

To our Shareholders

Letter from the Chairman of the Management Board



from left:

Marc Hess

Member of the Management Board

Nina Babic

Member of the Management Board

Jochen Klösges

Chairman of the Management Board

Christof Winkelmann

Member of the Management Board

Dear shareholders,
business associates and staff members,

At a time of historic upheaval and towering economic and political insecurity, Aareal Bank is embarking on its 100th year. Our Company was founded on 20 July 1923 in Berlin as Deutsche Wohnstätten-Bank AG. One hundred years later, Aareal Bank is both a specialist and a global player. It combines a down-to-earth approach with global expertise, and one hundred years after its inception, it continues to be what it was on day one: a reliable partner to its clients in the property and housing sector.

Steadfastly guided by its clients' needs, it pairs its exceptional resilience and adaptability with stability and continuity. That has always been Aareal Bank's nature. And that is also the guiding force that will shape the next chapter of the Company's history, one that we will open this year as we celebrate a century of doing business. Assuming we receive the official approvals currently pending at the time of drafting this letter, Aareal Bank Group will have a new ownership structure upon completion of the financial investors' takeover offer. With this in mind, we look forward to continue pursuing our tried-and-tested strategy geared towards profitable growth in all segments – to the benefit of all our stakeholders.

To achieve further progress under these special circumstances, we have forged a very good starting position for ourselves, especially during this last year.

The 2022 financial year was shaped by a series of unanticipated developments and tremendous economic challenges – in particular, an exorbitant surge in energy prices as a consequence of Russia's war against Ukraine, disrupted supply chains, high market volatility, extreme inflation by local standards and the turnaround in interest policy adopted by the European Central Bank in mid-2022. This difficult mix of factors was very demanding for companies in every sector and industry. Banks were no exception – nor were we.

That is why we are so pleased to be able to say that Aareal Bank Group successfully mastered these manifold challenges. We finished the financial year under review with strong earnings and achieved all our targets.

At € 239 million, our consolidated operating profit was up 54 per cent year on year, which means it was not only back to pre-pandemic levels but actually in the upper half of the communicated target range of € 210 million to € 250 million. We managed this despite having to contend with a total of € 134 million in burdens from our remaining exposure to Russia and absorbing the transaction costs from the takeover process.

Driving our strong performance was very dynamic earnings development paired with continued strict cost discipline.

Net interest income grew by nearly one fifth in 2022 on the back of continued high-margin growth in the lending business in line with our strategy and further improvements to our funding mix, as well as higher interest rates, which have also been benefiting the deposit-taking business since the second half of the year, with volumes showing continued solid growth. The predictions we made in the low interest rate environment proved to be well founded: we said that the turnaround in interest rates would create tangible earnings potential for our deposit-taking business, above and beyond its importance for funding.

We are also pleased that growth in net commission income was nearly just as strong. This was due above all to the continued growth of our software subsidiary Aareon which is within striking distance of the rule-of-40-company target with a 15 per cent increase in revenue and an adjusted EBITDA margin of 24.4 per cent. The Banking & Digital Solutions segment also made a sizeable contribution to the strong increase in net commission income.

Meanwhile, the increase in costs has been disproportionately low in comparison to revenue growth. Leaving transaction costs from the takeover process aside, costs within the Bank were even stable. We have therefore shown that we can grow, as promised, at low marginal costs. This is also reflected in our cost/income ratio, which we improved by nearly ten percentage points to 40 per cent within the Bank. This means not only that we reached our 44 per cent mid-term target early, but also that we have joined the ranks of the top European banks.

As with costs, we have a firm grasp of risk. Our loss allowance of € 192 million was primarily related to Russia. There were very few defaults in other business, which reflected the recovery on the markets following the pandemic as well as the conservative risk policy we maintained during the Covid-19 crisis and the high quality of our loan portfolio in general.

One reason that last year was so strong is that we expanded our funding base even further by partnering with Raisin/Weltsparen, Deutsche Bank Zinsmarkt and Norisbank, thus making our fixed-income products available to retail investors. We crossed the one billion euro threshold in February this year. We also launched our European Commercial Paper Programme at the end of 2021 and it has exceeded our expectations. The volume issued was € 1.1 billion as at year-end, half of which were green issues.

Our capital ratios remain at a very solid level. Despite expanding the lending business, our Common Equity Tier 1 ratio further increased to 19.3 per cent by year end. This means we are well prepared to face a potential economic downturn and realise our ambitious growth plans in all three segments.

Overall, the last financial year tells us that Aareal Bank Group is in excellent health. We are systematically implementing our strategy. We delivered on our promises in the past financial year and have laid a very solid foundation for further profitable growth.

Our task now is to leverage our excellent position to set the right course for the years ahead. This means drawing on our financial strength to further invest in our future performance, this year included.

To be specific, we have two main items on the agenda: firstly, we are looking to budget roughly € 60 million for the swift reduction of non-performing loans. It is money well invested because it further increases our resilience. Secondly, we will invest around € 35 million in initiatives aimed at enhancing Aareon's efficiency.

Taking the total of just under € 100 million in account, we are targeting consolidated operating profit in a range of € 240 million to € 280 million for the 2023 financial year, sustaining earnings momentum with only a moderate cost increase. Adjusting the target range for the one-off investments, this means that we are already looking to achieve an operating profit of about € 350 million this year – a goal that we originally only envisaged setting for ourselves next year.

We will continue our established course in the individual segments. Our commercial property finance portfolio should continue to grow this year from roughly € 31 billion to between € 32 billion and € 33 billion, with a new business target of € 9 billion to € 10 billion. The role green financing plays in this context is likely to increase, given that the Bank already extended approximately € 1 billion in newly originated green loans under its Green Finance Framework during the year under review.

In the Banking & Digital Solutions segment, we want to keep deposits at a level of around € 13 billion even though competition has toughened. The segment's net commission income is expected to continue growing at an average annual rate of around 13 per cent. For Aareon, too, we expect revenues and results to continue rising. We anticipate sales revenues between € 325 million and € 345 million and adjusted EBITDA of between € 90 million and € 100 million.

Our goals for 2023 are ambitious but achievable, although the repercussions of the war in Ukraine remain difficult to anticipate. Yet despite the challenging global economic and geopolitical situation for our business, we remain confident on the whole. Because Aareal Bank Group is fundamentally sound. Because it enjoys an unrivalled position in its markets. And because, a century into its existence, it is ideally equipped to make the most of its future.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jochen Klösges', written in a cursive style.

Jochen Klösges,
Chairman of the Management Board

The Aareal Bank Share

Investor Relations activities

2022 was not only a challenging year for Aareal Bank for several reasons, but also one that pointed the way forward.

The Covid-19 pandemic continued to impact the economy during the financial year under review, albeit to a declining degree. Even though China was still following its zero-Covid policy up to the start of December, with all the economic repercussions this had for the global economy, the situation concerning the pandemic eased noticeably in the rest of the world. Restrictions were gradually lifted, so that public and private life could return to normal. However, Russia's war of aggression against Ukraine and the related consequences negatively impacted the economy beyond the financial year under review. The sanctions imposed in connection with the war led to a significant increase not only in energy prices – which were, however, largely responsible for inflation rates of up to 10%. Central banks have tried to counter this development by raising interest rates in quick succession, but to the detriment of economic development.

As a listed public limited company, Aareal Bank is subject to numerous disclosure obligations. It sees such a challenging environment as an opportunity not only to enter into a consistently open and constructive dialogue with analysts, investors and clients, as well as with the media – but also to further intensify this dialogue.

The takeover offer by Atlantic BidCo GmbH, which fell short of the necessary shareholder majority in a first attempt at the start of February 2022, was of particular importance for Aareal Bank in the financial year under review. Atlantic BidCo GmbH launched a second takeover offer two months later, with a higher offer price. At the end of May, it announced that the minimum acceptance threshold of 60% had been exceeded: the offer was thus accepted by the necessary shareholder majority. After all deadlines expired, 84% of shareholders had tendered their shares to Atlantic BidCo GmbH, which then initiated the process of obtaining the necessary regulatory approval to take over Aareal Bank AG.

Against the background of uncertainty associated with the ongoing pandemic, the war in Ukraine, and the successful takeover offer by Atlantic BidCo GmbH, the dialogue with market participants in the financial year under review was particularly detailed and intensive. This is a prerequisite for the long-term success of a capital markets-oriented company. Only when current company developments are communicated and – if needed – discussed with Aareal Bank in a timely, open and transparent manner can market participants evaluate potential opportunities and risks that may result from the pandemic and market developments as well as from the current takeover.

Two conferences held each year for investors, analysts and the media – which were held in virtual format last year, too – also serve this purpose. Following the failed first takeover offer, the Management Board not only presented a significant swing in results in February 2022, despite the burdens of the second year of the coronavirus pandemic, but also the fact that material strategic targets set for 2021 within the framework of the "Aareal Next Level" programme were exceeded. The Management Board stated that Aareal Bank Group would advance the successful strategy from its own strengths, and to consistently exploit the growth potential offered across all of its segments in the years to come. As a matter of course, the Group would maintain intensive dialogue on this with investors, including in the conference calls to present the quarterly statements as an opportunity to inform investors, analysts and the media about current Group developments.

Although the financial year under review saw the return of in-person events, the Investor Relations team could only attend select capital market conferences or conduct a few roadshows. This was due to the successful second takeover offer by Atlantic BidCo GmbH, where shareholders tendered approximately 84% of the shares. With a remaining free float of theoretically 16% and the exit from the SDAX that ensued in autumn 2022, interest in Aareal Bank AG shares diminished noticeably. However, there was a greater need for information concerning the ongoing takeover process and Aareal Bank's fixed income side, so that the level of market communications remained high overall in 2022, despite the change in focus.

To further strengthen confidence in the sustainable performance of Aareal Bank Group's business model, we will continue to ensure transparency for our strategic course during the financial year 2023. We continue to actively seek dialogue with the capital markets, using personal contacts as well as other existing modern channels of communication.

In order to ensure access to timely, open and transparent information of relevance to the capital markets, detailed information on Aareal Bank Group and its three segments Structured Property Financing, Banking & Digital Solutions, and Aareon can be found 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 and rating reports are available for download from our Investor Relations portal. The financial calendar offers an overview of the most important dates in the Company's calendar.

Analysts' opinions

Given the successful second takeover offer by Atlantic BidCo GmbH and the resulting reduction (in theory) of the free float, four analyst firms ceased coverage of Aareal Bank AG. A further three firms reduced their analysis, so that Aareal Bank has now only been covered regularly by three broker and analyst firms since the start of the new 2023 financial year (start of 2022: 10).

There was one “sell” recommendation at year-end 2022 compared to five “neutral” recommendations. This mainly reflects the development of the Aareal Bank share price since the announcement of the successful second takeover offer by Atlantic BidCo GmbH, and to a lesser extent the positive operating performance of Aareal Bank Group in the financial year under review.

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

Key data and indicators of the Aareal Bank share

	2022	2021
Share price (€) ¹⁾		
Year-end price	33.060	28.760
High	33.180	29.420
Low	22.760	18.330
Book value per ordinary share (€)	48.26	45.02
Dividend per ordinary share (€) ³⁾	–	1.60
Earnings per ordinary share (€)	2.32	0.89
Price/earnings ratio ²⁾	14.25	32.34
Dividend yield (%) ²⁾	–	5.56
Market capitalisation (€ mn) ²⁾	1.979	1.721
ISIN	DE 000 540 811 6	
German Securities ID (WKN):	540 811	
Mnemonic		
Deutsche Börse	ARL	
Bloomberg (Xetra)	ARL GY	
Reuters (Xetra)	ARL.DE	
Issued share capital (number of bearer unit shares)	59,857,221	

Shareholder structure



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

³⁾ There are no plans to distribute any dividends, in line with the strategy for 2023. On 31 August 2022, the Annual General Meeting had agreed not to distribute a dividend 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.

Relative performance of the Aareal Bank share price



1 4 February 2022
Takeover offer by financial investors unsuccessful – Aareal Bank continues to drive its growth strategy forward

2 24 February 2022
Aareal Bank posts marked increase in profits for the financial year 2021, setting itself new growth targets

3 5 April 2022
Advent International and Centerbridge Partners consider a renewed takeover offer – 37% of voting rights already secured

4 6 April 2022
Aareal Bank concludes Investment Agreement with bidder company led by Advent International and Centerbridge Partners

5 5 May 2022
Aareal Bank issues reasoned statement on renewed takeover offer by Atlantic BidCo GmbH

6 11 May 2022
Aareal Bank reports good operating performance in the first quarter of 2022 – additional loss allowance recognised for Russian exposure

7 25 May 2022
Successful voluntary public takeover offer by Atlantic BidCo – 60% minimum acceptance level exceeded

8 10 August 2022
Aareal Bank reports good second-quarter results, despite challenging market environment

9 31 August 2022
Annual General Meeting of Aareal Bank AG elects six new Supervisory Board members

10 10 November 2022
Aareal Bank's strong operating performance in the third quarter largely offsets additional loss allowance for Russia