

Aareal Bank Group – Interim Financial Information

1 January to
31 March 2023

Contents

2	Key Indicators
4	Business Development
4	Key Events and Transactions
4	Report on the Economic Position
4	Financial Performance
6	Financial Position – Assets
7	Financial Position – Equity and Liabilities
7	Report on Changed Forecasts
8	Events after the Reporting Date
8	Segment Results
9	Financial Calendar
9	Imprint

Business Development

Key Events and Transactions

Aareal Bank Group has started the 2023 financial year with strong income growth: the Bank is making good progress in achieving consolidated operating profit in a range between € 240 million and € 280 million. We refer to our comments in the Report on Changed Forecasts.

Yet the environment remains challenging, and the impact of geopolitical and macro-economic uncertainty remains difficult to estimate.

Our business has performed well in all segments.

In the Structured Property Financing segment, the Bank originated new business on a selective basis during the first quarter of 2023, faced with volatile markets and low transaction volumes. Nonetheless, we maintain our target for new business and for the year-end portfolio size of around € 32 billion to € 33 billion. In the Banking & Digital Solutions segment, the average volume of customer deposits of € 13.7 billion remained above the targeted level of around € 13 billion.

Aareon was able to further increase sales revenue, as well as the share of recurring revenues, also thanks to M&A transactions closed in the previous year. Aareon's acquisitions during the first quarter of 2023 included Embrace – The Human Cloud, the Dutch market leader for SaaS solutions in the areas of digital workspace and customer engagement. This transaction not only improved Aareon's positioning in the Dutch market, but also further expanded its product portfolio for European clients.

Report on the Economic Position

Financial Performance

	1 Jan - 31 Mar 2023	1 Jan - 31 Mar 2022
€ mn		
Net interest income	222	159
Loss allowance	32	49
Net commission income	72	64
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
Net other operating income/expenses	1	-2
Operating profit	62	30
Income taxes	20	11
Consolidated net income	42	19
Consolidated net income attributable to non-controlling interests	-9	1
Consolidated net income attributable to shareholders of Aareal Bank AG	51	18

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€ mn	1 Jan – 31 Mar 2023	1 Jan – 31 Mar 2022
Earnings per share (Eps)		
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	51	18
of which: allocated to ordinary shareholders	47	15
of which: allocated to AT1 investors	4	3
Earnings per ordinary share (€) ²⁾	0.78	0.25
Earnings per AT1 unit (€) ³⁾	0.04	0.03

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. Basic earnings per AT1 unit correspond to diluted earnings per AT1 unit.

At € 62 million, consolidated operating profit for the first quarter of the financial year significantly exceeded the previous year's figure of € 30 million, thanks to strong income growth and despite the announced efficiency-enhancement measures at Aareon. Consolidated net income amounted to € 42 million (Q1 2022: € 19 million).

Net interest income of € 222 million was significantly higher than in the previous year (€ 159 million), due to a year-on-year increase in the credit portfolio, good margins as well as the impact of higher interest rates on the continued high volume of deposits.

Loss allowance totalled € 32 million (Q1 2022: € 49 million). This includes a € 21 million management overlay for Stage 1 and Stage 2 financings of US office properties, recognised in order to account for related current market uncertainty. Whilst the budgeted additional charge of around € 60 million for the targeted swift NPL reduction has not yet been drawn upon, preparatory measures have already commenced.

Net commission income increased to € 72 million (Q1 2022: € 64 million), especially due to higher commission income at Aareon. Aareon was able to increase sales revenue to € 83 million, compared to € 72 million in the same quarter of the previous year. M&A transactions closed in the previous year contributed to this rise. Aareon's adjusted EBITDA⁴⁾ amounted to € 18 million (Q1 2022: € 16 million).

Net derecognition gain was balanced; the previous year's figure of € 9 million was largely attributable to market-driven effects from early loan repayments.

The net loss from financial instruments (fvpl) and on hedge accounting totalled € 2 million (Q1 2022: € 2 million gain).

Administrative expenses increased to € 199 million (Q1 2022: 153 million), reflecting strong growth as well as the announced efficiency-enhancement measures at Aareon. Costs at the Bank remained largely stable: at 35 % (excluding bank levy and contributions to the deposit guarantee scheme, as is customary in the banking sector), the cost/income ratio was at a very low – and thus very good – level during the quarter under review, even in an international comparison.

Net other operating income/expenses amounted to € 1 million (Q1 2022: € -2 million).

Overall, consolidated operating profit for the quarter under review was € 62 million (Q1 2022: € 30 million). Taking into consideration tax expenses of € 20 million and non-controlling interest income of € -9 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 51 million (Q1 2022: € 18 million). Earnings per ordinary share amounted to € 0.78 (Q1 2022: € 0.25), and RoE after taxes to 6.4 % (Q1 2022: 2.3 %).

⁴⁾ Earnings before interest, taxes, depreciation and amortisation before new products, Value Creation Programme (VCP), ventures, M&A activities and non-recurring effects

Financial Position – Assets

€ mn	31 Mar 2023	31 Dec 2022
Assets		
Financial assets (ac)	40,726	40,490
Cash funds (ac)	6,105	5,424
Loan receivables (ac)	29,848	29,948
Money market and capital market receivables (ac)	4,676	5,017
Receivables from other transactions (ac)	97	101
Loss allowance (ac)	-478	-490
Financial assets (fvoci)	3,788	3,552
Money market and capital market receivables (fvoci)	3,786	3,550
Equity instruments (fvoci)	2	2
Financial assets (fvpl)	2,161	2,258
Loan receivables (fvpl)	423	427
Money market and capital market receivables (fvpl)	5	5
Positive market value of designated hedging derivatives (fvpl)	1,015	1,104
Positive market value of other derivatives (fvpl)	718	722
Non-current assets held for sale	7	7
Investments accounted for using the equity method	16	14
Intangible assets	597	566
Property and equipment	231	235
Income tax assets	42	46
Deferred tax assets	194	179
Other assets	473	474
Total	47,757	47,331

At € 47.8 billion, Aareal Bank Group's consolidated total assets were virtually unchanged compared with the previous year-end.

The volume of Aareal Bank Group's property financing portfolio amounted to € 30.7 billion (31 December 2022: € 30.9 billion). New business originated during the first quarter of 2023 totalled € 1.1 billion (Q1 2022: € 3.3 billion), reflecting the Bank's selective approach in view of volatile markets and low transaction volumes; the total figure comprised approximately € 210 million in green financings¹⁾.

Aareal Bank Group neutralises its interest rate risk exposure almost entirely. As at 31 March 2023, unrealised losses in the bond portfolio only amounted to approximately 3 % of reported equity and were fully accounted for in economic capital indicators.

¹⁾ "Green" financings meet the high energy efficiency requirements of the Aareal Green Finance Framework and the client undertakes to meet these requirements throughout the term of the loan.

Financial Position – Equity and Liabilities

€ mn	31 Mar 2023	31 Dec 2022
Equity and liabilities		
Financial liabilities (ac)	40,748	40,022
Money market and capital market liabilities (ac)	28,324	26,425
Deposits from the housing industry (ac)	11,904	13,115
Liabilities from other transactions (ac)	132	96
Subordinated liabilities (ac)	388	386
Financial liabilities (fvpl)	3,119	3,514
Negative market value of designated hedging derivatives (fvpl)	2,023	2,183
Negative market value of other derivatives (fvpl)	1,096	1,331
Non-current liabilities held for sale	1	1
Provisions	319	292
Income tax liabilities	106	76
Deferred tax liabilities	57	57
Other liabilities	100	111
Equity	3,307	3,258
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	2,130	2,076
AT1 bond	300	300
Other reserves	-84	-88
Non-controlling interests	60	69
Total	47,757	47,331

At € 47.8 billion, Aareal Bank Group's consolidated total equity and liabilities were virtually unchanged compared with the previous year-end. The average volume of deposits from the housing industry of € 13.7 billion continued to exceed the target level of around € 13 billion (full year 2022: € 13.4 billion) during the period under review.

Aareal Bank Group successfully raised € 1.7 billion on the capital markets during the first quarter of 2023, including two benchmark Pfandbrief issues of € 750 million each.

Report on Changed Forecasts

Thanks to strong income growth in the first quarter, Aareal Bank Group is making good progress in achieving consolidated operating profit in the communicated range between € 240 million and € 280 million (2022: € 239 million). The same applies to earnings per share (EpS), forecast in a range between € 2.40 and € 2.80 (2022: € 2.32) and RoE after taxes (5 % to 6.5 %; 2022: 5.0 %).

Yet the environment remains challenging, and geopolitical and macro-economic uncertainty remains difficult to estimate.

Events after the Reporting Date

There were no material events after the end of the reporting period which would have to be reported here.

Segment Results

	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 ¹⁾	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
Operating profit	68	26	28	1	-34	3	0	0	62	30
Income taxes	15	10	9	0	-4	1			20	11
Consolidated net income	53	16	19	1	-30	2	0	0	42	19
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
Allocated equity ²⁾	1,474	1,644	413	280	43	39	979	652	2,909	2,615
RoE after taxes (%) ^{3) 4)}	13.2	3.3	18.7	0.9	-198.7	7.3			6.4	2.3

¹⁾ 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.

²⁾ For management purposes, the allocated equity is calculated for all segments on the basis of a standardised capital requirement pursuant to Basel IV (phase-in) of 15%.

Until 30 September 2022, the calculated output floor for the BDS and Aareon segments was 72.5%. 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 € 113 million.

³⁾ On an annualised basis

⁴⁾ The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Financial Calendar

10 August 2023

Publication of results as at 30 June 2023

9 November 2023

Publication of results as at 30 September 2023

Imprint

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This report is also available in German language.
The German version shall be authoritative.



**Aareal Bank
Group**

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