

## PRESS RELEASE

### Aareal Bank doubles consolidated operating profit in the first quarter of 2023

- **Consolidated operating profit of €62 million (Q1 2022: €30 million), despite previously announced additional expenses of €34 million at Aareon**
- **Strong income growth: net interest income up 40 per cent; net commission income up 13 per cent**
- **Loss allowance at a moderate level, including additional management overlay for the US office property finance portfolio; further slight decline in the NPL inventory**
- **CET1 ratio at 19.4 per cent**
- **CEO Jochen Klösges: “We have further increased our operating profitability and remain on course. We are taking a forward-looking, vigilant stance in the current challenging environment.”**

Wiesbaden, 11 May 2023 – Aareal Bank Group doubled its **consolidated operating profit** in the first quarter, to €62 million (Q1 2022: €30 million). This strong result also includes €34 million of investments and expenses to enhance Aareon’s efficiency, as announced at the annual press conference. Net interest income and net commission income both soared, whilst loss allowance remained moderate. Even though a €21 million management overlay was recognised, loss allowance totalled €32 million. In view of current volatility, Aareal Bank has selectively originated new commercial property finance business in the first quarter. At the same time, Aareon’s sales revenues continued to develop very favourably, whilst the strong deposit base remained above the full-year target.

Chief Executive Officer **Jochen Klösges** said: “We have further increased our operating profitability and remain on course. We are taking a forward-looking, vigilant stance in the current challenging environment. With our robust business model, broadly diversified property financing portfolio, and strong capital and liquidity position, we are well positioned even for a difficult market environment.”

**Net interest income** rose by 40 per cent, to €222 million (Q1 2022: €159 million). The marked increase was driven on the one hand by solid margins and higher portfolio volume compared to the same quarter of the previous year. On the other hand, the deposit-taking business continued to benefit from rising interest rates.

**Net commission income** also continued to increase, rising 13 per cent compared to the same quarter of the previous year, to reach €72 million (Q1 2022: €64 million). Software subsidiary Aareon’s growth was a major contributor to this.

**Loss allowance** in the first quarter amounted to €32 million (Q1 2022: €49 million), this includes a management overlay in the amount of €21 million for US office property financings, to cover potential impairments. Around €60 million was budgeted for the targeted swift NPL reduction, as communicated for the financial year and included in loss

allowance for the full year. Whilst the budgeted figure was not yet drawn upon in the first quarter, preparatory measures have already commenced. At €1.055 billion, the volume of non-performing loans (NPLs) declined slightly; the NPL ratio amounts to 3.4 per cent.

Consolidated **administrative expenses** rose to €199 million (Q1 2022: €153 million) – reflecting, as expected, strong growth and the announced additional expenses for efficiency-enhancement measures at Aareon, which accounted for €34 million. Administrative expenses also include charges for the bank levy and the deposit guarantee scheme in the amount of €25 million, which are generally posted during the first quarter of the year. Costs in the banking business remained stable: the cost/income ratio of 35 per cent was at a very good level during the quarter under review, even in an international comparison. This metric does not include the bank levy and the deposit guarantee scheme, as is customary in the banking sector.

Considering tax deductions of €20 million, **consolidated net income** was €42 million (Q1 2022: €19 million). **Earnings per share** came to €0.78 (Q1 2022: €0.25)

Aareal Bank continues to enjoy a very solid capital base. As at 31 March 2023, the Bank's **Common Equity Tier 1 (CET1) ratio** (Basel IV phase-in ratio) was 19.4 per cent, which is very comfortable even on an international level. The total capital ratio stood at 23.8 per cent.

Aareal Bank's funding activities also proved successful: the Bank placed two benchmark Pfandbrief issues with an aggregate volume of €1.5 billion already at the beginning of the year. The volume of fixed-interest retail deposits sourced through platforms rose from €0.6 billion at year-end to more than €1.4 billion in the first quarter.

Chief Financial Officer **Marc Hess** said: "We were very successful in diversifying our funding sources already last year, which has clearly made us less dependent on funding via the capital markets and has proven especially helpful in volatile markets, as we have recently seen."

### **Development by business segments**

In its **Structured Property Financing** segment, Aareal Bank adopted a selective approach towards newly acquired business, taking the low level of transaction volumes into consideration, achieving excellent average gross margins of approximately 300 basis points (Q1 2022: approximately 220 basis points) and very conservative loan-to-value ratios averaging 53 per cent (Q1 2022: 57 per cent). New business volume – which includes both renewals and newly acquired business – amounted to €1.1 billion as at the end of March (Q1 2022: €3.3 billion).

Portfolio volume reached €30.7 billion as at the end of the first quarter, thereby remaining largely stable, despite being burdened by exchange rate fluctuations (31 Dec 2022: €30.9 billion). Average loan-to-value ratios in the existing portfolio of only 55 per cent reflect the high quality of Aareal Bank's credit portfolio.

Turning to the **Banking & Digital Solutions** segment, at €13.7 billion the average volume of customer deposits from the housing industry remained above the targeted level of around €13 billion and above the previous year's average of €13.4 billion in the first quarter. Aareal Bank is a leading payment services provider on the German housing market, serving more than 3,700 clients from the housing industry with around 8 million managed residential units. In 2022, Aareal Bank handled the majority of payment transactions for these clients. Net interest income in the segment soared by 333 per cent to €52 million (Q1 2022: €12 million), driven by increased interest rate levels. The segment's net commission income increased to €8 million (Q1 2022: €7 million).

Software subsidiary **Aareon** increased its sales revenues by 15 per cent to €83 million, up from €72 million in the first quarter of 2022, marking progress in the transition from a licence-based approach to a Software-as-a-Service (SaaS) model. As such, the share of recurring revenue increased to 75 per cent. Adjusted EBITDA increased to €18 million (Q1 2022: €16 million). Aareon invested in the announced early retirement programme and in product and process efficiency, thus launching its strategic efficiency-enhancement measures in the first quarter. These are set to deliver gradual cost relief effects already in 2023.

Aareon continued its M&A activities as planned, acquiring – amongst others – Embrace, the Dutch market leader for SaaS solutions in the areas of digital workspace and customer engagement during the reporting period, thereby not only improving its positioning in the Dutch market, but also further expanding its product portfolio for European clients. Aareon also launched its new partner programme Aareon Connect in Germany, which will allow clients to integrate third-party software solutions and services with Aareon's ERP systems quickly and easily. More than ten partners have joined the programme from the start.

## Outlook

Aareal Bank continues to expect consolidated operating profit for 2023 of between €240 million and €280 million. As communicated at the annual press conference in March, this figure includes additional expenses for a swift NPL reduction and the implementation of efficiency measures at Aareon. The market environment, however, remains challenging, given the ongoing geopolitical risks.

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**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 financings, software products, and digital solutions for the property sector and related industries, and is present across three continents, 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 housing. 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. It is digitalising 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 Mar 2023	1 Jan-31 Mar 2022
<b>Results</b>		
Operating profit (€ mn)	62	30
Consolidated net income (€ mn)	42	19
Consolidated net income allocated to ordinary shareholders (€ mn) <sup>1)</sup>	47	15
Cost/income ratio (%) <sup>2)</sup>	34.7	43.2
Earnings per ordinary share (€) <sup>1)</sup>	0.78	0.25
RoE before taxes (%) <sup>1) 3)</sup>	9.0	3.7
RoE after taxes (%) <sup>1) 3)</sup>	6.4	2.3
<b>Statement of financial position</b>		
Property finance (€ mn)	30,713	30,901
Equity (€ mn)	3,307	3,258
Total assets (€ mn)	47,757	47,331
<b>Regulatory indicators<sup>4)</sup></b>		
Basel IV (phase-in)		
Risk-weighted assets (€ mn)	12,941	12,782
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.4	19.3
Tier 1 ratio (T1 ratio) (%)	21.7	21.7
Total capital ratio (TC ratio) (%)	23.8	24.0
<b>Employees</b>	3,275	3,316

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

<sup>2)</sup> 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.

<sup>3)</sup> On an annualised basis

<sup>4)</sup> 31 December 2022: including originally proposed dividend of €1.60 per share in 2022 and pro rata temporis accrual of the 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 CET1 ratio, determined as the higher of the amounts under Basel III and Basel IV (phase-in), as shown in Aareal Bank's regulatory report as at 31 March 2023, was 18.7%, reflecting the fact that the Bank had not submitted an application for inclusion of profits on that reporting date to the ECB. 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 (CRR III). 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).

## Consolidated income statement for the first quarter of 2023 (in accordance with IFRSs)

	1 Jan-31 Mar 2023	1 Jan-31 Mar 2022	Change
	€ mn	€ mn	%
Net interest income	222	159	40
Loss allowance	32	49	-35
Net commission income	72	64	13
Net derecognition gain or loss	0	9	
Net gain or loss from financial instruments (fvpl)	-6	6	
Net gain or loss from hedge accounting	4	-4	
Net gain or loss from investments accounted for using the equity method	-	0	
Administrative expenses	199	153	30
Net other operating income/expenses	1	-2	
<b>Operating profit</b>	<b>62</b>	<b>30</b>	<b>107</b>
Income taxes	20	11	82
Consolidated net income	42	19	121
Consolidated net income attributable to non-controlling interests	-9	1	
Consolidated net income attributable to shareholders of Aareal Bank AG	51	18	183
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	51	18	183
of which: allocated to ordinary shareholders	47	15	213
of which: allocated to AT1 investors	4	3	33
Earnings per ordinary share (€) <sup>2)</sup>	0.78	0.25	212
Earnings per AT1 unit (€) <sup>3)</sup>	0.04	0.03	33

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

<sup>2)</sup> 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.

<sup>3)</sup> Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings attributable 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 for the first quarter of 2023 (in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan–31 Mar 2023	1 Jan–31 Mar 2022	1 Jan–31 Mar 2023	1 Jan–31 Mar 2022	1 Jan–31 Mar 2023	1 Jan–31 Mar 2022	1 Jan–31 Mar 2023	1 Jan–31 Mar 2022	1 Jan–31 Mar 2023	1 Jan–31 Mar 2022
€ mn										
Net interest income	176	150	52	12	-6	-3	0	0	222	159
Loss allowance	32	49	0	0	0	0			32	49
Net commission income	0	2	8	7	67	58	-3	-3	72	64
Net derecognition gain or loss	0	9							0	9
Net gain or loss from financial instruments (fvpl)	-6	6	0		0				-6	6
Net gain or loss from hedge accounting	4	-4							4	-4
Net gain or loss from investments accounted for using the equity method				0		0				0
Administrative expenses <sup>1)</sup>	74	85	32	18	96	53	-3	-3	199	153
Net other operating income/expenses	0	-3	0	0	1	1	0	0	1	-2
<b>Operating profit</b>	<b>68</b>	<b>26</b>	<b>28</b>	<b>1</b>	<b>-34</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>62</b>	<b>30</b>
Income taxes	15	10	9	0	-4	1			20	11
<b>Consolidated net income</b>	<b>53</b>	<b>16</b>	<b>19</b>	<b>1</b>	<b>-30</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>42</b>	<b>19</b>
Consolidated net income attributable to non-controlling interests	0	0	0	0	-9	1			-9	1
Consolidated net income attributable to shareholders of Aareal Bank AG	53	16	19	1	-21	1	0	0	51	18

<sup>1)</sup> During the course of a regular review, intra-Group cost allocation between the SPF and BDS segments was adjusted in 2023, aligning it to the size of the respective segment.