



To our Shareholders

In motion. By conviction.

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DAGMAR KNOPEK
Member of the Management Board

HERMANN J. MERKENS
Chairman of the Management Board

THOMAS ORTMANN
Member of the Management Board

Letter from the Management Board >>>>>>>>

*Dear Shareholders,
Business associates and staff members,*

2015 was another remarkable year for the banking sector as a whole, and for Aareal Bank in particular. In a highly volatile market environment, shaped by geopolitical risks and volatility on the capital markets, as well as an increasingly demanding competitive and regulatory environment, we succeeded in expanding our market position again and generated another set of record results. By acquiring and integrating Westdeutsche ImmobilienBank AG (WestImmo) we further strengthened our position, and with our recently announced strategic agenda "Aareal 2020 – Adjust. Advance. Achieve." we laid the groundwork for sustainable future development of Aareal Bank Group.

I am therefore delighted to be able to share with you our annual report, which testifies to the past financial year and takes a look at what we have committed ourselves to in the years to come.

We earned a record € 470 million in consolidated operating profit in the 2015 financial year, and clearly exceeded the previous year's record figure. When adjusted for € 150 million in negative goodwill arising from the acquisition of WestImmo, consolidated operating profit still amounted to an exceptional € 320 million. Consolidated net income was also significantly above the previous year's already high figure, at € 374 million. Return on equity before taxes, excluding negative goodwill from the acquisition of WestImmo, improved further, to 12.1 per cent, and was thus in line with our medium-term target – despite an environment that is expected to remain adverse for some time. On an adjusted basis, RoE before taxes was 10 per cent, another very good level.

We see the positive business development in 2015 as further proof of the fundamental strength of Aareal Bank Group – strength that draws on outstanding expertise, a sustainably viable business model, and the leading positions we have developed in our Structured Property Financing and Consulting/Services segments. And we see ourselves well-positioned to keep writing our success story in the future.



During the year, we remained true to our business policy of making prudent decisions and exploiting opportunities. The volume of new business originated in the Structured Property Financing segment totalled € 9.6 billion. Although this fell short of last year's exceptionally high volume, it clearly exceeded our original target range of between € 6 billion and € 7 billion. The main reason for the outperformance was higher-than-expected loan repayments in a very dynamic transaction environment: this enabled us to expand our new loan origination during the course of the year. We increasingly succeeded in compensating for the margin pressure caused by a highly competitive environment by shifting our new business to attractive markets.

Net interest income in the Structured Property Finance segment was € 783 million, exceeding the previous year's figure by almost € 100 million. Unexpectedly high non-recurring income from early loan repayments had a positive effect on net interest income, as did low funding costs and an increase in lending volume following the acquisition of WestImmo. However, 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 subsidiary Aareon continued to execute its profitable growth strategy during 2015. Two acquisitions – one in Germany, another in the Netherlands – helped to further strengthen Aareon's market position. Aareon benefits from core technical trends in the housing industry, as it provides pioneering products that lay the groundwork for further growth. Aareon Smart World is but one example of innovative solutions for the property industry, developed by our subsidiary in response to the challenges that have arisen in the wake of digitalisation. In the year under review Aareon increased its sales revenues by € 9 million, to reach € 187 million. Nonetheless, we concluded the year with another negative operating profit in this segment. This was due to the persistently low interest rate environment, which has impacted segment reporting.

As the European Central Bank remains committed to its expansive monetary policies, and notwithstanding the first positive signs for higher interest rates in the US, we will continue to have to cope with pressure on the margins in the deposit-taking business in 2016 and the low interest rate level. Yet for Aareal Bank, deposits from the housing industry are a strategically important additional source of funding for the property financing business, and one that is largely independent of developments on the capital markets. In addition to the German Pfandbrief and unsecured bonds, they represent an important pillar in the Bank's long-term funding mix. In view of this, we are pleased to have reached a high average level of deposits – € 9.0 billion – again during the year under review. Given the strategic importance of these deposits for our funding mix, we plan to increase this level even further in the future.

Aareal Bank continues to enjoy an excellent reputation as an issuer on the capital market. Accordingly, we were able to implement our funding activities during 2015 as planned, raising total funding of € 1.4 billion, including € 0.8 billion in Mortgage Pfandbriefe.

The acquisition of WestImmo notwithstanding, Aareal Bank maintained a comfortable liquidity base and remained very solidly financed. Our Tier I ratio was 17.2 per cent as at 31 December 2015, which is comfortable on an international level. Assuming full implementation of Basel III, the Bank's Common Equity Tier I (CET1) ratio would still be 13.1 per cent.

We would like you, dear shareholders, to participate appropriately in these excellent results. The Management Board and the Supervisory Board will therefore 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.

Moreover, in February 2016, we announced plans to enhance our dividend policy. For the financial years 2016 until 2018, we are currently planning to add a supplementary dividend of up to 30 per cent of consolidated net income to the ordinary dividend payment of 50 per cent.

This change in dividend policy is related to our strategic agenda "Aareal 2020 – Adjust. Advance. Achieve.". It is our response to the manifold challenges ahead – and to the opportunities which will nevertheless arise in a challenging environment.

We do not expect the benefits of tailwind for our business activities in the coming years. In fact, the environment is bound to remain difficult. We expect competition to remain intense, resulting in increased margin pressure. We will have to continue to deal with a volatile market environment and the impact of geopolitical conflicts in an increasingly agitated world. And, last but not least, the historically low interest rates and unremitting burden of regulation will be with us for the foreseeable future too. Technological transformation poses new challenges for us as a bank, and changes the needs of our clients. However, these changes and challenges also entail opportunities, and it is up to us to seize them.



Aareal Bank Group is in robust shape, powerful, and fully capable of taking action in every respect. This strong condition, together with our sustainably viable business model and leadership positions in our segments, is something we can build on in the medium and the long term, to ensure a successful future for Aareal Bank.

Against this background, we are confident that we are preparing Aareal Bank for the challenges that lie ahead – and for exploiting opportunities arising in this environment in the best way possible, safeguarding the success of your Bank in the long term. We will not have to reinvent ourselves for that. Aareal Bank Group does not need to be fundamentally restructured – it is more about enhancing a successful model in such a way that it can continue to be successful, even in a changed environment.

The "Aareal 2020" programme for the future 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. This is not only about enhancing the way we leverage our outstanding market positions – it also involves expanding our portfolio via ground-breaking activities.

For instance, in our Structured Property Financing segment – which will continue to be the Group's solid foundation – we aim to reinforce its expansion in markets that offer an attractive risk-return profile, manage our portfolio more actively and gain balance sheet relief through increasing placements. Another part of the segment's strategic development is the realisation of new, digital business opportunities. In our Consulting/Services segment, which will be developed as the growth driver of our Group, for example, we want 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 overall goal of these and other measures is to solidify return on equity before taxes between now and 2018 at around 12 per cent. In the long term, we may even slightly exceed this figure. For these goals to be reached, however, the future environment must allow for excess capital to be invested profitably or distributed amongst the Bank's shareholders. Together with our enhanced dividend policy, we will thus ensure that Aareal Bank continues to be an attractive, profitable investment.

We expect the market and competitive environment to remain very challenging during the current financial year. Despite ongoing uncertainty in the markets and growing global risks, we are generally confident that our positive development will continue in the 2016 financial year. All in all, we see good opportunities to achieve consolidated operating profit of between € 300 million and € 330 million. 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.

2015 marked another record year in Aareal Bank's history. While the future of our industry continues to hold many challenges, we are looking forward to tackling them – we are determined, and well-prepared. Our "Aareal 2020 – Adjust. Advance. Achieve." programme will help us to not only achieve our financial goals, but also to strengthen our innovative strength and our willingness to adapt, leading Aareal Bank into a bright future. We count on your support along this path.

A handwritten signature in blue ink, appearing to read "Yours sincerely, H. Merkens".

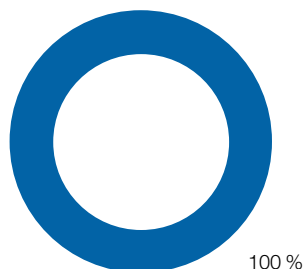
Hermann Merkens
Chairman of the Management Board

Aareal Bank *share*

A quality investment

Shareholder structure¹⁾

■ 100% Free float



¹⁾ since 3 February 2015

Key data and indicators of the Aareal Bank share

	2015	2014
Share price (€) ¹⁾		
Year-end price	29.140	33.290
High	40.905	36.490
Low	28.380	26.670
Book value per share (€)	41.80	36.44
Dividends per share (€) ³⁾	1.65	1.20
Earnings per ordinary share (€) ⁴⁾	5.66	4.87
Price/earnings ratio ²⁾	5.15	6.84
Dividend yield (%) ²⁾	5.66	3.60
Market capitalisation (€ mn) ²⁾	1.744	1.993

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;

⁴⁾ The methodology to calculate the ratio was changed as at 31 December 2014. The comparative figure was adjusted accordingly.

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 consistently and intensively, regardless of the economic environment, and is a prerequisite for its long-term success as a publicly listed company. Only when current 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 Bank also uses the quarterly results presentation as an opportunity to inform analysts, investors and the media about current Group developments.

Overall, market communications thus remained at a high level throughout 2015. In the course of the financial year under review, the Investor Relations team took part in eight international capital markets conferences and conducted more than 200 one-on-one meetings with more than 300 investors and analysts during 15 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 2016 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.

Analysts' opinions

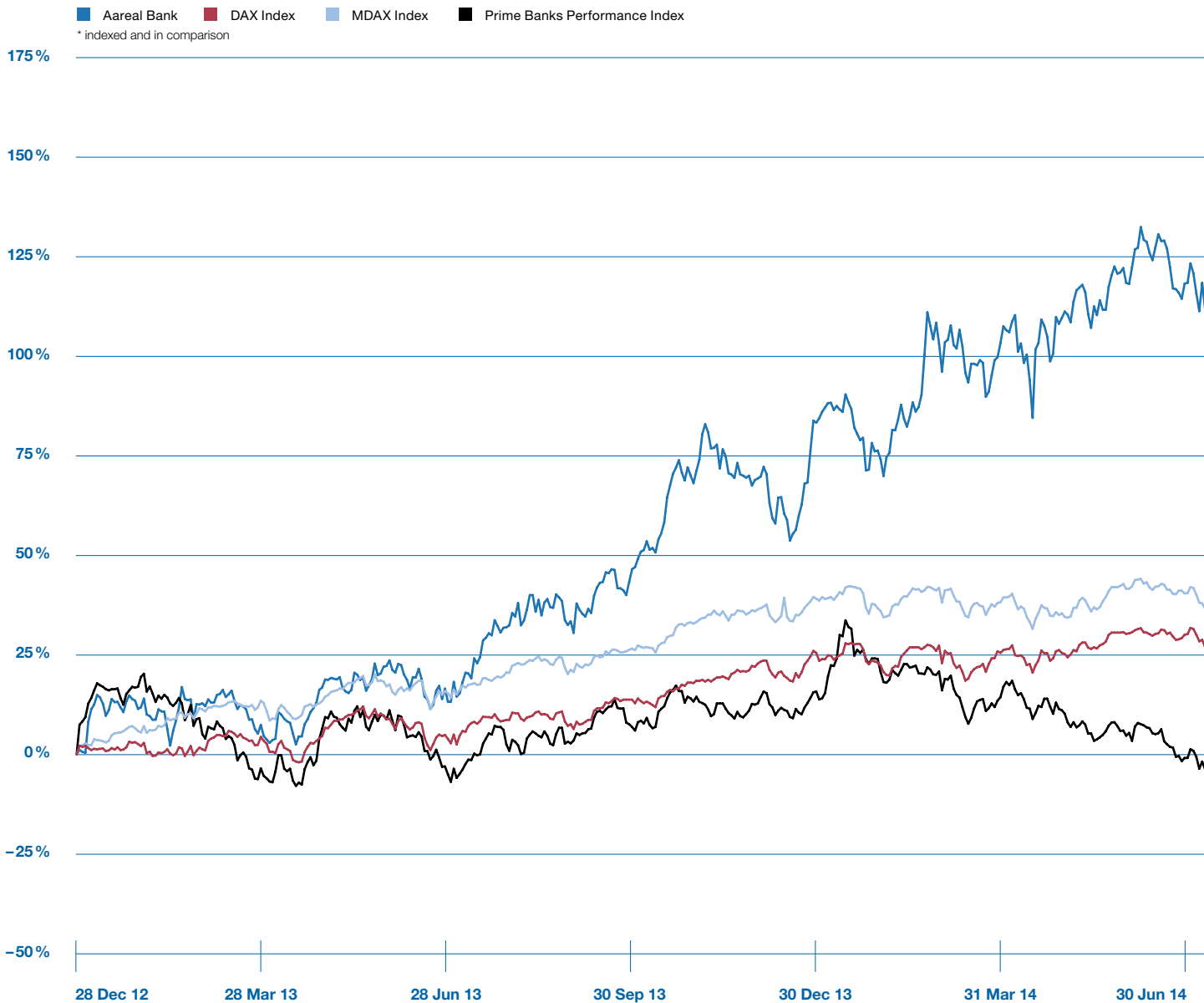
Since the beginning of last year, an additional analyst firm initiated coverage of Aareal Bank Group, whilst two firms stopped their coverage. At present, 13 analyst firms regularly publish independent studies and comments on the development of Aareal Bank Group.

Having finished the 2014 financial year on a positive note, in 2015 Aareal Bank also had to meet market and analyst expectations. The Bank fulfilled these high expectations, with currently ten "buy" recommendations and two "neutral" recommendations, compared with three "sell" recommendations.

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

Aareal Bank *Share*

Relative Performance 2013 – 2015



- (1) **3 February 2015:** Aareal Holding GmbH successfully places a 28.9 % stake in Aareal Bank AG
- (2) **22 February 2015:** Aareal Bank Group acquires Westdeutsche ImmobilienBank AG
- (3) **25 February 2015:** Aareal Bank Group posts record results for the 2014 financial year – proposes dividend increase from € 0.75 to € 1.20 per share
- (4) **27 March 2015:** Aareal Bank Group publishes its Annual Report for the 2014 financial year
- (5) **7 May 2015:** Aareal Bank Group enjoyed a good start into the 2015 financial year
- (6) **20 May 2015:** Aareal Bank AG's Annual General Meeting resolves to pay a dividend of € 1.20 per share for the 2014 financial year
- (7) **11 August 2015:** Aareal Bank Group remains successfully on track during the second quarter of 2015
- (8) **10 November 2015:** Aareal Bank again posts very good results for the third quarter; consolidated operating profit forecast raised for the full year 2015
- (9) **8 December 2015:** Aareal Bank sells property company in Sweden – guidance for 2015's full-year consolidated operating profit raised slightly due to the positive impact on earnings

