

## PRESS RELEASE

### **Aareal Bank's strong operating performance in the third quarter largely offsets additional loss allowance for Russia**

- **Consolidated operating profit up by 32 per cent to € 66 million in the third quarter, including additional loss allowance of € 43 million for the remaining exposure to Russia**
- **Third-quarter loss allowance excluding burdens for Russia amounts to € 20 million**
- **Earnings momentum continues unabated, net interest income rises by 19 per cent to € 184 million, net commission income increases by 20 per cent to € 67 million**
- **Cost/income ratio in the banking business of 39 per cent demonstrates the Bank's high cost efficiency**
- **Full-year capital markets funding plan fully implemented already in the third quarter – CET1 ratio of 19.4 per cent remains on a very comfortable level**
- **Chief Executive Officer Jochen Klösges: "We have further increased our earnings, and our strategy is clearly bearing fruit. Amid high political and economic uncertainty, our operating strength is a solid foundation in an increasingly difficult environment."**

Wiesbaden, 10 November 2022 – Aareal Bank Group generated strong operating performance in the third quarter of 2022, improving quarterly results over the previous quarter and the third quarter of 2021, even though the Bank's remaining Russian exposure is a burdening factor.

**Consolidated operating profit** rose by 32 per cent in the third quarter to € 66 million (Q3 2021: € 50 million). That includes loss allowance totalling € 63 million (Q3 2021: € 39 million), of which € 43 million is attributable to Russia. Loss allowance excluding Russia thus remained on a low level. At the same time, the credit portfolio was further extended to just under € 32 billion, benefiting from good margins and better loan-to-value ratios. Aareon and the Banking & Digital Solutions segment also continued along their growth path, which is reflected in higher net commission income and the higher deposit volume of € 13.5 billion.

Jochen Klösges, Chief Executive Officer, commented: "We are very pleased with Aareal Bank Group's performance so far this year. We have further increased our earnings, and our strategy is clearly bearing fruit. Amid the high political and economic uncertainties, our operating strength is a solid foundation in an increasingly difficult environment."

**Net interest income** continued to rise by 19 per cent year-on-year, reaching € 184 million (Q3 2021: € 155 million) and thus surpassing the already very good previous quarter by € 13 million – to reach the highest level in seven years. A larger credit portfolio and good new business margins are the main reasons for this result. In addition, the first positive effects from higher market interest rates already made themselves felt in Aareal Bank's deposit-

taking business. In the first nine months, net interest income amounted to € 514 million, significantly exceeding the previous year's figure of € 435 million (+18 per cent).

**Net commission income** was up by 20 per cent compared to the previous year's quarter, to € 67 million (Q3 2021: € 56 million), reflecting the continued solid sales revenue development at the Bank's software subsidiary Aareon. Its transformation towards becoming a company with a business model based on software as a service (SaaS) and on subscriptions is making progress. In the first nine months of the financial year, net commission income increased by 14 per cent, to a total of € 199 million (9m 2021: € 174 million). Quarter-on-quarter, net commission income remained stable.

The larger part of **loss allowance** was attributable to the increase for the exposure to Russia (an office complex in Moscow) which is being run down. There were hardly any defaults in the remaining portfolio, and hence no direct implications from the deteriorating macro-economic situation so far.

The additional impairment charge for Russia in turn was due to the significant worsening of the crisis surrounding the war in Ukraine, which has deteriorated the prospects for any rapid de-escalation. Even though the borrower is willing and able to pay, the exposure still cannot be serviced due to the sanctions imposed in Russia. In the first nine months of the year, loss allowance amounted to € 170 million (9m 2021: € 79 million), approximately three-quarters of which was attributable to Russia.

**Administrative expenses** amounted to € 128 million, markedly dropping quarter-on-quarter (Q2 2022: € 142 million), whilst remaining largely stable year-on-year (Q3 2021: € 125 million). In the first nine months of the year, administrative expenses totalled € 423 million (9m 2021: € 393 million), including the non-recurring effect incurred by the transaction costs from the takeover offer by Atlantic BidCo GmbH of approximately € 12 million booked in the second quarter. The year-on-year increase in a nine-month comparison was mainly down to Aareon's growth- and acquisition-related expenses, whereas expenses at the Bank remained unchanged – despite the non-recurring transaction costs – due to strict cost discipline. Aareal Bank thus successfully implemented its growth strategy at low marginal costs. The cost/income ratio (CIR) in the banking business improved to 39 per cent in the third quarter, providing proof of Aareal Bank's high cost efficiency, even in a European comparison.

Taking taxes of € 24 million into account, **consolidated net income** was € 42 million (Q3 2021: € 23 million). After net interest payable on the AT1 bond and non-controlling interest income, **consolidated net income allocated to ordinary shareholders** amounted to € 39 million (Q3 2021: € 20 million). **Earnings per share** came to € 0.65 (Q3 2021: € 0.33)

Despite its continued portfolio growth, Aareal Bank's capital position remains comfortable. As at 30 September 2022, the Bank's **Common Equity Tier 1 (CET1) ratio** (Basel IV phase-in ratio) was 19.4 per cent, which is very comfortable even on an international level. The **total capital ratio** stood at 24.2 per cent.

The Bank has fully implemented its **capital markets funding plan for 2022** as early as at the end of the third quarter – despite lending volume growing more strongly than scheduled.

Diversifying its funding mix and broadening its investor base remained at the core of the Bank's funding activities. Funding instruments totalling € 4.5 billion were placed on the capital markets in the first nine months of 2022. This included six benchmark transactions: two € 750 million Pfandbrief issues, one € 625 million Pfandbrief issue and one Pfandbrief issue in the amount of € 500 million. Aareal Bank Group also raised a total of € 1.3 billion in senior unsecured funding, including two 'green' senior preferred issues of € 500 million each. The cooperation with Raisin and Deutsche Bank ZinsMarkt launched in June also progressed at a very pleasing pace and the offering was extended; Aareal Bank's fixed-income products are now also available on the "WeltSparen" investment platform. The deposit volume generated on both platforms since market launch already amounted to a total of approximately € 267 million as at the end of October.

### **Growth across all three business segments**

Controlled growth of the property financing portfolio continued in the **Structured Property Financing segment**. The lending volume amounted to € 31.9 billion as at the end of September (30 June 2022: € 31.3 billion). New business originated in the first nine months was € 6.9 billion (9m 2021: € 6.1 billion), supported by a third-quarter figure of € 1.7 billion, following already very strong new business generation during the first half of the year. In the third quarter the focus lay on logistics and hotel properties, which accounted for 35 and 22 per cent of new business.

Key portfolio indicators, such as the average loan-to-value ratio (LTV) or yield-on-debt (YoD), continued to improve and have largely returned to pre-pandemic levels. The Bank was able to lower the NPL ratio from 5.2 per cent as at year-end 2021 to 4.6 per cent at the end of the third quarter of 2022.

In the **Banking & Digital Solutions segment**, the average volume of deposits was comfortably above the initially targeted level of € 12 billion for the year, rising to € 13.5 billion in the third quarter (Q3 2021: € 11.9 billion). However, in light of rising energy prices and associated higher liquidity needs for housing companies, amongst other things, a temporary decrease cannot be ruled out. Nevertheless, Aareal Bank maintains its target of not falling below the level of € 12 billion.

The segment's net interest income of € 26 million (Q3 2021: € 11 million) showed the first positive effects from the change in interest rate policies. The segment's net commission income increased to € 8 million (Q3 2021: € 7 million), and operating profit rose to € 17 million in the third quarter (Q3 2021: € 1 million).

Our software subsidiary **Aareon** remained on its growth trajectory, increasing sales revenue to € 75 million in the quarter under review (Q3 2021: € 62 million) and thus to € 221 million in the first nine months (up 14 per cent; 9m 2021: € 195 million). In terms of promising Software as a Service (SaaS) products, Aareon generated sales revenue growth of 24 per cent in the first nine months. The share of recurring revenue compared to total sales rose to more than 70 per cent. Adjusted EBITDA rose to € 15 million in the third quarter (Q3 2021: € 13 million). Aareon's new management team around CEO Harry Thomsen is focusing on implementing

the growth plan and product portfolio efficiency. The integration of Swedish Momentum Software Group AB, acquired in the second quarter, is proceeding on schedule.

### **Outlook: Full-year forecast confirmed**

Despite increased loss allowance for the remaining exposure to Russia, non-recurring cost effects as a result of the takeover by Atlantic BidCo, and burdens from the ECB's TLTRO decision, Aareal Bank continues to expect consolidated operating profit at the lower end of the € 210 million to € 250 million range for the 2022 financial year. The potential impact of the war in Ukraine – both in terms of the Bank's remaining exposure to Russia and the economic consequences of mutual sanctions imposed and the escalated geopolitical tensions – remains very difficult to estimate.

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### **About 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 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 is the Group's parent entity. It manages the various entities organised in the Group's 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 apartments. 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 ERP software and digital solutions for the European property sector and their partners, represents the third business segment. Aareon is digitalising the property industry 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 Sep 2022	1 Jan - 30 Sep 2021
<b>Results</b>		
Operating profit (€ mn)	157	123
Consolidated net income (€ mn)	100	56
Consolidated net income allocated to ordinary shareholders (€ mn) <sup>1)</sup>	89	44
Cost/income ratio (%) <sup>2)</sup>	34.0	43.4
Earnings per ordinary share (€) <sup>1)</sup>	1.49	0.73
RoE before taxes (%) <sup>1) 3)</sup>	6.7	5.6
RoE after taxes (%) <sup>1) 3)</sup>	4.3	2.3
<b>Statement of Financial Position</b>		
Property finance (€ mn)	31,928	30,048
Equity (€ mn)	3,266	3,061
Total assets (€ mn)	53,268	48,728
<b>Regulatory indicators<sup>4)</sup></b>		
<b>Basel IV (phase-in)<sup>5)</sup></b>		
Risk-weighted assets (€ mn)	13,136	12,817
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.4	18.2
Tier 1 ratio (T1 ratio) (%)	21.7	20.5
Total capital ratio (TC ratio) (%)	24.2	23.6
<b>Basel III</b>		
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.7	22.2
<b>Employees</b>	3,298	3,170

<sup>1)</sup> The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

<sup>2)</sup> Structured Property Financing segment: 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 2021: excluding originally 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. 30 September 2022: including originally proposed dividend of € 1.60 per share in 2022, including interim profits for 2022 and pro rata accrual of the net interest on the AT1 bond. In accordance with the Investment Agreement entered into with Atlantic BidCo GmbH, there are no plans to distribute any dividends. The CET1 ratio as shown in the regulatory report as at 30 September 2022 was 18.4%, 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.

<sup>5)</sup> 30 September 2022: underlying RWA estimate based on the revised CRSA (phase-in) output floor, resulting from a "higher of" comparison with the RWA estimate based on the CRR in its current version plus revised AIRBA requirements for commercial property finance in line with the draft version dated 27 October 2021 for the European implementation of Basel IV by the European Commission which will officially enter into force as of 1 January 2025.

**Consolidated income statement for the first nine months of 2022  
(in accordance with IFRSs)**

	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2021	Change
	€ mn	€ mn	%
Net interest income	514	435	18
Loss allowance	170	79	115
Net commission income	199	174	14
Net derecognition gain or loss	24	15	60
Net gain or loss from financial instruments (fvpl)	22	-7	
Net gain or loss from hedge accounting	-6	-4	50
Net gain or loss from investments accounted for using the equity method	-2	-1	100
Administrative expenses	423	393	8
Net other operating income/expenses	-1	-17	-94
<b>Operating profit</b>	<b>157</b>	<b>123</b>	<b>28</b>
Income taxes	57	67	-15
<b>Consolidated net income</b>	<b>100</b>	<b>56</b>	<b>79</b>
Consolidated net income attributable to non-controlling interests	0	2	
Consolidated net income attributable to shareholders of Aareal Bank AG	100	54	85
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	100	54	85
of which: allocated to ordinary shareholders	89	44	102
of which: allocated to AT1 investors	11	10	10
Earnings per ordinary share (€) <sup>2)</sup>	1.49	0.73	104
Earnings per AT1 unit (€) <sup>3)</sup>	0.11	0.10	10

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

**Consolidated income statement for the third quarter of 2022  
(in accordance with IFRSs)**

	Q3 2022	Q3 2021	Change
	€ mn	€ mn	%
Net interest income	184	155	19
Loss allowance	63	39	62
Net commission income	67	56	20
Net derecognition gain or loss	2	7	-71
Net gain or loss from financial instruments (fvpl)	4	-3	
Net gain or loss from hedge accounting	1	-2	
Net gain or loss from investments accounted for using the equity method	0	0	0
Administrative expenses	128	125	2
Net other operating income/expenses	-1	1	
<b>Operating profit</b>	<b>66</b>	<b>50</b>	<b>32</b>
Income taxes	24	27	-11
<b>Consolidated net income</b>	<b>42</b>	<b>23</b>	<b>83</b>
Consolidated net income attributable to non-controlling interests	-1	0	
Consolidated net income attributable to shareholders of Aareal Bank AG	43	23	87
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	43	23	87
of which: allocated to ordinary shareholders	39	20	95
of which: allocated to AT1 investors	4	3	33
Earnings per ordinary share (€) <sup>2)</sup>	0.65	0.33	97
Earnings per AT1 unit (€) <sup>3)</sup>	0.04	0.03	33

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

**Segment results for the first nine months of 2022  
(in accordance with IFRSs)**

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2021	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2021	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2021	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2021	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2021
€ mn										
Net interest income	475	406	49	33	-10	-4	0	0	514	435
Loss allowance	170	79	0		0	0			170	79
Net commission income	5	6	23	20	180	157	-9	-9	199	174
Net derecognition gain or loss	24	15							24	15
Net gain or loss from financial instruments (fvpl)	22	-7	0		0				22	-7
Net gain or loss from hedge accounting	-6	-4							-6	-4
Net gain or loss from investments accounted for using the equity method	0		-1	-1	-1	0			-2	-1
Administrative expenses	200	193	54	53	178	156	-9	-9	423	393
Net other operating income/expenses	-4	-21	-1	0	4	4	0	0	-1	-17
<b>Operating profit</b>	<b>146</b>	<b>123</b>	<b>16</b>	<b>-1</b>	<b>-5</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>157</b>	<b>123</b>
Income taxes	52	68	6	-1	-1	0			57	67
<b>Consolidated net income</b>	<b>94</b>	<b>55</b>	<b>10</b>	<b>0</b>	<b>-4</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>100</b>	<b>56</b>
Consolidated net income attributable to non-controlling interests	0	0	0	0	0	2			0	2
Consolidated net income attributable to shareholders of Aareal Bank AG	94	55	10	0	-4	-1	0	0	100	54
Allocated equity <sup>1)</sup>	1,622	1677	289	260	37	38	838	562	2,786	2537
RoE after taxes (%) <sup>2) 3)</sup>	6.9	3.6	4.5	-0.1	-13.9	-3.1			4.3	2.3

<sup>1)</sup> 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 equity as disclosed in the statement of financial position amounts to € 138 million (31 December 2021: € 143 million).

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

<sup>3)</sup> The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.



**Segment results for the third quarter of 2022 (in accordance with IFRSs)**

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021
€ mn										
Net interest income	162	146	26	11	-4	-2	0	0	184	155
Loss allowance	63	39	0		0	0			63	39
Net commission income	1	2	8	7	61	50	-3	-3	67	56
Net derecognition gain or loss	2	7							2	7
Net gain or loss from financial instruments (fvpl)	4	-3	0						4	-3
Net gain or loss from hedge accounting	1	-2							1	-2
Net gain or loss from investments accounted for using the equity method					0	0			0	0
Administrative expenses	54	59	17	17	60	52	-3	-3	128	125
Net other operating income/expenses	-2	-1	0	0	1	2	0	0	-1	1
<b>Operating profit</b>	<b>51</b>	<b>51</b>	<b>17</b>	<b>1</b>	<b>-2</b>	<b>-2</b>	<b>0</b>	<b>0</b>	<b>66</b>	<b>50</b>
Income taxes	18	28	6	0	0	-1			24	27
<b>Consolidated net income</b>	<b>33</b>	<b>23</b>	<b>11</b>	<b>1</b>	<b>-2</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>42</b>	<b>23</b>
Consolidated net income attributable to non-controlling interests	0	0	0	0	-1	0			-1	0
Consolidated net income attributable to shareholders of Aareal Bank AG	33	23	11	1	-1	-1	0	0	43	23