

AAREAL BANK GROUP – INTERIM FINANCIAL INFORMATION
1 JANUARY TO 31 MARCH 2022

Outlook: growth

Aareal
YOUR COMPETITIVE ADVANTAGE.

Key Indicators

	1 Jan – 31 Mar 2022	1 Jan – 31 Mar 2021		31 Mar 2022	31 Dec 2021
Results			Moody's		
Operating profit (€ mn)	30	32	Issuer Rating	A3	A3
Consolidated net income (€ mn)	19	21	Bank deposit rating	A3	A3
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	15	16	Outlook	Negative	Negative
Cost/income ratio (%) ²⁾	37.5	51.9	Mortgage Pfandbrief Rating	Aaa	Aaa
Earnings per ordinary share (€) ¹⁾	0.25	0.27	Fitch Ratings		
RoE before taxes (%) ^{1) 3)}	3.7	4.1	Issuer default rating	BBB+	BBB+
RoE after taxes (%) ^{1) 3)}	2.3	2.6	Senior Preferred	A-	A-
	31 Mar 2022	31 Dec 2021	Senior Non Preferred	BBB+	BBB+
Statement of Financial Position			Deposit ratings	A-	A-
Property finance (€ mn)	30,754	30,048	Outlook	Negative	Negative
Equity (€ mn)	3,132	3,061	Sustainability ratings⁶⁾		
Total assets (€ mn)	48,997	48,728	MSCI	AA	AA
			ISS-ESG	prime (C+)	prime (C+)
Regulatory Indicators⁴⁾			CDP	Awareness Level C	Awareness Level C
Basel IV (phase-in) ⁵⁾			Share price		
Risk-weighted assets (€ mn)	13,366	12,817	XETRA [®] closing price (€)	28.50	28.70
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			
Employees	3,209	3,170			

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: in line with common practice in the banking sector, bank levy and contributions to the deposit guarantee scheme are not included.

³⁾ On an annualised basis

⁴⁾ 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.

⁵⁾ 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, RWAs 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.

⁶⁾ 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 2022 financial year and the forecast continue to be significantly influenced by the macroeconomic and geopolitical environment: besides the development of the Covid-19 pandemic, the war in Ukraine has evolved into an additional uncertainty factor for the forecast. We refer to our comments in the Report on Changed Forecasts.

Nonetheless, our business performed well in all segments.

Thanks to the good opportunities presented in the Structured Property Financing segment, strong new business of € 3.3 billion and a property financing portfolio which has already reached € 30.8 billion, we are on track to achieve the target portfolio size of around € 31 billion by year-end. Growth was supported by corresponding refinancing activities and a high average deposit volume of € 12.9 billion in the Banking & Digital Solutions segment.

Our range of services in the Banking & Digital Solutions segment was expanded with the acquisition of payment solutions provider Collect Artificial Intelligence GmbH (“CollectAI”) from Otto Group, to include end-customer communications services as well as AI-based interactive invoicing and intelligent dunning solutions.

Aareon was successful in growing sales revenue, despite its transformation to a SaaS company. M&A transactions closed in the previous year also contributed to this. Aareon increased its stake in Dutch PropTech OSRE B.V. to 51 % 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.

Report on the Economic Position

Financial Performance

€ mn	1 Jan – 31 Mar 2022	1 Jan – 31 Mar 2021
Net interest income	159	138
Loss allowance	49	7
Net commission income	64	59
Net derecognition gain or loss	9	0
Net gain or loss from financial instruments (fvpl)	6	-1
Net gain or loss from hedge accounting	-4	-3
Net gain or loss from investments accounted for using the equity method	0	0
Administrative expenses	153	150
Net other operating income/expenses	-2	-4
Operating profit	30	32
Income taxes	11	11
Consolidated net income	19	21

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	1 Jan - 31 Mar 2022	1 Jan - 31 Mar 2021
€ mn		
Consolidated net income attributable to non-controlling interests	1	1
Consolidated net income attributable to shareholders of Aareal Bank AG	18	20
Earnings per share (EpS)		
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	18	20
of which: allocated to ordinary shareholders	15	16
of which: allocated to AT1 investors	3	4
Earnings per ordinary share (€) ²⁾	0.25	0.27
Earnings per AT1 unit (€) ³⁾	0.03	0.04

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 of € 30 million for the first quarter of the financial year almost matched the previous year's level (€ 32 million) and was within the expected range – thanks to good operating performance and in spite of loss allowance of around € 60 million for our remaining exposure to Russia, which is being run down. Consolidated net income amounted to € 19 million (Q1 2021: € 21 million).

Net interest income increased to € 159 million (Q1 2021: € 138 million), mainly due to a year-on-year increase in the lending volume and higher margins in the lending business, as expected.

Loss allowance of € 49 million (Q1 2021: € 7 million) includes an amount of approximately € 60 million for our residual (collateralised) exposure to Russia, which stood at around € 200 million at the end of last year. This also accounts for the risk that it may be impossible to service the financing due to government action (transfer risk).

Net commission income increased to € 64 million (Q1 2021: € 59 million), which was mainly due to higher commission income at Aareon. Despite its transformation to a SaaS company, Aareon succeeded in increasing sales revenue to € 72 million, compared to € 66 million in the same quarter of the previous year. M&A transactions closed in the previous year contributed to this. Aareon's adjusted EBITDA⁴⁾ amounted to € 16 million (Q1 2021: € 15 million). Both figures were in line with expectations.

Net derecognition gain of € 9 million (Q1 2021: € 0 million) was largely attributable to market-driven effects from early loan repayments. The previous year's figure was balanced due to de-risking measures of € 3 million in the securities portfolio.

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

The aggregate of net gain or loss from financial instruments (fvpl) and net gain or loss from hedge accounting was almost balanced, at € 2 million (Q1 2021: € -4 million).

Administrative expenses increased to € 153 million (Q1 2021: € 150 million), as expected, reflecting Aareon's business expansion.

As in the previous year, net other operating income/expenses of € -2 million (Q1 2021: € -4 million) was burdened by lower rental income on properties held by the Bank, on account of Covid-19.

Overall, consolidated operating profit for the quarter under review was € 30 million (Q1 2021: € 32 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 € 18 million (Q1 2021: € 20 million). Earnings per ordinary share amounted to € 0.25 (Q1 2021: € 0.27), and RoE after taxes to 2.3 % (Q1 2021: 2.6 %).

Financial Position – Assets

	31 Mar 2022	31 Dec 2021
€ mn		
Assets		
Financial assets (ac)	43,193	42,345
Cash funds (ac)	6,539	6,942
Loan receivables (ac)	30,084	29,434
Money market and capital market receivables (ac)	6,361	5,884
Receivables from other transactions (ac)	209	85
Loss allowance (ac)	-538	-492
Financial assets (fvoci)	3,452	3,753
Money market and capital market receivables (fvoci)	3,450	3,749
Equity instruments (fvoci)	2	4
Financial assets (fvpl)	1,506	1,734
Loan receivables (fvpl)	469	598
Money market and capital market receivables (fvpl)	4	4
Positive market value of designated hedging derivatives (fvpl)	793	900
Positive market value of other derivatives (fvpl)	240	232
Investments accounted for using the equity method	25	19
Intangible assets	401	394
Property and equipment	274	278
Income tax assets	66	66
Deferred tax assets	157	168
Other assets	461	463
Total	48,997	48,728

Aareal Bank Group's consolidated total assets of € 49.0 billion were up slightly from the previous year-end, reflecting portfolio growth.

The volume of Aareal Bank Group’s property financing portfolio increased as expected, to € 30.8 billion (31 December 2021: € 30.0 billion). New business originated during the first quarter of 2022 amounted to € 3.3 billion (Q1 2021: € 1.1 billion) and was thus also in line with our forecast. The figure includes around € 240 million in “green” financings¹⁾.

Financial Position – Equity and Liabilities

€ mn	31 Mar 2022	31 Dec 2021
Equity and liabilities		
Financial liabilities (ac)	42,962	43,017
Money market and capital market liabilities (ac)	29,833	30,597
Deposits from the housing industry (ac)	12,225	11,717
Liabilities from other transactions (ac)	308	94
Subordinated liabilities (ac)	596	609
Financial liabilities (fvpl)	2,148	1,882
Negative market value of designated hedging derivatives (fvpl)	1,114	971
Negative market value of other derivatives (fvpl)	1,034	911
Provisions	514	558
Income tax liabilities	23	17
Deferred tax liabilities	54	56
Other liabilities	164	137
Equity	3,132	3,061
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,955	1,937
AT1 bond	300	300
Other reserves	-89	-143
Non-controlling interests	65	66
Total	48,997	48,728

Aareal Bank Group’s consolidated equity and liabilities of € 49.0 billion were also up slightly from the previous year-end. As expected, the average volume of deposits from the housing industry remained at a high level of € 12.9 billion in the first quarter of 2022 (Q4 2021: € 12.4 billion).

Aareal Bank Group successfully raised € 1.5 billion on the capital markets during the first quarter of 2022. This included two benchmark transactions: a € 750 million Pfandbrief issue and the first “green” senior preferred bond²⁾ in the amount of € 500 million.

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.

²⁾ The requirements for “green” issues are set out in the Aareal Green Finance Framework.

Report on Changed Forecasts

Besides the strategic initiatives and measures within the framework of “Aareal Next Level”, Aareal Bank Group’s focus in the 2022 financial year will remain on coping with the impact of the Covid-19 pandemic in the best way possible – together with its clients.

A further uncertainty factor is the potential impact of the war in Ukraine, which is currently very difficult to estimate – in relation to our limited exposure in Russia as well as to the economic consequences of the imposed sanctions and escalated geopolitical tensions.

At present, Aareal Bank Group continues to anticipate a “swoosh”-shaped economic development and expects a continued – albeit subdued – recovery during the current year.

Given the good operating performance in the first quarter, Aareal Bank currently maintains its guidance for 2022 consolidated operating profit between € 210 million and € 250 million (2021: € 155 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. The same applies to earnings per share (EpS), forecast in a range between € 2.00 and € 2.50 (2021: € 0.89) and RoE after taxes (4.5 % – 6 %; 2021: 2.1 %). Loss allowance (including credit risk-induced adjustments to the measurement of defaulted property loans, which are reported in net gain or loss from financial instruments (fvpl)) is now projected in a range between € 140 million and € 180 million (2021: € 169 million).

In the event of the voluntary public offer of Atlantic BidCo to Aareal Bank AG’s shareholders being successful, transaction costs would need to be accounted for.

Events after the Reporting Date

Atlantic BidCo GmbH (the “Bidder”) has submitted a new voluntary public takeover offer for all outstanding shares in Aareal Bank, with the publication of an Offer Document on 26 April 2022. The Offer Document, which has been approved by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – “BaFin”) contains all material information on the offer and thus also the key data on the Investment Agreement with the Bidder.

The Bidder is a non-controlled entity in which funds managed and advised by Advent International Corporation, Centerbridge Partners, L.P. and CPP Investment Board Europe S.à.r.l. (a wholly-owned subsidiary of Canada Pension Plan Investment Board), as well as other co-investors, hold indirect stakes. BaFin has permitted publication of the Offer Document, having granted a waiver of the one-year blocking period already on 7 April 2022.

Shareholders have been able to tender their shares to Atlantic BidCo GmbH, at a price of € 33.00 per share in cash, since publication of the Offer Document. The acceptance period is expected to end on 24 May 2022. As set out in more detail in the Offer Document, the offer is conditional upon a minimum acceptance level of 60 %, and subject to approval by banking supervisory authorities as well as further conditions. Following a successful takeover offer, the transaction is expected to be closed in the fourth quarter of 2022 or the first quarter of 2023, subject to regulatory approval.

The new offer follows the renewal of the Investment Agreement between Atlantic BidCo and Aareal Bank on 6 April 2022. On this basis, the Management Board and Supervisory Board of Aareal Bank continue to consider the transaction as being strategically advantageous for the Company and its stakeholders; they have expressed their unanimous support for the transaction and, following consideration of the Offer Document, recommended on 6 May 2022 that Aareal Bank's shareholders accept the offer.

In irrevocable tender commitments with an aggregate volume of approximately 37 % of Aareal Bank shares, Petrus Advisers, Teleios Capital, Vesa Equity Investment and Talomon Capital have decided to accept the takeover offer, or to sell Aareal Bank shares to the Bidder outside the takeover offer. Moreover, these major Aareal Bank shareholders have undertaken to re-invest parts of the cash consideration into a long-term, illiquid, non-voting indirect shareholding in the Bidder of less than 25 % in total.

The objective of the transaction remains to support Aareal Bank AG's strategic orientation, and to strengthen its position as a leading international provider of property financings and other property-related financings, as well as software, digital solutions and payments services to the property sector and related industries. The Bidder believes that a stable shareholder base will enable Aareal Bank to better focus on its longer-term targets, and will support Aareal Bank's management in further developing its "Aareal Next Level" strategy through intensified investment and retained earnings. The Bidder supports the strengthening of all three segments of Aareal Bank Group within the framework of this strategy.

In the Investment Agreement entered into with Aareal Bank, and in accordance with customary expectations of the supervisory authorities, the Bidder has undertaken not to cause Aareal Bank to conclude a control and/or profit transfer agreement with the Bidder, or any affiliated company to the Bidder. The Bidder intends to seek a suspension of the exchange listing, subject to prevailing market conditions and provided that this is economically viable in due course.

Given the Investment Agreement concluded, the ordinary Annual General Meeting scheduled for 18 May has been postponed. In accordance with the Investment Agreement entered into with Atlantic BidCo GmbH, there are no plans to distribute any dividends for the 2021 financial year.

No other material events occurred after the end of the reporting period 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 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
Operating profit	26	29	1	-1	3	4	0	0	30	32
Income taxes	10	10	0	0	1	1			11	11
Consolidated net income	16	19	1	-1	2	3	0	0	19	21
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
Allocated equity ¹⁾	1,644	1,681	280	252	39	38	652	558	2,615	2,529
RoE after taxes (%) ^{2) 3)}	3.3	3.7	0.9	-0.9	7.3	13.5			2.3	2.6

¹⁾ Allocated equity is calculated for all segments on the basis of standardised capital requirements pursuant to Basel IV (phase-in) of 15%. 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 € 145 million (31 December 2021: € 143 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

11 August 2022

Publication of results as at 30 June 2022

10 November 2022

Publication of results as at 30 September 2022

Imprint

Contents:

Aareal Bank AG, Group Communications

Layout/Design:

S/COMPANY · Die Markenagentur GmbH, Fulda, Germany

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



**Aareal Bank
Group**

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