

PRESS RELEASE

Aareal Bank posts a 54 per cent increase in consolidated operating profit for 2022

- Annual result of €239 million at upper end of target range, despite burdens from the exposure to Russia and transaction costs relating to the takeover by financial investors
- Consolidated operating profit rises to €82 million in the fourth quarter (Q4 2021: €32 million)
- Strong operating performance across all business segments – net interest income and net commission income increase significantly
- Portfolio quality further improved: NPL ratio declines to 3.6 per cent, despite exposure to Russia
- Very solid capital position and healthy funding mix – more than €1 billion in retail deposits raised through partnerships since market launch
- Outlook for 2023: further increase in consolidated operating profit targeted – despite investments
- CEO Jochen Klösger: "We have achieved a very good result and delivered what we promised. As things stand today, we are on track to reach our 2024 target ahead of schedule, thus giving us extra scope for investments this year."
- CFO Marc Hess: "We have consistently pursued a growth strategy at low marginal costs and have thus achieved one of the best cost/income ratios of the leading European banks. Furthermore, we have maintained a comfortable capital position and have been very successful at further diversifying our funding sources over the past year."

Wiesbaden, 2 March 2023 – Aareal Bank Group's strong business performance in the 2022 financial year has seen results reach the upper end of the €210 million to €250 million target range: based on preliminary, unaudited figures, consolidated operating profit totalled €239 million (2021: €155 million). €82 million was attributable to the fourth quarter, an increase of 156 per cent compared to the same quarter of the previous year (Q4 2021: €32 million). Net interest income increased by 18 per cent year-on-year, boosted by expanding the Bank's lending business at good margins and applying conservative risk parameters. It also benefited from the impact of rising interest rates on the deposit-taking business, as well as from a better funding mix. Net commission income rose by 13 per cent year-on-year, largely attributable to the growth of Aareon, the Bank's software subsidiary. At the same time, the Bank maintained its strict cost discipline during the period under review. For the full year, the cost/income ratio in the banking business amounted to 40 per cent, well below the Bank's medium-term target of 44 per cent. At €192 million, loss allowance was significantly burdened by the remaining exposure to Russia.

CEO Jochen Klösger: " We have achieved a very good result and delivered what we promised. As things stand today, we are on track to reach our 2024 target ahead of schedule, thus giving us extra scope for investments this year."

In February 2022, Aareal Bank Group announced its target for 2024 consolidated operating profit of up to €350 million. Given its strong operating performance, the Bank is confident that it will be able to achieve these results at an operational level as early as in the current financial year. The Bank has set itself the strategic goal of sustainably reducing its NPL ratio to below 3 per cent – the average ratio over the last five years has been above 5 per cent. For this purpose, the Bank will take a one-off additional charge for a swift NPL reduction of around €60 million in 2023. In addition, the Group will invest around €35 million in measures to enhance Aareon's efficiency. Taking these one-off investments of just under €100 million into account, Aareal Bank Group is targeting consolidated operating profit in a range between €240 million and €280 million for the 2023 financial year.

Successful business development in the 2022 financial year

Aareal Bank increased its **net interest income** by 18 per cent to €702 million in the financial year under review (2021: €597 million). This increase is largely attributable to the expanded lending portfolio, strong margins, the positive impact of higher interest rates on the deposit-taking business, as well as to a better funding mix. The positive trend of previous quarters continued into the fourth quarter, with net interest income rising by 16 per cent to reach a new high of €188 million (Q4 2021: €162 million).

Net commission income increased by 13 per cent to €277 million for the full year (2021: €245 million), largely reflecting the solid sales revenue development at the Bank's software subsidiary, Aareon. In the fourth quarter, net commission income rose by 10 per cent to €78 million (Q4 2021: €71 million).

Loss allowance in 2022 totalled €192 million (2021: €133 million). The largest share of this (€134 million) was attributable to the Bank's remaining exposure to Russia, an office complex in Moscow. Besides, only few loan defaults occurred, a reflection of the portfolio's high quality, the Bank's restrictive risk policy during the Covid-19 crisis, and clear recovery trends given the end of the pandemic. In the fourth quarter, loss allowance was a modest €22 million (Q4 2021: €54 million).

Administrative expenses increased to €571 million (2021: €528 million), reflecting Aareon's growth- and acquisition-related expenses. At the Bank, expenses were kept stable thanks to strict cost discipline, despite transaction costs arising from the takeover offer of Atlantic BidCo GmbH. Administrative expenses in the fourth quarter totalled €148 million (Q4 2021: €135 million). Aareal Bank lowered its cost/income ratio (CIR) in the banking business to 40 per cent for the full year (2021: 50 per cent). It achieved this by effectively pursuing its strategy of growth at low marginal costs. Within two years of implementing this approach, it now ranks as one of Europe's leading banks in this area.

Taking tax deductions of €86 million into account, **consolidated net income** was €153 million (2021: €68 million). **Consolidated net income allocated to ordinary shareholders** amounted to €138 million (2021: €53 million). **Earnings per share** were € 2.32 (2021: €0.89).

Further improved capitalisation and successful funding

Despite its continued portfolio growth, Aareal Bank further improved its capitalisation: at year-end 2022, the Bank's **Common Equity Tier 1 (CET1) ratio** (Basel IV phase-in ratio) was 19.3 per cent (2021: 18.2 per cent), which is also very good even on an international level. The **Total Capital Ratio** was 24.0 per cent (2021: 23.6 per cent).

Aareal Bank successfully expanded its **funding activities** during the financial year under review, in order to further diversify its funding mix and broaden its investor base. In the financial year 2022, the Bank placed a total of €4.7 billion in funding instruments on the capital market, including Mortgage Pfandbriefe totalling €3.2 billion. A total of €1.5 billion in senior unsecured bonds were issued, including two 'green' senior preferred issues with a volume of €500 million each. The Bank's partnerships with Raisin/Weltsparen and Deutsche Bank Zinsmarkt, for example, which were launched mid-2022, successfully raised retail deposits through fixed-term deposit products. At €635 million, the original target of around €400 million was already clearly exceeded by year-end. This dynamic development continued into the current financial year, surpassing the €1 billion mark in February. Aareal Bank also launched a European commercial paper (ECP) programme at the end of 2021 with a portfolio value of €1.1 billion at year-end.

CFO Marc Hess: "We have consistently pursued a growth strategy at low marginal costs and have thus achieved one of the best cost/income ratios of the leading European banks. Furthermore, we have maintained a comfortable capital position and have been very successful at further diversifying our funding sources over the past year."

High portfolio quality, further reduction in NPLs and growth across all business segments

In the **Structured Property Financing** segment, Aareal Bank continued to pursue its strategy of controlled, risk-conscious growth. Lending volume grew to €30.9 billion by year-end (31 December 2021: €30.0 billion). New business rose to €8.9 billion (2021: €8.5 billion), exceeding the annual forecast range of between €7.5 billion and €8.5 billion. At around 240 basis points, average gross margins on newly-acquired business were significantly above plan. Important KPIs for the portfolio have improved compared to pre-pandemic levels. For example, the average loan-to-value (LTV) ratio fell to 55 per cent (2021: 58 per cent). At the same time, the Bank reduced its NPL ratio from 5.2 per cent (year-end 2021) to 3.6 per cent as at 31 December 2022.

As a further trend in the financial year 2022, Aareal Bank's lending portfolio is becoming increasingly "green". The Bank extended a total of around €1 billion in newly-originated green loans under its "Green Finance Framework" during the financial year under review. The share of green-classified property financing in the loan portfolio rose to 21 per cent at year-end.

In the **Banking & Digital Solutions** segment, average deposit volumes grew significantly during the financial year under review, to €13.4 billion (2021: €12.0 billion), clearly exceeding the original target level of €12 billion. Net interest income for the segment more than doubled to €92 million (2021: €43 million), with the interest rate turnaround already becoming noticeable here. The segment's net commission income increased to €31 million (2021: €28 million). With the acquisition of Collect Artificial Intelligence GmbH ("CollectAI"), a payment solutions provider for interactive invoicing and intelligent dunning services, our range of services was expanded over the past year to include end-customer communications and AI-based solutions.

The software subsidiary **Aareon** continued on its growth path and made good progress in transforming its business model to Software as a Service (SaaS) and subscription-based revenues. It increased its sales revenues by 15 per cent to €308 million in the year under review (2021: €269 million), with a particularly strong increase of 25 per cent in revenue from Software as a Service (SaaS) products (2021: 16 per cent). The share of recurring revenue compared to total sales revenues increased to 74 per cent (2021: 71 per cent). Adjusted EBITDA rose by 13 per cent to €75 million (2021: €67 million).

Aareon successfully continued to pursue its M&A activities in 2022, including the acquisition of Momentum Software Group AB, a market leader in Sweden. The focus of CEO Harry Thomsen, appointed in April 2022, and his newly formed Management Board team remains firmly on implementing Aareon's growth plan whilst enhancing the efficiency of the product portfolio.

100 years of history underline resilience and adaptability

2023 marks the 100th anniversary of Aareal Bank's foundation: Deutsche WohnstättenBank AG – the predecessor to today's Aareal Bank – was founded in Berlin on 20 July 1923. The most important task of the founding institution was to provide the construction and housing industries with the urgently required loans to remedy the shortage of housing after the First World War. In the course of its long and eventful history, Aareal Bank has evolved into a leading international property specialist, successfully navigating its way through numerous challenges. Even 100 years after its foundation, Aareal Bank as a specialist institution continues to be a reliable partner to the property and housing industries – this underlines its resilience and adaptability. "On its 100th birthday, Aareal Bank is in an excellent position", said Chief Executive Officer Jochen Klösger. "We are both a mid-sized institution and a global player at the same time, combining a down-to-earth attitude and global expertise."

Outlook for 2023: further increase in profits expected

Aareal Bank Group expects a further increase in income for 2023. Net interest income should pick up further due to the targeted expansion of the credit portfolio, a better funding mix and the positive impact of higher interest rates on the deposit-taking business, reaching between €730 million and €770 million (2022: €702 million). Net commission income is also set to rise significantly – particularly due to Aareon's growth – to between €315 million and €335 million (2022: €277 million).

Loss allowance for 2023 is expected to be in a range between €170 million and €210 million (2022: €192 million), This is largely attributable to the one-off additional amount of around €60 million earmarked for the swift NPL reduction. Administrative expenses are expected to be above the previous year's level, in a range between €590 million and €630 million (2022: €571 million), due to growth and Aareon's efficiency enhancement investment budget of around €35 million.

Taking into account additional investments in the swift reduction of non-performing loans (NPLs) of around €60 million and in Aareon of around €35 million, the Group now expects consolidated operating profit for the 2023 financial year to be between €240 million and €280 million (2022: €239 million). Excluding these one-off effects of just under €100 million, operating profit is expected to be up to €350 million, which was originally targeted for 2024. The environment remains challenging. The impact of the war in Ukraine and the associated geopolitical and macro-economic uncertainty remain very difficult to estimate.

Atlantic BidCo expects completion of qualifying holding procedure in spring 2023.

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Further information covering Aareal Bank's history: [Link to anniversary press release](#)

About Aareal Bank Group – 100 years of Aareal Bank. 100 years of writing success stories.

Aareal Bank Group, headquartered in Wiesbaden, was founded 100 years ago and has since become a leading international property specialist. The Bank uses its expertise to identify trends, challenges and opportunities at an early stage, and to exploit them for the benefit of its stakeholders. Today, it provides smart financings, software products, and digital solutions for the property sector and related industries, and is present across three continents: in Europe, North America and the Asia/Pacific region. Aareal Bank Group's business strategy focuses on sustainable business success, with environmental, social and governance aspects as an integral part of this strategy.

Aareal Bank AG comprises the business segments Structured Property Financing, Banking & Digital Solutions, and Aareon. The Structured Property Financing segment encompasses all of Aareal Bank Group's property financing and funding activities. Here, the Bank supports its clients in making large-volume commercial property investments. The investment properties mostly comprise office buildings, hotels, shopping centres, logistics and residential property, as well as student apartments. In the Banking & Digital Solutions segment, Aareal Bank Group supports businesses from the housing, property management and energy industries as a digitalisation partner – combining extensive advisory services and product solutions with traditional corporate banking services and deposit-taking. Its subsidiary Aareon, the leading supplier of SaaS solutions for the European property sector, represents the third business segment. Aareon is digitalising the property management by offering user-oriented software solutions that simplify and automate processes, support sustainable and energy-efficient operations, and interconnect all process participants.

Aareal Bank Group – Key Indicators

	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Results		
Operating profit (€ mn)	239	155
Consolidated net income (€ mn)	153	68
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	138	53
Cost/income ratio (%) ²⁾	40.3	49.9
Dividend per share (€) ³⁾	-	1.60
Earnings per ordinary share (€) ¹⁾	2.32	0.89
RoE before taxes (%) ¹⁾	7.9	5.3
RoE after taxes (%) ¹⁾	5.0	2.1
Statement of Financial Position		
Property finance (€ mn)	30,901	30,048
Equity (€ mn)	3,258	3,061
Total assets (€ mn)	47,331	48,728
Regulatory indicators⁴⁾		
Basel IV (phase-in)		
Risk-weighted assets (€ mn)	12,782	12,817
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.3	18.2
Tier 1 ratio (T1 ratio) (%)	21.7	20.5
Total Capital Ratio (TC ratio) (%)	24.0	23.6
Basel III		
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.3	22.2
Employees		
	3,316	3,170

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⁾ Structured Property Financing and Banking & Digital Solutions segments: in line with common practice in the banking sector, bank levy and contributions to the deposit guarantee scheme are not included.

³⁾ In line with the strategy for 2023, there are no plans to distribute any dividends. On 31 August 2022, the Annual General Meeting had resolved not to distribute any dividends for the 2021 financial year. In compliance with the requirements published by the European Central Bank (ECB) on 15 December 2020, the Bank distributed €0.40 per share in 2021 for the 2020 financial year.

⁴⁾ 31 December 2021: excluding originally proposed dividend of €1.60 per share in 2022 for the financial year 2021, including the dividend of €1.10 per share not distributed in 2021 as well as the pro rata temporis accrual of net interest on the AT1 bond. 31 December 2022: including originally proposed dividend of €1.60 per share in 2022 and pro rata temporis accrual of net interest on the AT1 bond, excluding profits for 2022 under commercial law. There are no plans to distribute any dividends, in line with the strategy for 2023. The appropriation of profits is subject to approval by the Annual General Meeting. The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of new NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account. Adjusted total risk exposure amount (as defined in Article 92 (3) CRR – RWAs), in accordance with applicable law as at 31 December 2022 (CRR II) and applying the partial regulation for the "output floor" in connection with commercial property lending and equity exposures, based on the European Commission's proposal dated 27 October 2021 for implementation of Basel IV. The adjusted risk-weighted exposure amount for commercial property lending and equity exposures is determined using the higher of (i) total RWAs calculated in accordance with CRR II currently in force, and (ii) the figure calculated in accordance with the revised CRSA (pursuant to CRR III), applying the transitional provisions for 2025 (50% output floor). This forms the basis for the development of Basel III ratios during the 2022 financial year, as shown; said 'higher-of' comparison was not carried out in this respect as at 31 December 2021.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the financial year 2022
(unaudited, in accordance with IFRSs)

	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021	Change
	€ mn	€ mn	%
Net interest income	702	597	18
Risk provisioning	192	133	44
Net commission income	277	245	13
Net derecognition gain or loss	1	23	-96
Net gain or loss from financial instruments (fvpl)	26	-30	
Net gain or loss from hedge accounting	-2	-5	-60
Net gain or loss from investments accounted for using the equity method	-2	-2	0
Administrative expenses	571	528	8
Net other operating income/expenses	0	-12	
Operating profit	239	155	54
Income taxes	86	87	-1
Consolidated net income	153	68	125
Consolidated net income attributable to non-controlling interests	0	1	
Consolidated net income attributable to shareholders of Aareal Bank AG	153	67	128
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	153	67	128
of which: allocated to ordinary shareholders	138	53	160
of which: allocated to AT1 investors	15	14	7
Earnings per ordinary share (€) ²⁾	2.32	0.89	161
Earnings per AT1 unit (€) ³⁾	0.15	0.14	7

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 allocated 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.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter of 2022
(in accordance with IFRSs)

	Q4 2022	Q4 2021	Change
	€ mn	€ mn	%
Net interest income	188	162	16
Risk provisioning	22	54	-59
Net commission income	78	71	10
Net derecognition gain or loss	-23	8	
Net gain or loss from financial instruments (fvpl)	4	-23	
Net gain or loss from hedge accounting	4	-1	
Net gain or loss from investments accounted for using the equity method	0	-1	
Administrative expenses	148	135	10
Net other operating income/expenses	1	5	-80
Operating profit	82	32	156
Income taxes	29	20	45
Consolidated net income	53	12	342
Consolidated net income attributable to non-controlling interests	0	-1	
Consolidated net income attributable to shareholders of Aareal Bank AG	53	13	308
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	53	13	308
of which: allocated to ordinary shareholders	49	9	444
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (€) ²⁾	0.83	0.16	419
Earnings per AT1 unit (€) ³⁾	0.04	0.04	

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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 2022 financial year
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
€ mn										
Net interest income	627	560	92	43	-17	-6	0	0	702	597
Risk provisioning	192	133	0	0	0	0			192	133
Net commission income	6	8	31	28	252	221	-12	-12	277	245
Net derecognition gain or loss	1	23							1	23
Net gain or loss from financial instruments (fvpl)	26	-30	0	0	0				26	-30
Net gain or loss from hedge accounting	-2	-5							-2	-5
Net gain or loss from investments accounted for using the equity method	0	0	-1	-1	-1	-1			-2	-2
Administrative expenses	260	256	79	73	244	211	-12	-12	571	528
Net other operating income/expenses	-6	-13	-1	-1	7	2	0	0	0	-12
Operating profit	200	154	42	-4	-3	5	0	0	239	155
Income taxes	70	82	14	-1	2	6			86	87
Consolidated net income	130	72	28	-3	-5	-1	0	0	153	68
Consolidated net income attributable to non-controlling interests	0	0	0	0	0	1			0	1
Consolidated net income attributable to shareholders of Aareal Bank AG	130	72	28	-3	-5	-2	0	0	153	67

Segment Results of Aareal Bank Group
Preliminary results for the fourth quarter of 2022
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	Q4 2022	Q4 2021	Q4 2022	Q4 2021	Q4 2022	Q4 2021	Q4 2022	Q4 2021	Q4 2022	Q4 2021
€ mn										
Net interest income	152	154	43	10	-7	-2	0	0	188	162
Risk provisioning	22	54	0	0	0	0			22	54
Net commission income	1	2	8	8	72	64	-3	-3	78	71
Net derecognition gain or loss	-23	8							-23	8
Net gain or loss from financial instruments (fvpl)	4	-23	0	0	0				4	-23
Net gain or loss from hedge accounting	4	-1							4	-1
Net gain or loss from investments accounted for using the equity method	0	0		0	0	-1			0	-1
Administrative expenses	60	63	25	20	66	55	-3	-3	148	135
Net other operating income/expenses	-2	8	0	-1	3	-2	0	0	1	5
Operating profit	54	31	26	-3	2	4	0	0	82	32
Income taxes	18	14	8	0	3	6			29	20
Consolidated net income	36	17	18	-3	-1	-2	0	0	53	12
Consolidated net income attributable to non-controlling interests	0	0	0	0	0	-1			0	-1
Consolidated net income attributable to shareholders of Aareal Bank AG	36	17	18	-3	-1	-1	0	0	53	13