

PRESS RELEASE

Aareal Bank Group posts positive results for the second quarter of 2020 as well, despite burdens of Covid-19 and a successful de-risking

- **Consolidated operating profit of € 2 million for the second quarter of 2020, despite the effects of Covid-19 and a one-off charge from the continued accelerated de-risking – the Bank was profitable after taxes as well (€ 9 million)**
- **Second-quarter loss allowance rose to € 48 million (Q2 2019: € 23 million), due to the effects of the Covid-19 pandemic, but not burdened by new loan defaults – comprising precautionary value adjustments as well as expenses for completed de-risking activities**
- **Net interest income for the second quarter on a par with the first quarter of 2020, despite the impact of the lockdown**
- **Noticeable increase in new property financing business, following the lockdowns during April and May – with markedly higher margins and lower LTV ratios**
- **Net commission income on a solid level: IT subsidiary Aareon posts a robust performance during the second quarter, showing persistent revenue momentum in the digital business**
- **Process for sale of a minority stake in Aareon progressing on schedule**
- **Full-year Group guidance affirmed: substantially positive consolidated operating profit remains achievable – expected in the medium to high double-digit million euro range**
- **CEO Hermann J. Merkens: “We have fared relatively well throughout the crisis – because we went into the crisis from a position of strength, and because we have taken effective steps – together with our clients – to limit the economic consequences for us.”**

Wiesbaden, 13 August 2020 – Aareal Bank Group has weathered the impact of the Covid-19 pandemic well so far, and posted positive results for the second quarter of the current financial year too. Consolidated operating profit (after the effects of Covid-19 and charges from the continued de-risking in Italy, as communicated at the end of July) amounted to € 2 million, after € 61 million in the same period of the previous year. Net income attributable to shareholders of Aareal Bank AG amounted to € 9 million, whilst net income allocated to ordinary shareholders was € 5 million (Q2 2019: € 37 million).

For Aareal Bank Group, the second quarter was shaped by the economic impact of the Covid-19 pandemic, as was the case for the entire financial services sector. Loss allowance increased to € 48 million (Q2 2019: € 23 million). This figure also includes the € 9 million burden on income from the continued de-risking of exposures in Italy, carried out in July but already recognised in second-quarter income. Remaining loss allowance was not burdened by new loan defaults, but reflects current measurement of loans and potential value adjustments of underlying properties, due to the crisis.

Aggregate burdens due to the Covid-19 pandemic totalled € 107 million during the first half of the year, affecting the items of loss allowance, net gain or loss from financial instruments (fvpl), and net other operating income/expenses. The impact of the crisis thus continues to remain at a manageable level for Aareal Bank. This not only reflects the high quality of the credit portfolio, but also the partnership approach which Aareal Bank pursues in order to cope with the crisis in the best possible manner, together with its clients. In this connection, the Bank reviewed its exposures across the

board, amending contractual agreements to clients' updated business plans. Clients and sponsors provided a significant portion of the required liquidity from their own resources. Concrete support measures were agreed upon with clients to a limited extent.

Aareal Bank will comply with the European Central Bank's renewed recommendation dated 28 July to institutions under its direct supervision – given persistent uncertainty on account of the Covid-19 pandemic – and will also refrain from paying out any dividends until January 2021. The Management Board and the Supervisory Board will carefully monitor further developments, and will re-assess the situation in due course.

New property finance business showed a marked recovery, following the lockdowns during April and May, totalling € 1.3 billion in the second quarter. New business volume for the first half of the year totalled € 2.7 billion, and was thus only slightly lower year-on-year (H1 2019: € 3.2 billion). At € 26.3 billion, portfolio volume as at 30 June was slightly above the level of the previous quarter; by the end of the financial year it is expected to be in the upper half of the € 26 billion - € 28 billion target range. At significantly more than 200 basis points (before and after currency effects), average gross margins on new business originated during the second quarter clearly exceeded projections – with very good LTV ratios, more than offsetting higher funding costs due to market developments.

Notwithstanding the challenges of the Covid-19 pandemic, Aareal Bank Group continued to persistently pursue its strategic initiatives during the second quarter – most importantly, the structured sales process for a minority stake in the IT subsidiary Aareon, as announced in May. The process is progressing on schedule, with high interest from potential buyers, as expected. Aareon continued to perform well in its operating business: despite a slight decline due to Covid-19, sales revenue for the first six months was higher than in the same period of the previous year, driven in particular by the business with digital solutions, which continued to show a very dynamic development. At € 26 million, adjusted EBITDA almost matched the previous year's level (H1 2019: €29 million), despite the burdens caused by Covid-19.

CEO Hermann J. Merkens summarised: "We have fared relatively well throughout the crisis – because we went into these challenging times from a position of strength, and because we have taken effective steps – together with our clients – to limit the economic consequences for us. We counter the uncertainty concerning the duration and progress of the crisis, which remains significant and has again increased recently, through close coverage of our clients and a forward-looking policy concerning loss allowance. Moreover, we were able to successfully continue the accelerated reduction of risk exposures which we embarked upon in the previous year – alongside our ambitious growth strategy for Aareon. Overall, we remain confident that in the currently very challenging circumstances, Aareal Bank Group will continue to hold its own, weathering the crisis in the coming months."

Notes to Group financial performance

Net interest income for the second quarter of 2020 was € 122 million (Q2 2019: € 134 million, Q1 2020: € 123 million). It totalled € 245 million (H1 2019: € 269 million) for the first six months of the financial year. The decline reflects the lower lending and securities portfolio (due to the successful accelerated de-risking exercise in 2019) as well as lower new business in the months affected by the Covid-19 lockdown.

Loss allowance amounted to € 48 million for the second quarter (Q2 2019: € 23 million), largely reflecting the negative economic effects associated with the Covid-19 pandemic, and € 106 million for the first half of the year (H1 2019: € 28 million). The figure for the second quarter did not include any charges for new loan defaults but, in particular, model-based loss allowance recognised as a so-called management overlay, as well as the effect of the de-risking activity carried out in July (€ 9 million), as communicated.

Net commission income totalled € 54 million (Q2 2019: € 57 million). At € 111 million, the figure for the first half of the year was on a par with the previous year's level (H1 2019: € 110 million), despite a slight decline due to Covid-19.

Net derecognition gain amounted to € 9 million for the second quarter (Q2 2019: € 11 million) and € 16 million for the first half of the year (H1 2019: € 27 million). It was largely due to market-driven effects from early loan repayments, as well as the positive impact of repurchases of liabilities, as part of improving secondary market liquidity and driven by investor demand.

The net loss from financial instruments (fvpl) and from hedge accounting totalled € -16 million (Q2 2019: € -7 million). The total figure for the first half-year was € -5 million (H1 2019: € -1 million). It resulted largely from value adjustments on defaulted property loans which are measured at fair value, and are thus shown in net gain or loss from financial instruments (fvpl).

Consolidated administrative expenses declined to € 109 million in the second quarter (Q2 2019: € 112 million), thanks to cost savings due to Covid-19 and despite higher expenses for Aareon's growth. The figure for the first half of the year was € 238 million (H1 2019: €256 million).

Net other operating income/expenses amounted to € -10 million in the second quarter as well as in the entire first half of the year (Q2 2019: € 1 million), reflecting an impairment of a property held by the Bank, due to Covid-19-induced effects.

Consolidated operating profit totalled € 2 million for the quarter under review (Q2 2019: € 61 million). Taking taxes of € -7 million into account (income taxes were positively influenced by the capitalisation of deferred taxes from unused loss carryforwards), consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 9 million (Q2 2019: € 41 million). Assuming the pro-rata accrual of net interest payable on the AT1 bond, consolidated net income allocated to ordinary shareholders amounted to € 5 million (Q2 2019: € 37 million).

Aareal Bank Group's consolidated operating profit for the first six months of the financial year totalled € 13 million (H1 2019: €122 million). Taking taxes of € -3 million into account and after deducting € 1 million in non-controlling interest income, and assumed pro-rata net interest payable on the AT1 bond of € 8 million, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 7 million (H1 2019: €72 million).

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

Aareal Bank remained very well-funded during the second quarter of 2020, maintaining a high liquidity status alongside well-diversified sources of funding. Aareal Bank Group placed € 0.5 billion on the capital market during the first half of 2020, comprising € 0.4 billion senior preferred and € 0.1 billion senior non-preferred issues. Given the very attractive funding terms, Aareal Bank also

participated in the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III), raising € 4.3 billion under this programme.

Aareal Bank continues to enjoy a very solid capital base. As at 30 June 2020, the Bank's Common Equity Tier 1 (CET1) ratio was 19.8%, which is comfortable on an international level, and the Total Capital Ratio was 29.5%. 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 14.2%.

Outlook affirmed: substantially positive results achievable, despite persistently high uncertainty

Besides the strategic measures and initiatives within the framework of "Aareal Next Level" (and especially the envisaged conclusion of a partnership with an investor for Aareon), Aareal Bank Group's focus during the second half 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.

Aareal Bank assumes a continued normalisation of global economic activity during the current year, with a marked acceleration of the recovery in 2021 and 2022. Based on this assumption and from today's point of view, Aareal Bank Group remains confident of achieving a substantially positive consolidated operating profit for the 2020 financial year, i.e. in the mid- to upper 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 clients, as well as prevailing unclear regulatory and accounting provisions, and the possibility that individual loan defaults cannot be reliably predicted. Further impacts from potential de-risking measures are also not included.

Note to editors: the full interim report as at 30 June 2020 is available at <http://www.aareal-bank.com/en/financialreports>.

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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. Aareon, a leading European consultancy and IT systems house for the European property industry and its partner 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 Jun 2020	1 Jan-30 Jun 2019
Results		
Operating profit (€ mn)	13	122
Consolidated net income (€ mn)	16	81
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	7	72
Cost/income ratio (%) ²⁾	58.6	56.9
Earnings per ordinary share (€) ¹⁾	0.11	1.20
RoE before taxes (%) ^{1) 3) 4)}	0.0	8.8
RoE after taxes (%) ^{1) 3) 4)}	0.5	5.7
	30/06/2020	31 Dec 2019
Statement of Financial Position		
Property finance (€ mn) ⁵⁾	25,571	25,882
Equity (€ mn)	2,847	2,861
Total assets (€ mn)	45,322	41,137
Regulatory Indicators⁶⁾		
Risk-weighted assets (€ mn)	11,702	11,195
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.8	19.6
Tier 1 ratio (T1 ratio) (%)	22.4	22.3
Total capital ratio (TC ratio) (%)	29.5	29.9
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (estimate) – ⁷⁾	14.2	13.5
Employees	2,903	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
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30 June 2020: including dividends for 2019 from the original proposal for the appropriation of profits and including interim profits for 2020, deducting 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 expected relevant impact of the TRIM exercise on commercial property financings, of the SREP recommendations concerning the NPL stock as well as the ECB's NPL guidelines for exposures newly classified as NPLs, were taken into account.

⁷⁾ 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 half-year (according to IFRSs)

	1 Jan-30 Jun 2020	1 Jan-30 Jun 2019	Change
	€ mn	€ mn	%
Net interest income	245	269	-9
Loss allowance	106	28	279
Net commission income	111	110	1
Net derecognition gain or loss	16	27	-41
Net gain or loss from financial instruments (fvpl)	-7	0	
Net gain or loss from hedge accounting	2	-1	-300
Net gain or loss from investments accounted for using the equity method	0	0	
Administrative expenses	238	256	-7
Net other operating income/expenses	-10	1	
Operating profit	13	122	-89
Income taxes	-3	41	-107
Consolidated net income	16	81	-80
Consolidated net income attributable to non-controlling interests	1	1	0
Consolidated net income attributable to shareholders of Aareal Bank AG	15	80	-81
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	15	80	-81
of which: allocated to ordinary shareholders	7	72	-90
of which: allocated to AT1 investors	8	8	
Earnings per ordinary share (€) ²⁾	0.11	1.20	-91
Earnings per AT1 unit (€) ³⁾	0.08	0.08	

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 Income Statement for the second quarter of (in accordance with IFRSs)

	Quarter 2 2020	Quarter 2 2019	Change
	€ mn	€ mn	%
Net interest income	122	134	-9
Loss allowance	48	23	109
Net commission income	54	57	-5
Net derecognition gain or loss	9	11	-18
Net gain or loss from financial instruments (fvpl)	-17	-6	183
Net gain or loss from hedge accounting	1	-1	-200
Net gain or loss from investments accounted for using the equity method	0	-	
Administrative expenses	109	112	-3
Net other operating income/expenses	-10	1	
Operating profit	2	61	-97
Income taxes	-7	20	-135
Consolidated net income	9	41	-78
Consolidated net income attributable to non-controlling interests	0	0	0
Consolidated net income attributable to shareholders of Aareal Bank AG	9	41	-78
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	9	41	-78
of which: allocated to ordinary shareholders	5	37	-86
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (in €) ²⁾	0.07	0.61	-89
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 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.

Segment results for the first half-year (according to IFRSs)

	Structured Property Financing		Consulting/ Services Bank		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan– 30 Jun 2020	1 Jan– 30 Jun 2019	1 Jan– 30 Jun 2020	1 Jan– 30 Jun 2019	1 Jan– 30 Jun 2020	1 Jan– 30 Jun 2019	1 Jan– 30 Jun 2020	1 Jan– 30 Jun 2019	1 Jan– 30 Jun 2020	1 Jan– 30 Jun 2019
€ mn										
Net interest income	226	276	20	-6	-1	-1	0	0	245	269
Loss allowance	106	28			0	0			106	28
Net commission income	3	4	12	10	102	101	-6	-5	111	110
Net derecognition gain or loss	16	27							16	27
Net gain or loss from financial instruments (fvpl)	-7	0	0		0				-7	0
Net gain or loss from hedge accounting	2	-1							2	-1
Net gain or loss from investments accounted for using the equity method					0	0			0	0
Administrative expenses	117	140	35	37	92	84	-6	-5	238	256
Net other operating income/expenses	-11	1	0	-1	1	1	0	0	-10	1
Operating profit	6	139	-3	-34	10	17	0	0	13	122
Income taxes	-5	47	-1	-11	3	5			-3	41
Consolidated net income	11	92	-2	-23	7	12	0	0	16	81
Consolidated net income attributable to non-controlling interests	0	0	0	0	1	1			1	1
Consolidated net income attributable to shareholders of Aareal BankAG	11	92	-2	-23	6	11	0	0	15	80
Allocated equity ¹⁾	1,809	1,878	194	194	42	42	466	389	2,511	2,503
RoE before taxes (%) ^{2) 3)}	-0.7	13.6	-2.8	-34.6	43.4	73.3			0.0	8.8

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 total equity as disclosed in the statement of financial position amounts to €192 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 from the second quarter
(in accordance with IFRSs)**

	Structured Property Financing		Consulting/ Services Bank		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 2 2020	Quarter 2 2019	Quarter 2 2020	Quarter 2 2019	Quarter 2 2020	Quarter 2 2019	Quarter 2 2020	Quarter 2 2019	Quarter 2 2020	Quarter 2 2019
€ mn										
Net interest income	113	138	10	-3	-1	-1	0	0	122	134
Loss allowance	48	23			0	0			48	23
Net commission income	1	2	7	6	49	52	-3	-3	54	57
Net derecognition gain or loss	9	11							9	11
Net gain or loss from financial instruments (fvpl)	-17	-6	0		0				-17	-6
Net gain or loss from hedge accounting	1	-1							1	-1
Net gain or loss from investments accounted for using the equity method					0				0	
Administrative expenses	49	53	17	19	46	43	-3	-3	109	112
Net other operating income/expenses	-11	1	0	-1	1	1	0	0	-10	1
Operating profit	-1	69	0	-17	3	9	0	0	2	61
Income taxes	-8	23	0	-6	1	3			-7	20
Consolidated net income	7	46	0	-11	2	6	0	0	9	41
Consolidated net income attributable to non-controlling interests	0	0	0	0	0	0			0	0
Consolidated net income attributable to shareholders of Aareal BankAG	7	46	0	-11	2	6	0	0	9	41