

Prepared for tomorrow

AAREAL BANK GROUP – INTERIM FINANCIAL INFORMATION
1 JANUARY TO 30 SEPTEMBER 2020

Aareal
YOUR COMPETITIVE ADVANTAGE.

Key Indicators

	1 Jan – 30 Sep 2020	1 Jan – 30 Sep 2019		30 Sep 2020	31 Dec 2019
Results			Moody's⁹⁾		
Operating profit (€ mn)	24	186	Issuer rating	A3	A3
Consolidated net income (€ mn)	17	121	Bank deposit rating	A3	A3
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	3	107	Outlook	Negative	Stable
Cost/income ratio (%) ²⁾	56.1	53.7	Mortgage Pfandbrief Rating	Aaa	Aaa
Earnings per ordinary share (€) ¹⁾	0.06	1.80	Fitch Ratings¹⁰⁾		
RoE before taxes (%) ^{1) 3) 4)}	0.3	9.0	Issuer default rating	BBB+	A-
RoE after taxes (%) ^{1) 3) 4)}	0.2	5.8	Senior Preferred	A-	A
	30 Sep 2020	31 Dec 2019	Senior Non-Preferred	BBB+	A-
Statement of Financial Position			Deposit ratings	A-	A
Property finance (€ mn) ⁵⁾	26,053	25,882	Outlook	Negative	Negative
Equity (€ mn)	2,843	2,861	Sustainability ratings¹¹⁾		
Total assets (€ mn)	44,480	41,137	MSCI	AA	AA
Regulatory Indicators⁶⁾			ISS-ESG	prime (C+)	prime (C+)
Risk-weighted assets (€ mn) ⁷⁾	11,320	11,195	CDP	Awareness Level C	Awareness Level C
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 (estimated) – 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 (after deduction of the pro-rata dividend in line with the dividend policy), 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.).

⁹⁾ Moody's Investors Service confirmed the issuer rating and bank deposit rating on 21 April 2020. At the same time, Moody's set the outlook for the issuer rating and bank deposit rating to "negative", given deterioration in the operating environment on account of the Covid-19 pandemic.

¹⁰⁾ The ratings reported as at 31 December 2019 were published on 10 January 2020. Fitch Ratings had changed the outlook to "negative" in connection with the introduction of revised bank rating criteria. On 27 March 2020 the rating was changed, as expected. Due to the Covid-19 pandemic, Fitch Ratings lowered its rating outlook to negative (RWN – Rating Watch Negative), also on 27 March 2020.

¹¹⁾ Please refer to our website (www.aareal-bank.com/en/responsibility/reporting-on-our-progress/) for more details.

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Business Development

Key Events and Transactions

The course of the 2020 financial year and the forecast are both still significantly impacted by the effects of the Covid-19 pandemic. We outline the current macroeconomic assumptions and our forecast in the Report on Changed Forecasts.

Within the scope of strategic initiatives and measures implemented within "Aareal Next Level", Aareal Bank agreed on a long-term partnership with financial investor Advent International ("Advent") on 14 August 2020, to significantly further strengthen the growth momentum of its IT subsidiary Aareon. Within the scope of this agreement, Aareal Bank has sold a 30 per cent minority stake in Aareon to Advent. The partners signed a share purchase agreement as well as a shareholders' agreement, which also sets out all other material cornerstones of the future partnership. The financial terms and conditions of the disposal are based on an enterprise value for Aareon of approximately € 960 million. This corresponds to an equity value of approximately € 860 million, leading to a purchase price for the 30 per cent stake of approximately € 260 million. With the new partnership agreed with Advent, Aareal Bank has swiftly brought the structured process for the sale of a significant minority stake in Aareon to a successful conclusion, benefitting from the currently very favourable market environment for resilient software-centric businesses.

Report on the Economic Position

Financial Performance

€ mn	1 Jan - 30 Sep 2020	1 Jan - 30 Sep 2019
Net interest income	373	403
Loss allowance	167	55
Net commission income	168	164
Net derecognition gain or loss	19	42
Net gain or loss from financial instruments (fvpl)	-11	5
Net gain or loss from hedge accounting	4	-4
Net gain or loss from investments accounted for using the equity method	0	0
Administrative expenses	352	370
Net other operating income/expenses	-10	1
Operating profit	24	186
Income taxes	7	65
Consolidated net income	17	121
Consolidated net income attributable to non-controlling interests	2	2
Consolidated net income attributable to shareholders of Aareal Bank AG	15	119

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€ mn	1 Jan - 30 Sep 2020	1 Jan - 30 Sep 2019
Earnings per share (EoS)		
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	15	119
of which: allocated to ordinary shareholders	3	107
of which: allocated to AT1 investors	12	12
Earnings per ordinary share (in €) ²⁾	0.06	1.80
Earnings per AT1 unit (in €) 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 operating profit amounted to € 24 million during the first nine months of the financial year (9m 2019: € 186 million).

Net interest income of € 373 million was materially down on the previous year (€ 403 million), mainly due to a year-on-year decline in the loan and securities portfolios. This was attributable to the previous year's accelerated de-risking involving defaulted loans, a larger exposure to a single borrower and securities in Italy, as well as to lower new business in the first half of the year on account of the Covid-19 pandemic. Furthermore, net interest income includes the pro-rata interest benefit from the TLTRO programme.

Loss allowance of € 167 million (9m 2019: € 55 million) was recognised, largely due to the adverse economic effects related to the Covid-19 pandemic.

In addition to new loan defaults, the assumptions of realisation periods for defaulted financings were extended.

As shown in the half-yearly financial report as at 30 June 2020, due to the impact of Covid-19 it has not always been possible to obtain new appraisals, where there were indications for a fluctuation in value. Where appraisals have been submitted in the meantime, these are in line with our expectations overall. For the remaining financings, we have continued to take into account forecast changes in value resulting from our "swoosh" scenario as follows, by using management overlay when determining loss allowance: our "swoosh" scenario's market outlook has generally deteriorated versus 30 June 2020 (see the Report on Changed Forecasts). We have updated the underlying model assumptions and processes. We developed the model on the basis of the recommendations made by the IASB, the Institute of Public Auditors in Germany (IDW) and other relevant regulatory authorities such as EBA, ECB and ESMA. To assess the significant increase in credit default risk, both quantitative and qualitative criteria (LTV, interest rate and debt servicing capacity, as well as maturity) play a role.

Aareal Bank supported clients through deferrals of repayments totalling € 80 million as well as liquidity facilities of € 107 million, concerning lending volume of € 6.9 billion. An update of assessments regarding forbearance measures related to Covid-19 led to an increase of affected exposures. The gross carrying amount of on-balance sheet lending business subject to Covid-19-related forbearance measures amounted

to € 4.5 billion. The gross carrying amount of on-balance sheet commercial property finance business with mandatory rating in stage 2 was € 3.8 billion (31 December 2019: € 0.5 billion), with associated loss allowance of € 37 million (31 December 2019: € 12 million).

In the Bank's opinion, the management overlay takes the current situation, i. e. the fact that sufficient forward-looking information may not be available in each individual case, into account.

Moreover, the accelerated de-risking burdened the second quarter with € 9 million.

Net commission income amounted to € 168 million (9m 2019: € 164 million). Aareon was able to slightly increase its sales revenue to € 188 million (including CalCon Group), despite the Covid-19 pandemic (9m 2019: € 182 million). Aareon's adjusted EBITDA¹⁾ amounted to € 41 million (9m 2019: € 42 million).

The net derecognition gain of € 19 million (9m 2019: € 42 million) was attributable to market-driven effects from early loan repayments, and to repurchases in the Treasury business within the scope of market support. The higher figure for the previous year reflected structural adjustments to our securities portfolio following the acquisition of former Düsseldorf Hypothekenbank AG (Düsselhyp).

Net loss from financial instruments (fvpl) and from hedge accounting totalled € -7 million (9m 2019: net gain of € 1 million), largely reflecting credit-risk induced measurement losses of defaulted property loans (including management overlay) which are reflected in net gain or loss from financial instruments (fvpl), due to failure to meet the SPPI criterion.

In spite of rising expenses in connection with Aareon's growth, administrative expenses declined to € 352 million (9m 2019: € 370 million), also due to cost savings incurred in connection with the Covid-19 crisis. The previous year's figure still included running costs and integration expenses incurred in conjunction with the integration of Düsselhyp.

Net other operating income/expenses of € -10 million (9m 2019: € 1 million) was burdened by a write-down for impairment on a property held by the Bank. Said impairment was based on an internal valuation review, taking our Covid-19 scenario into account.

Overall, this resulted in consolidated operating profit of € 24 million (9m 2019: € 186 million). Taking into consideration tax expenses of € 7 million (income taxes were positively influenced by the capitalisation of deferred taxes from unused loss carryforwards) and non-controlling interest income of € 2 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 15 million (9m 2019: € 119 million). Given the non-tax-deductibility of certain expense items, the tax rate does not develop proportionally to results; we therefore anticipate a tax rate clearly above 50%. Assuming the pro-rata temporis accrual of net interest payments on the AT 1 bond, consolidated net income allocated to ordinary shareholders stood at € 3 million (9m 2019: € 107 million). Earnings per ordinary share amounted to € 0.06 (9m 2019: € 1.80), and RoE before taxes 0.3% (9m 2019: 9.0%).

¹⁾ "Earnings before interest, taxes, depreciation and amortisation" excluding strategic investments (venture and M&A activities) and non-recurring effects

Financial Position – Assets

At € 44.5 billion, Aareal Bank Group's consolidated total assets increased in comparison to the previous year-end. The use of targeted longer-term refinancing operations (TLTROs) especially resulted in an increase in the Bank's cash funds. The property finance portfolio amounted to € 26.1 billion (31 December 2019: € 25.9 billion). The Group originated € 4.2 billion in new business during the first nine months of the year (9m 2019: € 6.0 billion).

€ mn	30 Sep 2020	31 Dec 2019
Assets		
Financial assets (ac)	36,885	33,972
Cash funds	4,421	1,494
Loan receivables	26,171	25,783
Money market and capital market receivables	6,221	6,618
Receivables from other transactions	72	77
Loss allowance (ac)	-430	-386
Financial assets (fvoci)	3,706	3,420
Money market and capital market receivables	3,701	3,415
Equity instruments	5	5
Financial assets (fvpl)	3,100	2,979
Loan receivables	897	1,050
Money market and capital market receivables	92	135
Positive market value of designated hedging derivatives	1,434	1,380
Positive market value of other derivatives	677	414
Non-current assets held for sale	7	–
Investments accounted for using the equity method	7	8
Intangible assets	200	175
Property and equipment	290	311
Income tax assets	71	30
Deferred tax assets	182	168
Other assets	462	460
Total	44,480	41,137

Financial Position – Equity and Liabilities

At € 44.5 billion, Aareal Bank Group's consolidated total equity and liabilities increased in comparison to the previous year-end. The use of targeted longer-term refinancing operations (TLTROs) increased the Bank's money-market liabilities. The average deposit volume from the housing industry stood at € 10.8 billion in the first nine months of the year (9m 2019: € 10.7 billion).

Aareal Bank Group raised € 1.2 billion on the capital markets during the first nine months of 2020, comprising € 1.0 billion of senior preferred and € 0.2 billion of senior non-preferred issues. Aareal Bank Group raised € 4.3 billion as part of TLTRO 3.

€ mn	30 Sep 2020	31 Dec 2019
Equity and liabilities		
Financial liabilities (ac)	38,819	35,332
Money market and capital market liabilities	27,617	24,526
Deposits from the housing industry	10,184	9,744
Liabilities from other transactions	75	94
Subordinated capital	943	968
Financial liabilities (fvpl)	2,073	2,165
Negative market value of designated hedging derivatives	1,481	1,341
Negative market value of other derivatives	592	824
Provisions	565	581
Income tax liabilities	17	44
Deferred tax liabilities	30	19
Other liabilities	133	135
Equity	2,843	2,861
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,812	1,812
AT1 bond	300	300
Other reserves	-172	-154
Non-controlling interests	2	2
Total	44,480	41,137

Report on Changed Forecasts

Aareal Bank Group had qualified its annual forecast published in the 2019 Report on Expected Developments and Opportunities, which is part of the Group Management Report, noting that the impact of the Covid-19 pandemic cannot be reliably estimated and that it is thus impossible to anticipate the consequences for business and earnings development.

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 expected 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 differentiated development in the various regions, especially due to different infection incidence; as a result, the market forecast as at the reporting date has deteriorated overall, compared to 30 June 2020. Hence, for 2020 we now expect a slightly more pronounced decline in economic activity in most of the regions where we are active, and a recovery that will be delayed by about six months. We continue to anticipate a marked recovery in 2021 and 2022.

Hitherto, Aareal Bank Group deemed a significantly positive operating profit in the mid to upper double-digit euro million range to be possible for the 2020 financial year. In view of the deteriorating

macroeconomic forecasts and market outlook, as at today the Bank expects an operating profit in the mid double-digit euro million range.

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. Further effects from potential de-risking measures are also not included.

We continuously assess the pandemic development, the actions taken, and the resulting economic impact. Should the current trend continue, our forecast might need to be further adjusted.

Events after the Reporting Date

Following anti-trust approvals, the sale of a 30 per cent minority stake in Aareon to Advent was concluded on 30 October 2020. The purchase price was paid in cash.

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

Segment Results

As explained in the Annual Report 2019, Aareal Bank's management system was revised in the course of the "Aareal Next Level" strategic development at the turn of the year. The previous Consulting/Services segment was split into the Consulting/Services Bank and Aareon segments, in order to sharpen the independent profiles of the individual business activities and to enhance transparency. The previous year's figures were adjusted accordingly. Whilst the structure of the existing Structured Property Financing segment remained unchanged in principle, two changes were necessary as part of the further development of the management system.

A review of our liquidity model conducted during the fourth quarter of 2019 showed that a higher share of deposits from the housing industry is available to the Bank for an extended period of time, as a replacement for unsecured placements on the capital markets. This resulted in lower unsecured funding requirements (and to a corresponding relief on income), as well as a change in intra-segment charges. A similar effect applies to the interest rate on residual deposits; this rate was also raised as part of modeling changes. In the current (as well as in the expected) interest rate environment, backing this residual interest rate using fixed-income assets gives rise to interest income as well as tying up RWAs; these effects have been allocated to the Consulting/Services Bank segment from the effective date of this change on 1 January 2020. 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. 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.

	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.

Financial Calendar

24 February 2021	Preliminary results for the 2020 financial year
31 March 2021	Publication of annual report as at 31 December 2020
12 May 2021	Publication of results as at 31 March 2021
2 June 2021	Annual General Meeting
12 August 2021	Publication of results as at 30 June 2021
11 November 2021	Publication of results as at 30 September 2021

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**Aareal Bank
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