

PRESS RELEASE

Aareal Bank Group posts clearly positive consolidated operating profit in the first quarter, forecast affirmed for full year 2021

- **Return to profitability: first-quarter consolidated operating profit of €32 million**
- **Loss allowance down to only €7 million at the start of the year, following comprehensive allowance recognised in the 2020 financial statements**
- **New business in the Structured Property Financing segment is solid despite the ongoing pandemic; margins remain attractive and loan-to-value ratios on a good level; well-stocked deal pipeline, portfolio volume climbs to € 28.2 billion**
- **Net interest income increased significantly by 12 per cent, primarily thanks to the expansion of the credit portfolio**
- **Net commission income increased further: positive development in the Banking & Digital Solutions segment, as well as at IT subsidiary Aareon**
- **Higher annual contributions to the bank levy and the deposit guarantee scheme already recognised in first-quarter administrative expenses**
- **Annual guidance confirmed: consolidated operating profit of between € 100 million and € 175 million expected**
- **Chief Financial Officer Marc Hess: “The strong start to the year shows that we have set the right strategic priorities.”**

Wiesbaden, 11 May 2021 – As expected, Aareal Bank Group has returned to profitability in the first quarter of the current financial year. At € 32 million, it increased its consolidated operating profit almost three-fold over the same period of the previous year (€ 11 million). This was mainly due to significantly higher net interest income, the continued increase in net commission income, as well as sharply lower loss allowance following the comprehensive allowance recognised at the end of 2020. Higher annual contributions to the bank levy and the deposit guarantee scheme for the full year were already recognised in administrative expenses for the first quarter. All in all, consolidated net income for the first three months of 2021 came to € 21 million, compared to € 7 million in the same period of the previous year, of which € 16 million is attributable to shareholders of Aareal Bank AG (Q1 2020: € 2 million).

Following the successful start to the year, Aareal Bank affirms its forecast for the full year: consolidated operating profit in a range of € 100 million to € 175 million is expected for 2021, after minus € 75 million in the previous year. Aareal Bank moreover affirms its target to generate consolidated operating profit in the range of € 300 million – excluding any potential acquisitions, and provided the risk situation returns to normal once the pandemic has been overcome – as early as 2023.

Chief Financial Officer Marc Hess commented on Aareal Bank's first-quarter results: "The strong start to the year is clear evidence that we have set the right strategic priorities, and that the path of controlled growth taken in all parts of the Group has paid off. We deliver on our promises, using the opportunities available to us – even in the changed environment that was brought about by the pandemic – consistently, and yet prudently and in a risk-aware manner."

Aareal Bank also confirmed its intention to distribute dividends totalling € 1.50 per share in 2021 for the 2020 financial year, in two stages, starting with a dividend of € 0.40 per share as already proposed to the Annual General Meeting that will take place on 18 May 2021. Depending on further economic developments, regulatory requirements, the Bank's capital position and its risk situation, a subsequent extraordinary Annual General Meeting, which could possibly take place during the fourth quarter of 2021 as already communicated, could then resolve on the intended remaining payout of € 1.10 per share.

Growth across all parts of the Group

In the first quarter, Aareal Bank continued with the controlled expansion – which had already started in the second half of 2020 – of its credit portfolio in the Structured Property Financing segment. This is a key element of the sharpening of the “Aareal Next Level” strategic framework that was presented at the beginning of the year. At the end of March, the credit volume of € 28.2 billion exceeded the threshold of € 28 billion for the first time in four years. The portfolio is expected to grow to approximately € 29 billion by the end of this year, and to around € 30 billion by the end of the next year. Aareal Bank is on track to reach its volume targets for new business after the first quarter: at € 1.1 billion, new business was down only slightly on the same period of the previous year, the first two months of which were not yet impacted by Covid-19. Furthermore, the current well-filled deal pipeline is promising. New business continued to yield attractive gross margins averaging around 250 basis points, and average loan-to-value ratios at a good level of 61 per cent. Besides the risk-conscious and profit-oriented growth of the credit portfolio, the focus is especially on its orientation towards sustainability criteria. For this purpose, Aareal Bank has introduced a Green Finance Framework certified by a third-party, as the basis for future ‘green’ lending offers.

The positive effect of the expansion of interest-bearing assets was already evident in income: net interest income rose by 12 per cent in the first quarter, to € 138 million (Q1 2020: € 123 million). The participation in the European Central Bank's TLTRO programme also contributed € 5 million. Aareal Bank expects the positive trend in net interest income to continue throughout the remainder of the year.

The expansion of the credit portfolio in line with the Bank's strategy is accompanied by significantly lower loss allowance, following the comprehensive allowance recognised in the 2020 financial statements. Loss allowance fell to only € 7 million. This compares with € 58 million in the first quarter of 2020, which was affected by the spreading pandemic, and € 177 million recognised in the fourth quarter of 2020 within the framework of a comprehensive risk-provisioning exercise. However, the first-quarter figure cannot be projected for the year as a whole. The NPL ratio of 6.0 per cent remained virtually stable (31 December 2020: 6.1 per cent).

The positive development in the other two segments continued as well, so that net commission income in the Group rose further to € 59 million (Q1 2020: € 57 million) in line with the strategic objectives. The Banking & Digital Solutions segment, in which the Bank's equity-light business is combined and whose net commission income is set to increase significantly in the coming years, made a contribution of € 7 million in the first quarter (Q1 2020: € 5 million). At € 11.6 billion, the segment's volume of deposits from the housing industry, which

represents a crisis-resistant source of funding for the Group, remained high at the end of the quarter. The expansion of the business with digital products also developed positively within the segment. With PayPal and selected credit card providers, the range of payment providers integrated in the Aareal Exchange & Payment Platform, launched in 2020, was expanded further. The roll-out of Aareal Meter, the digital solution for mobile meter reading for the energy and the housing industries, is also on schedule. These both underline the ongoing product development within the segment to open up new business opportunities.

Sales revenue at IT subsidiary Aareon rose to € 66 million (Q1 2020: € 64 million) despite the burdens posed by Covid-19, with particularly high momentum among the digital products in the first few months of the current year. Despite current investments for the future, Aareon's adjusted EBITDA of € 15 million was in line with the previous year (Q1 2020: € 15 million). Both were in line with expectations, whereby Aareon was hardly burdened by Covid-19 in the first quarter of 2020. At the same time, the expansion of digital solutions forges ahead in this segment, too. The market response to the new ERP product generation Wodis Yuneo, for which marketing started at the end of 2020, has been very positive up to now, with more than 320 customers already having decided in favour of the new system. Following the successful launch of the AI-based virtual assistant Neela in Germany, marketing commenced in the UK, the Nordic countries and the Netherlands. France followed suit at the beginning of the year.

Notes to Group financial performance

Net interest income of € 138 million in the first quarter of 2021 was considerably higher than the previous year's figure (Q1 2020: € 123 million). This was due in particular to the year-on-year increase in the credit portfolio, and the interest benefit from the Targeted Longer-Term Refinancing Operations (TLTRO 3) programme.

Following the comprehensive recognition of loss allowances at the end of the year, loss allowance amounted to € 7 million and was clearly down on the previous year's figure (Q1 2020: € 58 million), which was impacted by the Covid-19-pandemic.

Net commission income increased to € 59 million (Q1 2020: € 57 million), as planned, mainly due to higher commission income generated by the Banking & Digital Solutions segment. Despite the burdens posed by Covid-19, Aareon increased its sales revenue to € 66 million compared with € 64 million in the same quarter of the previous year, which had hardly been affected by Covid-19. Aareon's adjusted EBITDA amounted to € 15 million (Q1 2020: € 15 million).

The net derecognition gain showed a break-even figure (Q1 2020: € 7 million): positive market-driven effects from early loan repayments offset de-risking measures of € 3 million in the securities portfolio.

The aggregate of net gain or loss from financial instruments (fvpl) and net gain or loss from hedge accounting of € -4 million (Q1 2020: € 11 million) largely reflected the hedge result. The previous year's figure included in particular positive non-recurring effects from syndications.

Administrative expenses rose to € 150 million (Q1 2020: € 129 million). As expected, this was due on the one hand to planned business expansion and investments in new products, Aareon's Value Creation Programme (VCP), ventures and M&A activities, as well as to the non-recurrence of cost savings during the Covid-19 pandemic, which influenced the same quarter of the previous year. On the other hand, compared with the previous year and with the planning, higher provisions were recognised overall for the bank levy and contributions to the deposit guarantee scheme, due to a deposit protection event (Greensill) and other effects. The anticipated full-year effect was fully recognised in the first quarter of 2021. Accordingly, administrative expenses for the first quarter cannot be projected for the year as a whole.

Net other operating income/expenses of minus € 4 million (Q1 2020: € 0 million) was burdened by lower rental income on properties held by the Bank, as a result of Covid-19.

Overall, consolidated operating profit for the quarter under review was € 32 million (Q1 2020: € 11 million). Taking into consideration tax expenses of € 11 million and non-controlling interest income of € 1 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 20 million (Q1 2020: € 6 million). Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 16 million (Q1 2020: € 2 million).

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

Aareal Bank has remained very solidly funded throughout the first quarter of 2021. It benefits from a strong liquidity position and broadly diversified sources of funding. Aareal Bank structured its funding activities very successfully in the first quarter of 2021. It placed more than € 2 billion on the capital markets, including two benchmark Pfandbriefe, sized at € 500 million and USD750 million respectively. In April, the Bank also issued a GBP500 million SONIA-linked Pfandbrief for the first time. SONIA (Sterling Overnight Index Average) is a new reference interest rate that has replaced LIBOR.

Aareal Bank continues to enjoy a very solid capital base. Despite a higher portfolio volume, the Common Equity Tier 1 (CET1) ratio of 19.5 per cent as at 31 March was comfortable by international standards as well, and also above the year-end 2020 figure of 18.8 per cent. The targeted total dividend payments of € 90 million have already been deducted from this. The total capital ratio stood at 26.0 per cent. The CET1 ratio determined on the basis of the Basel Committee's final framework – the Basel IV phased-in ratio – was 17.7 per cent, after 17.3 per cent at year-end 2020.

Outlook: Forecasts affirmed

Besides implementing its strategic measures and initiatives within the framework of "Aareal Next Level", Aareal Bank Group's focus for the further course of the 2021 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 how quickly the emerging recovery of the real economy will gain momentum. With a view to the macroeconomic 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 adheres to its Group targets for 2021. Consolidated operating profit for the full year 2021 is expected in a range of € 100 million to € 175 million (2020: € -75 million), despite higher anticipated pandemic-driven loss allowance. Earnings per share (EpS) is therefore expected to be in the region between € 0.70 and € 1.50 (2020: € -1.50). 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 clients, as well as prevailing regulatory and accounting provisions that are unclear, and the possibility that individual loan defaults cannot be reliably predicted. Further effects from potential de-risking measures are also not included.

Net interest income is expected to rise to between € 550 million and € 580 million (2020: € 512 million), reflecting the higher (and further growing) loan portfolio. Net commission income is likely to rise further, thanks in particular to Aareon’s growth, to between € 250 million and € 270 million (2020: € 234 million). Based on the assumed ‘swoosh’ scenario, Aareal Bank continues to forecast loss allowance in a range between € 125 million and € 200 million (2020: € 344 million). Administrative expenses should amount to between € 520 million and € 540 million (2020: € 469 million). Besides the non-recurrence of the previous year’s cost savings due to Covid-19, this reflects the planned growth of Aareon and the initiatives launched on the basis of the strategic review that was concluded at the beginning of the year.

In the Structured Property Financing segment, a portfolio size of around € 29 billion is envisaged by the end of the year, market conditions permitting and subject to exchange rate fluctuations. Aareal Bank plans new business volume of € 7 billion to € 8 billion on this basis. For the Banking & Digital Solutions segment, Aareal Bank assumes further slight growth in net commission income (2020: € 26 million) and expects an average deposit volume from the housing industry of around € 11 billion. Aareon expects a marked increase in sales revenue in the region of € 276 to € 280 million for the current year (2020: € 258 million). Adjusted EBITDA is likely to further increase to between € 63 million and € 65 million (2020: € 62 million). This forecast does not include any effects from future M&A transactions.

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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 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 its 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-31 Mar 2021	1 Jan-31 Mar 2020
Results		
Consolidated operating profit (€ mn)	32	11
Consolidated net income (€ mn)	21	7
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	16	2
Cost/income ratio (%) ²⁾	51.9	39.2
Earnings per ordinary share (€) ¹⁾	0.27	0.04
RoE before taxes (%) ^{1) 3)}	4.1	0.7
RoE after taxes (%) ^{1) 3)}	2.6	0.4
Statement of Financial Position		
Property finance (€ mn) ⁴⁾	27,590	27,181
Equity (€ mn)	3,026	2,967
Total assets (€ mn)	46,482	45,478
Regulatory Indicators ⁵⁾		
Risk-weighted assets (€ mn)	11,906	12,138
Common Equity Tier 1 ratio (CET 1 ratio) (%)	19.5	18.8
Tier 1 ratio (T1 ratio) (%)	22.0	21.3
Total capital ratio (TC ratio) (%)	26.0	28.0
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (phased-in) – ⁶⁾	17.7	17.3
Employees	3,010	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 planned dividend distribution 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. The Management Board will submit a corresponding proposal for the appropriation of profits to the ordinary Annual General Meeting in May 2021. Depending on further economic developments, regulatory requirements, the Bank's capital position and its risk situation, an extraordinary Annual General Meeting, which could possibly take place during the fourth quarter of 2021, could then decide on the intended remaining payout of € 1.10 per share.

31 March 2021: less a planned dividend distribution of € 1.50 per share in 2021 and including interim profits for 2021, 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 CET1 ratio, as shown in Aareal Bank's regulatory report as at 31 March 2021, was 18.9 %, reflecting the fact that on that date the Bank had not submitted an application for inclusion of profits to the ECB.

The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for exposures newly classified as NPLs, as well as the "CRR Quick fix" as of 30 September 2020, were taken into account.

⁶⁾ Underlying RWA estimate, incorporating the higher figure determined using the revised AIRBA or the revised CRSA (phased-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 (CRR II, EBA requirements, etc.).

**Consolidated income statement for the first quarter of 2021
(in accordance with IFRSs)**

	1 Jan-31 Mar 2021	1 Jan-31 Mar 2020	Change
	€ mn	€ mn	%
Net interest income	138	123	12
Loss allowance	7	58	-88
Net commission income	59	57	4
Net derecognition gain or loss	0	7	
Net gain or loss from financial instruments (fvpl)	-1	10	-110
Net gain or loss from hedge accounting	-3	1	-400
Net gain or loss from investments accounted for using the equity method	0	0	
Administrative expenses	150	129	16
Net other operating income/expenses	-4	0	
Operating profit	32	11	191
Income taxes	11	4	175
Consolidated net income	21	7	200
Consolidated net income attributable to non-controlling interests	1	1	
Consolidated net income attributable to shareholders of Aareal Bank AG	20	6	233
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	20	6	233
of which: allocated to ordinary shareholders	16	2	700
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (€)	0.27	0.04	575
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 for the first quarter of 2021 (in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan–31 Mar 2021	1 Jan–31 Mar 2020	1 Jan–31 Mar 2021	1 Jan–31 Mar 2020	1 Jan–31 Mar 2021	1 Jan–31 Mar 2020	1 Jan–31 Mar 2021	1 Jan–31 Mar 2020	1 Jan–31 Mar 2021	1 Jan–31 Mar 2020
€ mn										
Net interest income	127	113	11	10	0	0	0	0	138	123
Loss allowance	7	58			0	0			7	58
Net commission income	2	2	7	5	53	53	-3	-3	59	57
Net derecognition gain or loss	0	7							0	7
Net gain or loss from financial instruments (fvpl)	-1	10				0			-1	10
Net gain or loss from hedge accounting	-3	1							-3	1
Net gain or loss from investments accounted for using the equity method					0	0			0	0
Administrative expenses	84	68	19	18	50	46	-3	-3	150	129
Net other operating income/expenses	-5	0	0	0	1	0	0	0	-4	0
Operating profit	29	7	-1	-3	4	7	0	0	32	11
Income taxes	10	3	0	-1	1	2			11	4
Consolidated net income	19	4	-1	-2	3	5	0	0	21	7
Consolidated net income attributable to non-controlling interests	0	0	0	0	1	1			1	1
Consolidated net income attributable to shareholders of Aareal Bank AG	19	4	-1	-2	2	4	0	0	20	6