



Press Release

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Aareal Bank Group posts very good results for the financial year 2016 – proposes dividend increase from € 1.65 to € 2.00 per share

- **Consolidated operating profit of € 366 million, following a good fourth quarter (2015: € 320 million, adjusted for negative goodwill for the WestImmo acquisition)**
- **Consolidated net income of € 234 million (2015 adjusted: € 224 million)**
- **New business of € 9.2 billion remains on a high level – stable margins, thanks to flexible allocation of new business to attractive markets**
- **Aareon develops on schedule, as expected: profit contribution rises significantly, to € 34 million (2015: € 27 million)**
- **"Aareal 2020" Group strategy launched successfully – implementation to be expedited during the current year**
- **CEO Hermann J. Merkens: "We are exploiting market opportunities in both our segments, from a position of strength, making significant investments for our future"**

Wiesbaden, 23 February 2017 – Aareal Bank Group concluded the 2016 financial year with another set of very good results. According to preliminary, unaudited figures, consolidated operating profit of € 366 million was up 14.4 per cent from the figure for the previous year, adjusted for negative goodwill (€ 150 million) from the acquisition of Westdeutsche ImmobilienBank AG (WestImmo) of € 320 million. € 85 million thereof was generated during the fourth quarter (Q4 2015: € 92 million). Full-year consolidated operating profit was thus within the forecast range of between € 360 million and € 380 million, a range which the Bank had raised most recently in November 2016. The € 366 million figure includes a positive non-recurring effect of € 28 million – realised in the fourth quarter – due to the successful conclusion of material legal disputes in connection with the former Corealcredit, acquired in 2014. Since this non-recurring effect was offset by a corresponding tax expense of virtually the same amount, this issue had only a marginal impact upon results after taxes.

Net interest income was down year-on-year, as expected; this was offset by higher net commission income, lower risk costs, and higher results from non-trading assets. Return on equity before taxes thus increased to 13.2 per cent (2015 adjusted: 12.1 per cent). Consolidated net income after taxes amounted to

€ 234 million, a 4 per cent increase compared to the previous year's figure of € 224 million (adjusted for negative goodwill from the WestImmo acquisition). € 41 million thereof, including the tax expense corresponding to the non-recurring effect related to Corealcredit, was generated during the fourth quarter (Q4 2015: € 68 million). Consolidated net income allocated to ordinary shareholders stood at € 199 million for the full year (2015 adjusted: € 189 million), and at € 33 million for the final quarter (Q4 2015: € 60 million).

Aareal Bank wants its shareholders to participate appropriately in these results, which were once again very good. Therefore, the Management Board and the Supervisory Board will propose to the Annual General Meeting of Aareal Bank AG, to be held on 31 May 2017, a 21 per cent increase in the dividend per share, from € 1.65 to € 2.00. This is equivalent to a distribution ratio of 60 per cent, and fully in line with the dividend policy, communicated in February 2016, according to which the unchanged ordinary dividend payment of approximately 50 per cent of earnings per ordinary share (EPS) will be supplemented by an additional dividend of 10 per cent for the year 2016, rising to between 20 to 30 per cent for the years 2017 and 2018. In accordance with this intention, the Bank continues to envisage a distribution ratio of 70 to 80 per cent for the current year.

Hermann J. Merkens, Chairman of the Management Board of Aareal Bank AG, said: "We are very satisfied with the financial year under review. We achieved all of our objectives for the year, even exceeding some of them. Disregarding non-recurring effects, Aareal Bank Group posted its best operating profit to date in 2016, despite the still-challenging environment. Thanks to our pronounced operating profitability and very robust capital base, we are not only well-prepared for any regulatory contingencies. We are also in a position to exploit market opportunities in both our segments, from a position of strength, making significant investments into our future within the scope of the 'Aareal 2020' strategy programme."

"Aareal 2020" strategy programme: swift progress in implementation

The strategy programme "Aareal 2020 – Adjust. Advance. Achieve", presented a year ago, was successfully launched in 2016. The programme is designed to safeguard the Group's strong foundation, given the business environment which will remain very challenging in the future, whilst unlocking new income potential for the Group. Within the framework of "Aareal 2020", Aareal Bank is determined to unlock additional sources of income in both segments by further developing the business model. In this context, and across all Group entities, opportunities arising from investment in digitalisation will be consistently exploited. At the same time, the Company focuses on optimising processes and structures in order to further enhance its efficiency and flexibility.

During the financial year under review, Aareal Bank concluded all preparations for a rapid implementation of the programme on schedule. Initial milestones were already achieved: for instance, Aareal Bank launched a comprehensive realignment of its IT infrastructure, significantly grew its business in the US, pursued the expansion of digital platform offers in the Consulting/Services segment, and initiated cooperations with start-ups in order to swiftly implement its digital agenda. Moreover, the Bank expedited its syndication activities, designed to

facilitate more flexible portfolio management, and grew its business along the entire value chain in commercial property financing, in a targeted manner.

Forward-looking investments will be stepped up in the current year, for example in the continued expansion of digital solutions. Aareal Bank will also continue to reduce credit portfolios which are no longer within its core business, in line with its strategy. Likewise, the Bank will focus on the continued optimisation of its processes and structures, having concentrated its internal measures on the integration of two major acquisitions during previous years.

"Clearly, the year under review has shown that our strategy is working. We will be accelerating the Group's transformation throughout 2017, even though related forward-looking investments and structural measures might place a burden upon our results. Yet our efforts will pay off over the medium to long term. We will be the leading provider of smart financings, software products, and digital solutions for the property sector and related industries. Once "Aareal 2020" has been fully implemented, we will be more flexible and more efficient than ever, and we will be sustainably profitable and successful, even in a fundamentally changed market and competitive environment", Merkens said.

2016 financial year: another set of very good results

Net interest income in the 2016 financial year was € 701 million, after € 781 million in the previous year, and thus within the forecast range. The expected decline in net interest income was largely due to the planned reduction of portfolios which are no longer compatible with the Bank's strategy. In addition, the previous year's figure was influenced by very strong effects from early loan repayments, in the amount of € 75 million (2016: € 41 million). Conversely, Aareal Bank succeeded in keeping margins in the lending business stable, despite the challenging environment. The conservative risk policy which the Bank had maintained over recent years led to an expected decline in allowance for credit losses: at € 97 million, it was clearly lower than the previous year's figure (€ 128 million) and thus within the communicated range of € 80 million to € 120 million. Net commission income increased to € 193 million (2015: € 175 million), which was mainly due to higher sales revenue at Aareon.

Results from non-trading assets amounted to € 67 million (2015: -€ 17 million), of which € 61 million was attributable to the sale of all shares in wholly-owned subsidiary Aquatrium AB. € 5 million was generated through the disposal of a residual holding of asset-backed securities (ABS).

Administrative expenses of € 547 million were slightly lower year-on-year (2015: € 553 million), and within the € 520 million to € 550 million range projected for the financial year. The figure includes expenses for integration costs of Westlmmo, as well as for projects and investments. Net other operating income/expenses of € 30 million (2015: € 41 million) includes the positive non-recurring effect of € 28 million (before taxes) due to the successful conclusion of material legal disputes in connection with the former Corealcredit, acquired in 2014, as mentioned before. This positive effect is offset by a corresponding tax expense of virtually the same amount.

All in all, consolidated operating profit for the 2016 financial year totalled € 366 million (2015: € 470 million; adjusted for non-recurring effects of € 150 million from the acquisition of WestImmo: € 320 million). Taking into consideration income taxes of € 132 million and non-controlling interest income of € 19 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 215 million (2015 adjusted: € 205 million). Assuming the pro rata temporis accrual of net interest payments on the Additional Tier1 (AT1) bond, consolidated net income allocated to ordinary shareholders stood at € 199 million (2015: € 339 million; adjusted: € 189 million).

In its **Structured Property Financing segment**, Aareal Bank Group originated new business of € 9.2 billion (2015: € 9.6 billion) during 2016, which clearly exceeded the target corridor of € 7 billion to € 8 billion planned originally.

Net interest income in this segment stood at € 716 million (2015: € 783 million). Apart from the reduction of the non-strategic credit portfolio, lower one-off income from early loan repayments had a negative impact on net interest income. However, the segment succeeded in keeping margins stable, maintaining its conservative risk policy.

Operating profit in the Structured Property Financing segment totalled € 395 million, a marked increase compared to the previous year's figure of € 343 million (adjusted for negative goodwill from the WestImmo acquisition).

Sales revenues in the **Consulting/Services segment** rose to € 206 million in the 2016 financial year (2015: € 193 million). The increase reflected a significant increase in sales revenues generated by subsidiary Aareon.

Staff expenses of € 144 million were higher than the previous year's level (2015: € 139 million), also due to Aareon's acquisitions during 2015.

Driven by higher sales revenues, Aareon contributed a markedly higher amount of € 34 million to consolidated operating profit (2015: € 27 million). As expected, it recorded a strong business development during 2016 in its Germany and International Business divisions.

The volume of deposits from the housing industry rose to an average of € 9.6 billion in the 2016 financial year (2015: € 9.0 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 an operating result of -€ 29 million (2015: -€ 23 million), due to the persistent burdens posed by the prevailing low interest rate environment. After inclusion of tax effects of -€ 11 million, the segment result amounted to -€ 18 million (2015: -€ 13 million).

Successful funding activities – very robust capital position

Aareal Bank Group successfully carried out its funding activities as planned during the 2016 financial year. During the period under review, the Bank succeeded in raising a total of € 1.2 billion in medium- and long-term funds on the capital market. The issued volume of unsecured funds amounted to € 1.1 billion. Of the aggregate volume, Mortgage Pfandbriefe accounted for € 0.1 billion.

Aareal Bank continues to have a very solid capital base. As at 31 December 2016, the Bank's Tier 1 ratio was 19.9 per cent, which is comfortable on an international level (31/12/2015: 17.2 per cent). Assuming full implementation of Basel III, the Bank's fully phased-in Common Equity Tier 1 (CET1) ratio would be 15.7 per cent (31/12/2015: 13.1 per cent).

Notes on the preliminary Income Statement for the fourth quarter of 2016

According to preliminary, unaudited figures, net interest income in the final quarter of 2016 stood at € 169 million (Q4 2015: € 198 million). The effects of early loan repayments totalled € 9 million in the fourth quarter, compared to € 22 million in the same quarter of the previous year.

Allowance for credit losses amounted to € 33 million (Q4 2015: € 42 million) during the fourth quarter, and was thus in line with expectations.

Net commission income of € 56 million clearly exceeded the previous year's figure (Q4 2015: € 52 million).

The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets totalled -€ 5 million in the last quarter of 2016 after € 6 million the year before.

Consolidated administrative expenses amounted to € 130 million during the fourth quarter (Q4 2015: € 138 million); the net figure includes expenses for integration, projects, and investments of € 17 million (Q4 2015: € 20 million).

On balance, consolidated operating profit for the fourth quarter amounted to € 85 million (Q4 2015: € 92 million). Taking tax deductions of € 44 million into account, consolidated net income was € 41 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 allocated to ordinary shareholders of Aareal Bank AG amounted to € 33 million (Q4 2015: € 60 million).

Outlook for 2017: Aareal Bank expects consolidated operating profit to remain strong, in a demanding environment

Aareal Bank expects the competitive environment to remain challenging during the current financial year, with a continuation of diverging developments in the key economic regions. The low interest rate environment is likely to persist during 2017. Whilst financial markets participants expect further interest rate increases in the US, as well as a steepening of the yield curve in the euro area, the scope of such changes – and the resulting volatility on the financial markets – remain

difficult to predict. In a highly competitive environment, commercial property is likely to remain a sought-after asset class during the current financial year.

Aareal Bank will adhere to its selective strategy in originating new business, with active portfolio management, in 2017. As in the previous year, the Bank will expand in growing markets with attractive margins, in a targeted manner.

Consolidated net interest income is expected to decline to between € 620 million and € 660 million, largely due to the continued, scheduled reduction of non-strategic portfolios in the entities acquired over the past two years. Aareal Bank forecasts allowance for credit losses to fall to a range between € 75 million and € 100 million for 2017, once again reaping the benefits of a prudent risk policy over recent years. Net commission income is projected to be in a range between € 195 million and € 210 million, slightly above the previous year's level. Administrative expenses are expected to fall, to a range between € 470 million and € 510 million, in spite of expected project costs and substantial forward-looking investments, such as for realigning the Bank's IT infrastructure.

Against the background of the expected decline in net interest income, Aareal Bank expects good consolidated operating profit in a range between € 260 million and € 300 million. The Bank expects RoE before taxes of between 9 per cent and 10.5 per cent for the current financial year, with earnings per share between € 2.45 and € 2.90. Aareal Bank affirms its medium-term target RoE of around 12 per cent before taxes.

In the Structured Property Financing segment, the credit portfolio is projected at between € 25 billion and € 28 billion by the end of 2017, subject to currency fluctuations. New business is targeted between € 7 billion and € 8 billion in the current year. In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute between € 34 million and € 35 million to results before taxes.

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.

Preliminary results for the financial year 2016(unaudited, in accordance with IFRSs)

	1 Jan-31 Dec 2016	1 Jan-31 Dec 2015	Change
	€ mn	€ mn	%
Net interest income	701	781	-10
Allowance for credit losses	97	128	-24
Net interest income after allowance for credit losses	604	653	-8
Net commission income	193	175	10
Net result on hedge accounting	0	8	
Net trading income/expenses	19	13	46
Results from non-trading assets	67	-17	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	547	553	-1
Net other operating income/expenses	30	41	-27
Negative goodwill from acquisitions	-	150	
Operating result	366	470	-22
Income taxes	132	96	38
Consolidated net income	234	374	-37
Consolidated net income attributable to non-controlling interests	19	19	0
Consolidated net income attributable to shareholders of Aareal Bank AG	215	355	-39
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG	215	355	-39
of which: allocated to ordinary shareholders	199	339	-41
of which: allocated to AT1 investors	16	16	0
Earnings per ordinary share (€) ²⁾	3.33	5.66	-41
Earnings per AT1 unit (€) ³⁾	0.16	0.16	0

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 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.

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 allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Segment Results of Aareal Bank Group
Preliminary results for the financial year 2016
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015

€ mn

Net interest income	716	783	0	0	-15	-2	701	781
Allowance for credit losses	97	128					97	128
Net interest income after allowance for credit losses	619	655	0	0	-15	-2	604	653
Net commission income	10	6	171	169	12	0	193	175
Net result on hedge accounting	0	8					0	8
Net trading income/expenses	19	13	0	0			19	13
Results from non-trading assets	66	-17	1				67	-17
Results from investments accounted for using the equity method		0	0	0			0	0
Administrative expenses	346	359	204	197	-3	-3	547	553
Net other operating income/expenses	27	37	3	5	0	-1	30	41
Negative goodwill from acquisitions		150						150
Operating profit	395	493	-29	-23	0	0	366	470
Income taxes	143	106	-11	-10			132	96
Consolidated net income	252	387	-18	-13	0	0	234	374
Consolidated net income attributable to non-controlling interests	16	16	3	3			19	19
Consolidated net income attributable to shareholders of Aareal Bank AG	236	371	-21	-16	0	0	215	355

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter of 2016 (unaudited, in accordance with IFRSs)

	Q4 2016	Q4 2015	Change
	€ mn	€ mn	%
Net interest income	169	198	-15
Allowance for credit losses	33	42	-21
Net interest income after allowance for credit losses	136	156	-13
Net commission income	56	52	8
Net result on hedge accounting	-4	3	
Net trading income/expenses	-2	5	
Results from non-trading assets	1	-2	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	130	138	-6
Net other operating income/expenses	28	16	75
Negative goodwill from acquisitions			
Operating profit	85	92	-8
Income taxes	44	24	83
Consolidated net income	41	68	-40
Consolidated net income attributable to non-controlling interests	4	4	0
Consolidated net income attributable to shareholders of Aareal Bank AG	37	64	-42
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG	37	64	-42
of which: allocated to ordinary shareholders	33	60	-46
of which: allocated to AT1 investors	4	4	0
Earnings per ordinary share (€) ²⁾	0.55	1.01	-46
Earnings per AT1 unit (€) ³⁾	0.04	0.04	0

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 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.

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 allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Segment Results of Aareal Bank Group
Preliminary results for the fourth quarter of 2016 (unaudited, in accordance with IFRSs)

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Q4	Q4	Q4	Q4	Q4	Q4	Q4	Q4
	2016	2015	2016	2015	2016	2015	2016	2015
€ mn								
Net interest income	174	199	0	0	-5	-1	169	198
Allowance for credit losses	33	42					33	42
Net interest income after allowance for credit losses	141	157	0	0	-5	-1	136	156
Net commission income	5	2	47	49	4	1	56	52
Net result on hedge accounting	-4	3					-4	3
Net trading income/expenses	-2	5		0			-2	5
Results from non-trading assets	0	-2	1				1	-2
Results from investments accounted for using the equity method			0	0			0	0
Administrative expenses	80	85	51	54	-1	-1	130	138
Net other operating income/expenses	26	14	2	3	0	-1	28	16
Negative goodwill from acquisitions								
Operating profit	86	94	-1	-2	0	0	85	92
Income taxes	45	27	-1	-3			44	24
Consolidated net income	41	67	0	1	0	0	41	68
Consolidated net income attributable to non-controlling interests	3	3	1	1			4	4
Consolidated net income attributable to shareholders of Aareal Bank AG	38	64	-1	0	0	0	37	64