



Press Release

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Aareal Bank Group posts another set of record results for the financial year 2015 – proposes dividend increase from € 1.20 to € 1.65 per share

- **Consolidated operating profit of € 470 million (2014: € 436 million) at the upper end of increased forecast range, following a strong fourth quarter – €320 million when adjusted for negative goodwill for the WestImmo acquisition**
- **Marked increase in consolidated net income, to € 374 million (2014: € 335 million)**
- **RoE before taxes, excluding negative goodwill from the acquisition of WestImmo, increases to 12.1 per cent (2014: 11.1 per cent); CET1 ratio improves further to 13.1 per cent (2014: 12.9 per cent)**
- **Aareal Bank plans to raise distribution ratio to up to 80 per cent and to increase dividend**
- **Key elements of Group strategy unveiled: “Aareal 2020” focuses on further optimising the organisational structure, and on realising new income potential in both segments**
- **CEO Hermann J. Merkens: “We set new emphasis to continue our success story even in a changing market, as well as in a competitive and regulatory environment that is constantly on the move. We want to increase our shareholders' participation in the Bank's performance.”**

Wiesbaden, 25 February 2016 – Aareal Bank Group concluded another financial year with a record result. According to preliminary, unaudited figures, consolidated operating profit rose from € 436 million to € 470 million, which marks the upper end of a forecast range most recently raised to between € 460 million and € 470 million in December. € 92 million thereof was generated during the fourth quarter (2014: € 86 million). Consolidated operating profit for the full year includes negative goodwill from the acquisition of Westdeutsche ImmobilienBank AG (WestImmo), which was completed on 31 May 2015. The exact amount of the negative goodwill decreased slightly as at year-end, from € 154 million to € 150 million. In the previous year, a one-off item was recognised in about the same amount, stemming from the acquisition of Corealcredit Bank.

Full-year consolidated operating profit also rose when adjusted for negative goodwill from the acquisitions of WestImmo and Corealcredit: it was up by 13 per cent, to € 320 million, the highest figure adjusted for non-recurring effects to date. Aareal Bank benefited from a strong increase in net interest income, on the back of unexpectedly high non-recurring income from early loan repayments. These factors more than offset the largely acquisition-related rise in administrative expenses. RoE before taxes, excluding the negative goodwill resulting from WestImmo, improved further, to 12.1 per cent (2014: 11.1 per cent). On an adjusted basis, however, RoE before taxes achieved the very good level of 10 per cent.

Consolidated net income increased by about 12 per cent, to € 374 million (2014: € 335 million); thereof, € 68 million was generated during the last quarter (2014: € 47 million). Consolidated net income attributable to ordinary shareholders stood at € 339 million for the full year (2014: € 292 million), and at € 60 million for the last quarter (2014: € 33 million). Aareal Bank wants its shareholders to participate appropriately in these excellent results. Therefore, the Management Board and the Supervisory Board will propose to the Annual General Meeting of Aareal Bank AG, to be held on 25 May 2016, a 38 per cent increase in the dividend per share, from € 1.20 to € 1.65. This equals a distribution ratio, adjusted for negative goodwill from the acquisition of WestImmo, of 52 per cent.

Hermann J. Merkens, Chairman of the Management Board, commented thus on the 2015 financial year: “We seized the opportunities the markets presented to us in 2015, both in terms of value-adding, non-organic growth and attractive new business. These positive results underscore the fundamental strength of Aareal Bank Group. We can rely on our renowned expertise, our sustainably viable business model, and our leading position in the Structured Property Financing and Consulting/Services segments, as we continue Aareal Bank's success story, even in a challenging market and an environment characterised by fierce competition and demanding regulation.”

Strategic agenda “Aareal 2020” to protect the base and unlock new potential

To protect its strong base in an increasingly demanding environment and to unlock new revenue potential, Aareal Bank Group has evolved its strategy. The general direction, however, remains intact. The “Aareal Bank 2020 – Adjust.Advance.Achieve” programme is aimed at optimising organisational structure, the Bank's IT and processes, as well as its deployment of equity on the one hand – and at further developing the business models pursued by its two segments on the other hand.

In its Structured Property Financing segment, Aareal Bank aims at reinforcing its expansion in growing markets that offer an attractive risk-return profile, managing its portfolio more actively and gaining balance sheet relief through increasing placements. Another part of the segment's strategic development is the realisation of new, digital business opportunities. In its Consulting/Services segment, Aareal Bank wants to leverage the solid foundation it has built over recent years for future growth – through cross-border sales activity, additional products for ERP systems, digital offerings for the housing industry, and by expanding the utilities business. The contributions of these activities to the Group's results are set to rise accordingly.

Aareal Bank plans to increase its return on equity before taxes with this programme to approximately 12 per cent by 2018, and even slightly exceed this

figure in the long-term. For these goals to be reached, however, the future environment must allow for excess capital to be invested or distributed amongst the Bank's shareholders.

As announced on 24 February 2016, Aareal Bank will enhance its dividend policy. The distribution ratio would be raised to up to 80 per cent by adding a supplementary dividend of 30 per cent to the current base distribution ratio of approximately 50 per cent of earnings per share in the coming years.

"We will continue to play to our strengths," said Merkens. "With Structured Property Financing as a solid foundation, Consulting/Services as a driver of growth, an optimised organisational and capital structure, together with our innovative strength and our willingness to adapt, we will be able to generate attractive returns, even in difficult times such as those that lie ahead. We also want to free capital for our shareholders and want to increase their participation in the Bank's performance," the CEO added.

Another set of record results

Net interest income in the 2015 financial year was € 781 million, after € 688 million in 2014. Unexpectedly high income from early loan repayments had a positive effect, as did low funding costs and a marked increase in lending volume. However, net interest income was burdened by a lack of attractive investment opportunities for the liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses was € 128 million (2014: € 146 million) and therefore within the forecast range of € 100 million to € 150 million for the full financial year. Net commission income was also in line with expectations, at € 175 million (2014: € 164 million).

The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets, of € 4 million (2014: € 9 million), resulted largely from the measurement and reversal of derivatives used to hedge interest rate and currency risk.

Administrative expenses of € 553 million (2014: € 439 million) were slightly higher than the € 520 million to € 550 million range projected for the financial year. The year-on-year increase was due, among other factors, to integration and running costs at Corealcredit and WestImmo, as well as higher expenses for the bank levy.

Net other operating income/expenses of € 41 million (2014: € 6 million) include non-recurring income from the completed sale of a property and the announced sale of another as well as from the reversal of provisions recognised for risk protection in connection with the acquisition of Corealcredit; these provisions are no longer required.

Including the non-recurring effect of €1 50 million from the acquisition of WestImmo, consolidated operating profit for the 2015 financial year totalled € 470 million, after € 436 million in 2014. Taking into consideration income taxes of € 96 million and non-controlling interest income of € 19 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 355 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 (Additional Tier 1) bond, consolidated net income attributable to ordinary shareholders stood at € 339 million (2014: € 292 million).

In its **Structured Property Financing segment**, Aareal Bank Group originated new business of € 9.6 billion (2014: € 10.7 billion) during 2015, clearly exceeding the range between € 6 billion and € 7 billion originally forecast. The very dynamic transaction environment resulted in higher than expected loan repayments. The Bank therefore decided to expand its new loan origination during the course of the year.

Net interest income in this segment stood at € 783 million (2014: € 687 million).

Operating profit in the Structured Property Financing segment totalled € 493 (2014: € 456 million). Taking into consideration income taxes of € 106 million, the segment result amounted to € 387 million (2014: € 347 million).

Sales revenues in the **Consulting/Services segment** rose to € 193 million in the 2015 financial year (2014: € 185 million), driven by sales revenues at the Aareon AG subsidiary increasing by € 9 million to € 187 million (2014: € 178 million).

Staff expenses of € 139 million were higher than the previous year's level (2014: € 131 million), since the number of staff rose and Aareon acquired additional entities in 2015.

Aareon made a slightly higher contribution to Aareal Bank Group's consolidated operating profit, at € 27 million (2014: € 26 million).

The volume of deposits from the housing industry rose to an average of € 9.0 billion in the 2015 financial year (2014: € 8.6 billion). The persistently low interest rate environment burdened income generated from the deposit-taking business, and therefore the segment result. Nonetheless, the importance of this business goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. Deposits from the housing industry are a strategically important additional source of funding for Aareal Bank.

The Consulting/Services segment registered operating profit of –€ 23 million (2014: –€ 20 million), largely due to the increased burden posed by the persistently low interest rate environment. After inclusion of tax effects of –€ 10 million, the segment result amounted to –€ 13 million (2014: –€ 12 million).

Successful funding activities – the capital position remains solid

Aareal Bank Group successfully carried out its funding activities as planned during the 2015 financial year. During the period under review, the Bank succeeded in raising a total of € 1.4 billion in medium- and long-term funds on the capital market. The issue volume of unsecured funds amounted to € 0.65 billion; Mortgage Pfandbriefe made up € 0.75 billion of the total volume.

Aareal Bank remains very solidly capitalised, even taking the WestImmo acquisition into account. As at 31 December 2015, the Bank's Tier 1 ratio was 17.2 per cent, which is comfortable on an international level (31/12/2014: 17.7 per cent). Assuming full implementation of Basel III, the Bank's Common Equity Tier 1 (CET1) ratio would be 13.1 per cent (31/12/2014: 12.9 per cent).

Notes on the preliminary Income Statement for the fourth quarter of 2015

According to preliminary, unaudited figures, net interest income in the final quarter of 2015 stood at € 198 million (Q4 2014: € 194 million). The effects of the higher than expected loan repayments mentioned above totalled € 15 million in the fourth quarter, after € 22 million in the previous quarter.

Allowance for credit losses amounted to € 42 million (Q4 2014: € 41 million) during the fourth quarter, and was thus in line with expectations.

Net commission income was at € 52 million (Q4 2014: € 48 million), € 12 million higher than in the previous quarter (€ 40 million), thanks to the fact that Aareon traditionally enjoys a strong fourth quarter of the year.

The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets totalled € 6 million in the last quarter of 2015 after € 7 million the year before.

Consolidated administrative expenses amounted to € 138 million during the fourth quarter (Q4 2014: € 114 million). The increase reflects Aareon's acquisitions of the past year, as well as integration costs for Corealcredit and WestImmo.

On balance, consolidated operating profit for the fourth quarter amounted to € 92 million (Q4 2014: € 86 million). Taking tax deductions of € 24 million into account, consolidated net income was € 68 million. After deduction of € 4 million in non-controlling interest income, and assumed pro-rata net interest payable on the AT1 bond of € 4 million, consolidated net income attributable to ordinary shareholders of Aareal Bank AG amounted to € 60 million (Q4 2014: € 33 million).

Outlook for 2016: Aareal Bank expects another good result

Aareal Bank expects the market and competitive environment to remain very challenging during the current financial year. Economic momentum is bound to diverge in the most important regions of the world. Visibility concerning the economic development of both China and the euro zone remains limited, while the US economy is expected to grow at a relatively healthy rate. The persistently low interest rate environment is expected become the 'new normal' as the ECB appears set to continue along the path of an expansive monetary policy for Europe. In any case, a scenario in which the ECB aligns its policy with the Fed to also raise its interest rates is not predictable in the foreseeable future.

Commercial property markets should continue to benefit from the persistently high level of liquidity caused by low interest rates. In financing, competition is likely to grow fiercer, and pressure on global margins is expected to continue. Against this background, Aareal Bank will apply a selective approach towards new business and target expansion in growth markets that continue to offer good margin opportunities.

Overall, and in spite of the uncertainties and challenges ahead, Aareal Bank Group remains generally optimistic for the 2016 financial year.

Net interest income is expected to decline to a range between € 700 and € 740 million. Net interest income will be burdened by a projected decline in the impact from early loan repayments, which had strongly influenced the net figure in the past year, together with a planned reduction of non-strategic portfolios

belonging to the units acquired over the past two years. While Aareal Bank expects the competitive environment for commercial property finance to remain challenging in the 2016 financial year, the Bank managed to compensate for the resulting margin pressure by allocating new business to attractive markets, such as the US, in the fourth quarter of 2015 and during the first quarter of 2016 to date. The Bank will adhere to this policy in the current year. Aareal Bank forecasts allowance for credit losses to fall to a range between € 80 million and € 120 million for 2016, reaping the benefits of a prudent risk policy over recent years. Net commission income is projected to be in a range between € 190 million and € 200 million, mainly driven by positive developments at Aareon. Administrative expenses are expected to decline to a range between € 520 million and € 550 million, in spite of high one-off effects of investments as well as project and integration costs.

All in all, Aareal Bank sees good opportunities to achieve consolidated operating profit of between € 300 million and € 330 million for the current year. The upper end of this range slightly exceeds the record level of the past year, as adjusted for negative goodwill from the acquisition of WestImmo. For 2016, Aareal Bank again anticipates material positive effects from early loan repayments, in a range between € 35 million and the previous year's figure of € 75 million. The Bank expects RoE before taxes of around 11 per cent for the current financial year, with earnings per share between € 2.85 and € 3.19 based on an expected tax ratio of around 31 per cent.

In the Structured Property Financing segment, the credit portfolio attributable to Aareal Bank's core business should amount to between € 25 billion and € 27 billion, subject to currency fluctuations. New business is targeted between € 7 billion and € 8 billion in 2016. In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute between € 33 million and € 35 million to results before taxes – a significant increase year-on-year.

Aareal Bank Group

Aareal Bank Group, headquartered in Wiesbaden, Germany, is one of the leading international property specialists. It is active across three continents – in Europe, North America and Asia. Aareal Bank AG, whose shares are included in Deutsche Börse's MDAX index, is the Group's parent entity. It manages the various entities organised in the Group's two business segments: Structured Property Financing and Consulting /Services. The Structured Property Financing segment encompasses all of Aareal Bank Group's property financing and funding activities. In this segment, the Bank facilitates property investment projects for its domestic and international clients, within the framework of a three-continent strategy covering Europe, North America and Asia. In the Consulting/Services segment, Aareal Bank Group offers clients – particularly from the housing industry and the commercial property sector – services and products for managing residential property portfolios and processing payment flows.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the financial year 2015
(unaudited, in accordance with IFRSs)

	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2014	Change
	€ mn	€ mn	%
Net interest income	781	688	14
Allowance for credit losses	128	146	-12
Net interest income after allowance for credit losses	653	542	20
Net commission income	175	164	7
Net result on hedge accounting	8	5	60
Net trading income / expenses	13	2	550
Results from non-trading assets	-17	2	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	553	439	26
Net other operating income / expenses	41	6	583
Negative goodwill from acquisitions	150	154	-3
Operating profit	470	436	8
Income taxes	96	101	-5
Consolidated net income	374	335	12
Consolidated net income attributable to non-controlling interests	19	19	0
Consolidated net income attributable to shareholders of Aareal Bank AG	355	316	12
Earnings per share (EPS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	355	294	21
of which: allocated to ordinary shareholders ²⁾	339	292	16
of which: allocated to AT1 investors ²⁾	16	2	700
Earnings per ordinary share (in €) ³⁾	5.66	4.87	16
Earnings per AT1 unit (in €) ⁴⁾	0.16	0.02	700

- 1) SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 31 December 2014 (€22 million) in the RoE calculation.
- 2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
- 3) Earnings per ordinary share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.
- 4) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of €3 each) are determined by dividing the earnings 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.

Segment Results of Aareal Bank Group
Preliminary results for the financial year 2015
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2014
€ mn								
Net interest income	783	687	0	0	-2	1	781	688
Allowance for credit losses	128	146					128	146
Net interest income after allowance for credit losses	655	541	0	0	-2	1	653	542
Net commission income	6	4	169	163	0	-3	175	164
Net result on hedge accounting	8	5					8	5
Net trading income / expenses	13	2	0				13	2
Results from non-trading assets	-17	2					-17	2
Results from investments accounted for using the equity method	0	0	0	0			0	0
Administrative expenses	359	255	197	187	-3	-3	553	439
Net other operating income / expenses	37	3	5	4	-1	-1	41	6
Negative goodwill from acquisitions	150	154					150	154
Operating profit	493	456	-23	-20	0	0	470	436
Income taxes	106	109	-10	-8			96	101
Consolidated net income	387	347	-13	-12	0	0	374	335
Consolidated net income attributable to non-controlling interests	16	16	3	3			19	19
Consolidated net income attributable to shareholders of Aareal Bank AG	371	331	-16	-15	0	0	355	316

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	Quarter 4 2015	Quarter 4 2014	Change
	€ mn	€ mn	%
Net interest income	198	194	2
Allowance for credit losses	42	41	2
Net interest income after allowance for credit losses	156	153	2
Net commission income	52	48	8
Net result on hedge accounting	3	2	50
Net trading income / expenses	5	3	67
Results from non-trading assets	-2	2	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	138	114	21
Net other operating income / expenses	16	-8	
Negative goodwill from acquisitions			
Operating profit	92	86	7
Income taxes	24	39	-38
Consolidated net income	68	47	45
Consolidated net income attributable to non-controlling interests	4	5	-20
Consolidated net income attributable to shareholders of Aareal Bank AG	64	42	52
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	64	35	83
of which: allocated to ordinary shareholders ²⁾	60	33	82
of which: allocated to AT1 investors ²⁾	4	2	100
Earnings per ordinary share (in €) ³⁾	1.01	0.55	84
Earnings per AT1 unit (in €) ⁴⁾	0.04	0.02	100

1) SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 31 December 2014 (€7 million) in the RoE calculation.

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

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

4) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of €3 each) are determined by dividing the earnings 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.

Segment Results of Aareal Bank Group
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	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 4 2015	Quarter 4 2014	Quarter 4 2015	Quarter 4 2014	Quarter 4 2015	Quarter 4 2014	Quarter 4 2015	Quarter 4 2014
€ mn								
Net interest income	199	194	0	0	-1	0	198	194
Allowance for credit losses	42	41					42	41
Net interest income after allowance for credit losses	157	153	0	0	-1	0	156	153
Net commission income	2	1	49	47	1	0	52	48
Net result on hedge accounting	3	2					3	2
Net trading income / expenses	5	3	0				5	3
Results from non-trading assets	-2	2					-2	2
Results from investments accounted for using the equity method		0	0	0			0	0
Administrative expenses	85	67	54	48	-1	-1	138	114
Net other operating income / expenses	14	-8	3	1	-1	-1	16	-8
Negative goodwill from acquisitions								
Operating profit	94	86	-2	0	0	0	92	86
Income taxes	27	41	-3	-2			24	39
Consolidated net income	67	45	1	2	0	0	68	47
Consolidated net income attributable to non-controlling interests	3	4	1	1			4	5
Consolidated net income attributable to shareholders of Aareal Bank AG	64	41	0	1	0	0	64	42