

AAREAL BANK GROUP – INTERIM FINANCIAL INFORMATION
1 JANUARY TO 30 SEPTEMBER 2021

new perspectives

Aareal
YOUR COMPETITIVE ADVANTAGE.

Key Indicators

	1 Jan – 30 Sep 2021	1 Jan – 30 Sep 2020		30 Sep 2021	31 Dec 2020
Results			Moody's		
Operating profit (€ mn)	123	24	Issuer rating	A3	A3
Consolidated net income (€ mn)	56	17	Bank deposit rating	A3	A3
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	44	3	Outlook	Negative	Negative
Cost/income ratio (%) ²⁾	43.4	44.0	Mortgage Pfandbrief Rating	Aaa	Aaa
Earnings per ordinary share (€) ¹⁾	0.73	0.06	Fitch Ratings		
RoE before taxes (%) ¹⁾³⁾	5.6	0.3	Issuer default rating	BBB+	BBB+
RoE after taxes (%) ¹⁾³⁾	2.3	0.2	Senior Preferred	A-	A-
			Senior Non Preferred	BBB+	BBB+
			Deposit ratings	A-	A-
			Outlook	Negative	Negative
Statement of Financial Position			Sustainability Ratings⁷⁾		
Property finance (€ mn) ⁴⁾	29,046	27,181	MSCI	AA	AA
Equity (€ mn)	3,038	2,967	ISS-ESG	prime (C+)	prime (C+)
Total assets (€ mn)	46,751	45,478	CDP	Awareness Level C	Awareness Level C
Regulatory Indicators⁵⁾					
Risk-weighted assets (€ mn)	10,803	12,138			
Common Equity Tier 1 ratio (CET1 ratio) (%)	21.5	18.8			
Tier 1 ratio (T1 ratio) (%)	24.2	21.3			
Total capital ratio (TC ratio) (%)	28.1	28.0			
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (phase-in) – ⁶⁾	17.8	17.3			
Employees					
	3,115	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 proposed dividend payout 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 will have 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 was calculated at € 0.40 per share. A proposal on the allocation of profits was approved at the ordinary Annual General Meeting in May 2021. On 2 November 2021, an Extraordinary General Meeting was convened for 9 December 2021, to decide on the intended remaining payout of € 1.10 per share, amending as planned the resolution of the Annual General Meeting of 18 May 2021 on the appropriation of profits.

30 September 2021: less the remaining proposed dividend distribution of € 1.10 per share in 2021 and inclusive of the interim profits for 2021 less any pro rata dividends in accordance with the dividend policy and pro rata accrual of the net interest on the AT1 bond. The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for exposures newly classified as NPLs were taken into account. The CET1 ratio as shown in the regulatory report as at 30 September 2021 was 20.6%, reflecting the fact that as at that date Aareal Bank had not submitted an application for inclusion of profits to the ECB.

⁶⁾ Underlying RWA estimate, incorporating the higher figure determined using the revised AIRBA or the revised CRSA (phase-in), based on the draft version dated 27 October 2021 of the European implementation of Basel IV by the European Commission. The conservative calculation of the material impact upon Aareal Bank is subject to the final EU implementation as well as the implementation of additional regulatory requirements, such as the EBA requirements.

⁷⁾ Please refer to our website (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. Nonetheless, our business performed well in all segments.

Thanks to the good opportunities presented and strong new business of € 6.1 billion, the target portfolio size in the Structured Property Financing segment of around € 29 billion by year-end was already exceeded in the third quarter. Growth was supported by corresponding refinancing activities and a high average deposit volume of € 11.9 billion in the Banking & Digital Solutions segment.

Aareon succeeded in increasing sales revenue and enhancing its market position through five M&A transactions in the first nine months of the current financial year. A sixth M&A transaction was agreed upon on 10 October 2021, with the signing of the agreement to acquire a 100% stake in Gesellschaft für Anwenderprogramme und Organisationsberatung mbH (GAP Group). Nonetheless, the Covid-19 pandemic impacted on the consulting business for longer than expected.

We have outlined the effects of these developments on our forecasts and current economic assumptions in the Report on Changed Forecasts.

Jochen Klösger was appointed Chief Executive Officer on 15 September 2021, thus succeeding Hermann J. Merkens, who stepped down from the Management Board for health reasons with effect from 30 April 2021.

Report on the Economic Position

Financial Performance

	1 Jan - 30 Sep 2021	1 Jan - 30 Sep 2020
€ mn		
Net interest income	435	373
Loss allowance	79	167
Net commission income	174	168
Net derecognition gain or loss	15	19
Net gain or loss from financial instruments (fvpl)	-7	-11
Net gain or loss from hedge accounting	-4	4
Net gain or loss from investments accounted for using the equity method	-1	0
Administrative expenses	393	352
Net other operating income/expenses	-17	-10
Operating profit	123	24
Income taxes	67	7
Consolidated net income	56	17
Consolidated net income attributable to non-controlling interests	2	2
Consolidated net income attributable to shareholders of Aareal Bank AG	54	15

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	1 Jan – 30 Sep 2021	1 Jan – 30 Sep 2020
Earnings per share (EPS)		
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	54	15
of which: allocated to ordinary shareholders	44	3
of which: allocated to AT1 investors	10	12
Earnings per ordinary share (€) ²⁾	0.73	0.06
Earnings per AT1 unit (€) ³⁾	0.10	0.12

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. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Consolidated operating profit in the first nine months of the 2021 financial year came to € 123 million and was thus significantly above the previous year (€ 24 million) and within expectations, despite a non-recurring adverse tax effect. Consolidated net income amounted to € 56 million (9m 2020: € 17 million). Results were burdened by the consideration of new findings on the tax treatment of a legacy fund investment which was sold in 2012. As a result, the expected tax rate for the current year has increased to approximately 55 %, and € 11 million in expenses on tax back payments needed to be recognised in net other operating income/expenses.

At € 435 million, net interest income was significantly higher than in the previous year (€ 373 million). This was mainly due to the loan portfolio that was higher than in the previous year and exceeded planning, and the interest benefit of € 19 million received as part of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO 3).

As expected, loss allowance of € 79 million was significantly below the previous year's figure (€ 167 million), which was particularly influenced by Covid-19. Loss allowance resulted from individual new loan defaults (Stage 3), and from an adjustment of our qualitative Stage 2 criteria during the third quarter of 2021. Moreover, we used a reversal of loss allowance for a defaulted loan in the second quarter to conclude the accelerated de-risking in Italy; on aggregate, this required additional loss allowance of € 13 million.

Net commission income increased to € 174 million (9m 2020: € 168 million) on the back of sales growth at Aareon and in the Banking & Digital Solutions segment. Despite the Covid-19 pandemic, Aareon's sales revenue increased to € 195 million (9m 2020: € 188 million), including company acquisitions. Nonetheless, the Covid-19 pandemic impacted on the consulting business for longer than expected. Aareon's adjusted EBITDA⁴⁾ amounted to € 42 million (9m 2020: € 41 million).

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

The net derecognition gain of € 15 million (9m 2020: € 19 million) resulted from market-driven effects of early loan repayments, which also more than compensated for de-risking measures of € 3 million in the securities portfolio. The previous year's figure included non-recurring income from repurchases in the Treasury business within the scope of market support.

The net loss from financial instruments (fvpl) and from hedge accounting in the aggregate amount of € -11 million (9m 2020: € -7 million) was largely due to credit-risk-induced valuation losses on defaulted property loans which are reflected in net gain or loss from financial instruments (fvpl).

Administrative expenses rose to € 393 million (9m 2020: € 352 million). As expected, this is due on the one hand to business expansion and investments into new products, Aareon's Value Creation Programme (VCP), ventures and M&A activities, as well as to lower cost savings related to the Covid-19 pandemic, compared to the previous year. On the other hand, compared with the previous year and in relation to the planning, higher provisions were recognised overall for the annual bank levy and contributions to the deposit guarantee scheme, due to a deposit protection event (Greensill) and other effects.

Net other operating income/expenses of € -17 million (9m 2020: € -10 million) was burdened by € 11 million in interest on tax back payments, as well as lower rental income on properties held by the Bank, as a result of Covid-19. The previous year's result included a Covid-19-related impairment of a property held by the Bank.

Overall, this resulted in consolidated operating profit of € 123 million (9m 2020: € 24 million). Taking into consideration income taxes of € 67 million (9m 2020: € 7 million) and non-controlling interest income of € 2 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 54 million (9m 2020: € 15 million). Given said non-recurring tax effect, income taxes were higher, as reflected in the increased expected tax rate for the current year. The capitalisation of deferred taxes had a positive impact on the previous year's income tax expenses. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 44 million (9m 2020: € 3 million). Earnings per ordinary share (EpS) amounted to € 0.73 (9m 2020: € 0.06), and RoE after taxes 2.3 % (9m 2020: 0.2 %).

Financial Position – Assets

	30 Sep 2021	31 Dec 2020
€ mn		
Assets		
Financial assets (ac)	40,149	37,999
Cash funds	5,395	4,744
Loan receivables	29,103	27,277
Money market and capital market receivables	5,573	5,884
Receivables from other transactions	78	94
Loss allowance (ac)	-435	-592
Financial assets (fvoci)	3,670	3,672
Money market and capital market receivables	3,667	3,667
Equity instruments	3	5

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€ mn	30 Sep 2021	31 Dec 2020
Financial assets (fvpl)	2,035	3,167
Loan receivables	618	856
Money market and capital market receivables	93	93
Positive market value of designated hedging derivatives	1,000	1,431
Positive market value of other derivatives	324	787
Investments accounted for using the equity method	19	13
Intangible assets	333	207
Property and equipment	280	289
Income tax assets	94	116
Deferred tax assets	160	176
Other assets	446	431
Total	46,751	45,478

At € 46.8 billion, Aareal Bank Group's consolidated total assets increased in comparison to the previous year-end. The increased use of the ECB's targeted longer-term refinancing operations (TLTRO 3) especially resulted in an increase in the Bank's cash funds. The property financing portfolio¹⁾ increased to € 29.0 billion (31 December 2020: € 27.2 billion). This increase was achieved in particular on the back of strong new business of € 6.1 billion (9m 2020: € 4.2 billion) generated during the first nine months of 2021. The property loan in the amount of € 69 million that met the criteria for classification as "held for sale" after 30 June 2021 was sold in the third quarter of 2021. The criteria for classification as "held for sale" were met after 30 September 2021 for another property loan in the amount of € 16 million. The loan is expected to be sold between now and the first quarter of 2022.

Financial Position – Equity and Liabilities

€ mn	30 Sep 2021	31 Dec 2020
Equity and liabilities		
Financial liabilities (ac)	41,248	39,823
Money market and capital market liabilities	29,554	28,206
Deposits from the housing industry	10,992	10,592
Liabilities from other transactions	89	86
Subordinated liabilities	613	939
Financial liabilities (fvpl)	1,729	1,906
Negative market value of designated hedging derivatives	994	1,298
Negative market value of other derivatives	735	608
Provisions	547	583
Income tax liabilities	12	20
Deferred tax liabilities	38	36
Other liabilities	139	143

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¹⁾ Excluding former WestImmo's private client business and local authority lending business

€ mn	30 Sep 2021	31 Dec 2020
Equity	3,038	2,967
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,924	1,902
AT1 bond	300	300
Other reserves	-152	-197
Non-controlling interests	65	61
Total	46,751	45,478

At € 46.8 billion, Aareal Bank Group's consolidated total equity and liabilities increased in comparison to the previous year-end. A € 1.0 billion increase in targeted longer-term refinancing operations (TLTROs) with the ECB, to € 5.3 billion, led to an increase in the Bank's money-market liabilities. The average deposit volume from the housing industry increased to € 11.9 billion in the first nine months of the year (9m 2020: € 10.8 billion).

Aareal Bank Group raised € 3.5 billion on the capital markets during the first nine months of 2021, comprising four Pfandbrief benchmark transactions: two sized at € 500 million and one at USD 750 million, as well as a SONIA-linked issue for GBP 500 million. Aareal Bank Group raised a total of € 1.2 billion in senior unsecured funding, which also included a € 500 million benchmark bond. The senior unsecured funding issued comprised almost exclusively senior preferred issues.

Report on Changed Forecasts

Besides the strategic measures and initiatives within the framework of "Aareal Next Level", Aareal Bank Group's focus in the 2021 financial year will continue to be on coping with the impact of the Covid-19 pandemic in the best way possible – together with its clients. In this context, it is crucial to determine how quickly the emerging recovery of the real economy gains momentum. With a view to the economic development, Aareal Bank Group continues to anticipate a "swoosh-shaped" trend and expects a marked recovery during this year and 2022. However, Covid-19 case numbers have recently risen again in many countries, thus increasing uncertainty regarding the further development of the pandemic during the current winter quarter.

Based on these assumptions and current insights, we continue to expect a clearly positive consolidated operating profit in a range of between € 100 million and € 175 million for 2021 as a whole, whilst guidance for loss allowance remains unchanged. Due to the stronger expedited portfolio growth and better-than-expected margin development, the marked year-on-year increase in net interest income will be even greater and range between € 570 million and € 590 million (original range: € 550 million to € 580 million; 2020: € 512 million). Net commission income will continue to rise due to Aareon's growth. However, Covid-19 impacted on Aareon's sales revenue in the consulting business for longer than expected. Net commission income is therefore expected in a range of between € 240 million and € 250 million (original range: € 250 million to € 270 million; 2020: € 234 million). Taking the non-recurring adverse tax effect into account, the tax rate for 2021 is expected at an average of 55%. With operating profit at the upper end of the range, the expected tax rate would be around 50%, and 60% at the lower end of the range – in each case in line with the relative share of non-tax-deductible items in

the result. Depending on said range of operating profit, earnings per share (EpS) is projected – on a purely mathematical basis – between around € 0.40 and around € 1.20 (2020: € -1.50), with RoE after taxes between around 1 % and around 3 % (2020: -3.6 %).

In the Structured Property Financing segment, we now expect a portfolio size of around € 30 billion by the end of the year (around € 29 billion up to now), market conditions permitting and subject to exchange rate fluctuations. This forms the basis for our expectation of new business volume at the upper end of the forecast range of between € 7 billion and € 8 billion. In the Banking & Digital Solutions segment, an average deposit volume of around € 12 billion is expected at the end of the year (previously: around € 11 billion).

It is expected that Aareon will now see an increase in sales revenue in the region of € 270 million to € 274 million for the current year (original range of between € 276 million to € 280 million; 2020: € 258 million). The increase includes M&A transactions and burdens in the consulting business arising from Covid-19. Adjusted EBITDA¹⁾ is likely to increase further, as originally planned, to between € 63 million and € 65 million (2020: € 62 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.

Events after the Reporting Date

On 7 October 2021, Aareal Bank confirmed that the Management Board has entered into talks whose outcome is open regarding a potential acquisition of a majority interest in Aareal Bank by a group of financial investors led by Centerbridge and TowerBrook, and with further participation of Advent. The Management Board was requested to enter into such talks in order to evaluate related strategic options for the Bank. In these talks, the financial investors put forward a public tender offer, at an indicative price of € 29.00 per share. This represents a premium of approx. 35 % over the volume-weighted average Aareal Bank share price during the last three months before publication of the ad-hoc disclosure. The financial investors are currently being given access to business information of Aareal Bank. It is currently uncertain whether these talks will result in a transaction or an offer to Aareal Bank shareholders. On 19 October 2021, it was announced that TowerBrook had left the syndicate.

On 2 November 2021, Aareal Bank convened an Extraordinary General Meeting for 9 December 2021 to decide on the intended remaining payout of € 1.10 per share, amending as planned the resolution of the Annual General Meeting of 18 May 2021 on the appropriation of profits. In the event of an offer being announced by the financial investors, depending on the content of the offer, the dividend proposal to be submitted to the Extraordinary General Meeting might be reassessed.

No other material events occurred after the end of the reporting period that need to be disclosed at this point.

¹⁾ "Earnings before interest, taxes, depreciation and amortisation" before new products, Value Creation Programme (VCP), ventures, M&A activities and non-recurring effects

Segment Results

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan – 30 Sep 2021	1 Jan – 30 Sep 2020	1 Jan – 30 Sep 2021	1 Jan – 30 Sep 2020	1 Jan – 30 Sep 2021	1 Jan – 30 Sep 2020	1 Jan – 30 Sep 2021	1 Jan – 30 Sep 2020	1 Jan – 30 Sep 2021	1 Jan – 30 Sep 2020
€ mn										
Net interest income	406	345	33	29	-4	-1	0	0	435	373
Loss allowance	79	167			0	0			79	167
Net commission income	6	4	20	18	157	155	-9	-9	174	168
Net derecognition gain or loss	15	19							15	19
Net gain or loss from financial instruments (fvpl)	-7	-11		0		0			-7	-11
Net gain or loss from hedge accounting	-4	4							-4	4
Net gain or loss from investments accounted for using the equity method			-1		0	0			-1	0
Administrative expenses	193	173	53	50	156	138	-9	-9	393	352
Net other operating income/expenses	-21	-11	0	0	4	1	0	0	-17	-10
Operating profit	123	10	-1	-3	1	17	0	0	123	24
Income taxes	68	4	-1	-2	0	5			67	7
Consolidated net income	55	6	0	-1	1	12	0	0	56	17
Consolidated net income attributable to non-controlling interests	0	0	0	0	2	2			2	2
Consolidated net income attributable to shareholders of Aareal Bank AG	55	6	0	-1	-1	10	0	0	54	15
Allocated equity ¹⁾	1,677	1,817	260	194	38	42	562	450	2,537	2,503
RoE after taxes in % ²⁾³⁾	3.6	-0.4	-0.1	-0.5	-3.1	30.2			2.3	0.2

¹⁾ For management purposes, the allocated equity is calculated for all segments on the basis of capital requirements pursuant to Basel IV (phase-in). 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 € 141 million.

²⁾ On an annualised basis

³⁾ 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

9 December 2021	Extraordinary General Meeting
24 February 2022	Preliminary results for the 2021 financial year
30 March 2022	Publication of annual report as at 31 December 2021
11 May 2022	Publication of results as at 31 March 2022
18 May 2022	Annual General Meeting
11 August 2022	Publication of results as at 30 June 2022
10 November 2022	Publication of results as at 30 September 2022

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The German version shall be authoritative.



**Aareal Bank
Group**

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