

## PRESS RELEASE

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

- **Consolidated operating profit in the first quarter almost on a par with the prior year at € 30 million, or around € 90 million adjusted for additional loss allowance for the exposure to Russia**
- **Net interest income up by around 15 per cent year-on-year**
- **Chief Executive Officer Jochen Klösger: “Despite the additional loss allowance for Russia, we can report a positive quarterly result thanks to a very strong earnings performance. We remain committed to consistently implementing our strategy without losing sight of the geopolitical risks.”**

Wiesbaden, 11 May 2022 – Aareal Bank Group reported a good result for the first quarter of 2022, despite the ongoing Covid-19 pandemic and the implications of the war in Ukraine to date. **Consolidated operating profit** came in at € 30 million in the first three months, just at the previous year’s level (Q1 2021: € 32 million). This includes loss allowance of around € 60 million for the Bank’s remaining exposure to Russia, which is in the process of being wound down. Adjusted for this loss allowance, Aareal Bank would have achieved consolidated operating profit of around € 90 million in the first quarter of the year, including the net reversal of loss allowance of € 12 million.

Chief Executive Officer **Jochen Klösger** explained: “Despite the additional loss allowance for Russia, we can report a positive quarterly result thanks to a very strong earnings performance. We remain committed to consistently implementing our strategy without losing sight of the geopolitical risks.”

**Net interest income** showed a particularly positive development, up by 15 per cent year-on-year to a total of € 159 million (Q1 2021: € 138 million). This was driven by the ongoing expansion of the portfolio volume – and hence of the interest-bearing business – as well as by the healthy margins for new business originated during the past quarters. The TLTRO contribution came to € 7 million (Q1 2021: € 5 million).

**Net commission income** was up by 8 per cent year-on-year to € 64 million on the back of revenue development at the IT subsidiary Aareon (Q1 2021: € 59 million).

**Loss allowance** for the first quarter amounted to € 49 million (Q1 2021: € 7 million). This includes loss allowance of around € 60 million for the Bank’s remaining exposure to Russia. Adjusted for this adverse effect, the Group would have booked a net reversal of loss allowance of € 12 million. Aareal Bank has classified Russia as a non-core market for several years now. As a result, the Bank’s net exposure has been reduced from a peak of around € 1 billion to around € 200 million at the end of last year, as already announced. The exposure relates to two modern office buildings in the centre of Moscow. Aareal Bank has now

recognised loss allowance of around € 60 million, or approximately 30 per cent of the remaining Russian exposure.

At € 153 million, **administrative expenses** increased slightly as against the same quarter of the previous year (Q1 2021: € 150 million). This reflects Aareon's growth.

Chief Financial Officer **Marc Hess** said: "We have made a good start into the year, with a strong operating performance. At the same time, we also have our costs under control, thereby already achieving this quarter our 2023 cost/income ratio target of below 40 per cent for the Structured Property Financing segment."

Taking taxes of € 11 million into account, **consolidated net income** was € 19 million (Q1 2021: € 21 million). After net interest payable on the AT1 bond and non-controlling interest income, **consolidated net income allocated to ordinary shareholders** amounted to € 15 million (Q1 2021: € 16 million). **Earnings per share** came to € 0.25 (Q1 2021: € 0.27)

Aareal Bank continues to have a very solid capital base. As of 31 March 2022, the Bank's Common Equity Tier 1 (CET1) ratio (Basel IV phase-in ratio) was 17.9 per cent, which is very comfortable even on an international level. The total capital ratio stood at 22.9 per cent. The Bank issued its first € 500 million senior preferred green bond in the first quarter – in a move designed to help it achieve its ESG targets. It also issued a benchmark Pfandbrief of € 750 million.

### **Developments by business segment**

Aareal Bank continued to successfully drive forward the growth initiatives it had announced in all three business segments.

The property financing portfolio in the **Structured Property Financing segment** increased to € 30.8 billion at the end of March thanks to very dynamic new business (12/2021: € 30 billion). At € 3.3 billion, new business reached the highest level since 2018. One-third of this new business related to financings in the logistics sector, a segment that is considered attractive and resilient. For example, the Bank financed a logistics portfolio for the asset manager Mirastar in the UK in the amount of € 298 million. A pan-European logistics portfolio was refinanced for the global investment manager GLP via a € 586 million syndicated loan. The Bank also successfully continued its ESG activities in the quarter under review. As part of its Green Finance Framework, Aareal Bank provided € 187 million in green financing for a student housing portfolio operated by Scape Living Student Accommodation in the UK on behalf of Dutch pension fund manager APG Asset Management.

At around 220 basis points, average gross margins on newly acquired business in the first quarter were at a very strong level, ahead of the target of around 205 basis points. Loan-to-value ratios (LTVs) came to a comfortable 57 per cent as planned, meaning that growth could once again be realised with a good risk-return profile.

In the **Banking & Digital Solutions segment**, Aareal Bank strengthened its product offering by acquiring CollectAI from Otto Group. This will allow Aareal Bank Group to offer a broader range of services in end-customer communication and AI-based solutions for interactive invoices and intelligent dunning. The aim is to use the acquisition to open up new market and client groups, as well as to achieve further growth with existing clients from the housing sector and related industries. At € 7 million, net commission income in the Banking & Digital Solutions segment was on a par with the prior-year period (Q1 2021: € 7 million). The volume of deposits (€ 12.9 billion) exceeded the target of around € 12 billion and was up significantly on the same quarter of the previous year (Q1 2021: € 11.6 billion).

At the IT subsidiary **Aareon**, Hartmut Thomsen joined as the new CEO on 1 April. He had previously spent more than ten years at SAP, most recently as President, Middle and Eastern Europe, where he was responsible for sales and client activities in more than 30 countries. As a digital growth expert with a proven track record, he will continue to drive the further expansion and digitalisation of this business. Despite the shift to SaaS, Aareon's sales revenue increased by 9 per cent, to € 72 million (Q1 2021: € 66 million). M&A transactions closed in the previous year contributed to this rise. Aareon increased its stake in Dutch PropTech OSRE B.V. to 51 per cent in the first quarter. OSRE offers a SaaS solution that automates the property transaction process for new rentals across all segments of the residential and commercial property markets. The goal of this partnership is to further expand Aareon's presence in the Dutch market. Aareon's adjusted EBITDA rose slightly to € 16 million (Q1 2021: € 15 million).

## **Outlook**

Given the good operating performance in the first quarter, Aareal Bank currently maintains its guidance for 2022 consolidated operating profit of between € 210 million and € 250 million, despite loss allowance of around € 60 million for the exposure to Russia. However, the Bank now anticipates achieving the lower end of this range. In the event of the voluntary public takeover of Atlantic BidCo GmbH to Aareal Bank AG's shareholders being successful, transaction costs would additionally need to be accounted for.

The potential impact of the war in Ukraine – both in terms of the Bank's limited exposure to Russia and the economic consequences of the imposed sanctions and the escalated geopolitical tensions – is, however, very difficult to estimate at this point in time.

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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 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, 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 is digitalising the property industry 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 2022	1 Jan-31 Mar 2021
<b>Results</b>		
Operating profit (€ mn)	30	32
Consolidated net income (€ mn)	19	21
Consolidated net income allocated to ordinary shareholders (€ mn) <sup>1)</sup>	15	16
Cost/income ratio (%) <sup>2)</sup>	37.5	51.9
Earnings per ordinary share (€) <sup>1)</sup>	0.25	0.27
RoE before taxes (%) <sup>1) 3)</sup>	3.7	4.1
RoE after taxes (%) <sup>1) 3)</sup>	2.3	2.6
<b>Statement of Financial Position</b>		
Property finance (€ mn)	30,754	30,048
Equity (€ mn)	3,132	3,061
Total assets (€ mn)	48,997	48,728
<b>Regulatory Indicators <sup>4)</sup></b>		
Basel IV (phase-in) <sup>5)</sup>		
Risk-weighted assets (€ mn)	13,366	12,817
Common Equity Tier 1 ratio (CET1 ratio) (%)	17.9	18.2
Tier 1 ratio (T1 ratio) (%)	20.2	20.5
Total capital ratio (TC ratio) (%)	22.9	23.6
Basel III		
Common Equity Tier 1 ratio (CET1 ratio) (%)	22.2	22.2
<b>Employees</b>		
	3,209	3,170

<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 segment: 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 2021: excluding proposed dividend of € 1.60 per share in 2022 for the financial year 2021, including the dividend of € 1.10 per share not distributed in 2021 as well as the pro rata temporis accrual of net interest on the AT1 bond. The appropriation of profits is subject to approval by the Annual General Meeting.

31 March 2022: excluding proposed dividend of € 1.60 per share in 2022 and including interim profits for 2022, less any pro rata dividends in accordance with the dividend policy and pro rata accrual of the net interest on the AT1 bond. The CET1 ratio as shown in the regulatory report as at 31 March 2022 was 20.8%, reflecting the fact that as at that date Aareal 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 the regulatory capital of new NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

<sup>5)</sup> Underlying RWA estimate in accordance with the current version of the CRR plus revised AIRBA requirements for commercial property lending, based on the European Commission's draft for the European implementation of Basel IV dated 27 October 2021. The calculation also includes a buffer (maintaining the scaling factor of 1.06 for AIRBA risk weights, and the 370% risk weight for the IRBA equity exposure class), to account for the uncertainty surrounding the future final wording of CRR III as well as the implementation of further regulatory requirements such as EBA requirements for internal Pillar 1 models. When Basel IV enters into force on 1 January 2025, RWA will be calculated based on the European requirements, which will have been finalised by then, and the higher of the revised AIRBA and the revised CRSA (standardised approach for credit risk) phase-in output floor.

**Consolidated income statement for the first quarter of 2022  
(in accordance with IFRSs)**

	1 Jan-31 Mar 2022	1 Jan-31 Mar 2021	Change
	€ mn	€ mn	%
Net interest income	159	138	15
Loss allowance	49	7	600
Net commission income	64	59	8
Net derecognition gain or loss	9	0	
Net gain or loss from financial instruments (fvpl)	6	-1	-700
Net gain or loss from hedge accounting	-4	-3	33
Net gain or loss from investments accounted for using the equity method	0	0	
Administrative expenses	153	150	2
Net other operating income/expenses	-2	-4	-50
<b>Operating profit</b>	<b>30</b>	<b>32</b>	<b>-6</b>
Income taxes	11	11	0
Consolidated net income	19	21	-10
Consolidated net income attributable to non-controlling interests	1	1	0
Consolidated net income attributable to shareholders of Aareal Bank AG	18	20	-10
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	18	20	-10
of which: allocated to ordinary shareholders	15	16	-6
of which: allocated to AT1 investors	3	4	-25
Earnings per ordinary share (€) <sup>2)</sup>	0.25	0.27	-7
Earnings per AT1 unit (€) <sup>3)</sup>	0.03	0.04	-25

<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 2022 (in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan–31 Mar 2022	1 Jan–31 Mar 2021	1 Jan–31 Mar 2022	1 Jan–31 Mar 2021	1 Jan–31 Mar 2022	1 Jan–31 Mar 2021	1 Jan–31 Mar 2022	1 Jan–31 Mar 2021	1 Jan–31 Mar 2022	1 Jan–31 Mar 2021
€ mn										
Net interest income	150	127	12	11	-3	0	0	0	159	138
Loss allowance	49	7	0		0	0			49	7
Net commission income	2	2	7	7	58	53	-3	-3	64	59
Net derecognition gain or loss	9	0							9	0
Net gain or loss from financial instruments (fvpl)	6	-1							6	-1
Net gain or loss from hedge accounting	-4	-3							-4	-3
Net gain or loss from investments accounted for using the equity method			0		0	0			0	0
Administrative expenses	85	84	18	19	53	50	-3	-3	153	150
Net other operating income/expenses	-3	-5	0	0	1	1	0	0	-2	-4
<b>Operating profit</b>	<b>26</b>	<b>29</b>	<b>1</b>	<b>-1</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>32</b>
Income taxes	10	10	0	0	1	1			11	11
<b>Consolidated net income</b>	<b>16</b>	<b>19</b>	<b>1</b>	<b>-1</b>	<b>2</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>19</b>	<b>21</b>
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	16	19	1	-1	1	2	0	0	18	20