Consolidated Financial Statements

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Income Statement

	Note	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
€ mn			
Interest income from financial instruments (ac and fvoci)		889	847
Interest income from financial instruments (fvpl)		44	38
Market-driven modification gains		0	2
Interest expenses for financial instruments (ac)		111	113
Interest expenses for financial instruments (fvpl)		289	236
Market-driven modification losses		0	3
Net interest income	31	**533**	**535**
Loss allowance excluding credit-driven net modification gain or loss		85	72
Credit-driven net modification gain or loss		5	0
Loss allowance	32	**90**	**72**
Commission income		279	259
Commission expenses		50	44
Net commission income	33	**229**	**215**
Net gain or loss on the derecognition of financial assets (ac)		31	24
Net gain or loss on the derecognition of financial liabilities (ac)		3	0
Net gain or loss on the derecognition of financial assets (fvoci)		30	–
Net derecognition gain or loss	34	**64**	**24**
Net gain or loss from financial instruments (fvpl)	35	1	-2
Net gain or loss from hedge accounting	36	-4	-2
Net gain or loss from investments accounted for using the equity method	37	1	0
Administrative expenses	38	488	462
Net other operating income/expenses	39	2	25
Negative goodwill from acquisitions		–	55
Operating profit		**248**	**316**
Income taxes	40	85	90
Consolidated net income		**163**	**226**
Consolidated net income attributable to non-controlling interests		2	2
Consolidated net income attributable to shareholders of Aareal Bank AG		161	224
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG [1]		161	224
of which: allocated to ordinary shareholders		145	208
of which: allocated to AT1 investors		16	16
Earnings per ordinary share (€) [2]		2.42	3.48
Earnings per AT1 unit (€) [3]		0.16	0.16

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

[2] 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.

[3] Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings attributable 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 2019	1 Jan - 31 Dec 2018
Consolidated net income	**163**	**226**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	**-43**	**-7**
Remeasurements	-62	-10
Taxes	19	3
Changes in the reserve from the measurement of equity instruments (fvoci)	**-4**	**0**
Gains and losses from equity instruments (fvoci)	-4	0
Transfers to retained earnings	–	–
Taxes	0	0
Items that are reclassified subsequently to profit or loss		
Changes in the reserve from the measurement of debt instruments (fvoci)	**-32**	**-14**
Gains and losses from debt instruments (fvoci)	-16	-20
Reclassifications to the income statement	-30	–
Taxes	14	6
Changes in the reserve from foreign currency basis spreads	**-6**	**-12**
Gains and losses from foreign currency basis spreads	-9	-17
Reclassifications to the income statement	–	–
Taxes	3	5
Changes in currency translation reserves	**3**	**5**
Gains and losses from translating foreign operations' financial statements	2	1
Reclassifications to the income statement	–	–
Taxes	1	4
Other comprehensive income	**-82**	**-28**
Total comprehensive income	**81**	**198**
Total comprehensive income attributable to non-controlling interests	2	2
Total comprehensive income attributable to shareholders of Aareal Bank AG	79	196

Statement of Financial Position

€ mn	Note	31 Dec 2019	31 Dec 2018
Assets			
Financial assets (ac)	41	**33,972**	**34,702**
Cash funds	10	1,494	1,265
Loan receivables	11	25,783	26,795
Money market and capital market receivables	12	6,618	6,578
Receivables from other transactions	14	77	64
Loss allowance (ac)	42	-386	-577
Financial assets (fvoci)	43	**3,420**	**4,450**
Money market and capital market receivables	12	3,415	4,443
Equity instruments	13	5	7
Financial assets (fvpl)	44	**2,979**	**3,183**
Loan receivables	11	1,050	711
Money market and capital market receivables	12	135	538
Positive market value of designated hedging derivatives	15	1,380	1,277
Positive market value of other derivatives	16	414	657
Investments accounted for using the equity method	17, 45	8	7
Intangible assets	18, 46	175	158
Property and equipment	19, 47	311	260
Income tax assets	20, 48	30	30
Deferred tax assets	21, 49	168	141
Other assets	22, 50	460	333
Total		**41,137**	**42,687**
Equity and liabilities			
Financial liabilities (ac)	51	**35,332**	**37,215**
Money market and capital market liabilities	23	24,526	26,371
Deposits from the housing industry	24	9,744	9,679
Liabilities from other transactions	25	94	121
Subordinated liabilities	26	968	1,044
Financial liabilities (fvpl)	52	**2,165**	**1,934**
Negative market value of designated hedging derivatives	15	1,341	1,461
Negative market value of other derivatives	16	824	473
Provisions	27, 53	581	519
Income tax liabilities	54	44	40
Deferred tax liabilities	21, 55	19	18
Other liabilities	28, 56	135	33
Equity	29, 57	**2,861**	**2,928**
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,812	1,797
AT1 bond		300	300
Other reserves		-154	-72
Non-controlling interests		2	2
Total		**41,137**	**42,687**

Statement of Changes in Equity

€ mn	Equity as at 1 Jan 2019	Adjustment due to first-time application of IFRS 16	Adjusted equity as at 1 Jan 2019	Total comprehensive income for the period	Payments to non-controlling interests	Dividends	AT1 coupon	Other changes	Equity as at 31 Dec 2019
Subscribed capital	**180**		**180**						**180**
Capital reserves	**721**		**721**						**721**
Retained earnings	**1,797**	-4	**1,793**	161		-126	-16		**1,812**
AT1 bond	**300**		**300**						**300**
Other reserves	**-72**		**-72**	**-82**					**-154**
Reserve from remeasurements of defined benefit plans	-98		-98	-43					-141
Reserve from the measurement of equity instruments (fvoci)	0		0	-4					-4
Reserve from the measurement of debt instruments (fvoci)	39		39	-32					7
Reserve from changes in the value of foreign currency basis spreads	-9		-9	-6					-15
Currency translation reserves	-4		-4	3					-1
Total	**2,926**	**-4**	**2,922**	**79**		**-126**	**-16**		**2,859**
Non-controlling interests	**2**		**2**	2	-2				**2**
Equity	**2,928**	**-4**	**2,924**	**81**	**-2**	**-126**	**-16**	**–**	**2,861**

€ mn	Equity as at 1 Jan 2018	Total comprehensive income for the period	Payments to non-controlling interests	Dividends	AT1 coupon	Other changes	Equity as at 31 Dec 2018
Subscribed capital	**180**						**180**
Capital reserves	**721**						**721**
Retained earnings	**1,738**	224		-150	-16	1	**1,797**
AT1 bond	**300**						**300**
Other reserves	**-44**	**-28**					**-72**
Reserve from remeasurements of defined benefit plans	-91	-7					-98
Reserve from the measurement of equity instruments (fvoci)	0						0
Reserve from the measurement of debt instruments (fvoci)	53	-14					39
Hedging reserves							
Reserve from changes in the value of foreign currency basis spreads	3	-12					-9
Currency translation reserves	-9	5					-4
Total	**2,895**	**196**		**-150**	**-16**	**1**	**2,926**
Non-controlling interests	**2**	2	-2				**2**
Equity	**2,897**	**198**	**-2**	**-150**	**-16**	**1**	**2,928**

Statement of Cash Flows

€ mn	Cash flow 1 Jan – 31 Dec 2019	Cash flow 1 Jan – 31 Dec 2018
Consolidated net income	**163**	**226**
Additions to and reversals of loss allowances	94	76
Amortisation, depreciation, impairment and write-ups of non-current assets	46	16
Other non-cash changes	170	164
Gains/losses on the disposal of non-current assets	-3	-55
Other adjustments	-530	-548
Subtotal	**-60**	**-121**
Changes in financial assets (ac) (excluding cash funds)	1,119	42
Changes in financial assets (fvoci)	927	245
Changes in financial assets (fvpl)	36	259
Changes in other assets	-142	-50
Changes in financial assets (ac) (excluding subordinated capital)	-1,795	-1,060
Changes in financial liabilities (fvpl)	34	-90
Changes in provisions	-74	-58
Changes in other liabilities	2	10
Income taxes paid	-72	-22
Interest received	778	868
Interest paid	-268	-317
Cash flow from operating activities	**485**	**-294**
Proceeds from the disposal of equity instruments and investments accounted for using the equity method	0	0
Payments for the acquisition of equity instruments and investments accounted for using the equity method	1	-6
Proceeds from the disposal of property and equipment and intangible assets	21	2
Payments for the acquisition of property and equipment and intangible assets	-33	-31
Effect of changes in reporting entity structure	0	-44
Cash flow from investing activities	**-11**	**-79**
Dividends paid and AT1 coupon payments	-141	-165
Changes in subordinated liabilities[1)]	-102	-276
Changes due to other funding activities	-2	-2
Cash flow from financing activities	**-245**	**-443**
Cash and cash equivalents as at 1 January	**1,265**	**2,081**
Cash flow from operating activities	485	-294
Cash flow from investing activities	-11	-79
Cash flow from financing activities	-245	-443
Cash and cash equivalents as at 31 December	**1,494**	**1,265**

[1)] The changes in subordinated liabilities in the amount of € -76 million (2018: € -221 million) consist of € -77 million (2018: € -215 million) related to cash flow relevant payments of principal and interest as well as an amount of € 1 million (2018: € -6 million) non-cash changes in fair value and changes of accrued interest.

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, and registered under no. HRB 13 184 in the Commercial Register at the Wiesbaden local court (Amtsgericht Wiesbaden).

As a listed public limited company, Aareal Bank AG has prepared its consolidated financial statements for the financial year ended on 31 December 2019 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 315e of the German Commercial Code (Handelsgesetzbuch – "HGB"). The reporting currency is the euro (€).

The Management Board approved the consolidated financial statements for publication on 2 March 2020; they will be published in the German Federal Gazette.

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 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. In the case of impaired receivables, interest income and expenses are recognised only on the basis of the net carrying amount. Interest from derivatives designated for hedge accounting and economic hedging relationships is included in net interest income. Interest from derivative hedging instruments is shown under interest from financial instruments (ac and fvoci), while interest from economic hedging relationships are reported under interest from financial instruments (fvpl). We provide specific information on negative interest from financial assets or positive interest from financial liabilities in the Notes, under net interest income. 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 include revenue from the provision of goods or services in the ordinary course of business. This mainly refers to IT consulting projects, trainings, licence and maintenance agreements and hosting or outsourcing services.

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, tax assets and tax liabilities as well as options to extend or terminate leases. 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:

- **IFRS 16: Leases**
  The new financial reporting standard IFRS 16, regarding lease accounting, replaced 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 underlying 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 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 out a number of further rules for presentation, disclosures in the Notes and sale-and-lease-back transactions. The transition to the new standard was made on the basis of the modified retrospective approach. After the recognition of € 70 million in right-of-use assets and the corresponding lease liabilities of € 76 million, the transition effect, which was reported directly in equity in retained earnings, amounted to € -6 million before taxes. The practical relief provided for by the IFRS 16 as regards short-term lease agreements and low-value leased assets are made use of. Within the context of first-time application, the lease agreements were not reassessed in accordance with the standard, and right-of-use assets from leases representing onerous contracts were reduced by the amount that has already been recorded as a liability.

  Based on the operating lease obligations as at 31 December 2018, the reconciliation to the opening balance of lease liabilities as at 1 January 2019 is as follows:

€ mn	1 Jan 2019
Unrecognised lease obligations as at 31 December 2018	**65**
Recognition exemption for short-term leases and leases for low-value assets	-1
Other	2
Gross lease liability as at 1 January 2019	**66**
Adjustments due to different evaluation of extension and termination options	28
Discounting	-18
Lease liabilities as at 1 January 2019	**76**

  The weighted average of the incremental borrowing rate applied by Aareal Bank Group as at 1 January 2019 for the initial discounting of the lease liabilities was 2.0 %.

- **IFRIC 23: Uncertainty over Income Tax Treatments**
  This interpretation clarified the accounting for uncertainty in relation to income taxes.

- **IAS 19 Plan Amendment Curtailment or Settlement**
  As a result of the amendments, entities are required to re-determine the current service cost and the net interest for the remainder of the financial year in case of an amendment, curtailment or settlement of a defined benefit plan using current actuarial assumptions used to remeasure the net defined benefit liability (asset).

- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**
  The amendments clarify that a company is obliged to apply IFRS 9 Financial Instruments, including its impairment rules, to long-term interest in associates or joint ventures that, in substance, form part of the company's net investment in the associate or joint venture, rather than using the equity method. Accordingly, the application of IFRS 9 has priority over the application of IAS 28.

- **Amendments to IFRS 9: Prepayment Features with Negative Compensation**
  Minor changes to IFRS 9 Financial Instruments for financial assets with so-called symmetrical termination rights to facilitate their measurement at amortised cost or at fair value through other comprehensive income. In addition, the accounting for a modification of a financial liability that does not result in derecognition was clarified.

- **Annual Improvements Cycle 2015-2017**
  Within the scope of the Annual Improvements Cycle, clarifications made by the IASB and minor changes to the existing standards IFRS 3, IFRS 11, IAS 12 and IAS 23 were introduced.

Except for IFRS 16, new or revised standards or interpretations did not have any material consequences for the consolidated financial statements of Aareal Bank Group.

Until 31 December 2019, the following financial reporting standards (IASs/IFRSs) and interpretations (IFRICs) had been published by the International Accounting Standards Board (IASB) and endorsed by the EU Commission:

New International Financial Reporting Standards/Interpretations		Issued	Endorsed	Effective date
IFRS 17	Insurance Contracts	May 2017		Financial years beginning on or after 1 January 2022
ED/2019/7	General Presentation and Disclosures	December 2019		Pending

Revidsed International Financial Reporting Standards		Issued	Endorsed	Effective date
IAS 1	Definition of Material	October 2018	December 2019	Financial years beginning on or after 1 January 2020
IFRS 3	Definition of a Business	October 2018		Financial years beginning on or after 1 January 2020
IFRS 9/IFRS 7	Interest Rate Benchmark Reform	September 2019	January 2020	Financial years beginning on or after 1 January 2020

- **IAS 1 Definition of Material**
  The amendments were issued to refine the definition of the term "material" and to harmonise the various definitions in the Conceptual Framework and in the standards.

- **IFRS 3 Definition of a Business**
  The objective of the amendments is to resolve cases of doubt that arise when a company determines whether it has acquired a business or a group of assets. The problems result from the fact that the accounting policies for goodwill, the acquisition costs and deferred taxes in case of the acquisition of a business differ from those applicable to the purchase of a group of assets.

- **IFRS 9/IFRS 7 Interest Rate Benchmark Reform**
  The standard amendments are the first part of the effects of the interest rate benchmark reform (IBOR reform). The amendments deal with hedge accounting requirements and related notes which arise due to the uncertainties of alternative interest rates by themselves and their introduction.

  In the 2019 financial year, Aareal Bank Group decided to opt for an early application of these standards. As the Group currently has not designated any cash flow hedges, the uncertainties refer to the hedging of changes in fair value from interest rate risk. This applies to variable reference rates with terms of one to six months for the currencies AUD, CAD, DKK, EUR, GBP, SEK and USD. For the scope of hedging relationships and the nominal amounts of the hedging derivatives, please refer to Note 68 "Disclosures on hedging derivatives". Aareal Bank Group does not expect the changes from the IBOR reform to require the discontinuation of hedging relationships. As long as no information on the new reference rates is available, the existing reference rates will continue to be used for measurement. The effects of the IBOR reform and additional standard amendments are analysed and monitored within a single project to identify any potential need for action in due time.

With the exception of the standard amendments required under the Interest Rate Benchmark Reform, Aareal Bank Group did not opt for early application of these standards in 2019, 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.

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

Any non-controlling interests resulting from full consolidation are shown in the statement of financial position, as a separate item of equity.

Initial consolidation of an entity in the event of an acquisition 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 (including contingent 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 results of 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. Assets and obligations, as well as revenue and expenses are carried on a pro-rata basis. 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 (45).

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 2019, the reporting entity structure comprised 65 companies (2018: 67), including Aareal Bank AG as well as 59 (2018: 59) subsidiaries, one joint arrangement (2018: two) as well as four associates (2018: five).

In the year under review, there were no material changes to the basis of consolidation, except for the addition of plusForta GmbH, a broker of tenant deposit guarantees in Germany, and of Cave Nuove S.p.A. and Pisana S.p.A., which originated from a former Italian lending exposure. plusForta was taken over on 1 February 2019 through the acquisition of all shares, thus extending the range of digital solutions for the housing industry and the housing industry's customers.

Aareon acquired the business operations of CalCon Holding GmbH and its subsidiaries within the scope of an asset deal, effective 1 January 2020. In Germany and Austria the takeover encompassed 100% of the capital, and a 83.33% stake in Romania. CalCon is a provider of digital solutions for structural condition assessment, requirements assessment, and maintenance planning in Germany and Austria. The purchase price consists of a fixed price paid of € 20 million, plus a contingent purchase price to be determined by comparing realised to planned EBIT for the years 2020 and 2021. The fair value of the contingent purchase price amounted to € 4 million at the time of acquisition and was measured on the assumption of 100% target achievement. The maximum contingent purchase price is € 6 million, with the preliminary fair value of the assets and liabilities measured at € 11 million. The acquisition resulted in goodwill of € 13 million, including potential market value effects and synergies. The acquisition complements our Aareon Smart World product portfolio and provides potential for business with public-sector entities and the commercial property sector in Germany and Austria.

Note (87) "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 gain or loss from transactions measured at fair value).

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 (statement of financial position) and at average rates (income statement). Translation differences are recognised in equity, in the currency translation reserves.

(5) Revenue recognition

Aareal Bank Group recognises revenue in the banking business as well as in the area of Consulting/ Services. Revenue recognition in the banking business mainly refers to the provision of loans, the administration of syndicated loans or the provision of payment systems for the property and energy industries. Aareal Bank Group recognises revenue in the same period in which the services are provided. When contracts comprise various performance obligations, each of the performance obligations are priced separately. Mostly, fixed fees are agreed. Commissions from the lending and other banking business mainly arise over time. The customer obtains control over the service while Aareal Bank is providing the service. The agreed transaction price is invoiced to the customer on a pro-rata basis as at the end of an agreed period (normally monthly or quarterly). The Bank recognises the invoiced amount as revenue when it is entitled to a consideration in an amount that directly corresponds to the value of the services already provided. Invoiced amounts are payable immediately in the agreed amounts. Since the service has already been provided at the time the invoice is issued, an unconditional right to consideration arises, and a receivable due from the customer is recorded.

In the Consulting/Services unit, Aareal Bank Group earns revenue mainly from the country-specific ERP business in the property industry, from the marketing of digital solutions and other additional products and services such as insurance management, IT outsourcing, solutions for the energy industry and integrated payment systems. In this context, services are provided within the framework of licence agreements, maintenance agreements, consulting and training projects as well as hosting from the exclusive Aareon Cloud.

Licence 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 (e.g. via licence keys), the licence fee is fixed, and payment is probable. Thus, the customer obtains control over the right-of-use asset transferred. The payment is made primarily after the licence agreement has been concluded or after successful implementation of the software with a credit term of several days. Revenue is accrued as a contract asset until the implementation is completed. After that, the amount is recognised as a trade receivable.

The recognition of maintenance as well as hosting and outsourcing services is made on a pro-rata basis over the contractual service period. Hosting solutions are billed monthly and recorded as sales revenue. A large portion of the customers pays its maintenance and hosting fees in advance for a specified period (not more than one year). The advance payments that refer to performance conditions that have not yet been satisfied are accrued as contract liabilities and released on a pro-rata basis as the services are provided in future. The customer obtains the benefits from the service and uses the service at the same time as it is provided.

Consulting and training services are recognised in income when the service has been provided. In addition, the Group provides implementation services as part of projects. This involves the generation or enhancement of assets for the customers over which they obtain control. Revenue recognition as well as the recognition of the contract asset are based on the progress towards complete satisfaction which is normally measured using input methods. The progress of the projects is determined by comparing the contract costs incurred with the expected contract costs for the project. Customers make advance payments in relation to the long-term services provided by Aareon. These are offset against the related contract assets, or reported under contract liabilities if the advance payment received exceeds the contract asset. Provisions are recognised for anticipated losses from such services in the period in which they are caused, to the extent that there is no assets item.

Standardised contracts are concluded within Aareal Bank Group for the vast majority of contracts with customers. This does not involve costs of obtaining a contract. In addition, there are no material amounts of variable consideration for the various services. The customers are not granted significant financing components.

(6) Leases

A lease is a contract or a part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In accordance with IFRS 16, a lessee has to recognise a liability for lease payments as well as an asset for the right to use the underlying asset during the lease term. The practical relief provided for by the IFRS 16 as regards short-term lease agreements and low-value leased assets is made use of. The lease liabilities include the present value of the lease payments to be made over the lease term. Lease payments may comprise:

- fixed payments less any lease incentives receivable,
- variable lease payments that depend on an index or interest rate,
- amounts expected to be payable under residual value guarantees,
- the exercise price of a purchase option if the exercise of the option is reasonably certain, and
- payments of penalties for terminating the lease if terminating the lease is reasonably certain.

To determine the present value, the lease payments are discounted using the interest rate implicit in the lease. If such rate cannot be determined, discounting is based on Aareal Bank Group's incremental borrowing rate for the corresponding maturity band and the corresponding currency. The lease term is determined as the non-cancellable period of a lease, taking into account both extension options and termination options if it is reasonably certain that such options are exercised.

The right-of-use asset is measured upon initial measurement at cost which comprises the following amounts:

- the amount of the lease liability,
- any lease payments made to the lessor at or before the commencement date, less any lease incentives received,
- any initial direct costs, and
- asset retirement obligations.

These items are re-measured at amortised cost. The right-of-use assets are depreciated on a straight-line basis over the lease term.

Aareal Bank Group does not apply the IFRS 16 rules to leases involving intangible assets. If contracts include both lease components and non-lease components, the practical expedient as provided for by the standard not to separate these components is made use of.

Aareal Bank Group also acts as lessor, in which case a distinction has to be made between operating and finance leases. The basis for this classification is the extent to which the risks and rewards incidental to ownership of an underlying asset are attributable to either the lessor or the lessee. If a substantial portion of the risks and rewards remain with the lessor, the lease is classified as an operating lease. Where substantially all risks and rewards are transferred to the lessee, the lease is classified as a finance lease.

The major rental contracts of Aareal Bank Group as lessor are operating leases and mainly refer to let property. They are reported in the statement of financial position under other assets. Lease contracts are entered into individually and include various terms and conditions.

In the case of operating leases, the leased asset continues to be recognised as an asset at amortised cost. The lease payments received are reported in the income statement in net other operating income/expenses.

In the case of finance leases, Aareal Bank Group derecognises the carrying amount of the leased asset as at the commencement date and recognises a receivable at an amount equal to the net investment in the lease. Any gains or losses on disposal are recognised in the income statement.

For subsequent measurement, interest income from the lease receivable is recognised and the net investment in the lease is reduced by the lease payments received. Any impairment resulting from these lease receivables are included in the loss allowance in accordance with IFRS 9.

(7) 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 for property and equipment, intangible assets, equity instruments and investments. Cash flows from financing activities include cash flows from transactions with providers of equity and subordinated capital.

(8) Determination of fair value

The determination of fair value is governed by IFRS 13 and applies to both 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 under current market conditions 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. 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.

Fair value hierarchy

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 qualifying prices in active markets for identical assets or liabilities. Fair values determined using inputs other than qualifying 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.

Measurement methods

The property and public-sector loans included in loan receivables are 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. In the case of defaulted loans, future cash flows are reduced by the expected losses.

Debt securities and promissory note loans for which no current market price is available in an active market are measured through an analysis of future payments using the fully-capitalised earnings value approach, where the inputs are based on observable market data to the extent possible. 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 numerical procedures.

In the case of unquoted financial investments in equity instruments, the costs of acquisition may also be the best estimate of fair value.

The fair value of OTC 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 of 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. 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 (CVA and DVA) are not required for reasons of materiality. The Bank uses the overnight interest rate swap curve (OIS curve) for the measurement of derivatives secured by cash collateral.

Amortised cost is an adequate estimate of fair value for cash funds, other loan receivables as well as short-term money market receivables and liabilities.

(9) 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 (fvpl) are recognised at the trade date, while all other financial instruments are recognised at the settlement date.

Financial instruments have to be derecognised when the contractual rights to the cash flows from the financial asset expire or an entity transfers the financial asset, including substantially all its risks and rewards. The modification of the contractual terms may also result in the derecognition of a financial instrument and the recognition of a new financial instrument.

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.

Modification

As a matter of principle, a modification is defined as any change made to existing terms of a loan agreement or a contractual adjustment during the loan or contract term. This applies regardless of the reasons for the modification (credit-driven or market-driven). Contractual adjustments may either lead to the derecognition of the ”old” and the recognition of a ”new” asset when such adjustments are substantial to the extent that they, in essence, constitute a new asset (hereinafter referred to as ”substantial modification”) or to the recalculation of the carrying amount and the recognition of a net modification gain or loss, when such adjustments constitute an adjustment of an existing asset (hereinafter referred to as ”non-substantial modification”).

The contractual adjustments subject to modifications may generally be caused by the borrower's credit quality and solvency (credit-driven modifications) or the granting of more favourable terms and conditions in an existing contract or the adjustment of the framework for financings as a result of changes in the customer's financing needs (market-driven modifications).

Both substantial and non-substantial modifications have an impact on profit or loss.

The amount of net modification gains or losses arising from non-substantial modifications is determined by the difference of the gross carrying amounts before and after the modification. Net modification gains or losses arising from market-driven modifications are recognised in net interest income, while credit-driven modifications are reported in the loss allowance. Subsequently, the changes in the carrying amount of the receivable is amortised over the remaining term of the receivable and recorded in net interest income.

In the case of a substantial modification, the old asset has to be derecognised, and a new asset has to be recognised. The difference of the gross carrying amounts before and after the modification is reported as net derecognition gain or loss after utilisation of the existing loss allowance in the case of market-driven modifications. In the case of credit-driven modifications, a loss allowance is recorded prior to derecognition in an amount that covers the entire difference between the old carrying amount and the fair value determined at the time of initial recognition.

Measurement

Upon initial recognition, financial instruments are measured at fair value, for subsequent measurement at ac or fvoci (cf. section Classification), in each case plus any transaction costs.

Subsequent measurement of financial assets is based on the classification of the financial instrument. Depending on the classification, financial assets are measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. Investments in equity instruments are measured at fair value through profit or loss, unless an irrevocable election is made at initial recognition to present subsequent changes in fair value in other comprehensive income. Within Aareal Bank Group, this election is exercised as a rule due to the investment characteristics of the equity instruments.

Financial liabilities are measured at amortised cost.

In addition, financial assets and liabilities may be designated as at fair value through profit or loss if certain prerequisites are met. Aareal Bank Group does not make use of this option.

Classification

The classification, i.e. the determination of the measurement category of a financial asset is to be assessed on the basis of two criteria. The objective criterion refers to the contractual design as to whether the payments solely represent payments of interest and principal on the principal amount outstanding (SPPI = solely payments of principal and interest). Relevant criteria were defined that are reviewed at initial recognition. For example, this may be financings with a primary investment risk or contractually agreed payments that depend on the borrower's economic performance. The subjective classification criterion refers to the business model, i. e. the aim that a company pursues for a group of assets.

Subsequent measurement has to be based on amortised cost (ac) when the financial instrument is held in order to collect contractual cash flows (business model ”Hold”) and additionally the contractual cash flows represent solely payments of principal and interest, i. e. are SPPI compliant. This classification category is used for a large portion of the lending and securities business.

Subsequent measurement at fair value, with changes in fair value being recognised initially directly in equity and subsequently reclassified to profit or loss (so-called recycling) (fair value through other comprehensive income (fvoci)) has to be made when financial instruments are SPPI compliant and are held either to collect contractual cash flows or to be sold (business model ”Hold & Sell”).

Subsequent measurement at fair value, with changes in fair value being recognised through profit or loss (fvpl), has to be made if the financial instrument is not SPPI compliant or cannot be allocated to one of the two business models mentioned above. The latter is the case for example when there is the purpose of selling such financial instruments in the near term due to syndication covenants.

Loss allowance

Loss allowances are based on the internal staging and expected credit loss (ECL/EL) model of Aareal Bank. For this purpose, financial instruments measured at amortised cost and at fair value through other comprehensive income as well as loan commitments and financial guarantees are allocated to various stages at both initial recognition and subsequent measurement. The related loss allowances are recognised in the amount of the twelve-month or the lifetime expected credit loss.

Stage 1: All financial instruments without impairment trigger are allocated to this stage at initial recognition. If the credit risk is not significantly increased, the financial instrument has to remain in Stage 1 for subsequent measurement. Loss allowances are recognised in the amount of the losses expected for the following twelve months and interest income is calculated on the basis of the gross carrying amount, applying the effective interest method. Loss allowances have to be recognised on a present value basis.

Stage 2: All financial instruments where credit risk has increased significantly since initial recognition are allocated to this stage. Loss allowances are recognised in the amount of the losses expected for the entire remaining term of the instrument and interest income is calculated on the basis of the gross carrying amount, applying the effective interest method. Loss allowances have to be recognised on a present value basis. The significant increase in credit risk for the allocation to Stage 2 is determined using the so-called expected downgrade bank-internal staging model and taking into consideration quantitative and qualitative criteria such as the credit rating of the customer, the intensity of customer handling and payment defaults. If the significant increase in credit risk no longer applies, the financial instrument is re-transferred to Stage 1. A description of the credit risk methods and systems in place at Aareal Bank AG is presented in the Risk Report as part of the Group Management Report.

Stage 3: This stage includes all financial instruments where there is objective evidence of impairment (impairment trigger or credit impaired). Loss allowances are recognised in the amount of the losses of the lifetime expected credit loss, and interest income is calculated on the basis of the net carrying amount (i. e. gross carrying amount less loss allowance) using the effective interest method. The lifetime expected credit loss in Stage 3 is determined as the difference between the gross carrying amount and the present value of expected future cash flows (discounted using the original effective interest). If the impairment triggers no longer apply, the financial instrument is re-transferred to Stage 1 or 2.

POCI (purchased or originated credit impaired): This category includes all financial instruments that were subject to an impairment trigger at initial recognition. The loss allowance is recorded in the amount of the lifetime expected credit loss.

The expected credit loss is generally determined by Aareal Bank using a model-based procedure where, depending on the stage, one- or multi-year parameters are used. The calculation of the expected loss in Stage 1 and of lifetime expected credit loss in Stage 2 is based on the one-year or lifetime probability of default (PD), respectively, the loss given default (LGD), the expected exposure at default (EAD), a discount factor (DF) and the expected contractual term. Current and expected country-specific economic conditions such as the GDP, long-term interest rates and unemployment rate are included in the LGD by means of a scenario-weighted market value forecast. A period of not more than twelve months is assessed for Stage 1, while the expected contractual term of the financial instrument has to be taken into account for Stages 2 and 3 (and, in addition, the expected term for loan repayment in Stage 3). In the year under review, the macroeconomic scenarios for model-based determination of expected credit losses were refined. The impact of this change in estimates, which was applied prospectively, on income was immaterial.

The expected loss in Stage 3 is usually determined on the basis of individually estimated cash flows (ECF procedure) in several probability-weighted scenarios. The amount of the loss allowance 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 at initial recognition (taking into account cash flows from realisation 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 the discounted cash flow method. Impairment triggers are strong indications for a decline of the borrower's credit quality, arrears as well as further indications that not all interest and principal payments can be made as contractually agreed.

The loss allowance for debt instruments measured at amortised cost is reported in the item "Loss allowance (ac)", for debt instruments measured at fair value through other comprehensive income in the item "Reserve from the measurement of debt instruments (fvoci)" and for loan commitments and financial guarantees under provisions. Debt instruments reported under POCI are accounted for on a net basis, i. e. without any loss allowance. Changes in loss allowance are reflected by increasing or decreasing the carrying amount through other loss allowance.

If the receivables are not recoverable, the corresponding loss allowance is utilised and the receivable is derecognised. Direct write-offs are not made.

The loss allowance for receivables from other transactions is determined using a simplified procedure in the amount of the lifetime expected credit losses.

Hedging relationships

The risk management strategy set out in the Risk Report of the Group Management Report is the basis for the recognition of hedging relationships. At Aareal Bank Group, risks from value fluctuations are hedged in the case of transactions not measured at fair value through profit or loss. In this context, the risks from hedged items are intended to be offset by entering into hedging derivatives where the fair value changes have the opposite direction compared to those of the hedged item. Average prices of the hedges are not relevant for risk management. Hedging relationships are not recorded for transactions that are measured at fair value through profit or loss. The results from economic hedging relationships are offset in net gain or loss from transactions measured at fair value.

Hedge accounting in accordance with IFRS 9 distinguishes various forms of hedging relationships.

Fair value hedges are used to hedge hedged items against fair value changes resulting from changes in interest rates or from changes in interest and exchange rates that are determined accordingly as hedged risk. At Aareal Bank Group, property loans, securities and promissory note loans are typically hedged using interest rate swaps and cross-currency swaps. 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.

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 derivative hedging instruments is recognised directly in equity in the currency translation reserve. The ineffective portion of the hedging derivative's fair value changes have to be recognised in the income statement. The gain or loss on the hedging derivative 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.

The effectiveness of hedging relationships is reviewed by way of a forward-looking sensitivity analysis regarding the hedged risks. Factors which may lead to ineffectiveness include the term of transactions or payment dates, or diverging market conventions for underlying transactions and related hedges which affect the relevant measurement parameters (e.g. discounting using an OIS rate). Currency basis spreads are accounted for as hedging costs, with fair value changes of this element recognised in other comprehensive income. In the event of any changes to hedging relationships occurring in the course of risk management, the hedge ratio of existing hedges and/or hedged items is adjusted accordingly.

(10) Cash funds

Cash funds include cash on hand and balances with central banks. Cash funds are exclusively allocated to the measurement category "ac".

(11) Loan receivables

The item "Loan receivables" comprises property loans, public-sector loans and other loan receivables, including deferred interest. Loan receivables can be allocated to all measurement categories. At present, they are allocated to the ac and fvpl measurement categories. The portion of loan commitments not disbursed is reported as contingent liabilities.

(12) Money market and capital market receivables

The item ”Money market and capital market receivables” comprises money market receivables, promissory note loans and debt securities, including deferred interest. Money market and capital market receivables may generally be allocated to all measurement categories.

(13) Equity instruments

This item includes unconsolidated equity instruments. They are allocated to the measurement category ”fvoci”.

(14) Receivables from other transactions

The item ”Receivables from other transactions” comprises trade receivables and other financial receivables. Receivables from other transactions are exclusively allocated to the measurement category ”ac”.

(15) Positive market value of designated hedging derivatives / Negative market value of designated hedging derivatives

The items ”Positive market value of designated hedging derivatives” and ”Negative market value of designated hedging derivatives” 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. Derivatives are exclusively allocated to the measurement category ”fvpl”. The basis for the recognition of hedging relationships is described in the chapter ”Recognition and measurement of financial instruments” in this section. Effects from the measurement of these derivatives are reported in the item ”Net gain or loss from hedge accounting”, together with the effects from the measurement of the transactions.

(16) Positive market values of other derivatives / Negative market value of other derivatives

Derivative financial instruments that are not part of recognised hedging relationships are reported in Aareal Bank Group under positive or negative market values of other derivatives. They are mainly used to hedge economic market price risks. Derivatives are exclusively allocated to the measurement category ”fvpl”. Results from the measurement and the termination of the derivatives are reported in the item ”Net gain or loss from financial instruments (fvpl)”. Interest received or paid in connection with these derivatives is also recorded generally in the item ”Net gain or loss from financial instruments (fvpl)”. Interest received or paid for derivatives entered into for hedging purposes which, however, do not meet the hedge accounting criteria, is reported in net interest income. Effects from the measurement of these derivatives are reported in the item ”Net gain or loss from financial instruments (fvpl)”, together with the effects from the measurement of the transactions.

(17) Investments accounted for using the equity method

The item "Investments accounted for using the equity method" includes 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.

(18) Intangible assets

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

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 between three and ten years. Purchased software is also deemed to have a limited useful life. 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 arising upon acquisition is immediately recognised in 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 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.

(19) Property and equipment

The item "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 the Note on 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 € 250.00 (low-value assets) are expensed as they are incurred.

Any items of property and equipment with a cost of more than € 250.00 net, but not exceeding € 1,000.00, can be combined in a collective account for the year, which is then depreciated on a straight-line basis over a period of five years.

(20) Income tax assets/income tax liabilities

The measurement of uncertain tax positions is made using the best estimate of the expenditure required to settle the obligation (most likely amount). In the context of acquisitions in accordance with IFRS 3, contingent liabilities were also recognised at their expected value. These are released when the reasons for their recognition cease to exist.

(21) Deferred tax assets / 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.

We generally assume that the deferred tax items are of a long-term nature. The remaining maturity or the time of the expected realisation is long-term when there is one year or more between the reporting date and the maturity date.

(22) Other assets

The item "Other assets" includes, amongst other things, properties and contract assets. Properties reported under other assets are intended for short-term disposal. They are measured at the lower of cost or net realisable value, in accordance with IAS 2, and therefore are subject to estimation uncertainties.

(23) Money market and capital market liabilities

The item "Money market and capital market liabilities" comprises money market liabilities, mortgage Pfandbriefe, registered public-sector Pfandbriefe, promissory note loans and other debt securities, including deferred interest. Money market and capital market activities are allocated to the measurement category "c".

(24) Deposits from the housing industry

The item "Deposits from the housing industry" includes deposits payable on demand and term deposits, including deferred interest. Deposits from the housing industry are allocated to the measurement category "ac".

(25) Liabilities from other transactions

The item "Liabilities from other transactions" comprises trade payables and other financial liabilities. Liabilities from other transactions are exclusively allocated to the measurement category "ac".

(26) Subordinated liabilities

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. Subordinated liabilities are allocated to the measurement category "ac".

(27) 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. The measurement of provisions is made using the best estimate of the expenditure required to settle the obligation (most likely amount). In the context of acquisitions in accordance with IFRS 3, contingent liabilities were also recognised at their fair value (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 general works 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 GlobalRate: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 with the amount of obligations – arise on changes in expectations regarding life expectancy, pension increases, salary development and 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. Thus, the recognition of pension obligations is based on estimates which are subject to uncertainty.

Share-based payment

Aareal Bank Group maintains share-based payment plans subject to cash settlement in accordance with IFRS 2. We refer to our comments in Note (78) to the consolidated financial statements, which include 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 are recognised under administrative expenses, in the amount of the fair value of the relevant obligation as at the reporting date.

(28) Other liabilities

The item "Other liabilities" includes, among other things, contract liabilities, deferred income and liabilities from other taxes.

(29) Equity

The item "Equity" comprises subscribed capital, capital reserves, retained earnings and other reserves. Other reserves include the reserve from remeasurements of defined benefit plans, the reserves from the measurement of equity and debt instrument at fair value through other comprehensive income, the reserve from changes in the value of foreign currency basis spreads and currency translation reserve. 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.

(30) 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

(31) Net interest income

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Interest income from financial assets (ac and fvoci)	875	838
Loan receivables	865	820
Money market and capital market receivables	10	18
Interest income from financial liabilities (ac)	14	9
Money market and capital market liabilities	6	5
Deposits from the housing industry	8	4
Interest income from financial instruments (fvpl)	44	38
Loan receivables	26	22
Money market and capital market receivables	6	7
Other derivatives	12	9
Market-driven modification gains	0	2
Total interest and similar income	**933**	**887**
Interest expenses from financial liabilities (ac)	99	104
Money market and capital market liabilities	73	77
Deposits from the housing industry	1	2
Liabilities from other transactions	2	0
Subordinated liabilities	23	25
Interest expenses from financial assets (ac)	12	9
Cash funds	9	8
Money market and capital market receivables	3	1
Interest expenses for financial instruments (fvpl)	289	236
Other derivatives	289	236
Market-driven modification losses	0	3
Total interest and similar expenses	**400**	**352**
Total	**533**	**535**

Net interest income amounted to € 533 million (2018: € 535 million) and was thus stable.

(32) Loss allowance

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Additions	206	137
Reversals	118	61
Recoveries on loans and advances previously written off	3	4
Loss allowance – other items	0	0
Credit-driven net modification gain or loss	5	0
Total	**90**	**72**

The loss allowance of € 90 million (2018: € 72 million) corresponded with the forecast that was increased to take account of the higher burden from accelerated risk reduction. Please also refer to our explanations in Note (61).

(33) Net commission income

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Commission income from		
ERP products (incl. additional products)	183	178
Digital solutions	51	42
Banking business and other activities	45	39
Total commission income	**279**	**259**
Commission expenses for		
Purchased services	44	40
Banking business and other activities	6	4
Total commission expenses	**50**	**44**
Total	**229**	**215**

Net commission income of € 229 million developed positively as planned, in particular due to the increase in Aareon's net commission income (2018: € 215 million). Commission income from ERP products and digital solutions includes € 22 million of licence revenue (2018: € 26 million) recognised at a point in time. In the reporting period, revenue of € 1 million (2018: € 2 million) was recorded attributable to performance obligations of earlier periods.

The net amount of commission income and commission expenses from financial assets and financial liabilities not measured at fair value amounts to € 13 million (2018: € 11 million).

(34) Net derecognition gain or loss

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Net gain or loss on the derecognition of financial assets (ac)		
Loan receivables	32	24
Money market and capital market receivables	-1	–
Net gain or loss on the derecognition of financial liabilities (ac)		
Money market and capital market liabilities	3	0
Net gain or loss on the derecognition of financial assets (fvoci)		
Money market and capital market receivables	30	–
Total	**64**	**24**

The net derecognition gain amounted to € 64 million (2018: € 24 million), exceeding our increased forecast especially as a result of structural adjustments to our securities portfolio following the acquisition of former Düsselhyp.

(35) Net gain or loss from financial instruments (fvpl)

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Net gain or loss from loan receivables	-14	-6
Net gain or loss from money market and capital market receivables	4	-2
Net gain or loss from other derivatives	13	8
Currency translation	-2	-2
Total	**1**	**-2**

(36) Net gain or loss from hedge accounting

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Ineffective portion of fair value hedges	-4	-2
Ineffective portion of net investment hedges	0	0
Total	**-4**	**-2**

(37) Net gain or loss from investments accounted for using the equity method

In the past financial year, there was a net gain from investments accounted for using the equity method of € 1 million (2018: € 0 million); this was also in line with the pro-rata results from joint ventures and associates.

(38) Administrative expenses

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Staff expenses	295	261
Wages and salaries	237	206
Social security contributions	35	33
Pensions	23	22
Other administrative expenses	152	177
Depreciation, amortisation and impairment of property and equipment and intangible assets	41	24
Total	**488**	**462**

Administrative expenses increased as expected, to € 488 million (2018: € 462 million), in particular due to running costs and integration expenses incurred in conjunction with the integration of former Düsselhyp, and Aareon's business expansion and strategic investments.

Staff expenses include contributions to defined contribution plans in the amount of € 15 million (2018: € 14 million).

Other administrative expenses include administrative costs for research and development in relation to existing and new functions and products not eligible for capitalisation in the amount of € 29 million (2018: € 27 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the financial year 2019, which consists of the following sub-items:

€ 000's	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Auditing fees	3,987	4,616
Other assurance services	144	218
Tax advisory services	3	7
Other services	356	308
Total	**4,490**	**5,149**

Other assurance services include the review in accordance with the German Securities Trading Act (WpHG), the bank levy, software confirmations, comfort letters and the separate non-financial statement. Tax advisory services refer to general tax advice. Other services include, in particular, due diligence services and regulatory advice.

(39) Net other operating income/expenses

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Income from properties	43	57
Income from the reversal of provisions	2	5
Income from goods and services	0	1
Other operating income	23	31
Total other operating income	**68**	**94**
Expenses for properties	40	57
Expenses for other taxes	4	4
Other operating expenses	22	8
Total other operating expenses	**66**	**69**
Total	**2**	**25**

(40) Income taxes

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Current income taxes	76	55
Deferred taxes	9	35
Total	**85**	**90**

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

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Operating profit (before income taxes)	248	316
Expected tax rate	31.7 %	31.7 %
Calculated income taxes	**79**	**100**
Reconciliation to reported income taxes		
Different foreign tax burden	-2	10
Tax attributable to tax-exempt income	–	-25
Tax attributable to non-deductible expenses	24	5
Taxes for previous years	-16	–
Reported income taxes	**85**	**90**
Effective tax rate	34 %	29 %

The expected tax rate of 31.7 % (2018: 31.7 %), 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

(41) Financial assets (ac)

€ mn	31 Dec 2019	31 Dec 2018
Cash funds (ac)	**1,494**	**1,265**
Cash on hand	0	0
Balances with central banks	1,494	1,265
Loan receivables (ac)	**25,783**	**26,795**
Property loans	25,333	26,309
Public-sector loans	398	448
Other loan receivables	52	38
Money market and capital market receivables (ac)	**6,618**	**6,578**
Money market receivables	1,363	1,000
Promissory note loans	1,823	1,751
Bonds	3,432	3,827
Receivables from other transactions (ac)	**77**	**64**
Trade receivables	37	35
Other financial receivables	40	29
Total	**33,972**	**34,702**

(42) Loss allowance (ac)

31 December 2019

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Balance as at 1 January	**34**	**22**	**519**	**2**	**577**
Additions	13	7	184	2	**206**
Utilisation	–	–	237	1	**238**
Reversals	25	15	74	0	**114**
Transfer to Stage 1	1	-1	–	–	**–**
Transfer to Stage 2	-2	7	-5	–	**–**
Transfer to Stage 3	0	-4	4	–	**–**
Interest rate effect	–	–	21	–	**21**
Currency adjustments	1	0	3	0	**4**
Changes in the basis of consolidation	–	–	-70	–	**-70**
Transfers	–	–	–	–	**–**
Balance as at 31 December	**22**	**16**	**345**	**3**	**386**

The loss allowance for financial assets measured at amortised cost refers to loan receivables, money and capital market receivables as well as receivables from other transactions (largely trade receivables) that are measured at amortised cost.

A detailed breakdown of loss allowance by classes of financial assets is disclosed in Note (61) in the chapter "Notes related to financial instruments".

31 December 2018

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Balance as at 1 January	**32**	**42**	**517**	**2**	**593**
Additions	18	6	110	0	**134**
Utilisation	–	–	100	1	**101**
Reversals	16	14	26	1	**57**
Transfer to Stage 1	1	-1	–	–	**–**
Transfer to Stage 2	-1	1	–	–	**–**
Transfer to Stage 3	0	-12	12	–	**–**
Interest rate effect	–	–	5	–	**5**
Currency adjustments	0	0	1	0	**1**
Transfers	–	–	–	2	**2**
Balance as at 31 December	**34**	**22**	**519**	**2**	**577**

(43) Financial assets (fvoci)

€ mn	31 Dec 2019	31 Dec 2018
Money market and capital market receivables (fvoci)	**3,415**	**4,443**
Bonds	3,415	4,443
Equity instruments (fvoci)	**5**	**7**
Equities and other non-fixed income securities	0	0
Other investments	5	7
Total	**3,420**	**4,450**

(44) Financial assets (fvpl)

€ mn	31 Dec 2019	31 Dec 2018
Loan receivables (fvpl)	**1,050**	**711**
Property loans	1,050	711
Money market and capital market receivables (fvpl)	**135**	**538**
Promissory note loans	94	90
Bonds	38	448
Fund units	3	–

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€ mn	31 Dec 2019	31 Dec 2018
Positive market value of designated hedging derivatives (fvpl)	**1,380**	**1,277**
Positive market value of fair value hedges	1,374	1,277
Positive market value of net investment hedges	6	–
Positive market value of other derivatives (fvpl)	**414**	**657**
Positive market value of economic hedging derivatives	238	466
Positive market value of miscellaneous other derivatives	176	191
Total	**2,979**	**3,183**

(45) Investments accounted for using the equity method

Aareal Bank holds interests in four associates (2018: five, plus one joint venture) that are accounted for using the equity method. The sum total of the carrying amounts of the equity investments amounted to € 8 million (2018: € 7 million).

(46) Intangible assets

€ mn	31 Dec 2019	31 Dec 2018
Goodwill	89	85
Proprietary software	37	32
Other intangible assets	49	41
Total	**175**	**158**

Goodwill is entirely attributable to the Consulting/Services segment and can be allocated to the following business divisions:

€ mn	31 Dec 2019 Goodwill	31 Dec 2018 Goodwill
Bank division Housing Industry		
Germany	4	–
Aareon sub-group		
DACH	35	35
International Business	50	50
Total	**89**	**85**

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 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. The 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 four-year horizon are determined by way of a perpetual annuity.

The present values of future cash flows were determined on the basis of a risk-adequate discount factor of 6.67 % for the Aareon sub-group and of 4.91 % after taxes for the Bank's Housing Industry division. The discount factor is calculated based on a risk-free basic interest rate of 0.07 % plus a company-specific risk premium of 7.5 %, multiplied with a beta factor of 0.88 for the Aareon sub-group and of 0.65 for the Bank's Housing Industry division. Due to the uncertainty surrounding the planning beyond the three-year horizon and our cautious view of the market environment, we assume a 2 % growth rate, which reflects expected inflation developments. The recoverable amounts show an excess compared to the carrying amounts: even if the above-mentioned material assumptions were to change (such as a 1.0 % increase in the risk-adequate discount factor, a 5.0 % decline in the EBIT included in the cash-flow projections, or a decrease in the growth rate to 1 %), this would not result in a specific impairment loss. There was no need to recognise impairment losses in the year under review.

Intangible assets developed as follows:

€ mn	2019 Goodwill	2019 Proprietary software	2019 Other intangible assets	2019 Total	2018 Goodwill	2018 Proprietary software	2018 Other intangible assets	2018 Total
Cost								
Balance as at 1 January	138	106	103	347	138	93	124	355
Additions	–	11	13	24	0	13	5	18
Transfers	–	–	–	–	–	0	1	1
Disposals	0	6	2	8	–	–	26	26
Changes in the basis of consolidation	4	–	5	9	–	–	0	0
Currency translation differences	0	0	0	0	0	0	-1	-1
Balance as at 31 December	142	111	119	372	138	106	103	347
Amortisation and impairment losses								
Balance as at 1 January	53	74	62	189	53	69	80	202
Amortisation and impairment losses	–	6	9	15	–	4	8	12
of which: impairment losses	–	–	–	–	–	–	–	–
Write-ups	–	–	–	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	–
Disposals	–	6	1	7	–	–	26	26
Changes in the basis of consolidation	–	–	–	–	–	–	–	–
Currency translation differences	–	0	0	0	–	1	0	1
Balance as at 31 December	53	74	70	197	53	74	62	189
Carrying amount as at 1 January	85	32	41	158	85	24	44	153
Carrying amount as at 31 December	89	37	49	175	85	32	41	158

(47) Property and equipment

€ mn	31 Dec 2019	31 Dec 2018
Land and buildings and construction in progress	277	230
Office furniture and equipment	34	30
Total	311	260

The increase in property and equipment was mainly due to the first-time recognition of rights of use from leases (due to first-time application of IFRS 16).

Property and equipment developed as follows:

€ mn	2019 Land and buildings and construction in progress	2019 Office furniture and equipment	2019 Total	2018 Land and buildings and construction in progress	2018 Office furniture and equipment	2018 Total
Cost						
Balance as at 1 January	**303**	**74**	**377**	**299**	**86**	**385**
Adjustment due to first-time application of IFRS 16	86	8	**94**	–	–	**–**
Balance as at 1 January (adjusted)	**389**	**82**	**471**	**299**	**86**	**385**
Additions	20	11	**31**	6	7	**13**
Transfers	-1	–	**-1**	–	0	**0**
Disposals	37	6	**43**	2	19	**21**
Changes in the basis of consolidation	–	0	**0**	–	0	**0**
Currency translation differences	0	0	**0**	0	0	**0**
Balance as at 31 December	**371**	**87**	**458**	**303**	**74**	**377**
Amortisation and impairment losses						
Balance as at 1 January	**73**	**44**	**117**	**78**	**54**	**132**
Adjustment due to first-time application of IFRS 16	22	2	**24**	–	–	**–**
Balance as at 1 January (adjusted)	**95**	**46**	**141**	**78**	**54**	**132**
Amortisation and impairment losses	19	12	**31**	9	8	**17**
of which: impairment losses	–	–	**–**	–	–	**–**
Write-ups	–	–	**–**	13	–	**13**
Transfers	1	–	**1**	–	–	**–**
Disposals	21	5	**26**	1	18	**19**
Changes in the basis of consolidation	–	0	**0**	–	–	**–**
Currency translation differences	0	0	**0**	0	0	**0**
Balance as at 31 December	**94**	**53**	**147**	**73**	**44**	**117**
Carrying amount as at 1 January	**230**	**30**	**260**	**221**	**32**	**253**
Carrying amount as at 31 December	**277**	**34**	**311**	**230**	**30**	**260**

(48) Income tax assets

Income tax assets in a total amount of € 30 million as at 31 December 2019 (2018: € 30 million) include € 17 million (2018: € 1 million) expected to be realised after a period of more than twelve months.

(49) 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 € 495 million (2018: € 572 million).

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

€ mn	31 Dec 2019	31 Dec 2018
Financial assets (ac)	53	34
Financial assets (fvpl)	1	1
Property and equipment	2	0
Other assets	0	0
Financial liabilities (ac)	466	455
Financial liabilities (fvpl)	27	123
Provisions	105	90
Other liabilities	0	0
Tax loss carryforwards	9	10
Deferred tax assets	**663**	**713**

Of the deferred taxes on loss carryforwards, an amount of € 2 million (2018: € 3 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 € 82 million (2018: € 62 million).

Deferred tax assets in the amount of € 70 million (2018: € 32 million) were reported under other reserves.

(50) Other assets

€ mn	31 Dec 2019	31 Dec 2018
Properties	337	209
Contract assets	25	24
Miscellaneous	98	100
Total	**460**	**333**

Property holdings increased as a result of the acquisition of property SPVs from former credit exposures to Italy.

The portion of the unsatisfied performance obligation from IT consulting projects in the amount of € 9 million (2018: € 10 million) is expected to be realised in the amount of € 9 million (2018: € 9 million) in the subsequent year, and in the amount of € 0 million (2018: € 1 million) thereafter. We do not disclose the portion of unsatisfied performance obligations from other contracts since the consideration from the customer equals the services provided.

(51) Financial liabilities (ac)

€ mn	31 Dec 2019	31 Dec 2018
Money market and capital market liabilities (ac)	**24,526**	**26,371**
Money market liabilities	3,566	4,600
Promissory note loans	4,797	5,200
Mortgage Pfandbriefe	10,820	10,934
Public-sector Pfandbriefe	2,585	2,989
Other debt securities	2,758	2,648
Other financial liabilities	0	0
Deposits from the housing industry (ac)	**9,744**	**9,679**
Payable on demand	7,694	7,719
Term deposits	2,050	1,960
Liabilities from other transactions (ac)	**94**	**121**
Trade payables	20	24
Other liabilities	74	97
Subordinated liabilities (ac)	**968**	**1,044**
Total	**35,332**	**37,215**

(52) Financial liabilities (fvpl)

€ mn	31 Dec 2019	31 Dec 2018
Negative market value of designated hedging derivatives (fvpl)	**1,341**	**1,461**
Negative market value of fair value hedges	1,327	1,443
Negative market value of net investment hedges	14	18
Negative market value of other derivatives (fvpl)	**824**	**473**
Negative market value of economic hedging derivatives	422	322
Negative market value of miscellaneous other derivatives	402	151
Total	**2,165**	**1,934**

(53) Provisions

€ mn	31 Dec 2019	31 Dec 2018
Provisions for pensions and similar obligations	428	362
Provisions for unrecognised lending business	2	5
Other provisions and contingent liabilities	151	152
Total	**581**	**519**

A detailed breakdown of the provisions for unrecognised lending business by classes of financial assets is disclosed in Note (61) in the chapter "Notes related to financial instruments".

Provisions for pensions and similar obligations

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

Aareal Bank contributed assets held to cover 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 in the Register of Associations 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 INKA and Aareal Bank. The Bank transfers new assets to be invested to Aareal Pensionsverein e. V. 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 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 one 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 six Management Board members receive their benefits based on individual commitments (a total of eight individual benefit commitments).

Two individual benefit commitments are aligned to fixed annual employer contributions, which are paid to the relevant benefit account and bear interest at a rate of 4 %. In the event of payment of early retirement, disability or death benefits, non-recurring contribution and interest payments are made directly; leading to the level of benefits that would be achieved if the employment relationship would continue until the retirement age on which the awards are based. The benefit assets are translated into a lifelong old-age or disability pension upon the occurrence of an insured event, using actuarial principles. The annuitisation factor was fixed for the time of the retirement age underlying the awards. Annuitisation is based on biometric principles and a notional interest rate of 4 % p. a. and takes into account a pension increase of 2 % p. a. The widow pension amounts to 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.

Six individual benefit commitments 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 %. In the case of disability or death, the existing benefit assets are increased by the sum total of the amounts that would have been credited in future (up to a maximum contribution period of ten years) for each full calendar year prior to turning 62 or 63. 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 two of these individual commitments 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 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 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 (Betriebsrentengesetz, 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 2019	31 Dec 2018
Calculation method	Projected unit credit method	Projected unit credit method
Calculation basis	Actuarial tables issued by K. Heubeck in 2018	Actuarial tables issued by K. Heubeck in 2018
Actuarial assumptions (in %)		
Interest rate used for valuation	1.09	1.80
Development of salaries	2.00	2.00
Pension increase	1.53	1.57
Rate of inflation	1.75	1.75
Staff turnover rate	3.00	3.00

Development of net pension liabilities:

€ mn	Present value of pension obligations	Fair value of plan assets	Net pension liability
Balance as at 1 January 2019	**448**	**-86**	**362**
Pension expense	**20**	**-1**	**19**
Current service cost	12	–	12
Net interest cost	8	-1	7
Payments	**-8**	**-7**	**-15**
Pension benefits paid	-12	1	-11
Employer's contributions	–	-4	-4
Contributions made by beneficiaries of defined benefit plans	4	-4	0
Remeasurements	**66**	**-4**	**62**
due to experience adjustments	0	–	0
due to changes in financial assumptions	66	–	66
due to changes in demographic assumptions	0	–	0
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-4	-4
Balance as at 31 December 2019	**526**	**-98**	**428**

€ mn	Present value of pension obligations	Fair value of plan assets	Net pension liability
Balance as at 1 January 2018	**431**	**-80**	**351**
Pension expense	**18**	**-2**	**16**
Current service cost	10	–	10
Net interest cost	8	-2	6
Payments	**-8**	**-7**	**-15**
Pension benefits paid	-12	1	-11
Employer's contributions	–	-4	-4
Contributions made by beneficiaries of defined benefit plans	4	-4	–
Remeasurements	**7**	**3**	**10**
due to experience adjustments	-1	–	-1
due to changes in financial assumptions	2	–	2
due to changes in demographic assumptions	6	–	6
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	3	3
Balance as at 31 December 2018	**448**	**-86**	**362**

The weighted duration of pension liabilities is 19.8 years as at 31 December 2019 (2018: 18.1 years).

Expected maturities of the defined benefit obligation (DBO):

€ mn	31 Dec 2019	31 Dec 2018
Up to 1 year	13	13
Between 1 year and 5 years	58	57
More than 5 years and up to 10 years	83	80
Total	**154**	**150**

Contributions in the amount of € 14 million (2019: € 11 million) are expected to be paid in the financial year 2020.

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 2019	Change	Defined benefit obligation 2018	Change
		€ mn	%	€ mn	%
Present value of obligations		**526**		**448**	
Interest rate used for valuation	Increase by 1.0 percentage points	436	-17	375	-16
	Decrease by 1.0 percentage points	644	23	542	21
Development of salaries	Increase by 0.5 percentage points	536	2	457	2
	Decrease by 0.5 percentage points	515	-2	439	-2
Pension increase	Increase by 0.25 percentage points	533	2	456	2
	Decrease by 0.25 percentage points	517	2	440	-2
Life expectancy	Increase by 1 year	553	5	470	5
	Decrease by 1 year	497	-5	425	-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 2019	31 Dec 2018
Cash	0	0
Investment funds	68	58
Reinsurance	30	28
Total	**98**	**86**

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 has to be 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 for legal and tax risks	Other provisions	Total
Carrying amount as at 1 Jan 2019	**128**	**10**	**14**	**152**
Additions	54	1	14	**69**
Utilisation	52	1	6	**59**
Reversals	8	1	5	**14**
Interest	0	0	0	**0**
Reclassifications	-4	–	0	**-4**
Changes in the basis of consolidation	0	0	7	**7**
Exchange rate fluctuations	0	–	0	**0**
Carrying amount as at 31 Dec 2019	**118**	**9**	**24**	**151**

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions for legal and tax risks	Other provisions	Total
Carrying amount as at 1 Jan 2018	**187**	**13**	**15**	**215**
Additions	55	0	3	**58**
Utilisation	61	1	1	**63**
Reversals	35	2	6	**43**
Interest	0	0	0	**0**
Reclassifications	-31	0	-1	**-32**
Changes in the basis of consolidation	12	0	4	**16**
Exchange rate fluctuations	1	0	0	**1**
Carrying amount as at 31 Dec 2018	**128**	**10**	**14**	**152**

Other provisions of € 118 million include € 27 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 € 94 million (2018: € 105 million) and provisions for non-staff operating costs in the amount of € 24 million (2018: € 23 million). Personnel provisions consist of, among other things, provisions for bonuses, partial retirement, severance pay and existing working hours accounts; Provisions for staff expenses include € 20 million in provisions for severance pay and for partial retirement. Provisions for non-staff operating expenses mainly include provisions for professional and legal advice.

(54) Income tax liabilities

Income tax liabilities in a total amount of € 44 million as at 31 December 2019 (2018: € 40 million) include € 12 million (2018: € 6 million) expected to be realised after a period of more than twelve months.

(55) 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 € 495 million (2018: € 572 million).

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

€ mn	31 Dec 2019	31 Dec 2018
Financial assets (ac)	429	383
Financial assets (fvoci)	54	130
Financial assets (fvpl)	9	52
Intangible assets	12	11
Property and equipment	6	6
Other assets	4	8
Provisions	0	0
Other liabilities	0	–
Deferred tax liabilities	**514**	**590**

(56) Other liabilities

€ mn	31 Dec 2019	31 Dec 2018
Lease liabilities	84	–
Deferred income	1	1
Liabilities from other taxes	35	17
Contract liabilities	15	14
Miscellaneous	0	1
Total	**135**	**33**

An amount of € 10 million (2018: € 14 million) of the contract liabilities was recorded in profit or loss in the current reporting period.

Lease liabilities represent the corresponding item to the right-of-use assets from leases recognised (first-time application of IFRS 16).

(57) Equity

€ mn	31 Dec 2019	31 Dec 2018
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,812	1,797
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-141	-98
Reserve from the measurement of equity instruments (fvoci)	-4	0
Reserve from the measurement of debt instruments (fvoci)	7	39
Reserve from foreign currency basis spreads	-15	-9
Currency translation reserves	-1	-4
Non-controlling interests	2	2
Total	**2,861**	**2,928**

The item "Reserve from the measurement of debt instruments (fvoci)" includes loss allowance of € 0 million (2018: € 0 million).

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (2018: € 180 million). It is divided into 59,857,221 notional fully-paid 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 issued share capital of Aareal Bank AG at the end of any given day.

Furthermore, the Management Board was authorised by means of a resolution of the General Meeting held on 20 May 2015, pursuant to section 71 (1) no. 8 of the AktG, to purchase own shares up to a volume of 10 % of the share capital for purposes other than trading in treasury shares. 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 such a 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 31 May 2017. 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 2017) 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 30 May 2022. 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 203 (1) or (2) and 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.

e) in the event of a capital increase against contributions in kind for the purpose of acquiring companies, divisions of companies or interests in companies or other assets.

The above authorisation for the exclusion of shareholders' subscription rights in the case of capital increases against contributions in cash or in kind is limited to a total of 20 % of the share capital; this limit may be exceeded neither at the time said authorisation comes into effect, nor at the time it is exercised. The above-mentioned 20 % threshold shall furthermore include treasury shares which are sold to the exclusion of shareholders' subscription rights during the validity of this authorisation as well as such shares which are issued to service debt securities, provided that the debt securities were issued to the exclusion of shareholders' subscription rights during the validity of this authorisation due to the authorisation under agenda item 6 of the Annual General Meeting on 21 May 2014. When a new authorisation for the exclusion of shareholders' subscription rights is resolved after the reduction and said new authorisation comes into effect, the upper limit, reduced in accordance with the above-mentioned requirements, shall be increased again to the amount permitted by the new authorisation, with a maximum total of 20 % of the share capital in accordance with the above-mentioned requirements.

The authorised capital has not been utilised.

Conditional capital

Based on a resolution passed by the Annual General Meeting on 22 May 2019, the Management Board was authorised to issue, on one or more occasions until 21 May 2024, profit-participation certificates with a limited or unlimited term for contribution in cash or in kind in a total nominal amount of € 900,000,000. The profit-participation certificates must be constructed in such a way that the funds paid for them after issuance can be recognised as banking regulatory capital pursuant to the legal regulations applicable as at the time of issuance. Profit-participation certificates and other hybrid promissory note loans to be issued according to this authorisation shall be connected with conversion rights, entitling or compelling, in accordance with their respective conditions, the holder to purchase Company shares. Conversion rights or obligations may only be issued or created for no-par value bearer shares of the Company with a proportionate amount of the Company's share capital of up to € 71,828,664.00. The sum of shares to be issued so as to service conversion or option rights or conversion obligations from profit-participation certificates or hybrid promissory note loans issued pursuant to this authorisation, including shares issued during validity of this authorisation as a result of another authorisation (especially from the Authorised Capital 2017), may not exceed an amount of € 71,828,664.00 (which equals approx. 40 % of the current share capital). 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.

Accordingly, the Company's share capital is subject to a conditional capital increase not exceeding € 71,828,664.00 by issuance of up to 23,942,888 new no-par value bearer shares ("Conditional Capital 2019"). The purpose of the conditional capital increase is to grant shares to holders or creditors of convertible bonds issued in accordance with the aforementioned authorisation. The new no-par value bearer shares may only be issued at a conversion price in line with the resolution passed by the General Meeting on 22 May 2019. The conditional capital increase shall only be carried out insofar as conversion rights are exercised or as conversion obligations from such convertible bonds are fulfilled or as the Company makes use of alternative performance and insofar as no cash compensation is granted or treasury shares are used to service the rights. The new shares shall 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 rights or the fulfilment of conversion obligations The Management Board is authorised to determine the details of the conditional capital increase. The Management Board is also authorised to determine the further contents of share rights and the terms governing the issuance of shares, subject to the approval of the Supervisory Board.

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 (2018: € 5 million) and of other retained earnings of € 1,807 million (2018: € 1,792 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 % p.a. 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 % p.a.

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.

Distributions

The Management Board of Aareal Bank AG proposes to the Annual General Meeting that the net retained profit of € 119,714,442.00 for the financial year 2019, as reported under the German Commercial Code (HGB), be used to distribute dividends. With 59,857,221 notional no-par value shares outstanding, this translates into a dividend of € 2.00 per share. The dividend paid in 2019 amounted to € 2.10 per notional no-par value share.

In addition, on 30 April 2020, 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 Group to measure, limit, and manage risks throughout Aareal Bank Group is presented in the Risk Report as part of the Group 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.

(58) Net gains/losses of financial instruments by category

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

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Net gain or loss from financial assets (ac)	-63	-49
Net gain or loss from financial liabilities (ac)	4	0
Net gain or loss from financial assets (fvoci) recognised in other comprehensive income	-16	-20
Net gain or loss from financial assets (fvoci) transferred to the income statement	30	–
Net gain or loss from equity instruments (fvoci)	-4	0
Net gain or loss from financial instruments (fvpl)	1	-2
Net gain or loss from financial guarantee contracts and loan commitments	3	1

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 measurement category. The net gain or loss from financial instruments (fvpl) also comprises the net gain or loss from currency translation.

The hedge result from hedged items is aggregated with the hedge result from derivative hedging instruments in one line item and amounted to € -4 million (2018: € -2 million) in the year under review. Moreover, the change in the reserve from foreign-currency basis spreads amounted to € -9 million (2018: € -17 million).

(59) Fair value hierarchy in accordance with IFRS 13

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 (p. 180) 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.

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€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**3,420**	**3,415**	**3**	**2**
Money market and capital market receivables	3,415	3,415	–	–
Equity instruments	5	–	3	2
Financial assets (fvpl)	**2,979**	**0**	**1,926**	**1,053**
Loan receivables	1,050	–	–	1,050
Money market and capital market receivables	135	0	132	3
Positive market value of designated hedging derivatives	1,380	–	1,380	–
Positive market value of other derivatives	414	–	414	–
Financial liabilities (fvpl)	**2,165**	**0**	**2,165**	**–**
Negative market value of designated hedging derivatives	1,341	–	1,341	–
Negative market value of other derivatives	824	0	824	–

31 December 2018

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**4,450**	**4,443**	**1**	**6**
Money market and capital market receivables	4,443	4,443	–	–
Equity instruments	7	–	1	6
Financial assets (fvpl)	**3,183**	**308**	**2,164**	**711**
Loan receivables	711	–	–	711
Money market and capital market receivables	538	308	230	–
Positive market value of designated hedging derivatives	1,277	–	1,277	–
Positive market value of other derivatives	657	–	657	–
Financial liabilities (fvpl)	**1,934**	**–**	**1,934**	**–**
Negative market value of designated hedging derivatives	1,461	–	1,461	–
Negative market value of other derivatives	473	–	473	–

Amounts of € 69 million were reassigned from Level 2 to Level 1 during the financial year.

The fair values of loan receivables recognised at fair value in the statement of financial position that are assigned to Level 3 of the fair value hierarchy developed as follows during the period under review:

Loan receivables (fvpl)

€ mn	2019	2018
Fair value as at 1 January	**711**	**604**
Change in measurement	**-18**	**-2**
Portfolio changes		
Additions	924	690
Derecognition	567	582
Deferred interest	0	1
Fair value as at 31 December	**1,050**	**711**

Financial instruments held in the Bank's portfolio contributed € -18 million to the net gain or loss from financial assets (fvpl) (2018: € -1 million).

Regarding loan receivables (fvpl), the add-ons for risks specific to the counterparty represent the material input parameter not observable in the market. Regarding the non-defaulted loans, an increase/decrease by 1 % would lead to a decrease/increase of the fair value by approximately € 31 million (2018: approximately € 12 million).

The carrying amounts 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 2019

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (ac)	**33,899**	**3,059**	**4,951**	**25,889**
Cash funds	1,494	–	1,494	–
Loan receivables	25,850	–	2	25,848
Money market and capital market receivables	6,481	3,059	3,422	–
Receivables from other transactions	74	–	33	41
Financial liabilities (ac)	**35,477**	**1,854**	**33,486**	**137**
Money market and capital market liabilities	24,610	1,533	23,034	43
Deposits from the housing industry	9,744	–	9,744	–
Liabilities from other transactions	94	–	0	94
Subordinated liabilities	1,029	321	708	–

31 December 2018

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (ac)	**34,556**	**3,165**	**4,495**	**26,896**
Cash funds	1,265	–	1,265	–
Loan receivables	26,858	–	3	26,855
Money market and capital market receivables	6,372	3,165	3,207	–
Receivables from other transactions	61	–	20	41
Financial liabilities (ac)	**37,168**	**2,327**	**25,003**	**9,838**
Money market and capital market liabilities	26,278	2,006	24,234	38
Deposits from the housing industry	9,679	–	–	9,679
Liabilities from other transactions	121	–	0	121
Subordinated liabilities	1,090	321	769	–

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

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

€ mn	31 Dec 2019 Carrying amount	31 Dec 2019 Fair value	31 Dec 2018 Carrying amount	31 Dec 2018 Fair value
Financial assets (ac)	**33,586**	**33,899**	**34,125**	**34,556**
Cash funds	1,494	1,494	1,265	1,265
Loan receivables	25,403	25,850	26,232	26,858
Money market and capital market receivables	6,615	6,481	6,567	6,372
Receivables from other transactions	74	74	61	61
Financial assets (fvoci)	**3,420**	**3,420**	**4,450**	**4,450**
Money market and capital market receivables	3,415	3,415	4,443	4,443
Equity instruments	5	5	7	7
Financial assets (fvpl)	**2,979**	**2,979**	**3,183**	**3,183**
Loan receivables	1,050	1,050	711	711
Money market and capital market receivables	135	135	538	538
Positive market value of designated hedging derivatives	1,380	1,380	1,277	1,277
Positive market value of other derivatives	414	414	657	657

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€ mn	31 Dec 2019 Carrying amount	31 Dec 2019 Fair value	31 Dec 2018 Carrying amount	31 Dec 2018 Fair value
Financial liabilities (ac)	**35,332**	**35,477**	**37,215**	**37,168**
Money market and capital market liabilities	24,526	24,610	26,371	26,278
Deposits from the housing industry	9,744	9,744	9,679	9,679
Liabilities from other transactions	94	94	121	121
Subordinated liabilities	968	1,029	1,044	1,090
Financial liabilities (fvpl)	**2,165**	**2,165**	**1,934**	**1,934**
Negative market value of designated hedging derivatives	1,341	1,341	1,461	1,461
Negative market value of other derivatives	824	824	473	473

(61) Disclosures on credit risk

For information on risk management practice and input factors, please refer to the chapter "Credit default risk" in the Risk Report.

The following overviews present the loss allowance and the provisions for credit risks per stage and separately by product groups.

Loss allowance (ac)

2019

€ mn	Balance as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Changes in the basis of consolidation	Balance as at 31 December
Stage 1	**34**	**13**	**–**	**25**	**1**	**-2**	**0**	**–**	**1**	**–**	**22**
Loan receivables (ac)	33	12	–	24	1	-2	0	–	1	–	21
Money market and capital market receivables (ac)	1	1	–	1	0	–	–	–	0	–	1
Stage 2	**22**	**7**	**–**	**15**	**-1**	**7**	**-4**	**–**	**0**	**–**	**16**
Loan receivables (ac)	12	7	–	7	-1	7	-4	–	0	–	14
Money market and capital market receivables (ac)	10	–	–	8	0	–	–	–	–	–	2
Stage 3	**519**	**184**	**237**	**74**	**0**	**-5**	**4**	**21**	**3**	**-70**	**345**
Loan receivables (ac)	519	184	237	74	–	-5	4	21	3	-70	345
Receivables from other transactions	**2**	**2**	**1**	**0**	**–**	**–**	**–**	**–**	**0**	**–**	**3**
Total	577	206	238	114	–	–	–	21	4	-70	386

2018

€ mn	Balance as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Transfers	Balance as at 31 December
Stage 1	**32**	**18**	**–**	**16**	**1**	**-1**	**0**	**–**	**0**	**–**	**34**
Loan receivables (ac)	31	18	–	16	1	-1	0	–	0	–	33
Money market and capital market receivables (ac)	1	0	–	0	0	–	–	–	0	–	1
Stage 2	**42**	**6**	**–**	**14**	**-1**	**1**	**-12**	**–**	**0**	**–**	**22**
Loan receivables (ac)	23	6	–	5	-1	1	-12	–	0	–	12
Money market and capital market receivables (ac)	19	–	–	9	0	–	–	–	–	–	10
Stage 3	**517**	**110**	**100**	**26**	**0**	**0**	**12**	**5**	**1**	**–**	**519**
Loan receivables (ac)	517	110	100	26	0	0	12	5	1	–	519
Receivables from other transactions	**2**	**0**	**1**	**1**	**–**	**–**	**–**	**–**	**0**	**2**	**2**
Total	593	134	101	57	–	–	–	5	1	2	577

The loss allowance for financial assets (ac) is reported in the item ”Loss allowance (ac)” on the assets side of the statement of financial position.

Loss allowance in the reserve from the measurement of debt instruments (fvoci)

The loss allowance for debt instrument (fvoci) amounts to € 0 million (2018: € 0 million) and is reported on the equity and liabilities side of the statement of financial position under other reserves.

Provisions for unrecognised lending business

2019

€ mn	Provisions as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Provisions as at 31 December
Stage 1	2	1	–	1	0	–	–	–	0	2
Stage 2	0	0	–	0	0	–	–	–	0	0
Stage 3	3	–	–	3	–	–	–	–	0	0
Total	5	1	–	4	–	–	–	–	0	2

2018

€ mn	Provisions as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Provisions as at 31 December
Stage 1	4	1	–	3	0	0	–	–	0	2
Stage 2	0	0	–	0	0	0	–	–	0	0
Stage 3	2	2	0	1	–	–	–	–	0	3
Total	**6**	**3**	**0**	**4**	**–**	**–**	**–**	**–**	**0**	**5**

The provisions for unrecognised lending business refer to loan commitments and contingent liabilities and are reported on the equity and liabilities side of the statement of financial position under provisions.

No impaired financial assets were recognised for the first time during the current financial year, nor were assets acquired within the context of the realisation of collateral.

Credit quality of financial receivables from other transactions

Financial receivables from other transactions are also subject to credit risk. Of the receivables from other transactions in the amount of € 77 million (2018: € 64 million), € 66 million (2018: € 58 million) were neither overdue nor impaired, € 5 million (2018: € 4 million) were overdue but not impaired and € 6 million (2018: € 2 million) were impaired.

(62) Reconciliation of gross carrying amounts of financial assets

The following tables show the development of the gross carrying amounts of financial assets that are subject to the impairment rules and to which the loss allowance mentioned above can be attributed.

Financial assets (ac) 2019

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Loan receivables	**26,795**	**10,567**	**12,082**	**–**	**–**	**–**	**-229**	**-5**	**737**	**25,783**
Stage 1	24,422	10,476	10,997	86	-726	-57	–	0	719	23,923
Stage 2	786	78	287	-86	728	-307	–	-5	9	916
Stage 3	1,587	13	798	–	-2	364	-229	–	9	944
POCI	0	–	0	–	–	–	–	–	–	–
Money market and capital market receivables	**6,578**	**1,360**	**1,440**	**–**	**–**	**–**	**–**	**–**	**120**	**6,618**
Stage 1	5,773	1,359	1,302	548	–	–	–	–	115	6,493
Stage 2	805	1	138	-548	–	–	–	–	5	125
Receivables from other transactions	**64**	**58**	**44**	**–**	**–**	**–**	**–**	**–**	**-1**	**77**
Total	33,437	11,985	13,566	–	–	–	-229	-5	856	32,478

Financial assets (ac) 2018

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer in Stage 1	Transfer in Stage 2	Transfer in Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Loan receivables	**25,885**	**8,992**	**8,304**	**–**	**–**	**–**	**-100**	**-1**	**323**	**26,795**
Stage 1	23,151	8,879	7,701	53	-205	-1	–	-1	247	24,422
Stage 2	1,167	14	312	-36	210	-229	–	0	-28	786
Stage 3	1,567	99	291	-17	-5	230	-100	0	104	1,587
POCI	0	–	0	–	–	–	–	–	–	0
Money market and capital market receivables	**6,087**	**1,547**	**980**	**–**	**–**	**–**	**–**	**–**	**-76**	**6,578**
Stage 1	4,526	1,547	904	686	-21	–	–	–	-61	5,773
Stage 2	1,561	–	76	-686	21	–	–	–	-15	805
Receivables from other transactions	**76**	**40**	**52**	**–**	**–**	**–**	**–**	**–**	**–**	**64**
Total	32,048	10,579	9,336	–	–	–	-100	-1	247	33,437

Financial assets (fvoci) 2019

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Money market and capital market receivables	**4,443**	**1,028**	**1,842**	**–**	**–**	**–**	**–**	**–**	**-214**	**3,415**
Stage 1	4,443	1,028	1,842	–	–	–	–	–	-214	3,415
Total	4,443	1,028	1,842	–	–	–	–	–	-214	3,415

Financial assets (fvoci) 2018

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer in Stage 1	Transfer in Stage 2	Transfer in Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Money market and capital market receivables	**4,343**	**609**	**426**	**–**	**–**	**–**	**–**	**–**	**-83**	**4,443**
Stage 1	4,240	609	426	99	0	–	–	–	-79	4,443
Stage 2	103	–	–	-99	0	–	–	–	-4	–
Total	4,343	609	426	–	–	–	–	–	-83	4,443

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, for both items that are subject to the impairment rules and for financial assets that are not subject to the impairment rules. The collateral received is described in the Report on the Economic Position and in the Risk Report, part of the Group Management Report.

As at the current reporting date, no receivables from the lending business that were written off during the reporting year, were still part of foreclosure proceedings.

(63) Modification effects

If modifications are made to financial assets during the contract term leading to changes in the contractual cash flows and if these changes are not that extensive that the financial asset is derecognised and a new asset is recognised, such modifications are non-substantial modifications. Following a non-substantial modification, the carrying amount of a financial asset is remeasured and a net modification gain or loss is recorded in net interest income or in the loss allowance.

The following table shows the amortised cost before modification of financial assets that were subject to non-substantial modifications in the reporting period as well as the related modification gain or loss.

	2019			2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
€ mn						
Amortised cost before modification	284	82	–	248	45	484
Net gain or loss on modification	0	-5	–	-1	0	0
Amortised cost after modification	**284**	**77**	**–**	**247**	**45**	**484**

During the financial year, no receivables from the lending business were reclassified from Stage 2 or Stage 3 to Stage 1, which had been modified since they were first classified as Stage 2 or Stage 3 receivables (2018: € – million).

(64) 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 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.

Financial assets

31 December 2019

€ 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	1,800	–	1,800	1,065	658	77
Reverse repos	–	–	–	–	–	–
Total	**1,800**	**–**	**1,800**	**1,065**	**658**	**77**

31 December 2018

€ 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	1,843	–	1,843	1,031	731	81
Reverse repos	–	–	–	–	–	–
Total	**1,843**	**–**	**1,843**	**1,031**	**731**	**81**

Financial liabilities

31 December 2019

€ 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	2,174	–	2,174	1,065	1,077	32
Repos	–	–	–	–	–	–
Total	**2,174**	**–**	**2,174**	**1,065**	**1,077**	**32**

31 December 2018

€ 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	1,611	–	1,611	1,031	538	42
Repos	–	–	–	–	–	–
Total	**1,611**	**–**	**1,611**	**1,031**	**538**	**42**

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.

(65) 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.

€ mn	31 Dec 2019	31 Dec 2018
Money market and capital market receivables (ac, fvoci and fvpl)	1,434	1,381
Receivables from other transactions (ac)	26	17
Total	**1,460**	**1,398**

The protection buyer has no right to sell or re-pledge any of financial assets pledged as collateral (2018: € – million). There is a fully cash-collateralised and irrevocable payment obligation in the amount of € 26 million (2018: € 17 million) from the bank levy and also for the deposit guarantee scheme of German banks. This obligation is reported under receivables from other transactions (ac).

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 were accepted as collateral for repo transactions as at the reporting date (2018: € – million).

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

(66) 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 are 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 collateral during the transfer of securities are accounted as money-market receivables or liabilities. 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 the previous year, no securities were part of repurchase agreements as at the balance sheet date.

(67) Derivative financial instruments

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

€ mn	Fair value as at 31 Dec 2019		Fair value as at 31 Dec 2018	
	positive	negative	positive	negative
Fair value hedge derivatives	**1,374**	**1,327**	**1,277**	**1,443**
Interest rate risk	1,374	1,294	1,277	1,422
Interest rate swaps	1,374	1,294	1,277	1,422
Interest rate and currency risk	–	33	–	21
Cross-currency swaps	–	33	–	21
Hedge of net investments	**6**	**14**	**–**	**18**
Currency risk	6	14	–	18
Cross-currency swaps	6	14	–	18
Other derivatives	**414**	**824**	**657**	**473**
Interest rate risk	182	427	190	260
Interest rate swaps	181	426	184	254
Swaptions	–	–	–	0
Caps, floors	1	1	6	6
Interest rate and currency risk	232	397	467	213
Spot and forward foreign exchange transactions	4	21	14	3
Cross-currency swaps	228	376	453	210
Total	**1,794**	**2,165**	**1,934**	**1,934**

Derivatives have been entered into with the following counterparties:

€ mn	Fair value as at 31 Dec 2019		Fair value as at 31 Dec 2018	
	positive	negative	positive	negative
OECD banks and central governments	1,701	2,164	1,820	1,888
Companies and private individuals	93	1	114	46
Total	**1,794**	**2,165**	**1,934**	**1,934**

The following overview shows the cash flows of derivative financial instruments by risk types, based on the contractual maturity. The amounts shown in the table represent the contractually agreed future undiscounted cash flows.

31 December 2019

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Interest rate risk					
Interest rate swaps					
Cash inflows	135	381	1,015	264	**1,795**
Cash outflows	134	264	853	277	**1,528**
Caps, floors					
Cash inflows	0	0	1	0	**1**
Cash outflows	0	0	1	0	**1**
Interest rate and currency risk					
Spot and forward foreign exchange transactions					
Cash inflows	2,210	274	–	–	**2,484**
Cash outflows	2,226	273	–	–	**2,499**
Cross-currency swaps					
Cash inflows	897	1,048	8,484	–	**10,429**
Cash outflows	949	1,211	9,041	53	**11,254**
Total cash inflows	**3,242**	**1,703**	**9,500**	**264**	14,709
Total cash outflows	**3,309**	**1,748**	**9,895**	**330**	15,282

31 December 2018

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Interest rate risk					
Interest rate swaps					
Cash inflows	155	424	1,282	380	**2,241**
Cash outflows	170	297	1,023	386	**1,876**
Swaptions					
Cash inflows	–	–	–	–	**–**
Cash outflows	–	–	0	–	**0**
Caps, floors					
Cash inflows	0	2	4	1	**7**
Cash outflows	0	2	4	1	**7**
Interest rate and currency risk					
Spot and forward foreign exchange transactions					
Cash inflows	1,575	238	–	–	**1,813**
Cash outflows	1,566	238	–	–	**1,804**
Cross-currency swaps					
Cash inflows	509	1,528	6,855	51	**8,943**
Cash outflows	549	1,637	7,198	–	**9,384**
Total cash inflows	**2,239**	**2,192**	**8,141**	**432**	13,004
Total cash outflows	**2,285**	**2,174**	**8,225**	**387**	13,071

The procedure for measuring and monitoring liquidity risk is described in the Risk Report, part of the Group Management Report.

(68) Disclosures on hedging relationships

Disclosures on hedging derivatives

The following tables show designated hedging derivatives separately for each type of hedging relationship, risk category and product type:

Positive market value of designated hedging derivatives

€ mn	Carrying amount 31 Dec 2019	Nominal amount 31 Dec 2019	Fair value change 1 Jan - 31 Dec 2019	Carrying amount 31 Dec 2018	Nominal amount 31 Dec 2018	Fair value change 1 Jan - 31 Dec 2018
Fair value hedges						
Interest rate risk						
Interest rate swaps	1,374	17,915	423	1,277	18,276	-87
Hedge of net investments						
Currency risk						
Cross-currency swaps	6	518	0	–	–	–
Total	**1,380**	**18,433**	**423**	**1,277**	**18,276**	**-87**

Negative market value of designated hedging derivatives

€ mn	Carrying amount 31 Dec 2019	Nominal amount 31 Dec 2019	Fair value change 1 Jan - 31 Dec 2019	Carrying amount 31 Dec 2018	Nominal amount 31 Dec 2018	Fair value change 1 Jan - 31 Dec 2018
Fair value hedges						
Interest rate risk						
Interest rate swaps	1,294	12,186	256	1,422	12,470	-56
Interest rate and currency risk						
Cross-currency swaps	33	118	5	21	112	-5
Hedge of net investments						
Currency risk						
Cross-currency swaps	14	597	0	18	599	17
Total	**1,341**	**12,901**	**261**	**1,461**	**13,181**	**-44**

The following overview presents the nominal amounts of the hedging derivatives by maturities.

31 December 2019

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Fair value hedges					
Interest rate risk					
Interest rate swaps	843	3,512	17,999	7,747	**30,101**
Interest rate and currency risks					
Cross-currency swaps	–	–	118	–	**118**
Hedge of net investments					
Currency risk					
Cross-currency swaps	184	218	713	–	**1,115**
Total nominal amounts	**1,027**	**3,730**	**18,830**	**7,747**	**31,334**

Of the total amount of € 31.3 billion, € 6.8 million is linked to non-euro reference interest rates.

31 December 2018

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Fair value hedges					
Interest rate risk					
Interest rate swaps	2,678	3,571	17,031	7,466	**30,746**
Interest rate and currency risks					
Cross-currency swaps	–	–	112	–	**112**
Hedge of net investments					
Currency risk					
Cross-currency swaps	205	180	214	–	**599**
Total nominal amounts	**2,883**	**3,751**	**17,357**	**7,466**	**31,457**

Disclosures on hedged items

Hedged items of fair value hedges

The following tables show hedged items separately for each type of hedging relationship and risk category:

	Active hedging relationships			Discontinued hedging relationships
€ mn	Carrying amount 31 Dec 2019	Accumulated hedge adjustment 31 Dec 2019	Change in hedged fair values 1 Jan - 31 Dec 2019	Balance of hedge adjustments 31 Dec 2019
Interest rate risk				
Loan receivables (ac)	6,539	94	77	70
Money market and capital market receivables (ac)	2,538	520	44	22
Money market and capital market receivables (fvoci)	3,236	209	-121	48
Money market and capital market liabilities (ac)	18,653	1,025	176	59
Subordinated liabilities (ac)	841	51	2	4
Interest rate and currency risk				
Money market and capital market receivables (ac)	164	46	5	–

	Active hedging relationships			Discontinued hedging relationships
€ mn	Carrying amount 31 Dec 2018	Accumulated hedge adjustment 31 Dec 2018	Change in hedged fair values 1 Jan - 31 Dec 2018	Balance of hedge adjustments 31 Dec 2018
Interest rate risk				
Loan receivables (ac)	6,888	17	12	29
Money market and capital market receivables (ac)	3,940	645	-31	180
Money market and capital market receivables (fvoci)	3,898	330	-54	54
Money market and capital market liabilities (ac)	17,616	850	-89	76
Subordinated liabilities (ac)	915	49	-5	4
Interest rate and currency risk				
Money market and capital market receivables (ac)	153	41	-5	–

Hedge of net investments

The change in value of currency-hedged net investments in foreign operations amounted to € -10 million (2018: € 22 million) in the financial year under review. The balance of the hedging reserve (net) stood at € -20 million (2018: € -10 million) at year-end.

Net gain or loss from hedge accounting

Fair value hedges

The net gain or loss from hedge accounting include the following ineffective portions of fair value hedges by risk categories:

€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Interest rate risks	-4	-2
Interest rate and currency risks	0	0
Total	**-4**	**-2**

Hedge of net investments

The ineffective portion of currency-hedged net investments in foreign operations amounted to € 0 million (2018: € 0 million), reported in net gains or losses from hedge accounting. No amounts were reclassified from the reserve for currency-hedged net investments to the income statement.

(69) Maturities of financial liabilities

The following overview shows the future undiscounted cash flows of non-derivative financial liabilities and of loan commitments.

Maturities as at 31 December 2019

€ mn	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Money market and capital market liabilities (ac)	845	1,486	4,181	10,307	9,608	**26,427**
Deposits from the housing industry (ac)	7,696	2,050	–	–	–	**9,746**
Subordinated liabilities (ac)	–	17	43	454	588	**1,102**
Financial liabilities from other transactions (ac)	91	0	2	0	–	**93**
Lease liabilities	–	3	9	33	40	**85**
Financial guarantees	154	–	–	–	2	**156**
Loan commitments	1,205	–	–	–	–	**1,205**

Maturities as at 31 December 2018

€ mn	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Money market and capital market liabilities (ac)	896	2,692	4,864	10,090	10,374	**28,916**
Deposits from the housing industry (ac)	7,719	1,960	–	–	–	**9,679**
Subordinated liabilities (ac)	–	29	88	656	405	**1,178**
Financial liabilities from other transactions (ac)	118	0	2	0	–	**120**
Financial guarantees	156	–	–	–	2	**158**
Loan commitments	1,480	–	–	–	–	**1,480**

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

Segment Reporting

(70) Operating segments of Aareal Bank

Aareal Bank prepares its segment reporting 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 were 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/Pacific. 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 and retail properties 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. Depending on market conditions, the Bank places large-sized public issues or private placements. The Bank also generates deposits from the housing industry, which represent a strategically 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 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 subsidiary. 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 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 and 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 the highest level. Following successful advice, implementation and training, customers usually opt for a maintenance model covering regular support services.

In its Housing Industry division, Aareal Bank offers its customers products and solutions for optimising digital payments, electronic banking and cash management processes. Aareal Bank distributes BK 01, 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. Starting in the reporting year, the interest rate contribution and the negative interest are reported in the segment's net interest income (previously in net commission income).

Income and expenses within Aareal Bank are predominantly attributable to transactions with third parties, and are directly allocated to the responsible business segment. Revenue from transactions between Aareal Bank's segments was not generated in a significant amount. Therefore, we elected not to distinguish between internal and external revenue in the following disclosures. Administrative expenses not directly attributable to any of the business segments are segmented in line with the internal cost allocation, based on the principle of causation.

The results of the business segments are determined by the operating profit as well as by the return on equity (RoE) and the cost/income ratio (CIR). RoE, which indicates a segment's profitability, is calculated as the ratio of the segment's operating result (after non-controlling interests and after AT1 interest) to the portion of equity allocated to that segment on average. The cost/income ratio – determined as the ratio of input to output of resources – is used as an indicator for the cost efficiency of business segments. Equity allocated to the Structured Property Financing segment is calculated on the basis of the capital charge pursuant to Basel IV. For the Consulting/Services segment, it is calculated using equity carried in the statement of financial position.

(71) Segment results

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
€ mn	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Net interest income[1]	549	547	-16	-12	0	0	533	535
Loss allowance	90	73	0	-1			90	72
Net commission income[1]	10	9	227	212	-8	-6	229	215
Net derecognition gain or loss	64	24					64	24
Net gain or loss from financial instruments (fvpl)	1	-2	0	0			1	-2
Net gain or loss from hedge accounting	-4	-2					-4	-2
Net gain or loss from investments accounted for using the equity method	1	0	0				1	0
Administrative expenses	254	241	242	227	-8	-6	488	462
Net other operating income/expenses	-1	21	3	4	0	0	2	25
Negative goodwill from acquisitions		55						55
Operating profit	**276**	**338**	**-28**	**-22**	**0**	**0**	**248**	**316**
Income taxes	95	99	-10	-9			85	90
Consolidated net income	**181**	**239**	**-18**	**-13**	**0**	**0**	**163**	**226**
Consolidated net income attributable to non-controlling interests	0	0	2	2			2	2
Consolidated net income attributable to shareholders of Aareal Bank AG	181	239	-20	-15	0	0	161	224
Allocated equity[2]	2,115	2,058	215	189	237	268	2,567	2,515
Cost/income ratio (%)	41.0	40.4	113.0	111.6			59.0	58.2
RoE before taxes (%) [2] [3]	12.0	15.3	-13.9	-12.7			8.7	11.6
Employees (average)	**796**	**800**	**1,995**	**1,964**			**2,791**	**2,764**
Segment assets	**30,012**	**31,989**	**11,125**	**10,698**			**41,137**	**42,687**

[1] As of this reporting year, interest from housing industry deposits is shown in net interest income of the Consulting/Services segment (previously included in net commission income). The previous year's figures were adjusted accordingly.
[2] Equity allocated to the Structured Property Financing segment for the same period of the previous year was adjusted to bring it into line with Basel IV; RoE before taxes is thus also changed accordingly.
[3] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Commission income from contracts with customers is allocated to the segments as follows:

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
€ mn								
ERP products (incl. add-on products)			196	191	-13	-13	183	178
Digital solutions			51	42			51	42
Banking business and other activities	13	12	32	27			45	39
Total	**13**	**12**	**279**	**260**	**-13**	**-13**	**279**	**259**

(72) Income by geographical markets

€ mn	2019	2018
Germany	563	522
Rest of Europe	160	172
North America	99	75
Asia/Pacific	5	3
Total	**827**	**772**

Income includes net interest income (excluding loss allowance), net commission income, net gain or loss on derecognition and net gain or loss from financial instruments (fvpl). Allocation to geographical markets is based on the registered office or domicile of the Group company or branch office.

Other Notes

(73) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2019	31 Dec 2018
USD	11,264	13,096
GBP	4,271	4,408
CAD	1,357	908
SEK	701	608
CHF	364	400
DKK	117	323
Other	256	94
Total	**18,330**	**19,837**

Foreign currency liabilities

€ mn	31 Dec 2019	31 Dec 2018
USD	11,230	13,084
GBP	4,262	4,340
CAD	1,349	905
SEK	701	584
CHF	365	401
DKK	119	322
Other	248	91
Total	**18,274**	**19,727**

(74) Subordinated assets

In the event of insolvency or liquidation of the issuer, subordinated assets are those subordinate to the claims of all other creditors. There were no subordinated assets in the financial year 2019 (2018: € 0 million)

(75) Leases

Leases where the Bank acts as the lessee

The following overview shows the movements in the right-of-use assets from leases where Aareal Bank Group acts as the lessee.

2019

€ mn	Right-of-use assets in: Land and buildings	Right-of-use assets in: Office furniture and equipment	Total
Cost			
Balance as at 1 January	**64**	**6**	**70**
Additions	17	5	**22**
Transfers	-1	–	**-1**
Amortisation and impairment losses	9	4	**13**
Disposals	2	0	**2**
Currency translation differences	0	–	**0**
Balance as at 31 December	**69**	**7**	**76**

Right-of-use assets are recognised under property and equipment.

Aareal Bank Group primarily rents properties which are, in some cases, subject to longer-term rental agreements with extension options of up to ten years where the exercise is reasonably certain. The leases are not subject to material residual value guarantees.

The entire cash outflows from leases where Aareal Bank Group is the lessee in the current period amount to € 16 million as at the reporting date.

Expenses and income from Aareal Bank Group include the following amounts from leases with Aareal Bank Group as the lessee in the 2019 financial year:

€ mn	31 Dec 2019
Interest expenses for lease liabilities	2
Expenses for short-term leases	2
Expenses for low-value leases	0
Income from the sublease of right-of-use assets	0

In the financial year 2019, there were no sale-and-lease-back transactions, and neither were there any material variable lease payments.

The future undiscounted cash flows from lease liabilities based on their maturities are disclosed in the Note "Maturities of financial liabilities".

Leases where the Bank acts as the lessor

Aareal Bank Group acts as lessor as regards the lease of property. All rental contracts are classified as operating leases. Properties leased by the Group are reported under the item ”Other assets”. Not all properties reported under the item ”Other assets” are currently let. The risks of these properties are included in property risk management.

Income from operating leases amounted to € 12 million in the year under review. They are recognised in the income statement on a straight-line basis over the lease term.

The following overview shows the future undiscounted payments under operating leases based on their maturities where Aareal Bank Group acts as the lessor.

€ mn	31 Dec 2019	31 Dec 2018
Up to 1 year	8	9
Longer than 1 year, and up to 5 years	17	24
Longer than 5 years	4	7
Total minimum lease payments	**29**	**40**

(76) Contingent liabilities and loan commitments

€ mn	31 Dec 2019	31 Dec 2018
Contingent liabilities	157	158
Loan commitments	1,205	1,480
of which: irrevocable	881	1,035

Contingent liabilities include irrevocable payment obligations regarding the bank levy and the liability 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 € 99 million (2018: € 109 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.

(77) 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 (Solvabilitätsverordnung, SolvV) pursuant to Basel III. This requires the Bank to maintain own funds (including capital conservation buffer and the countercyclical buffer) of at least 10.7 % of its risk-weighted assets in 2020 (2019: 10.6 %). Risk-weighted assets must be backed by Tier 1 capital of at least 8.7 % (2019: 8.6 %). 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.

In 2020, the SREP total capital requirement of the ECB amounts to 12.9 % (2019: 12.9 %) for Aareal Bank Group. It comprises the minimum own funds requirement pursuant to Article 92(1) of the CRR, Pillar 2 Requirement (P2R) as well as capital conservation buffer and a countercyclical buffer. In 2020, the SREP-CET 1 requirement is 9.4 % (2019: 9.4 %), including the above-mentioned buffers.

The objectives of capital management are optimising the capital base as well as an efficient capital allocation to the individual business areas in terms of risk and income. Subject to further regulatory changes, Aareal Bank considers a target CET 1 ratio (post-finalisation of Basel III – so-called "Basel IV") of around 12.5 % to be appropriate as a target capital ratio relevant for internal control. This ratio, which is significantly above the legal minimum requirement and above the ECB's requirements, is to guarantee the Bank's capacity to act. The capital ratios are managed 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 2019 [1]	31 Dec 2018
Tier 1 capital (T1)		
Subscribed capital and capital reserves	900	900
Eligible retained earnings	1,653	1,590
Accumulated other comprehensive income	-133	-54
Amounts to be deducted from CET 1 capital	-229	-195
Total Common Equity Tier 1 (CET1) capital	**2,191**	**2,241**

>

[1] When calculating own funds, net income for the year was taken into account, having regard to the Management Board's proposal for the appropriation of profits for the 2019 financial year and the pro-rated deferral of the net interest from the AT1 bond. The appropriation of profits is subject to approval by the Annual General Meeting. The expected relevant impact of the TRIM exercise on commercial property financings, and of the SREP recommendations concerning the NPL stock as well as the ECB's NPL guidelines for exposures newly classified as NPLs, were taken into account for determining regulatory capital.

€ mn	31 Dec 2019[1)]	31 Dec 2018
AT1 bond	300	300
Sum total of Additional Tier 1 (AT1) capital	**300**	**300**
Sum total of Tier 1 capital (T1)	**2,491**	**2,541**
Tier 2 (T2) capital		
Subordinated liabilities	830	830
Other	22	48
Sum total of Tier 2 capital (T2)	**852**	**878**
Total capital (TC)	**3,343**	**3,419**

1) When calculating own funds, net income for the year was taken into account, having regard to the Management Board's proposal for the appropriation of profits for the 2019 financial year and the pro-rated deferral of the net interest from the AT1 bond. The appropriation of profits is subject to approval by the Annual General Meeting. The expected relevant impact of the TRIM exercise on commercial property financings, and of the SREP recommendations concerning the NPL stock as well as the ECB's NPL guidelines for exposures newly classified as NPLs, were taken into account for determining regulatory capital.

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 2019 can be broken down as follows:

€ mn	Risk-weighted assets (RWA) 31 Dec 2019	Minimum capital requirements 31 Dec 2019	Risk-weighted assets (RWA) 31 Dec 2018	Minimum capital requirements 31 Dec 2018
Credit risk	**8,774**	**702**	**10,300**	**824**
Credit Risk Standard Approach (CRSA)[1)]	595	48	586	47
Advanced IRB (AIRB) approach[1)]	7,388	591	8,865	709
Equity under the IRB approach based on the simple risk-weighted approach	791	63	849	68
Counterparty credit risk	**486**	**39**	**582**	**47**
Mark to market	283	23	376	30
Risk exposure amount from contributions to the default fund of a central counterparty	0	0	0	0
Credit Valuation Adjustment	203	16	206	16
Market risk	**61**	**5**	**92**	**7**
Operational risk	**1,489**	**119**	**1,489**	**119**
Basic indicator approach	44	4	44	4
Standard approach	1,445	116	1,445	116
Other receivables (e.g. deferred tax assets)	**385**	**31**	**328**	**26**
Total	**11,195**	**896**	**12,791**	**1,023**

1) Risk exposures towards institutions are determined using the CRSA starting on 31 December 2019. Previously, the AIRBA was used.

(78) Additional disclosures to the Remuneration Report

Management Board

In the financial year 2019, the Management Board's total remuneration amounted to € 11 million (2018: € 10 million), of which € 5 million (2018: € 5 million) referred to variable components.

Payments to former Management Board members and their surviving dependants totalled € 2 million in 2019 (2018: € 3 million).

The pension obligations to former members of the Management Board and their surviving dependants amounted to a total of € 35 million as at 31 December 2019 (2018: € 33 million).

Supervisory Board

The total remuneration of members of the Supervisory Board for the financial year 2019 amounted to € 2 million (2018: € 2 million). The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

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	31 Dec 2019	31 Dec 2018
Short-term benefits	8,600	7,349
Post-employment benefits	7,704	3,026
Other long-term benefits	1,548	1,441
Termination benefits	–	–
Share-based remuneration	2,580	2,402
Total	**20,432**	**14,218**

Provisions for pension obligations concerning key executives totalled € 26 million as at 31 December 2019 (2018: € 19 million).

Disclosures on share-based remuneration

Valuation model and valuation assumptions

The obligations resulting from 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 existing share-based payment arrangements changed as follows:

Quantity (number)	2019	2018
Balance (outstanding) at 1 January	**656,900**	**691,546**
Granted during the reporting period	276,782	211,421
Expired during the reporting period	–	–
Exercised during the reporting period	233,939	246,067
Balance (outstanding) at 31 December	**699,743**	**656,900**
of which: exercisable	–	–

The fair value of the virtual shares granted during the reporting period amounted to € 8 million (2018: € 6 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 € 28.70 (2018: € 39.08).

Impact on financial performance

The total amount expensed for share-based payment transactions was € 10 million during the financial year 2019 (2018: € 1 million). The portion of the total amount expensed attributable to members of the Management Board amounted to € 3 million (2018: € 0 million) and can be broken down to the individual members of the Management Board as follows:

€	2019	2018
Hermann J. Merkens	820,318	-157,261
Marc Hess[1)]	395,408	100,822
Dagmar Knopek	564,712	-176,781
Christiane Kunisch-Wolff	466,764	122,941
Thomas Ortmanns	574,412	-155,427
Christof Winkelmann	435,043	159,461

[1)] Marc Hess was appointed to the Management Board on 1 October 2018.

In addition, € 0 million (2018: € 0 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 million (2018: € 0 million), since there were no exercisable virtual shares at that date. The obligation from share-based payment transactions as at 31 December 2019 amounted to € 30 million (2018: € 28 million). It is reported in the statement of financial position in the line item ”Provisions”.

(79) Related party disclosures in accordance with IAS 24

The group of related parties of Aareal Bank Group comprises the members of management or supervisory bodies of Aareal Bank AG (see preceding note) and close members of these persons' families. The group of companies related to Aareal Bank Group consists of the companies set out in Note 87 "List of Shareholdings" as well as the companies attributable to the related persons within the meaning of IAS 24.9 (b)(vi). Intra-group receivables and liabilities, as well as consolidated income and expenses, are not shown here.

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

€ mn	31 Dec 2019	31 Dec 2018
Management Board	–	–
Supervisory Board	–	–
Other related parties	16	18
Total	**16**	**18**

The item "Other related parties" includes a loan of € 16 million which was provided to our investee Mount Street Group Limited on an arm's length basis, as well as receivables from the BauGrund/TREUREAL syndicate in the amount of € 0.2 million.

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

(80) Events after the reporting date

On 17 February 2020, the ECB authorised Aareal Bank to terminate the AT1 bond issued without having to replace it with a new issue. Since this date, the Bank has deducted the AT1 bond from regulatory capital, as required by the ECB (in accordance with Art. 28 (2) of Delegated Regulation (EU) 241/2014), due to the possibility of terminating the bond at any time. The Bank has not yet terminated the issue as at the time of preparing the financial statements.

There were no other material events after the reporting period which would have to be reported here.

(81) Contingencies

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.

(82) 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 2019, we were aware of the following shareholders holding a share in the voting rights of at least 3 % pursuant to section 33 (1) of the WpHG:

	Location	Total[1]	Threshold reached on
Responsible entity			
DEKA	Frankfurt	9.60 %	22 May 2018
BlackRock	Wilmington	9.51 %	23 December 2019
VBL[2]	Karlsruhe	6.50 %	3 February 2015
Dimensional Fund	Austin	5.25 %	30 August 2019
iShares Trust[3]	Wilmington	5.22 %	3 April 2019
Igor Kuzniar	Zug	5.07 %	10 December 2019
Teleios Global Opportunities Master Fund Ltd.[4]	George Town	5.07 %	10 December 2019
Allianz Global Investors	Frankfurt	4.99 %	2 October 2019
JPMorgan Investment Management Inc.[5]	Wilmington	3.07 %	13 November 2018
JPMorgan Chase Bank[5]	Columbus	3.07 %	13 November 2018
JPMorgan Asset Management (UK)[5]	London	3.07 %	13 November 2018
Staat Norwegen (über Norges Bank)	Oslo	3.05 %	26 February 2018
DFA International Small Cap Value[6]	Baltimore	3.01 %	7 August 2018

[1] Direct and indirect holdings of voting rights
[2] Shares are managed by Deka and are therefore included in DEKA's holding of 9.60 %
[3] Shares are also attributed to BlackRock and are therefore included in BlackRock's holding of 9.51 %
[4] Shares are also attributed to Igor Kuzniar and therefore correspond to his share of voting rights
[5] The holdings are attributed to each other across these three companies. Therefore, the overall share is 3.07 %.
[6] Shares are also attributed to Dimensional Fund and are therefore included in Dimensional Fund's holding of 5.25 %

(83) 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 www.aareal-bank.com/en/about-us/corporate-governance/declaration-of-compliance/.

(84) Employees

The number of Aareal Bank Group employees is shown below:

	31 Dec 2019[1)]	Average 1 Jan - 31 Dec 2019[2)]	31 Dec 18[1)]	Average 1 Jan - 31 Dec 2018[2)]
Salaried employees	2,640	2,641	2,593	2,612
Executives	148	150	155	152
Total	**2,788**	**2,791**	**2,748**	**2,764**
of which: part-time employees	556	564	569	548

[1)] This number does not include 45 employees of the hotel business (31 December 2018: 47 employees).
[2)] This number does not include 180 employees of the hotel business (1 January to 31 December 2018: 191 employees).

(85) 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/or 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 mainly interacts with structured entities such as open-ended property funds and leased property companies. In this context, the Group provides financing to structured entities in the form of loans or guarantees. Strategic investments made by the Group are included under "Other". The leased property 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). In the year under review and the previous year, Aareal Bank Group did not provide any non-contractual support for unconsolidated structured entities.

To the extent that this is relevant, the following table (p. 212) 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 other vehicles and on the basis of total assets for leased property companies.

31 December 2019

€ mn	Open-ended property funds	Leased property companies	Other	Total
Assets				
Loan receivables	31	17	3	**51**
Off-balance sheet exposures				
Loan commitments and guarantees (nominal value)	–	–	2	**2**
Size range of structured units	**€ 167 mn – € 896 mn**	**€ 5 mn – € 47 mn**	**€ 1 mn – € 11 mn**	

31 December 2018

€ mn	Open-ended property funds	Leased property companies	Other	Total
Assets				
Loan receivables	159	30	–	**189**
Off-balance sheet exposures				
Loan commitments and guarantees (nominal value)	–	–	–	**–**
Size range of structured units	**€ 160 mn – € 734 mn**	**€ 5 mn – € 44 mn**	–	

(86) 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 loss allowance
- Net commission income
- Net derecognition gain or loss
- Net gain or loss from financial instruments (fvpl)
- Net gain or loss from hedge accounting

- Net gain or loss from investments accounted for using the equity method
- Net other operating income/expenses
- 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.

2019

	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	**612**	**276**	**95**	**908**
Belgium	1	1	–	–
France	6	1	1	7
Germany	419	223	70	814
Ireland	1	2	0	1
Italy	50	-62	–	31
Poland	9	5	2	5
Singapore	4	3	0	5
Spain	0	0	–	–
Sweden	4	2	1	3
United Kingdom	8	5	0	7
USA	118	96	21	35
Consolidation	-8	–	–	–
Consulting/Services segment	**214**	**-28**	**-10**	**1,652**
Finland	–	0	–	3
France	28	7	3	193
Germany	133	-42	-13	983
Netherlands	32	6	–	266
Norway	3	3	0	5
Sweden	7	-2	0	78
United Kingdom	11	0	0	124
Consolidation	–	–	–	–
Total	**826**	**248**	**85**	**2,560**

Government assistance was not received in the financial year 2019.

Aareal Bank Group's return on assets, calculated as the ratio of net profit to total assets, was 0.39 % as at the record date.

2018

	Revenues	Profi/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**646**	**338**	**99**	**935**
Belgium	1	1	–	–
France	9	5	2	4
Germany	460	289	46	844
Ireland	3	5	0	1
Italy	75	-34	30	32
Poland	11	8	1	5
Singapore	3	1	0	5
Spain	–	–	0	–
Sweden	3	1	0	3
United Kingdom	8	5	-	7
USA	78	57	20	34
Consolidation	-5	–	–	–
Consulting/Services segment	**204**	**-22**	**-9**	**1,611**
France	25	6	2	186
Germany	130	-32	-12	961
Netherlands	30	6	1	261
Norway	7	-1	–	7
Sweden	–	-2	0	79
United Kingdom	12	1	0	117
Consolidation	–	–	–	–
Total	**850**	**316**	**90**	**2,546**

(87) List of shareholdings

The list of shareholdings is prepared 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 2019

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated subsidiaries				
2	Aareal Bank Asia Ltd.	Singapore	100.0	SGD 22.7 mn	SGD 4.2 mn [1]
3	Aareal Beteiligungen AG	Frankfurt	100.0	167.0	0.0 [3]
4	Aareal Capital Corporation	Wilmington	100.0	USD 1,018.8 mn	USD 11.7 mn [4]
5	Aareal Estate AG	Wiesbaden	100.0	2.9	0.0 [3]
6	Aareal First Financial Solutions AG	Mainz	100.0	3.2	0.0 [3]
7	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.7	0.1 [1]
8	Aareal Holding Realty LP	Wilmington	99.8	USD 221.4 mn	USD -0.3 mn [4]
9	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	419.7	0.0 [3]
10	Aareon AG	Mainz	100.0	165.7	26.3
11	Aareon Deutschland GmbH	Mainz	100.0	34.7	0.0 [3]
12	Aareon Finland Oy	Helsinki	100.0	0.0	-0.3 [1]
13	Aareon France S.A.S.	Meudon-la Forêt	100.0	9.5	3.6 [2]
14	Aareon Nederland B.V.	Emmen	100.0	28.2	2.0 [2]
15	Aareon Norge AS	Oslo	100.0	NOK 5.7 mn	NOK -19.9 mn [2]
16	Aaeron Planungs- und Bestandsentwicklungs GmbH	Mainz	100.0	-0.4	-0.5 [1]
17	Aareon Sverige AB	Mölndal	100.0	SEK 26.1 mn	SEK -24.9 mn [2]
18	Aareon RELion GmbH	Augsburg	100.0	-0.4	-0.5 [2]
19	Aareon RELion Nord GmbH	Hamburg	100.0	1.1	0.4 [2]
20	Aareon RELion Süd GmbH	Augsburg	100.0	0.6	0.4 [2]
21	Aareon UK Ltd.	Coventry	100.0	GBP 4.8 mn	GBP 0.4 mn [2]
22	AV Management GmbH	Mainz	100.0	0.4	0.0 [3]
23	BauContact Immobilien GmbH	Wiesbaden	100.0	8.5	0.7
24	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 [3]
25	BauGrund Solida Immobilien GmbH	Frankfurt	100.0	0.1	0.0 [1]
26	BauGrund TVG GmbH	Munich	100.0	0.1	0.0 [1]
27	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	3.6	3.5 [2]
28	BVG – Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	152.3	0.0 [3]
29	Cave Nuove S.p.A.	Rome	100.0	-76.9	0.0
30	DBB Inka	Dusseldorf	100.0	100.1	-0.6
31	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	0.5	0.0 [1]

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[1] Preliminary figures as at 31 December 2019; [2] Equity and results as at 31 December 2018;
[3] Profit and loss transfer agreement/control and profit transfer agreement; [4] Disclosures in accordance with IFRSs

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
32	Deutsche Structured Finance GmbH	Wiesbaden	100.0	3.0	-1.3
33	DSF Flugzeugportfolio GmbH	Wiesbaden	100.0	0.0	0.0 [3]
34	DHB Verwaltungs AG	Wiesbaden	100.0	5.1	0.0 [3]
35	FIRE B.V.	Utrecht	60.0	0.0	0.0 [2]
36	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	3.0	0.0 [3]
37	GEV Beteiligungsgesellschaft mbH	Wiesbaden	100.0	0.1	0.0
38	GVN-Grundstücks- und Vermögensverwaltungs-gesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.5	0.0 [3]
39	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	2.5	0.0 [1]
40	Izalco Spain S.L.	Madrid	100.0	13.3	-0.5 [1]
41	Jomo S.p.r.l.	Brussels	100.0	26.4	1.0 [1]
42	Kalshoven Automation B.V.	Amsterdam	100.0	1.2	0.7 [2]
43	La Sessola Holding GmbH	Wiesbaden	100.0	86.6	0.0 [1]
44	La Sessola S.r.l.	Rome	100.0	100.7	-7.3 [1]
45	La Sessola Service S.r.l.	Rome	100.0	4.5	-0.2 [1]
46	Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn [4]
47	Mercadea S.r.l.	Rome	100.0	7.3	0.0 [1]
48	Mirante S.r.l.	Rome	100.0	4.6	-0.6 [1]
49	Northpark Realty LP	Wilmington	100.0	USD 118.0 mn	USD 3.0 mn [4]
50	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	3.0	0.0 [3]
51	Participation Elfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3]
52	Participation Zehnte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3]
53	phi-Consulting GmbH	Bochum	100.0	1.9	0.2 [3]
54	Pisana S.p.A.	Rome	100.0	-17.1	0.0
55	plusForta GmbH	Dusseldorf	100.0	0.2	0.0 [3]
56	Sedum Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Wiesbaden	94.9	-2.0	3.4 [1]
57	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	100.0	23.8	0.0 [3]
58	Terrain Beteiligungen GmbH	Wiesbaden	94.0	57.6	1.0 [1]
59	Westdeutsche Immobilien Servicing AG	Mainz	100.0	50.1	0.0 [3]
60	WP Galleria Realty LP	Wilmington	100.0	USD 124.1 mn	USD 0.8 mn [4]
	II. Joint Arrangements				
61	Konsortium BauGrund/TREUREAL[5]	Bonn	50.0	0.0	0.0 [1]
	III. Associates				
62	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Bremen	48.4	0.3	0.0 [2]
63	Mount Street Group Limited	London	20.0	GBP 3.1 mn	GBP 4.4 mn [1]
64	OFI Group GmbH	Frankfurt	35.8	0.4	-0.6 [1]
65	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	0.0	0.0 [1]
	IV. Other enterprises[6]				

[1] Preliminary figures as at 31 December 2019; [2] Equity and results as at 31 December 2018;
[3] Profit and loss transfer agreement/control and profit transfer agreement; [4] Disclosures in accordance with IFRSs; [5] Joint operation;
[6] With a carrying amount of > € 3 million, which is why BrickVest Ltd is no longer shown as at 31 December 2019

(88) Executive Bodies of Aareal Bank AG

The members of the Management Board and the Supervisory Board disclose their offices held, in accordance with the requirements set out in section 285 of the HGB and Article 435 (2) of Regulation (EU) No 575/2013, in conjunction with the EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11) and the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12).

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	
Nomura Financial Products Europe GmbH	Member of the Supervisory Board	
(Offices held at other listed companies)		
Instone Real Estate Group N.V.	Member of the Supervisory Board	
(Non-commercial mandates)		
FAZIT – Stiftung Gemeinnützige Verlagsgesellschaft mbH	Shareholder and member of the Advisory Board	
Städelsches Kunstinstitut und Städtische Galerie	Member of the Administration	
Gesellschaft der Freunde der Alten Oper Frankfurt e.V.	Deputy Chairman of the Management Board	
Stiftung Centrale für private Fürsorge	Chairman of the Foundation's Executive Board	

Prof. Dr Stephan Schüller, Deputy Chairman of the Supervisory Board
Businessman; former spokesman of the General Partners of Bankhaus Lampe KG

Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Howaldt & Co. Investmentaktiengesellschaft TGV	Chairman of the Supervisory Board	
HANSAINVEST (Hanseatische Investment-GmbH)	Member of the Supervisory Board	
Merica Holdings Plc Ltd.	Member of the Board of Directors	
(Non-commercial mandates)		
hsh portfoliomanagement AöR	Member of the Board of Directors	(since 1 January 2019)
SC Preußen Münster 06 GmbH	Member of the Board of Directors	(until 10 October 2019)

Klaus Novatius*, Deputy Chairman of the Supervisory Board
Aareal Bank AG

Aareal Bank AG	Deputy Chairman of the Supervisory Board	(since 1 January 2019)

Thomas Hawel*
Aareon Deutschland GmbH

Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH (Mandat innerhalb der Aareal Bank-Gruppe)	Deputy Chairman of the Supervisory Board	

Petra Heinemann-Specht*
Aareal Bank AG

Aareal Bank AG	Member of the Supervisory Board	

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

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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 (Liquidation geplant)	Member of the Supervisory Board (not active)	(until 15 February 2019)

(Non-commercial mandates)

VBLV e.V.	Chairman of the Management Board

Dr Hans-Werner Rhein
German Lawyer (Rechtsanwalt)

Aareal Bank AG	Member of the Supervisory Board

(Offices held at other listed companies)

Deutsche Familienversicherung AG	Chairman of the Supervisory Board

(Non-commercial mandates)

Müller-Matthieu Stiftung	Chairman of the Management Board
ARIAS Deutschland e.V.	Chairman of the Management Board
St. Petri Stiftung, Hamburg	Member of the Board of Managing Directors

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

Aareal Bank AG	Member of the Supervisory Board

Elisabeth Stheeman
External Member of the Financial Policy Committee and the Financial Market Infrastructure Board, Bank of England, Prudential Regulation Authority

Aareal Bank AG	Member of the Supervisory Board

(Offices held at other listed companies)

Edinburgh Investment Trust Plc	Member of the Board of Directors	(since 23 May 2019)
Korian SA	Member of the Supervisory Board	(until 6 June 2019)

Hans-Dietrich Voigtländer
Associate Partner at 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
Squadra Immobilien GmbH & Co. KGaA	Member of the Supervisory Board

(Offices held at other listed companies)

PEH Wertpapier AG	Member of the Supervisory Board
Consus Real Estate AG (”Scale” segment of the Regulated Unofficial Market)**	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
** Banking supervisory authority has approved the acceptance of this fifth Supervisory Board office in accordance with section 25d (3) of the KWG.

Composition of Supervisory Board's committees

Executive and Nomination Committee

Marija Korsch	Chairman
Prof. Dr Stephan Schüller	Deputy Chairman
Klaus Novatius	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
Marija Korsch	
Richard Peters	
Hans-Dietrich Voigtländer	
Beate Wollmann	

Remuneration Control Committee

Marija Korsch	Chairman
Prof. Dr Stephan Schüller	Deputy Chairman
Klaus Novatius	Deputy Chairman
Hans-Dietrich Voigtländer	

Risk Committee

Sylvia Seignette	Chairman
Elisabeth Stheeman	Deputy Chairman
Petra Heinemann-Specht	
Marija Korsch	
Dr Hans-Werner Rhein	
Prof. Dr Hermann Wagner	

Management Board

Hermann Josef Merkens, Chairman of the Management Board
Corporate Strategy, Project & Credit Portfolio Management, Corporate Communications, Investor Relations incl. Sustainability, Board Office, Human Resources, Legal, Audit

Becker & Kries family foundation	Member of the Board of Trustees	(since 9 June 2019)
(Offices held at companies of Aareal Bank Group)		
Aareal Estate AG	Chairman of the Supervisory Board	
Aareal Capital Corporation	Chairman of the Board of Directors	
Aareon AG	Deputy Chairman of the Supervisory Board	
Aareal Beteiligungen AG (formerly Corealcredit Bank AG)	Chairman of the Supervisory Board	

Marc Hess, Member of the Management Board
Finance & Controlling, Treasury

(Offices held at companies of Aareal Bank Group)		
Aareon AG	Member of the Supervisory Board	(since 1 January 2019)
Düsseldorfer Hypothekenbank AG	Chairman of the Supervisory Board	(until 24 June 2019)

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

HypZert GmbH	Chairman of the Supervisory Board	
(Offices held at companies of Aareal Bank Group)		
Düsseldorfer Hypothekenbank AG	Member of the Supervisory Board	(until 24 June 2019)
Westdeutsche Immobilien Servicing AG (formerly Westdeutsche ImmobilienBank AG)	Chairman of the Supervisory Board	(until 7 March 2019)

Christiane Kunisch-Wolff, Member of the Management Board
Risk Controlling, Regulatory Affairs and Compliance

(Offices held at companies of Aareal Bank Group)		
Westdeutsche Immobilien Servicing AG (formerly Westdeutsche ImmobilienBank AG)	Member of the Supervisory Board	(until 7 March 2019)

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

(Offices held at companies of Aareal Bank Group)	
Aareon AG	Chairman of the Supervisory Board

Christof Winkelmann, Member of the Management Board
Sales Unit Structured Property Financing

(Offices held at companies of Aareal Bank Group)	
Aareal Bank Asia Limited	Chairman of the Board of Directors
Aareal Capital Corporation	Member of the Board of Directors
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, 2 March 2020

The Management Board

Hermann J. Merkens **Marc Hess** **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 and of the Group management report

Audit Opinions

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 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Aareal Bank AG for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315e Abs. (paragraph) 1 HGB (andelsgesetzbuch: German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz (sentence) 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

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 2019. 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; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Recoverability of the Italian mortgage loan portfolio
❷ Recoverability of properties acquired from previous loan exposures as reported in the property, plant and equipment and other assets balance sheet items
❸ Implementation of SAP S/4HANA software to handle business processes in the core banking business and accounting

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

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

Hereinafter we present the key audit matters:

❶ Recoverability of the Italian mortgage loan portfolio

① In the consolidated financial statements of Aareal Bank AG, loans and advances to customers in the amount of € 2.7 billion that are secured by properties in Italy (hereinafter "Italian mortgage loan portfolio") are reported as of 31 December 2019. As of 31 December 2019, the allowances for credit losses for the Italian mortgage loan portfolio amounts to a total of € 268 million. Italy's difficult macro-economic situation has in past years, in part, led to financial difficulties and restructuring proceedings for Aareal Bank AG's borrowers. The realization of the properties on which the Italian mortgage loan portfolio is based has taken a number of years so far, 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 rent rolls 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 used 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, 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, or determined on the basis of floor area-related comparative values. If it is found when assessing the borrower that there has been a default and the income from the collateral is expected to be insufficient, the Company applies a specific valuation allowance (Stage 3). When determining the specific valuation allowances for the Italian mortgage loan portfolio, the executive directors make assumptions concerning cash flow, completion and realization as well as assumptions concerning the probability of scenarios. Since even relatively small changes in these assumptions have a significant influence on the associated collateral value and the measurements of the loans and advances are subject to uncertainties in this regard, this matter was of particular significance in the context of our audit.

② As part of our audit we evaluated, inter alia, the existing documents relating to the financial circumstances of the lenders and the recoverability of the related collateral in a risk-focused sample of exposures. We evaluated the valuations performed by the appraisers and their review by Aareal Bank AG 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 and their review by Aareal Bank AG were based, evaluated these critically and assessed whether they were within a justifiable range. In some cases, we carried out our own property inspections. In addition, we based our assessment of the executive directors' assumptions concerning cash flow, completion and realization on general and sector-specific market expectations as well as on documentation and explanations from the executive directors about expected cash inflows and outflows as well as assumptions concerning the probability of scenarios. 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 their effectiveness. Taking account of the information available, we conclude that the assumptions made by the executive directors for testing the impairment of the Italian mortgage loan portfolio and the procedures implemented are appropriate.

③ The Company's disclosures regarding the risk allowances are contained in notes 9, 32 and 42 in the notes to the consolidated financial statements, which also comprise the risk allowances for the Italian mortgage loan portfolio.

❷ Recoverability 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 2019 in the amount of € 129 million in the property and equipment balance sheet line item in accordance with IAS 16 Property, Plant and Equipment and in the amount of € 337 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. 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, with the appraisers deriving the assumptions about future cash flows using the information and projections provided by the executive directors, or determined on the basis of floor area-related comparative values. In addition, the executive directors make assumptions about completion, leasing and marketing. 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 significance in the context of 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 cash flow, completion, leasing and marketing assumptions made by the executive directors on, inter alia, a comparison with general and sector-specific market expectations as well as on documentation and explanations from the executive directors 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. Taking account of the information available, we conclude that the assumptions made by the executive directors for testing the impairment of the properties acquired from former exposures and the classifications applied are appropriate.

③ We refer to the Company's disclosures on property, plant and equipment and other assets contained in notes 19, 22, 47 and 50 in the notes to the consolidated financial statements.

❸ Implementation of SAP S/4HANA software to handle business processes in the core banking business and accounting

① Aareal Bank AG processes a significant amount of its accounting-related data using IT applications based on software developed by SAP SE, Walldorf. The applications are used in particular to handle business processes in the core banking business (including to manage loans and collateral), for accounting (ongoing recording of business transactions in subledgers and in the general ledger and preparing the consolidated financial statements) and for management accounting.

As part of its strategy to modernize and harmonize its IT architecture, Aareal Bank AG resolved a changeover to the new SAP product generation, S/4HANA. In the course of defined project phases, a new SAP system with system configuration adapted to current requirements (customizing) was successively set up on the basis of the existing SAP system from the fourth quarter of 2018. Defined datasets were migrated from the old to the new SAP system at the end of November 2019.

The implementation of SAP S/4HANA was of particular significance in the context of our audit due to the key role of the SAP system for the handling of processes in the core banking business and for the financial accounting system and thus for the functioning of the control and accounting processes and the legal compliance of the consolidated financial statements.

② As part of our audit, we first obtained an understanding of the objectives, organization, scheduling and project management of the implementation project. On this basis, we assessed the appropriateness of the functional and technical concept based on what we considered to be the most important documents. In addition, during the project we assessed whether the test plan was appropriate and complete. We verified, on a sample basis, that testing was properly carried out and documented and that test results were taken into appropriate consideration within the various test phases (functional and integration tests). Furthermore, we assessed the appropriateness of the data migration concepts and the proper performance and documentation of the data migration. This involved, among other things, verifying the appropriateness of the reconciliation activities performed by the Company as of the data migration date, including tracking abnormalities. In addition, we inspected the approvals of the Company's involved departments and verified whether the approvals required for going live had been granted.

We also assessed the design and operating effectiveness of selected controls put in place to ensure proper data processing during ongoing operations. As part of our audit, we also evaluated the report prepared by Internal Audit on its audit carried out in connection with the implementation of SAP S/4HANA.

Based on our audit procedures, we were able to satisfy ourselves overall that the SAP S/4HANA software was properly implemented in a comprehensible manner.

③ The Company's disclosures relating to the implementation of SAP S/4HANA are contained in section "Accounting-related Internal Control and Risk Management System" in the group management report.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate Governance Statement" of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report 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 the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined 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, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient 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 consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are 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 whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation, and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs 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 the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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 and of the group management report, 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 audit opinions. 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 controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (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 systems.

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

- Conclude on the appropriateness of the executive directors' 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 the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able 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 present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

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

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, 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 the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the 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 auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 22 May 2019. We were engaged by the supervisory board on 25 June 2019. We have been the group auditor of Aareal Bank AG, Wiesbaden, and its legal predecessors without interruption since the financial year 1976.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christian F. Rabeling.

Frankfurt/Main, 3 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Ralf Schmitz	**sgd. Christian F. Rabeling**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
(German Public Auditor)	**(German Public Auditor)**