

AAREAL BANK GROUP – INTERIM FINANCIAL INFORMATION  
1 JANUARY TO 31 MARCH 2021

# new perspectives

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YOUR COMPETITIVE ADVANTAGE.

# Key Indicators

	1 Jan – 31 Mar 2021	1 Jan – 31 Mar 2020		31 Mar 2021	31 Dec 2020
<b>Results</b>			<b>Moody's</b>		
Consolidated operating profit (€ mn)	32	11	Issuer rating	A3	A3
Consolidated net income (€ mn)	21	7	Bank deposit rating	A3	A3
Consolidated net income allocated to ordinary shareholders (€ mn) <sup>1)</sup>	16	2	Outlook	Negative	Negative
Cost/income ratio (%) <sup>2)</sup>	51.9	39.2	Mortgage Pfandbrief Rating	Aaa	Aaa
Earnings per ordinary share (€) <sup>1)</sup>	0.27	0.04	<b>Fitch Ratings</b>		
RoE before taxes (%) <sup>1)3)</sup>	4.1	0.7	Issuer default rating	BBB+	BBB+
RoE after taxes (%) <sup>1)3)</sup>	2.6	0.4	Senior Preferred	A-	A-
	<b>31 Mar 2021</b>	<b>31 Dec 2020</b>	Senior Non Preferred	BBB+	BBB+
<b>Statement of Financial Position</b>			Deposit ratings	A-	A-
Property finance (€ mn) <sup>4)</sup>	27,590	27,181	Outlook	Negative	Negative
Equity (€ mn)	3,026	2,967	<b>Sustainability ratings<sup>7)</sup></b>		
Total assets (€ mn)	46,482	45,478	MSCI	AA	AA
<b>Regulatory Indicators<sup>5)</sup></b>			ISS-ESG	prime (C+)	prime (C+)
Risk-weighted assets (€ mn)	11,906	12,138	CDP	Awareness Level C	Awareness Level C
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 (CET 1 ratio) – Basel IV (phased-in) – (%) <sup>6)</sup>	17.7	17.3			
<b>Employees</b>					
	3,010	2,982			

<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 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.

<sup>3)</sup> On an annualised basis

<sup>4)</sup> 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)

<sup>5)</sup> 31 December 2020: less a proposed 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 proposed 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 CET 1 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.

<sup>6)</sup> 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.).

<sup>7)</sup> Please refer to our website ([www.aareal-bank.com/en/responsibility/reporting-on-our-progress/](http://www.aareal-bank.com/en/responsibility/reporting-on-our-progress/)) for more details.

This report contains rounded numbers, which may result in slight differences when aggregating figures and calculating percentages.

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# Business Development

## Key Events and Transactions

The course of the 2021 financial year and the forecast continue to be influenced by the development of the Covid-19 pandemic. We outline the current macroeconomic assumptions and our forecast in the Report on Changed Forecasts.

The Chairman of the Management Board of Aareal Bank AG, Hermann J. Merkens, informed Marija Korsch, Chairman of the Supervisory Board, on 20 April 2021 that contrary to initial expectations, he would not be able to resume work as member and Chairman of the Management Board for the foreseeable future from a medical perspective. In accordance with contractual agreements, Mr Merkens has therefore retired from the Management Board with effect from 30 April 2021. The search for a successor – which was already expedited as a precautionary measure for this scenario – is at an advanced stage. Management Board members Marc Hess and Thomas Ortmanns, who have been acting as deputies to Mr Merkens to date, will continue to perform Mr Merkens' duties until further notice.

## Economic Report

### Financial Performance

	1 Jan – 31 Mar 2021	1 Jan – 31 Mar 2020
€ mn		
Net interest income	138	123
Loss allowance	7	58
Net commission income	59	57
Net derecognition gain or loss	0	7
Net gain or loss from financial instruments (fvpl)	-1	10
Net gain or loss from hedge accounting	-3	1
Net gain or loss from investments accounted for using the equity method	0	0
Administrative expenses	150	129
Net other operating income/expenses	-4	0
<b>Consolidated operating profit</b>	<b>32</b>	<b>11</b>
Income taxes	11	4
<b>Consolidated net income</b>	<b>21</b>	<b>7</b>
Consolidated net income attributable to non-controlling interests	1	1
Consolidated net income attributable to shareholders of Aareal Bank AG	20	6
<b>Earnings per share (EpS)</b>		
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	20	6
of which: allocated to ordinary shareholders	16	2
of which: allocated to AT1 investors	4	4
Earnings per ordinary share (€)	0.27	0.04
Earnings per AT1 unit (€)	0.04	0.04

<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.

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Consolidated operating profit in the first quarter of the financial year came to € 32 million and was thus significantly above the previous year (€ 11 million) and within expectations. As in the previous year, the first-quarter figure also included the higher annual contributions to the bank levy and the deposit guarantee scheme. Consolidated net income amounted to € 21 million (Q1 2020: € 7 million).

At € 138 million, net interest income was significantly higher than the previous year (€ 123 million), as expected. This was largely due to the year-on-year increase in the loan portfolio, and the interest benefit of € 5 million received as part of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO 3).

As expected, following the comprehensive recognition of loss allowance at the end of the previous year, the loss allowance of € 7 million was considerably lower than the previous year's figure of € 58 million, which was influenced by the Covid-19 pandemic. Aareal Bank continued to support clients through additional deferrals of repayments totalling € 23 million as well as liquidity facilities of € 30 million.

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 impacted by Covid-19. Aareon's adjusted EBITDA<sup>1)</sup> amounted to € 15 million (Q1 2020: € 15 million). Both figures were in line with expectations.

The net derecognition gain of € 0 million (Q1 2020: € 7 million) was balanced. 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 was largely influenced by loan receivables syndicated, or earmarked for syndication (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 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 the previous year's cost savings made during the Covid-19 pandemic. On the other hand, compared with the previous year and with the planning, higher annual contributions were recognised overall for the bank levy and to the deposit guarantee scheme, due to a deposit protection event (Greensill) and other effects.

Net other operating income/expenses of € -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). Earnings per ordinary share amounted to € 0.27 (Q1 2020: € 0.04), and RoE after taxes to 2.6 % (Q1 2020: 0.4 %).

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<sup>1)</sup> "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

	31 Mar 2021	31 Dec 2020
€ mn		
<b>Assets</b>		
<b>Financial assets (ac)</b>	<b>39,644</b>	<b>37,999</b>
Cash funds (ac)	5,981	4,744
Loan receivables (ac)	27,574	27,277
Money market and capital market receivables (ac)	6,019	5,884
Receivables from other transactions (ac)	70	94
Loss allowance (ac)	-559	-592
<b>Financial assets (fvoci)</b>	<b>3,635</b>	<b>3,672</b>
Loan receivables (fvoci)	-	-
Money market and capital market receivables (fvoci)	3,630	3,667
Equity instruments (fvoci)	5	5
<b>Financial assets (fvpl)</b>	<b>2,512</b>	<b>3,167</b>
Loan receivables (fvpl)	766	856
Money market and capital market receivables (fvpl)	95	93
Positive market value of designated hedging derivatives (fvpl)	1,197	1,431
Positive market value of other derivatives (fvpl)	454	787
Investments accounted for using the equity method	14	13
Intangible assets	226	207
Property and equipment	284	289
Income tax assets	123	116
Deferred tax assets	160	176
Other assets	443	431
<b>Total</b>	<b>46,482</b>	<b>45,478</b>

At € 46.5 billion, Aareal Bank Group's consolidated total assets increased in comparison to the end of the previous year. The use of further Targeted Longer-Term Refinancing Operations (TLTROs) resulted in an increase in the Bank's cash funds in particular.

The volume of Aareal Bank Group's property financing portfolio increased, as expected, to € 27.6 billion (31 December 2020: € 27.2 billion). New business originated during the first quarter of 2021 amounted to € 1.1 billion (Q1 2020: € 1.3 billion) and was therefore also in line with our forecast.

<sup>1)</sup> Excluding former WestImmo's private client business and local authority lending

## Financial Position – Equity and Liabilities

	31 Mar 2021	31 Dec 2020
€ mn		
<b>Equity and liabilities</b>		
<b>Financial liabilities (ac)</b>	<b>40,820</b>	<b>39,823</b>
Money market and capital market liabilities	29,365	28,206
Deposits from the housing industry	10,729	10,592
Liabilities from other transactions	102	86
Subordinated liabilities	624	939
<b>Financial liabilities (fvpl)</b>	<b>1,888</b>	<b>1,906</b>
Negative market value of designated hedging derivatives	1,097	1,298
Negative market value of other derivatives	791	608
Provisions	556	583
Income tax liabilities	19	20
Deferred tax liabilities	33	36
Other liabilities	140	143
<b>Equity</b>	<b>3,026</b>	<b>2,967</b>
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,922	1,902
AT1 bond	300	300
Other reserves	-160	-197
Non-controlling interests	63	61
<b>Total</b>	<b>46,482</b>	<b>45,478</b>

At € 46.5 billion, Aareal Bank Group's consolidated total equity and liabilities increased in comparison to the previous year-end. The use of further Targeted Longer-Term Refinancing Operations (TLTROs) led to an increase in the Bank's money-market liabilities. The volume of deposits from the housing industry slightly exceeded the forecast, averaging € 11.6 billion in the first quarter of 2021 (Q4 2020: € 11.4 billion).

Aareal Bank Group successfully raised € 1.5 billion on the capital market during the first quarter of 2021. This included two benchmark Pfandbrief transactions, sized at € 500 million and USD 750 million respectively. Senior unsecured funding totalling € 0.4 billion was raised, comprising mainly senior preferred bonds.

## Report on Changed Forecasts

Besides the 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 and expectations of a clearly positive consolidated operating profit in a range of between € 100 million and € 175 million (2020: € -75 million). 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. Further effects from potential de-risking measures are also not included.

## Events after the Reporting Date

There have been no material events subsequent to the end of the period under review that need to be disclosed at this point.

## Segment Results

	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
<b>Operating profit</b>	<b>29</b>	<b>7</b>	<b>-1</b>	<b>-3</b>	<b>4</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>32</b>	<b>11</b>
Income taxes	10	3	0	-1	1	2			11	4
<b>Consolidated net income</b>	<b>19</b>	<b>4</b>	<b>-1</b>	<b>-2</b>	<b>3</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>21</b>	<b>7</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	19	4	-1	-2	2	4	0	0	20	6
Allocated equity <sup>1)</sup>	1,681	1,815	252	191	38	42	558	485	2,529	2,533
RoE after taxes (%) <sup>2)3)</sup>	3.7	-0.1	-0.9	-3.0	13.5	38.6			2.6	0.4

<sup>1)</sup> For management purposes, the allocated equity is calculated for all segments from 2021 onwards on the basis of capital requirements pursuant to Basel IV (phased-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 € 143 million.

<sup>2)</sup> On an annualised basis

<sup>3)</sup> 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

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18 May 2021	Annual General Meeting
12 August 2021	Publication of results as at 30 June 2021
11 November 2021	Publication of results as at 30 September 2021

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