

PRESS RELEASE

Aareal Bank Group once again posts positive consolidated operating profit in the third quarter, despite persistent significant burdens due to Covid-19

- **Consolidated operating profit of € 11 million in the third quarter of 2020 improved compared to the previous quarter – pandemic-driven burdens remain at a manageable level**
- **Loss allowance of € 61 million in the third quarter, coping with € 138 million in aggregate Covid-19-related burdens (including forward-looking measurement effects within the scope of management overlays)**
- **Net interest income has risen to the highest quarterly level in the current year**
- **Solid level of new business, despite the pandemic – with continued good margins and low loan-to-value ratios**
- **Net commission income continues its positive development; IT subsidiary Aareon continues to show a robust performance during the third quarter**
- **Guidance for consolidated results specified: clearly positive consolidated operating profit expected, in a middle double-digit euro million range**
- **Chief Financial Officer Marc Hess: “The burdens from the Covid-19 pandemic are manageable, and we are definitely in a position to cope with them. At the same time, we are exploiting new business opportunities.”**

Wiesbaden, 12 November 2020 – Aareal Bank Group has once again generated positive consolidated operating profit, despite the continued, clearly visible impact of the Covid-19 pandemic. Profit before taxes recovered to € 11 million in the third quarter of 2020, showing increases in net interest income and net commission income, following € 2 million for the previous quarter, which had been hardest hit to date by the global pandemic. In the third quarter of the previous year – in a perfectly normal environment that cannot be compared to the current situation – Aareal Bank had generated profit of € 64 million. With a consolidated operating profit totalling € 24 million after the first nine months of the year, the Company is well on track to achieving its forecast of substantially positive consolidated operating profit for the year as a whole. In the absence of any signs of a normalisation in the global economic environment, which remains challenging and persistently volatile, the guidance is for consolidated operating profit in a middle double-digit euro million range (the previous guidance was for a mid to upper double-digit million range).

Consolidated net income (after taxes and non-controlling interest income) attributable to shareholders of Aareal Bank AG totalled € 15 million for the first nine months of the year (Q3: € 0 million). The € 180 million capital gain from the sale of a minority stake in the IT subsidiary Aareon to private equity investor Advent International, which was agreed upon in August and closed at the end of October, will be recognised directly in equity in the consolidated financial statements in accordance with IFRSs (in contrast to the single-entity financial statements in accordance to the German Commercial Code, where it will be recognised in income). The capital gain will thus increase both equity as carried on Aareal Bank Group's statement of financial position, as well as the Group's regulatory capital – thus enhancing the Group's flexibility in terms of capital management, and its scope for investment in value-enhancing opportunities.

With the successful sale of a partial stake in Aareon, and the long-term partnership established with Advent in order to join forces to accelerate Aareon's growth momentum, Aareal Bank Group has reached a major milestone in implementing the Group's corporate strategy. The IT subsidiary once again proved its strong market position and resilience during the quarter under review: third-quarter sales revenues were up by 5 per cent, and by 4 per cent for the first three quarters, in spite of Covid-19 – driven by especially strong momentum in the digital business, where growth rates of 20 per cent and 25 per cent, respectively, were posted. This means that Aareon remains the key driver for higher consolidated net commission income. Aareon's results (in terms of adjusted EBITDA) remained stable at the previous year's level, despite the burdens from Covid-19 and stepped-up planned investments for the future.

Besides the Aareon transaction, for Aareal Bank Group the third quarter was all about coping with the challenges arising from the Covid-19 pandemic. In this context, Aareal Bank continues to act in a forward-looking manner, striving to recognise provisions for pandemic-driven risks determined on a model basis at an early stage, within the framework of so-called management overlays. In the third quarter, this approach led to a year-on-year increase in loss allowance, to € 61 million (Q3/2019: € 27 million), bringing the aggregate Covid-19-related burdens to € 138 million for the first nine months of the year, of which slightly more than half was attributable to management overlays. The total volume of non-performing loans was reduced as at 30 September, compared to the mid-year point (30 Jun 2020: € 1.11 billion), to € 1.03 billion; the NPL ratio declined to 3.9 per cent (30 Jun 2020: 4.3 per cent).

The robust state of the financing business is also expressed in new business which, at € 4.2 billion for the first nine months of the year, remains below the previous year's figure (9m 2019: € 6.1 billion) but at a very solid level in view of the pandemic. Persistently high margins continue to exceed projections, averaging around 220 basis points – with low average LtV ratios. Thanks to good new business, portfolio volume at the end of the quarter rose to € 26.7 billion, meaning that the figure has been rising continuously during the course of the 2020 financial year. This trend is expected to prevail in the fourth quarter, with a further increase to the upper end of the target range between € 26 billion and € 28 billion. Also due to the positive development of the portfolio volume, net interest income continued to rise during the third quarter, to € 128 million – the highest quarterly figure in the current financial year. Net interest income is thus gradually approaching the levels seen prior to the Bank's extensive de-risking measures since the final quarter of the previous year. Besides the ongoing maintenance and profit-oriented growth of the credit portfolio, its orientation towards sustainability criteria – in the context of Aareal Bank Group's ESG strategy – keeps growing in importance.

CFO Marc Hess commented on the Bank's year-to-date performance during 2020: "Without doubt, we have also been affected by the economic impact of the Covid-19 pandemic. But the burdens we have seen to date are manageable for us; thanks to our financial strength, we are definitely in a position to cope with them. Regardless of the challenging environment, we are exploiting new business opportunities. With the sale of a minority stake in Aareon, we have achieved a key strategic milestone. But even so, we are reviewing to what extent we need to adjust our strategy against the background of Covid-19."

Notes to Group financial performance

Net interest income for the third quarter of 2020 was € 128 million (Q3 2019: € 134 million; Q2 2020: € 122 million). It totalled € 373 million (9m 2019: € 403 million) for the first nine months of the financial year. The year-on-year decline reflected reduced credit and securities portfolios, thanks to the accelerated de-risking measures successfully carried out in 2019, as well as the lower new business volume during the first half of the year, on account of the Covid-19 pandemic. Furthermore, net interest income includes pro-rata interest benefits from the TLTRO programme of the European Central Bank.

Loss allowance amounted to € 61 million in the third quarter (Q3 2019: € 27 million), largely due to adverse economic effects related to Covid-19; the figure for the first nine months of the year totalled € 167 million (9m 2019: € 55 million).

Net commission income amounted to € 57 million (Q3 2019: € 54 million). The figure for the first nine months showed net commission income of € 168 million – a slight increase over the previous year's level (9m 2019: € 164 million), in spite of the Covid-19 pandemic.

The net derecognition gain for the third quarter was € 3 million (Q3 2019: € 15 million); the figure for the first nine months was € 19 million (9m 2019: € 42 million). It was largely attributable to market-driven effects from early loan repayments, and a positive effect from the repurchase of liabilities within the scope of market support.

The net gain or loss from financial assets (fvpl) and from hedge accounting totalled € -2 million (Q3 2019: € 2 million). The net figure for the first nine months of the year was € -7 million (9m 2019: € 1 million); This mainly resulted from adjustments to the measurement of defaulted property loans carried at fair value, which are thus reported in net gain or loss from financial instruments (fvpl).

At € 114 million, consolidated administrative expenses for the third quarter were unchanged from the corresponding period of the previous year (Q3 2019: € 114 million). They totalled € 352 million for the first nine months, declining year-on-year thanks to cost savings in connection with the Covid-19 crisis, and despite higher expenses due to Aareon's growth (9m 2019: € 370 million, including expenses for the integration of DHB). Aareon accounted for € 46 million during the third quarter (Q3 2019: € 43 million), and € 138 million in the first nine months (9m 2019: € 127 million) – these being minor year-on-year increases given Aareon's growth path.

Consolidated operating profit totalled € 11 million for the quarter under review (Q3 2019: € 64 million). Taking into consideration taxes of € 10 million (the tax rate for the full year will be negatively influenced by non-deductible expenses) and non-controlling interest income, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 0 million (Q3 2019: € 39 million)

Aareal Bank Group's consolidated operating profit for the first nine months of the financial year totalled € 24 million (9m 2019: € 186 million). After taking taxes in the amount of € 7 million and non-controlling interest income into consideration, consolidated net income attributable to shareholders of Aareal Bank amounted to € 15 million (9m 2019: € 119 million).

Strong liquidity position, diversified sources of funding, and strong capitalisation

Aareal Bank remained very solidly funded throughout the third quarter of 2020, maintaining both a strong liquidity position and well diversified sources of funding. The Bank placed bonds with an aggregate nominal amount of € 1.2 billion on the capital market during the first nine months of the year, comprising € 1.0 billion of senior preferred and € 0.2 billion of senior non-preferred issues. Capitalising on the very attractive funding terms, Aareal Bank additionally participated in the ECB's Targeted Longer-Term Refinancing Operations (TLTRO 3) programme, raising € 4.3 billion under the programme.

Aareal Bank continues to have a very solid capital base. As at 30 September 2020, the Bank's Common Equity Tier 1 (CET1) ratio was 20.4 %, which is very comfortable even on an international level; the Total Capital Ratio was 30.3 %. The CET1 ratio determined on the basis of the Basel Committee's final framework – the estimated so-called 'Basel IV' ratio, which is relevant for capital planning – was 13.9 %.

Outlook: Substantially positive results achievable, despite persistent high uncertainty

Besides the strategic measures and initiatives within the framework of "Aareal Next Level", Aareal Bank Group's focus for the further course of the 2020 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 whether the recovery of the real economy will materialise, and how quickly such a recovery will gain momentum. Aareal Bank Group continues to forecast a "swoosh"-shaped course of the crisis and recovery. The normalisation of global economic activity during the current year shows a variety of development patterns, in particular due to different infection incidence in the various regions. The market forecast as at the reporting date has deteriorated overall, compared to 30 June 2020: Hence, for 2020 Aareal Bank now expects a slightly more pronounced decline in economic activity in most of the regions where it is active, and a recovery that will be delayed by about six months. The Bank continues to anticipate a marked recovery in 2021 and 2022.

Aareal Bank Group maintains its forecast of a substantially positive consolidated operating profit for the full year 2020. The forecast had hitherto anticipated consolidated operating profit in the mid to upper double-digit million euro range. In view of the deteriorating macroeconomic forecasts and market outlook, as of today the Bank expects consolidated operating profit in the mid double-digit euro million range. Aareal Bank is continuously assessing the pandemic development, the actions taken, and the resulting economic impact. Should the current trend continue, the Bank's forecast might require further adjustment. 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 the Bank's 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.

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Aareal Bank Group

Aareal Bank Group, headquartered in Wiesbaden, is a leading international property specialist. It provides smart financings, software products, and digital solutions for the property sector and related industries, and is present across three continents: Europe, North America and Asia/Pacific. Aareal Bank AG, whose shares are included in Deutsche Börse's MDAX index, is the Group's parent entity. It manages the various entities organised in the Group's three business segments: Structured Property Financing, Consulting/Services Bank, 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 apartments. In the Consulting/Services Bank 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. Subsidiary Aareon, a leading consultancy and IT systems house for the European property industry and its partners in the digital age, forms the third business segment. Aareon offers reliable, pioneering solutions in the fields of consulting, software and services to optimise IT-supported business processes, and to extend business models. The Aareon Smart World digital platform links businesses from the housing industry and related sectors with customers, staff and business partners, as well as connecting technical devices in apartments and buildings.

Aareal Bank Group – Key Indicators

	1 Jan - 30 Sep 2020	1 Jan - 30 Sep 2019
Results		
Operating profit (€ mn)	24	186
Consolidated net income (€ mn)	17	121
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	3	107
Cost/income ratio (%) ²⁾	56.1	53.7
Earnings per ordinary share (€) ¹⁾	0.06	1.80
RoE before taxes (%) ^{1) 3) 4)}	0.3	9.0
RoE after taxes (%) ^{1) 3) 4)}	0.2	5.8
Statement of Financial Position		
Property finance (€ mn) ⁵⁾	26,053	25,882
Equity (€ mn)	2,843	2,861
Total assets (€ mn)	44,480	41,137
Regulatory Indicators ⁶⁾		
Risk-weighted assets (€ mn) ⁷⁾	11,320	11,195
Common Equity Tier 1 ratio (CET1 ratio) (%)	20.4	19.6
Tier 1 ratio (T1 ratio) (%)	23.1	22.3
Total capital ratio (TC ratio) (%)	30.3	29.9
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (estimate) – ⁸⁾	13.9	13.5
Employees	2,971	2,788

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 and Consulting/Services Bank (formerly: Bank division Housing Industry) segments, in line with the strategic development; the previous year's figure was adjusted accordingly.

³⁾ On an annualised basis

⁴⁾ "Other reserves" were included in equity, in line with the further development of segment reporting; the previous year's figure was adjusted accordingly.

⁵⁾ Excluding € 0.4 billion in private client business (31 December 2019: € 0.4 billion) and € 0.3 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2019: € 0.4 billion)

⁶⁾ 31 December 2019: excluding dividends for 2019 (in line with original proposal for appropriation of profits) and incorporating the pro-rata accrual of net interest payable on the AT1 bond.

30 September 2020: including dividends for 2019 (in line with original proposal for appropriation of profits) and interim profits for 2020, and incorporating the pro-rata accrual of net interest payable on the AT1 bond.

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. The CET1 ratio, as shown in Aareal Bank's regulatory report as at 30 September 2020, was 19.8 %, reflecting the fact that on that date the Bank had not submitted an application for inclusion of profits to the ECB.

⁷⁾ Due to the impact of Covid-19, at the time of preparing this report, it was not always possible to obtain new appraisals where there were indications for a fluctuation in value. Given the model employed, it was not possible to incorporate anticipated rating changes within the scope of the management overlay for calculating RWAs as at 30 September 2020.

⁸⁾ Underlying estimate, given a 72.5% output floor 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.).

Consolidated income statement for the first nine months of 2020 (in accordance with IFRSs)

	1 Jan - 30 Sep 2020	1 Jan - 30 Sep 2019	Change
	€ mn	€ mn	%
Net interest income	373	403	-7
Loss allowance	167	55	204
Net commission income	168	164	2
Net derecognition gain or loss	19	42	-55
Net gain or loss from financial instruments (fvpl)	-11	5	-320
Net gain or loss from hedge accounting	4	-4	-200
Net gain or loss from investments accounted for using the equity method	0	0	0
Administrative expenses	352	370	-5
Net other operating income/expenses	-10	1	
Operating profit	24	186	-87
Income taxes	7	65	-89
Consolidated net income	17	121	-86
Consolidated net income attributable to non-controlling interests	2	2	0
Consolidated net income attributable to shareholders of Aareal Bank AG	15	119	-87
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	15	119	-87
of which: allocated to ordinary shareholders	3	107	-97
of which: allocated to AT1 investors	12	12	
Earnings per ordinary share (€) ²⁾	0.06	1.80	-97
Earnings per AT1 unit (€) ³⁾	0.12	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 allocated 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 income statement for the third quarter of 2020 (in accordance with IFRSs)

	Quarter 3 2020	Quarter 3 2019	Change
	€ mn	€ mn	%
Net interest income	128	134	-4
Loss allowance	61	27	126
Net commission income	57	54	6
Net derecognition gain or loss	3	15	-80
Net gain or loss from financial instruments (fvpl)	-4	5	-180
Net gain or loss from hedge accounting	2	-3	-167
Net gain or loss from investments accounted for using the equity method	0	0	0
Administrative expenses	114	114	0
Net other operating income/expenses	0	0	0
Operating profit	11	64	-83
Income taxes	10	24	-58
Consolidated net income	1	40	-98
Consolidated net income attributable to non-controlling interests	1	1	0
Consolidated net income attributable to shareholders of Aareal Bank AG	0	39	-100
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	0	39	-100
of which: allocated to ordinary shareholders	-4	35	-111
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (in €) ²⁾	-0.05	0.60	-108
Earnings per AT1 unit (in €) ³⁾	0.04	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 allocated 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.

Segment results for the first nine months of 2020 (in accordance with IFRS)

	Structured Property Financing		Consulting / Services Bank		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan– 30 Sep 2020	1 Jan– 30 Sep 2019	1 Jan– 30 Sep 2020	1 Jan– 30 Sep 2019	1 Jan– 30 Sep 2020	1 Jan– 30 Sep 2019	1 Jan– 30 Sep 2020	1 Jan– 30 Sep 2019	1 Jan– 30 Sep 2020	1 Jan– 30 Sep 2019
€ mn										
Net interest income	345	414	29	-10	-1	-1	0	0	373	403
Loss allowance	167	55			0	0			167	55
Net commission income	4	6	18	17	155	150	-9	-9	168	164
Net derecognition gain or loss	19	42							19	42
Net gain or loss from financial instruments (fvpl)	-11	5	0		0				-11	5
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	0
Administrative expenses	173	195	50	57	138	127	-9	-9	352	370
Net other operating income/expenses	-11	0	0	-1	1	2	0	0	-10	1
Operating profit	10	213	-3	-51	17	24	0	0	24	186
Income taxes	4	74	-2	-17	5	8			7	65
Consolidated net income	6	139	-1	-34	12	16	0	0	17	121
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	6	139	-1	-34	10	14	0	0	15	119
Allocated equity ¹⁾	1,817	1,895	194	194	42	42	450	352	2,503	2,483
RoE before taxes (%) ^{2) 3)}	-0.5	13.8	-1.8	-34.8	47.0	69.5			0.3	9.0

¹⁾ For management purposes, the calculation of allocated equity was changed for all segments, applying the regulatory calculation method. 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 € 195 million. Other reserves are now also included when calculating allocated equity at Group level. RoE before taxes is thus also changed accordingly. The previous year's figures were adjusted accordingly.

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.

Segment results for the third quarter of 2020 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services Bank		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 3 2020	Quarter 3 2019	Quarter 3 2020	Quarter 3 2019	Quarter 3 2020	Quarter 3 2019	Quarter 3 2020	Quarter 3 2019	Quarter 3 2020	Quarter 3 2019
€ mn										
Net interest income	119	138	9	-4	0	0	0	0	128	134
Loss allowance	61	27			0	0			61	27
Net commission income	1	2	6	7	53	49	-3	-4	57	54
Net derecognition gain or loss	3	15							3	15
Net gain or loss from financial instruments (fvpl)	-4	5			0				-4	5
Net gain or loss from hedge accounting	2	-3							2	-3
Net gain or loss from investments accounted for using the equity method					0	0			0	0
Administrative expenses	56	55	15	20	46	43	-3	-4	114	114
Net other operating income/expenses	0	-1	0	0	0	1	0	0	0	0
Operating profit	4	74	0	-17	7	7	0	0	11	64
Income taxes	9	27	-1	-6	2	3			10	24
Consolidated net income	-5	47	1	-11	5	4	0	0	1	40
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	-5	47	1	-11	4	3	0	0	0	39