

To our Shareholders

Thinking ahead. Shaping the future.

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from left:

Thomas Ortmanns
Member of the Management Board

Christiane Kunisch-Wolff
Member of the Management Board

Hermann J. Merkens
Chairman of the Management Board

Dagmar Knopek
Member of the Management Board

Christof Winkelmann
Member of the Management Board

Letter from the Management Board

*Dear shareholders,
Business associates and staff members,*

2016 was yet another very eventful year indeed – not just for the banking sector overall, but also for Aareal Bank. Persistent volatility once again shaped the year under review, both on the capital markets and in the political environment. As in previous years, we worked against the background of an interest rate environment at historical lows, as well as regulatory uncertainty. Yet Aareal Bank Group not only pursued the goal of maintaining the successful business performance of previous years in both business segments in this demanding environment, which was also characterised by further intensified competition. We also faced the challenge of finding the right answers to the process of change that our sector is undergoing as a consequence of progressive digitalisation. Today, we can say that we were successful on both counts.

From an operating perspective, the 2016 financial year was another strong year for Aareal Bank Group. Once again, we delivered on our promises. With consolidated operating profit of € 366 million, we achieved another set of very good results, matching our forecast – which we had raised during the course of the year. When adjusting the results of the two previous years for non-recurring negative goodwill from the acquisitions of Corealcredit Bank and Westdeutsche ImmobilienBank, Aareal Bank Group even achieved its best operating profit to date in the 2016 financial year. Consolidated net income of € 234 million was also higher than the previous year's adjusted figure, reaching a new high on this basis.

We would like you, our valued shareholders, to participate appropriately, through a further marked dividend increase. In line with our dividend policy communicated a year ago, the Supervisory Board and the Management Board will therefore propose to the Annual General Meeting on 31 May 2017 a significant 21 per cent increase in the dividend, from € 1.65 to € 2.00 per share. The proposed distribution is equivalent to a distribution ratio of 60 per cent, and thus fully in line with the dividend policy, communicated in February 2016, according to which we strive to supplement the (unchanged) ordinary dividend payment of approximately 50 per cent of earnings per ordinary share (EPS) 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, we continue to envisage a distribution ratio of 70 to 80 per cent for the current year.

During 2016, we remained true to our business policy – with a sense of perspective – whereby consistently exploiting opportunities as they arise. This is evident in the volume of new business originated in the Structured Property Financing segment: at € 9.2 billion, it almost matched the high level of the previous year – moreover, it exceeded our original projections of between € 7 billion and € 8 billion. Especially remarkable was the fact that we succeeded in keeping gross margins on new business stable, compared with the previous year – whilst maintaining our conservative risk policy in an environment of persistently intense competition – by allocating new business to attractive markets such as the US, in line with our strategy.

Net interest income declined nonetheless, as expected: this was largely attributable to the planned reduction of non-strategic portfolios. Lower one-off income from early loan repayments also had an impact on the net figure. Net interest income continues to be burdened by a lack of attractive investment opportunities, due to the persistent low interest rate environment.

In the Consulting/Services segment, our IT subsidiary Aareon markedly increased results, as projected: during the financial year under review, Aareon boosted sales revenue by a remarkable € 24 million, to € 211 million. As a result, its contribution to consolidated operating profit was up strongly, by around a quarter, to € 34 million. This was due in particular to Aareon's outstanding market positions in its core business with the domestic housing industry, which it further stabilised during the year under review – but also thanks to successful internationalisation and the targeted development of its digital offerings. We further strengthened the market position of the Bank's Housing Industry division in the 2016 financial year, and significantly increased the revenue from payment transaction services through acquiring new customers – as well as intensifying business relationships with our existing customers. Moreover, we also invested in product development, simplifying and automating processes, with a focus on enhancing cooperation between our target industries of housing and energy.

Despite these successes, segment results remained clearly negative, on account of the historically low interest rate environment, which burdens margins in our deposit-taking business. Nevertheless, deposits from the housing industry will remain a strategically important additional low-cost source of funding for our property financing business, and one that is largely independent of developments on the capital markets. Despite the burden on segment results, the fact that we were able to raise the volume of housing industry deposits to an average of € 9.6 billion in the 2016 financial year – already very closely approaching our medium-term target of € 10 billion – is good news for us.

Our other funding activities during 2016 also continued to be successful. Aareal Bank's liquidity position remains very solid indeed – and the same applies to our capitalisation. Our Tier I ratio was a very comfortable 19.9 per cent as at 31 December 2016. Even assuming full implementation of Basel III, the Bank's Common Equity Tier I (CET I) ratio would be 15.7 per cent. Thanks to this capital base and our pronounced operating profitability, we are not only well-prepared for any regulatory contingencies. We are also in a position to emphatically invest into our future, from a position of strength.

"Aareal 2020 – Adjust.Advance.Achieve.", the programme for the future which we presented at the beginning of 2016, defines the thrust for these investments. Aareal 2020 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 by further developing the business model. In this context, and across all Group entities, we want to consistently exploit opportunities arising from investments in new markets and products, and from digitalisation. Of course, Aareal Bank will continue to concentrate on optimising processes and structures.

During the financial year under review, we concluded many preparations for a rapid implementation of the programme on schedule. Key initial milestones were already achieved: for instance, the 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, we expedited our syndication activities, designed to facilitate more flexible portfolio management, and grew our business along the entire value chain in commercial property financing, in a targeted manner and in line with our strategy.

Our objective now is to consistently pursue our chosen path during the current year. Specifically, we will expedite investment for the future – for example, by investing in further strengthening our USPs and enhancing digital solutions. Likewise, the Bank will focus on the further optimisation of its processes and structures, having concentrated its internal measures on the integration of two major acquisitions during previous years. The objective here is to make Aareal Bank even more efficient and flexible. At the same time, we want to continue reducing non-strategic credit portfolios, in line with our strategy.

As the past year has impressively demonstrated, our strategy is working – we are on the right track. In 2017, the Company's transformation will clearly pick up speed, along the lines of our strategic priorities defined through Aareal 2020. There is no doubt that we have the financial resources at our disposal to embark upon the appropriate and necessary measures now – more so, since we anticipate a continuation of our positive operational performance during the current financial year, with another good consolidated operating profit figure of between € 260 million to € 300 million. We are convinced that our strategy will increasingly pay off in the following years. Hence, we affirm our medium-term target return on equity of at least 12 per cent before taxes.

Our claim in this context is clear: we will be the leading provider of smart financing, 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 the Bank will be sustainably profitable and successful, even in a fundamentally changed market and competitive environment. Aareal Bank Group's clients and employees will benefit from this – but so will you, our esteemed shareholders. We look forward to your continued support for our work, and thank you for the trust you have placed in Aareal Bank Group.



Hermann J. Merkens
Chairman of the Management Board

The Aareal Bank Share

Investor Relations activities

As a listed public limited company included in the MDAX® index, Aareal Bank is subject to numerous disclosure obligations. Aareal Bank sees these as an opportunity, not an obligation – an opportunity to enter into open dialogue with analysts, investors and clients, as well as with the media.

This dialogue, greatly valued by Aareal Bank, is pursued diligently and intensively, regardless of the economic environment, and is considered a prerequisite for the long-term success as a publicly listed company. Only when company developments are discussed in a timely, open and transparent manner can market participants evaluate potential opportunities and risks that may result from market developments as well as from regulatory changes, and discuss them with Aareal Bank.

To this end, two conferences are held, among other things, in Frankfurt each year for analysts and the media, at which the Management Board presents the results of the financial year under review in great detail, and also provides a strategic outlook for the future, comprising the current financial year as well as the medium-term horizon ("Aareal 2020"). Aareal Bank also uses the quarterly results conference calls as an opportunity to inform analysts, investors and the media about current Group developments.

Overall, market communications thus remained at a high level throughout 2016. In the course of the financial year under review, the Investor Relations team took part in ten international capital markets conferences and conducted more than 200 one-on-one meetings with more than 300 investors and analysts during 12 roadshows in Europe and the US. Investors greatly appreciate the fact that Management Board members also regularly attend conferences and roadshows in order to be available for personal meetings.

In order to ensure access to timely, open and transparent information of relevance to the capital markets, Aareal Bank provides shareholders and analysts with detailed information on Aareal Bank Group and its two segments Structured Property Financing and Consulting/Services on its website at www.aareal-bank.com. Furthermore, published ad-hoc disclosures and press releases, financial reports, as well as current Investor Relations presentations, are available for download from our Investor Relations portal. The financial calendar offers an overview of the most important dates in the company calendar.

In the 2017 financial year, we will maintain our proactive communication with capital markets in order to strengthen shareholders' confidence in the sustainable success of Aareal Bank Group's business model.

Key data and indicators of the Aareal Bank share

	2016	2015
Share price (€) ¹⁾		
Year-end price	35.765	29.140
High	36.955	40.905
Low	21.660	28.380
Book value per share (€)	43.22	41.80
Dividends per share (€) ³⁾	2.00	1.65
Earnings per ordinary share (€)	3.33	5.66
Price/earnings ratio ²⁾	10.94	5.15
Dividend yield (%) ²⁾	5.6	5.7
Market capitalisation (€ mn) ²⁾	2,141	1,744

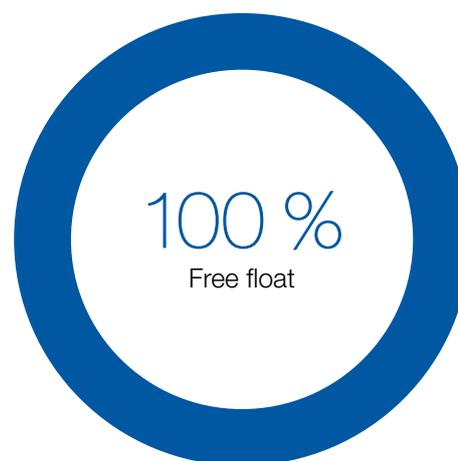
ISIN	DE 000 540 811 6
WKN	540 811
ID codes	
Deutsche Börse	ARL
Bloomberg (Xetra)	ARL.GY
Reuters (Xetra)	ARL.DE
Issue share capital (number bearer unit shares)	59,857,221

¹⁾ XETRA® closing prices; ²⁾ Based on XETRA® year-end closing prices;

³⁾ Proposal to be submitted to the Annual General Meeting

Shareholder structure

since 3 February 2015



Analysts' opinions

Of the 13 brokerages and analyst firms that regularly covered Aareal Bank at the start of the financial year, one stopped coverage during the course of the year whilst another started coverage, so that at the end of 2016 the number of brokerages and analyst firms publishing independent studies and comments about developments at Aareal Bank Group was unchanged at 13.

Having finished the 2015 financial year on a positive note, Aareal Bank also needed to meet expectations by market participants and analysts in 2016. Aareal Bank fulfilled these high expectations, with currently seven "buy" recommendations and four "neutral" recommendations, contrasting with two "sell" recommendations.

We regularly update and publish the analysts' recommendations on our website www.aareal-bank.com on the investor relations page.

Relative performance of the Aareal Bank share price

2014 - 2016

■ Aareal Bank ■ DAX Index ■ MDAX Index ■ Prime Banks Performance Index



(1) 25 February 2016

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

(2) 30 March 2016

Aareal Bank Group publishes its Annual Report 2015

(3) 10 May 2016

Aareal Bank Group posts a successful start to the 2016 financial year

(4) 25 May 2016

Annual General Meeting of Aareal Bank resolves to pay a dividend of €1.65 per share for the 2015 financial year

(5) 11 August 2016

Aareal Bank Group remains on course during the second quarter of 2016 too

(6) 10 November 2016

Aareal Bank raises forecast for full-year consolidated operating profit, based on a good performance during the third quarter of 2016

