

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and is considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board.

Transparency

Thinking ahead. Shaping the future.

37 To our Shareholders

47 Group Management Report

113 Consolidated Financial Statements

249 Transparency

250 Corporate Governance Statement

261 Report of the Supervisory Board

268 Offices

270 Glossary

274 Financial Calendar

Corporate Governance Statement pursuant to Section 315 (5) in conjunction with Section 289a of the HGB

Declaration of Compliance in Accordance with Section 161 of the AktG

Aareal Bank AG has complied with the recommendations of the Government Commission "German Corporate Governance Code" (as amended on 5 May 2015) – except for the two restrictions set out below – since the last Declaration of Compliance was issued in December 2015; and will continue to do so, subject to the same restrictions.

In accordance with section 4.2.3 (2) sentence 6 of the German Corporate Governance Code (the "Code"), the amount of Management Board compensation shall be capped, both overall and for variable remuneration components. In March 2014, against the background of changed regulatory requirements, and based upon a proposal by the Remuneration Control Committee, the Supervisory Board approved a new remuneration system for members of the Management Board, with effect from 1 January 2014. The new remuneration system complies with the recommendation in section 4.2.3 (2) sentence 6 of the Code. In this connection, a maximum amount ("cap") was resolved for the variable, performance-related remuneration

component of the Management Board – for the 2013 financial year, and for subsequent financial years. As the only exception, no cap applies to virtual shares granted for the 2012 financial year or earlier financial years, or to virtual shares still to be granted under applicable rules governing the deferral of variable remuneration components. However, such virtual shares will be settled and disbursed for the last time in 2018, after expiry of the retention period and any applicable holding or blocking periods, based on the weighted average price (Xetra®) of the five exchange trading days following the expiry of the period. Pursuant to section 25d of the German Banking Act (Kreditwesengesetz – "KWG"), the Executive and Nomination Committee of Aareal Bank AG's Supervisory Board is required to assume additional tasks which are not supposed to be prepared by shareholder representatives on the Supervisory Board alone. Hence, the Executive and Nomination Committee also includes employee representative members, in contravention of the recommendation in section 5.3.3 of the Code. However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

Wiesbaden, December 2016

The Management Board



Hermann J. Merkens



Dagmar Knopek



Christiane Kunisch-Wolff



Thomas Ortmanns



Christof Winkelmann

For the Supervisory Board



Marija Korsch (Chairman)

Corporate Governance Report

Responsible and transparent corporate governance is of great importance to Aareal Bank, and is considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board. Accordingly, Aareal Bank welcomes and supports the objectives and purposes of the German Corporate Governance Code, and regularly observes the amendments and extensions of the guidelines adopted by the German Government Commission on Corporate Governance.

The Supervisory Board discusses these amendments; together with the Management Board, the Supervisory Board determines to what extent Aareal Bank AG complies with – or diverges from – the recommendations of the German Corporate Governance Code. Accordingly, the Bank's Memorandum and Articles of Association, as well as the internal rules of procedure for the Management Board and the Supervisory Board, are reviewed regarding compliance, and amended as necessary. Our annual Declaration of Compliance gives information on the extent to which the Bank complies with recommendations. The Declaration of Compliance is adopted by the Management Board and the Supervisory Board, and then published on the Bank's website, where Declarations issued in past years are also archived.

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by all our employees across the enterprise, regardless of their functions and duties. Our internal Code of Conduct is an integral part of responsible corporate governance. The Code of Conduct contains binding rules governing the legal and ethical conduct of employees vis-à-vis clients, business partners, and colleagues. Aareal Bank's efforts in this context are also motivated by the desire to affirm and further strengthen the confidence placed by stakeholders – our clients, investors, and staff.

Recommendations of the German Corporate Governance Code

During 2016, the German Corporate Governance Code, as amended on 5 May 2015, was applicable. Aareal Bank's Management Board and Supervisory Board issued and signed their most recent Declaration of Compliance pursuant to section 161 of the German Public Limited Companies Act (AktG) on 19 December 2016. The Declaration was published on the Bank's website, and is included in the annual report as part of the Corporate Governance Statement.

In accordance with this Declaration, Aareal Bank AG complies with the Code, subject to the following restrictions:

In accordance with section 4.2.3 (2) sentence 6 of the German Corporate Governance Code (the "Code"), the amount of Management Board compensation shall be capped, both overall and for variable remuneration components. In March 2014, against the background of changed regulatory requirements, and based upon a proposal by the Remuneration Control Committee, the Supervisory Board approved a new remuneration system for members of the Management Board, with effect from 1 January 2014. The new remuneration system complies with the recommendation in section 4.2.3 (2) sentence 6 of the Code. In this connection, a maximum amount ("cap") was resolved for the variable, performance-related remuneration component of the Management Board – for the 2013 financial year, and for subsequent financial years. As the only exception, no cap applies to virtual shares granted for the 2012 financial year or earlier financial years, or to virtual shares still to be granted under applicable rules governing the deferral of variable remuneration components. However, such virtual shares will be settled and disbursed for the last time in 2018, after expiry of the retention period and any applicable holding or blocking periods, based on the weighted average price (Xetra®) of the five exchange trading days following the expiry of the period. Pursuant to section 25d of the KWG, the Executive and Nomination Committee of Aareal Bank AG's Supervisory Board is required

to assume additional tasks which are not supposed to be prepared by shareholder representatives on the Supervisory Board alone. Hence, the Executive and Nomination Committee also includes employee representative members, in contravention of the recommendation in section 5.3.3 of the Code. However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

The Management Board

The Management Board is responsible for managing the Company. In doing so, it is obliged to act in the best interests of the Company and undertakes to increase its sustainable enterprise value. The Management Board ensures that all provisions of law are complied with, and endeavours to achieve their compliance throughout Group companies. The Management Board develops the company strategy, coordinates it with the Supervisory Board, and ensures its implementation. The Management Board ensures appropriate and sustainable risk management and risk control throughout the Company. The Management Board cooperates on the basis of trust with Aareal Bank AG's other executive bodies, and with employee representatives.

There were no conflicts of interest affecting members of the Management Board within the meaning of the Corporate Governance Code in the 2016 financial year.

Diversity

The Management Board has made an express commitment to diversity in Aareal Bank Group, and published it on the Internet and Intranet. Aareal Bank defines diversity as:

- An appreciation for the uniqueness of every individual and respect for their differences
- Equal opportunities at all levels
- The prevention of discrimination of any kind

- The belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals

The goals are to promote Aareal Bank Group's image as a modern employer, to strengthen employee commitment and increase employee motivation, to ensure skills and competencies are fostered individually in a way that promotes employee performance, to react to demographic change and an ageing workforce, and to take into account individual circumstances and stages of life.

In order to highlight the significance of diversity and document the fact that the concept of diversity is very important to Aareal Bank Group, the Bank signed the Charter of Diversity (an initiative launched by the German industry in 2006) in 2013.

Aareal Bank Group currently employs people from 28 different countries. When filling positions abroad, the Bank takes care to predominantly appoint local staff.

The share of female employees in Aareal Bank AG was 45.1 % in the 2016 financial year, with women accounting for 22.9 % of executive positions. Within Aareon, the figures were 32.7 % and 21.8 %, respectively.

Severely disabled persons made up 3.9 % of Aareal Bank's staff base in 2016. This employee group is represented in the Group's German entities by a disability representative.

Equal treatment

Aareal Bank Group attaches great importance to the equal treatment of women and men, whether in the context of filling vacant positions, with regard to continuous professional development, or in terms of remuneration. Specifically, any vacancies below senior executive level are generally published throughout the Company, in the form of job advertisements that all members of staff – male or female – may apply for. When setting the remuneration of employees, we do not differentiate by

gender but rely exclusively on aspects such as qualification, professional experience or training.

Likewise, qualification is the decisive criterion for the appointment of employees to positions; this is examined regularly by employee representative bodies, within the scope of their co-determination rights. The principle that qualifications and international experience are the primary criteria for choosing a candidate also applies for the Management Board.

In accordance with the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – "AGG"), Aareal Bank and Aareon have AGG Officers in Germany. Special AGG-related training measures are carried out for all employees. In the US, the employee manual contains rules designed to avoid harassment at the workplace ("Anti-Harassment Rules").

Supervisory Board

The task of the Supervisory Board is to regularly advise and supervise the Management Board in the management of the Company. It is involved in decision-making that is of fundamental importance to the Company, and cooperates closely and on the basis of trust with the Management Board.

The Supervisory Board has created committees for its work. Responsibility for individual duties has been delegated to these committees. The members of the Supervisory Board and their functions in the Supervisory Board's committees are outlined in the "Description of Management Board and Supervisory Board work processes", and in the List of Offices Held, both of which form part of this annual report. The Supervisory Board reports on its duties and the events of the 2016 financial year in its report.

The option of preparing meetings separately with shareholder representatives and employee representatives is used by the Supervisory Board in exceptional cases only. However, some of the meetings have been prepared separately in 2015

for the last time. Meetings were held without employee representatives present (Executive and Nomination Committee meetings preparing the election of shareholder representatives at the Annual General Meeting on 20 May 2015). Moreover, in accordance with the provisions of the KWG, Supervisory Board meetings were held with limited presence of the Management Board during the discussion of selected agenda items.

In line with section 5.2 of the Code, the Chairman of the Supervisory Board does not chair the Audit Committee. This position is held by Prof. Dr Wagner, who is a certified public auditor and tax advisor and who has many years of experience gained as a partner in audit firms.

In its Conflicts of Interest Policy, the Supervisory Board has laid down procedures on how to prevent or handle potential conflicts of interest affecting members of the Management Board or the Supervisory Board. Specifically, the Policy provides that individual Supervisory Board members shall establish transparency even where there is only a potential conflict of interest. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

The Supervisory Board regularly reviews the efficiency of its own activities, with support provided by external consultants. In line with the requirements set out in section 25d (11) of the KWG, the Executive and Nomination Committee is in charge of the preparation and execution of the efficiency review. The results of this review serve to further improve the work carried out by the Supervisory Board, as well as enhancing cooperation between the Supervisory Board and Management Board. The Chairman of the Supervisory Board presented the results of the efficiency review for the year 2016 in the meeting on 23 March 2017, and discussed these with the members in detail. The Supervisory Board will incorporate these findings into its work.

The Supervisory Board has the required knowledge, skills, and professional expertise to properly perform its duties. In accordance with section 5.4.5 of the Code, the Supervisory Board members regularly attend continuous professional development measures, and are supported to this effect by the Company.

The Report of the Supervisory Board provides a detailed review of the activities of the Supervisory Board and its Committees.

Guidelines regarding the composition of the Supervisory Board (shareholder representatives)

Key factors taken into account for nomination to the Supervisory Board are the professional aptitude and the experience of candidates – also in relation to the Group's international activities. The Supervisory Board of Aareal Bank AG believes that it is sufficiently independent. Since the elections to the Supervisory Board at the Annual General Meeting 2015, all shareholder representatives to the Supervisory Board have been independent, as defined by section 5.4.2 of the Code.

Within the framework of actual decisions concerning potential members, the Supervisory Board of Aareal Bank AG assesses the independence of the respective candidate, duly taking that independence into account. In particular, it takes care to ensure that individual members are unbiased.

Any individual whose circumstances may give rise to conflicts of interest cannot be considered as a candidate. At the time of election to the Supervisory Board, candidates should generally be less than 70 years old. When selecting suitable candidates, the Supervisory Board considers the target quota of female members of at least 30 %, as well as a variety in terms of age, education and professional experience, with a view to its overall composition. Specifically, the Supervisory Board should not exclusively consist of members who are older than 60 years, nor should all of its members have acquired the majority of their professional experience with banks.

Guidelines regarding the composition of the Management Board

When selecting new members of the Management Board, the Supervisory Board considers the duties at hand, in the context of overall responsibility to be assumed on the Management Board, as well as concerning individual Management Board sections. Each candidate must be reliable and sufficiently qualified to fulfil these duties. In particular, the Supervisory Board considers the target quota of 25 % female Management Board members when selecting candidates. Moreover, where several candidates are available with equal qualifications, the Supervisory Board will additionally consider the objective of ensuring maximum variety in terms of different educational backgrounds and professional experience.

Guidelines for the setting of targets for female quotas

In accordance with the German Act for Equal Participation of Women and Men in Senior Positions in Private Enterprises and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst), Aareal Bank AG has set targets for the share of female members of the Supervisory Board and the Management Board, as well as for the two management levels below the Management Board.

Specifically, the Supervisory Board of Aareal Bank AG has set itself the target of maintaining the 30 % share of women on the Supervisory Board and of 25 % on the Management Board (which the Bank had achieved prior to the Act coming into force), until 30 June 2017. In parallel, the Management Board has set target quotas of 6.3 % for the first and 21.4 % for the second management level below the Management Board; these quotas are also to be achieved by 30 June 2017.

Purchase or sale of the Company's shares

In 2016, members of the Company's executive bodies did not carry out any transactions involving the Company's shares, which would have required publication in accordance with the requirements of Article 19 of the EU Market Abuse Regulation (596/2014/EU), in conjunction with section 15 of the WpHG. At the end of the financial year, aggregate shareholdings of members of executive bodies in the Company's shares were less than 1% of the issued share capital of Aareal Bank AG.

Transactions with related parties

Related party transactions are detailed in the Notes to the financial statements.

Accounting policies

Aareal Bank AG prepares the Group's accounts in accordance with International Financial Reporting Standards (IFRSs). The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The Management Board prepares the financial statements of Aareal Bank AG and the consolidated financial statements. The external auditors submit their report on the audit of the financial statements and consolidated financial statements to the Supervisory Board. The Annual General Meeting on 25 May 2016 appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the auditors for the 2016 financial year. Having ascertained the independence of the external auditors, the Supervisory Board appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft in this capacity, and defined the key matters of the audit. The external auditors conducted the audit in line with instructions given. The fees paid to the external auditors are shown in the Notes to the financial statements.

The Supervisory Board approves the financial statements and the consolidated financial state-

ments, and thus confirms the financial statements. Details regarding the examinations carried out by the Supervisory Board, and the results of such examinations, are provided in the Report of the Supervisory Board.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), the auditors of the 2016 financial statements – as elected by the Annual General Meeting 2016 and instructed accordingly by the Supervisory Board – have exercised their audit activities under the management of Messrs Stefan Palm and Lukas Sierleja. In accordance with internal regulations, all employees of the external auditors, including the responsible partners and lead auditors, rotate their assignment to specific audit assignments on a regular basis – in this case, every five years.

Mr Palm, PwC's responsible partner, has audited Aareal Bank since 2013; Mr Sierleja, the responsible lead auditor, since 2016.

Relationship to shareholders

Aareal Bank holds a General Meeting of shareholders once a year. Shareholders are thus given the opportunity to actively participate in the development of their Company.

At the Annual General Meeting, the shareholders decide, in particular, on the formal approval for the members of the Supervisory Board and Management Board for the financial year under review, on the appropriation of any net retained profit, amendments to the Memorandum and Articles of Association, and authorisations on capital adjustments. The Annual General Meeting also elects the auditor for the Company.

The Company's shareholders may submit statements or proposals in writing, by fax or e-mail, to the Company. They may also request to speak at the Annual General Meeting. The shareholders may also submit counter or supplemental motions to the agenda items at the Annual General Meeting, so that they participate in structuring and influencing

the meeting. The Management Board and the Supervisory Board refer to shareholders' comments made during the general debate, or to motions submitted by shareholders in advance, to respond to questions, or to comment on other contributions.

Communications

Aareal Bank assigns great importance to extensive communications with all of the Bank's stakeholders. We have set ourselves the targets of actively, transparently and openly communicating with all stakeholders, taking into account the interests of all stakeholders. In this context, we make extensive use of our website to inform about current developments affecting the Group, and to provide identical information to all target groups at the same time. All press releases, ad-hoc disclosures, corporate presentations, as well as annual and quarterly reports published by Aareal Bank are available on the Bank's website to any interested person, and may be downloaded from there. In addition, the financial calendar is updated regularly, and provides information about upcoming events.

Aareal Bank publishes details on the financial position and performance five times annually. On these occasions, the Management Board gives a personal account of results, within the scope of press conferences and analysts' events, as well as issuing press releases.

We are not currently broadcasting parts of the Annual General Meeting on the internet, nor is it currently possible to give instructions or cast votes online. This is because, given the low level of acceptance of such a service amongst our shareholders, the related efforts and costs would have been excessive. Aareal Bank will continue to review demand for such a service on a regular basis.

Disclosures regarding Corporate Governance standards

Aareal Bank AG is a public limited company under German law (Aktiengesellschaft – "AG") whose

shares are included in the mid-cap MDAX index. Aareal Bank AG's corporate governance practices are governed, inter alia, by legal rules applicable to public limited companies and credit institutions, and by the Company's Memorandum and Articles of Association, which are published on its website and in its Commercial Register entry (under company number HRB 13184). Based on the Memorandum and Articles of Association, the Supervisory Board has adopted internal rules of procedure for itself, and for the Management Board. Aareal Bank AG has also adopted an internal Code of Conduct, providing guidelines for correct, ethical and responsible conduct of employees and executive bodies. Moreover, Aareal Bank's corporate governance is guided by a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the Bank's business, in line with legal and regulatory rules. All members of staff have access to these documents, via common internal communications channels such as the Bank's intranet.

Description of Management Board and Supervisory Board work processes

The Supervisory Board

In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairman and two Deputy Chairmen from amongst them, for the duration of their term of office. At present, Ms Marija Korsch serves as Chairman of the Supervisory Board. Her deputies are Prof. Dr Stephan Schüller (as shareholder representative) and York-Detlef Bülow (as employee representative). The majority of shareholder representatives to the Supervisory Board were elected by the Annual General Meeting held on 20 May 2015. In the financial year 2010, employee representatives were elected by the special negotiating body, a body representing employees following the merger of Aareal Bank France S.A. into its parent company Aareal Bank AG.

During the financial year under review, the Company's Supervisory Board comprised:

Marija Korsch, Chairman of the Supervisory Board of Aareal Bank AG

Former Partner of Bankhaus Metzler seel. Sohn & Co. Holding AG

Supervisory Board offices held: Just Software AG

Prof. Dr Stephan Schüller, Deputy Chairman of the Supervisory Board of Aareal Bank AG

Spokesman of the General Partners of Bankhaus Lampe KG

Supervisory Board offices held: DePfa Holding Verwaltungsgesellschaft mbH, Universal-Investment-Gesellschaft mbH, Howaldt & Co. Investmentaktiengesellschaft TGV

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

Employee of Aareal Bank AG

Thomas Hawel*

Employee of Aareon Deutschland GmbH

Supervisory Board offices held: Aareon Deutschland GmbH

Dieter Kirsch*

Employee of Aareal Bank AG

Richard Peters

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

Supervisory Board offices held: DePfa Holding Verwaltungsgesellschaft mbH

Dr Hans-Werner Rhein

Solicitor

Supervisory Board offices held: Deutsche Familienversicherung AG, Gothaer Allgemeine Versicherung AG

Sylvia Seignette

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

Elisabeth Stheeman

Senior Advisor, Bank of England, Prudential Regulation Authority

Supervisory Board offices held: TLG Immobilien AG, Courmo

Hans-Dietrich Voigtländer

Senior Partner at BDG Innovation + Transformation GmbH & Co. KG

Prof. Dr Hermann Wagner, Chairman of the Audit Committee

German Public Auditor and tax advisor

Supervisory Board offices held: btu beraterpartner Holding, PEH Wertpapier AG, DEMIRE Deutsche Mittelstand Real Estate AG, Squadra Immobilien GmbH & Co. KGaA

Beate Wollmann*

Employee of Aareon Deutschland GmbH

* Employee representative to the Supervisory Board of Aareal Bank AG

Reference is made to the Corporate Governance Report concerning the independence of Supervisory Board members, for the purposes of the Corporate Governance Code. The members of the Supervisory Board have sufficient professional knowledge to competently perform their duties. The shareholder representatives have held – or still hold – executive positions in the banking or insurance sectors.

As a German Public Auditor and tax advisor – and hence, an independent financial expert – Professor Dr Hermann Wagner chairs the Audit Committee of Aareal Bank AG's Supervisory Board.

The Supervisory Board conducts its business in the best interests of the Company and its Group entities, in accordance with the law, the Memorandum and Articles of Association, the internal rules of procedure, the German Corporate Governance Code (as amended from time to time), and Aareal Bank AG's Code of Conduct. The Supervisory Board determines which transactions have fundamental importance, and hence require the approval of the Supervisory Board.

The Supervisory Board has established six committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Remuneration Control Committee, the Risk Committee, the Committee for Urgent

Decisions, the Audit Committee, and the Technology and Innovation Committee.

Executive and Nomination Committee

The Executive and Nomination Committee advises the Management Board and prepares the resolutions of the Supervisory Board. The committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

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

The Executive and Nomination Committee prepares the plenary meetings of the Supervisory Board, together with proposed resolutions. The committee's area of responsibility also includes assessing the internal condition of the Group, and issues concerning personnel planning for the Management Board (also regarding the contracts with individual Management Board members, based on the remuneration system prepared by the Remuneration Control Committee and adopted by the plenary meeting of the Supervisory Board). The Executive and Nomination Committee compiles profiles defining the requirements for members of the Management Board and the Supervisory Board; based on an annual evaluation, it determines the extent to which the members of the Management Board or Supervisory Board have a need for further training, or whether other adjustments are required. Furthermore, the Executive and Nomination Committee discusses decision proposals regarding connected-party loans as well as other transactions between members of administrative, management and supervisory bodies and the Company or its subsidiaries.

Remuneration Control Committee

In accordance with section 25d (12) of the KWG, the Remuneration Control Committee monitors whether the structure of the remuneration systems for Management Board members and employees is appropriate, taking into account the impact of remuneration systems on Aareal Bank's overall risk profile. The Remuneration Control Committee prepares corresponding proposals concerning remuneration (including for members of the Management Board) for the plenary meeting of the Supervisory Board. The Remuneration Control Committee receives the information provided by Aareal Bank's Remuneration Officer pursuant to section 23 of the German Regulation on Remuneration in Financial Institutions (InstVergV) as well as the disclosure concerning the remuneration system pursuant to section 16 of the InstVergV. The committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

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

Risk Committee

The Risk Committee consists of the Chairman of the Supervisory Board and up to five additional members. The committee has the following members:

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

The Risk Committee deals with all types of risk Aareal Bank is exposed to in its business activities. Besides credit risks, this also encompasses market risks, liquidity risks, and operational risks, taking into account the Bank's risk-bearing capacity as defined in the Minimum Requirements for Risk Management in Banks (MaRisk). The monitoring of credit risks also includes approving loans which, pursuant to the internal rules of procedure for the Management Board, require the approval of the Supervisory Board. Until December 2016, this also included decisions on connected-party loans pursuant to section 15 (1) nos. 6-12 of the German Banking Act (KWG), unless such loans were dealt with by the Executive and Nomination Committee. Since December 2016, decisions on connected-party loans have been made by the Executive and Nomination Committee.

The committee is also responsible for reviewing the contents of the risk strategy, in accordance with the MaRisk. The submission of the credit risk strategy to the plenary meeting of the Supervisory Board remains unaffected by this function, as is intended by the MaRisk.

Committee for Urgent Decisions

The Committee for Urgent Decisions is a sub-committee of the Risk Committee. Its members are elected from amongst the members of the parent committee.

The committee members are:

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

The Committee for Urgent Decisions takes lending decisions which, pursuant to the internal rules of procedure for the Management Board, require Supervisory Board approval, and which are particularly urgent. Since the committee passes its resolutions

by way of circulation, it does not hold any meetings. Any decisions taken between meetings of the Risk Committee are discussed at the subsequent meeting.

Audit Committee

The Audit Committee is concerned with all accounting issues, as well as regarding the audit of Aareal Bank AG and Aareal Bank Group. The committee is chaired by an independent financial expert. The members of the Audit Committee are:

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

The committee is responsible for the preparation and conduct of the audit of the financial statements and the consolidated financial statements; it prepares the decisions to be taken by the Supervisory Board on the basis of the committee's analysis of the external auditors' reports. For this purpose, the committee reports to the plenary meeting of the Supervisory Board on the results of its analysis and the assessments derived. Preparing the audit of the financial statements also comprises the preparations for instructing the external auditors (by virtue of the corresponding resolution passed by the Annual General Meeting), verifying the independence of the external auditors, negotiating the auditors' fees, and determining key matters of the audit. The Audit Committee also discusses quarterly and half-yearly financial reports with the Management Board, and obtains the external auditors' report on their review of the half-yearly report. Furthermore, the Audit Committee is responsible for examining the projections submitted by the Management Board; the reports by the Compliance Officer and Internal Audit are addressed to the committee. The committee is also responsible for monitoring the effectiveness of the internal control system.

Technology and Innovation Committee

The Technology and Innovation Committee comprises the following members of the Supervisory Board:

Hans-Dietrich Voigtländer	Chairman
Marija Korsch	Deputy Chairman
Thomas Hawel	
Richard Peters	
Elisabeth Stheeman	

The committee deals with issues concerning information technology used within the Company, and with issues related to IT products created and distributed by Aareal Bank Group entities.

The Management Board

The Management Board manages Aareal Bank AG's business in accordance with the law, the German Corporate Governance Code, the internal rules of procedure for the Management Board adopted by the Supervisory Board, and the Code of Conduct of Aareal Bank AG. The Management Board develops the overall company strategy, discusses it with the Supervisory Board, and ensures its implementation.

The members of the Management Board, and their respective areas of responsibility, are outlined in Note (99).

The Management Board informs the Supervisory Board regularly, without delay and comprehensively, orally and in writing, on all issues in respect of which the Supervisory Board requires information to fully perform its duties and obligations.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

Once again, the financial year 2016 under review was a very eventful one for Aareal Bank – whose activities in a persistently volatile environment were accompanied by historically low interest rates and continued regulatory uncertainty. In this context, Aareal Bank not only generated very good results. The Bank also broke new ground in order to find answers to the issues raised by the fundamental changes associated with digitalisation proceeding at high speed.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of the Company. The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, upon all the issues important to the Bank. The Management Board reported on the Group's situation, business development, key financial indicators and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and on risk control and risk management measures taken within the Group. The Supervisory Board also received comprehensive reports on the development of the business segments, and on operative and strategic planning, and was involved in all important decisions. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board and a decision taken. In cases where resolutions needed to be passed in between scheduled Supervisory Board meetings, such resolutions

were passed by way of circulation or via conference calls.

Furthermore, between the meetings of the Supervisory Board, the Chairman of the Management Board kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, both orally and in writing, on all material developments of the Company. The Chairman of the Management Board maintained regular close contact with the Chairman of the Supervisory Board, in order to discuss key issues and important decisions personally.

Moreover, the Supervisory Board was informed, in detail, about the "Aareal 2020 – Adjust. Advance. Achieve." programme for the future, which was presented in February 2016. The Supervisory Board supports the related objectives set out by the Management Board. Given an unchanged basic strategic orientation, this development of the strategy aims to protect the Group's strong base in an increasingly demanding environment, and to unlock new revenue potential.

Activities of the Plenary Meeting of the Supervisory Board

Nine plenary meetings of the Supervisory Board were held during the year under review. During the meetings, the members of the Supervisory Board received reports and explanations from the members of the Management Board, and discussed these in detail. One of the focal working and reporting aspects during all scheduled meetings was the approach to be taken by the Bank towards the persistently challenging market environment.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory framework, in great detail.

Throughout the financial year, in the course of all meetings as well as during the periods between meetings, the Management Board informed the Supervisory Board about economic and market developments and their potential impact on Aareal Bank Group, in a timely, complete and comprehensible manner. This included detailed explanations of the appropriate measures taken in response to the challenges arising from general market developments, in particular the prevailing low interest rate environment.

During the plenary meetings of the Supervisory Board, the Management Board reported to the Supervisory Board regularly and comprehensively; these reports also covered the development of the Structured Property Financing and Consulting/ Services segments, focusing on current economic developments. At regular intervals, the Supervisory Board was informed of the Bank's liquidity status and the related steps taken by the Bank's Treasury. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group. The Management Board also reported regularly on the quality of the property financing portfolio, against the background of general market trends and expected changes on the various property markets.

The focal points of the individual meetings are outlined below.

During its meetings in January and February, the Supervisory Board carried out the scheduled reviews of remuneration systems, including a detailed discussion of all related issues concerning the system and amount of remuneration. The Supervisory Board also discussed the establishment of a Chief Risk Officer, as a new Management Board position. As part of this task, based upon a proposal by the Executive and Nomination Committee, the Supervisory Board also discussed and determined the requirements profile for this role. The newly-established function of Chief Risk Officer was filled with the appointment of Ms Christiane Kunisch-Wolff to the Management Board of Aareal Bank. Throughout the appointment process, the Supervisory Board discussed, in great detail, which candidates meet this profile. With Ms Kunisch-Wolff, a renowned expert with relevant qualifications was appointed for this role. The Supervisory Board also debated the Bank's future dividend policy.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2015 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. In addition, the proposal regarding the selection and subsequent appointment of the external auditor for the Annual General Meeting was discussed. This also included the scope and focal points of the audit for the 2016 financial year, as defined by the Supervisory Board. Other issues covered during the March meeting included the preparations for the Annual General Meeting in May 2016. This meeting also discussed the annual reports submitted by Internal Audit and by the Compliance Officer.

During its April meeting, the Supervisory Board resolved on the process for the appointment of Mr Christof Winkelmann to Aareal Bank's Management Board. Mr Winkelmann was appointed in consideration of his proven market and banking expertise, and his long track record of successful work for Aareal Bank, which make him especially suitable for the position of the Management Board member responsible for Sales units.

The May meeting commenced with a detailed review of the Annual General Meeting of Aareal Bank AG, which preceded the meeting. Furthermore, the Management Board presented its regular reporting on business developments, which the Supervisory Board discussed in great detail.

The meeting in July exclusively comprised an extensive presentation and discussion of Aareal Bank Group's strategy, during which the Supervisory Board intensely discussed strategic initiatives with the Management Board, passing the necessary resolutions.

Besides receiving regular reports, during its September meeting, the Supervisory Board discussed new rules imposed by an EU Regulation pursuant to which the Supervisory Board Audit Committee will have greater importance from the 2017 financial year onwards. In order to support the Supervisory Board in monitoring the audit of the financial statements – especially with regard to the independence of external auditors, and the services rendered by them – the Audit Committee will in future decide upon the approval of so-called non-audit services provided by the external auditors.

In the December meeting, the Management Board reported on the Group's corporate planning. The Management Board submitted and explained the corporate planning in detail to the Supervisory Board. Corporate governance issues were discussed as well. The requisite resolutions were passed and implemented. Furthermore, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the German Public Limited Companies Act (Aktengesetz – "AktG"), which was subsequently published on the Bank's website.

In accordance with sections 25c and d of the German Banking Act (Kreditwesengesetz – "KWG"), the results of the evaluations carried out in November and December 2016 have been discussed in detail by the Supervisory Board during its meeting in March 2017. The Supervisory Board will incorporate these findings into its work.

Strategy documents were regularly submitted to, and discussed by the Supervisory Board, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk). The Company's remuneration systems were also subjected to a scheduled review, with the reports submitted to the Supervisory Board. The Supervisory Board determined that the Company's remuneration systems are appropriate.

The Chairmen of Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions submitted by the plenary meeting in detail.

To the extent that any Supervisory Board decisions were taken by way of circulation, the related issues were discussed in detail at the subsequent Supervisory Board meeting, including a report by the Management Board on the implementation of such decisions taken previously.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

In addition to its regular meetings, the Supervisory Board convened for a separate informational meeting, during which auditors PricewaterhouseCoopers provided very detailed information on current changes and deliberations in the regulatory and legal framework, as well as on the potential impact of such trends upon Aareal Bank.

Activities of Supervisory Board Committees

The Supervisory Board has established six committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Committee for Urgent Decisions (as a sub-committee of the Risk Committee), the Audit Committee, the Remuneration Control Committee, and the Technology and Innovation Committee.

The Executive and Nomination Committee of the Supervisory Board convened for four scheduled meetings, during which the committee prepared the plenary meetings of the Supervisory Board. During the financial year under review, the Executive and Nomination Committee concerned itself with the establishment of a Chief Risk Officer, as a new Management Board position. As part of this process, the Committee discussed the necessary questions regarding the job description, as well as candidates' required qualifications, in great detail. The appointment process for this position was carried out subsequently, and concluded with the appointment of Ms Kunisch-Wolff. Furthermore, the Committee carried out the appointment process for the position of Management Board member responsible for Sales units, and prepared the corresponding proposals for resolutions to be adopted by the plenary meeting, together with a recommendation to appoint Mr Winkelmann.

Furthermore, the Executive and Nomination Committee concerned itself with the efficiency of the Supervisory Board and its committees, as well as with corporate governance rules; within the scope of a regular dialogue with the Management Board, the Committee informed itself on the strategic development of Aareal Bank Group.

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The committee members discussed

these reports and market views in detail; the committee also concerned itself with the banking and regulatory environment, and dealt with both loans requiring approval and transactions subject to reporting requirements on a regular basis. The committee discussed individual exposures of material importance to the Bank, which were presented and explained by the Management Board. In addition, reports on current developments and related market responses were provided to the committee. Also, detailed reports were given regarding the Bank's liquidity status and management as well as its funding. Risks from existing investments, as well as all additional material risks were also presented.

The committee regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the committee. Besides credit and country risks, the committee concerned itself with market risks, liquidity risks, and operational risks. The committee also concerned itself with Aareal Bank's risk-bearing capacity and capital ratios, as well as the Bank's cooperation with regulators, within the scope of the Single Supervisory Mechanism (SSM) under the auspices of the ECB. The committee also decided on any other transactions requiring the Supervisory Board's approval pursuant to the Company's Memorandum and Articles of Association or the internal rules of procedure.

The Committee for Urgent Decisions is a sub-committee of the Risk Committee. It approves loans subject to approval requirements by way of circulation. For this reason, it did not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were presented again at the subsequent meeting, whereby the Management Board provided supplementary information on current implementation progress.

The Audit Committee held six meetings during the year under review. During its meeting in February 2016, the Audit Committee received and discussed the preliminary results for the 2015 financial year. During its March meeting, the committee received

the external auditors' report on the 2015 financial year and discussed the results with the auditors in detail. The committee members discussed the contents of the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of meetings held with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2016 during the same meeting.

During its meeting in May 2016, the Audit Committee considered the contents and further development of sustainability reporting for Aareal Bank Group. In addition, the committee discussed the initial audit for achieving limited assurance for this report, including an examination of selected qualitative and quantitative information in the Sustainability Report 2015 by PwC, the results of which were discussed in the presence of PwC representatives.

In accordance with the requirements of the German Corporate Governance Code, during its meetings in May, August and November 2016, the Audit Committee discussed with the Management Board the quarterly results to be published.

Proceedings at the meetings in August and November also included supplementary topics, such as amendments under the EU Audit Regulation and Directive, according to which external auditors are no longer permitted to provide certain non-audit services. With effect from 1 January 2017, permitted non-audit services to be rendered by the external auditors must be approved by the Audit Committee. Said regulation has extended the Audit Committee's oversight duties in the context of monitoring the Bank's procurement of services from the external audit firm elected by the Annual General Meeting. In order to fulfil these oversight duties in an efficient manner, the Audit Committee adopted a process for approving and monitoring non-audit services rendered by the external auditors during its November meeting. Furthermore, the committee was informed about the review of the Internal

Control System, in accordance with legal requirements; it duly acknowledged the report, following discussion. In addition to a report on the audit progress, the Management Board presented and explained the updated Group planning to the committee during its December meeting. The committee also received reports submitted by Internal Audit, and the Compliance Report, requesting and receiving detailed explanations, and duly noting both reports.

During its six meetings, the Remuneration Control Committee discussed issues related to the Bank's remuneration systems and all related matters, fulfilling its original assignment. In addition to topics to be dealt with on a regular basis, the Remuneration Control Committee concerned itself with necessary adjustments of the remuneration systems due to amendments to the German Regulation on Remuneration in Financial Institutions ("Institutsvergütungsverordnung – InstVergV"). Moreover, the Remuneration Control Committee supported the Supervisory Board with all issues related to the remuneration of the Management Board. In particular, the committee provided support for determining the Management Board's targets for the current year, and for assessing target achievement by the Management Board, as a basis for determining variable remuneration for the members of the Management Board for the year 2016. As a rule, support was provided to the Supervisory Board by preparing the corresponding recommended resolutions.

The Technology and Innovation Committee convened for four meetings, during which the committee discussed market trends, technological developments and innovation trends in detail, especially with a view to clients of the Consulting/ Services segment. Discussion topics included potential business opportunities arising from the growing digitalisation of business processes, and how Aareal Bank Group could turn such opportunities into benefits for clients. In this connection, the committee also discussed measures in detail which are required for an optimal design of change processes, and which create an innovation-friendly environment. Such topics also include considerations to further develop talent management meas-

ures. Another key aspect of regular discussions was how to support the Bank in realigning its banking systems, against the background of numerous new requirements in terms of accounting, regulation, and IT security.

Where members of the Supervisory Board were unable to attend a meeting, they had announced their absence in advance, giving reasons. Attendance of Supervisory Board members at meetings is shown in the table below.

Member of the Supervisory Board	Number of meetings attended / number of meetings (plenary and committee meetings)
Marija Korsch	33 of 33
Prof. Dr Stephan Schüller	24 of 25
York-Detlef Bülow*	23 of 25
Thomas Hawel*	13 of 13
Dieter Kirsch*	18 of 19
Richard Peters	21 of 23
Dr Hans-Werner Rhein	17 of 17
Sylvia Seignette	13 of 13
Elisabeth T. Stheeman	16 of 17
Hans-Dietrich Voigtländer	25 of 25
Prof. Dr Hermann Wagner	19 of 19
Beate Wollmann*	9 of 9

* Employee representative

Financial Statements and Consolidated Financial Statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main (from 1 March 2017: PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft), who were elected as auditors by the Annual General Meeting 2016, with the audit of the financial statements and the consolidated financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory

Board, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports, including all annexes thereto, in good time before the meeting during which the financial statements and the consolidated financial statements were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditor participated in the meeting of the Supervisory Board, during which the financial statements and consolidated financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft were available to the Supervisory Board to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB, and the consolidated financial statements and the Group management report prepared in accordance with IFRSs, and the proposal of the Management Board regarding the appropriation of profit, and the audit reports, were all examined in detail. No objections were raised to the audit results. In its meeting on 23 March 2017, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with IFRSs, and thus confirmed the financial statements of Aareal Bank AG. The Supervisory Board examined

and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Special transactions

Aareal Bank Group was able to conclude material litigation concerning former Corealcredit Bank, with rulings in the Bank's favour. Even though the resulting non-recurring effect only had a relatively minor impact on the Bank's results after taxes, the conclusion of these proceedings was a positive outcome.

Personnel matters

At its meeting held on 19 February 2016, the Supervisory Board appointed Ms Christiane Kunisch-Wolff as a member of the Management Board of Aareal Bank, effective 15 March 2016. To date, Ms Kunisch-Wolff was a member of the Management Board of Westdeutsche ImmobilienBank AG, where her responsibilities included accounting and financial reporting as well as anti-money laundering and Compliance. The Supervisory Board is delighted to have won another Management Board member from within the Group, and wishes Ms Kunisch-Wolff every success for her mandate.

In its meeting on 20 April 2016, the Supervisory Board appointed Mr Christof Winkelmann as a member of the Management Board of Aareal Bank, effective 1 July 2016. Mr Winkelmann first worked for Aareal Bank from 2000 to 2006, being responsible for the Bank's hotel financing business. Having worked for another bank, he returned to Aareal Bank in 2008 as Managing Director, Special Property Finance. He has been responsible for the Bank's Special Property Finance business – covering financings for hotels, retail and logistics properties – ever since.

During the same meeting, the Supervisory Board adopted a new distribution of responsibilities

amongst the members of the Management Board. Mr Winkelmann assumed responsibility for the Sales units in the Structured Property Financing segment, a position previously held by Ms Dagmar Knopek, with effect from 1 July 2016. Mr Winkelmann is thus particularly responsible for all of the segment's new business activities. Ms Knopek, who has been a member of the Management Board since 2013, assumed the function of Chief Credit Officer on the Management Board on the same date. In her new function, she is responsible for Credit Management (encompassing loan administration and management), Operations, and the Workout portfolio. These duties were previously within the portfolio of Hermann J. Merkens, the Chairman of the Management Board of Aareal Bank AG.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for their strong commitment during the 2016 financial year, which was once again characterised by a challenging environment. That commitment – and strong motivation – from all employees of Aareal Bank Group made the Company's success possible.

Frankfurt, March 2017

For the Supervisory Board



Marija Korsch (Chairman)

Offices

Wiesbaden Head Office

Aareal Bank AG

Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3480
Fax: +49 611 3482549

Structured Property Financing

Brussels

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

Istanbul

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

London

6th Floor, 6,7,8 Tokenhouse Yard
London EC2R 7AS, United Kingdom
Phone: +44 20 74569200
Fax: +44 20 79295055

Madrid

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

Moscow

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

New York

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

Paris

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

Rome

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

Shanghai

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

Singapore

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

Stockholm

Norrmalmstorg 14
11146 Stockholm, Sweden
Phone: +46 8 54642000
Fax: +46 8 54642001

Warsaw

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

Wiesbaden

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

Aareal Estate AG

Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482446
Fax: +49 611 3483587

Aareal Valuation GmbH

Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482059
Fax: +49 611 3482640

Deutsche Structured Finance GmbH

Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 9714010
Fax: +49 611 971401510

Westdeutsche ImmobilienBank AG

Grosse Bleiche 46
55116 Mainz, Germany
Phone: +49 6131 92800
Fax: +49 6131 92807200

Consulting / Services

Aareal Bank AG

Housing Industry

Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482967
Fax: +49 611 3482499

Housing Industry

Berlin Branch

SpreePalais
Anna-Louisa-Karsch-Strasse 2
10178 Berlin, Germany
Phone: +49 30 88099444
Fax: +49 30 88099470

Housing Industry

Essen Branch

Alfredstrasse 220
45131 Essen, Germany
Phone: +49 201 81008100
Fax: +49 201 81008200

Housing Industry

Hamburg Branch

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

Housing Industry

Leipzig Branch

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

Housing Industry

Munich Branch

Prinzregentenstrasse 22
80538 Munich, Germany
Phone: +49 89 5127265
Fax: +49 89 51271264

Housing Industry

Rhine-Main Branch

Paulinenstrasse 15
65189 Wiesbaden, Germany
Hotline: +49 611 3482000
Fax: +49 611 3483002

Housing Industry

Stuttgart Branch

Büchsenstrasse 26
70174 Stuttgart, Germany
Phone: +49 711 2236116
Fax: +49 711 2236160

Aareon AG

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

Aareal First Financial Solutions AG

Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 4864500
Fax: +49 6131 486471500

Deutsche Bau- und

Grundstücks-Aktiengesellschaft

Lievelingsweg 125
53119 Bonn, Germany
Phone: +49 228 5180
Fax: +49 228 518298

Deposit-taking

Dublin

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

Glossary

Accrued interest

Interest on debt securities (such as bonds, notes or Pfandbriefe) which has accrued since the last coupon payment date. When buying such a security, the buyer must pay accrued interest to the seller.

Ad-hoc disclosure

Pursuant to section 15 of the German Securities Trading Act (WpHG), issuers of securities are obliged to publish any information that may have an impact on the price of these securities without delay. This obligation is discharged using so-called "ad-hoc" disclosures which may relate to the issuer's financial position and performance, or to its general business operations. The ad-hoc disclosure obligation applies in Germany as well as in other major financial centres; it is designed to prevent insider trading.

Advanced Approach

Under the "Advanced Approach", banks having sufficiently developed procedures for internal capital allocation (subject to strict requirements concerning methodology and disclosure) are allowed to use their internal credit quality ratings for a given borrower, to assess the credit risk exposure of their portfolios.

Amortised cost

The amount at which a financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any reduction for impairment or non-collectability.

Asset-backed securities

A special form of securitising payment claims in tradable securities that are structured by aggregating certain financial assets.

Associated enterprise (associate)

Enterprise which is accounted for in the consolidated financial statements using the equity method (as opposed to full or partial

consolidation), over whose business or financial policies an entity included in the consolidated financial statements exercises significant influence.

Available for sale (AFS)

This IFRS measurement category denotes financial assets which are available for sale by an enterprise, and which are not receivables, financial instruments held for trading (HFT) or held-to-maturity (HtM) financial instruments. AFS financial instruments are predominantly fixed-income securities which the enterprise cannot (or does not intend to) hold until maturity. They can also be equity instruments without a final maturity date.

Basel III

"Basel III" denotes the regulatory framework for banks, promulgated by the Basel Committee on Banking Supervision at the Bank for International Settlements (BIS) with the objective of stabilising the banking sector.

Bonds

Generic term for fixed-income securities or debt securities.

Capital markets

The markets for any kind of medium- to long-term funds – in a narrower sense, generic term for supply and demand in securities.

Cashflow-Hedge

Using a swap transaction to hedge the risk of future variable-rate interest payments from an underlying on-balance sheet transaction.

Collateral

Rights granted to the Bank by the borrower to facilitate enforcing the Bank's claims in case of default. Collateral may be provided in the form of personal collateral (e.g. a guarantee) and impersonal collateral (e.g. a land charge). In principle, collateral reduces expected losses sustained by the Bank in the event of default.

Commercial Mortgage Backed Securities (CMBS)

Bonds backed by loans collateralised by commercial and multi-family properties.

Consolidated statement of cash flows

Statement showing the cash flows an enterprise has generated and used during a financial year, from its operating, investment and financing activities, also showing cash and cash equivalents at the beginning and end of the financial year.

Corporate Governance

Corporate Governance denotes the legal and factual framework for the management and governance of enterprises. The recommendations of the German Corporate Governance Code provide transparency and are designed to strengthen confidence in good and responsible corporate governance. They predominantly serve to protect shareholders' interests.

Cost/income ratio (CIR)

Financial indicator expressing the ratio of expenses to income within a given reporting period.

$$\text{CIR} =$$

$$\frac{\text{Administrative expenses}}{\text{Net interest income} + \text{net commission income} + \text{net result on hedge accounting} + \text{net trading income/expenses} + \text{results from non-trading assets} + \text{results from investments accounted for using the equity method} + \text{net income from investment properties} + \text{net other operating income/expenses}}$$

Counterparty credit risk

Counterparty credit risk can be further distinguished into credit risk, counterparty risk, issuer risk and country risk; it denotes the potential loss in value which may be incurred as a result of the default (or deterioration of credit quality) of borrowing clients, issuers of promissory note loans or securities, or of counterparties to money market, securities or derivatives transactions.

Covered bonds

"Covered" bonds is a generic term for debt securities covered by collateral. In Germany,

covered bonds are mainly issued in the form of "Pfandbriefe" pursuant to the German Pfandbrief Act (PfandBG), which provides a legal framework for collateralisation (assets eligible for Pfandbrief cover include mortgages and public-sector loans and aircraft financings).

Credit default swap (CDS)

Financial contract where the risk of a credit event specified in advance (such as insolvency, failure to pay, or deterioration of credit quality) is transferred from a protection buyer to a protection seller. The protection seller receives regular premium payments from the protection buyer in exchange for the assumption of credit risk, regardless of whether a credit event has actually occurred.

Debt security

Certificate whose issuer undertakes to repay the amount borrowed (plus current interest, or other form of performance) to the bearer.

Deferred taxes

Income taxes payable or receivable in the future, due to temporary differences between the carrying amounts of assets and liabilities in the IFRS statement of financial position and the tax accounts. At the time of recognition, deferred tax assets or liabilities do not yet constitute any actual claims on, or liabilities to the tax authorities.

Derivatives

Derivatives – which include all types of forwards, futures, options and swaps – are financial instruments whose value is derived from the price (and/or the price fluctuations) of an underlying instrument, such as equities, bonds or currencies.

Earnings per share

Financial indicator expressing the ratio of net income after non-controlling interest income to the average number of common shares outstanding.

Earnings per share =

$$\frac{\text{Operating profit} \text{ ./. income taxes} \text{ ./. non-controlling interest income} \text{ ./. AT1 coupon (net)}}{\text{Number of ordinary shares}}$$

Number of ordinary shares

EBIT margin

EBIT margin =

$$\frac{\text{EBIT (operating profit before interest and taxes)}}{\text{Sales revenues}}$$

Sales revenues

Effective interest method

Method for amortising the mark-up/mark-down between cost and the nominal value (premium/discount), using the effective yield of a financial asset or liability.

Equity method

Method for measuring shareholdings in enterprises on whose business policy the reporting entity has significant influence ("associates"). When applying the equity method, the associate's pro-rata net income/loss is recognised in the carrying amount of the shareholding; any distributions are recognised via a corresponding pro-rata reduction in the carrying amount.

EURIBOR

European Interbank Offered Rate – the interest rate at which prime European banks offer euro deposits (with fixed terms of one week, and between one and twelve months) to one another.

Fair value

The fair value is the amount for which an asset can be exchanged (or a liability settled) between knowledgeable, willing parties in an arm's length transaction; this is often identical to the market price.

Fair value hedge

Using a swap to hedge the market risk of a balance sheet item with a fixed interest rate (e.g. a receivable or a security); this is measured at fair value.

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

Financial instruments assigned to this measurement category are carried at fair value, with the re-measurement recognised in income. 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 for the purpose of selling or repurchasing them in the near term, or if they are derivatives not designated within the scope of a recognised hedging relationship.

Financial instruments

Generic term for loans extended and other receivables, fixed-income securities, equities, shareholdings, liabilities, and derivatives.

Financial liabilities measured at amortised cost (LaC)

Financial liabilities not designated "at fair value through profit or loss". These items are re-measured at amortised cost. Premiums and discounts are amortised over their term using relevant effective interest rates.

FX

Abbreviation for foreign exchange, referring to the FX market or the FX asset class.

German Accounting Standards

Recommendations for the application of (German) standards for consolidated financial statements, issued by the German Accounting Standards Board (GASB), a committee of the Accounting Standards Committee of Germany.

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Hedge accounting

Concept describing the recognition (or other form of accounting) of two or more financial instruments, which together form a hedging relationship. In this context, the relationship between these contracts is based in the equal and opposite specification of contractual elements giving rise to risks (usually financial risks). Due to these specifications, such agreements can be used to partially or fully offset and neutralise risks. In the context of hedge accounting, one of the contracts involved (specifically, the contract establishing the risk(s) concerned) is referred to as the "underlying transaction", and the other contract (the one entered into to hedge the risk(s) of the underlying transaction) as the "hedge transaction" or just "hedge".

Hedging

A strategy where a hedge is entered into in order to protect a position against the risk of unfavourable movements of prices or (interest) rates.

Held to maturity (HtM)

Financial assets with a fixed term as well as fixed or determinable payments acquired from a third party, where the reporting entity has the intention and the ability to hold such financial assets to maturity.

Impairment

An impairment occurs when the recoverable amount declines below the carrying amount. Impairment tests are required to be carried out for the purposes of determining allowance for credit losses.

International Accounting Standards (IASs)

Accounting standards issued by the International Accounting Standards Board (IASB), an international standard-setting body established by professional accountants' associations. The objective is to establish transparent, comparable international financial reporting standards.

International Financial Reporting Standards (IFRS/IFRSs)

IFRSs comprise International Accounting Standards (IASs) and interpretations issued by the Standing Interpretations Committee, as well as International Financial Reporting Standards (IFRSs) and related interpretations published by the International Accounting Standards Board (IASB).

LIBOR

London Interbank Offered Rate; the interest rate at which prime London banks offer deposits to one another.

Liquidity Coverage Ratio (LCR)

A Basel III indicator designed to assess liquidity risk.

Loan-to-value ratio

The ratio of loan amount to property value in the context of property loans.

MDAX

The MDAX® mid-cap index comprises the shares of 50 companies from traditional sectors listed in Deutsche Börse's Prime Standard segment that, in terms of exchange turnover and market capitalisation, rank immediately below the companies included in the DAX® blue-chip index. The index is calculated on the basis of price data from Xetra®, the electronic trading system of the Frankfurt Stock Exchange.

Medium-Term Notes (MTNs)

Debt issuance programme used to issue unsecured debt securities at different points in time; the volume, currency and term (one to ten years) of each issue can be customised to the issuer's prevailing funding needs.

Minimum Requirements for Risk Management (MaRisk)

The Minimum Requirements for Risk Management in Banks (MaRisk) are binding requirements for the structure of risk management in German banks, as promulgated

by the German Federal Financial Supervisory Authority (BaFin). Setting out the specifics of section 25a of the German Banking Act (KWG), BaFin has consolidated the previously-applicable Minimum Requirements for the Trading Activities of Credit Institutions (MaH), Minimum Requirements for the Internal Audit Function of Credit Institutions (MaIR) and Minimum Requirements for the Credit Business of Credit Institutions (MaK), updating and supplementing them in the process.

Nominal interest rate

Return of a security defined by reference to its nominal amount.

North American Free Trade Agreement (NAFTA)

North American free-trade agreement entered into between Canada, the US, and Mexico.

Option

The right to buy or sell a specific asset.

Over the counter (OTC)

Financial markets term for off-exchange trading between market participants.

Present value

The present value of a future cash flow, determined by discounting all future cash flows (inflows and outflows) to today's date.

Profit-participation certificate

Securitized profit-participation rights which may be issued by enterprises (regardless of their legal form) and listed in official (exchange) trading. Subject to certain conditions, profit-participation certificates may be eligible for inclusion in liable capital.

Public-Sector Pfandbriefe

Debt securities issued by Pfandbrief issuers (Pfandbrief banks), which are collateralised by claims against the public sector.

Rating

Risk assessment regarding a borrower (internal rating) or credit quality assessment regarding an issuer and its debt securities by a specialist rating agency (external rating).

Repurchase transaction (repo transaction)

Short-term money-market transaction collateralised by securities; in a repo, the owner of securities sells them and simultaneously agrees to repurchase the securities at a later point in time, at an agreed price.

Residential Mortgage Backed Securities (RMBS)

Bonds backed by loans collateralised against residential property.

Return on equity (RoE)

Financial indicator expressing the ratio of net income (or pre-tax profit, for example) to average equity over the period. RoE expresses the return on the capital employed by the company (and its owners/shareholders).

RoE before taxes =

$$\frac{\text{Operating profit} \text{./. non-controlling interest income} \text{./. AT1 coupon}}{\text{Average equity (IFRS) excluding non-controlling interests, other reserves, AT1 bond, and dividends}}$$

RoE after taxes =

$$\frac{\text{Operating profit} \text{./. income taxes} \text{./. non-controlling interest income} \text{./. AT1 coupon (net)}}{\text{Average equity (IFRS) excluding non-controlling interests, other reserves, AT1 bond, and dividends}}$$
Revaluation surplus

The revaluation surplus is used to recognise changes in the market value of securities and available-for-sale assets (and their deferred tax effects) directly in equity.

Reverse repo transaction

A repo transaction where the buyer of securities simultaneously agrees to sell the securities at a later point in time, at an agreed price.

Segment reporting

Breakdown of aggregate consolidated figures across individual segments, by type of activity (business segment) or by geographical location (region). The segment reporting permits conclusions regarding developments in the various segments, and their individual contribution to consolidated net income.

Solvency

A bank's capitalisation – literally, its ability to pay.

Swap

Generic term for contracts to exchange cash flows, such as the exchange of fixed-rate and variable-rate cash flows in the same currency (interest rate swap), or the exchange of cash flows and/or nominal amounts in different currencies (cross-currency swap).

Unwinding

The increase in a written-down receivable's present value over time, due to the fact that the receivable is being discounted at its original effective interest rate.

Value-at-risk (VaR)

Method to quantify risks: it measures the maximum potential future loss which will not be exceeded within a defined period, and given a certain probability.

Volatility

Volatility denotes the scope and intensity of fluctuations in the price of securities or currencies. Volatility is often calculated via the standard deviation of historical price data, or implied via a pricing formula. The higher the volatility, the riskier the respective investment.

Financial Calendar

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

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