



Press release

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Aareal Bank Group adopts cornerstones for medium-term strategy, accelerated de-risking pursued, earnings forecast affirmed

- **"Aareal Next Level" aims to continue the positive development of recent years whilst exploring new growth potential**
- **Aareal Bank Group endeavours to secure its leading position in commercial property finance and plans to sharpen the independent profiles of the Bank and of Aareon within the Consulting/Services segment**
- **Growth programme for Aareon reaffirmed, with targeted M&A activities envisaged to accelerate progress**
- **CEO Hermann J. Merkens: "We will raise the Group to a new level of its development, thus realising its full potential."**
- **De-risking continued throughout the fourth quarter of 2019: NPL volumes reduced by around 40 per cent since the middle of last year**
- **Forecast for consolidated full-year operating profit 2019 affirmed, at around € 240 million**

Wiesbaden, 13 January 2020 – Aareal Bank Group has set the course for continuing its successful development in the years to come. Called "Aareal Next Level", the concept devised by the Management Board for the Group's medium-term strategic development, following expiry of the current "Aareal 2020" programme for the future, met with unanimous support from the Supervisory Board at its meeting today. The Group will maintain its fundamental strategic orientation, comprising large-volume international Structured Property Financing on the one hand as well as Consulting/Services for the institutional housing industry in Europe and related sectors on the other. At the same time, individual business activities will be developed further, in a targeted manner – in order to strengthen their respective independent profile, to accelerate growth of the Group as whole. The goal is to create value for shareholders and other stakeholders in a market, competitive and regulatory environment holding further growing challenges.

Hermann J. Merkens, Chairman of the Management Board, explained: "With the successful implementation of 'Aareal 2020', we have made our Company more

powerful, robust, efficient and agile than before. We will be leveraging these achievements to raise Aareal Bank Group to a new level of its development over the medium term, through 'Aareal Next Level' – not only to fully realise our operative potential, but also to open up new strategic options for the Group."

Specifically, the concept defines strategic thrusts for both segments for the next years. Under the motto of "*Activate!*", the main focus in the **Structured Property Financing** segment – the Group's backbone – will be on securing successes achieved in past years and the Group's 'best-in-class' position even in an adverse environment. This will be achieved by systematically exploiting the flexibility gained over recent years, in terms of regions, asset classes, structures, and exit channels, as well as by expanding activities along the entire value creation chain (e.g. in servicing of property financings), and through further efficiency enhancements.

Both parts of the **Consulting/Services** segment – banking business and Aareon – are intended to grow further over the next years, with a gradual reduction in overlaps and cross-dependencies, with the individual positioning of the respective brand and business models set to be strengthened in return – whilst securing existing synergies. Specifically, under the motto of "*Elevate!*", for Aareal Bank as a leading provider of payment services to the housing industry, this will translate into a re-positioning – in addition to the focus on deposit-taking – towards becoming a provider of additional products and services, and thus towards stronger generation of commission income. To this end, the Bank not only plans to extend its product range, but also envisages expanding into new markets where specific expertise in payments is required.

As an integral part of the Group's further developed strategy, **Aareon** is set to significantly speed up its growth momentum ("*Accelerate!*") in the years to come, and develop a strong independent value proposition as a software company with a standalone market position. For this purpose, Aareon will consistently implement its programme, presented in 2019, which is designed to double results over the medium term – predominantly through an expansion of digital businesses. Targeted M&A activities are expected to generate additional growth.

CEO Merkens summarised: "We do not have to reinvent ourselves. We will be leveraging our achievements, and will continue Aareal Bank Group's evolutionary development. We have now defined the boundaries for this development. As members of the Management Board, we are convinced that this way we will be able to secure the Company's success. It is also clear that we are prepared to embark upon a new path should circumstances necessitate it."

Aareal Bank will outline further details of its further developed corporate strategy, including medium-term financial targets, when presenting its preliminary results for the past financial year, on 26 February 2020.

Accelerated risk reduction: significant reductions in NPL volumes and exposure to Italy

In addition to the concept developed by the Management Board for the Group's medium-term strategic development, by implementing its priorities set for the fourth quarter,

Aareal Bank has also further improved its economic position, in a market environment characterised by growing uncertainty.

As announced, the Bank further expedited its programme for accelerated de-risking during the fourth quarter of 2019. Specifically, credit risk exposure to Italy was further reduced significantly during the last quarter, by an amount in excess of € 600 million (comprising defaulted loans of € 280 million and a large exposure to a single borrower of € 350 million). According to preliminary figures, Aareal Bank has reduced its aggregate risk exposure to Italy (comprising securities and loans) by around one-third (or € 1.3 billion) during the financial year under review, to € 2.7 billion.

Overall (again based on preliminary figures), the Bank reduced its volume of non-performing loans (NPLs) by around 40 per cent (or € 0.8 billion) compared to the mid-year point, to € 1.1 billion as at 31 December 2019. The NPL reduction figure includes approximately € 90 million (net) for an Italian exposure which the Bank took onto its own books as part of a restructuring.

Aareal Bank recognised additional expenses of approximately € 15 million for accelerated de-risking during the fourth quarter of 2019, offset by around € 10 million in non-recurring income from the further adjustment of the Treasury portfolio.

From today's perspective, Aareal Bank affirms its target for full-year 2019 consolidated operating profit of around € 240 million, which it had detailed further in November 2019. On a full-year basis, the Bank will thus have absorbed expenses of approximately € 50 million for the accelerated de-risking of its portfolio.

Chief Financial Officer Marc Hess commented: "Throughout the past year, we exploited opportunities for reducing risk exposures at reasonable expense, against the background of regulatory changes, an economic downturn, and political uncertainty. Thanks to our Company's strength, we have been able to do so whilst remaining within our original full-year target range."

Aareal Bank Group

Aareal Bank Group, headquartered in Wiesbaden, is a leading international property specialist. It provides smart financings, software products, and digital solutions for the property sector and related industries, and is present across three continents: Europe, North America and Asia/Pacific. 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 the Asia/Pacific region. In its Consulting/Services segment Aareal Bank Group offers its European clients from the property and energy sectors a unique combination of specialised banking services as well as innovative digital products and services, designed to help clients optimise and enhance the efficiency of their business processes.