

PRESS RELEASE

Aareal Bank Group delivers positive results for the first quarter of 2020, having accounted for effects of Covid-19

- **Q1 2020 consolidated operating profit of € 11 million, after € 61 million in the same quarter of the previous year**
- **Loss allowance of € 58 million (Q1 2019: € 5 million), including direct and indirect impacts of the Covid-19 pandemic**
- **As expected, net interest income reflects the lower level of interest-bearing assets, following the successful de-risking exercise conducted during the fourth quarter of the previous year**
- **Dynamic new property finance business prior to the outbreak of the Covid-19 crisis: increase to € 1.3 billion in the first quarter (Q1 2019: € 0.8 bn), at sustained good margins**
- **Net commission income up 8 per cent year-on-year, mainly driven by IT subsidiary Aareon, which remains on a growth trajectory in the current year**
- **Substantially positive consolidated operating profit achievable for the full year 2020, from today's point of view – forecast is subject to significant uncertainty, given that duration and intensity of the crisis are hard to assess**
- **CEO Hermann J. Merkens: “We went into the Covid-19 crisis from a position of strength – and we are in a good position to master it effectively.”**

Wiesbaden, 12 May 2020 – Aareal Bank Group achieved a positive result in the first quarter of the 2020 financial year, despite the increase in loss allowance associated with the Covid-19 pandemic and the usual full recognition of expenses for the bank levy and deposit protection schemes in the first quarter. Consolidated operating profit amounted to € 11 million, after € 61 million in the same period of the previous year; consolidated net income allocated to ordinary shareholders stood at € 2 million (Q1 2019: € 35 million).

This development of results was driven in particular by the adverse effects of the Covid-19 pandemic, and by the resultant increase in loss allowance for the first quarter, to € 58 million (Q1 2019: € 5 million). This increase reflects elevated uncertainty surrounding the deterioration in economic forecasts (as a consequence of Covid-19) and extended realisation periods for defaulted borrowers in this context. It is also related to one newly-defaulted borrower in the US, where restructuring measures had been fully negotiated but could not be implemented in the wake of the Covid-19 crisis. Another reason for the lower first-quarter earnings was, as expected, net interest income, which declined to € 123 million (Q1 2019: € 135 million) – mainly due to the reduction in interest-bearing assets as part of the very successful de-risking programme conducted in the previous year.

CEO Hermann J. Merkens explained: “Aareal Bank Group went into the Covid-19 crisis from a position of strength – firstly, because the risk profile of our loan book is very conservative indeed, with average loan-to-value (LTV) ratios at a historically low level of 57 per cent. Secondly, we have a very strong capital base, which provides us with substantial scope for absorbing potential negative developments which might materialise over the next quarters. Thirdly, our funding and liquidity position is very solid because we raised funds early, at attractive terms, and our deposits provide us

with a stable additional source of funding. As a fourth point, our business model, where the diversification and stabilisation of income streams through our IT subsidiary Aareon is a competitive advantage, especially during times like these. Overall, therefore, Aareal Bank Group is in a good position to weather the current crisis well, as well as the resulting impact affecting all sectors – together with its clients.”

Despite the economic turbulence caused by Covid-19, Aareal Bank Group further specified the strategic thrusts presented at the beginning of the year under the motto of “Aareal Next Level” during the first quarter, launching numerous measures and initiatives in this regard. As announced, the focus in this context was on further strengthening the independent profiles of the individual business activities. Segment reporting was adjusted in this connection during the first quarter of 2020, to comprise three segments (instead of two previously): Structured Property Financing, the Bank’s business with the housing sector and related industries, and Aareon.

New business of € 1.3 billion for the Structured Property Financing Segment during the first quarter of 2020 was higher than in the previous year (Q1 2019: € 0.8 billion). At € 26.1 billion, the portfolio volume declined slightly compared to the end of 2019, particularly due to strong syndication activities, but remains within the unchanged range of € 26 billion to € 28 billion projected for the full year. At more than 200 basis points (excluding currency effects), average gross margins on new business originated during the first quarter clearly exceeded projections.

The new Consulting/Services Bank segment, which comprises the Bank’s business with the housing sector and related industries, generated net commission income of € 5 million during the first quarter of 2020 (Q1 2019: € 4 million). The marked increase in net interest income, to € 10 million (Q1 2019: € –3 million) was due to the new deposit modelling approach and adjustments to intra-segment charges already communicated. Accordingly, the segment result improved to € -3 million (Q1 2019: € -17 million). Averaging € 10.5 billion, the volume of deposits from the housing industry remained at a high level during the first quarter of 2020 (2019 average: € 10.7 billion). The importance of this business goes way beyond the interest margin generated from deposits – which is under pressure in the current market environment. Deposits from the housing industry are a strategically important additional stable source of funding for Aareal Bank.

Aareon, which is now reported as an independent segment, remains on a growth trajectory in the current year: Q1 sales revenue improved to € 64 million (Q1 2019: € 59 million). Aareon’s adjusted EBITDA of € 15 million was slightly higher year-on-year (Q1 2019: € 14 million). Aareon made good progress with the implementation of strategic initiatives: the Aareon Smart Platform was rolled out further, with the market launch of the Virtual Assistant being prepared. Aareon’s acquisition of the CalCon Group was concluded on 1 January 2020, as planned.

Notes to Group financial performance

Net interest income of € 123 million in the first quarter of 2020 was down on the previous year (Q1 2019: € 135 million), mainly due to a year-on-year decline in the loan and securities portfolios, also as a result of the successful de-risking exercise carried out in the previous year.

Loss allowance of € 58 million (Q1 2019: € 5 million) was recognised, largely due to the adverse economic effects related to the Covid-19 crisis. This increase reflects elevated uncertainty surrounding the deterioration in economic forecasts (as a consequence of Covid-19) and extended

realisation periods for defaulted borrowers in this context. It is also related to one newly-defaulted borrower in the US, as mentioned above.

Net commission income increased to € 57 million (Q1 2019: € 53 million), which was mainly due to Aareon's higher sales revenue (€ 64 million, Q1 2019: € 59 million).

Net derecognition gain of € 7 million (Q1 2019: € 16 million) was largely attributable to market-driven effects from early loan repayments. The higher figure for the previous year reflected structural adjustments to our securities portfolio following the acquisition of former Düsseldorf Hypothekenbank AG (Düsselhyp).

Net income from financial instruments (fvpl) and from hedge accounting, totalling € 11 million (Q1 2019: € 6 million) largely resulted from syndicated loan receivables (and derivatives under related economic hedges), as well as from changes in the measurement of other derivatives (fvpl) used for economic hedges of interest rate and currency risks.

Administrative expenses declined significantly, to € 129 million (Q1 2019: € 144 million) due to cost savings incurred in connection with the Covid-19 crisis, and in spite of rising expenses in connection with Aareon's growth. The previous year's figure included € 9 million in running costs and expenses incurred in conjunction with the integration of Düsselhyp. As in the previous year, it also included the net annual contribution for the bank levy and deposit guarantee funds.

Overall, consolidated operating profit for the quarter under review was € 11 million (Q1 2019: € 61 million). Taking into consideration tax expenses of € 4 million and non-controlling interest income of € 1 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 6 million (Q1 2019: € 39 million). Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 2 million (Q1 2019: € 35 million).

Strong liquidity position, diversified sources of funding, and strong capitalisation

Aareal Bank has remained very solidly funded throughout the first quarter of 2020. It benefits from a strong liquidity position and diversified sources of funding. Therefore, the Bank did not need to execute any larger capital market transactions during the quarter. It placed a total of € 0.2 billion on the capital markets, with the majority of funds raised through senior unsecured issues.

Furthermore, Aareal Bank continues to enjoy a very solid capital base. Including the dividends which are not being paid out for the time being, the Bank's Common Equity Tier 1 (CET1) ratio was 20.2%, which is very comfortable on an international level, and the Total Capital Ratio was 30.3%. The CET1 ratio determined on the basis of the Basel Committee's final framework – the estimated so-called 'Basel IV' ratio, which is relevant for capital planning – was 14.2%. When calculating own funds as at 31 March 2020, interim profits for 2020 were taken into account, deducting the pro-rata dividend in line with the dividend policy, and incorporating the pro-rata accrual of net interest payable on the AT1 bond.

Outlook: Substantially positive consolidated operating profit achievable for the full year 2020, from today's point of view – forecast is subject to significant uncertainty, given that duration and intensity of the crisis are hard to assess

Aareal Bank had qualified its annual forecast published in the 2019 Annual Report, noting that the impact of the Covid-19 pandemic cannot be reliably estimated and that it is thus impossible to anticipate the consequences for business and earnings development.

Besides the strategic measures and initiatives within the framework of “Aareal Next Level”, Aareal Bank Group's focus for the further course of the 2020 financial year will remain on coping with the impact of the Covid-19 pandemic in the best way possible – together with its clients. In this context, it will be crucial when the expected recovery of the real economy will commence, and how quickly it will gain momentum. Aareal Bank assumes a continuous normalisation of global economic activity commencing from mid-2020, with a marked acceleration of the recovery during 2021.

Based on this assumption, from today's point of view, the Company considers a substantially positive consolidated operating profit to be achievable for the 2020 financial year as a whole. Naturally, in the current environment, this forecast is subject to significant uncertainty, especially with regard to the assumed duration and intensity of the crisis, the pace of recovery and the associated effects on our clients, as well as prevailing unclear regulatory and accounting provisions, and the possibility that individual loan defaults cannot be reliably predicted.

Note to editors: the Interim Financial Information for the first quarter 2020 is available at www.aareal-bank.com/financial-reports.

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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 three business segments: Structured Property Financing, Consulting/Services Bank, 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 Consulting/Services Bank 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. Subsidiary Aareon, a leading European consultancy and IT systems house for the property industry and its partners in the digital age, forms the third business segment. Aareon offers reliable, pioneering solutions in the fields of consulting, software and services to optimise IT-supported business processes, and to extend business models. The Aareon Smart World digital platform links businesses from the housing industry and related sectors with customers, staff and business partners, as well as connecting technical devices in apartments and buildings.

Aareal Bank Group – Key Indicators

	1 Jan-31 Mar 2020	1 Jan-31 Mar 2019
Results		
Operating profit (€ mn)	11	61
Consolidated net income (€ mn)	7	40
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	2	35
Cost/income ratio (%) ²⁾	58.3	64.5
Earnings per ordinary share (€) ¹⁾	0.04	0.59
RoE before taxes (%) ^{1) 3) 4)}	0.7	8.8
RoE after taxes (%) ^{1) 3) 4)}	0.4	6.0

	31 Mar 2020	31 Dec 2019
Statement of Financial Position		
Property finance (€ mn) ⁵⁾	25,348	25,882
Equity (€ mn)	2,856	2,861
Total assets (€ mn)	40,968	41,137
Regulatory Indicators⁶⁾		
Risk-weighted assets (€ mn)	11,463	11,195
Common Equity Tier 1 ratio (CET1 ratio) (%)	20.2	19.6
Tier 1 ratio (T1 ratio) (%)	22.8	22.3
Total capital ratio (TC ratio) (%)	30.3	29.9
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (estimate) – ⁷⁾	14.2	13.5
Employees	2,879	2,788

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 Consulting/Services Bank (formerly: Bank division Housing Industry) segments, in line with the strategic development; the previous year's figure was adjusted accordingly.

³⁾ On an annualised basis

⁴⁾ "Other reserves" were included in equity, in line with the further development of segment reporting; the previous year's figure was adjusted accordingly.

⁵⁾ Excluding € 0.4 billion in private client business (31 December 2019: € 0.4 billion) and € 0.3 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2019: € 0.4 billion)

⁶⁾ When calculating own funds as at 31 December 2019, annual profits for 2019 were taken into account, based on the proposal by the Management Board and the Supervisory Board for appropriation of profits for the 2019 financial year, and incorporating the pro-rata accrual of net interest payable on the AT1 bond. Following a request issued by the European Central Bank, dated 27 March 2020, to refrain from paying out any dividends at least until 1 October 2020 due to the Covid-19 pandemic, and having conducted a detailed review, the Management Board and the Supervisory Board decided to propose to the Annual General Meeting that no dividends be distributed for the 2019 financial year, as an exceptional measure to strengthen the Bank's capital base, and that net retained profit be transferred in full to other retained earnings. Accordingly, annual profits for 2019 were once again included for the purpose of determining regulatory capital as at 31 March 2020. The appropriation of profits is subject to approval by the Annual General Meeting. When calculating own funds as at 31 March 2020, interim profits for 2020 were taken into account, deducting the pro-rata dividend in line with the dividend policy, and incorporating the pro-rata accrual of net interest payable on the AT1 bond. The expected relevant impact of the TRIM exercise on commercial property financings, and of the SREP recommendations concerning the NPL inventory as well as the ECB's NPL guidelines for exposures newly classified as NPLs, were taken into account for determining regulatory indicators. The CET1 ratio, as shown in Aareal Bank's regulatory report as at 31 March 2020, was 19.5%, reflecting the fact that on that date the Bank had not submitted an application for inclusion of profits to the ECB.

⁷⁾ Underlying estimate, given a 72.5% output floor based on the final Basel Committee framework dated 7 December 2017. The calculation of the material impact upon Aareal Bank is subject to the outstanding EU implementation as well as the implementation of additional regulatory requirements (CRR II, EBA requirements etc.).

Consolidated income statement for the first quarter of 2020
(in accordance with IFRSs)

	1 Jan-31 Mar 2020	1 Jan-31 Mar 2019	Change
	€ mn	€ mn	%
Net interest income	123	135	-9
Loss allowance	58	5	
Net commission income	57	53	8
Net derecognition gain or loss	7	16	-56
Net gain or loss from financial instruments (fvpl)	10	6	67
Net gain or loss from hedge accounting	1	0	
Net gain or loss from investments accounted for using the equity method	0	0	
Administrative expenses	129	144	-10
Net other operating income/expenses	0	0	
Operating profit	11	61	-82
Income taxes	4	21	-81
Consolidated net income	7	40	-83
Consolidated net income attributable to non-controlling interests	1	1	0
Consolidated net income attributable to shareholders of Aareal Bank AG	6	39	-85
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	6	39	-85
of which: allocated to ordinary shareholders	2	35	-94
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (€) ²⁾	0.04	0.59	-93
Earnings per AT1 unit (€) ³⁾	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.

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 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 2020 (in accordance with IFRSs)

	Structured Property Financing		Consulting/ Services Bank		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan– 31 Mar 2020	1 Jan– 31 Mar 2019	1 Jan– 31 Mar 2020	1 Jan– 31 Mar 2019	1 Jan– 31 Mar 2020	1 Jan– 31 Mar 2019	1 Jan– 31 Mar 2020	1 Jan– 31 Mar 2019	1 Jan– 31 Mar 2020	1 Jan– 31 Mar 2019
€ mn										
Net interest income	113	138	10	-3	0	0	0	0	123	135
Loss allowance	58	5			0	0			58	5
Net commission income	2	2	5	4	53	49	-3	-2	57	53
Net derecognition gain or loss	7	16							7	16
Net gain or loss from financial instruments (fvpl)	10	6			0				10	6
Net gain or loss from hedge accounting	1	0							1	0
Net gain or loss from investments accounted for using the equity method					0	0			0	0
Administrative expenses	68	87	18	18	46	41	-3	-2	129	144
Net other operating income/expenses	0	0	0	0	0	0	0	0	0	0
Operating profit	7	70	-3	-17	7	8	0	0	11	61
Income taxes	3	24	-1	-5	2	2			4	21
Consolidated net income	4	46	-2	-12	5	6	0	0	7	40
Consolidated net income attributable to non-controlling interests	0	0	0	0	1	1			1	1
Consolidated net income attributable to shareholders of Aareal BankAG	4	46	-2	-12	4	5	0	0	6	39