

PRESS RELEASE

Aareal Bank posts marked increase in profits for the financial year 2021, setting itself new growth targets

- **Consolidated operating profit of € 155 million in 2021 – net interest income up 17 per cent, loss allowance falls significantly**
- **Total dividends of € 1.60 per share to be proposed for distribution to shareholders, of which € 0.50 for the financial year 2021**
- **Consolidated operating profit to rise to up to € 350 million by 2024, with a marked increase anticipated already in 2022**
- **Chief Executive Officer Jochen Klösger: “Further growth and a sustained increase in our profitability: that is what we are planning. We have the right strategy in place for this, the necessary means, and a variety of good ideas.”**

Wiesbaden, 24 February 2022 – Aareal Bank Group exceeded its material strategic objectives for the financial year 2021, achieving a sizeable earnings swing despite an environment that continued to be impacted by the pandemic. Consolidated operating profit improved considerably to € 155 million, thanks to strong operating business. It was therefore in the upper third of the target corridor of between € 100 million and € 175 million communicated at the start of the financial year, despite ongoing burdens posed by the pandemic and additional adverse effects. As a result, Aareal Bank Group achieved a swift and significant turnaround. The major driver was net interest income. Supported by strong portfolio growth and improved funding costs, it even exceeded the projected range which had last been raised in November. Aareal Bank also further improved its Common Equity Tier 1 (CET1) ratio, despite increased lending volume.

This means the Company is well positioned as it enters a further growth phase. It plans a further gradual expansion of the portfolio volume in Structured Property Financing, earnings-related further development of the other banking business and further acceleration of the growth of software subsidiary Aareon, which will be achieved in particular through acquisitions co-financed by Aareal Bank with its hunting line. Over the medium term, the continued growth strategy is expected to raise consolidated operating profit above the level of approx. € 300 million forecast for 2023. The Company is targeting a consolidated operating profit of up to € 350 million by as early as 2024, with Aareon making a significant contribution.

Jochen Klösger, Chief Executive Officer, explained: “Aareal Bank Group holds an excellent position in all its markets. We are aiming to exploit this even further in the future. Further growth in all segments and a sustained increase in our profitability: this is what we intend to achieve over the next few years. We have the right strategy in place for this, the necessary means, and a variety of good ideas.”

Strategy: course set for further growth

In the Structured Property Financing segment, Aareal Bank wants to leverage the opportunities offered for attractive new business even more in the years ahead – whilst maintaining its conservative risk policy. Portfolio volume – which had already reached the € 30 billion level at the end of 2021, one year earlier than expected – is set to increase further by € 1 billion per annum over the next three years. This means it will grow to € 33 billion by 2024 – with the corresponding positive impact on income. Aareal Bank seeks growth especially in its core sectors and regions. However, it is also reviewing expansion into new areas where its expertise can be deployed. Moreover, the Bank will continue to gradually expand its ESG-compliant business over the next years, with € 2 billion in new green financings to be originated until 2024, of which roughly one third already in the current year.

Growth in the lending business is set to go hand in hand with more efficient portfolio management, investments in further improving the Bank's infrastructure and in lowering the segment's cost/income ratio, from 43.6 per cent – already a very good level by industry standards – to below 40 per cent by 2023. Aareal Bank will leverage its solid capital position to finance growth and investments for the future – whereby a change in the balance between distributions and investments will be examined within the framework of its existing dividend policy.

The **Banking & Digital Solutions** segment is focused, on the one hand, on maintaining the stability of deposit volumes – important for funding – up to 2024 at the current level of more than € 12 billion. On the other hand, Aareal Bank will concentrate on making more effective use of its core payment solutions offering. In doing so, it will focus on acquisitions as well as on intensified cross-selling with its own and Aareon's international clients. The segment's net commission income is expected to increase by around 13 per cent per annum on average.

Software subsidiary **Aareon**, which will have a new CEO as of 1 April – former SAP manager Hartmut Thomsen – will continue to accelerate its growth. Aareon is consistently persevering with the goal of evolving into a "Rule of 40" SaaS company with access to the capital markets by 2025. It will continue to vigorously pursue the M&A activities that were stepped up last year. For this purpose, Aareal Bank plans to provide its subsidiary with an additional € 100 million, bringing its credit line for acquisitions to a total of € 350 million until 2024. Additional debt capital could also be mobilised from institutional investors or banks at a later point in time. The previous earnings guidance for Aareon will be raised on the basis of the successful acquisitions made last year: adjusted EBITDA of around € 155 million is now expected by 2025 (previously € 135 million), including an earnings contribution of around € 20 million from the acquisitions already concluded.

This targeted acceleration of growth is set to be swiftly reflected in higher results at **Group level**: a sharp increase in consolidated operating profit to between € 210 million and € 250 million is already expected for the current year 2022. Aareal Bank affirms its stated target for 2023 of consolidated operating profit of around € 300 million, which would equate to a return

on equity after taxes of around 8 per cent, based on an imputed reference CET1 ratio of 15 per cent. Another marked increase up to € 350 million is targeted for 2024.

Successful 2021 financial year: notable improvement in results

According to preliminary, unaudited figures, Aareal Bank Group concluded the financial year under review with **consolidated operating profit** of € 155 million, of which € 32 million (Q4 2020: minus € 99 million) was attributable to the fourth quarter. Results were therefore significantly higher than in the previous year (2020: € minus 75 million) and despite the persistent Covid-19 pandemic and further unplanned burdens, such as the successful conclusion of the de-risking exercise in Italy, was in the upper third of the earnings forecast range.

Taking taxes of € 87 million into account, **consolidated net income** was € 68 million (2020: minus € 69 million). As communicated in August 2021, results were also burdened by a non-recurring tax effect from a legacy fund investment which was sold in 2012. This led to a higher tax rate of 57 per cent. Expenses of € 11 million for interest on arrears were also recognised in net other operating income/expenses. After net interest payable on the AT1 bond and non-controlling interest income, **consolidated net income allocated to ordinary shareholders** amounted to € 53 million (2020: minus € 90 million). **Earnings per share** improved to € 0.89 (2020: minus € 1.50).

Net interest income of € 597 million (up 17 per cent) exceeded the previous year's figure (2020: € 512 million). The positive trend from previous quarters remained intact in the fourth quarter, reaching a new high for the last few years of € 162 million (Q4 2020: € 139 million). Interest rate bonuses from the European Central Bank's TLTRO programme totalled € 26 million for the full year (2020: € 11 million).

Net commission income also increased by 5 per cent, to € 245 million (2020: € 243 million), on the back of sales revenue growth at Aareon and in the Banking & Digital Solutions segment, in line with expectations which were slightly adjusted in the third quarter. Net commission income in the fourth quarter came to € 71 million (Q4 2020: € 66 million).

Loss allowance of € 133 million remained significantly below the previous year's figure (2020: € 344 million), which was largely affected by Covid-19, but was still on an elevated level as expected. Including credit risk-induced adjustments to the measurement of defaulted property loans, which are reported in net gain or loss from financial instruments (fvpl), this item totalled € 169 million (2020: € 378 million). Loss allowance resulted from individual new loan defaults, one addition to an existing exposure recorded in order to adequately account for the uncertainty surrounding the Covid-19 pandemic (especially given the currently rampant Omicron variant) as regards the loans concerned, by applying corresponding scenario weightings, and the conclusion of the accelerated de-risking. Loss allowance was € 54 million in the fourth quarter (Q4 2020: € 177 million).

Administrative expenses rose to € 528 million (2020: € 469 million) and were therefore within the range projected at the start of the previous year. This is due to business expansion and investments into new products, Aareon's Value Creation Programme (VCP), ventures and M&A activities, as well as to lower cost savings related to the Covid-19 pandemic compared to the previous year – with the share price performance being one of the factors involved. Administrative expenses in the fourth quarter came to € 135 million (Q4 2020: € 117 million).

The Management Board and the Supervisory Board of Aareal Bank will propose to the Annual General Meeting to be held on 18 May to pay a **dividend** totalling € 1.60 per share. This comprises a dividend of € 0.50 based on the 2021 consolidated net income (after non-controlling interest income and AT1 interest) and a dividend of € 1.10 per share, which was retained due to the takeover offer.

Aareal Bank enjoys a very solid capital base. As at 31 December 2021, the Bank's **Common Equity Tier 1 (CET1 – Basel IV (phase-in)) ratio** was 18.2 per cent, which is very comfortable even on an international level. The total capital ratio stood at 23.6 per cent.

Chief Financial Officer Marc Hess explained: "Our growth strategy is increasingly paying off. This is reflected in the positive development of net interest income, which will continue to rise also in the current year. The broadening of our earnings base through the continuous growth in net commission income will accelerate in 2022. In this way, we create sustainable value for all our stakeholders."

Developments by business segment

New business in the **Structured Property Financing** rose to € 8.5 billion (2020: € 7.2 billion) and thus exceeded the annual forecast range of between € 7 billion and € 8 billion.

Reflecting the high volume of new business, the portfolio volume rose to € 30.0 billion as at 31 December – an increase of 8 per cent compared to the previous year. This meant that the annual target of € 29 billion initially announced was exceeded, and the level originally planned for year-end 2022 was already reached – one year earlier than expected. Aareal Bank continued to maintain its conservative lending policy with a good risk-return profile. At around 235 basis points, average gross margins on newly-acquired business in the financial year were at a very strong level, clearly exceeding the target of 215 basis points – with comfortable average loan-to-value ratios (LTVs) of 57 per cent. Aareal Bank continued to successfully pursue its ESG activities in the property financing business. Under its Green Finance Framework Lending, the first "green" financings were concluded: since June 2021 roughly € 430 million in green loans was extended.

The **Banking & Digital Solutions** segment, which bundles the Bank's equity-light business, increased net commission income to € 28 million (2020: € 26 million). Persistent demand for digital products such as Aareal Meter and Aareal Aval remained intact and is increasingly contributing to the business segment's development. In addition, the Aareal Exchange & Payment Platform was extended to provide applications in the housing and energy sectors.

The volume of deposits in the segment remained high, at € 12.4 billion (2020: € 11.0 billion), also clearly exceeding the target level of € 11 billion.

Despite the Covid-19 burdens, sales revenue in the consulting business at IT subsidiary **Aareon** rose to € 269 million in the 2021 financial year, compared to € 258 million for the same period of the previous year. Demand momentum for digital products remained intact. This is attributable on the one hand to initiatives within the framework of the Value Creation Programme (VCP), and on the other hand to the acquisitions conducted. Including the most recent takeover of GAP Group, one of the largest providers of ERP software for the housing industry in the German market, Aareon has made a total of six acquisitions in the past financial year. The share of recurring revenue also developed favourably; it accounted for 71 per cent of total sales revenue and underscores the stability of the business model. Adjusted EBITDA rose to € 67 million, an increase of 8 per cent (2020: € 62 million) and was therefore slightly above the forecast of € 63 million to € 65 million.

Outlook: 2022 consolidated operating profit of between € 210 million and € 250 million expected

Besides the strategic initiatives and measures within the framework of “Aareal Next Level”, Aareal Bank Group's focus in the 2022 financial year will remain on coping with the impact of the Covid-19 pandemic in the best way possible – together with its clients. Aareal Bank Group continues to anticipate the ‘swoosh’-shaped economic development and expects a further marked recovery during the current year.

Based on this assumption and despite continued elevated loss allowance required due to the pandemic, Aareal Bank Group expects consolidated operating profit in a range between € 210 million and € 250 million for the 2022 financial year as a whole (2021: € 155 million), thus almost reaching levels achieved prior to the Covid-19 pandemic. On this basis, earnings per share (EpS) are expected to amount to between € 2.00 and € 2.50 (2021: € 0.89), while RoE after taxes should range between 4.5 per cent and 6 per cent (2021: 2.1 per cent).

Aareal Bank Group expects income to continue to rise significantly over the previous year. Net interest income is expected to rise further, to between € 600 million and € 630 million (2021: € 597 million), reflecting the higher (and further growing) loan portfolio and despite the partial cessation of TLTRO benefits. Net commission income should also rise significantly, thanks in particular to Aareon's growth, to between € 270 million and € 290 million (2021: € 245 million).

Loss allowance, which remains elevated due to Covid-19 effects compared to normalised risk costs, is expected to be in a range between € 100 million and € 140 million (2021: € 169 million). This also includes credit risk-induced adjustments to the measurement of defaulted property loans, which are reported in net gain or loss from financial instruments (fvpl). Administrative expenses are expected to be above the previous year's level, in a range of between € 540 million and € 570 million (2021: € 528 million), due to strong growth at Aareon.

In the Structured Property Financing segment, Aareal Bank plans to achieve a portfolio size of around € 31 billion by the end of the year, market conditions permitting and subject to exchange rate fluctuations. New business volume is targeted at € 7 billion to € 8 billion on this basis. For the Banking & Digital Solutions segment, Aareal Bank assumes slight growth in net commission income for the core activities and expects an average deposit volume from the housing industry of around € 12 billion. Aareon's sales revenue is expected to increase significantly, to between € 305 million and € 325 million for the current year (2021: € 269 million). Adjusted EBITDA is also likely to see a further increase to between € 73 million and € 78 million (2021: € 67 million).

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About 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 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, whose shares are included in Deutsche Börse's SDAX index, is the Group's parent entity. It manages the various entities organised in the Group's 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 ERP software and digital solutions for the European property sector and their partners, represents the third business segment. Aareon is digitalising the property industry 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 2021	1 Jan - 31 Dec 2020
Reference values		
Operating profit (€ mn)	155	-75
Consolidated net income (€ mn)	68	-69
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	53	-90
Cost/income ratio (%) ²⁾	43.6	44.2
Dividend per share (€) ³⁾	1.60	0.40
Earnings per ordinary share (€) ¹⁾	0.89	-1.50
RoE before taxes (%) ¹⁾	5.3	-4.1
RoE after taxes (%) ¹⁾	2.1	-3.6

	31 December 2021	31 December 2020
Statement of Financial Position		
Property finance (€ mn)	30,048	27,834
Equity (€ mn)	3,061	2,967
Total assets (€ mn)	48,728	45,478
Regulatory Indicators ⁴⁾		
Basel IV (phase-in) ⁵⁾		
Risk-weighted assets (€ mn)	12,817	13,195
Common Equity Tier 1 ratio (CET1 ratio) (%)	18.2	17.3
Tier 1 ratio (T1 ratio) (%)	20.5	19.6
Total Capital Ratio (TC ratio) (%)	23.6	25.7
Basel III		
Common Equity Tier 1 ratio (CET1 ratio) (%)	22.2	18.8
Employees		
	3,170	2,982

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 segment; in line with common practice in the banking sector, bank levy and contributions to the deposit guarantee scheme are not included.

³⁾ 2020: with regard to the takeover offer and the Investment Agreement entered with Atlantic BidCo GmbH, only € 0.40 per share of the intended € 1.50 was distributed in 2021.

2021: Proposal to be submitted to the Annual General Meeting to pay a dividend in a total amount of € 1.60 per share in 2022 for the financial year 2021, including the amount of € 1.10 per share not paid out in 2021.

⁴⁾ 31 December 2020: excluding planned dividend of € 1.50 per share in 2021 and including pro rata temporis accrual of net interest payments on the AT1 bond;

31 December 2021: excluding planned dividend of € 1.60 per share in 2022 for the 2021 financial year, including € 1.10 per share not distributed in 2021, and the pro rata temporis accrual of net interest payments on the AT1 bond. 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 NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

⁵⁾ Underlying RWA estimate in accordance with the current version of the CRR plus revised AIRBA requirements for commercial property lending, based on the European Commission's draft for the European implementation of Basel IV dated 27 October 2021. The calculation also includes a buffer (maintaining the scaling factor of 1.06 for AIRBA risk weights, and the 370% risk weight for the IRBA equity exposure class), to account for the uncertainty surrounding the final wording of CRR III as well as the implementation of further regulatory requirements such as EBA requirements for internal Pillar 1 models. When Basel IV enters into force on 1 January 2025, RWA will be calculated based on the European requirements, which will have been finalised by then, and the higher of the revised AIRBA and the revised CRSA (standardised approach for credit risk) phase-in output floor.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the 2021 financial year
(unaudited, in accordance with IFRSs)

	1 Jan - 31 Dec 2021	1 Jan-31 Dec 2020	Change
	€ mn	€ mn	%
Net interest income	597	512	17
Loss allowance	133	344	-61
Net commission income	245	234	5
Net derecognition gain or loss	23	28	-18
Net gain or loss from financial instruments (fvpl)	-30	-32	-6
Net gain or loss from hedge accounting	-5	6	-183
Net gain or loss from investments accounted for using the equity method	-2	1	-300
Administrative expenses	528	469	13
Net other operating income/expenses	-12	-11	9
Operating profit	155	-75	-307
Income taxes	87	-6	
Consolidated net income	68	-69	-199
Consolidated net income attributable to non-controlling interests	1	5	-80
Consolidated net income attributable to shareholders of Aareal Bank AG	67	-74	-191
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	67	-74	-191
of which: allocated to ordinary shareholders	53	-90	-159
of which: allocated to AT1 investors	14	16	-13
Earnings per ordinary share (€)	0.89	-1.50	-159
Earnings per AT1 unit (€)	0.14	0.16	-13

¹⁾ The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter of 2021
(in accordance with IFRSs)

	Q4 2021	Q4 2020	Change
	€ mn	€ mn	%
Net interest income	162	139	17
Loss allowance	54	177	-69
Net commission income	71	66	8
Net derecognition gain or loss	8	9	-11
Net gain or loss from financial instruments (fvpl)	-23	-21	10
Net gain or loss from hedge accounting	-1	2	-150
Net gain or loss from investments accounted for using the equity method	-1	1	-200
Administrative expenses	135	117	15
Net other operating income/expenses	5	-1	-600
Operating profit	32	-99	-132
Income taxes	20	-13	-254
Consolidated net income	12	-86	-114
Consolidated net income attributable to non-controlling interests	-1	3	-133
Consolidated net income attributable to shareholders of Aareal Bank AG	13	-89	-115
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	13	-89	-115
of which: allocated to ordinary shareholders	9	-93	-110
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (€)	0.16	-1.56	-110
Earnings per AT1 unit (€)	0.04	0.04	

¹⁾ The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Segment Results of Aareal Bank Group
Preliminary results for the 2021 financial year
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
€ mn										
Net interest income	560	474	43	39	-6	-1	0	0	597	512
Loss allowance	133	344	0	0	0	0			133	344
Net commission income	8	8	28	26	221	213	-12	-13	245	234
Net derecognition gain or loss	23	28							23	28
Net gain or loss from financial instruments (fvpl)	-30	-32	0	0		0			-30	-32
Net gain or loss from hedge accounting	-5	6							-5	6
Net gain or loss from investments accounted for using the equity method	0	2	-1		-1	-1			-2	1
Administrative expenses	256	227	73	68	211	188	-12	-14	528	469
Net other operating income/expenses	-13	-14	-1	0	2	4	0	-1	-12	-11
Operating profit	154	-99	-4	-3	5	27	0	0	155	-75
Income taxes	82	-14	-1	-1	6	9			87	-6
Consolidated net income	72	-85	-3	-2	-1	18	0	0	68	-69
Consolidated net income attributable to non-controlling interests	0	0	0	0	1	5			1	5
Consolidated net income attributable to shareholders of Aareal Bank AG	72	-85	-3	-2	-2	13	0	0	67	-74

Segment Results of Aareal Bank Group
Preliminary results for the fourth quarter of 2021
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020
€ mn										
Net interest income	154	129	10	10	-2	0	0	0	162	139
Loss allowance	54	177	0	0	0	0			54	177
Net commission income	2	4	8	8	64	58	-3	-4	71	66
Net derecognition gain or loss	8	9							8	9
Net gain or loss from financial instruments (fvpl)	-23	-21	0			0			-23	-21
Net gain or loss from hedge accounting	-1	2							-1	2
Net gain or loss from investments accounted for using the equity method	0	2	0		-1	-1			-1	1
Administrative expenses	63	54	20	18	55	50	-3	-5	135	117
Net other operating income/expenses	8	-3	-1	0	-2	3	0	-1	5	-1
Operating profit	31	-109	-3	0	4	10	0	0	32	-99
Income taxes	14	-18	0	1	6	4			20	-13
Consolidated net income	17	-91	-3	-1	-2	6	0	0	12	-86
Consolidated net income attributable to non-controlling interests	0	0	0	0	-1	3			-1	3
Consolidated net income attributable to shareholders of Aareal Bank AG	17	-91	-3	-1	-1	3	0	0	13	-89