

PRESS RELEASE

Aareal Bank Group significantly increases earnings in the second quarter of 2021

- **Consolidated operating profit rises markedly to €41 million (Q2 2020: €2 million) despite burdens; Aareal Bank affirms forecast for the full year of between €100 million and €175 million**
- **Strategic programme getting into gear: revenues up 14 per cent year-on-year, net interest income on the highest level in almost four years**
- **Loss allowance significantly lower compared to the previous year, despite non-recurring effects from the successful conclusion of accelerated de-risking in Italy**
- **Strong new business in commercial property financing, portfolio volume increasing as planned**
- **IT subsidiary Aareon continues along its growth path – also thanks to successful M&A activities**
- **Chief Financial Officer Marc Hess: “Our operating business is developing positively, and our growth initiatives – defined within the scope of Aareal Next Level – are starting to bear fruit.”**

Wiesbaden, 12 August 2021 – Following the second quarter, Aareal Bank Group remains well on track to achieve its target consolidated operating profit for 2021. In a market environment that remains challenging, and despite further pandemic-related burdens as well as an adverse non-recurring tax effect, consolidated operating profit increased significantly – as already communicated on 2 August 2021, reaching €41 million (Q2 2020: €2 million; Q1 2021: €32 million). This reflects the expected gradual normalisation of business following the first ‘coronavirus year’ in 2020. Excluding the adverse tax effect, operating profit would have amounted to €52 million. Aareal Bank Group's consolidated operating profit for the first six months of the current financial year totalled €73 million (H1 2020: €13 million). The Group continues to expect consolidated operating profit for 2021 of between €100 and €175 million.

Chief Financial Officer Marc Hess commented: “Our operating business has developed positively year-to-date. Our growth initiatives – defined within the scope of Aareal Next Level – are starting to bear fruit. We are thus gradually approaching pre-crisis levels. Nevertheless, we remain cautious as regards the development of the Covid-19 pandemic, reflecting this stance in our forecasted loss allowance for the full year.”

Aareal Bank has been doing especially well on the income side year-to-date. Significant revenue components rose by 14 per cent year-on-year in the second quarter: Net interest income markedly increased to €142 million (Q2 2020: €122 million) and reached its highest level in almost four years. Net commission income stood at €59 million, also clearly exceeding the previous year's level (Q2 2020: €54 million) thanks to continuing revenue growth at Aareon.

At €33 million, loss allowance during the second quarter remained significantly lower than in the same period of the previous year (Q2 2020: €48 million). The reversal of loss allowance for a defaulted loan was used to successfully complete the accelerated de-risking initiative in Italy (initiated in 2019), which resulted in a total loss allowance charge of

€13 million. The de-risking initiative has significantly reduced credit risk exposure in Italy, by approximately €1.6 billion since 2019, providing corresponding capital relief. Taking disposals initiated and meanwhile closed into account, the volume of non-performing loans (NPLs) in Italy amounts to approximately €230 million today, compared to roughly €490 million as at 31 March 2021. At the outset of the de-risking initiative, the figure was still around €1.1 billion.

In the **Structured Property Financing** segment, new business picked up noticeably, doubling to €2.2 billion in the second quarter compared to the previous quarter. Thus, new business during the first half of the year totalled €3.3 billion, exceeding the previous year's figure by about 20 per cent (H1 2020: €2.7 billion). The full-year figure is still expected to be €7 to €8 billion (unchanged). Thanks to strong new business dynamics, the portfolio volume as at 30 June amounted to €28.5 billion and was thus already close to the year-end target of around €29 billion. At 215 basis points, average gross margins on new business reached the scheduled level in the first half of the year, with exceptional average loan-to-value ratios (LTVs) of 56 per cent.

The **Banking & Digital Solutions** segment, which bundles the Bank's equity-light business, generated net commission income of €6 million (Q2 2020: €7 million). This figure includes a burden of around €1 million due to potential risks emanating from the current rulings on general terms and conditions clauses. Expansion of the business with digital products continues to develop positively within the segment.

Aareal Bank's IT subsidiary **Aareon** also showed a positive development: despite ongoing Covid-19 burdens, sales revenue rose from €61 million in the same quarter of the previous year to €67 million in the second quarter of 2021. The momentum for digital products stayed apace. Sales revenue for the first half-year therefore rose to €133 million (H1 2020: €126 million), with Aareon's already executed M&A activities positively impacting the result. During the course of the year, Aareon has acquired four companies, and the M&A pipeline is still well-stocked. Aareon's adjusted EBITDA in the second quarter and first half of the year amounted to €14 million and €29 million respectively, thus exceeding the previous year's figures of €12 million (Q2 2020) and €26 million (H1 2020).

Notes to Group financial performance

Net interest income amounted to €142 million in the second quarter of 2021, up significantly year-on-year (Q2 2020: €122 million). The increase was mainly due to profitable portfolio growth, with the Bank strictly adhering to its unchanged risk standards. The TLTRO interest rate benefit amounted to €7 million. For the first six months of the financial year, net interest income totalled €280 million (H1 2020: €245 million).

Net commission income amounted to €59 million in the second quarter (Q2 2020: €54 million). As scheduled, it increased to a total of €118 million in the first half of the year (H1 2020: €111 million) – for the Banking & Digital Solutions segment and Aareon.

Net derecognition gain totalled €8 million in the second quarter and the first six months of the year alike (Q2 2020: €9 million; H1 2020: €16 million). This resulted from market-driven effects of early loan repayments, which also more than offset risk-based adjustments of

€-3 million in the securities portfolio for the first quarter. The previous year's quarter, on the other hand, had comprised non-recurring income from repurchases in the Treasury business within the scope of market support.

As expected, loss allowance of €40 million for the first half of the year was significantly below the previous year's figure (H1 2020: €106 million), which was particularly influenced by Covid-19. However, due to persistent uncertainty driven by the pandemic, the Bank is maintaining its conservative loss allowance forecast, guiding for €125 to €200 million in 2021 as a whole.

Administrative expenses totalled €118 million in the second quarter of 2021 (Q2 2020: €109 million) as a result of non-recurring and growth-driven effects; the first half-year figure was €268 million (H1 2020: €238 million). As expected, both figures thus exceeded their equivalents as reported in 2020. This development is attributable in particular to M&A-related expenditure, growth, and investments in new Aareon products. Moreover, higher provisions were recognised overall for the bank levy and for contributions to the deposit guarantee scheme, due to a deposit protection event (Greensill) and other effects.

Net other operating income/expenses of €-18 million for the first half of the year (H1 2020: €-10 million) was burdened by tax provisions of €11 million, as well as by the results from properties held by the Bank, as a result of Covid-19.

Consolidated operating profit for the quarter under review was €41 million (Q2 2020: €2 million). Taking into consideration tax expenses of €29 million and non-controlling interest income of €1 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to €11 million (Q2 2020: €9 million). Assuming the pro rata temporis accrual of net interest payments on the AT1 bond (€3 million), consolidated net income allocated to ordinary shareholders stood at €8 million (Q2 2020: €5 million). Income tax expense was higher due to the communicated non-recurring tax effect.

Aareal Bank continues to enjoy a very solid capital base. As at 30 June 2021, the Bank's Common Equity Tier 1 (CET1) ratio was 19.2 %, which is very comfortable even on an international level and the Total Capital Ratio was 25.4 %. The CET1 ratio determined on the basis of the Basel Committee's final framework – the so-called “Basel IV” ratio (phase-in), which is relevant for capital planning – was 17.2%.

Following a corresponding announcement by the European Central Bank on 23 July, Aareal Bank continues to intend distributing a second dividend tranche of €1.10 per share for the 2020 financial year, provided that the communicated conditions are met, which is the Bank's current expectation. In the absence of material adverse developments, Aareal Bank plans to convene an extraordinary General Meeting in the fourth quarter, to decide on the dividend proposal.

Outlook: guidance for consolidated operating profit affirmed for the full year 2021

With a view to the macro-economic development, Aareal Bank Group continues to anticipate a “swoosh-shaped” trend and thus expects a marked recovery during this year and 2022. Based on this assumption and current insights, Aareal Bank Group continues to expect a clearly positive consolidated operating profit in a range of between €100

million and €175 million for 2021 as a whole (2020: €-75 million), despite high loss allowance.

The tax rate for the current financial year is expected at around 55 per cent, based on the mid-point of the expected operating profit range. With operating profit at the upper end of the range, the expected tax rate would be around 50 per cent, and 60 per cent at the lower end of the range – in each case in line with the relative share of non-tax-deductible items in the result.

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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 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 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-30 Jun 2021	1 Jan-30 Jun 2020
Results		
Operating profit (€ mn)	73	13
Consolidated net income (€ mn)	33	16
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	24	7
Cost/income ratio (%) ²⁾	45.3	51.7
Earnings per ordinary share (€) ¹⁾	0.40	0.11
RoE before taxes (%) ^{1) 3)}	4.9	0.0
RoE after taxes (%) ^{1) 3)}	1.9	0.5

	30 Jun 2021	31 Dec 2020
Statement of Financial Position		
Property finance (€ mn) ⁴⁾	27,854	27,181
Equity (€ mn)	2,992	2,967
Total assets (€ mn)	46,644	45,478
Regulatory Indicators⁵⁾		
Risk-weighted assets (€ mn)	11,981	12,138
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.2	18.8
Tier 1 ratio (T1 ratio) (%)	21.7	21.3
Total capital ratio (TC ratio) (%)	25.4	28.0
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (phase-in) – ⁶⁾	17.2	17.3
Employees	3,036	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 only; in line with common practice in the banking sector, bank levy and contributions to the deposit guarantee scheme are not included; the previous year's figure was adjusted accordingly.

³⁾ On an annualised basis

⁴⁾ Excluding €0.3 billion in private client business (31 December 2020: €0.3 billion) and €0.3 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2020: €0.3 billion)

⁵⁾ 31 December 2020: less a proposed dividend payout of €1.50 per share in 2021 and incorporating the pro-rata accrual of net interest payable on the AT1 bond. The 2021 dividend payment of €1.50 for 2020 would need to be made in two steps. In compliance with the requirements published by the European Central Bank (ECB) on 15 December 2020, the distributable amount is calculated at €0.40 per share. A proposal on the allocation of profits was approved at the ordinary Annual General Meeting in May 2021. Following the ECB's announcement on 23 July 2021, and depending on further economic developments, regulatory requirements, the Bank's capital position and its risk situation, in the absence of material adverse developments the Bank plans to convene an extraordinary Annual General Meeting, to be held during the fourth quarter of 2021, to decide on the intended remaining payout of € 1.10 per share, amending the resolution dated 18 May 2021 on the appropriation of profits.

30 June 2021: less the remaining proposed dividend distribution of €1.10 per share in 2021 and inclusive of the interim dividend for 2021 less any pro rata dividends in accordance with the dividend policy and pro rata accrual of the net interest on the AT1 bond. The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for exposures newly classified as NPLs were taken into account.

⁶⁾ Underlying RWA estimate, incorporating the higher figure determined using the revised AIRBA or the revised CRSA (phase-in), 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 as EBA requirements, etc.).

**Consolidated income statement for the first half-year 2021
(in accordance with IFRSs)**

	1 Jan-30 Jun 2021	1 Jan-30 Jun 2020	Change
	€ mn	€ mn	%
Net interest income	280	245	14
Loss allowance	40	106	-62
Net commission income	118	111	6
Net derecognition gain or loss	8	16	-50
Net gain or loss from financial instruments (fvpl)	-4	-7	-43
Net gain or loss from hedge accounting	-2	2	-200
Net gain or loss from investments accounted for using the equity method	-1	0	
Administrative expenses	268	238	13
Net other operating income/expenses	-18	-10	80
Operating profit	73	13	462
Income taxes	40	-3	
Consolidated net income	33	16	106
Consolidated net income attributable to non-controlling interests	2	1	100
Consolidated net income attributable to shareholders of Aareal Bank AG	31	15	107
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	31	15	107
of which: allocated to ordinary shareholders	24	7	243
of which: allocated to AT1 investors	7	8	-13
Earnings per ordinary share (€)	0.40	0.11	264
Earnings per AT1 unit (€)	0.07	0.08	-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 for the second quarter of 2021
(in accordance with IFRSs)**

	2 nd quarter 2021	2 nd quarter 2020	Change
	€ mn	€ mn	%
Net interest income	142	122	16
Loss allowance	33	48	-31
Net commission income	59	54	9
Net derecognition gain or loss	8	9	-11
Net gain or loss from financial instruments (fvpl)	-3	-17	-82
Net gain or loss from hedge accounting	1	1	0
Net gain or loss from investments accounted for using the equity method	-1	0	
Administrative expenses	118	109	8
Net other operating income/expenses	-14	-10	40
Operating profit	41	2	
Income taxes	29	-7	-514
Consolidated net income	12	9	33
Consolidated net income attributable to non-controlling interests	1	0	
Consolidated net income attributable to shareholders of Aareal Bank AG	11	9	22
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	11	9	22
of which: allocated to ordinary shareholders	8	5	60
of which: allocated to AT1 investors	3	4	-25
Earnings per ordinary share (€)	0.13	0.07	86
Earnings per AT1 unit (€)	0.03	0.04	-25

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 for the first half-year 2021
(in accordance with IFRSs)**

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan-30 Jun 2021	1 Jan-30 Jun 2020	1 Jan-30 Jun 2021	1 Jan-30 Jun 2020	1 Jan-30 Jun 2021	1 Jan-30 Jun 2020	1 Jan-30 Jun 2021	1 Jan-30 Jun 2020	1 Jan-30 Jun 2021	1 Jan-30 Jun 2020
€ mn										
Net interest income	260	226	22	20	-2	-1	0	0	280	245
Loss allowance	40	106			0	0			40	106
Net commission income	4	3	13	12	107	102	-6	-6	118	111
Net derecognition gain or loss	8	16							8	16
Net gain or loss from financial instruments (fvpl)	-4	-7		0		0			-4	-7
Net gain or loss from hedge accounting	-2	2							-2	2
Net gain or loss from investments accounted for using the equity method			-1		0	0			-1	0
Administrative expenses	134	117	36	35	104	92	-6	-6	268	238
Net other operating income/expenses	-20	-11	0	0	2	1	0	0	-18	-10
Operating profit	72	6	-2	-3	3	10	0	0	73	13
Income taxes	40	-5	-1	-1	1	3			40	-3
Consolidated net income	32	11	-1	-2	2	7	0	0	33	16
Consolidated net income attributable to non-controlling interests	0	0	0	0	2	1			2	1
Consolidated net income attributable to shareholders of Aareal Bank AG	32	11	-1	-2	0	6	0	0	31	15
Allocated equity ¹⁾	1,686	1,809	258	194	38	42	533	466	2,515	2,511
RoE after taxes (%) ^{2) 3)}	3.0	0.2	-1.1	-1.5	-0.2	27.7			1.9	0.5

¹⁾ For management purposes, the allocated equity is calculated for all segments from 2021 onwards on the basis of capital requirements pursuant to Basel IV (phase-in). Reported equity on the statement of financial position differs from this. Aareon's total equity as disclosed in the statement of financial position amounts to €141 million.

²⁾ On an annualised basis

³⁾ 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 for the second quarter of 2021
(in accordance with IFRSs)**

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	2 nd quarter 2021	2 nd quarter 2020	2 nd quarter 2021	2 nd quarter 2020	2 nd quarter 2021	2 nd quarter 2020	2 nd quarter 2021	2 nd quarter 2020	2 nd quarter 2021	2 nd quarter 2020
€ mn										
Net interest income	133	113	11	10	-2	-1	0	0	142	122
Loss allowance	33	48			0	0			33	48
Net commission income	2	1	6	7	54	49	-3	-3	59	54
Net derecognition gain or loss	8	9							8	9
Net gain or loss from financial instruments (fvpl)	-3	-17		0		0			-3	-17
Net gain or loss from hedge accounting	1	1							1	1
Net gain or loss from investments accounted for using the equity method			-1		0	0			-1	0
Administrative expenses	50	49	17	17	54	46	-3	-3	118	109
Net other operating income/expenses	-15	-11	0	0	1	1	0	0	-14	-10
Operating profit	43	-1	-1	0	-1	3	0	0	41	2
Income taxes	30	-8	-1	0	0	1			29	-7
Consolidated net income	13	7	0	0	-1	2	0	0	12	9
Consolidated net income attributable to non-controlling interests	0	0	0	0	1	0			1	0
Consolidated net income attributable to shareholders of Aareal Bank AG	13	7	0	0	-2	2	0	0	11	9