items that are subsequently reclassified to the income statement and those which are not reclassified to the income statement.

- **Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception**
  The amendments clarify a number of issues. Firstly, it is clarified that exemption from the requirement to prepare consolidated financial statements in accordance with IFRS 10.4(a) also applies to a parent company that itself is a subsidiary of another investment entity. In addition, the standard setter clarifies that an investment entity has to measure at fair value a subsidiary which itself meets the criteria of an investment entity even if the subsidiary provides investment-related services. Finally, it is clarified that a non-investment entity that includes in its consolidated financial statements an investment entity as an associate or a joint venture using the equity method, may continue to use the fair value measurement of subsidiaries applied by the associate or the joint venture.

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

Until 31 December 2016, the following financial reporting standards (IASs / IFRSs) and interpretations (SICs and IFRICs) had been issued by the International Accounting Standards Board (IASB) and adopted by the EU Commission:

New International Financial Reporting Standards/Interpretations		Issued	Endorsed	Effective Date
IFRIC 22	Foreign Currency Transactions and Advance Consideration	December 2016		Financial years beginning on or after 1 January 2018
IFRS 15	Revenue from Contracts with Customers Effective Date of IFRS 15	May 2014 September 2015	September 2016	Financial years beginning on or after 1 January 2018
IFRS 9	Financial Instruments	July 2014	November 2016	Financial years beginning on or after 1 January 2018
IFRS 16	Leases	January 2016		Financial years beginning on or after 1 January 2019

Revised International Financial Reporting Standards		Issued	Endorsed	Effective Date
	Annual Improvements Cycle 2014-2016	December 2016		Financial years beginning on or after 1 January 2017 and 1 January 2018, respectively
IAS 40	Transfers of Investment Property	December 2016		Financial years beginning on or after 1 January 2018
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	January 2016		Financial years beginning on or after 1 January 2017
IAS 7	Disclosure Initiative	January 2016		Financial years beginning on or after 1 January 2017
IFRS 15	Revenue from Contracts with Customers	April 2016		Financial years beginning on or after 1 January 2018
IFRS 2	Classification and Measurement of Share-based Payment Transactions	June 2016		Financial years beginning on or after 1 January 2018
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 2016		First-time application, depending upon the first-time application of IFRS 9

- **IFRIC 22 Foreign Currency Transactions and Advance Consideration**
  The objective of this interpretation is to clarify the accounting treatment of transactions that include the receipt or payment of consideration in a foreign currency.

- **IFRS 15 Revenue from Contracts with Customers**
  IFRS 15 governs the recognition of revenue from contracts with customers based on a uniform model. The standard supersedes the current revenue recognition provisions set out in IAS 11 and IAS 18 as well as the related interpretations. IFRS 15 has to be applied by all companies that enter into contracts with customers for the delivery of goods or the provision of services unless these contracts are within the scope of other standards. Accordingly, amongst other things, financial instruments and other contractual rights or obligations within the scope of IAS 39 or IFRS 9 are excluded from the scope of IFRS 15. The core principle of IFRS 15 for revenue recognition is that an entity has to recognise revenue when the performance obligations assumed are satisfied, i.e. when control over the goods and services has been transferred. Revenue has to be recognised in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. IFRS 15 introduces a 5-step model based on which the amount and the timing of revenue recognition are determined. In addition, the standard requires additional disclosures, including, amongst other things, a disaggregation of total revenue, performance obligations, a reconciliation of opening and closing balances of contractual net assets and liabilities as well as significant judgements and estimates. In September 2015, the IASB published "Effective Date of IFRS 15", thus delaying the date of first-time application of IFRS 15 to financial years beginning on or after 1 January 2018. In July 2015, additional adjustments and clarifications to the standard were proposed. The changes are the result of discussions within the Transition Resource Group (TRG). The TRG is an advisory body established jointly by the IASB and the FASB addresses issues in relation to the implementation of IFRS 15. Aareal Bank Group is currently reviewing the effects of the new standard on the consolidated financial statements. Within the Group, these changes mainly affect Aareon. Aareon has analysed existing standard agreements and has largely identified the possible effects. According to this analysis, no material impact for the Group as a whole is expected.

- **IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments introduces new rules for the accounting of financial instruments, and will generally replace IAS 39 Financial Instruments: Recognition and Measurement. The development of IFRS 9 was structured in three phases: ”Classification and Measurement”, ”Impairment” and ”Hedge Accounting”. In July 2014, the final rules of IFRS 9 were published; the stated date for mandatory first-time application was 1 January 2018. The standard was endorsed on 22 November 2016.

The classification and measurement section of the new standard sets out a new model for the classification and measurement of financial assets. Subsequent measurement of financial assets will be based in future on three categories with different measurement methods and different recognition methods related to changes in value. Apart from the measurement category ”Financial assets measured at amortised cost using the effective interest method”, there will be in future the following categories: ”Financial assets at fair value through profit or loss” as well as “Financial assets at fair value through other comprehensive income”. The classification to the measurement categories is based on the criteria of business model and cash flow characteristics of the financial assets. The structure and allocation of financial instruments to the business models is in the responsibility of the management. This allocation has to be determined by 31 December 2017. The change of the measurement category may result in unrealised gains or losses to be recognised in equity as transition effects for both securities and property loans. We expect that the major portion of the financial instruments will be allocated to the ”amortised cost” measurement category.

There are special rules for equity instruments as there is an option to measure these either through other comprehensive income or through profit or loss. This is not expected to result in any material transition effects.

The accounting rules for financial liabilities do not result in any material changes. An exception to this is the inclusion of changes from own credit risk in case of financial liabilities measured at fair value through profit or loss. These changes may not be recognised through profit or loss, but through other comprehensive income. The Group currently does not have any financial liabilities measured at fair value.

The new rules for impairment (expected loss model) will replace the previous incurred loss model. The objective of this is an earlier measurement and recognition of allowances for credit losses. IFRS 9 prescribes three stages which are used to determine the amount of the allowances to be recognised and the recognition of interest. Upon initial recognition of an asset, expected losses are recognised using the present value of a 12-month expected credit loss (Stage 1). If the credit risk increases significantly, the allowance for credit losses is increased to the total amount of lifetime expected credit losses (Stage 2). If there is objective evidence of impairment in relation to a financial asset, a specific valuation allowance has to be recognised and interest revenue has to be recognised based on the net carrying amount (Stage 3). The impairment model set out in IFRS 9 has to be applied to financial assets of the categories ”Measured at amortised cost” and ”Measured at fair value through other comprehensive income” as well as to loan commitments and financial guarantees. In addition, lease receivables and trade receivables are covered by the new impairment rules. To the extent that financial instruments are measured at fair value through profit or loss, no allowance for credit losses is recognised for such financial instruments.

Portfolio-based allowances for credit losses are already recognised within the Group. Calculation under IFRS 9 continues to be on the basis of a 12-month loss so that we do not expect any material transition effects for Stage 1.

In Stage 2, we expect additions to allowances due to the recognition of an allowance for expected losses over the entire remaining term to be recognised in equity as at the date of transition. The amount depends on the determination of criteria as to when a significant increase of the default risk has occurred.

Specific allowances for credit losses pursuant to IAS 39 are recognised where estimated future cash flows fall below the carrying amount of a loan receivable. This methodology will generally still be used in Stage 3 pursuant to IFRS 9 so that, other things being equal, only minor transition effects are expected.

The third phase of IFRS 9 introduced new rules for hedge accounting. The standard simplifies the hedge accounting rules by establishing a closer relationship between the entity's risk management strategy, the reasons for entering into hedging instruments and the recognition of hedging relationships in the entity's financial statements. In future, non-financial items may also be recognised under hedge accounting rules, and single risk components may be designated for hedge accounting to a larger extent. Generally, groups and net positions will be eligible for hedge accounting. A voluntary discontinuation of hedge accounting – so-called de-designation – is no longer permitted under the new regulations. Hedging relationships may only be discontinued when the objective of risk management has been changed. In contrast, the new IFRS 9 allows for an adjustment of hedging relationships if this is necessary (rebalancing). The requirements regarding effectiveness have been simplified: only qualitative assessments of effectiveness and prospective effectiveness tests have to be performed. Due to the separation of the macro hedge accounting project from IFRS 9 and its postponement, the application of the new hedge accounting rules in IFRS 9, for the time being, allows for the continued application of special rules for fair value hedge accounting for portfolio hedges of interest rate risks in IAS 39. The Group does not currently use this option.

The Group intends to use the simplifications under micro hedge accounting. This is not expected to result in any material transition effects.

IFRS 9 also comprises comprehensive disclosure requirements, above all in the area of impairments, leading to numerous new requirements. The disclosures on financial instruments continue to be based on IFRS 7, which was amended and significantly extended in the context of the publication of IFRS 9.

Measures were initiated to ensure a timely implementation of IFRS 9 and to review the effects and strategic implications of IFRS 9. It is planned to implement the technical and process requirements until the third quarter of 2017. In addition, impact analyses for the management are prepared so that major decisions may be made until 31 December 2017. This includes, among other things, the structure and allocation of financial instruments to the business models and the determination whether and when the default risk is significantly increased. The allocation also influences the future earnings volatility. To the extent that negative transition effects are expected, these are taken into account by means of buffers within the scope of equity planning.

- **IFRS 16: Leases**
  The new financial reporting standard IFRS 16, regarding lease accounting, will replace IAS 17 as well as the related interpretations IFRIC 4, SIC 15 and SIC 7. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise (in the statement of financial position) any leases and the related contractual rights and obligations with a term of more than twelve months, unless the under-

lying asset is of low value. The lessee recognises a right-of-use asset (representing its right to use the underlying leased asset) and also a lease liability (representing its obligation to make lease payments). Similar to the previous rules set out in IAS 17, the lessor continues to classify its leases as finance or operating leases. The criteria for classification under IFRS 16 equal those of IAS 17. In addition, IFRS 16 sets outs a number of further rules for presentation, disclosures in the Notes and sale-and-lease-back transactions.

- **Annual Improvements Cycle 2014-2016**
  Within the scope of the Annual Improvements Cycles, the IASB publishes clarifications and minor changes to various existing standards.

- **Amendments to IAS 40: Transfers of Investment Property**
  The amendments clarify the provisions regarding transfers to or from investment property. The amendments mainly refer to the question whether property under construction or in development that was previously classified as inventory can be reclassified to the investment property category when there is evidence of a change in use.

- **Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses**
  The amendment to IAS 12 clarifies that an impairment of a debt instrument measured at fair value, resulting from changes in market interest rates, leads to deductible temporary differences. The IASB also clarifies that an entity has to assess – for all of its deductible temporary differences – whether taxable profits are expected to be available in future, in order to utilise and recognise these. Only if and to the extent that tax laws make a distinction between different types of taxable profits, these different types have to be assessed separately. Moreover, IAS 12 introduces rules and examples which clarify how future taxable income has to be determined for the recognition of deferred tax assets.

- **Amendments to IAS 7: Disclosure Initiative**
  Within the scope of the disclosure initiative, amendments to IAS 7 Statement of Cash Flows were issued. The objective is to improve information about changes in an entity's liabilities. In future, an entity will have to provide disclosures about the changes in financial liabilities whose cash receipts and cash payments are reported in the statement of cash flows as cash flows from financing activities. The related financial assets also have to be disclosed (e.g. assets from hedging transactions). The IASB suggests presenting the disclosures in the form of reconciliation between the opening and closing balances in the statement of financial position, but also permits other forms of presentations.

- **Clarifications to IFRS 15: Revenue from Contracts with Customers**
  In April 2016, the IASB issued the final version of the amendment standard IFRS 15. The amendment includes clarifications regarding various rules set out in IFRS 15, and also simplifications concerning the transition to the new standard. The clarifications refer to the identification of the service obligations from a contract, the assessment as to whether a company acts as principal or agent of a transaction, and the assessment as to whether revenue from a licence granted has to be recognised either as at a particular reporting date or during a specific period. The simplifications refer to options regarding the presentation of contracts that are either completed at the beginning of the earliest period presented, or which were modified prior to the beginning of the earliest period presented. This is to reduce the complexity and costs of the transition to the new standard.

- **Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions**
  In June 2016, the IASB issued amendments to IFRS 2 that clarify classification and measurement

of share-based payment transactions. The amendments relate to the following areas: (i) accounting for cash-settled share-based payment transactions that include a performance condition, (ii) the classification of share-based payment transactions with a settlement feature for withholding tax obligations and (iii) accounting for modifications of share-based payment transactions that change the classification from "cash-settled" to "equity-settled".

- **Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**
  In September 2016, the IASB issued amendments to IFRS 4. The amendments refer to the first-time application of IFRS 9 by insurers. Due to different effective dates for IFRS 9 and the new standard for insurance contracts, without these amendments, results will be more volatile for a transitional period; in addition, conversion efforts will be doubled.

Aareal Bank Group did not opt for early application of these standards in 2016, which are required to be applied in future financial years.

Aareal Bank Group is currently reviewing the effects of the application of the new and amended financial reporting standards on the consolidated financial statements.

(3) Consolidation

Consolidation principles

The consolidated financial statements of Aareal Bank Group include all subsidiaries which are controlled directly or indirectly by Aareal Bank AG. Aareal Bank controls an investee when it has the power to direct the investee's relevant activities, has an exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of such returns. If control is exercised via voting rights, Aareal Bank assumes that a parent-subsidiary relationship exists if more than half of the voting rights are held directly or indirectly. In cases where voting rights are not conclusive in determining control relationships, other factors are used to assess whether Aareal Bank Group has the power over the company. For this purpose, an assessment is made of the following: purpose and design of an investee, what are the relevant activities of the company, what is the decision-making process in relation to these relevant activities and whether Aareal Bank, by virtue of its rights, currently has the ability to direct these relevant activities. In addition, we assess whether Aareal Bank Group exercises control as principal or as agent or whether a third party acts as agent for the Group. If the assessment shows that Aareal Bank has the sole power over an investee and additionally has the ability to use its power over the investee to affect the amount of the investor's returns, the investee is included in the consolidated financial statements. Currently, all subsidiaries included in the reporting entity structure of Aareal Bank are controlled through a majority of voting rights.

Consolidation of a subsidiary begins from the date the Group obtains control (full consolidation). Subsidiaries are deconsolidated when there is no longer the ability to exercise control.

Any non-controlling interests resulting from full consolidation are shown in the statement of financial position, as a separate item of equity. Further information is included in Note (60) "Equity".

Initial consolidation of entities is based on the purchase method, in accordance with IFRS 3, whereby remeasured amounts must be used when recognising assets and liabilities (including any hidden reserves and hidden encumbrances) of an entity to be consolidated. This may lead to the recognition of new assets and liabilities that were previously not reported in the statement of financial position of the company to be consolidated. Any excess of acquisition cost over the Group's interest in the fair value of net assets is recognised as (positive) goodwill. Any negative goodwill determined during this comparison is charged against income.

Intragroup transactions, balances, and profits on transactions between Group entities are eliminated. Accounting policies applied by subsidiaries were amended for the purpose of preparing consolidated financial statements to the extent required to ensure consistent accounting throughout the Group.

Joint Arrangements are defined as contractual arrangements where two or more parties carry out business activities that are subject to joint control. Joint control only exists when the decisions about the relevant activities require unanimous consent of the parties sharing control. In general, a distinction is made between joint operations and joint ventures. The parties to a joint operation that have joint control have the rights to the assets, and the obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Interests in joint ventures are measured using the equity method.

Associates are companies in which the Group has an equity interest and may exercise significant influence, without having control. Significant influence is deemed to exist when an investor holds 20%-50% of the voting rights of a company. Associates are also measured using the equity method.

In accordance with the equity method, the Group's share in the profit or loss of associates and joint ventures is recognised in the consolidated income statement from the date of acquisition and is included in the carrying amount of the equity investment, taking into account interim distributions. Further information on investments accounted for using the equity method is included in Note (44).

Associates and joint ventures are no longer accounted for using the equity method from the date when Aareal Bank loses significant influence over the company or when joint control ends.

As at the reporting date, Aareal Bank was not exposed to material limitations as regards the access to, or use of, assets of the Group and as regards the liabilities of the Group.

Reporting entity structure

As at 31 December 2016, the reporting entity structure comprised 67 companies (2015: 82), including Aareal Bank AG as well as 62 (2015: 72) subsidiaries, one joint arrangement (2015: two) as well as three associates (2015: seven).

Apart from the disposal of all shares in Aareal Bank's wholly-owned subsidiary Aqvatrium and the addition of Aareal Holding Realty and its three special purpose entities, there were no other material changes to the scope of consolidation during the period under review.

Note 99 "List of Shareholdings" includes an overview of the Group companies.

(4) Currency translation

Individual line items in the financial statements of each Group entity are measured on the basis of the currency of the primary economic environment the respective entity operates in ("functional currency"). The consolidated financial statements are prepared in euro, being both the functional and the reporting currency.

Monetary assets and liabilities denominated in a foreign currency, unsettled cash market/spot transactions and non-monetary items measured at fair value are all translated to the functional currency on the basis of the ECB reference rate prevailing on the balance sheet date. Non-monetary items measured at amortised cost are translated using historical rates. Foreign exchange forward transactions are measured at the forward exchange rate prevailing on the balance sheet date.

Currency translation adjustments on monetary assets and liabilities must be recognised in income. Depending on the relevant measurement category, currency translation adjustments on non-monetary items are either recognised directly in equity (in the currency translation reserves), or recognised in the income statement (in net trading income).

Financial statements of consolidated subsidiaries, which are presented in a currency other than the euro, are translated at the ECB reference rate prevailing at the reporting date. Translation differences are recognised in equity, in the currency translation reserves.

(5) Determination of fair value

The determination of fair value is governed by IFRS 13 and applies to financial instruments and non-financial assets or liabilities. In accordance with IFRS 13.9, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. The principal market is the market with the greatest volume and the highest level of activity for the asset or liability to which Aareal Bank has access. In the absence of a principal market for the financial instrument, the most advantageous market is used to determine the fair value. The most advantageous market is the market that maximises the amount that would be received to sell the asset, or minimises the amount that would be paid to transfer the liability.

In accordance with IFRS 13.72 et seqq., the fair value determination is based on the fair value hierarchy pursuant to which the inputs used are classified into various hierarchy levels on the basis of their respective market proximity and objectivity. The fair value of assets and liabilities 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. 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. 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. The estimation uncertainties as regards fair value measurement increase the higher the level is.

As a rule, the transaction price equals the fair value at initial recognition. In contrast, there can be differences between the initial fair value determined using a valuation technique and the transaction price. These so-called day-one gains or losses may only be recognised immediately when all the inputs on which the valuation parameters are based are observable in the market. Otherwise, the difference has to be amortised through profit or loss over the term of the transaction. Adjustments for specific counterparty risks (CVA and DVA) are not taken into account for the determination of the present value of derivatives at Aareal Bank, as they are deemed immaterial. Since the derivatives are part of highly effective collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives Transactions) which are each subject to a master collateralisation agreement, measurement adjustments to reflect any potential counterparty credit risk or own credit risk are not required. The Bank uses the overnight interest rate swap curve (OIS curve) for the measurement of derivatives secured by cash collateral, and has also used this curve for currency swaps during the year under review The transition effect of this change in estimates, which was applied prospectively, was immaterial.

(6) Recognition and measurement of financial instruments

Pursuant to IAS 32, a financial instrument is any contract that gives rise to a financial asset at one contracting party and a financial liability or equity instrument at another contracting party.

Recognition

Financial instruments (including derivative financial instruments) must be recognised if the reporting entity has become a party to the contractual provisions of such financial instruments. Trade date and settlement date are not the same for regular way purchases and sales of financial assets. Such regular way purchases and sales may be accounted for either at trade date or at settlement date. At Aareal Bank Group, financial instruments classified as held for trading are recognised at the trade date, while all other financial instruments are recognised at the settlement date.

Financial assets are derecognised upon final maturity or when substantially all risks or rewards are transferred, or control over the contractual rights from such assets are transferred. If only a portion of risks and rewards is transferred and a portion of control is retained, the financial asset is recognised only to the extent of its continuing involvement. The extent of the continuing involvement corresponds to the extent to which the Company is exposed to changes in the value of the financial asset. A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged.

Measurement

In accordance with IAS 39, financial instruments are measured at fair value at initial recognition. Generally, fair value equals the transaction price at initial recognition, i.e. the amount of the consideration received (see Note (5) "Determination of fair value"). Transaction costs that are directly attributable to the acquisition or issuance are recorded as incidental purchase costs, unless financial instruments are measured at fair value through profit or loss. All financial assets and financial liabilities have to be allocated to one of the measurement categories at initial recognition pursuant to IAS 39. Subsequent measurement is based on the measurement category to which the financial instruments were allocated.

Measurement categories in accordance with IAS 39

Loans and receivables (LaR)

The "Loans and receivables" category used within Aareal Bank Group comprises non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. A financial instrument is deemed quoted on an active market when quoted prices are readily and regularly available and these prices represent actual and regular market transactions. Financial instruments classified as loans and receivables are measured subsequently at amortised cost. Premiums and discounts are amortised over their term using relevant effective interest rates.

Assets of the category "Loans and receivables" are reviewed as at each balance sheet date as to whether there is objective evidence for impairment. The criteria for reviewing property loans for impairment are strong indications for a decline of the borrower's credit quality, arrears with respect to the loan receivable, as well as further indications that not all interest and principal payments can be made as contractually agreed. In this context, meeting one of the criteria is sufficient for a review of objective evidence for impairment. An impairment has occurred if the present value of the estimated future cash flows is below the carrying amount of a receivable. The amount of the impairment loss incurred for a financial asset of the category "Loans and receivables" is determined as being the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted using the original effective interest rate applicable upon first-time recognition (taking into account the marketability of collateral provided). Collateral is largely provided in the form of land charges or mortgages; these are measured at fair value which is generally based on either the income capitalisation approach, or on the discounted cash flow method plus back-testing. If the asset is subject to variable interest, the current contractually agreed reference interest rate has to be used as the discount rate. The impairment is recognised in the income statement. Where reasons for impairment lapse subsequently, the necessary reversals of impairments (write-backs) are generally recognised in income. The carrying amount after the reversal of an impairment loss may not exceed the asset's (amortised) cost.

In the context of assets measured at amortised cost and not subject to specific allowances for credit losses, portfolio-based allowances for credit losses are recognised for risks which have already materialised, but which cannot be allocated to individual loans and advances due to lack of knowledge. For this purpose, groups of financial assets with comparable default risk profiles are combined in portfolios. The valuation allowances are calculated using a formula-based procedure based on the following Basel III parameters used in the Advanced IRB Approach: expected loss given default (LGD), probability of default (PD) and the LIP factor. The LIP factor is a correction factor to adjust the one-year probability of default (used in Basel III) to the estimated time period, between the date the loss is incurred and the identification of the actual loss. The LIP factor is subject to backtesting and was 1 for all exposure classes in the year under review.

Assets where contractual modifications have been made due to financial difficulties on the part of the counterparty are tested for impairment and continuously monitored. The counterparty's financial difficulties and the change in the credit quality also affect the level of the probability of default for the contracting party. This is taken into account in the amount of the portfolio-based valuation allowance, to the extent that an impairment has not yet been recorded. Concessions made to a counterparty due to financial difficulties are actions that may be initiated within the lending business to secure repayment of the receivable. Above all, such concessions comprise temporary suspension of redemption payments, adjustment of contractual interest rates and prolongation of the credit term. Such contractual modifications are not used in the other business units of Aareal Bank.

Held to maturity (HtM)

Financial instruments allocated to the category "Held to maturity" within Aareal Bank Group are non-derivative financial assets with fixed or determinable payments and fixed maturity, and for which the Bank has the positive intention and ability to hold these financial instruments to maturity. Financial instruments classified as held-to-maturity instruments are measured subsequently at amortised cost. Premiums and discounts are amortised over their term using relevant effective interest rates. The rules for determining any impairment correspond to those used for the category "Loans and receivables".

Financial assets or liabilities at fair value through profit or loss (FVtPL)

A further differentiation is made within the category "Financial assets at fair value through profit or loss" into held for trading (HfT) and designated as at fair value through profit or loss (dFVtPL).

Financial instruments are classified as "Held for trading" if they are acquired or incurred principally with the intention of generating a short-term profit, or if they are derivatives not designated within the scope of a recognised hedging relationship.

Entities have the option, subject to certain conditions, to irrevocably designate financial instruments as at fair value, irrespective of any intention to trade (fair value option). In the past, Aareal Bank Group has used the fair value option for certain structured financial instruments that comprise one or more embedded derivatives. The fair value option has only been exercised with respect to the measurement of financial assets, but not to the measurement of financial liabilities.

Financial instruments allocated to the measurement category "Financial assets or financial liabilities at fair value through profit or loss" are measured subsequently at fair value through profit or loss (see Note (5) "Determination of fair value").

Available for sale (AfS)

The "Available for sale" category used at Aareal Bank Group comprises all financial assets which cannot be classified under any of the preceding categories, or that are held for an unspecified period of time and may be sold if there is a need of liquidity or market conditions have changed. They are measured subsequently at fair value through other comprehensive income (see Note (5) for information on the determination of fair value).

Aareal Bank Group reviews at any balance sheet date whether there is objective evidence of impairment for financial assets of the AfS category. Criteria were defined for this purpose which – if such criteria are met – trigger a review to determine whether there is objective evidence of impairment. If there is objective evidence and a negative impact on the future cash flows generated from the financial asset can be expected as a result of the loss event, impairment losses are recognised.

For debt securities held, such a criterion is, for example, a downgrade of an external credit rating to "BB+ or worse", arrears with respect to interest and principal payments, the discontinuance of an active market for bonds of a particular issuer due to significant financial difficulties of such issuer or an increased likelihood of the issuer's insolvency. The relevant criteria for equity instruments are either a price decrease by more than 20 % below the average acquisition costs or when the price of the equity instrument concerned at the valuation date has been below the average acquisition costs for more than one year. If an impairment of a financial asset of the "Available for sale" category has been identified, the amount of the impairment is calculated as the difference between the asset's (amortised) cost and its current fair value. In the event of such impairment, the accumulated losses previously recognised directly in equity in the revaluation surplus are reclassified to the income statement. If the reasons for impairment cease to exist, a reversal of the impairment loss (up to amortised cost) is recognised in income for debt securities. Amounts exceeding amortised cost as well as reversals of impairment losses of equity instruments are always recognised directly in equity in the revaluation surplus.

Financial liabilities measured at amortised cost (LaC)

At Aareal Bank Group, all financial liabilities not designated as at fair value through profit or loss are allocated to the category "Financial liabilities measured at amortised cost". Financial liabilities so allocated are measured subsequently at amortised cost. Premiums and discounts are amortised over their term using relevant effective interest rates.

Determination of the fair value of financial instruments

Aareal Bank Group determines the fair value of financial instruments based on the hierarchy used for the determination of the fair value.

The existence of observable quoted prices in an active market is the best evidence of fair value, and when they exist they are used to measure the financial asset or financial liability involved. In order to determine the quoted market price of a financial instrument in an active market, a transaction involving the financial instrument concerned on the reporting date or the last trade date must be used as the basis. If no transaction has occurred in the financial instrument on the reporting date, the Bank shall rely on transaction prices applicable shortly before the reporting date.

Exchange-traded financial instruments (such as equities, bonds, or other debt securities) as well as exchange-traded derivatives are generally measured on the basis of applicable market prices if there is an active market.

If the market for a financial instrument is not (or no longer) active, the fair values of these products are established by using valuation techniques. In this context, the fair values are derived from market prices of recent transactions in the corresponding financial instrument or currently observable market prices of comparable financial instruments using a particular valuation technique.

If past or comparable market prices are not available for certain products, the Bank uses validated valuation models for pricing financial instruments. Pricing using validated valuation models is based on parameters observable in the market (such as interest rates, volatilities, credit spreads). Cash flows are determined on the basis of the contractual arrangements until the expected end of the term and discounted using the interest rate curve of the relevant market, taking into account mark-ups based on credit quality and liquidity, if applicable.

Financial instruments are measured within Aareal Bank Group by units which are independent from Trading. These units are responsible for controlling and monitoring the relevant valuation processes. Measurement procedures are reviewed on a regular basis as to their applicability on the various different financial instruments. The pricing data and parameters used in the valuation models are critically reviewed and developed on an ongoing basis. Current market developments are continuously monitored; if necessary, valuation adjustments are made.

Structured products

Structured products involve a derivative which is embedded in a non-derivative financial instrument. In accordance with IAS 39, the embedded derivative has to be recognised separately from the non-derivative financial instrument if certain criteria are met. If the separation requirement as set out in IAS 39.11 applies, the host contract is accounted in line with the rules applicable for the relevant measurement category, while the separated derivative is accounted for separately as part of the trading portfolio. If the separation criteria are not met, the hybrid financial instrument is measured in its entirety based on the rules for the measurement category to which the financial instrument was allocated.

Hedging relationships

Aareal Bank Group uses hedge accounting to hedge risks from changes in the fair value or the cash flows associated with non-trading items. In this context, the risks from hedged items are intended to be hedged by entering into hedging instruments where the fair value changes or the changes in the cash flows have the opposite direction as those of the hedged item. IAS 39 sets out different types of hedging relationships.

The purpose of a fair value hedge is to hedge the fair value changes of hedged items. The derivatives used for hedging are accounted for at fair value through profit or loss. The offsetting fair value changes of the hedged item resulting from the hedged risk are also recognised through profit or loss. The proportion of the fair value changes of the hedged item not attributable to the hedged risk is accounted for in line with the classification of the hedged item. A fully effective hedging relationship results in offsetting measurement results. The hedging relationship may result in adjustments in the carrying amount of the underlying transaction. Such adjustments will only be recognised in income at the end of the transaction term.

Derivatives used as hedging instruments for the purposes of a cash flow hedge serve to hedge future cash flows against changes in interest payments and exchange rate fluctuations. The effective portion of measurement gains or losses from the derivative is recorded in equity, in the revaluation surplus. The ineffective portion of these measurement gains or losses is recorded directly in income. When the hedging relationship ceases to exist, the amounts recorded in the other reserves are transferred to the income statement at the same time as profits or losses on the former underlying transaction are recognised in income. The underlying transaction is recognised in line with the rules for the measurement category to which the underlying transaction has been allocated.

Hedges of a net investment in a foreign operation are used to hedge currency risks arising on the translation of the net assets of foreign Group companies. The effective portion of measurement gains or losses from the hedging instruments is recognised directly in equity in the currency translation reserve. The ineffective portion of the hedging instrument’s fair value changes have to be recognised in the income statement. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity shall be recognised in profit or loss on disposal of the foreign operation. Any translation differences resulting from the translation of an entity with a different functional currency into the Group currency also have to be recognised directly in equity in the currency translation reserve; they will be reclassified to the income statement upon disposal of the foreign operation.

(7) Cash funds

Cash funds include cash on hand and balances with central banks. Cash funds are allocated to the measurement category ”Loans and receivables” (LaR).

(8) Loans and advances to banks

Loans and advances to banks consist of money market receivables, promissory note loans and other loans and advances to banks, including deferred interest. Loans and advances to banks are allocated to the measurement category "Loans and receivables" (LaR).

(9) Loans and advances to customers

Loans and advances to customers comprise property loans, money market receivables, promissory note loans and other loans and advances to customers, including deferred interest. Loans and advances to customers are allocated to the measurement category "Loans and receivables" (LaR).

(10) Allowance for credit losses

The allowance for credit losses includes specific valuation allowances, flat-rate specific valuation allowances and portfolio-based valuation allowances recorded for risks associated with recognised items.

Specific allowances for credit losses are recognised for significant exposures where estimated future cash flows fall below the carrying amount of a loan receivable. This is reviewed if there is objective evidence that not all interest and principal payments will be made as contractually agreed. The estimated recoverable amount is determined on the basis of the present values of expected future cash flows from the asset (taking into account the marketability of collateral provided). Cash flows determined in this way are discounted over the estimated marketing period, using the original effective interest rate. Collateral is largely provided in the form of land charges or mortgages and measured at fair value based on rents agreed, or on prevailing market rents and management costs specific to the property. As a rule, fair value is determined using the income capitalisation approach or the discounted cash flow method. The interest rates used can be derived from the type and location of the property as well as from the current market situation. Time for reletting as well as structural vacancies are taken into account as appropriate. Valuation is based on estimates prepared by in-house or external valuers. It is subject to several uncertainties and often requires significant estimates made by the management in relation to various factors such as local economic conditions, financial position and development of the counterparty, and the value of collateral held for which there is no easily accessible market.

Flat-rate specific allowances for credit losses are recognised for insignificant exposures. If there is objective evidence for an impairment of such exposures, an impairment amount is determined for homogenous groups of exposures on the basis of mathematical-statistical parameters in the calculation of the expected loss.

In the context of assets measured at amortised cost and not subject to specific valuation allowances, portfolio-based valuation allowances are recognised for risks which have already materialised, but which cannot be allocated to individual loans and advances due to lack of knowledge. For this purpose, groups of financial assets with comparable default risk profiles are combined in portfolios. The valuation allowances are calculated using a formula-based procedure based on the following Basel III parameters used in the Advanced IRB Approach: expected loss given default (LGD), probability of default (PD) and the LIP factor. The LIP factor is a correction factor to adjust the one-year probability of default (used in Basel III) to the estimated time period, between the date the loss is incurred and the identification of the actual loss. The LIP factor, which is subject to back-testing, was 1 for all asset classes during the year under review. The formula-based procedures are also subject to various assumptions and estimates.

Recognition and release of allowances for credit losses are directly reflected in income. The balance of allowances for credit losses is shown in an allowance account, separately from the related exposures. The increase of the present value over time of an impaired loan or advance (so-called unwinding) leads to a corresponding change of the allowance account, which change is recognised as interest income. Interest income is calculated using the original effective interest rate of the loan / advance concerned.

Uncollectable loans and advances are derecognised against specific provisions recognised previously, or written off directly. Payments on loans previously written off are recognised in income.

(11) Positive market value of derivative hedging instruments / Negative market value of derivative hedging instruments

The items "Positive market value of derivative hedging instruments" and "Negative market value of derivative hedging instruments" include derivatives with positive or negative market values from fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation, including deferred interest.

The bulk of Aareal Bank Group's portfolio of derivative financial instruments (derivatives) have been entered into in order to hedge interest rate and currency risk exposures.

The use of derivatives as hedging instruments (and corresponding hedge accounting) involves extensive documentation requirements, and the hedging relationship has to be tested for effectiveness on a quarterly basis at least, i.e. at each reporting date.

Hedge accounting is based on clean fair values.

A distinction is made for derivatives used as hedging instruments whether these are part of a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation (see Note 6 for information on hedging relationships).

(12) Trading assets and trading liabilities

Trading assets and liabilities of Aareal Bank Group comprise positive and negative market values of derivative financial instruments which are not part of recognised hedging relationships. They are mainly used to hedge economic market price risks. The derivatives are classified under the measurement category "At fair value through profit or loss". Results from the measurement and the termination of the derivatives are reported in net trading income. Interest received or paid in connection with these derivatives is also recorded generally in net trading income. Interest received or paid for derivatives entered into for hedging purposes which, however, do not meet the formal criteria of hedge accounting is reported in net interest income, together with interest from the hedged items. Effects from the measurement of these derivatives are reported in net trading income, together with the effects from the measurement of the hedged risk.

(13) Non-trading assets

Non-trading assets include securities in the form of bonds and other fixed-income securities as well as equities and other non-fixed income securities. In addition, this item includes investments in companies over which Aareal Bank AG neither has economic control nor may exercise any significant influence.

All assets included in non-trading assets are recognised at cost, plus attributable transaction costs.

Debt and other fixed-income securities reported in non-trading assets are allocated to the measurement categories ”Available for sale” (AfS), ”Loans and receivables” (LaR) and ”Held to maturity” (HtM). Equities and other non-fixed income securities as well as equity investments are classified as ”Available for sale” or ”Designated as at fair value through profit or loss” (dFVtPL).

Premiums and discounts are amortised over the term of the respective asset. Interest and dividends from these assets are reported in net interest income.

(14) Investments accounted for using the equity method

Investments accounted for using the equity method include shares in companies where Aareal Bank Group can exercise significant influence (associates) as well as shares in joint ventures.

Investments in associates included in this item are recognised at cost when the significant influence arises, and subsequently carried at amortised cost whereby, in particular, the share of results of operations of any financial year is recognised in income.

The equity method applied to the major associates was based on the most recent available financial statements prepared under local GAAP.

(15) Intangible assets

The item ”Intangible assets” consists of proprietary software, goodwill and other intangible assets such as purchased software and licenses.

Intangible assets (except goodwill) are carried at cost, less accumulated amortisation and any impairment losses.

Research costs incurred in connection with software development are expensed as they are incurred. Development costs are capitalised from the time when the software development can be regarded as completed from a technical perspective, and several other conditions are fulfilled. Borrowing costs directly attributable to software development are also part of the cost. They are amortised on a straight-line basis, using an estimated economic life of ten years. Purchased software is also deemed to have a limited useful life. The procedure followed for the determination of amortisation of purchased software is the same as the procedure used for proprietary software. Amortisation is recognised in administrative expenses.

Goodwill is defined as the excess of the cost of acquisition over the fair value of the Group’s interest in the net assets of an acquired entity, at the time of acquisition (positive difference). Goodwill is carried at historical cost less accumulated impairments. Any negative goodwill (badwill) arising upon acquisition is immediately charged against income.

In case the annual impairment test shows that there are indications of impairment of intangible assets (as set out in IAS 36) and that the recoverable amount is lower than the carrying amount of the asset concerned, the asset is written down through profit or loss, to the estimated recoverable amount.

If it is impossible to estimate the recoverable amount for a specific asset, the recoverable amount of the cash-generating unit that the asset belongs to must be determined. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Aareal Bank Group defines cash-generating units either on the basis of a single subsidiary or on product level. The recoverable amount of an asset or a cash-generating unit is the higher of fair value less costs to sell and value in use. (Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or cash-generating unit.) Future cash flows are determined based on medium-term projections. The present value of the future cash flows is determined using discount factors which are in line with the risks involved. Accordingly, the recognition of intangible assets and the impairment test is also subject to estimation uncertainties.

(16) Property and equipment

Property and equipment includes owner-occupied land and buildings, office furniture and equipment as well as a hotel which is operated by Aareal Bank. Property and equipment is measured at cost, less accumulated depreciation and impairment losses. Depreciation and impairment losses are reported under administrative expenses, while those of the owner-operated hotel are shown in net other operating income/expenses.

Owner-occupied buildings reported under property and equipment are depreciated on a straight-line basis, over a period of 25 to 50 years. Owner-occupied land is not depreciated. Please refer to the explanations in the Notes on other assets for the accounting method to be applied for land and buildings which are not owner-occupied. Office furniture and equipment items are depreciated using the straight-line method, applying the following periods:

	Depreciation period
Other property and equipment	
IT equipment	3-7 years
Other office furniture and equipment	5-13 years

Tenant improvements are depreciated based on the principles applicable for the relevant building.

For details on recognising impairments as defined in IAS 36, please refer to the explanations in Note (15) ”Intangible assets” in this section.

Gains and losses upon disposal of property and equipment are recognised in income (in net other operating income/expenses).

The costs to purchase property and equipment in the amount of up to € 150.00 (low-value assets) are expensed as they are incurred.

Any items of property and equipment with a cost of more than € 150.00, but not exceeding € 1,000.00, are combined in a collective account for the year, which is then depreciated on a straight-line basis over a period of five years.

(17) Deferred tax assets / Deferred tax liabilities

Deferred taxes are reported in the items "Deferred tax assets" and "Deferred tax liabilities".

Deferred tax assets are recognised when they are deemed recoverable. The recoverability is assessed using tax planning (internal assessment) on the basis of medium-term Group planning. Accordingly, deferred tax assets are only recognised to the extent that we deem it probable that future taxable profits will be available against which the temporary differences and tax loss carryforwards can be utilised. Deferred taxes are calculated on the basis of country- and company-specific tax rates expected to apply at the time of the realisation of temporary differences and set-off against loss carryforwards.

Deferred tax assets and deferred tax liabilities are offset in accordance with IAS 12.74 when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or tax group.

(18) Other assets

The item "Other assets" includes properties, trade receivables and miscellaneous assets. Properties reported under other assets are intended for short-term disposal, though the IFRS 5 criteria are not met. They are measured at the lower of cost or net realisable value, in accordance with IAS 2, and therefore are subject to estimation uncertainties. Trade receivables are allocated to the measurement category "Loans and receivables" (LaR).

(19) Liabilities to banks

The item "Liabilities to banks" comprises money market liabilities, registered mortgage Pfandbriefe, registered public sector Pfandbriefe, promissory note loans and other liabilities to banks, including deferred interest. Liabilities to banks are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(20) Liabilities to customers

The item "Liabilities to customers" comprises money market liabilities, registered mortgage Pfandbriefe, registered public sector Pfandbriefe, promissory note loans and other liabilities to customers, including deferred interest. Liabilities to customers are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(21) Certificated liabilities

The item "Certificated liabilities" includes bearer mortgage Pfandbriefe, bearer public sector Pfandbriefe and other bonds, including deferred interest. Certificated liabilities are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(22) Provisions

The item "Provisions" comprises provisions for pensions and similar obligations, provisions for staff expenses and non-staff operating costs, provisions for risks related to unrecognised items in the lending business, provisions for legal or tax risks, as well as other provisions. Provisions are recognised when there is a present legal or constructive obligation towards third parties arising from a past event, the outflow of resources to meet this obligation is probable and the amount of the obligation can be reliably estimated. Provisions, including uncertain tax positions, are measured on the basis of the best estimate of expenditure (the most probable value) required to settle the obligation, in accordance with IAS 37.36. In the context of acquisitions in accordance with IFRS 3, contingent liabilities, including uncertain tax obligations, were also recognised at their expected value. These are released when the reasons for their recognition cease to exist.

Measurement is subject to several uncertainties and often requires significant estimates made by the management in relation to various factors that may not apply subsequently. The final amount of the liabilities may deviate significantly from the measurement previously made in accounting. For example, the outcome of individual legal proceedings may not be predicted with certainty.

If utilisation in the short term, i.e. within twelve months, from the obligation is not expected, the provision will be recognised at present value.

Provisions for pensions and similar obligations

Aareal Bank Group maintains various pension plans as defined in IAS 19. For the purpose of reporting pension obligations, IAS 19 makes a distinction between defined contribution plans and defined benefit plans.

Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or a fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions paid to the statutory pension insurance scheme are also classified as defined contribution plans. The contributions paid to a defined contribution plan are recorded as staff expenses.

Defined benefit obligations are all pension obligations that do not meet the criteria of a defined contribution obligation. The amount of obligations usually depends on one or several factors, including age, length of service, and salary.

The Group's obligations under defined benefit plans are recognised as a provision in the consolidated statement of financial position. These are based on company agreements on an employee pension scheme, individual agreements with executive staff as well as individual agreements concluded with the members of the Company's senior management. Projected economic and demographic developments as well as salary trends must be applied to the calculation of the provisions. Calculating the amount of provisions in the Group is based on actuarial opinions which are prepared by external actuaries on the basis of Aareal Bank-specific and Group-wide standardised parameters.

Provisions for pensions and similar obligations under defined benefit plans are determined in accordance with IAS 19 on the basis of the projected unit credit method; the various defined benefit plans are measured separately. The fair value of the plan assets is deducted from the present value of the pension obligation, taking into account, if applicable, the rules for the asset ceiling in relation to a surplus of plan assets over the benefit obligation. The resulting amount represents the net defined benefit liability (provision) or the net defined benefit asset. The net interest expense in the financial year is determined by applying the discount factor calculated at the beginning of the financial year to the net liability calculated as at that date. The discount rate used to determine the present value of the obligation is based on the capital market rate of high quality corporate bonds at the reporting date. Determination is based on the Global-Rate:Link method by Willis Towers Watson. The data basis consists of corporate bonds recorded by Bloomberg which have a rating of at least "AA" and are denominated in the same currency as the underlying pension obligation. Actuarial gains and losses (remeasurements), which – in connection of the amount of obligations – arise on changes in expectations regarding life expectancy, pension increases, salary development, discount rate compared to the estimation made at the beginning of the period or compared to the actual trend during the period, are recorded in other comprehensive income in the item "Changes in the reserve from remeasurements of defined benefit plans". Actuarial gains and losses (remeasurements) recorded in other comprehensive income may not be reclassified subsequently to profit or loss (recycling). Differences between the expected return on plan assets, determined at the beginning of the period using the then applicable discount rate, and the actual return on plan assets (remeasurement) at the end of the period are also recognised in other comprehensive income. Actuarial gains and losses as well as the difference between expected and actual return on plan assets are included in other reserves. They are reported separately in the statement of changes in equity. Accordingly, the recognition of pension obligations is also subject to estimation uncertainties.

Share-based payment

Aareal Bank Group maintains share-based payment plans subject to cash settlement in accordance with IFRS 2. We refer to the remuneration report as part of the Notes to the consolidated financial statements, which includes a detailed description of the plans and their scope as well as information on the valuation model applied and the effects of share-based payments on the Group's financial position and performance.

Provisions for obligations arising from share-based remuneration plans have been recognised under administrative expenses, in the amount of the fair value of the relevant obligation at the reporting date.

(23) Other liabilities

Other liabilities include, among other items, liabilities from outstanding invoices, trade payables, as well as liabilities from other taxes.

(24) Subordinated capital

The item "Subordinated capital" consists of subordinated liabilities, profit-participation certificates and contributions by silent partners. Subordinated funds raised do not provide for any early repayment obligation. In the event of liquidation or insolvency, claims on interest and principal from these liabilities are subordinated to the claims of all other creditors, which are not subordinated themselves. Pursuant to the terms and conditions of issue, holders of profit-participation certificates have a claim on interest payments which takes precedence over the profit entitlements of shareholders. To the extent that a distribution would cause a net loss, said interest claim would be reduced, possibly down to zero, creating a claim for backpayment during the term of the certificates at the same time. Repayment takes place at the nominal amount (subject to any loss sharing), on the day after the Annual General Meeting passing resolutions regarding the relevant financial year. The profit-participation certificates evidence creditors' rights; they do not grant any share in the liquidation proceeds.

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

(25) Equity

Equity comprises subscribed capital, capital reserves, retained earnings and other reserves. Other reserves include the reserve from remeasurements of defined benefit plans, the revaluation surplus, hedging reserves and currency translation reserves. In addition, the item "Equity" includes non-controlling interests as well as the so-called Additional Tier 1 bond (AT1 bond). The AT1 bond is classified as equity since there is neither an obligation to repay the bond nor is there an obligation for ongoing debt service (payment of a dividend). The transaction costs directly attributable to the issue of the AT1 bond as well as dividends paid are deducted directly from equity, net of taxes.

(26) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when due. A guarantor recognises a financial guarantee contract as a liability at the date of addition, using the fair value of the guarantee obligation. The obligation is subsequently measured at the greater of a provision recorded in accordance with IAS 37 and the original amount, less any accumulated amortisation. Within Aareal Bank Group, financial guarantee contracts are presented based on the present value of the claim resulting from the future premium payments of the holder, and offset with the obligation for the guarantee (net basis).

Notes to the Statement of Comprehensive Income

(27) Net interest income

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015[1)]
Interest income from		
Property loans	752	867
Public-sector loans	7	12
Other lending and money market operations	61	81
Debt and other fixed-income securities	27	57
Current dividend income	0	–
Total interest income	**847**	**1,017**
Positive interest from financial liabilities	**3**	**0**
Interest expenses for		
Bonds issued	32	69
Registered mortgage bonds	12	22
Promissory note loans	41	61
Subordinated capital	30	34
Money market transactions	20	33
Other interest expenses	2	13
Total interest expenses	**137**	**232**
Negative interest from financial assets	**12**	**4**
Total	**701**	**781**

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

Net interest income decreased to € 701 million. This is largely attributable to the reduction of the non-strategic lending businesses, and to lower one-off income from early loan repayments.

Interest income from property loans includes income from impaired loans (so-called unwinding) in the amount of € 32 million (2015: € 22 million).

(28) Allowance for credit losses

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Additions	152	183
Reversals	44	69
Direct write-offs	19	21
Recoveries on loans and advances previously written off	30	7
Total	**97**	**128**

The additions to the allowance for credit losses comprise specific valuation allowances in an amount of € 149 million (2015: € 183 million) and portfolio-based valuation allowances amounting to € 3 million (2015: € –). Reversals of allowances for credit losses include € 40 million (2015: € 17 million) for specific valuation allowances and individually recognised provisions for off-balance sheet risks within the lending business as well as € 4 million (2015: € 52 million) for portfolio-based valuation allowances and provisions recognised on a portfolio level for off-balance sheet risks in the lending business.

(29) Net commission income

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Commission income from		
Consulting and other services	211	184
Trustee loans and administered loans	2	3
Securities transactions	–	–
Other lending and money market operations	8	8
Other commission income	13	9
Total commission income	**234**	**204**
Commission expenses for		
Consulting and other services	32	22
Trustee loans and administered loans	–	–
Securities transactions	1	1
Securitisation transactions	–	0
Other lending and money market transactions	2	1
Other commission expenses	6	5
Total commission expenses	**41**	**29**
Total	**193**	**175**

Net commission income increased to € 193 million (2015: € 175 million), which was mainly due to higher sales revenue at Aareon.

The net amount of commission income and commission expenses from financial assets and financial liabilities not measured at fair value amounts to € 5 million (2015: € 6 million).

(30) Net result on hedge accounting

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Ineffective portion of fair value hedges	0	7
Ineffective portion of cash flow hedges	0	1
Ineffective portion of net investment hedges	0	0
Total	**0**	**8**

This item contains the measurement gains or losses from hedging instruments and the associated hedged items in the context of hedging relationships.

(31) Net trading income / expenses

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Net income/expenses from positions held for trading	19	19
Currency translation	0	-6
Total	**19**	**13**

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

(32) Results from non-trading assets

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Result from debt securities and other fixed-income securities	5	-17
of which: Loans and receivables (LaR)	5	-9
Held to maturity (HtM)	–	-5
Available for sale (AfS)	0	-3
Result from equities and other non-fixed income securities	1	0
of which: Available for sale (AfS)	1	0
Designated as at fair value through profit or loss (dFVtPL)	0	0
Results from equity investments (AfS)	61	0
Total	**67**	**-17**

The net result from non-trading assets amounted to € 67 million (2015: € -17 million) of which an amount of € 61 million was due to the disposal of all shares in Aareal Bank's wholly-owned subsidiary, Aqvatrium which is the owner of a commercial property located in Stockholm. Moreover, the sale of the remaining asset-backed securities (ABS) yielded realised profits of € 5 million.

(33) Results from investments accounted for using the equity method

In the past financial year, there were no material expenses resulting from investments accounted for using the equity method (2015: € 0 million).

(34) Administrative expenses

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Staff expenses	339	332
Wages and salaries	285	275
Social security costs	33	32
Pensions	21	25
Other administrative expenses	187	201
Depreciation, amortisation and impairment of property and equipment and intangible assets	21	20
Total	**547**	**553**

Staff expenses include contributions to defined contribution plans in the amount of € 14 million (2015: € 15 million).

Other administrative expenses include administrative costs for research and development not eligible for capitalisation in the amount of € 4 million (2015: € 5 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the financial year 2016, which consists of the following sub-items:

€ 000's	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Auditing fees	5,141	4,252
Other assurance services	93	561
Tax advisory services	54	255
Other services	1,081	3,948
Total	**6,369**	**9,016**

The fees for the financial year are disclosed in accordance with the revised requirements set out in the Accounting Practice Statement IDW RS HFA 36, as amended, issued by the Institute of Public Auditors in Germany (IDW). Accordingly, services directly associated with the audit of financial statements, such as the audit of the securities services and custody business, are reported under "Auditing fees" rather than "Other assurance services".

(35) Net other operating income/expenses

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Income from properties	40	55
Income from the reversal of provisions	66	16
Income from goods and services	1	3
Miscellaneous	24	35
Total other operating income	**131**	**109**
Expenses for properties	48	45
Write-downs of trade receivables	–	0
Expenses for other taxes	4	3
Miscellaneous	49	20
Total other operating expenses	**101**	**68**
Total	**30**	**41**

Net other operating income/expenses of € 30 million include net income from the successful settlement of legal disputes with holders of profit-participation certificates of the former Corealcredit. This positive effect is offset by a tax expense of virtually the same amount.

In addition, the owner-operated hotel was subject to an impairment loss of € 12 million, which was recognised due to revised income expectations.

(36) Income taxes

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Current income taxes	36	53
Deferred taxes	96	43
Total	**132**	**96**

The differences between calculated and reported income taxes are presented in the following reconciliation.

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Operating profit (before income taxes)	366	470
Expected tax rate	31.7 %	31.4 %
Calculated income taxes	**116**	**148**
Reconciliation to reported income taxes		
Different foreign tax burden	-2	6
Tax attributable to tax-exempt income	-18	-47
Tax attributable to non-deductible expenses	46	9
Remeasurement of deferred taxes	25	11
Taxes for previous years	-28	-26
Effect of changes in tax rates	-2	–
Non-controlling interests	-6	-6
Other tax effects	1	1
Reported income taxes	**132**	**96**
Effective tax rate	36 %	20 %

The expected tax rate of 31.7 % (2015: 31.4 %), including a trade tax rate of assessment of 453 %, comprises trade taxes (15.9 %), corporation taxes (15 %) and the solidarity surcharge (0.825 %; 5.5 % of corporation tax).

Notes to the Statement of Financial Position

(37) Cash funds

€ mn	31 Dec 2016	31 Dec 2015
Cash on hand	0	0
Balances with central banks	1,786	1,282
Total	**1,786**	**1,282**

(38) Loans and advances to banks

€ mn	31 Dec 2016	31 Dec 2015
Money market receivables	1,458	1,509
Promissory note loans	119	192
Securities repurchase agreements	–	150
Other loans and advances	6	42
Total	**1,583**	**1,893**

(39) Loans and advances to customers

€ mn	31 Dec 2016	31 Dec 2015
Property loans [1)]	26,833	29,344
Promissory note loans	1,442	1,457
Other loans and advances	2,928	3,765
Total	**31,203**	**34,566**

[1)] Excluding € 1.1 billion in private client business (31 December 2015: € 1.5 billion) and € 0.6 billion in local authority lending business by WestImmo (31 December 2015: € 0.6 billion), which are reported under "Other loans and advances".

(40) Allowance for credit losses

31 December 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	149	3	**152**	0	**152**
Write-downs	58	–	**58**	1	**59**
Reversals	36	–	**36**	8	**44**
Unwinding	32	–	**32**	–	**32**
Reclassifications	–	–	**–**	–	**–**
Changes in basis of consolidation	–	–	**–**	–	**–**
Currency adjustments	0	0	**0**	0	**0**
Balance as at 31 December	**435**	**119**	**554**	**5**	**559**

31 December 2015

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**333**	**147**	**480**	**18**	**498**
Additions	183	–	**183**	0	**183**
Write-downs	68	–	**68**	1	**69**
Reversals	17	50	**67**	2	**69**
Unwinding	22	–	**22**	–	**22**
Reclassifications	–	–	**–**	-1	**-1**
Changes in basis of consolidation	–	19	**19**	–	**19**
Currency adjustments	3	0	**3**	0	**3**
Balance as at 31 December	**412**	**116**	**528**	**14**	**542**

The allowance for risks associated with recognised 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.

(41) Positive market value of derivative hedging instruments

€ mn	31 Dec 2016	31 Dec 2015
Positive market value of fair value hedges	2,169	2,159
Positive market value of cash flow hedges	29	26
Pro rata interest receivable	283	313
Total	**2,481**	**2,498**

(42) Trading assets

€ mn	31 Dec 2016	31 Dec 2015
Positive market value of trading assets	502	638
Total	**502**	**638**

(43) Non-trading assets

€ mn	31 Dec 2016	31 Dec 2015
Debt and other fixed-income securities	9,728	10,499
of which: Loans and receivables (LaR)	3,259	3,630
Held to maturity (HtM)	522	604
Available for sale (AfS)	5,947	6,265
Equities and other non-fixed income securities	1	7
of which: Available for sale (AfS)	1	7
Designated as at fair value through profit or loss (dFVtPL)	–	–
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	1	1
Total	**9,730**	**10,507**

The item "Debt and other fixed-income securities" mainly consists of public-sector bonds as well as asset-covered bonds (Pfandbriefanleihen) and bank bonds. The remaining asset-backed securities (ABS) were sold in the year under review (nominal amount in 2015: € 124 million).

(44) Investments accounted for using the equity method

Aareal Bank holds interests in associates that are accounted for using the equity method. During the year under review and the previous year, interests in associates were insignificant for the Group.

The sum total of the carrying amounts of the equity investments that are immaterial on an individual basis amounted to € 0 million (31 December 2015: € 1 million). The sum total of the Group's share in the total comprehensive income of companies accounted for using the equity method amounted to € 0 million in the year under review (2015: € 0 million).

(45) Intangible assets

€ mn	31 Dec 2016	31 Dec 2015
Goodwill	76	75
Proprietary software	22	19
Other intangible assets	28	32
Total	**126**	**126**

Goodwill completely refers to the Aareon sub-group (Consulting / Services segment) and can be allocated to the following business divisions defined as cash-generating units:

€ mn	31 Dec 2016 Goodwill	31 Dec 2015[1)] Goodwill
Business divisions		
Germany	28	28
International Business	48	47
Total	**76**	**75**

[1)] The allocation of goodwill within the scope of Aareon Smart World was adjusted.

Goodwill is generally tested for impairment in the fourth quarter of each year. The basis for the valuation is the present value of future cash flows (value in use), which are determined using medium-term projections. In this context, the projected pre-tax cash flows – determined on the basis of the three-year plan adopted by Aareon AG's Management Board and approved by the Supervisory Board – are used. Accordingly, there is an individual planning of revenue and expense items within the first three years. The parameters underlying the major assumptions are based on internal and external factors as well as on past experience. The major basis is the previous year's planning. Revenue projections are largely subject to assumptions in relation to migration plans, new business, as well as renewals of contracts and follow-up business with existing customers. At the same time, these represent the key sources for estimation uncertainty. Regular sales revenues, such as maintenance and fees from transactions with existing customers, are normally not subject to estimation uncertainty. The projections for cost of materials are derived from revenue projections. These projections for staff expenses predominantly take into account the number of employees, as well as wage and salary trends. Other costs are projected based on the previous year's figures, taking into account known one-off effects. Estimation uncertainties in relation to costs arise as a result of unplanned price increases or unforeseeable one-off effects. In principle, estimation uncertainty increases if assumptions are made further into the future. Cash flows beyond the three-year horizon are determined by way of a perpetual annuity.

The present values of future cash flows were determined consistently throughout the Group on the basis of a risk-adequate discount factor of 5.2 % before taxes. The discount factor is calculated based on a risk-free basic interest rate of 0.8 % plus a company-specific risk premium of 6 %, multiplied with a beta factor of 0.7. Due to the uncertainties surrounding the planning beyond the three-year horizon, we assume constant values, i.e. no further growth, to reflect our cautious view of the market environment. The recoverable amounts show a significant excess compared to the carrying amounts, which means that a deficit is not considered possible, even if the above-mentioned assumptions change dramatically. To that extent, even a likely increase of the risk-adequate discount factor by 1.0 % as well as a reduction in EBIT included in the cash flows by 5.0 % does not result in an impairment loss in the reporting period. There was no need to recognise impairment losses in the year under review.

Intangible assets developed as follows:

	2016				2015			
€ mn	Goodwill	Proprietary software	Other intangible assets	Total	Goodwill	Proprietary software	Other intangible assets	Total
Cost								
Balance at 1 January	**132**	**82**	**84**	**298**	**123**	**77**	**77**	**277**
Additions	2	6	5	**13**	9	5	10	**24**
Transfers	–	–	0	**0**	–	–	0	**0**
Disposals	0	0	9	**9**	–	0	6	**6**
Changes in basis of consolidation	–	–	–	**–**	–	–	2	**2**
Currency translation differences	-1	-1	-2	**-4**	0	0	1	**1**
Balance as at 31 December	**133**	**87**	**78**	**298**	**132**	**82**	**84**	**298**
Amortisation and impairment losses								
Balance at 1 January	**57**	**63**	**52**	**172**	**57**	**60**	**50**	**167**
Amortisation and impairment losses	–	2	7	**9**	–	3	7	**10**
of which: impairment losses	–	–	–	**–**	–	–	–	**–**
Write-ups	–	–	–	**–**	–	–	–	**–**
Transfers	–	–	–	**–**	–	–	–	**–**
Disposals	0	–	9	**9**	–	0	5	**5**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	0	0	0	**0**	0	–	0	**0**
Balance as at 31 December	**57**	**65**	**50**	**172**	**57**	**63**	**52**	**172**
Carrying amount as at 1 January	**75**	**19**	**32**	**126**	**66**	**17**	**27**	**110**
Carrying amount as at 31 December	**76**	**22**	**28**	**126**	**75**	**19**	**32**	**126**

(46) Property and equipment

€ mn	31 Dec 2016	31 Dec 2015
Land and buildings and construction in progress	220	245
Office furniture and equipment	32	22
Total	**252**	**267**

Development of property and equipment:

€ mn	2016 Land and buildings and construction in progress	2016 Office furniture and equipment	2016 Total	2015 Land and buildings and construction in progress	2015 Office furniture and equipment	2015 Total
Cost						
Balance at 1 January	**292**	**68**	**360**	**103**	**64**	**167**
Additions	14	8	**22**	4	8	**12**
Transfers	-10	10	**0**	151	0	**151**
Disposals	8	5	**13**	0	4	**4**
Changes in basis of consolidation	0	0	**0**	34	0	**34**
Currency translation differences	0	0	**0**	0	0	**0**
Balance as at 31 Decembder	**288**	**81**	**369**	**292**	**68**	**360**
Amortisation and impairment losses						
Balance at 1 January	**47**	**46**	**93**	**28**	**43**	**71**
Amortisation and impairment losses	21	8	**29**	5	6	**11**
of which: impairment losses	12	–	**12**	–	–	**–**
Write-ups	–	–	**–**	–	–	**–**
Transfers	–	–	**–**	–	–	**–**
Disposals	0	5	**5**	–	3	**3**
Changes in basis of consolidation	–	–	**–**	14	–	**14**
Currency translation differences	0	0	**0**	0	0	**0**
Balance as at 31 December	**68**	**49**	**117**	**47**	**46**	**93**
Carrying amount as at 1 January	**245**	**22**	**267**	**75**	**21**	**96**
Carrying amount as at 31 December	**220**	**32**	**252**	**245**	**22**	**267**

(47) Income tax assets

Income tax assets in a total amount of € 68 million as at 31 December 2016 (2015: € 20 million) include € 7 million (2015: € 4 million) expected to be realised after a period of more than twelve months.

(48) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 736 million (2015: € 722 million).

Deferred tax assets were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2016	31 Dec 2015
Loans and advances to banks/to customers	–	0
Positive and negative market value of derivative hedging instruments	4	30
Trading assets and trading liabilities	64	93
Non-trading assets	–	–
Intangible assets	0	1
Property and equipment	0	–
Other assets/liabilities	20	1
Liabilities to banks/to customers, and certificated liabilities	669	678
Provisions	84	117
Subordinated capital	27	22
Tax loss carryforwards	2	19
Deferred tax assets	**870**	**961**

Of the deferred taxes on loss carryforwards, an amount of € 1 million (2015: € 18 million) is attributable to foreign permanent establishments. The existing loss carryforwards may be carried forward for an unlimited period. Deferred taxes on losses carried forward were recognised to the extent that they are expected to be realised within the next five years.

The deferred tax assets not recognised or not subject to valuation adjustments amount to € 68 million (2015: € 43 million).

Deferred tax assets in the amount of € 16 million (2015: € 13 million) were reported under other reserves.

(49) Other assets

€ mn	31 Dec 2016	31 Dec 2015
Properties	234	263
Trade receivables (LaR)	50	42
Miscellaneous	113	134
Total	**397**	**439**

In the year under review, all of the shares held in the wholly-owned subsidiary Aqvatrium, which is the owner of a commercial property located in Stockholm, were sold (€ 249 million). In addition, Aareal Holding Realty was founded, which owns three commercial properties in the United States, and a commercial property portfolio in Belgium was acquired (aggregate value of € 220 million).

(50) Liabilities to banks

€ mn	31 Dec 2016	31 Dec 2015
Money market liabilities	813	925
Promissory note loans	352	414
Registered mortgage Pfandbriefe	496	457
Registered public-sector Pfandbriefe	21	51
Other liabilities	21	51
Total	**1,703**	**1,898**

(51) Liabilities to customers

€ mn	31 Dec 2016	31 Dec 2015
Money market liabilities	13,696	13,179
Promissory note loans	6,369	7,038
Registered mortgage Pfandbriefe	6,066	6,852
Registered public-sector Pfandbriefe	2,945	3,291
Other liabilities	1	–
Total	**29,077**	**30,360**

(52) Certificated liabilities

€ mn	31 Dec 2016	31 Dec 2015
Bearer mortgage Pfandbriefe	5,956	8,529
Bearer public-sector Pfandbriefe	45	71
Other debt securities	2,345	2,219
Total	**8,346**	**10,819**

(53) Negative market value of derivative hedging instruments

€ mn	31 Dec 2016	31 Dec 2015
Negative market value of fair value hedges	2,357	2,554
Negative market value of cash flow hedges	5	7
Negative market value of net investment hedges	12	1
Pro rata interest payable	155	158
Total	**2,529**	**2,720**

(54) Trading liabilities

€ mn	31 Dec 2016	31 Dec 2015
Negative market value of trading assets	652	663
Total	**652**	**663**

(55) Provisions

€ mn	31 Dec 2016	31 Dec 2015
Provisions for pensions and similar obligations	359	333
Other provisions and contingent liabilities	321	450
Total	**680**	**783**

Provisions for pensions and similar obligations

The pension obligations result mainly from retirement benefit plans maintained at Aareal Bank, Aareon, BauGrund and WestImmo, which are classified as defined contribution plans or defined benefit plans in accordance with IAS 19.

Aareal Bank contributed assets held to cover the Bank's existing pension obligations into a Contractual Trust Arrangement (CTA). This is to ensure improved insolvency protection of the pension claims as a result of the limited protection provided by the German Pension Guarantee Association (Pensionssicherungsverein; PSVaG). For this purpose, a bilateral trust was agreed between Aareal Bank AG (trustor) and Aareal Pensionsverein e.V. as legally independent third party (trustee). The trustee is registered at the Wiesbaden District Court.

The trustee holds in trust the special fund for the trustor (administrative trust). Simultaneously, but senior to the administrative trust, the trustee holds the special fund for all beneficiaries on trust to secure the recorded entitlements (security trust).

The security trust is established in the interest of the beneficiaries by way of a genuine agreement for the benefit of third parties (section 328 (1) of the German Civil Code (Bürgerliches Gesetzbuch – "BGB")). On the basis of this security trust, the beneficiaries may request from the trustee that the trustee holds and manages this special fund pursuant to the regulations of this trust agreement for the purpose of securing the recorded entitlements. Upon the occurrence of an insured event, the beneficiaries may, based on the security trust, request from the trustee that the trustee satisfies their recorded entitlements pursuant to the regulations of this trust agreement out of the special fund.

The Bank is the economic beneficiary of the assets. The assets are managed by HSBC INKA in a special fund under German investment law ("Spezialfonds"). Based on an investment guideline, HSBC INKA takes investment decisions for staff pensions. A joint investment committee was established, comprising staff from HSBC and Aareal Bank. The Bank transfers new assets to be invested to Aareal Pensionsverein on an annual basis, which in turn acquires additional units in the special fund. The fund manager invests interest income during the course of the year.

The Bank has taken out reinsurance policies for a portion of the benefit entitlements of active members of the Management Board and former Management Board members. These policies were also transferred to Aareal Pensionsverein e.V. on a trust basis. The Bank provides corresponding funds for contribution paid to these policies.

Transferring assets to Aareal Pensionsverein e.V. on the one hand secures benefit entitlements and claims under occupational pension schemes, and on the other hand creates plan assets within the meaning of IAS 19 which may be offset with benefit obligations of the trustor.

Brief description of the material pension plans

DePfa Bank Betriebsvereinbarung dated 14 December 1999 (BV 97)

BV 97 applies for new joiners since 1 January 1997. The following benefits are granted after a waiting period of five pensionable service years: old-age pension after completing the 65th year of age (also after any previous disability), early old-age pension, disability pension until completing the 65th year of age, as well as widow(er)'s pension.

The Bank shall grant its employees a basic pension from own contributions and additional benefits in the form of corresponding individual agreements on deferred compensation. The basic pension for the pensionable service period is calculated based on an annual benefit expense of 3.5 % for portions of the pensionable income below the contribution ceiling (Beitragsbemessungsgrenze, BBG) and 10 % for portions of pensionable income above the contribution ceiling. The employer contributions thus calculated as well as the contributions from deferred compensation are contributed into a CTA at the end of each financial year. The benefit assets, including any allocated surpluses, bear interest at a rate of at least 4 %. The annual benefit payments are calculated based on an annuitisation of the benefit assets upon occurrence of the insured event, using a fixed annuitisation table.

The pensionable service period is deemed to be the period from completing the 20th year of age to completing the 65th year of age. Pensionable income is the gross remuneration within the year.

Any actuarial deductions upon claiming old-age pensions before completing the 65th year of age are taken into account through an annuitisation of the benefit assets. The widow(er)'s pension amounts to 60 % of the employee pension. The Bank increases the current benefit payments annually by 1 %; there is no obligation to provide for an inflation adjustment.

Management Board

The five Management Board members receive their benefits based on individual commitments (a total of seven individual benefit commitments).

Five individual benefit commitments are fixed amount commitments related to monthly benefit payments upon retirement and disability, including a widow(er)'s pension of 60 % of the beneficiary's pension entitlement. The current benefit payments are adjusted based on the development of standard wages within the private banking sector.

Two individual benefit commitments of 23 December 2011 are aligned to the fixed annual employer contributions and the amounts from deferred compensation, which are paid to the relevant benefit account and bear interest at a rate of 4 %. The benefit assets and the assets from deferred compensation are translated into a lifelong old-age or disability pension upon the occurrence of an insured event, using actuarial principles. Annuitisation is based on biometric principles and a notional interest rate of 4 % p.a. and takes into account a guaranteed pension increase of 1 % p.a. The widow pension amounts to 60 % of the beneficiary's pension entitlement. The current benefit payments are increased annually by 1 %; there is no obligation to provide for an inflation adjustment. The old-age pension benefits based on this commitment were secured through reinsurance policies. These reinsurance policies include benefits in the case of disability or death.

DePfa Bank Dienstvereinbarung dated 30 December 1955 (DePfa 55)
DePfa 55 is a pay-related benefit commitment for new entrants before 31 December 1988. It provides for benefit payments after completing the 65th year of age after a waiting period of five service years and benefits paid in case of occupational incapacity (disability) as well as benefits for surviving dependants, each in form of a monthly annuity.

The amount of the entitlement is based on the following increases: 5 % of the last annual salary for the first five service years each, 2 % of the last annual salary for the next 20 service years each, and 1 % of the last annual salary for any following service year, up to a maximum percentage of 75 % of the last annual salary after 35 service years. The widow(er)'s pension amounts to 60 % of the old-age or disability pension. Benefits paid by social security insurance and VBL / Gerling are charged to the benefit entitlements. DePfa 55 does not include any provision allowing for an early payout of old-age pensions or for an adjustment of current benefit payments.

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

BauBoden agreement dated 1 July 1968 (BauBoden 68)
This agreement applies to employees after completing their 18th year of age who were employed by the Bank on 1 January 1967 or joined the Bank not later than on 31 December 1983. The following benefits are granted after a waiting period of ten service years: old-age pension after completing the 65th year of age, early old-age pension, (total) occupational incapacity pension as well as widow(er)'s pension.

Benefits consist of an overall pension, comprising the statutory pension insurance scheme, the additional pension insurance scheme at VBL or BVV (which is taken into account), or the group insurance contracts and the bank subsidy. The overall pension amounts to 55 % of the pensionable salary after ten years of service. The overall pension is increased by 1 % of the pensionable salary for any further service year, up to the maximum rate of 75 %. The pensionable salary is the last monthly gross salary received during service.

No actuarial deductions are made upon claiming old-age pensions before completing the 65th year of age. The widow(er)'s pension amounts to 60 % of the bank subsidy. The current pension payments are adjusted pursuant to section 16 of the German Company Pensions Act (Betriebsrentengesetz).

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic environment. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

BauBoden agreement dated 12 December 1984 (BauBoden 84) and DePfa Bank Versorgungsordnung dated 28 November 1990 (DePfa 90)
BauBoden 84 applies to employees who joined the Company after 31 December 1983 and have completed their 20th year of age. DePfa 90 applies to employees who joined the Company after 31 December 1988. The following benefits are granted after a waiting period of ten service years: old-age pension and early old-age pension, (total) occupational incapacity pension as well as widow(er)'s pension.

The benefit entitlements of the employees vest after completing their 65th year of age. The amount of the monthly pension entitlement is calculated for each pensionable service year (up to a maximum of 40 service years) as follows: 0.6 % of pensionable salary up to the contribution ceiling, 2 % of the portion of pensionable salary exceeding the contribution ceiling, with pensionable salary and contribution ceiling being calculated using the average for the last twelve months. Benefits paid by BVV are charged to the benefit entitlements under BauBoden 84.

The Bank does not make any actuarial deductions upon claiming early old-age pensions. The widow(er)'s pension amounts to 60 % of the entitlements to benefit payments. The current pension payments are adjusted pursuant to section 16 of the German Company Pensions Act (Betriebsrentengesetz).

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

AHB – General works agreement on additional pension benefits (company pension scheme) of former Corealcredit
The pension benefits to former employees of Allgemeine Hypothekenbank AG, whose employment relationship began prior to 1 January 1994, are governed by the additional benefit arrangement dated 29 August 1995 on the basis of the complementing general works agreement dated 7 March 1995.

This benefit commitment is based on aggregate benefits derived from pension benefits for civil servants. After a waiting period of five years of service, the aggregate benefit rate is 50 % of pensionable income. For each year after completing the 37th year of age, the aggregate benefit rate increases by 1 % of pensionable income, up to a maximum 75 % of pensionable income. The entitlement amounts to at least 65 % of pensionable income in the case of (total) occupational incapacity and 75 % of pensionable income in the case of workplace accidents. Pensionable income is the annual income (calculated on the basis of 14 monthly salaries), divided by 12.

The pension benefits of the statutory pension insurance and the BVV Versicherungsverein des Bankgewerbes a.G., which are based on mandatory contributions, are taken into account in the pension determined as described. To that extent, the benefit obligation directly depends on the development of the level of pensions from the statutory pension insurance on the one hand and from the BVV on the other.

As a result of the German Pension Reform Act of 1992 and the associated cuts in statutory pension insurance, the pension scheme was restructured in 1995. The main pillar of the new structure is the limitation of the Bank's deficiency guarantee for the declining level of statutory pensions due to deduction factors applied at early retirement (Rentenzugangsfaktor) and the lower adjustment of the pension value. Accordingly, the Bank continues to assume the deficiency guarantee on a pro-rata basis for the periods of service until the restructuring on 31 December 1995 in relation to the deduction factors applied at early retirement and for the reduced level of the current pension value (net adjustment factor). The reduction in the level of statutory pensions that occurred during the service periods from the restructuring date until retirement is taken into account at the expense of the beneficiary.

From the start of retirement, the AHB pension is decoupled from the development of the statutory pension and the BVV pension already prior to the restructuring since only the AHB pension is adjusted for inflation on an annual basis.

Accordingly, the obligation for the pension commitment during the qualification period is, on the one hand, directly dependent upon the development of the statutory pension and the BVV pension. On the other hand, it is fully dependent upon salary development for all years of service, even including past service. The volume of the obligation also depends upon the fluctuation of inflation and hence pension increases.

Rheinboden Hypothekenbank AG – pension scheme in the version dated 1 December 1991 of former Corealcredit

The former employees of Rheinboden Hypothekenbank AG are entitled to old-age and disability pensions as well as surviving dependant's benefits in accordance with the pension schemes in the version dated 1 December 1991.

The monthly benefits for employees who commenced service prior to 1 October 1978 amount to 5 % of pensionable remuneration (most recent monthly salary based on collective or individual agreements) after ten service years and increase by 0.5 % of pensionable remuneration for each service year, up to 14 % of pensionable remuneration after 15 service years. The monthly benefit entitlement increases by 0.3 % of pensionable remuneration for any additional service years, up to a maximum of 20 %. The BVV benefits are taken into account in such entitlement to the extent that these are based on employer contributions.

The benefits for employees who commenced service after 30 September 1978 amount to 0.15 % of pensionable remuneration up to the contribution ceiling as well as 1.5 % of pensionable remuneration above the contribution ceiling for each year of service between the 25th and 65th year of age. The maximum number of recognisable service years is 35.

The old-age pension under the Rheinboden pension schemes is paid after completing the 65th year of age or upon commencement of old-age pension under the statutory pension insurance scheme (full pension). In case of early retirement, the benefits are subject to deductions of 0.3 % per month of early retirement prior to the age of 65 as a partial compensation for the additional costs associated with early retirement. The surviving dependant's benefits amount to 60% of the employee's pension entitlement for widow(er)s as well as 15% for half-orphans and 20% for orphans, however, in aggregate not exceeding the amount of the employee's pension entitlement.

Supplementary individual contractual arrangements were agreed with individual pensioners and leavers with vested benefits for the purpose of the transition from the old to the new Rheinboden pension scheme and the application of the BVV benefits.

In addition, individual contractual commitments apply to former management board members and general managers – currently pensioners and one leaver with vested benefits.

The adjustment of current pensions on the basis of the Rheinboden commitments is performed on the basis of the inflation allowance set out in section 16 of the German Occupational Pensions Act (BetrAVG), with the exception of a small group of approximately ten pensioners where adjustment is made pursuant to the collective agreement for banks.

WestImmo – Pension fund rules dated 1 October 1995

The pension fund rules dated 1 October 1995 represent a defined contribution scheme. The following benefits are paid after a waiting period of five year of service: old-age pension, early old-age pension, (total) occupational incapacity pension as well as widow(er)'s and orphan's pension.

The amount of the old-age pension, the early old-age pension and the (total) occupational incapacity pension is calculated based on the sum of the pension components earned during the pensionable service period. If the pensionable service period exceeds 40 years, the monthly pension is calculated based on the sum of the highest 40 pension components earned during the pensionable service period. The amount of one pension component is derived from multiplying the reference contribution (since 2014: € 260), the personal earnings relation (relation between pensionable income and contribution ceiling of the German statutory pension insurance; earnings components above the contribution ceiling are weighted with a factor of 3.75) and the annuitisation factor in the relevant age pursuant to the annuitisation table. The amount of the early old-age pension is reduced by 0.5% for each month in which annuity is paid prior to completing the 65th year of age. The widow(er)'s pension entitlement amounts to 60%.

If necessary, the determination of the amount of pension obligations is based on the following actuarial assumptions applied consistently throughout the Group:

	31 Dec 2016	31 Dec 2015
Calculation method	Projected unit credit	Projected unit credit
Calculation basis	Actuarial tables issued by K. Heubeck in 2005	Actuarial tables issued by K. Heubeck in 2005
Actuarial assumptions (in %)		
Interest rate used for valuation	1.81	2.28
Development of salaries	2.00	2.25
Pension increase	1.86	1.86
Rate of inflation	2.00	2.00
Staff turnover rate	3.00	3.00

Development of net pension liabilities:

€ mn	Present value of pensions obligations	Fair value of plan assets	Net pension liability
Balance as at 1 Jan 2016	**396**	**-63**	**333**
Pension expense	**17**	**-1**	**16**
Current service cost	8	–	8
Net interest cost	9	-1	8
Payments	**-10**	**-9**	**-19**
Pension benefits paid	-12	0	-12
Employer's contributions	–	-7	-7
Contributions made by beneficiaries of defined benefit plans	2	-2	–
Remeasurements	**29**	**–**	**29**
due to experience adjustments	-5	–	-5
due to changes in financial assumptions	34	–	34
due to changes in demographic assumptions	–	–	–
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	0	0
Changes in basis of consolidation	**–**	**–**	**–**
Balance as at 31 Dec 2016	**432**	**-73**	**359**

€ mn	Present value of pensions obligations	Fair value of plan assets	Net pension liability
Balance as at 1 Jan 2015	**352**	**-57**	**295**
Pension expense	**20**	**-1**	**19**
Current service cost[1)]	12	–	12
Net interest cost	8	-1	7
Payments	**-9**	**-5**	**-14**
Pension benefits paid	-11	0	-11
Employer's contributions	–	-3	-3
Contributions made by beneficiaries of defined benefit plans	2	-2	–
Remeasurements	**-22**	**–**	**-22**
due to experience adjustments	-1	–	-1
due to changes in financial assumptions	-19	–	-19
due to changes in demographic assumptions	-2	–	-2
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	0	0
Changes in basis of consolidation	**55**	**–**	**55**
Balance as at 31 Dec 2015	**396**	**-63**	**333**

[1)] Due to Dr Schumacher's leaving the Bank, with effect from 30 September 2015, € 4,023,736 was recognised in benefit expenses, in line with his pension agreement, thus increasing the Bank's pension obligations.

The weighted duration of pension liabilities is 18.9 years as at 31 December 2016 (2015: 18.4 years).

Expected maturities of the defined benefit obligation (DBO):

€ mn	31 Dec 2016	31 Dec 2015
Up to 1 year	12	12
More than 1 year and up to 5 years	54	52
More than 5 years and up to 10 years	77	75
Total	**143**	**139**

Contributions in the amount of € 8 million (2015: € 8 million) are expected to be paid in the financial year 2017.

Sensitivity of the defined benefit obligation (DBO) compared to the central actuarial assumptions

Based on the qualitative plan description, the valuation parameters significant for calculating the amount of the obligation were derived and corresponding calculations were made as regards sensitivity:

		Defined benefit obligation 2016	Change	Defined benefit obligation 2015	Change
		€ mn	%	€ mn	%
Present value of obligations		**432**		**396**	
Interest rate used for valuation	Increase by 1.0 percentage points	362	-16	332	-16
	Decrease by 1.0 percentage points	524	21	477	20
Development of salaries	Increase by 0.5 percentage points	439	2	403	2
	Decrease by 0.5 percentage points	424	-2	387	-2
Pension increase	Increase by 0.25 percentage points	442	2	403	2
	Decrease by 0.25 percentage points	419	-3	386	-3
Life expectancy	Increase by 1 year	453	5	412	4
	Decrease by 1 year	410	-5	375	-5

The sensitivity analysis takes into account, in each case, the change of an assumption, while the other assumptions remain unchanged compared to the original calculation, i.e. any potential correlation effects between the individual assumptions are not taken into consideration.

Plan assets can be broken down as follows:

€ mn	31 Dec 2016	31 Dec 2015
Cash	0	0
Equities	–	–
Investment funds	47	38
Bonds	–	–
Reinsurance	26	25
Total	**73**	**63**

Apart from the usual actuarial risks, the risks associated with defined benefit obligations primarily relate to financial risks in connection with plan assets. Amongst others, these may include counterparty credit risks and market price risks. These risks are taken into account in the risk management of Aareal Bank Group. The measurement of investment funds is allocated to Level 2 of the fair value hierarchy.

Other provisions

Other provisions developed as follows:

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for unrecognised items	Provisions for legal and tax risks	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2016	**166**	**14**	**236**	**34**	**450**
Additions	108	0	8	9	**125**
Utilisation	70	1	68	15	**154**
Reversals	10	8	74	2	**94**
Interest	1	–	1	0	**2**
Reclassifications	-8	–	–	0	**-8**
Changes in basis of consolidation	–	–	–	0	**0**
Currency translation differences	0	0	–	0	**0**
Carrying amount as at 31 Dec 2016	**187**	**5**	**103**	**26**	**321**

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for unrecognised items	Provisions for legal and tax risks	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2015	**101**	**18**	**269**	**30**	**418**
Additions	85	0	5	27	**117**
Utilisation	57	1	7	19	**84**
Reversals	19	2	34	5	**60**
Interest	0	–	2	0	**2**
Reclassifications	1	-1	-1	1	**0**
Changes in basis of consolidation	52	–	2	0	**54**
Currency translation differences	3	0	–	0	**3**
Carrying amount as at 31 Dec 2015	**166**	**14**	**236**	**34**	**450**

Other provisions of € 321 million include € 74 million expected to be realised after a period exceeding twelve months.

Provisions for staff expenses and non-staff operating costs refer to personnel provisions in the amount of € 89 million (2015: € 78 million) and provisions for non-staff operating costs in the amount of € 98 million (2015: € 88 million). Personnel provisions consist of, among other things, provisions for bonuses, partial retirement, severance pay and existing working hours accounts. Provisions for non-staff operating expenses mainly include provisions for professional and legal advice.

Provisions for staff expenses and non-staff operating costs include € 80 million in provisions for severance pay, and € 2 million in restructuring expenses for non-staff operating costs related to the former Frankfurt branch and WestImmo.

The provisions for legal and tax risks include, amongst others, contingent liabilities that were recognised within the framework of the acquisition of the former Corealcredit in the amount of € 1 million (2015: € 131 million).

As a result of the favourable settlement of material litigation of the former Corealcredit, provisions recognised in this matter were reduced. Holders of profit-participation rights of the former Corealcredit had sued it in connection with a reduction of repayment claims under profit-participation certificates, for the financial years 2005 to 2008.

Provisions for tax risks were recognised largely to cover risks in connection with ongoing tax audits at the former Corealcredit. In the year under review, provisions from the risk protection that are no longer required were partially released. We anticipate a long duration of proceedings for the remaining portion.

Concerning the part of the credit portfolio of the former Corealcredit that was acquired subject to credit-related purchase price discounts, as at 31 December 2016, compensation payments to the seller may occur in the future, in an amount of not more than € 3.7 million plus interest; such payments would also be recognised directly in equity. The potential level of such compensation payments largely corresponds to the surplus amount of future borrower payments relative to the carrying amount of the corresponding accounts receivable. Compensation payments made to the seller to date (and recognised directly in equity) totalled € 61 million. The carrying amount of the contingent considerations is € 1 million (2015: € 5 million). The item "Provisions in the lending business for unrecognised items" includes portfolio-based valuation allowances in the amount of € 2 million (2015: € 6 million).

(56) Income tax liabilities

Income tax liabilities in a total amount of € 71 million as at 31 December 2016 (2015: € 102 million) include € 6 million (2015: € 44 million) expected to be realised after a period of more than twelve months.

(57) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 736 million (2015: € 722 million).

Deferred tax liabilities were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2016	31 Dec 2015
Loans and advances to banks/to customers	155	148
Positive and negative market value of derivative hedging instruments	124	133
Trading assets and trading liabilities	81	104
Non-trading assets	370	370
Investments accounted for using the equity method	–	–
Intangible assets	7	8
Property and equipment	3	3
Other assets/liabilities	20	-22
Liabilities to banks/to customers, and certificated liabilities	–	7
Provisions	2	3
Subordinated capital	2	2
Deferred tax liabilities	**764**	**756**

(58) Other liabilities

€ mn	31 Dec 2016	31 Dec 2015
Liabilities from outstanding invoices	10	12
Deferred income	15	14
Liabilities from other taxes	17	18
Trade payables (LaC)	30	16
Other liabilities (LaC)	55	54
Total	**127**	**114**

(59) Subordinated capital

€ mn	31 Dec 2016	31 Dec 2015
Subordinated liabilities	1,122	1,164
Profit-participation certificates	50	53
Contributions by silent partners	194	194
Total	**1,366**	**1,411**

(60) Equity

€ mn	31 Dec 2016	31 Dec 2015
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,734	1,633
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-100	-80
Revaluation reserve	29	28
Hedging reserves	17	13
Currency translation reserves	6	7
Non-controlling interests	242	242
Total	**3,129**	**3,044**

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (2015: € 180 million). It is divided into 59,857,221 notional no-par value shares ("unit shares") with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

Treasury shares

The General Meeting held on 20 May 2015 authorised the Management Board, pursuant to section 71 (1) no. 7 of the AktG, to purchase and sell treasury shares for the purposes of securities trading, at a price not falling below or exceeding the average closing price of the Company's share in Xetra trading (or a comparable successor system) during the three trading days on the Frankfurt Stock Exchange prior to the relevant transaction by more than 10 %. This authorisation expires on 19 May 2020. The volume of shares acquired for this purpose must not exceed 5 % of the share capital of Aareal Bank AG at the end of any day.

Furthermore, the General Meeting held on 20 May 2015 authorised the Management Board, pursuant to section 71 (1) no. 8 of the AktG, to purchase treasury shares with a volume of up to 10 % of the issued share capital for purposes other than securities trading. This authorisation expires on 19 May 2020. Shares may be acquired via the stock exchange or by means of a public offer to buy directed at all shareholders, and at purchase prices stipulated in the authorisation and based on the prevailing market price of the Company's shares. This authorisation may be exercised, in full or in part, on one or more occasions.

The shares acquired in accordance with this or an earlier authorisation may be sold, subject to Supervisory Board approval, outside the stock exchange and without an offer directed at all shareholders, subject to the exclusion of shareholders' pre-emptive rights, when the shares sold do not exceed 10 % of the share capital and the issue price is not significantly below the prevailing stock exchange price or in the event of a sale against contributions in kind, or when the shares sold are used to service rights from convertible bonds or bonds with warrants. This also applies to shares issued by subsidiaries. The treasury shares may also be given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The shares can also be withdrawn, without this withdrawal or its implementation requiring a further resolution by the General Meeting.

The Management Board was also authorised to effect the acquisition of treasury shares by using put or call options. Any acquisition of shares using derivatives is limited to 5 % of share capital. In addition, any acquisition of shares shall count towards the 10 % threshold for the authorisation for the acquisition of treasury shares. Where treasury shares are acquired using equity derivatives, the shareholders' right to enter into any option transactions with the Company is excluded in analogous application of section 186 (3) sentence 4 of the AktG.

Authorised capital

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

a) In the event of a capital increase against cash contributions, provided that the issue price of the new shares is not significantly below the prevailing stock exchange price of the Company's listed shares at the time of the final determination of the issue price. However, this authorisation shall be subject to the proviso that the aggregate value of shares sold to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed 10 % of the issued share capital at the time said authorisation comes into effect or – if lower – at the time it is exercised. Any shares that were issued or sold during the term and prior to the exercising of said authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, shall count towards the above threshold of 10 % of the issued share capital. Said ten-per-cent threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation;

b) for fractional amounts arising from the determination of the applicable subscription ratio;

c) where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by the Company or its affiliated companies, which subscription rights are required to entitle these holders to the same extent as they would have been entitled to upon exercising their conversion or option rights or upon performance of a conversion obligation, if any, thus protecting such holders against dilution;

d) for an amount of up to € 4,000,000, to offer employees (of the Company or its affiliated companies) shares for subscription.

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

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

The authorised capital has not been utilised.

Conditional capital

Based on a resolution passed by the General Meeting on 21 May 2014, the Management Board was authorised to issue, on one or more occasions until 20 May 2019, profit-participation rights with a limited or unlimited term for contribution in cash or in kind in a total nominal amount of € 1,000,000,000. If the profit-participation rights are not issued against contribution in kind, they may be linked to a conversion right for the holder or creditor. Conversion rights may only be issued for the Company's no-par value bearer shares with a proportionate share in the Company's share capital of € 89,785,830. The issue of profit-participation rights may also be effected by domestic or foreign companies in which the Company either directly or indirectly holds a majority interest. In this case, the Company, subject to Supervisory Board approval, may guarantee such issues as well as to issue shares on its own to fulfil the conversion rights. Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in relation to the profit-participation rights in certain cases.

The purpose of the authorisation passed by the Annual General Meeting on 21 May 2014 is to create Tier I capital that is eligible for regulatory purposes; it also provides for the issue of profit-participation rights with conversion obligations. It is in accordance with the various structuring alternatives for Additional Tier I capital instruments, pursuant to the Capital Requirements Regulation. For instance, a conversion obligation may be provided for if the Bank falls short of certain capital ratios (to be defined in the terms of convertible profit-participation certificates); conversion is required, in the opinion of the Company's Management Board and Supervisory Board, to safeguard the Company's continued existence; or if conversion is instructed by a supervisory authority within the scope of its powers.

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

The new shares will be issued at the conversion price to be set as defined in the resolution passed by the General Meeting on 21 May 2014.

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

Capital reserves

The capital reserves contain premiums received upon the issuance of shares. Costs incurred within the framework of a capital increase reduce capital reserves.

Retained earnings

Retained earnings are comprised of statutory reserves (pursuant to section 150 of the AktG) of € 5 million (2015: € 5 million) and of other retained earnings of € 1,729 million (2015: € 1,628 million).

Additional Tier 1 bond (AT1 bond)

On 13 November 2014, the Management Board issued notes in an aggregate nominal amount of € 300 million with a denomination of € 200,000 and an initial interest rate of 7.625 %, based on the authorisation granted by the Annual General Meeting on 21 May 2014.

The notes bear interest of 7.625 % per annum from the interest commencement date to 30 April 2020. The rate of interest for any interest period commencing on or after 30 April 2020 shall be equal to the reference rate (one-year EUR swap rate) determined on the relevant interest determination date plus a margin of 7.18 % per annum.

The notes constitute unsecured and subordinated obligations of the issuer.

Upon the occurrence of a trigger event, the redemption amount and the principal amount of each note shall be reduced by the amount of the relevant write-down. The write-down shall be effected pro rata with all other Additional Tier 1 instruments within the meaning of the CRR, the terms of which provide for a write-down upon the occurrence of the trigger event. A trigger event occurs if the Common Equity Tier 1 capital ratio, pursuant to Article 92 (1) (a) CRR or a successor provision, and determined on a consolidated basis, falls below 7.0 %. After a write-down has been effected, the principal amount and the redemption amount of each note, unless previously redeemed or repurchased and cancelled, may be written up in each of the financial years of the issuer subsequent to such write-down until the full initial principal amount has been reached.

The notes may be redeemed, in whole but not in part, at any time at the option of the issuer, subject to the prior consent of the competent supervisory authority, upon not less than 30 and not more than 60 days' prior notice of redemption at their redemption amount (taking into account a potential write-down) together with interest accrued until the redemption date (to the extent that interest payment is not cancelled or ruled out in accordance with the terms and conditions of the notes), when the tax or regulatory reasons set out in the terms and conditions of the notes apply. The issuer may also redeem the notes, in whole but not in part, at any time, subject to the prior consent of the competent supervisory authority, upon not less than 30 days' notice of redemption with effect as at 30 April 2020 for the first time and, thereafter, with effect as at each interest payment date at their redemption amount together with interest (if any) accrued to the redemption date.

Revaluation surplus

The revaluation surplus comprises effects from fair value measurement of financial instruments of the measurement category "Available for sale (AfS)".

Non-controlling interests

€ 250 million (2015: € 250 million) in preference shares issued by, among others, Aareal Capital Funding Trust, Wilmington, Delaware, USA were outstanding at the end of the financial year. The equity interest of Aareal Bank Group held in this company amounts to 0.01 %, while the remaining 99.99 % are held by non-controlling interests. Aareal Bank Group holds 100 % of the voting rights in the company. The preference shares are repaid at their nominal value and carry an exclusive right to termination for the issuer.

Interest expenses on these preference shares amounted to € 18 million (2015: € 18 million). The tax relief resulting from distributions leads to a reduction of income taxes as reported in the statement of comprehensive income.

Distributions

The Management Board of Aareal Bank AG proposes 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 will resolve on a distribution in relation to the AT1 instruments, pursuant to the terms and conditions of the notes.

Notes to Financial Instruments

A detailed description of the system in place at Aareal Bank AG to measure, limit, and manage risks throughout Aareal Bank Group is presented in the risk report as part of the management report. The disclosures on the description and the extent of the risks arising from financial instruments in accordance with IFRS 7 are included (in part) in the risk report.

(61) Net results of financial instruments by category

The following overview shows the net gains or net losses from financial instruments in accordance with the classification of financial assets and financial liabilities (from which the results are generated) in the measurement categories in accordance with IAS 39:

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Result from loans and receivables	-102	-142
Result from held-to-maturity investments	0	-5
Result from financial instruments held for trading	19	20
Result from assets designated as at fair value through profit or loss	0	0
Result from assets available for sale	58	11
of which: directly recognised in equity	-4	13
Result from financial guarantee contracts	8	2

The net result from available-for-sale assets comprises € 62 million in net result from non-trading assets (largely due to the disposal of all shares in Aareal Bank's wholly-owned subsidiary Aqvatrium, which is the owner of a commercial property located in Stockholm), and € -4 million in measurement amounts included in the revaluation surplus. The net result on hedge accounting amounted to € 0 million in the year under review (2015: € 8 million). The result from currency translation amounted to € 0 million in the year under review (2015: € -6 million).

The net results include measurement gains and losses, realised gains / losses on disposal, subsequent recoveries on loans and advances previously written off in relation to all financial instruments of the respective category. The result from financial instruments held for trading also includes interest and dividends as well as commissions from held-for-trading financial instruments. The hedge result from hedged items is aggregated with the hedge result from derivative hedging instruments in one line item and, similarly to the result from currency translation, shown separately.

(62) Impairment losses on financial assets

The following overview shows the impairment losses recognised for financial assets by measurement category during the year under review:

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Loans and advances to customers (LaR)	171	204
Non-trading assets (AfS)	–	6
Other assets (LaR)	0	0
Total	**171**	**210**

(63) Fair value hierarchy in accordance with IFRS 13

All financial instruments for which a fair value is disclosed have to be allocated to one of the levels of the fair value hierarchy in accordance with IFRS 13. The classification into the individual hierarchy levels is based on the inputs used for fair value measurement. A description of the fair value hierarchy is included in Note (5) "Determination of fair value" in the section on accounting policies.

Determination of the fair value for financial instruments carried at fair value in the statement of financial position

Non-trading assets available for sale:
Fixed-income securities and equity instruments for which stock exchange turnover in a meaningful volume can be observed on or shortly before the reporting date are allocated to Level 1 of the fair value hierarchy.

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. These valuation models exclusively include inputs observable in the market, so that the securities concerned are allocated to Level 2 of the fair value hierarchy. In case the fair value of unlisted equity instruments cannot be determined reliably, the instruments are accounted for using cost.

Positive and negative market value of derivative hedging instruments as well as from derivatives held for trading:
Exchange-traded derivatives are measured at their quoted market price and allocated to Level 1 of the fair value hierarchy. Aareal Bank currently does not hold any listed derivatives in its portfolio.

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. These derivatives are allocated to Level 2 of the fair value hierarchy.

The carrying amounts of financial instruments held by Aareal Bank Group which are reported at fair value in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument:

31 December 2016

€ mn	Total fair value	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	–	–
Negative market value of derivative hedging instruments	**2,529**	**–**	**2,529**	**–**
Liabilities held for trading	**652**	**–**	**652**	**–**
Trading derivatives	652	–	652	–

31 December 2015

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,498**	**–**	**2,498**	**–**
Assets held for trading	**638**	**–**	**638**	**–**
Trading derivatives	638	–	638	–
Non-trading assets available for sale	**6,272**	**6,240**	**32**	**–**
Fixed-income securities	6,265	6,235	30	–
Equities/funds	7	5	2	–
Negative market value of derivative hedging instruments	**2,720**	**–**	**2,720**	**–**
Liabilities held for trading	**663**	**–**	**663**	**–**
Trading derivatives	663	–	663	–

During the financial year 2016, no fixed-income securities of the AfS category were reclassified from Level 2 to Level 1 (2015: € 48 million). There was no reclassification of fixed-income securities of the same category from Level 1 to Level 2 in the reporting year (2015: € –).The end of the reporting period is relevant for reclassification.

Determination of the fair value for financial instruments carried at amortised cost in the statement of financial position

Cash on hand and balances with central banks:

Cash funds are recognised at the IFRS carrying amount, which is considered an appropriate fair value.

Loans and advances to banks and customers classified as "Loans and receivables" as well as liabilities to banks and customers measured at amortised cost:

The property finance portfolio included in loans and advances to customers of the "Loans and receivables" category is measured using the discounted cash flow method for the purpose of the determination of fair value. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for risks specific to the counterparty as well as credit costs. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions.

Amortised cost is an adequate estimate of fair value for short-term money market transactions, current account balances and other short-term receivables and liabilities included in these classes. Quoted market prices are normally not available for promissory note loans of the "Loans and receivables" category. Therefore, they are measured through discounting the future cash flows using the currency-specific benchmark curve. The liquidity and creditworthiness components are taken into account using issuer-specific spreads.

Registered profit-participation certificates of the "Liabilities measured at amortised cost" category which are backed through assets (covered issues) are also measured using the discounted cash flow method on the basis of the benchmark curve. In addition, we take into account quoted covered bond spreads. Future contractual cash flows of uncovered issues are discounted using an interest rate adequate for Aareal Bank.

Generally, there are no quoted market prices available for the products included in loans and advances, and liabilities to banks and customers. They are allocated either to Level 2 or Level 3 of the fair value hierarchy, depending on the inputs included in the measurement model.

Non-trading assets of the "Loans and receivables" and "Held to maturity" categories:
These classes include fixed-income bonds and debt securities whose fair value is determined following the same procedure for available-for-sale non-trading assets, based on prices on active markets or valuation methods such as the discounted cash flow method; they are classified accordingly into the fair value hierarchy. They are allocated either to Level 1 or Level 2 of the fair value hierarchy, depending on whether or not sufficient stock exchange turnover is observable as at the reporting date.

Certificated liabilities measured at amortised cost:
Unless prices on active markets are available, the fair value for bearer securities is determined in accordance with the procedure used for registered securities, with a distinction being made between covered and uncovered issues. To the extent that quoted market prices are available for securities issued by Aareal Bank, such securities are allocated to Level 1 of the fair value hierarchy. Securities for which there are no active market prices are allocated to Level 2 since the valuation methods do not use inputs not observable in the market.

Subordinated capital equity measured at amortised cost:
Subordinated promissory note loans, subordinated bearer debt securities as well as other hybrid instruments of the "Liabilities measured at amortised cost" category are also measured on the basis of the present value method using market-based credit quality premiums with respect to the relevant benchmark curves. If quoted prices on active markets are available, such prices are used as the fair value. Subordinated securities not actively traded in the market are allocated either to Level 2 or Level 3 of the fair value hierarchy, depending on the inputs included in the measurement model.

The market values of financial instruments held by Aareal Bank Group which are reported at amortised cost in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument.

31 December 2016

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Cash on hand and balances with central banks	**1,786**	**–**	**1,786**	**–**
Loans and advances to banks (loans and receivables)	**1,590**	**–**	**1,590**	**–**
Money market receivables from banks	1,468	–	1,468	–
Promissory note loans to banks	122	–	122	–
Other receivables from banks	–	–	–	–
Loans and advances to customers (loans and receivables)	**32,697**	**–**	**1,533**	**31,164**
Property loans to customers	28,201	–	0	28,201
Money market receivables from customers	977	–	9	968
Promissory note loans to customers	1,525	–	1,524	1
Other receivables from customers	1,994	–	–	1,994
Non-trading assets (loans and receivables)	**3,144**	**2,323**	**821**	**–**
Fixed-income securities	3,144	2,323	821	–
Non-trading assets held to maturity	**525**	**525**	**–**	**–**
Fixed-income securities	525	525	–	–
Liabilities to banks measured at amortised cost	**1,719**	**–**	**1,655**	**64**
Money market liabilities to banks	808	–	808	–
Registered mortgage Pfandbriefe to banks	505	–	505	–
Registered Public Sector Pfandbriefe to banks	21	–	21	–
Promissory note loans to banks	361	–	297	64
Other liabilities to banks	24	–	24	–
Liabilities to customers measured at amortised cost	**29,040**	**–**	**20,134**	**8,906**
Money market liabilities to customers	13,724	–	4,818	8,906
Registered mortgage Pfandbriefe to customers	6,139	–	6,139	–
Registered Public Sector Pfandbriefe to customers	2,979	–	2,979	–
Promissory note loans to customers	6,197	–	6,197	–
Other liabilities to customers	1	–	1	–
Certificated liabilities measured at amortised cost	**8,361**	**519**	**7,842**	**–**
Bearer mortgage Pfandbriefe	5,990	519	5,471	–
Bearer public-sector Pfandbriefe	45	–	45	–
Other debt securities	2,326	–	2,326	–
Subordinated capital measured at amortised cost	**1,424**	**331**	**841**	**252**

31 December 2015

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Cash on hand and balances with central banks	**1,282**	**–**	**1,282**	**–**
Loans and advances to banks (loans and receivables)	**1,896**	**–**	**1,868**	**28**
Money market receivables from banks	1,672	–	1,672	–
Promissory note loans to banks	196	–	196	–
Other receivables from banks	28	–	–	28
Loans and advances to customers (loans and receivables)	**36,156**	**–**	**1,529**	**34,627**
Property loans to customers	30,695	–	0	30,695
Money market receivables from customers	1,139	–	5	1,134
Promissory note loans to customers	1,526	–	1,524	2
Other receivables from customers	2,796	–	–	2,796
Non-trading assets (loans and receivables)	**3,586**	**2,533**	**1,053**	**–**
Fixed-income securities	3,586	2,533	1,053	–
Non-trading assets held to maturity	**606**	**519**	**87**	**–**
Fixed-income securities	606	519	87	–
Liabilities to banks measured at amortised cost	**1,912**	**–**	**1,832**	**80**
Money market liabilities to banks	924	–	923	1
Registered mortgage Pfandbriefe to banks	464	–	464	–
Registered Public Sector Pfandbriefe to banks	51	–	51	–
Promissory note loans to banks	423	–	345	78
Other liabilities to banks	50	–	49	1
Liabilities to customers measured at amortised cost	**30,335**	**–**	**22,292**	**8,043**
Money market liabilities to customers	13,169	–	5,126	8,043
Registered mortgage Pfandbriefe to customers	6,914	–	6,914	–
Registered Public Sector Pfandbriefe to customers	3,319	–	3,319	–
Promissory note loans to customers	6,933	–	6,933	–
Other liabilities to customers	–	–	–	–
Certificated liabilities measured at amortised cost	**10,870**	**1,041**	**9,829**	**–**
Bearer mortgage Pfandbriefe	8,591	1,041	7,550	–
Bearer public-sector Pfandbriefe	71	–	71	–
Other debt securities	2,208	–	2,208	–
Subordinated capital measured at amortised cost	**1,441**	**323**	**869**	**249**

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

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

€ mn	31 Dec 2016 Carrying amount	31 Dec 2016 Fair value	31 Dec 2015 Carrying amount	31 Dec 2015 Fair value
Cash on hand and balances with central banks (LaR)	1,786	1,786	1,282	1,282
Loans and advances to banks (LaR)	1,583	1,590	1,893	1,896
Loans and advances to customers (LaR)	30,649	32,697	34,038	36,156
Non-trading assets (LaR)	3,259	3,144	3,630	3,586
Other assets (LaR)	85	84	93	92
Total loans and receivables	**37,362**	**39,301**	**40,936**	**43,012**
Non-trading assets held to maturity	**522**	**525**	**604**	**606**
Non-trading assets available for sale	**5,948**	**5,948**	**6,272**	**6,272**
Positive market value of derivative hedging instruments	**2,481**	**2,481**	**2,498**	**2,498**
Assets held for trading	**502**	**502**	**638**	**638**
Liabilities to banks (LaC)	1,703	1,719	1,898	1,912
Liabilities to customers (LaC)	29,077	29,040	30,360	30,335
Certificated liabilities (LaC)	8,346	8,361	10,819	10,870
Other liabilities (LaC)	97	96	82	82
Subordinated capital (LaC)	1,366	1,424	1,411	1,441
Total liabilities measured at amortised cost	**40,589**	**40,640**	**44,570**	**44,640**
Negative market value of derivative hedging instruments	**2,529**	**2,529**	**2,720**	**2,720**
Liabilities held for trading	**652**	**652**	**663**	**663**

(65) Credit quality of financial assets

The following overview shows the credit quality of Aareal Bank Group's financial assets by separately disclosing assets neither past due nor impaired, past due assets and impaired assets. The presentation is based on carrying amounts:

€ mn	31 Dec 2016	31 Dec 2015
Financial assets neither past due nor impaired		
Loans and advances to banks	1,583	1,893
Loans and advances to customers	29,685	32,934
Positive market value of derivative hedging instruments	2,481	2,498
Trading assets	502	638
Non-trading assets (LaR)	3,259	3,630
Non-trading assets (AfS)	5,949	6,273
Non-trading assets (HtM)	522	604
Other assets	88	89
Total	**44,069**	**48,559**
Financial assets that are past due but not impaired		
Loans and advances to customers	153	268
Other assets	–	0
Total	**153**	**268**
Financial assets subject to specific valuation allowances		
Loans and advances to customers	1,365	1,364
Other assets	5	19
Total	**1,370**	**1,383**

Information about the recoverability of financial assets neither past due nor impaired are provided in the Risk Report in the section on credit risks. An analysis of the financial assets that are past due and impaired is included in the other disclosures in the Notes.

Please refer to the presentation of the items of the statement of financial position in the section "Notes to the statement of financial position" for information on maximum credit risk exposure since the carrying amount corresponds to the maximum credit risk exposure of Aareal Bank as at the balance sheet date. The collateral received is described in the Risk Report.

At Aareal Bank, property loans subject to intensified handling or handling of problem loans pursuant to the Minimum Requirements for Risk Management (MaRisk) that are not impaired individually were subjected to contractual adjustments due to financial difficulties of the borrower, in order to secure the repayment of the exposure. The portfolio of financings, adjusted during the reporting year and the previous years, totalled € 199 million on 31 December 2016. In 2015, the balance of loans adjusted due to financial difficulties of the borrower amounted to € 118 million. In the financial year 2016, loans with a carrying amount of € 25 million (2015: € 3 million) are no longer part of intensified handling or handling of problem loans due to re-ageing after the end of a two-year period of good conduct, while no specific valuation allowances were recorded for loans (2015: € 30 million). Moreover, loans with a carrying amount of € 48 million were discharged or terminated through realisation of collateral. In the year under review, the volume of financings that were subject to adjustments to be made due to financial difficulties of the borrower amounted to € 159 million (2015: € –). There were decreases in the carrying amounts in relation to existing exposures, by a total of € 5 million (2015: decreases of € 5 million).

(66) Financial assets that are past due but not impaired

The following overviews show the amount of property loans past due but not impaired within the category "Loans and advances to customers (LaR)".[1)]

Breakdown by region

31 December 2016

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2016
Regions						
Germany	1	0	0	12	15	**28**
Western Europe	0	–	31	–	–	**31**
Northern Europe	–	–	–	–	–	**–**
Southern Europe	19	0	–	21	54	**94**
Eastern Europe	–	–	–	–	–	**–**
Total	**20**	**0**	**31**	**33**	**69**	**153**

31 December 2015

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2015
Regions						
Germany	20	6	1	1	3	**31**
Western Europe	0	43	–	–	–	**43**
Northern Europe	3	3	–	–	4	**10**
Southern Europe	–	24	94	1	65	**184**
Eastern Europe	–	–	–	–	–	**–**
Total	**23**	**76**	**95**	**2**	**72**	**268**

1) The figures shown are past-due, non-impaired assets that are at least ten days overdue with a minimum amount of € 100 and 2.5 % of the commitment.

Breakdown by borrower group

31 December 2016

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2016
Borrower groups						
Companies	19	0	31	33	67	**150**
Private individuals	1	0	–	0	2	**3**
Other	–	–	–	–	0	**0**
Total	**20**	**0**	**31**	**33**	**69**	**153**

31 December 2015

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total as at 31 Dec 2015
Borrower groups						
Companies	23	72	95	1	62	**253**
Private individuals	0	4	0	1	10	**15**
Other	0	0	0	–	0	**0**
Total	**23**	**76**	**95**	**2**	**72**	**268**

The past-due financial assets were not impaired due to collateral provided.

On the reporting date, the amount of loans and advances of the “Other assets” category did not include any receivables that were past due but not impaired (2015: € 0 million). There were no other financial assets past due but not impaired on the reporting date.

(67) Impaired financial assets

The following overviews indicate the amount of impaired property loans, together with the related allowance for credit losses:

Breakdown by region

31 December 2016

€ mn	Impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	27	6	3
Western Europe	193	40	–
Northern Europe	82	47	–
Southern Europe	919	284	–
Eastern Europe	120	49	–
North America	24	9	–
Total	**1,365**	**435**	**3**

31 December 2015

€ mn	Impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	78	7	8
Western Europe	179	41	0
Northern Europe	88	44	–
Southern Europe	924	298	–
Eastern Europe	95	22	–
North America	–	–	–
Total	**1,364**	**412**	**8**

Breakdown by borrower group

31 December 2016

€ mn	Impaired property loans before allowance for credit losses	Balance of specific valuation allowance	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business recognised in profit or loss	Direct write-offs
Borrower groups					
Companies	1,363	435	2	77	19
Private individuals	2	0	1	0	0
Other	0	0	0	0	0
Total	**1,365**	**435**	**3**	**77**	**19**

31 December 2015

€ mn	Impaired property loans before allowance for credit losses	Balance of specific valuation allowance	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business recognised in profit or loss	Direct write-offs
Borrower groups					
Companies	1,353	411	6	149	21
Private individuals	3	–	1	0	0
Other	8	1	1	-2	0
Total	**1,364**	**412**	**8**	**147**	**21**

As at the reporting date, the amount of portfolio-based valuation allowances for recognised items was € 119 million (2015: € 116 million) and for financial guarantees and loan commitments € 2 million (2015: € 6 million). Net reversals of portfolio-based valuation allowances, which are recognised through profit or loss, amounted to € 1 million (2015: net reversals of € 52 million) in the year under review. Payments on loans and advances previously written off amounted to € 30 million in the year under review (2015: € 7 million).

The amount of impaired receivables of the "Other assets" category as at the reporting date was € 5 million (2015: € 19 million). The related impairment allowance amounts to € 3 million (2015: € 17 million).

In the financial year, assets of € 220 million were acquired within the context of the realisation of collateral (2015: € –).

(68) Reclassification of financial assets

In 2008 and 2009, Aareal Bank Group made use of the possibility to reclassify financial assets into another measurement category, in accordance with IAS 39.50A et seq.

The following table is a comparison of the carrying amounts and the fair values of the reclassified securities and also shows the measurement effects which would have arisen without reclassification in the current financial year and in the previous year:

	Reclassified assets, total				Results from fair value measurement without reclassification			
€ mn	Carrying amount at reporting date 31 Dec 2016	Fair value at reporting date 31 Dec 2016	Carrying amount previous year 31 Dec 2015	Fair value previous year 31 Dec 2015	Effect on the income statement 1 Jan - 31 Dec 2016	Effect on the revaluation surplus 1 Jan - 31 Dec 2016	Effect on the income statement 1 Jan - 31 Dec 2016	Effect on the revaluation surplus 1 Jan - 31 Dec 2016
from AfS to LaR	**3,044**	**2,921**	**3,262**	**3,202**	**–**	**-51**	**–**	**113**
Asset-backed securities	–	–	27	27	–	-1	–	0
Senior unsecured bank bonds	46	47	138	140	–	-4	–	-6
Covered bank bonds	237	239	298	304	–	-4	–	-12
Public-sector issuers	2,761	2,635	2,799	2,731	–	-42	–	131
from HfT to LaR	**–**	**–**	**85**	**91**	**-6**	**–**	**-1**	**–**
Asset-backed securities	–	–	85	91	-6	–	-1	–
Total	**3,044**	**2,921**	**3,347**	**3,293**	**-6**	**-51**	**-1**	**113**

As in the previous year, no impairment losses had to be recognised for the reclassified financial assets in 2016. The disposal of reclassified securities resulted in the realisation of a gain of € 5 million (2015: loss of € 10 million). Interest income from reclassified assets amounted to € 90 million (2015: € 98 million) in the year under review. Interest income, including current interest from derivatives used to hedge economic market price risks, amounted to € 7 million (2015: € 17 million).

(69) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when currently there is a legally enforceable right to set off the recognised amounts, and when the Bank intends either to settle on a net basis – or to realise the asset and settle the liability simultaneously.

The following overviews (p. 190) show whether and to what extent financial instruments were actually offset as at the current reporting date. The tables also include disclosures on financial instruments that are part of an enforceable master netting or similar arrangement that do not meet the criteria for offsetting in the statement of financial position.

Transparency

Financial assets as at 31 December 2016

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	2,700	–	2,700	1,707	957	36
Reverse repos	–	–	–	–	–	–
Total	**2,700**	**–**	**2,700**	**1,707**	**957**	**36**

Financial liabilities as at 31 December 2016

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
Derivatives	3,031	–	3,031	1,707	1,238	86
Repos	–	–	–	–	–	–
Total	**3,031**	**–**	**3,031**	**1,707**	**1,238**	**86**

Financial assets as at 31 December 2015

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	2,794	–	2,794	1,792	1,002	–
Reverse repos	150	–	150	–	150	–
Total	**2,944**	**–**	**2,944**	**1,792**	**1,152**	**–**

Financial liabilities as at 31 December 2015

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	3,347	–	3,347	1,792	1,393	162
Repos	–	–	–	–	–	–
Total	**3,347**	**–**	**3,347**	**1,792**	**1,393**	**162**

To reduce counterparty risk, Aareal Bank Group concludes standardised master agreements for financial derivatives and securities repurchase agreements, such as the ISDA Master Agreement, the German Master Agreement on Financial Derivatives or the Master Agreement for Securities Repurchase Transactions. In addition, Aareal Bank enters into collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives) in which a mutual collateralisation of all claims between the contracting parties is agreed and which include netting arrangements.

The master agreements for financial derivatives used by Aareal Bank include netting arrangements at a single transaction level (so-called "payment netting"), which provide for a netting of payments when both parties need to make payments in the same currency on the same date, as set out in the contract. Aareal Bank does not offset financial derivatives according to the rules related to payment netting, as the transactions are not settled on a net basis. Aareal Bank Group has not entered into arrangements providing for netting of derivatives across several transactions.

For securities repurchase transactions (repo), depending on the counterparty, payment or delivery netting is made. In line with the rules set out in the master agreement for repo transactions, payments or deliveries of securities may be offset when both counterparties have to make payments in the same currency on the same date, or have to deliver securities of the same type. Transactions effected on the basis of the master agreement for repo transactions generally meet the offsetting requirements of IAS 32. Aareal Bank settles on a net basis in the case of transactions within the framework of GC pooling, which means that these transactions are offset in the statement of financial position.

(70) Assets provided or accepted as collateral

Assets provided as collateral

Aareal Bank Group has provided financial assets as collateral for its liabilities or contingent liabilities. The following overview shows the carrying amount of the collateral provided and the items of the statement of financial position in which they are reported.

	31 Dec 2016	31 Dec 2015
€ mn		
Loans and advances to banks	1,382	1,393
Non-trading assets	192	238
Total	**1,574**	**1,631**

The protection buyer has no right to sell or re-pledge any of financial assets pledged as collateral (2015: € –). There is a fully cash-collateralised and irrevocable payment obligation in the amount of € 10 million (2015: € 6 million) from the bank levy and, since 2016, also for the deposit guarantee scheme of German banks. Cash collateral is recognised as other assets.

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. No fixed income securities received as collateral for repo transactions had been accepted as at the reporting date (2015: € 152 million).

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions and on the collateralisation of forward transactions.

(71) Transfer of financial assets without derecognition

Aareal Bank Group sells securities subject to a take-back requirement as borrower within the framework of genuine repurchase agreements. Within the scope of such agreements, securities were transferred to lenders without resulting in the securities being derecognised since Aareal Bank Group retains the substantial risks and rewards from the securities. The risks to which Aareal Bank Group is still exposed comprise the default risk, the interest rate risk and other price risks. The equivalent values received as hedges during the transfer of securities are accounted for as liabilities to banks, or liabilities to customers. Within the context of securities repurchase transactions, the unrestricted title and the unrestricted power of disposition is transferred to the lender upon delivery of the securities. The lender has the right to sell or pledge these securities, however, he is required to retransfer securities of the same type and in the same amount as at the repurchase date.

As in previous year, no securities were part of repurchase agreements as at the balance sheet date.

(72) Derivative financial instruments

Aareal Bank Group enters into derivative financial instruments primarily in order to hedge market risks as well as for refinancing purposes. Derivatives which are designated for hedging purposes and meet the hedge accounting criteria are reported in the statement of financial position as derivative hedging instruments.

Derivatives classified as "Held for trading" are reported as "Assets or liabilities held for trading". They are also mainly used to hedge the economic market risk exposure. Spot and forward foreign exchange transactions are almost exclusively used within the context of refinancing. Credit derivatives are used to assume credit risks for the purpose of portfolio diversification.

Counterparty risks in derivative transactions are monitored by means of counterparty limits, provision of collateral and a uniform lending policy. Limits are set in accordance with the counterparty classification in internally-defined credit classes as well as ratings of Fitch IBCA, Moody's and Standard & Poor's. Collateral is generally provided in the form of cash collateral, which is released to the pledger as soon as the purpose of collateralisation ceases to exist.

Derivative transactions are generally entered into on the basis of the German Master Agreement for Financial Derivatives, or the ISDA Master Agreements only. Such master agreements provide for the netting of claims and liabilities in the event of insolvency or counterparty default, and thus further reduce counterparty risk.

Fair value hedges

Fair value hedges are entered into by Aareal Bank Group in order to hedge interest rate and currency risks inherent in securities, mortgage loans, promissory note loans, money market instruments, registered covered bonds (Namenspfandbriefe), certificated liabilities, and subordinated capital. Instruments used for fair value hedges comprise interest rate swaps as well as cross-currency swaps.

The following gains and losses result from fair value hedges in the year under review:

€ mn	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Result from hedging instruments	-96	-165
Result from hedged items	96	172
Total	**0**	**7**

Cash flow hedges

Cash flow hedges are used within Aareal Bank Group exclusively to hedge future cash flows from variable-rate financial assets and liabilities.

The hedged portion of the cash flows from hedged items which are part of cash flow hedges is as follows:

Cash flows from hedged items – Cash flow hedges as at 31 December 2016

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Cash inflows and outflows from hedged assets (+/-)	-12	-32	-63	24	**-83**

Cash flows from hedged items – Cash flow hedges as at 31 December 2015

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Cash inflows and outflows from hedged assets (+/-)	-7	-24	-15	43	**-3**

In 2016, gains / losses determined as the effective portion of the hedge from derivatives included in cash flow hedges were recognised directly in equity at an amount of € 2 million (2015: gains of € 21 million).

€ 4 million (2015: € 0 million) was transferred from the cash flow hedge reserve to net interest income.

An amount of € 0 million (2015: € 1 million) was recognised directly in income due to inefficiencies of cash flow hedges.

In addition, derivatives were entered into within Aareal Bank Group to hedge net investments in foreign operations. These derivatives are used to hedge the currency risk arising on translating the net assets of foreign Group companies to the Group's reporting currency (euro).

€ 0 million (2015: € 0 million) was recognised directly in the income statement as the ineffective portion of hedges of net investments in foreign operations.

Overview of market values of derivatives

The following table shows positive and negative market values (including pro-rata interest) of derivative financial instruments:

	Fair value as at 31 Dec 2016		Fair value as at 31 Dec 2015	
€ mn	positive	negative	positive	negative
Trading derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	456	401	592	507
Swaptions	–	0	–	0
Caps, floors	7	8	13	13
Total interest rate instruments	**463**	**409**	**605**	**520**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	11	66	24	15
Cross-currency swaps	28	177	8	128
Total currency-related instruments	**39**	**243**	**32**	**143**
Other transactions				
OTC products				
Credit default swaps [1]	–	–	1	–
Total other transactions	**–**	**–**	**1**	**–**
Total trading derivatives	**502**	**652**	**638**	**663**
Fair value hedge derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	2,194	1,948	2,404	1,911
Total interest rate instruments	**2,194**	**1,948**	**2,404**	**1,911**

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

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€ mn	Fair value as at 31 Dec 2016 positive	Fair value as at 31 Dec 2016 negative	Fair value as at 31 Dec 2015 positive	Fair value as at 31 Dec 2015 negative
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	–	–	–	–
Cross-currency swaps	258	564	68	801
Total currency-related instruments	**258**	**564**	**68**	**801**
Total derivatives from fair value hedges	**2,452**	**2,512**	**2,472**	**2,712**
Derivatives from cash flow hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	29	5	26	7
Total currency-related instruments	**29**	**5**	**26**	**7**
Total derivatives from cash flow hedges	**29**	**5**	**26**	**7**
Derivatives used as net investment hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	–	12	–	1
Total currency-related instruments	**–**	**12**	**–**	**1**
Total derivatives used as net investment hedges	**–**	**12**	**–**	**1**
Total	**2,983**	**3,181**	**3,136**	**3,383**

Derivatives have been entered into with the following counterparties:

€ mn	Fair value as at 31 Dec 2016 positive	Fair value as at 31 Dec 2016 negative	Fair value as at 31 Dec 2015 positive	Fair value as at 31 Dec 2015 negative
OECD banks	2,533	3,122	2,548	3,295
Companies and private individuals	450	59	588	88
Total	**2,983**	**3,181**	**3,136**	**3,383**

The following overview (p. 196) shows the cash flows of derivative financial instruments, based on the contractual maturity. The amounts shown in the table represent the contractually agreed future undiscounted cash flows. The procedure for measuring and monitoring liquidity risk is described in the Risk Report.

31 December 2016

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Interest rate instruments					
Interest rate swaps					
Cash inflows	215	542	1,586	599	2,942
Cash outflows	180	373	1,141	460	2,154
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	0	0	–	0
Caps, floors					
Cash inflows	0	1	5	1	7
Cash outflows	0	1	5	1	7
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	2,690	261	104	–	3,055
Cash outflows	2,748	261	103	–	3,112
Cross-currency swaps					
Cash inflows	46	1,943	5,852	1,043	8,884
Cash outflows	77	2,260	6,344	1,004	9,685
Other transactions					
Credit default swaps					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	–	–	–
Total cash inflows	**2,951**	**2,747**	**7,547**	**1,643**	**14,888**
Total cash outflows	**3,005**	**2,895**	**7,593**	**1,465**	**14,958**

31 December 2015

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Interest rate instruments					
Interest rate swaps					
Cash inflows	245	656	2,073	732	3,706
Cash outflows	200	430	1,592	614	2,836
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	0	0	0	0
Caps, floors					
Cash inflows	0	1	8	4	13
Cash outflows	0	1	8	4	13

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€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	2,458	287	112	–	2,857
Cash outflows	2,450	287	112	–	2,849
Cross-currency swaps					
Cash inflows	13	1,008	6,014	1,514	8,549
Cash outflows	30	1,191	6,961	1,575	9,757
Other transactions					
Credit default swaps					
Cash inflows	–	0	–	–	0
Cash outflows	–	–	–	–	–
Total cash inflows	**2,716**	**1,952**	**8,207**	**2,250**	**15,125**
Total cash outflows	**2,680**	**1,909**	**8,673**	**2,193**	**15,455**

(73) 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 year 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	2016	2015
Balance as at 1 January	**27**	**42**
Additions from new transactions	-1	-3
Reversals through profit or loss in the period	14	16
Changes in basis of consolidation	–	4
Balance as at 31 December	**12**	**27**

(74) Maturities of financial liabilities

The following two overviews show the future undiscounted cash flows of non-derivative financial liabilities and of loan commitments.

Maturities as at 31 December 2016

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	832	64	97	395	389	**1,777**
Liabilities to customers	7,092	4,335	4,415	5,787	10,459	**32,088**
Certificated liabilities	–	280	2,260	4,607	1,593	**8,740**
Subordinated capital	–	39	47	654	922	**1,662**
Financial guarantee contracts	113	–	–	–	–	**113**
Loan commitments	1,333	–	–	–	–	**1,333**

Maturities as at 31 December 2015

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	975	57	76	472	396	**1,976**
Liabilities to customers	6,646	3,790	4,141	7,245	12,133	**33,955**
Certificated liabilities	–	813	2,254	6,674	1,443	**11,184**
Subordinated capital	–	19	87	340	1,274	**1,720**
Financial guarantee contracts	162	–	–	–	–	**162**
Loan commitments	1,227	–	–	–	–	**1,227**

The Risk Report includes a detailed description of the liquidity risk associated with financial liabilities.

Segment Reporting

(75) Operating segments of Aareal Bank

In the financial year 2016, segment reporting by Aareal Bank was prepared in accordance with IFRS 8 Operating Segments.

In accordance with the "management approach" set out in IFRS 8, the segment report discloses, on a segment-specific basis, financial information which is relevant for internal control of an entity and which is also used by such entity's management to make decisions on the allocation of resources as well as to measure the financial performance of segments.

Two operating segments are defined within Aareal Bank in line with internal management reporting, based on the organisational structure established according to the various products and services offered.

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

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

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

We operate our IT system consultancy and related advisory services for the housing and commercial property sector through our Aareon AG subsidiary, which can call upon more than 60 years in the business. Aareon offers its customers reliable, pioneering solutions in the fields of consulting, software and services to optimise IT-supported business processes in the digital age. The ERP (Enterprise Resource Planning) systems, which are tailored to the needs of the respective market, may be supplemented by further digital solutions for purposes of process optimisation. The majority of these integrated systems forms the digital ecosystem "Aareon Smart World". It connects property companies with customers, employees and business partners as well as technical "equipment" in apartments and buildings. Aareon Smart World can be used to restructure and optimise processes. The applications may help to reduce costs, enable the creation of new business models by providing links between all participants and offer more ease-of-use in the dialogue between tenants and employees of the housing industry.

Aareon offers software solutions both in Germany and abroad that may be used in various types of operating environments: in-house services, hosting und Software as a Service (SaaS) from the exclusive Aareon Cloud. Data from Aareon's Cloud Computing is held in Aareon's certified data-processing centre in Mainz, which guarantees data security and protection at high level. After successful consulting, implementation and training, the customer receives a maintenance model which covers regular support.

In its Housing Industry division, Aareal Bank offers its customers process optimisation, electronic banking and asset management. Aareal Bank distributes BK01, the leading procedure in the German housing and property management sector for the automated settlement of mass payments. The procedure is integrated in licensed bookkeeping systems. Therefore, customers in Germany may process their payment transactions and account management from the administration software employed. Apart from the German residential and commercial property sector, the German energy and waste disposal industry is a second important customer group of the Bank's Housing Industry division. This enables the offer of further products, facilitating the cross-sector cooperation of target groups and realising synergy effects via end-to-end digital processes. The use of the payment transaction products of Aareal Bank generates deposits that contribute significantly to Aareal Bank Group's refinancing base. The interest rate contribution is reported in the segment's net commission income and then transferred to net interest income.

(76) Segment results

€ mn	Structured Property Financing 2016	Structured Property Financing 2015	Consulting/Services 2016	Consulting/Services 2015	Consolidation/Reconciliation 2016	Consolidation/Reconciliation 2015	Aareal Bank Group 2016	Aareal Bank Group 2015
Net interest income	716	783	0	0	-15	-2	701	781
Allowance for credit losses	97	128					97	128
Net interest income after allowance for credit losses	**619**	**655**	**0**	**0**	**-15**	**-2**	**604**	**653**
Net commission income	10	6	171	169	12	0	193	175
Net result on hedge accounting	0	8					0	8
Net trading income/expenses	19	13	0	0			19	13
Results from non-trading assets	66	-17	1				67	-17
Results from investments accounted for using the equity method		0	0	0			0	0
Administrative expenses	346	359	204	197	-3	-3	547	553
Net other operating income/expenses	27	37	3	5	0	-1	30	41
Negative goodwill from acquisitions WestImmo		150						150
Operating profit	**395**	**493**	**-29**	**-23**	**0**	**0**	**366**	**470**
Income taxes	143	106	-11	-10			132	96
Consolidated net income	**252**	**387**	**-18**	**-13**	**0**	**0**	**234**	**374**
Consolidated net income attributable to non-controlling interests	16	16	3	3			19	19
Consolidated net income attributable to shareholders of Aareal Bank AG	236	371	-21	-16	0	0	215	355
Allocated equity	1,553	1,616	143	136	763	549	2,459	2,301
Cost/income ratio (%)	41.2	43.2	116.4	113.4			54.1	55.2
RoE before taxes (%)	22.9	28.1	-22.2	-19.1			13.2	18.6
Employees (average)	**1,014**	**1,040**	**1,783**	**1,679**			**2,797**	**2,719**
Segment assets	**37,873**	**42,653**	**9,835**	**9,295**			**47,708**	**51,948**
Investments accounted for using the equity method	0	1		0			0	1
Segment investments	21	11	14	25			35	36
Segment depreciation/amortisation	16	9	11	11			27	20

(77) Results by geographical region

	Germany		International		Consolidation/ Reconciliation		Aareal Bank Group	
	2016	2015	2016	2015	2016	2015	2016	2015
€ mn								
Net interest income	202	276	499	505			701	781
Allowance for credit losses	-21	-13	118	141			97	128
Net interest income after allowance for credit losses	**223**	**289**	**381**	**364**			**604**	**653**
Net commission income	125	120	68	55			193	175
Net result on hedge accounting	0	5	0	3			0	8
Net trading income/expenses	19	5	0	8			19	13
Results from non-trading assets	1	-5	66	-12			67	-17
Results from investments accounted for using the equity method		0	0	0			0	0
Administrative expenses	318	329	229	224			547	553
Net other operating income/expenses	40	34	-10	7			30	41
Negative goodwill from acquisitions WestImmo		150						150
Operating profit	**90**	**269**	**276**	**201**			**366**	**470**
Allocated equity	604	610	1,092	1,142	763	549	2,459	2,301
Cost/income ratio (%)	82.1	75.6	36.7	39.6			54.1	55.2
RoE before taxes (%)	13.1	42.3	22.5	14.9			13.2	18.6
Employees (average)	**1,687**	**1,683**	**1,110**	**1,036**			**2,797**	**2,719**

(78) 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 (used for the purposes of segment reporting)

€ mn			Income statement classification – bank										
			Net interest income	Net commission income	Net trading income/expenses	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income/expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	2016		0	171	0	1	0	204	3		**-29**	-11	**-18**
	2015		0	169	0		0	197	5		**-23**	-10	**-13**
Income statement classification – industrial enterprise													
Sales revenue	2016	206		206									
	2015	193		193									
Own work capitalised	2016	6						6					
	2015	4						4					
Changes in inventory	2016	0							0				
	2015	0							0				
Other operating income	2016	7			0	1			6				
	2015	9			0				9				
Cost of materials purchased	2016	35		35									
	2015	24		24									
Staff expenses	2016	144						144					
	2015	139						139					
Depreciation, amortisation and impairment losses	2016	11						11					
	2015	12						12					
Result from investments accounted for using the equity method	2016	0					0						
	2015	0					0						
Other operating expenses	2016	58						55	3				
	2015	54						50	4				
Interest and similar income/expenses	2016	0	0										
	2015	0	0										
Operating profit	**2016**	**-29**	**0**	**171**	**0**	**1**	**0**	**204**	**3**				
	2015	**-23**	**0**	**169**	**0**		**0**	**197**	**5**				
Income taxes	2016	-11										-11	
	2015	-10										-10	
Segment result	**2016**	**-18**											
	2015	**-13**											

Remuneration Report

The remuneration report for the 2016 financial year contains detailed information on the remuneration of Aareal Bank AG Management Board members, its senior executives, and its employees. As a significant institution, Aareal Bank publishes a description of its remuneration systems (qualitative disclosure) in the Group Annual Report for the financial year 2016 in accordance with section 16 (1) of the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstVergV"), as well as the Capital Requirements Regulation (CRR). The Supervisory Board and the Management Board carried out the annual review of the remuneration systems, involving the Human Resources division, the Remuneration Officer, and internal control units in line with their respective functions, and supported by external legal and remuneration advisors. External advisors were retained, amongst other things, for examining the appropriateness of remuneration systems, and remuneration for members of the Management Board and employees, as well as regarding the design of the Group-wide remuneration strategy. The quantitative disclosures on the remuneration of Management Board members, employees as well as senior executives required according to the CRR will be disclosed on Aareal Bank AG's homepage by the end of June in the following year at the latest.

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

(79) Remuneration system for the Management Board

Responsibilities and procedures of Aareal Bank AG regarding remuneration policies

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

The Remuneration Control Committee (Vergütungskontrollausschuss) fulfils the requirements according to section 25d (12) of the German Banking Act (Kreditwesengesetz – KWG) and section 15 of the InstitutsVergV, and held six meetings throughout the 2016 financial year.

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

Success criteria and parameters

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

Performance-related remuneration

Remuneration parameters

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

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

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

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

Retention of variable remuneration components and penalty criteria

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

- 20 % of the variable remuneration is disbursed as a cash bonus after the Supervisory Board has determined the overall target achievement level.
- A further 20 % of the variable remuneration is awarded as a share bonus subject to a holding period (and forms part of the share-based bonus plan), in the form of virtual shares, also after the Supervisory Board has determined the overall target achievement level.
- 30 % of the variable remuneration is retained (cash deferral), with interest accruing pro rata temporis, and disbursed in equal proportions over a three-year period.

- The remaining 30 % of variable remuneration is credited, as a cash amount, to a virtual account maintained on behalf of each Management Board member, and forms part of the share deferral plan.

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

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

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

The contracts of Management Board members prohibit them from undertaking to limit or override the risk orientation of their remuneration by initiating personal protection or countermeasures (hedging ban).

Share Bonus Plan

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

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

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

Share Deferral Plan

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

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

Remuneration

The requirements according to section 25a (5) of the KWG – regarding a ratio of variable to fixed remuneration for members of the Management Board of 1:1, and the maximum target achievement threshold – are complied with at all times.

The following table shows the target remuneration granted (fixed annual salary and variable remuneration based on a 100 % target achievement) in the year under review, in accordance with articles 4.2.4 and 4.2.5 of the German Corporate Governance Code:

Remuneration granted	Hermann J. Merkens – Chairman of the Management Board			
	2015[1]	2016	2016 (min)[2]	2016 (max)[3]
€				
Fixed remuneration	1,214,667	1,300,000	1,300,000	1,300,000
Ancillary benefits	46,594	38,511	38,511	38,511
Total	**1,261,260**	**1,338,511**	**1,338,511**	**1,338,511**
Variable remuneration based on a single-year assessment	226,071	280,000	–	420,000
Variable remuneration based on a multiple-year assessment				
Cash deferral 2016 (March 2020)	–	420,000	–	630,000
Share bonus 2016 (March 2020)	–	280,000	–	420,000
Share deferral 2016 (March 2022)	–	420,000	–	630,000
Cash deferral 2015 (March 2019)	339,107	–	–	–
Share bonus 2015 (March 2019)	226,071	–	–	–
Share deferral 2015 (March 2021)	339,107	–	–	–
Total	**1,130,356**	**1,400,000**	**–**	**2,100,000**
Benefit expense	329,035	1,032,350	1,032,350	1,032,350
Total remuneration	**2,720,651**	**3,770,861**	**2,370,861**	**4,470,861**

Remuneration granted	Dagmar Knopek			
	2015[1]	2016	2016 (min)[2]	2016 (max)[3]
€				
Fixed remuneration	880,000	880,000	880,000	880,000
Ancillary benefits	34,087	41,449	41,449	41,449
Total	**914,087**	**921,449**	**921,449**	**921,449**
Variable remuneration based on a single-year assessment	160,000	160,000	–	240,000
Variable remuneration based on a multiple-year assessment				
Cash deferral 2016 (March 2020)	–	240,000	–	360,000
Share bonus 2016 (March 2020)	–	160,000	–	240,000
Share deferral 2016 (March 2022)	–	240,000	–	360,000
Cash deferral 2015 (March 2019)	240,000	–	–	–
Share bonus 2015 (March 2019)	160,000	–	–	–
Share deferral 2015 (March 2021)	240,000	–	–	–
Total	**800,000**	**800,000**	**–**	**1,200,000**
Benefit expense	357,210	526,355	526,355	526,355
Total remuneration	**2,071,297**	**2,247,804**	**1,447,804**	**2,647,804**

[1] Details differ partially from the previous year's figures, due to the fact that in the previous year, variable remuneration amounts granted were calculated on the basis of the individual target achievement of each member of the Management Board. Dr Wolf Schumacher was granted a total remuneration in the amount of € 13,911,704 in the previous year.
[2] Minimum amount of the remuneration component granted in the year under review
[3] Maximum amount of the remuneration component granted in the year under review

Remuneration granted	Christiane Kunisch-Wolff[4]			
	2015[1]	2016	2016 (min)[2]	2016 (max)[3]
€				
Fixed remuneration	–	561,244	561,244	561,244
Ancillary benefits	–	27,595	27,595	27,595
Total	**–**	**588,839**	**588,839**	**588,839**
Variable remuneration based on a single-year assessment	–	102,120	–	153,180
Variable remuneration based on a multiple-year assessment				
Cash deferral 2016 (March 2020)	–	153,180	–	229,770
Share bonus 2016 (March 2020)	–	102,120	–	153,180
Share deferral 2016 (March 2022)	–	153,180	–	229,770
Cash deferral 2015 (March 2019)	–	–	–	–
Share bonus 2015 (March 2019)	–	–	–	–
Share deferral 2015 (March 2021)	–	–	–	–
Total	**–**	**510,601**	**–**	**765,902**
Benefit expense	–	51,707	51,707	51,707
Total remuneration	**–**	**1,151,147**	**640,546**	**1,406,448**

Remuneration granted	Thomas Ortmanns			
	2015[1]	2016	2016 (min)[2]	2016 (max)[3]
€				
Fixed remuneration	880,000	880,000	880,000	880,000
Ancillary benefits	33,259	35,945	35,945	35,945
Total	**913,259**	**915,945**	**915,945**	**915,945**
Variable remuneration based on a single-year assessment	160,000	160,000	–	240,000
Variable remuneration based on a multiple-year assessment				
Cash deferral 2016 (March 2020)	–	240,000	–	360,000
Share bonus 2016 (March 2020)	–	160,000	–	240,000
Share deferral 2016 (March 2022)	–	240,000	–	360,000
Cash deferral 2015 (March 2019)	240,000	–	–	–
Share bonus 2015 (March 2019)	160,000	–	–	–
Share deferral 2015 (March 2021)	240,000	–	–	–
Total	**800,000**	**800,000**	**–**	**1,200,000**
Benefit expense	363,678	725,906	725,906	725,906
Total remuneration	**2,076,937**	**2,441,851**	**1,641,851**	**2,841,851**

[1] Details differ partially from the previous year's figures, due to the fact that in the previous year, variable remuneration amounts granted were calculated on the basis of the individual target achievement of each member of the Management Board. Dr Wolf Schumacher was granted a total remuneration in the amount of € 13,911,704 in the previous year.
[2] Minimum amount of the remuneration component granted in the year under review
[3] Maximum amount of the remuneration component granted in the year under review
[4] Christiane Kunisch-Wolff was appointed to the Management Board on 15 March 2016.

Remuneration granted	**Christof Winkelmann[4]**			
	2015[1]	**2016**	**2016 (min)[2]**	**2016 (max)[3]**
€				
Fixed remuneration	–	352,000	352,000	352,000
Ancillary benefits	–	12,125	12,125	12,125
Total	**–**	**364,125**	**364,125**	**364,125**
Variable remuneration based on a single-year assessment	–	64,000	–	96,000
Variable remuneration based on a multiple-year assessment				
Cash deferral 2016 (March 2020)	–	96,000	–	144,000
Share bonus 2016 (March 2020)	–	64,000	–	96,000
Share deferral 2016 (March 2022)	–	96,000	–	144,000
Cash deferral 2015 (March 2019)	–	–	–	–
Share bonus 2015 (March 2019)	–	–	–	–
Share deferral 2015 (March 2021)	–	–	–	–
Total	**–**	**320,000**	**–**	**480,000**
Benefit expense	–	66,747	66,747	66,747
Total remuneration	**–**	**750,872**	**430,872**	**910,872**

[1] Details differ partially from the previous year's figures, due to the fact that in the previous year, variable remuneration amounts granted were calculated on the basis of the individual target achievement of each member of the Management Board. Dr Wolf Schumacher was granted a total remuneration in the amount of € 13,911,704 in the previous year.
[2] Minimum amount of the remuneration component granted in the year under review
[3] Maximum amount of the remuneration component granted in the year under review
[4] Christof Winkelmann was appointed to the Management Board on 1 July 2016.

The following table shows the remuneration disbursed in the year under review, as defined in sections 4.2.4 and 4.2.5 of the German Corporate Governance Code. It also outlines disbursements under variable remuneration components, which expired during the year under review:

Remuneration paid	**Hermann J. Merkens Chairman of the Management Board**		**Dagmar Knopek**		**Christiane Kunisch-Wolff[1]**		**Thomas Ortmanns**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
€								
Fixed remuneration	1,300,000	1,214,667	880,000	880,000	561,244	–	880,000	880,000
Ancillary benefits	38,511	46,594	41,449	34,087	27,595	–	35,945	33,259
Total	**1,338,511**	**1,261,261**	**921,449**	**914,087**	**588,839**	**–**	**915,945**	**913,259**
Variable remuneration based on a single-year assessment	299,544	202,400	212,640	201,920	–	–	211,360	200,800
Variable remuneration based on a multiple-year assessment	–	–	–	–	–	–	–	–
Cash deferral 2012 (April 2016)	104,797	–	–	–	–	–	104,797	–
Cash deferral 2013 (April 2016)	110,985	–	64,741	–	–	–	110,985	–
Cash deferral 2014 (April 2016)	102,111	–	101,869	–	–	–	101,304	–
Share bonus 2012 (May 2016)	328,146	–	–	–	–	–	328,146	–
Share deferral 2011 (April 2016)	–	–	–	–	–	–	–	–
Share deferral 2012 (April 2016)	167,896	–	–	–	–	–	167,896	–

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Remuneration paid	Hermann J. Merkens Chairman of the Management Board		Dagmar Knopek		Christiane Kunisch-Wolff [1]		Thomas Ortmanns	
	2016	2015	2016	2015	2016	2015	2016	2015
€								
Cash deferral 2011 (April 2015)	–	–	–	–	–	–	–	–
Cash deferral 2012 (April 2015)	–	102,411	–	–	–	–	–	102,411
Cash deferral 2013 (April 2015)	–	109,269	–	63,740	–	–	–	109,269
Share bonus 2011 (May 2015)	–	370,183	–	–	–	–	–	370,183
Share deferral 2011 (April 2015)	–	–	–	–	–	–	–	–
Dividends	73,961	47,428	38,522	13,228	–	–	68,575	47,380
Total	**1,187,440**	**831,691**	**417,772**	**278,888**	**–**	**–**	**1,093,063**	**830,043**
Benefit expense	1,032,350	329,035	526,355	357,210	51,707	–	725,906	363,678
Total remuneration	**3,558,301**	**2,421,987**	**1,865,576**	**1,550,185**	**640,546**	**–**	**2,734,914**	**2,106,980**

Remuneration paid	Christof Winkelmann [2]		Dr Wolf Schumacher [3]		Dirk Große Wördemann [4]	
	2016	2015	2016	2015	2016	2015
€						
Fixed remuneration	352,000	–	–	1,012,500	–	–
Ancillary benefits	12,125	–	90	26,177	–	–
Total	**364,125**	**–**	**90**	**1,038,677**	**–**	**–**
Variable remuneration based on a single-year assessment	–	–	275,940	7,207,069	–	–
Variable remuneration based on a multiple-year assessment	–	–	–	–	–	–
Cash deferral 2012 (April 2016)	–	–	176,804	–	85,080	–
Cash deferral 2013 (April 2016)	–	–	187,244	–	–	–
Cash deferral 2014 (April 2016)	–	–	178,270	–	–	–
Share bonus 2012 (May 2016)	–	–	553,620	–	266,409	–
Share deferral 2011 (April 2016)	–	–	–	–	179,144	–
Share deferral 2012 (April 2016)	–	–	283,260	–	136,308	–
Cash deferral 2011 (April 2015)	–	–	–	–	–	97,015
Cash deferral 2012 (April 2015)	–	–	–	172,779	–	83,143
Cash deferral 2013 (April 2015)	–	–	–	184,350	–	–
Share bonus 2011 (May 2015)	–	–	–	370,183	–	488,267
Share deferral 2011 (April 2015)	–	–	–	–	–	250,492
Dividends	–	–	111,776	80,378	27,954	39,471
Total	**–**	**–**	**1,766,914**	**8,014,759**	**694,895**	**958,388**
Benefit expense	66,747	–	–	4,639,618	–	–
Total remuneration	**430,872**	**–**	**1,767,004**	**13,693,054**	**694,895**	**958,388**

[1] Christiane Kunisch-Wolff was appointed to the Management Board on 15 March 2016.
[2] Christof Winkelmann was appointed to the Management Board on 1 July 2016.
[3] Dr Wolf Schumacher resigned with effect from 30 September 2015. € 275,940 in variable remuneration was granted to Dr Schumacher in 2015, as one-year variable remuneration for the 2015 financial year. For the remaining term of the Management Board contract, the contractually agreed fixed remuneration of € 3,354,045.95, lost variable remuneration components of € 3,433,663.00, as well as the equivalent of company-car use of € 66,000 were disbursed as one-off payments. Due to the resignation of Dr Schumacher, with effect from 30 September 2015, € 4,023,736 was recognised in benefit expenses for 2015, in line with his pension agreement, thus increasing the Bank's pension obligations.
[4] Mr Große Wördemann resigned with effect from 31 May 2013.

Pursuant to section 314 (1) no. 6a of the HGB, the following table shows fixed and other remuneration for members of the Management Board as well as the total target achievement amounts of variable remuneration, determined by the Supervisory Board as follows:

€	Year	Fixed remuneration	Variable remuneration				Other remuneration[4]	Total remuneration[5]
			Cash component		Share-based component			
			Cash bonus	Cash deferral[3]	Share bonus	Share deferral[3]		
Hermann J. Merkens	2016	1,300,000	377,720	566,580	377,720	566,580	38,511	3,227,111
	2015	1,214,667	299,544	449,317	299,544	449,317	46,594	2,758,983
Dagmar Knopek	2016	880,000	212,320	318,480	212,320	318,480	41,449	1,983,049
	2015	880,000	212,640	318,960	212,640	318,960	34,087	1,977,287
Christiane Kunisch-Wolff[1]	2016	561,244	135,309	202,964	135,309	202,964	27,595	1,265,385
	2015	–	–	–	–	–	–	–
Thomas Ortmanns	2016	880,000	213,600	320,400	213,600	320,400	35,945	1,983,945
	2015	880,000	211,360	317,040	211,360	317,040	33,259	1,970,059
Christof Winkelmann[2]	2016	352,000	85,120	127,680	85,120	127,680	12,125	789,725
	2015	–	–	–	–	–	–	–
Total	**2016**	**3,973,244**	**1,024,069**	**1,536,104**	**1,024,069**	**1,536,104**	**155,625**	**9,249,215**
	2015	**2,974,667**	**723,544**	**1,085,317**	**723,544**	**1,085,317**	**113,940**	**6,706,329**

[1] Christiane Kunisch-Wolff was appointed to the Management Board on 15 March 2016.
[2] Christof Winkelmann was appointed to the Management Board on 1 July 2016.
[3] The deferrals shown are subject to the criteria on retention of variable remuneration components and penalty criteria, as set out above.
[4] Other remuneration includes payments (in particular for company cars) as well as benefits related to social security contributions.
[5] Dr Wolf Schumacher was granted a total remuneration in the amount of € 9,272,086 in the previous year.

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

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

€	Reference values for variable remuneration 2016	Reference values for variable remuneration 2015
Hermann J. Merkens[1]	1,400,000	1,130,356
Dagmar Knopek	800,000	800,000
Christiane Kunisch-Wolff[2]	510,601	–
Thomas Ortmanns	800,000	800,000
Christof Winkelmann[3]	320,000	–
Dr Wolf Schumacher[4]	–	1,050,000
Total	**3,830,601**	**3,780,356**

[1] Upon the appointment of Hermann J. Merkens as the Chairman of the Management Board, on 17 September 2015, the reference value for variable remuneration was raised to € 1,400,000.
[2] Christiane Kunisch-Wolff was appointed to the Management Board on 15 March 2016; the reference value was set at € 640,000 p.a.
[3] Christof Winkelmann was appointed to the Management Board on 1 July 2016; the reference value was set at € 640,000 p.a.
[4] Dr Schumacher resigned with effect from 30 September 2015.

The following table shows the portion of the variable component attributable to share-based payment arrangements as well as the corresponding number of virtual shares granted in 2016/2015:

	Year	Share-based payment [1]	
		Value (€)	Quantity (number) [2]
Hermann J. Merkens	2016	944,300	26,399
	2015	748,861	27,202
Dagmar Knopek	2016	530,800	14,839
	2015	531,600	19,310
Christiane Kunisch-Wolff [3]	2016	338,273	9,457
	2015	–	–
Thomas Ortmanns	2016	534,000	14,929
	2015	528,400	19,194
Christof Winkelmann [4]	2016	212,800	5,949
	2015	–	–

[1] Dr Wolf Schumacher was granted a total share-based remuneration in the amount of € 689,850 (25,058 shares) in the previous year.
[2] The stated number of virtual shares granted for 2016 is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2016 (€ 35.77). The final conversion rate may only be determined after publication of preliminary results for 2016.
[3] Christiane Kunisch-Wolff was appointed to the Management Board on 15 March 2016.
[4] Christof Winkelmann was appointed to the Management Board on 1 July 2016.

Other remuneration

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

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

In addition, Aareal Bank AG bears the costs incurred for certain security expenses.

The ancillary benefits shown in the tables are equivalent to the total of such other remuneration.

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the service contract apply to the members of the Management Board. Management Board members who were appointed prior to 1 January 2013 are entitled to claim pension benefits upon completion of their 60th year of age. For members of the Management Board who were appointed after 1 January 2013, claims arise upon completion of their 62nd year of age. In the event of permanent disability, a Management Board member may be entitled to claim benefits prior to turning 60 or 62, respectively.

€ 000's	2016 Pension claims p.a.[1]	2016 Balance of pension obligations (DBO) as at 31 Dec 2016	2016 Increase of pension obligations (DBO) in 2016	2015[4] Pension claims p.a.[1]	2015[4] Balance of pension obligations (DBO) as at 31 Dec 2015	2015[4] Increase of pension obligations (DBO) in 2015
Hermann J. Merkens	265	5,696	1,032	244	4,664	329
Dagmar Knopek	125	1,621	526	125	1,095	357
Christiane Kunisch-Wolff[2]	–	52	52	–	–	–
Thomas Ortmanns	254	5,191	726	242	4,465	364
Christof Winkelmann[3]	–	67	67	–	–	–
Total	**644**	**12,627**	**2,403**	**611**	**10,224**	**1,050**

[1] Pension claims are calculated based on the earliest possible pension payment.
[2] Christiane Kunisch-Wolff was appointed to the Management Board on 15 March 2016.
[3] Christof Winkelmann was appointed to the Management Board on 1 July 2016.
[4] The previous year's figures also include pension obligations for Dr Schumacher, who resigned as from 30 September 2015: an additional € 0.441 mn p.a. in pension claims, € 12.285 mn in balance of pension obligations and € 4.640 mn in increase of pension obligations.

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions, to the extent that these are based on defined benefit plans. If the payments refer to defined contribution plans, the guaranteed amount is adjusted by 1 % p.a. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to half-orphans and orphans amount to 10 % and not more than 25 %, respectively. Service cost incurred in the 2016 financial year in connection with the pension claims of members of the Management Board totalled € 1.8 million (2015: € 2.8 million). The pension obligations for current members of the Management Board as well as for former members of the Management Board and their surviving dependants increased by € 3.0 million in the year under review (2015: € 4.2 million). The total amount of pension obligations was € 46.4 million (2015: € 43.4 million). Of that amount, € 33.8 million related to former members of the Management Board and their surviving dependants (2015: € 33.1 million). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 0.9 million (2015: € 0.8 million).

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

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

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

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

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

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

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

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

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

Cornerstones of the risk analysis carried out

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

Aareal Bank carried out a risk analysis to identify risk takers in the financial year 2016, covering all employee groups below Management Board level, i.e. senior executives, non-tariff employees and tariff employees of Aareal Bank AG including its branches, representative offices and subsidiaries in Germany and abroad.

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

Remuneration model for risk takers

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

Risk takers' variable remuneration consists of four components:

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

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

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

An option right shall be given to the risk taker regarding the actual payout date; after the end of the holding period and after the regular payout date, the risk taker may determine further payout dates within a period of three years.

Risk takers of the second-tier management level shall initially be promised (but not granted) 60 %, other risk takers 40 %, of their individual total incentives. 50 % thereof relates to the restricted cash award, which shall be disbursed in equal proportions over a three-year period (interest shall be calculated pro rata temporis) (cash deferral). The remaining 50 % will be included in the restricted virtual share award (share deferral), representing virtual shares entitled to dividends in form of a share component. The risk taker is entitled to receive one third of his claims after one, two and three years, respectively; the earliest possible payout of each tranche takes place after a holding period of at least one year after creation of the entitlement. An option right will be given to the risk taker regarding the actual payout date of each tranche; after the end of the holding period and after the regular payout date, the risk taker may determine further payout dates within a period of three years for each tranche. The payout amount of a tranche is limited to 300 % of the share deferral promised (but not granted) to the risk taker for the respective year under evaluation. The payout amount is calculated based on the number of virtual shares and the corresponding share price (= weighted average price of Aareal Bank AG shares on Xetra® (as shown on Bloomberg) on the five exchange trading days following the publication of the preliminary results for the financial year preceding the first / second / third payout year).

Regarding the creation of entitlements of deferred portions of the variable remuneration, i.e. the tranches of the cash deferral including accrued interest and the tranches of the share deferral including virtual dividends, penalty rules have to be considered. For the purpose of these regulations, a penalty-triggering event shall be defined as a negative performance contribution of the risk taker him / herself, his / her organisational unit or a negative overall performance of the institution or Aareal Bank Group, which may result in a reduction or cancellation of the deferred portions of the variable remuneration. For the purpose of these regulations, a risk taker's negative performance contribution is to be assumed, for instance, if serious breaches of duty and / or performance deficiencies are discovered, which lead to the performance contributions – which were initially assumed to be positive – being later shown to have not been sustained (backtesting). Serious breaches of duty could be, for instance, misconduct giving rise to an extraordinary termination of the employment relationship with the risk taker, a breach of the hedging ban or violations of other fundamental regulations, such as the Code of Conduct or compliance guidelines.

(81) Remuneration governance

Remuneration Control Committee

The Remuneration Control Committee supports the Supervisory Board, according to section 15 of the InstitutsVergV in conjunction with section 25d (12) of the KWG, regarding the appropriate structuring of remuneration systems for Management Board members, as well as for the supervision of the remuneration systems for employees. One of the duties of the Remuneration Control Committee is to monitor the remuneration systems' influence on the risk, capital, and liquidity situation of Aareal Bank – and to ensure an appropriate alignment of the business, risk and remuneration strategies. The Remuneration Control Committee also monitors the appropriateness of the remuneration systems, responds to Supervisory Board enquiries, and reports on the appropriateness of the remuneration system's structure at least once a year by producing a remuneration report. The Remuneration Control Committee shall be convened whenever necessary, but at least four times a year. The composition of the Remuneration Control Committee is outlined in more detail in the chapter "Report of the Supervisory Board / Description of Management Board and Supervisory Board work processes".

Risk Committee

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

Remuneration Officer

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

(82) Remuneration of the Supervisory Board

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG.

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

The fixed remuneration is € 50,000.00 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive three times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration is increased for each membership in a committee (with the exception of the Committee for Urgent Decisions, which is part of the Risk Committee). This additional fixed remuneration amounts to € 20,000 p.a. for membership of the Risk Committee and the Audit Committee; fixed remuneration is increased by € 40,000 p.a. for the chairmanship of one of these committees. The additional fixed remuneration for membership of other committees amounts to € 15,000 p.a. or € 30,000 p.a. for the chairmanship of such other committee.

The meeting attendance compensation amounts to € 1,000.00 for each meeting attended (except for the Committee for Urgent Decisions).

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

The individual amount of the remuneration for the Supervisory Board is shown in the following table. Statutory value-added tax in the amount of 19 % will be reimbursed on top of the figures shown in the table.

€	Year	Fixed remuneration	Attendance fees	Total remuneration
Marija Korsch	2016	265,000	33,000	298,000
Chairman	2015	279,208	33,000	312,208
Prof. Dr Stephan Schüller	2016	125,000	24,000	149,000
Deputy Chairman (since 20 May 2015)	2015	125,000	25,000	150,000
York-Detlef Bülow	2016	125,000	23,000	148,000
Deputy Chairman	2015	125,000	25,000	150,000
Thomas Hawel	2016	65,000	13,000	78,000
	2015	59,208	9,000	68,208
Dieter Kirsch	2016	85,000	18,000	103,000
	2015	85,000	16,000	101,000
Richard Peters	2016	100,000	21,000	121,000
	2015	80,694	15,000	95,694
Dr Hans-Werner Rhein	2016	85,000	17,000	102,000
(since 20 May 2015)	2015	52,181	10,000	62,181

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€	Year	Fixed remuneration	Attendance fees	Total remuneration
Sylvia Seignette	2016	90,000	13,000	103,000
(since 20 May 2015)	2015	42,972	7,000	49,972
Elisabeth Stheeman[1]	2016	85,000	16,000	101,000
(since 20 May 2015)	2015	52,181	9,000	61,181
Hans-Dietrich Voigtländer	2016	115,000	25,000	140,000
(since 20 May 2015)	2015	70,597	12,000	82,597
Prof. Dr Hermann Wagner	2016	110,000	19,000	129,000
(since 20 May 2015)	2015	67,528	10,000	77,528
Beate Wollmann	2016	50,000	9,000	59,000
(since 20 May 2015)	2015	30,694	4,000	34,694
Total	**2016**	**1,300,000**	**231,000**	**1,531,000**
	2015[2]	**1,070,264**	**175,000**	**1,245,264**

[1] Income tax plus solidarity surcharge for the Supervisory Board member subject to limited tax liability was declared pursuant to section 50a (1) no. 4 of the German Income Tax Act (Einkommensteuergesetz – "EStG"), and paid to the German Central Tax Offfice (Bundeszentralamt für Steuern).

[2] Totals for 2015 diverge from the totals shown for 2015, which still included six Supervisory Board members who retired during 2015. Totals for the year under review were € 1,262,764 in fixed remuneration and € 211,000 in meeting attendance fees, leading to total remuneration of € 1,473,764. The previous year's figures were adjusted for VAT.

Depending on the period of service on the Supervisory Board, remuneration is paid on a pro-rata basis.

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2016. Therefore, no additional remuneration was paid.

(83) Additional disclosures pursuant to IFRS 2 regarding share-based payment arrangements

Valuation model and valuation assumptions

The obligations resulting from all of the described share-based payment arrangements as at the balance sheet date correspond to the remuneration granted, discounted to the balance sheet date. The discount period corresponds to the period from the balance sheet date to the earliest exercise or payout date per plan and per tranche. The discount is based on the Euribor swap rate applicable as at the relevant balance sheet date, depending on the term.

Amount of cash-settled share-based payment transactions

The total amount of outstanding virtual shares in relation to the above-mentioned share-based payment arrangements changed as follows (p. 221).

Quantity (number)	2016	2015[1]
Balance (outstanding) at 1 January	**670,965**	**736,089**
granted in the reporting period	282,221	186,226
expired in the reporting period	–	–
exercised in the reporting period	264,518	251,350
Balance (outstanding) at 31 December	**688,668**	**670,965**
of which: exercisable	–	–

[1] The disclosures differ from the previous year's figures, due to slight changes to the presentation, and to the calculation methodology.

The fair value of the virtual shares granted during the reporting period amounted to € 10.1 million (2015: € 5.4 million) as at the balance sheet date.

The virtual shares exercised during the reporting period were converted at a weighted average price of the Aareal Bank AG share of € 27.71 (2015: € 38.30).

The virtual shares outstanding at 31 December 2016 have a limited contract term. The weighted average remaining contract term of these virtual shares amounts to 453.27 days (2015: 389.43 days).

Effects on financial performance

The total amount expensed for share-based payment transactions was € 13.4 million during the financial year 2016 (2015: € 10.0 million). The portion of the total amount expensed attributable to members of the Management Board amounted to € 3.8 million (2015: € 3.3 million) and can be broken down to the individual members of the Management Board as follows:

€	2016	2015
Hermann J. Merkens	1,424,186	860,758
Dagmar Knopek	842,891	593,536
Christiane Kunisch-Wolff[1]	338,273	–
Thomas Ortmanns	946,738	717,971
Christof Winkelmann[2]	212,800	–

[1] Christiane Kunisch-Wolff was appointed to the Management Board on 15 March 2016.
[2] Christof Winkelmann was appointed to the Management Board on 1 July 2016.

In addition, € 0.7 million (2015: € 1.1 million) was expensed for former members of the Management Board.

The intrinsic value of the virtual shares exercisable at the reporting date amounted to € 0.0 (2015: € 0.0), since there were no exercisable virtual shares at that date. The obligation from share-based payment transactions as at 31 December 2016 amounted to € 34.9 million (2015: € 28.4 million). It is reported in the statement of financial position in the line item ”Provisions”.

Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG.

Total remuneration of executives in key positions is analysed below:

€ 000's	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Short-term benefits	6,685	6,848
Post-employment benefits	2,403	5,690
Other long-term benefits	1,538	1,468
Termination benefits	–	6,854
Share-based payments	2,560	2,446
Total	**13,186**	**23,306**

Provisions for pension obligations concerning key executives totalled € 12.6 million as at 31 December 2016 (31 December 2015: € 10.2 million).

Other Notes

(84) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2016	31 Dec 2015
USD	11,120	9,529
GBP	4,112	4,392
SEK	841	1,353
CHF	477	483
DKK	436	447
JPY	0	–
Other	404	417
Total	**17,390**	**16,621**

Foreign currency liabilities

€ mn	31 Dec 2016	31 Dec 2015
USD	11,197	9,551
GBP	4,025	4,326
SEK	822	1,444
CHF	474	478
DKK	471	455
JPY	0	–
Other	393	399
Total	**17,382**	**16,653**

(85) Subordinated assets

In the event of insolvency or liquidation of the issuer, subordinated assets are those subordinate to the claims of all other creditors.

In the financial year 2016, the "Loans and advances to customers" item included € 2 million (2015: € –) in subordinated assets.

(86) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or a series of payments the right to use an asset for an agreed period of time. In accordance with IAS 17, leases where a material part of risks and rewards incidental to ownership of the leased assets remains with the lessor are classified as operating leases. Where substantially all risks and rewards are transferred to the lessee, the lease is classified as a finance lease. The provisions of IFRIC 4 were complied with as regards the application of IAS 17. Aareal Bank Group acts both as lessor and lessee. All rental contracts are classified as operating leases. They mainly refer to rented or let property.

Properties leased by the Group are reported under other assets.

Payments received or made under operating leases are recognised in income, on a straight-line basis over the term of the lease.

Maturity of minimum lease payments under operating leases

€ mn	31 Dec 2016	31 Dec 2015
Aareal Bank Group as lessee		
up to 1 year	15	15
longer than 1 year, and up to 5 years	38	41
longer than 5 years	15	20
Total minimum lease payments	**68**	**76**
Aareal Bank Group as lessor		
up to 1 year	18	2
longer than 1 year, and up to 5 years	45	4
longer than 5 years	25	4
Total minimum lease payments	**88**	**10**

In the financial year, lease payments of € 15 million (2015: € 17 million) were recognised as expenses in the financial year.

(87) Contingent liabilities and loan commitments

€ mn	31 Dec 2016	31 Dec 2015
Contingent liabilities	114	162
Loan commitments	1,333	1,227
of which: irrevocable	901	797

Contingent liabilities include the irrevocable payment obligation regarding the bank levy and to the deposit guarantee scheme of German banks. These and the values reported under loan commitments given represent the maximum default risk to which Aareal Bank Group is exposed at the end of the reporting period.

Furthermore, the Bank is involved in legal disputes. Based on a legal analysis, successful outcome of these disputes is more likely than not. Essentially, these are legal disputes with borrowers (or former borrowers) who claim damages against the Bank. These are included in the table above, with a probability-weighted amount of € 49 million (2015: € 40 million), but have not been recognised as liabilities. We estimate the maximum default risk in the low triple-digit million range. The duration of proceedings depends on the complexity of each individual litigation, and the legal remedies available in each case. Likewise, the final amount in the event of defeat may vary considerably, depending upon the duration of proceedings and the legal remedies. Refunds of litigation costs are possible. Accordingly, the recognition of contingent liabilities is also subject to estimation uncertainties.

(88) Consolidated statement of cash flows

Aareal Bank Group's statement of cash flows records cash flows pertaining to the areas of operating activities, investing activities and financing activities for the period under review. The starting point of the consolidated statement of cash flows is the amount of cash and cash equivalents, consisting of cash on hand, balances with central banks as well as public-sector debt instruments and bills of exchange eligible for refinancing at central banks.

The definition of the term "operating activities" is consistent with the composition of the operating profit in the statement of comprehensive income. Cash flows from investing activities include proceeds from and payments in relation to property and equipment, non-trading assets and investment properties. Cash flows from financing activities include cash flows from transactions with providers of equity capital.

(89) Regulatory capital and capital management

As regards meeting minimum capital ratios, Aareal Bank Group has to comply with the capital adequacy requirements set out in the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD IV), the German Banking Act (Kreditwesengesetz, KWG) and the German Solvency Regulation (SolvV) pursuant to Basel III. This requires the Bank to maintain own funds including capital conservation buffers of at least 8.625 % of its risk-weighted assets (total capital ratio). Any additional country-specific capital requirements are taken into account. Risk-weighted assets had to be backed by Tier 1 capital of at least 6 % (Tier 1 ratio). Compliance with the capital requirements has to be reported to the competent supervisory authorities on a quarterly basis. The capital requirements were complied with at all times during the reporting period.

The objective of capital management within Aareal Bank Group is compliance with the legal minimum capital requirements, ensuring that internally targeted capital ratios are achieved, taking into account the full implementation of Basel III requirements, as well as the provision of a sufficient capital cushion to ensure, at any time, the Group's capacity to act. Funds are allocated to the individual business segments within the framework of capital management, aiming at optimising the return on equity.

The SREP requirement of Aareal Bank Group as at year-end 2016 was a Common Equity Tier 1 capital ratio (CET 1 ratio), including capital conservation buffer, of 8.75 %.

Given prevailing uncertainty with regard to future regulatory requirements as well as any potential deterioration to economic developments, and considering our dividend policy, we project the fully-phased in Common Equity Tier 1 ratio (CET1 – assuming full implementation of Basel III) by the end of 2017 to be moderately higher than the current level of 15.7 %. This ratio is considerably above the legal minimum requirements. Compliance with the minimum requirements is planned to be ensured through the generation of profits, an active dividend policy, optimisation of the capital structure, and an efficient management of risk assets.

Within the context of capital management, projections are made on a regular basis showing the changes of the individual capital components and risk-weighted assets, as well as the resulting capital ratios. This is reported regularly within the framework of management reporting. The strategic allocation of capital to the individual business segments is incorporated in the Group's annual overall planning process.

Aareal Bank Group's regulatory capital is composed of the following:

€ mn	31 Dec 2016[1]	31 Dec 2015
Tier 1 capital (T1)		
Subscribed capital and capital reserves	899	899
Eligible retained earnings	1,562	1,479
Accumulated other comprehensive income	-76	-47
Amounts to be deducted from CET 1 capital	-34	-33
Sum total of Common Equity Tier (CET 1)	2,351	2,298
AT1 bond	300	300
Silent participations	108	126
Other	145	169
Amounts to be deducted from additional tier 1 capital	-8	-11
Sum total of additional tier 1 (AT1) capital	545	584
Sum total of Tier 1 capital (T1)	**2,896**	**2,882**
Tier 2 capital (T2)		
Silent participations	72	54
Subordinated liabilities	930	965
Profit-participation certificates	4	11
Other	97	72
Amounts to be deducted from tier 2 capital	-5	-7
Sum total of Tier 2 capital (T2)	**1,098**	**1,095**
Total capital (TC)	**3,994**	**3,977**

[1] After confirmation of Aareal Bank AG's financial statements for 2016. The calculation of regulatory capital takes into account the Management 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.

The regulatory measurement of risk-weighted assets (RWA) in the area of credit risks is based on both the Advanced Internal Ratings Based Approach (AIRBA) and on the standardised approach (CRSA). RWA as at 31 December 2016 can be analysed as follows:

€ mn	EAD	Risk-weighted assets (RWA)			Regulatory capital requirements	EAD	RWA	Regulatory capital requirements
	31 Dec 2016	AIRBA 31 Dec 2016	CRSA 31 Dec 2016	Total 31 Dec 2016	31 Dec 2016	31 Dec 2015	31 Dec 2015	31 Dec 2015
Credit risks	**48,844**	**9,729**	**2,665**	**12,394**	**991**	**53,053**	**14,658**	**1,173**
Companies	30,094	7,737	1,741	9,478	758	33,463	11,128	890
Institutions	3,819	346	85	431	34	4,455	563	45
Public-sector entities	12,795	0	22	22	2	12,507	20	2
Other	2,136	1,646	817	2,463	197	2,628	2,947	236
Market price risks				**122**	**10**		**124**	**10**
Credit Valuation Adjustment				**254**	**20**		**264**	**21**
Operational risks				**1,770**	**142**		**1,663**	**133**
Total	**48,844**	**9,729**	**2,665**	**14,540**	**1,163**	**53,053**	**16,709**	**1,337**

(90) Related party disclosures in accordance with IAS 24

The group of related parties of Aareal Bank Group (see Note (83) "Remuneration for key executives") comprises the members of management or supervisory bodies and close members of these persons' families. The group of companies related to Aareal Bank Group consists of the companies set out in Note 99 "List of Shareholdings" as well as the companies attributable to the related persons within the meaning of IAS 24.9 (b)(vi).).

The following list provides an overview of the balances of existing transactions with related parties:

€ mn	31 Dec 2016	31 Dec 2015
Management Board	–	–
Supervisory Board	0	0
Other related parties	0	–
Total	**0**	**0**

The loan extended to one member of the Supervisory Board in the amount of € 0.04 million has a term of ten years and bears interest at a (nominal) rate of 5.12 %. Collateral was provided in line with usual market practice. Interest received and paid in this context had no material impact on the consolidated financial statements. In addition, the BauGrund / TREUREAL consortium held € 0.4 million in claims against the Group.

In addition, there were no further significant transactions within the meaning of IAS 24.

(91) Events after the Reporting Date

As part of the continued future development of our indirectly-held affiliate WestImmo, the Bank decided that during the course of 2017, WestImmo will surrender its bank licence, as well as its licence to issue Pfandbriefe, and will henceforth perform the role of a service entity for banking business then to be transferred to Aareal Bank.

Aareal Bank Capital Funding Trust will redeem all of the 10,000,000 Trust Preferred Securities on the next scheduled termination date of 31 March 2017, at a redemption price of 100 %, equivalent to a total of € 250 million, plus accrued interest. The purpose of this measure is to optimise Aareal Bank Group's capital structure, in line with corresponding plans.

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

(92) List of offices held – corporate governance report

The List of Offices Held, which has been deposited with the Commercial Register at the Wiesbaden District Court, includes all offices held in German and foreign companies. Like the Corporate Governance Report, this information is available, free of charge, from Aareal Bank AG in Wiesbaden, or from the internet on www.aareal-bank.com/en/about-us/corporate-governance/.

(93) Contingencies

By means of a letter of comfort, Aareal Bank AG guarantees that Aareal Bank Capital Funding LLC, Wilmington, is able to fulfil its contractual obligations.

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

(94) Disclosures pursuant to section 160 (1) no. 8 of the AktG

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

As at 31 December 2016, we were aware of the following shareholders holding a share in the voting rights of at least 3 % pursuant to section 21 (1) of the WpHG:

	Location	Total[1]	Notification date
Responsible entity			
VBL	Karlsruhe	6.50 %	3 February 2015
DEKA	Frankfurt	5.58 %	3 February 2015
Dimensional Fund	Austin	3.04 %	29 May 2012
Government of Norway (via Norges Bank)	Oslo	3.30 %	31 August 2016
Allianz Global Investors	Frankfurt	3.08 %	5 December 2016
Blackrock	Wilmington	3.32 %	9 December 2016

[1] Direct and indirect holdings of voting rights

(95) Declaration of Compliance in accordance with Section 161 of the AktG

The Management Board and the Supervisory Board issued the Declaration of Compliance as stipulated in section 161 of the AktG, and made this Declaration available to shareholders. It is available to the public on the Company's website on http://www.aareal-bank.com/ueber-uns/corporate-governance/entsprechenserklaerung-gemaess-161-aktg/.

(96) Employees

The number of Aareal Bank Group employees[1] as at 31 December 2016 is shown below:

	31 Dec 2016	31 Dec 2015
End-of-year numbers		
Salaried employees	2,566	2,695
Executives	162	166
Total	**2,728**	**2,861**
of which: Part-time employees	503	514

The average number of Aareal Bank Group employees in 2016[2] is shown below:

	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015
Yearly average		
Salaried employees	2,633	2,557
Executives	164	162
Total	**2,797**	**2,719**
of which: Part-time employees	514	487

(97) Nature and extent of interests in unconsolidated structured entities

In accordance with IFRS 12.24, the nature and extent of interests in unconsolidated structured entities as well as the nature of, and changes in, the risks associated with such interests have to be disclosed in the annual report. An interest in a structured entity arises from a contractual and non-contractual involvement which entitles the Group to receive variable returns from the relevant activities of the structured entity. Examples for this are equity or debt instruments of structured entities or the provision of financing, collateral and guarantees to structured entities.

Structured entities are companies where voting rights or similar rights are not the dominant factor to assess control of the company. The relevant activities of structured entities are directed by means of contractual arrangements; any voting rights relate to administrative tasks only. Structured entities are characterised by features or attributes such as restricted activities, a narrow and well-defined objective and/or insufficient equity. In addition, structured entities may relate to financings in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks. Examples of structured entities are securitisation vehicles, asset-backed financings and some investment funds.

Aareal Bank Group interacts with structured entities such as open-ended property funds and leased property companies. The asset-backed security companies were sold in the year under review. The Group's business relationships are restricted to the provision of financings to structured entities in the form of loans or guarantees and to the holding of debt instruments issued by structured entities. The leased property

[1] This number does not include 56 (2015: 41) employees of the hotel business
[2] This number does not include 175 (2015: 132) employees of the hotel business

companies were established by third parties for the financing of particular transactions and have the legal form of a German private limited company with a limited liability company as general partner (GmbH & Co KG) where Aareal Bank Group holds marginal interests in some cases. In the year under review and the previous year, Aareal Bank Group did not provide any non-contractual support for unconsolidated structured entities.

The following table shows the carrying amounts of assets and liabilities recognised by Aareal Bank Group as at the reporting date as well as the existing off-balance sheet risk exposures that relate to unconsolidated structured entities. The carrying amounts of the assets and off-balance sheet items correspond to the Group's maximum loss exposure from interests in unconsolidated structured entities (without taking into account collateral). The size of the structured entities was determined on the basis of the net fund assets for open-ended property funds and of total assets for leased property companies.

The disposal in financial assets held in asset-backed security companies results from the sale of the remaining portfolio of ABS securities.

31 December 2016

€ mn	Open-ended property funds	Leased property companies	Asset-backed security entities	Total
Assets	**446**	**37**	**–**	**483**
Loans and advances to customers	446	37	–	**483**
Non-trading assets	–	–	–	**–**
Liabilities	**–**	**–**	**–**	**–**
Off-balance sheet risk exposures	**–**	**–**	**–**	**–**
Size range of structured units	**€ 63 million – € 5,741 million**	**€ 15 million – € 50 million**		

31 December 2015

€ mn	Open-ended property funds	Leased property companies	Asset-backed security entities	Total
Assets	**514**	**41**	**118**	**673**
Loans and advances to customers	514	41	–	**555**
Non-trading assets	–	–	118	**118**
Liabilities	**–**	**–**	**–**	**–**
Off-balance sheet risk exposures	**–**	**–**	**–**	**–**
Size range of structured units	**€ 61 million – € 13,195 million**	**€ 14 million – 50 million**	**€ 19 million – € 2,500 million**	

(98) Country-by-Country Reporting

The disclosure requirements refer to information on registered office, revenue, profit or loss, taxes on profit or loss, received government assistance as well as wage and salary earners of Aareal Bank AG, together with its foreign branches and domestic and foreign subsidiaries included in the reporting entity-structure, prior to consolidation.

For this purpose, the Bank's entities – subsidiaries as well as Aareal Bank AG's foreign branches – are allocated to our two business segments, Structured Property Financing and Consulting/Services.

Aareal Bank defines the branch offices' operating profit, which is used as a proxy for revenue, as the sum of the following consolidated income statement items (in accordance with IFRSs):

- net interest income before allowance for credit losses;
- net commission income;
- net result on hedge accounting;
- net trading income/expenses;
- results from non-trading assets;
- results from investments accounted for using the equity method;
- results from investment properties;
- net other operating income/expenses; and
- negative goodwill.

Taxes disclosed are tax expenses in accordance with IFRSs.

The number of wage and salary earners relates to average full-time equivalent staff employed during the financial year.

The following overview shows all countries where Aareal Bank AG has offices, including foreign branches and subsidiaries. Please refer to the list of shareholdings as regards the allocation of individual subsidiaries to the relevant country of domicile. Aareal Bank AG's foreign branches are located in France, Ireland, Italy, Poland, Sweden and the UK.

2016

	Revenues	Profit/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**837**	**237**	**143**	**1,017**
Belgium	4	3	0	–
France	6	0	2	6
Germany	613	138	128	917
Ireland	9	0	2	7
Italy	51	1	5	31

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Transparency

	Revenues	Profit/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Netherlands	–	–	–	–
Poland	11	7	2	6
Singapore	2	0	–	5
Spain	-1	-1	0	–
Sweden	67	64	1	5
Switzerland	0	0	0	–
United Kingdom	8	2	2	7
USA	69	23	1	33
Consolidation	-2	–	–	–
Consulting / Services segment	**173**	**-22**	**-11**	**1,396**
France	20	3	2	170
Germany	106	-32	-14	819
Netherlands	24	4	1	217
Norway	–	–	–	7
Sweden	11	1	0	78
United Kingdom	12	2	0	105
Consolidation	–	–	–	–
Total	**1,010**	**215**	**132**	**2,413**

Government assistance was not received in the financial year 2016.

Aareal Bank Group's return on assets, calculated as the ratio of net profit to total assets, was 0.45 % as at the record date.

2015

	Revenues	Profit/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**982**	**494**	**106**	**1,193**
Belgium	2	-1	–	4
France	8	5	3	6
Germany	815	384	91	1.039
Ireland	1	-5	6	10
Italy	52	35	-13	79
Netherlands	–	–	–	–
Poland	10	6	1	7
Singapore	3	2	–	5

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	Revenues	Profit/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Spain	–	–	–	–
Sweden	18	14	1	7
Switzerland	1	1	-1	–
United Kingdom	14	11	2	7
USA	61	42	16	29
Consolidation	-3	–	–	–
Consulting/Services segment	**172**	**-24**	**-10**	**1,281**
France	20	4	1	162
Germany	114	-35	-12	763
Netherlands	18	6	1	171
Norway	–	–	–	6
Sweden	11	1	–	79
United Kingdom	9	–	–	100
Consolidation	–	–	–	–
Total	**1,154**	**470**	**96**	**2,474**

(99) List of shareholdings

The list of shareholdings is disclosed pursuant to section 313 (2) of the HGB. The disclosures in relation to the companies' equity and earnings are retrieved from the financial statements based on the respective local financial reporting principles.

31 December 2016

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated subsidiaries				
2	1st Touch Ltd.	Southampton	100.0	GBP 2.2 mn	GBP -0.2 mn [2]
3	Aareal Bank Asia Ltd.	Singapore	100.0	SGD 17.3 mn	SGD 0.4 mn [1]
4	Aareal Bank Capital Funding LLC	Wilmington	0.0	250.0	17.8 [5]
5	Aareal Bank Capital Funding Trust	Wilmington	0.0	250.0	17.8 [5]
6	Aareal Beteiligungen AG	Frankfurt	100.0	297.8	0.0 [3]
7	Aareal Capital Corporation	Wilmington	100.0	USD 219.4 mn	USD 1.5 mn [1]
8	Aareal Estate AG	Wiesbaden	100.0	5.1	2.3 [1]
9	Aareal First Financial Solutions AG	Mainz	100.0	3.2	0.0 [3]

[1] Preliminary figures as at 31 December 2016; [2] Equity and results as at 31 December 2015; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; [5] 100% of voting rights, diverging from the equity interest held; [6] Disclosures in accordance with IFRSs

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No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
10	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.5	0.1 [1]
11	Aareal Holding Realty LP	Wilmington	100.0	USD 206.1 mn	USD 42.8 mn [6]
12	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	454.3	0.0 [3]
13	Aareal Valuation GmbH	Wiesbaden	100.0	0.5	0.0 [3]
14	Aareon AG	Mainz	100.0	94.8	15.9
15	Aareon Deutschland GmbH	Mainz	100.0	33.9	0.0 [3]
16	Aareon France S.A.S.	Meudon-la-Forêt	100.0	7.3	2.5 [2]
17	Aareon Immobilien Projekt GmbH	Dortmund	100.0	0.7	0.0 [3]
18	Aareon International Solutions GmbH	Mainz	100.0	0.0	0.0
19	Aareon Nederland B.V.	Emmen	100.0	20.5	1.8 [2]
20	Aareon UK Ltd.	Coventry	100.0	GBP 4.4 mn	GBP 0.2 mn [2]
21	Anfield Portfolio GmbH & Co. KG	Mainz	100.0	0.0	0.0
22	Anfield Verwaltungs GmbH	Mainz	100.0	0.0	0.0
23	BauContact Immobilien GmbH	Wiesbaden	100.0	27.4	1.0
24	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 [3]
25	BauGrund TVG GmbH	Munich	100.0	0.1	0.0 [1]
26	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	3.2	3.1 [1]
27	BVG – Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	217.3	0.0 [3]
28	DBB Inka	Dusseldorf	100.0	101.3	-0.1
29	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	1.4	0.1 [1]
30	Deutsche Structured Finance GmbH	Wiesbaden	100.0	6.2	1.7 [1]
31	DSF Flugzeugportfolio GmbH	Wiesbaden	100.0	0.0	0.0 [3]
32	DSF German Office Fund GmbH & Co. KG	Wiesbaden	94.0	0.4	-0.9 [1]
33	DSF Vierte Verwaltungsgesellschaft mbH	Wiesbaden	100.0	2.2	0.0 [3]
34	Esplanade Realty LP	Wilmington	100.0	USD 23.3 mn	USD 0.6 mn [6]
35	Facilitor B.V.	Enschede	100.0	0.5	0.7 [2]
36	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	30.0	0.0 [3]
37	GEV Beteiligungsgesellschaft mbH	Wiesbaden	100.0	0.1	0.0 [1]
38	GEV GmbH	Wiesbaden	100.0	358.0	0.0 [3]
39	GVN-Grundstücks- und Vermögensverwaltungs-gesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.5	0.0 [3]
40	Incit AB	Mölndal	100.0	SEK 23.3 mn	SEK 2.6 mn [2]
41	Incit AS	Oslo	100.0	NOK 0.1 mn	NOK -1.1 mn [2]
42	Incit Nederland B.V.	Gorinchem	100.0	-0.1	0.3 [2]
43	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	2.3	0.0 [1]
44	Izalco Spain S.L.	Madrid	100.0	10.2	-0.9
45	Jomo S.p.r.l.	Brussels	100.0	44.0	-0.6 [1]
46	La Sessola Holding GmbH	Wiesbaden	100.0	84.1	-18.8 [1]
47	La Sessola S.r.l.	Rome	100.0	119.7	-12.2 [1]
48	La Sessola Service S.r.l.	Rome	100.0	2.2	1.5 [1]

[1] Preliminary figures as at 31 December 2016; [2] Equity and results as at 31 December 2015; [3] Profit transfer agreement / control and profit transfer agreement
[4] Different financial year; [5] 100 % of voting rights, diverging from the equity interest held; [6] Disclosures in accordance with IFRSs

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No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
49	Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn 6)
50	Mercadea S.r.l.	Rome	100.0	7.1	0.1 1)
51	Mirante S.r.l.	Rome	100.0	11.2	-2.2 1)
52	Northpark Realty LP	Wilmington	100.0	USD 86.3 mn	USD 2.3 mn 6)
53	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 3)
54	Participation Neunte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 3)
55	phi-Consulting GmbH	Bochum	100.0	1.4	0.2 1)
56	Real Verwaltungsgesellschaft mbH	Schönefeld	100.0	27.8	0.9 1)
57	Sedum Grundstücksverwaltungsgesellschaft mbH & Co.Vermietungs KG	Wiesbaden	94.9	-2.4	-1.5 1)
58	SG2ALL B.V.	Huizen	100.0	0.2	0.2 2)
59	Square DMS B.V.	Grathem	100.0	0.4	0.6 2)
60	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99.9	4.7	0.0 3)
61	Terrain Beteiligungen GmbH	Wiesbaden	94.0	50.3	0.5 1)
62	Westdeutsche ImmobilienBank AG	Mainz	100.0	451.9	0.0 3)
63	WP Galleria Realty LP	Wilmington	100.0	USD 90.1 mn	USD 1.7 mn 6)
	II. Joint Arrangements				
64	Konsortium BauGrund/TREUREAL	Bonn	50.0	0.0	0.0 1)
	III. Associates				
65	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.4	0.0 2)
66	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	-0.2	0.0 2)
67	Westhafen-Gelände Frankfurt am Main GbR	Frankfurt	33.3	0.0	0.4 2)

1) Preliminary figures as at 31 December 2016; 2) Equity and results as at 31 December 2015; 3) Profit transfer agreement/control and profit transfer agreement
4) Different financial year; 5) 100 % of voting rights, diverging from the equity interest held; 6) Disclosures in accordance with IFRSs

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

This disclosure refers to all offices in statutory supervisory bodies of large corporations held by employees of Aareal Bank AG:

Dr Stefan Lange, Bank Director	
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board

Dr Reinhard Grzesik, Bank Director	
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board

(101) Executive bodies of Aareal Bank AG – Offices held in accordance with section 285 no. 10 of the German Commercial Code (HGB) in conjunction with section 125 (1) sentence 5 of the German Public Limited Companies Act (Aktiengesetz – "AktG")

Supervisory Board

Marija Korsch, Chairman of the Supervisory Board
Former partner of Bankhaus Metzler seel. Sohn & Co. Holding AG

Aareal Bank AG	Chairman of the Supervisory Board
Just Software AG	Member of the Supervisory Board

Prof. Dr Stephan Schüller, Deputy Chairman of the Supervisory Board
Spokesman of the General Partners of Bankhaus Lampe KG

Aareal Bank AG	Deputy Chairman of the Supervisory Board
DePfa Holding Verwaltungsgesellschaft mbH	Deputy Chairman of the Supervisory Board
Universal-Investment-Gesellschaft mbH	Member of the Supervisory Board
Howaldt & Co. Investmentaktiengesellschaft TGV	Chairman of the Supervisory Board

York-Detlef Bülow*, Deputy Chairman of the Supervisory Board
Aareal Bank AG

Aareal Bank AG	Deputy Chairman of the Supervisory Board

Thomas Hawel*
Aareon Deutschland GmbH

Aareal Bank AG	Member of the Supervisory Board
Aareon Deutschland GmbH	Deputy Chairman of the Supervisory Board

Dieter Kirsch*
Aareal Bank AG

Aareal Bank AG	Member of the Supervisory Board

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

Aareal Bank AG	Member of the Supervisory Board
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board

Dr Hans-Werner Rhein
German Lawyer (Rechtsanwalt)

Aareal Bank AG	Member of the Supervisory Board
Deutsche Familienversicherung AG	Chairman of the Supervisory Board
Gothaer Allgemeine Versicherung AG	Member of the Supervisory Board

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

Aareal Bank AG	Member of the Supervisory Board

Elisabeth Stheeman
Senior Advisor, Bank of England, Prudential Regulation Authority

Aareal Bank AG	Member of the Supervisory Board
TLG Immobilien AG	Member of the Supervisory Board
Courno	Senior Advisor

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

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Hans-Dietrich Voigtländer **Senior Partner of BDG Innovation + Transformation GmbH & Co. KG**	
Aareal Bank AG	Member of the Supervisory Board

Prof. Dr Hermann Wagner, Chairman of the Audit Committee **German Chartered Accountant, tax consultant**	
Aareal Bank AG	Member of the Supervisory Board
btu beraterpartner Holding AG	Member of the Supervisory Board
PEH Wertpapier AG	Member of the Supervisory Board
DEMIRE Deutsche Mittelstand Real Estate AG	Chairman of the Supervisory Board
Squadra Immobilien GmbH & Co. KGaA	Member of the Supervisory Board

Beate Wollmann* **Aareon Deutschland GmbH**	
Aareal Bank AG	Member of the Supervisory Board

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

Composition of Supervisory Board's committees

Executive and Nomination Committee	
Marija Korsch	Chairman
Prof. Dr Stephan Schüller	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Richard Peters	
Dr Hans-Werner Rhein	

Technology and Innovation Committee	
Hans-Dietrich Voigtländer	Chairman
Marija Korsch	Deputy Chairman
Thomas Hawel	
Richard Peters	
Elisabeth Stheeman	

Audit Committee	
Prof. Dr Hermann Wagner	Chairman
Prof. Dr Stephan Schüller	Deputy Chairman
York-Detlef Bülow	
Marija Korsch	
Richard Peters	
Hans-Dietrich Voigtländer	

Remuneration Control Committee	
Marija Korsch	Chairman
Prof. Dr Stephan Schüller	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Dieter Kirsch	
Hans-Dietrich Voigtländer	

Risk Committee	
Sylvia Seignette	Chairman
Elisabeth Stheeman	Deputy Chairman
Dieter Kirsch	
Marija Korsch	
Dr Hans-Werner Rhein	
Prof. Dr Hermann Wagner	

Committee for Urgent Decisions
Sylvia Seignette
Elisabeth Stheeman
Dieter Kirsch
Marija Korsch
Dr Hans-Werner Rhein
Prof. Dr Hermann Wagner

Management Board

Hermann Josef Merkens, Chairman of the Management Board
Finance, Participating Interests, Portfolio Management, Regulatory Affairs, Corporate Communications, Investor Relations, Board Office incl. Sustainability, Human Resources, Legal and Audit

Aareal Estate AG	Chairman of the Supervisory Board	
Aareal Capital Corporation	Member of the Board of Directors	until 8 July 2016
Aareal Capital Corporation	Chairman of the Board of Directors	since 8 July 2016
Aareal First Financial Solutions AG	Member of the Supervisory Board	until 4 March 2016
Aareon AG	Deputy Chairman of the Supervisory Board	
Aareal Beteiligungen AG (former Corealcredit)	Chairman of the Supervisory Board	
CredaRate Solutions GmbH	Member of the Advisory Board	
Westdeutsche ImmobilienBank AG	Chairman of the Supervisory Board	

Dagmar Knopek, Member of the Management Board
Credit Management, Workout and Operations

Aareal Bank Asia Limited	Chairman of the Board of Directors	until 29 August 2016
Aareal Capital Corporation	Chairman of the Board of Directors	until 8 July 2016
Aareal Capital Corporation	Member of the Board of Directors	since 8 July 2016
Aareal Capital Corporation	Member of the Board of Directors	until 31 December 2016
Aareon AG	Member of the Supervisory Board	
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board	

Christiane Kunisch-Wolff, Member of the Management Board (since 15 March 2016)
Risk Controlling and Compliance

Westdeutsche ImmobilienBank AG	Member of the Supervisory Board	since 4 May 2016

Thomas Ortmanns, Member of the Management Board
Housing Unit, Treasury, Information Technology and Organisation

Aareal First Financial Solutions AG	Chairman of the Supervisory Board	
Aareon AG	Chairman of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	
HypZert GmbH	Member of the Supervisory Board	
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board	

Christof Winkelmann, Member of the Management Board (since 1 July 2016)
Sales Units Structured Property Financing

Aareal Bank Asia Limited	Chairman of the Board of Directors	since 30 August 2016
Aareal Capital Corporation	Member of the Board of Directors	since 1 January 2017
La Sessola Service S.r.l.	Member of the Management Board	
La Sessola S.r.l.	Member of the Management Board	

Responsibility Statement

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

Wiesbaden, 28 February 2017

The Management Board

Hermann J. Merkens **Dagmar Knopek** **Christiane Kunisch-Wolff**

Thomas Ortmanns **Christof Winkelmann**

Independent Auditors' Report

To Aareal Bank AG, Wiesbaden

Report on the Audit of the Consolidated Financial Statements

Audit Opinion on the Consolidated Financial Statements

We have audited the consolidated financial statements of Aareal Bank AG, Wiesbaden, and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2016, the income statement, the statement of comprehensive income, statement of changes in equity and of cash flows for the financial year from 1 January to 31 December 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB (”Handelsgesetzbuch“: German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material respects, with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at 31 December 2016, as well as the results of operations for the financial year from 1 January to 31 December 2016, in accordance with these requirements.

According to § 322 Abs. 3 Satz 1 erster Halbsatz HGB, we state that our audit has not led to any reservations with respect to the propriety of the consolidated financial statements.

Basis for Audit Opinion on the Consolidated Financial Statements

We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), and additionally considered the International Standards on Auditing (ISA). Our responsibilities under those provisions and standards, as well as supplementary standards, are further described in the ”Auditors' Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group entities in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other German ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate audit opinion on these matters.

In our view, the key audit matters were as follows:

❶ Impairment of Italian mortgage loan portfolio

❷ Impairment of properties acquired from previous loan exposures as reported in the property, plant and equipment and other assets balance sheet items

Our presentation of these key audit matters has been structured as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

❶ Impairment of Italian mortgage loan portfolio

① As of 31 December 2016, loans and advances to customers in the amount of € 3.0 billion that are secured by properties in Italy (hereinafter "Italian mortgage loan portfolio") are reported in the consolidated financial statements of Aareal Bank AG. 22 % of these receivables are attributable to development financings. As of 31 December 2016, the allowances for credit losses (specific valuation allowances and portfolio impairment allowances) for the Italian mortgage loan portfolio amounted to a total of € 297 million. Italy's difficult macroeconomic situation has in past years led to a decline in real estate prices and transaction volumes as well as, in part, to financial difficulties and restructuring proceedings for Aareal Bank AG's borrowers. The realisation period of the properties on which the portfolio is based generally takes a number of years depending on their size, location and type. Aareal Bank AG analyzes the financial circumstances of borrowers using, inter alia, the annual financial statements, business plans and business evaluations provided, and generally examines the market values of the associated collateral at least once a year. In the majority of cases, Aareal Bank AG obtains external valuations to determine the market values of the properties pledged as collateral. Property market values are calculated by the appraisers in each case as the present values of future cash flows using the discounted cash flow method or determined on the basis of floor area-related comparative values, with the appraisers deriving the assumptions about future cash flows that can be generated by the property using the information and business plans provided by the borrowers. If it is found when assessing the borrower that there has been a default within the meaning of the regulatory requirements and the income from the collateral is expected to be insufficient, the Company applies a specific valuation allowance. The assessment of borrower-related financial circumstances, the valuations of real estate collateral available and other documents, for example restructuring plans, resulted in a net addition to the risk allowances of € 27 million for the Italian mortgage loan portfolio in the reporting period. When determining the risk allowances for the Italian mortgage loan portfolio, management makes assumptions concerning realisation and completion. Since even relatively small changes in these assumptions have a significant influence on the associated collateral value and the measurements are subject to uncertainties in this regard, this matter was of particular importance during our audit.

② As part of our audit we evaluated, inter alia, the existing documents relating to the financial circumstances in a risk-focused sample of exposures and the recoverability of the pledged collateral. We evaluated the valuations performed by the appraisers in terms of their suitability, up-to-dateness and methodology, as well as the transparency of the value calculation. At the same time, we gained an understanding of the original data, value parameters and assumptions on which the valuations were based, evaluated these critically and assessed whether they were within a justifiable range. In specific cases, we carried out our own property inspections. In addition, we based our assessment of management's assumptions concerning realisation and completion on general and sector-specific market expectations as well as on comprehensive documentation and explanations from management about expected cash inflows and outflows. Furthermore, we examined the relevant credit processes in the Aareal Bank AG's internal control in terms of the appropriateness of their design and tested whether they were functioning. Taking account of the information available, we conclude that the assumptions made by management for testing the impairment of the Italian mortgage loan portfolio and the processes implemented are appropriate.

③ The Company's disclosures regarding the risk allowances for the Italian mortgage loan portfolio are contained in notes 10, 28 and 40 in the notes to the consolidated financial statements.

❷ Impairment of properties acquired from previous loan exposures as reported in the property, plant and equipment and other assets balance sheet items

① In the consolidated financial statements of Aareal Bank AG, properties acquired from previous loan exposures were reported as of 31 December 2016, in the amount of € 133 million in the property and equipment balance sheet line item in accordance with IAS 16 Property, Plant and Equipment and in the amount of € 228 million under the other assets balance sheet line item in accordance with IAS 2 Inventories. The properties were acquired by Aareal Bank AG through fully consolidated real estate special purpose entities. The real estate special purpose entity Aqvatrium AB owned by Aareal Bank AG, was sold in the reporting period at a gain of € 61 million that was reported in results of non-trading assets. Aareal Bank AG tests the properties acquired from former credit exposures at least once a year for impairment using external valuations. The market values of the properties are calculated in each case as the present values of future cash flows using the discounted cash flow method or determined on the basis of floor area-related comparative values, with the appraisers deriving the assumptions about future cash flows using the information and projections provided by management. In addition, management makes assumptions about leasing and marketing. Based on these valuations and further documents, impairment losses in the financial year were € 12 million. Since even relatively small changes in these assumptions have a significant influence on the market values of the properties and the measurements are therefore subject to uncertainties, this matter was of particular importance during our audit.

② As part of our audit, we particularly evaluated the valuations performed by the external appraisers in terms of their up-to-dateness and methodology, as well as the transparency of the value calculation. At the same time we gained an understanding of the original data, value parameters and assumptions on which the valuations were based, evaluated these critically and assessed whether they were within a justifiable range. In this context we involved our own real estate experts. In addition, we based our assessment of the leasing and marketing assumptions made by management on, inter alia, a comparison with general and sector-specific market expectations as well as on comprehensive documentation and explanations from management about expected cash flows. Furthermore, we evaluated the classification of the properties and, therewith, the respective accounting policies to be applied under IAS 2 and IAS 16. For the disposal of the real estate special purpose entity, Aqvatrium AB, we assessed the calculation of the gain on disposal of € 61 million by inspecting the underlying agreements and tracing the derecognition of the property. Taking account of the information available, we conclude that the assumptions made by management for testing the impairment of the properties acquired from former exposures are appropriate and we were able to follow the classifications applied.

③ We refer to the Company's disclosures on property, plant and equipment and other assets contained in notes 16, 18, 35, 46 and 49 in the notes to the consolidated financial statements. The effects of the sale of all shares in the group company, Aqvatrium AB, on the consolidated financial statements are presented in notes 32 and 49 in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises

- the Corporate Governance Report according to section 3.10 of the German Corporate Governance Code,
- the Corporate Governance Statement pursuant to § 289a HGB and § 315 Abs. 5 HGB, as well as
- other parts of the annual report of Aareal Bank AG, Wiesbaden, for the financial year ended on 31 December 2016, which were not subject of our audit.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements, which comply with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our audit opinion on the consolidated financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or the group management report or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Audit of the Group Management Report

Audit Opinion on the Group Management Report

We have audited the group management report of Aareal Bank AG, Wiesbaden, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2016.

In our opinion, based on the findings of our audit, the accompanying group management report as a whole provides a suitable view of the Group's position. In all material respects, the group management report is consistent with the consolidated financial statements, complies with legal requirements and suitably presents the opportunities and risks of future development.

Our audit has not led to any reservations with respect to the propriety of the group management report.

Basis for Audit Opinion on the Group Management Report

We conducted our audit of the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Group Management Report

Management is responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position, is consistent with the consolidated financial statements, complies with legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for such policies and procedures (systems) as management determines are necessary to enable the preparation of a group management report in accordance with the German legal requirements applicable under § 315 Abs. 1 HGB and to provide sufficient and appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the group management report.

Auditors' Responsibilities for the Audit of the Group Management Report

Our objective is to obtain reasonable assurance about whether the group management report as a whole provides a suitable view of the Group's position as well as, in all material respects, is consistent with the consolidated financial statements as well as the findings of our audit, complies with legal requirements, and suitably presents the opportunities and risks of future development, and to issue an auditors' report that includes our audit opinion on the group management report.

As part of an audit, we examine the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the IDW. In this connection, we draw attention to the following:

- The audit of the group management report is integrated into the audit of the consolidated financial statements.

- We obtain an understanding of the policies and procedures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these policies and procedures (systems).

- We perform audit procedures on the prospective information presented by management in the group management report. Based on appropriate and sufficient audit evidence, we hereby, in particular, evaluate the material assumptions used by management as a basis for the prospective information and assess the reasonableness of these assumptions as well as the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

- We are also not issuing a separate audit opinion on individual disclosures in the group management report; our audit opinion covers the group management report as a whole.

Responsible Auditor

The auditor responsible for the audit is Stefan Palm.

Frankfurt/ Main, 1 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefan Palm	**ppa. Lukas Sierleja**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
(German Public Auditor)	**(German Public Auditor)**