

## PRESS RELEASE

### **Aareal Bank: Strong earnings growth offsets non-recurring burdens and higher loss allowance – Full exit from the Russian exposure**

- **Consolidated operating profit of €25 million in the second quarter (Q2 2022: €61 million), despite announced non-recurring burdens and increased loss allowance**
- **Loss allowance, including net gain or loss from financial instruments (fvpl), totalled around €160 million in the second quarter: Approx. €100 million related to the US office property portfolio and approx. €60 million to the announced swift NPL reduction of which around €35 million for the exit from the Russian exposure**
- **Operating performance remains strong: net interest income rose by 40 per cent to €240 million, net commission income by 13 per cent to €77 million.**
- **CET1 ratio unchanged at 19.4 per cent, despite portfolio growth**
- **CEO Jochen Klösger: “Thanks to our strong profitability, we succeeded in maintaining our half-year results almost stable, despite higher investments, impairments on our US office property finance portfolio, and the full exit from our Russian exposure. This demonstrates our operational resilience, even in difficult markets.”**

Wiesbaden, 10 August 2023 – Despite non-recurring burdens, additional investments at software subsidiary Aareon, and increased loss allowance for US office property financings, Aareal Bank Group reported **consolidated operating profit** of €25 million in the second quarter of 2023 (Q2 2022: €61 million). This corresponds to consolidated operating profit in the first six months of 2023 of €87 million (H1 2022: €91 million).

Aareal Bank Group had announced investments of around €100 million for a swift reduction of Aareal Group’s NPL inventory and efficiency-enhancement measures at Aareon at the annual press conference in March 2023. These non-recurring burdens have risen to around €120 million in total, reflecting higher investment requirements at Aareon; however, this amount was almost fully absorbed in the first half of the year. Moreover, a part of the investment budget was used for the early termination of the Bank's remaining Russian exposure.

Loss allowance thus totalled €128 million in the second quarter. Additional loss allowance of €33 million was recognised for write-downs of defaulted US property loans; since these are carried at fair value, this is shown in net gain or loss from financial instruments (fvpl). This means that loss allowance for US office property financings totalled approximately €100 million.

Yet thanks to its strong profitability, especially due to a significant increase in net interest income, the Group was able to offset the aggregate burdens in the first half of the year. Aareal Bank Group has thus confirmed its full-year profit guidance for 2023. However, consolidated operating profit is expected to reach the lower end of the communicated range of between €240 million and €280 million, due to the additional investments at Aareon.

**Jochen Klösger**, Chief Executive Officer, explained: “Thanks to our strong profitability, we succeeded in maintaining our half-year results almost stable, despite higher investments, impairments on our US office property finance portfolio, and the full exit from our Russian exposure. This demonstrates our operational resilience, even in difficult markets.”

**Net interest income** rose by 40 per cent in the second quarter, to €240 million (Q2 2022: €171 million), driven by a portfolio growth of around €1 billion compared to the same quarter of the previous year and solid margins. What is more, deposits reached an average volume of €13.5 billion in the first six months of 2023, benefiting from higher interest rates. Net interest income for the first half-year amounted to €462 million (H1 2022: €330 million).

**Net commission income** was up by 13 per cent compared to the previous year's quarter, and reached €77 million (Q2 2022: €68 million), with Aareon's persistent revenue growth contributing significantly. Net commission income for the first half of the year increased to €149 million (H1 2022: €132 million).

**Loss allowance** for the second quarter amounted to €128 million (Q2 2022: €58 million), which was – on the one hand – due to loan defaults of US office properties. On the other hand, around €60 million designated in the full-year's budget for the swift reduction of the NPL inventory was fully drawn upon in the second quarter, of which around €35 million was used to exit the remaining Russian exposure. Loss allowance for the first six months totalled €160 million (H1 2022: €107 million).

Another €33 million of loss allowance was recognised in **net gain or loss from financial instruments (fvpl)** due to fair value measurement adjustments in the US.

At €143 million, consolidated **administrative expenses** roughly matched the previous year's level (Q2 2022: €142 million). Costs in the banking business declined year-on-year, to €66 million (Q2 2022: €80 million). In the same quarter of the previous year, transaction costs of €12 million from the takeover by Atlantic BidCo additionally burdened the Bank's administrative expenses. At 30 per cent, the Bank's cost/income ratio was at a very good level during the quarter under review, even in an international comparison. In contrast, Aareon's costs increased to €79 million (Q2 2022: €65 million), reflecting growth as well as additional expenditure in the second quarter. Due to the combination of UK entities and the optimisation of the product portfolio, Aareon's investments rose to just under €60 million in total for the first half of the year. Consolidated administrative expenses for the first six months totalled €342 million (H1 2022: €295 million), with €175 million (H1 2022: €118 million) attributable to Aareon.

Considering taxes of €9 million, second-quarter **consolidated net income** was €16 million (Q2 2022: €39 million).

At the end of the second quarter, Aareal Bank's **Common Equity Tier 1 (CET1) ratio** (Basel IV phase-in ratio) was unchanged at 19.4 per cent, despite portfolio growth (31 March 2023: 19.4 per cent; 31 December 2022: 19.3 per cent). The total capital ratio

stood at 23.4 per cent. This means that Aareal Bank continues to enjoy a very solid capital base.

Turning to Aareal Bank's **funding activities**, the Bank was able to place €2.3 billion on the capital markets during the first half of 2023, including two benchmark Pfandbrief issues of €750 million each. Aareal Bank also successfully issued another €500 million Pfandbrief in July. The volume of fixed-interest retail deposits sourced through platforms rose from €1.4 billion as at 31 March 2023 to €1.7 billion in the second quarter.

Chief Financial Officer **Marc Hess** said: "We remain solidly funded and well-capitalised. Our CET1 ratio remained at 19.4 per cent, despite our growth. The Bank also performed very well in this year's stress test: in a scenario which provided for price losses on global commercial property markets of close to 30 per cent, Aareal Bank's stressed CET1 ratio was soundly above-average and ahead of applicable requirements."

### Developments by business segment

In the **Structured Property Financing segment**, Aareal Bank's portfolio volume increased to €32.1 billion at the end of the second quarter (31 December 2022: €30.9 billion). New business amounted to €4.1 billion for the first six months (H1 2022: €5.2 billion), and was increasingly dynamic after a muted first quarter (€1.1 billion). Newly-originated loans totalled €2.4 billion in the first half of the year (H1 2022: €3.4 billion), of which €1.8 billion was originated in the second quarter. The Bank achieved very good average gross margins of approximately 290 basis points (H1 2022: approximately 230 basis points), with low loan-to-value ratios averaging 53 per cent (H1 2022: 57 per cent). Aareal Bank has thus maintained its conservative risk policy during the current financial year, also demonstrated by the average loan-to-value ratio of 55 per cent in the existing portfolio.

Aareal Bank's financing activities in the second quarter included Hyatt's 5-star Sofia hotel in Barcelona and the mixed-use Legendre complex in Paris that combines high-quality hotel, office and fitness spaces under one roof. The Bank also financed its very first "co-living" project in Helsinki: the concept refers to temporary shared housing in urban areas.

In the **Banking & Digital Solutions segment**, net interest income rose to €59 million in the second quarter (Q2 2022: €11 million); the six-month figure was €111 million (H1 2022: €23 million). The segment's net commission income of €8 million in the second quarter remained on the previous year's level (Q2 2022: €8 million), whilst on a six-months basis, it grew slightly to €16 million (H1 2022: €15 million). Aareal Bank concluded new partnerships in the housing and energy sectors, and has become innovation partner of the German association of service providers in the energy sector (*Bundesverband der Energiemarktdienstleister*) in May. The Bank also concluded a payments partnership with housing software development partner Comline SE at the beginning of the second quarter. Aareal Bank's software subsidiary **Aareon** increased its sales revenues to €85 million in the second quarter (Q2 2022: €75 million) and to €168 million in the first six months (up 15 per cent; H1 2022: €147 million). The share of recurring revenue compared to total sales revenues increased to 76 per cent (H1 2022: 73 per cent). Adjusted EBITDA rose to €21 million in the second quarter (Q2 2022: €16 million).

Aareon continued its strategic efficiency-enhancing measures in the second quarter. It invested just under €25 million in the combination of UK entities under one roof and the optimisation of its product portfolio. These investments, alongside measures already realised geared towards organisational transformation, are expected to yield cost savings starting as early as from the third quarter onwards. Aareon's new partner programme Aareon Connect was launched in the first quarter: it allows clients to integrate third-party software solutions and services with Aareon's systems. Aareon was able to expand its circle of partners, and to attract first clients.

Furthermore, Aareon keeps pursuing its inorganic growth path. On 9 August 2023, Aareon announced the acquisition of IESA, the leading provider of property management software solutions in Spain. With this acquisition, Aareon will expand its geographical footprint towards Southern Europe.

## **Outlook**

Thanks to its strong earnings base and despite increased burdens from loss allowance for the US office property finance portfolio in the first half of the year, Aareal Bank Group remains confident to achieve consolidated operating profit between €240 million and €280 million in the 2023 financial year. However, due to additional investments at Aareon, it expects to reach the lower end of that range. At the same time, the environment remains challenging and geopolitical and macro-economic uncertainties remain difficult to estimate.

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## **About Aareal Bank Group – 100 years of Aareal Bank. 100 years of writing success stories.**

Aareal Bank Group, headquartered in Wiesbaden, was founded 100 years ago and has since become a leading international property specialist. The Bank uses its expertise to identify trends, challenges and opportunities at an early stage, and to exploit them for the benefit of its stakeholders. Today, it provides financings, software products, and digital solutions for the property sector and related industries, and is present across three continents, Europe, North America and the

Asia/Pacific region. 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 comprises the 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 housing. 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 SaaS solutions for the European property sector, represents the third business segment. It is digitalising property management 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-30 Jun 2023	1 Jan-30 Jun 2022
<b>Results</b>		
Operating profit (€ mn)	87	91
Consolidated net income (€ mn)	58	58
Consolidated net income allocated to ordinary shareholders (€ mn) <sup>1)</sup>	58	50
Cost/income ratio (%) <sup>2)</sup>	32.3	40.8
Earnings per ordinary share (€) <sup>1)</sup>	0.97	0.84
RoE before taxes (%) <sup>1) 3)</sup>	5.7	5.8
RoE after taxes (%) <sup>1) 3)</sup>	4.0	3.7
	30 Jun 2023	31 Dec 2022
<b>Statement of Financial Position</b>		
Property finance (€ mn)	32,145	30,901
Equity (€ mn)	3,288	3,258
Total assets (€ mn)	49,029	47,331
<b>Regulatory indicators<sup>4)</sup></b>		
Basel IV (phase-in)		
Risk-weighted assets (€ mn)	13,371	12,782
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.4	19.3
Tier 1 ratio (T1 ratio) (%)	21.6	21.7
Total Capital Ratio (TC ratio) (%)	23.4	24.0
<b>Employees</b>	3,313	3,316

<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 and Banking & Digital Solutions segments: 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 2022: including originally proposed dividend of €1.60 per share in 2022 and pro rata temporis accrual of the net interest on the AT1 bond, excluding profits for 2022 under commercial law. There are no plans to distribute any dividends, in line with the strategy for 2023. The appropriation of profits is subject to approval by the Annual General Meeting.

30 June 2023: including interim results for 2023 (assuming ECB approval of inclusion) and pro rata temporis accrual of net interest on the AT1 bond. 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.

Adjusted total risk exposure amount (as defined in Article 92 (3) CRR – RWAs), in accordance with applicable law as at 31 December 2022 (CRR II) and applying the partial regulation for the "output floor" in connection with commercial property lending and equity exposures, based on the European Commission's proposal dated 27 October 2021 for implementation of Basel IV (CRR III). The adjusted risk-weighted exposure amount for commercial property lending and equity exposures is determined using the higher of (i) total RWAs calculated in accordance with CRR II currently in force, and (ii) the figure calculated in accordance with the revised CRSA (pursuant to CRR III), applying the transitional provisions for 2025 (50% output floor).

## Consolidated Income Statement of Aareal Bank Group for the first half of 2023 (in accordance with IFRSs)

	1 Jan-30 Jun 2023	1 Jan-30 Jun 2022	Change
	€ mn	€ mn	%
Net interest income	462	330	40
Loss allowance	160	107	50
Net commission income	149	132	13
Net derecognition gain or loss	12	22	-45
Net gain or loss from financial instruments (fvpl)	-41	18	-328
Net gain or loss from hedge accounting	0	-7	-100
Net gain or loss from investments accounted for using the equity method	-	-2	-100
Administrative expenses	342	295	16
Net other operating income/expenses	7	0	
<b>Operating profit</b>	<b>87</b>	<b>91</b>	<b>-4</b>
Income taxes	29	33	-12
<b>Consolidated net income</b>	<b>58</b>	<b>58</b>	<b>0</b>
Consolidated net income attributable to non-controlling interests	-9	1	
Consolidated net income attributable to shareholders of Aareal Bank AG	67	57	18
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	67	57	18
of which: allocated to ordinary shareholders	58	50	16
of which: allocated to AT1 investors	9	7	29
Earnings per ordinary share (€) <sup>2)</sup>	0.97	0.84	15
Earnings per AT1 unit (€) <sup>3)</sup>	0.09	0.07	29

<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 allocated 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.

## Consolidated Income Statement of Aareal Bank Group for the second quarter of 2023 (in accordance with IFRSs)

	Q2 2023	Q2 2022	Change
	€ mn	€ mn	%
Net interest income	240	171	40
Loss allowance	128	58	121
Net commission income	77	68	13
Net derecognition gain or loss	12	13	-8
Net gain or loss from financial instruments (fvpl)	-35	12	-392
Net gain or loss from hedge accounting	-4	-3	33
Net gain or loss from investments accounted for using the equity method	-	-2	-100
Administrative expenses	143	142	1
Net other operating income/expenses	6	2	200
<b>Operating profit</b>	<b>25</b>	<b>61</b>	<b>-59</b>
Income taxes	9	22	-59
<b>Consolidated net income</b>	<b>16</b>	<b>39</b>	<b>-59</b>
Consolidated net income attributable to non-controlling interests	0	0	0
Consolidated net income attributable to shareholders of Aareal Bank AG	16	39	-59
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	16	39	-59
of which: allocated to ordinary shareholders	11	35	-69
of which: allocated to AT1 investors	5	4	25
Earnings per ordinary share (€) <sup>2)</sup>	0.19	0.59	-68
Earnings per AT1 unit (€) <sup>3)</sup>	0.05	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. Basic earnings per AT1 unit correspond to diluted earnings per AT1 unit.



## Segment Results of Aareal Bank Group for the first half of 2023 (in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan-30 Jun 2023	1 Jan-30 Jun 2022	1 Jan-30 Jun 2023	1 Jan-30 Jun 2022	1 Jan-30 Jun 2023	1 Jan-30 Jun 2022	1 Jan-30 Jun 2023	1 Jan-30 Jun 2022	1 Jan-30 Jun 2023	1 Jan-30 Jun 2022
€ mn										
Net interest income	365	313	111	23	-14	-6	0	0	462	330
Loss allowance	160	107	0	0	0	0			160	107
Net commission income	1	4	16	15	137	119	-5	-6	149	132
Net derecognition gain or loss	12	22							12	22
Net gain or loss from financial instruments (fvpl)	-41	18	0	0	0	0			-41	18
Net gain or loss from hedge accounting	0	-7							0	-7
Net gain or loss from investments accounted for using the equity method				-1		-1				-2
Administrative expenses <sup>1)</sup>	120	146	52	37	175	118	-5	-6	342	295
Net other operating income/expenses	7	-2	-1	-1	1	3	0	0	7	0
<b>Operating profit</b>	<b>64</b>	<b>95</b>	<b>74</b>	<b>-1</b>	<b>-51</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>87</b>	<b>91</b>
Income taxes	25	34	23	0	-19	-1			29	33
<b>Consolidated net income</b>	<b>39</b>	<b>61</b>	<b>51</b>	<b>-1</b>	<b>-32</b>	<b>-2</b>	<b>0</b>	<b>0</b>	<b>58</b>	<b>58</b>
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	39	61	51	-1	-23	-3	0	0	67	57
Allocated equity <sup>2)</sup>	1,508	1,616	405	287	40	39	945	815	2,898	2,757
RoE after taxes (%) <sup>3)4)</sup>	4.1	6.7	25.1	-0.8	-117.6	-12.5			4.0	3.7

<sup>1)</sup> 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.

<sup>2)</sup> 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 reported equity as disclosed in the statement of financial position amounts to €107 million.

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

<sup>4)</sup> 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 of Aareal Bank Group  
for the second quarter of 2023 (in accordance with IFRSs)**

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	Q2 2023	Q2 2022	Q2 2023	Q2 2022	Q2 2023	Q2 2022	Q2 2023	Q2 2022	Q2 2023	Q2 2022
€ mn										
Net interest income	189	163	59	11	-8	-3	0	0	240	171
Loss allowance	128	58	0		0	0			128	58
Net commission income	1	2	8	8	70	61	-2	-3	77	68
Net derecognition gain or loss	12	13							12	13
Net gain or loss from financial instruments (fvpl)	-35	12	0	0	0	0			-35	12
Net gain or loss from hedge accounting	-4	-3							-4	-3
Net gain or loss from investments accounted for using the equity method				-1		-1				-2
Administrative expenses	46	61	20	19	79	65	-2	-3	143	142
Net other operating income/expenses	7	1	-1	-1	0	2	0	0	6	2
<b>Operating profit</b>	<b>-4</b>	<b>69</b>	<b>46</b>	<b>-2</b>	<b>-17</b>	<b>-6</b>	<b>0</b>	<b>0</b>	<b>25</b>	<b>61</b>
Income taxes	10	24	14	0	-15	-2			9	22
<b>Consolidated net income</b>	<b>-14</b>	<b>45</b>	<b>32</b>	<b>-2</b>	<b>-2</b>	<b>-4</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>39</b>
Consolidated net income attributable to non-controlling interests	0	0	0	0	0	0			0	0
Consolidated net income attributable to shareholders of Aareal Bank AG	-14	45	32	-2	-2	-4	0	0	16	39