

Aareal Bank Group – Interim Financial Information

1 January to
30 September 2023

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Business Development

Key Events and Transactions

Aareal Bank Group has maintained dynamic income growth during the course of the 2023 financial year. However, given the headwinds in the US office property market, loss allowance is anticipated to exceed the original estimates. We refer to our comments in the Report on Changed Forecasts.

The environment remains challenging, and the impact of geopolitical and macro-economic uncertainty remains difficult to predict.

Our business has performed well in all segments.

Given new business of € 6.5 billion in the Structured Property Financing segment, and looking at our property financing portfolio volume of € 32.8 billion, we have already achieved the year-end target for a portfolio size of around € 32 to € 33 billion. Growth was supported by corresponding funding activities and a high average deposit volume of € 13.5 billion in the Banking & Digital Solutions segment.

Aareon was able to further increase sales revenues, as well as the share of recurring revenues; M&A transactions also contributed to this rise. During the third quarter of 2023, Aareon expanded into a new market by signing a contract to take over IESA, Spain's leading and fast-growing software provider for the residential property segment.

Report on the Economic Position

Financial Performance

	1 Jan - 30 Sep 2023	1 Jan - 30 Sep 2022
€ mn		
Net interest income	710	514
Loss allowance	262	170
Net commission income	225	199
Net derecognition gain or loss	18	24
Net gain or loss from financial instruments (fvpl)	-58	22
Net gain or loss from hedge accounting	-2	-6
Net gain or loss from investments accounted for using the equity method	2	-2
Administrative expenses	486	423
Net other operating income/expenses	8	-1
Operating profit	155	157
Income taxes	51	57
Consolidated net income	104	100
Consolidated net income attributable to non-controlling interests	-13	0
Consolidated net income attributable to shareholders of Aareal Bank AG	117	100

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€ mn	1 Jan – 30 Sep 2023	1 Jan – 30 Sep 2022
Earnings per share (EpS)		
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	117	100
of which: allocated to ordinary shareholders	96	89
of which: allocated to AT1 investors	21	11
Earnings per ordinary share (€) ²⁾	1.61	1.49
Earnings per AT1 unit (€) ³⁾	0.21	0.11

¹⁾ The allocation of earnings is based on the assumption that interest payable on the AT1 bond is recognised on an accrual basis. Figures for the comparative period were based on net interest payable on the AT1 bond.

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. Basic earnings per AT1 unit correspond to diluted earnings per AT1 unit.

Consolidated operating profit of € 155 million for the first nine months of the 2023 financial year was in line with the figure for the same period of the previous year (€ 157 million) and in line with expectations – reflecting dynamic income growth and despite Aareon's extensive efficiency-enhancement measures and the projected charges associated with a swift NPL reduction.

Due to a year-on-year increase in the credit portfolio, solid margins, and the impact of rising interest rates on the continued high volume of deposits, net interest income of € 710 million was significantly higher than in the previous year (€ 514 million), and above expectations.

Loss allowance totalled € 262 million (9m 2022: € 170 million), and was largely attributable to individual new loan defaults of US office properties. The figure also includes an addition to loss allowance of now around € 100 million for a swift NPL reduction (thereof approximately € 35 million for our run-down Russian exposure).

Net commission income from the Banking & Digital Solutions segment and at Aareon increased as planned, to reach a total of € 225 million (9m 2022: € 199 million). Aareon's sales revenues increased to € 251 million (9m 2022: € 221 million). Aareon's adjusted EBITDA⁴⁾ amounted to € 64 million (9m 2022: € 47 million). M&A activities contributed to growth at Aareon.

Net derecognition gain of € 18 million (9m 2022: € 24 million) reflected income from the Treasury portfolio as well as positive market-driven effects from early loan repayments.

Net gain or loss from financial instruments (fvpl) and from hedge accounting in the aggregate amount of € -60 million (9m 2022: € 16 million) was largely due to credit risk-induced valuation losses on defaulted property loans, especially in the US – in contrast to positive valuation effects resulting from market developments for currency and interest rate hedging derivatives due to strong market dynamics in the previous year.

Administrative expenses increased to € 486 million (9m 2022: € 423 million), as expected, reflecting both strong growth and the announced efficiency enhancement measures of approximately € 60 million at Aareon. Costs at the Bank remained largely stable: at 31 % (excluding bank levy and contributions to the deposit guarantee scheme, as is customary in the banking sector), the cost/income ratio was at a very low – and thus very good – level during the first nine months of the year, even in an international comparison.

Net other operating income/expenses amounted to € 8 million (9m 2022: € -1 million); the figure included reversals of provisions.

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

Overall, this resulted in consolidated operating profit of € 155 million (9m 2022: € 157 million). Taking into consideration tax expenses of € 51 million (9m 2022: € 57 million) and non-controlling interest income of € -13 million (9m 2022: € 0 million), consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 117 million (9m 2022: € 100 million). Earnings per ordinary share (EpS) amounted to € 1.61 (9m 2022: € 1.49), and RoE after taxes to 4.4 % (9m 2022: 4.3 %).

Financial Position – Assets

€ mn	30 Sep 2023	31 Dec 2022
Assets		
Financial assets (ac)	42,201	40,490
Cash funds (ac)	5,533	5,424
Loan receivables (ac)	31,851	29,948
Money market and capital market receivables (ac)	4,725	5,017
Receivables from other transactions (ac)	92	101
Loss allowance (ac)	-373	-490
Financial assets (fvoci)	3,917	3,552
Money market and capital market receivables (fvoci)	3,915	3,550
Equity instruments (fvoci)	2	2
Financial assets (fvpl)	2,035	2,258
Loan receivables (fvpl)	268	427
Money market and capital market receivables (fvpl)	5	5
Positive market value of designated hedging derivatives (fvpl)	1,024	1,104
Positive market value of other derivatives (fvpl)	738	722
Non-current assets held for sale	37	7
Investments accounted for using the equity method	8	14
Intangible assets	601	566
Property and equipment	226	235
Income tax assets	58	46
Deferred tax assets	196	179
Other assets	536	474
Total	49,442	47,331

Aareal Bank Group's consolidated total assets of € 49.4 billion increased slightly in comparison to the previous year-end. The property financing volume rose to € 32.8 billion (31 December 2022: € 30.9 billion). This increase was achieved in particular on the back of strong new business of € 6.5 billion originated during the first nine months of 2023 (9m 2022: € 6.9 billion) and included approximately € 1.3 billion in green financings¹⁾. The volume of green financings increased to a total of € 3.4 billion (9m 2022: € 1.9 billion); in this context, some existing clients also issued the required undertaking and the related certificates for the first time.

Property loans classified as "held for sale" as at 30 June 2023 (including our residual exposure to Russia of € 217 million) have been sold in the meantime. Two more property loans with an aggregate carrying amount of € 37 million met the relevant criteria as at 30 September 2023.

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.

Financial Position – Equity and Liabilities

€ mn	30 Sep 2023	31 Dec 2022
Equity and liabilities		
Financial liabilities (ac)	42,193	40,022
Money market and capital market liabilities (ac)	28,502	26,425
Deposits from the housing industry (ac)	12,871	13,115
Liabilities from other transactions (ac)	466	96
Subordinated liabilities (ac)	354	386
Financial liabilities (fvpl)	3,474	3,514
Negative market value of designated hedging derivatives (fvpl)	1,729	2,183
Negative market value of other derivatives (fvpl)	1,745	1,331
Non-current assets held for sale	–	1
Provisions	227	292
Income tax liabilities	80	76
Deferred tax liabilities	34	57
Other liabilities	96	111
Equity	3,338	3,258
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	2,180	2,076
AT1 bond	300	300
Other reserves	-97	-88
Non-controlling interests	54	69
Total	49,442	47,331

Aareal Bank Group's consolidated equity and liabilities of € 49.4 billion increased slightly compared to the previous year-end. The average deposit volume from the housing industry increased to € 13.5 billion in the first nine months of the year (9m 2022: € 13.3 billion).

Aareal Bank Group raised € 2.4 billion on the capital markets during the first nine months of 2023. This included two benchmark Pfandbrief transactions of € 750 million each, plus another € 500 million issue.

Report on Changed Forecasts

Thanks to dynamic income growth and despite increased loss allowance, Aareal Bank Group continues to anticipate being able to achieve consolidated operating profit in the communicated range between € 240 million and € 280 million (2022: € 239 million). Given additional investments in efficiency-enhancement measures at Aareon, which have already been booked, the figure is anticipated at the lower end of this range. The same applies to earnings per share (EpS), forecast in a range between € 2.40 and € 2.80 (2022: € 2.32) and RoE after taxes (5 % to 6.5 %; 2022: 5.0 %).

Yet the environment remains challenging, and the impact of geopolitical conflicts and macro-economic uncertainty remains difficult to predict.

Aareal Bank Group anticipates another marked increase in income due to dynamic growth, an improved funding mix, and positive effects from higher market interest rates. The latter is likely to boost net interest income, which is now expected in a range between € 940 million and € 980 million (previous forecast: € 730 million to € 770 million; 2022: € 702 million), thus exceeding the originally forecast figures. Net commission income is also expected to improve year-on-year, to between € 315 million and € 335 million (2022: € 277 million), mainly due to growth at Aareon.

Loss allowance is likely to be higher than initially forecast as a result of headwinds in the US office property market. The Bank now anticipates loss allowance of between € 380 million and € 420 million (original forecast range: € 170 million to € 210 million; 2022: € 192 million), including an additional loss allowance of now around € 100 million scheduled for a swift NPL reduction. This also comprises credit risk-induced measurement losses of defaulted property loans, which are reflected in net gain or loss from financial instruments (fvpl). Due to the existing uncertainties, additional burdens cannot be ruled out under adverse conditions.

Due in particular to Aareon's growth and the announced efficiency-enhancement measures, administrative expenses are expected to increase year-on-year. Given Aareon's refinancing round executed during the third quarter, where funds were raised from third parties, and due to further M&A activities at Aareon, we now expect operating expenses to range between € 630 million and € 650 million (original range: € 590 million to € 630 million; 2022: € 571 million).

Events after the Reporting Date

No other 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 - 30 Sep 2023	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2023	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2023	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2023	1 Jan - 30 Sep 2022	1 Jan - 30 Sep 2023	1 Jan - 30 Sep 2022
€ mn										
Net interest income	564	475	170	49	-24	-10	0	0	710	514
Loss allowance	262	170	0	0	0	0			262	170
Net commission income	6	5	24	23	207	180	-12	-9	225	199
Net derecognition gain or loss	18	24							18	24
Net gain or loss from financial instruments (fvpl)	-58	22	0	0	0	0			-58	22
Net gain or loss from hedge accounting	-2	-6							-2	-6
Net gain or loss from investments accounted for using the equity method		0	2	-1		-1			2	-2
Administrative expenses ¹⁾	173	200	75	54	250	178	-12	-9	486	423
Net other operating income/expenses	7	-4	-1	-1	2	4	0	0	8	-1
Operating profit	100	146	120	16	-65	-5	0	0	155	157
Income taxes	28	52	38	6	-15	-1			51	57
Consolidated net income	72	94	82	10	-50	-4	0	0	104	100
Consolidated net income attributable to non-controlling interests	0	0	0	0	-13	0			-13	0
Consolidated net income attributable to shareholders of Aareal Bank AG	72	94	82	10	-37	-4	0	0	117	100
Allocated equity ²⁾	1,532	1,622	406	289	37	37	944	838	2,919	2,786
RoE after taxes (%) ³⁾⁴⁾	4.4	6.9	26.9	4.5	-132.6	-13.9			4.4	4.3

¹⁾ During the course of a regular review, intra-Group cost allocation between the SPF and BDS segments was adjusted in 2023, aligning it to the size of the respective segment.

²⁾ For management purposes, the allocated equity is calculated for all segments on the basis of a standardised capital requirement pursuant to Basel IV (phase-in) of 15%.

Until 30 September 2022, the calculated output floor for the BDS and Aareon segments was 72.5%. 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 € 97 million.

³⁾ On an annualised basis

⁴⁾ The allocation of earnings is based on the assumption that interest payable on the AT1 bond is recognised on an accrual basis.

Financial Calendar

29 February 2024	Preliminary results for the 2023 financial year
28 March 2024	Publication of annual report as at 31 December 2023
15 May 2024	Publication of results as at 31 March 2024
8 August 2024	Publication of results as at 30 June 2024
7 November 2024	Publication of results as at 30 September 2024

Imprint

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The German version shall be authoritative.



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Group**

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