



Press Call H1 2023 results

10 August 2023

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100 Years Building
Your Tomorrow

Aareal
YOUR COMPETITIVE ADVANTAGE.

Highlights H1 2023

Strong increase in income ensures high level of operating resilience

 Robust 6M results matched previous years' level despite significant investments in the announced strategic measures and headwinds from US office market

 Strong operating resilience further improved

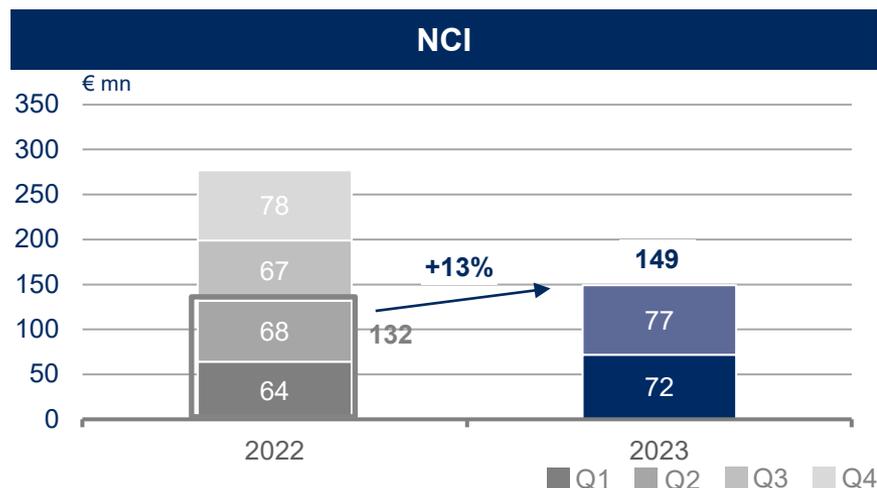
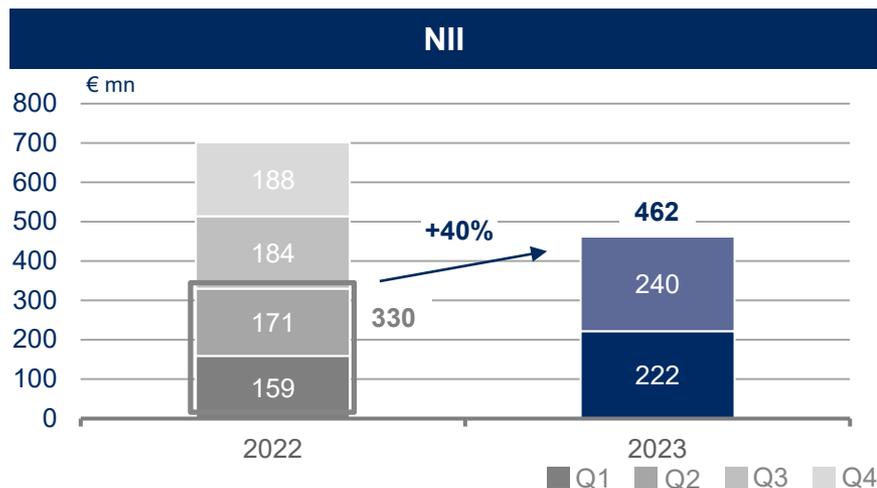
 Successful funding activities, deposit volume above plan, comfortable liquidity position

 Capital ratios stable at 19.4% despite portfolio growth and macro economic headwinds, above average results in recent ECB stress test

 **Outlook 2023**
Operating profit targets confirmed

Net interest income (NII) & Net commission income (NCI)

Significant increase in income reflecting strong operating performance



1) LTM = Last Twelve Months

Both segments contributed to increase

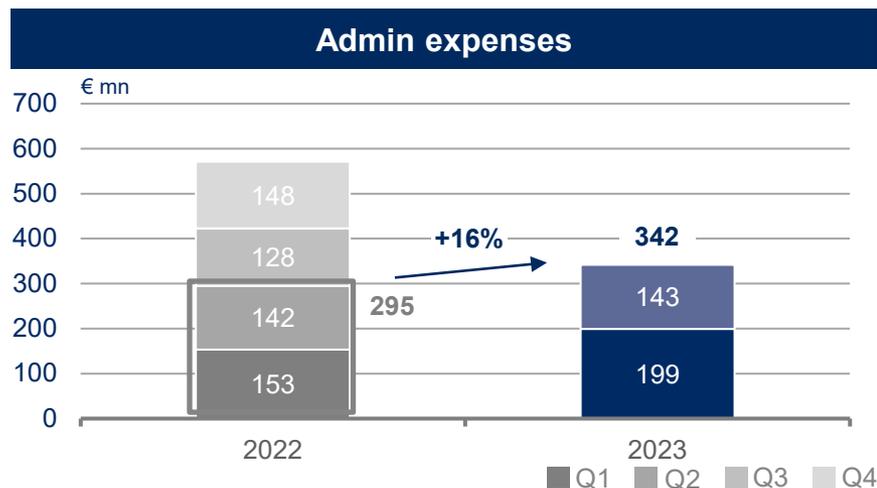
- SPF
 - NII increased to € 365 mn (6M/22: € 313 mn) supported by portfolio growth, good margins and diversified funding mix
 - ~80% of TLTRO repaid in Q4/22
- BDS
 - NII increased to € 111 mn (6M/22: € 23 mn)
 - Positive effects from rising interest rate environment
 - Deposits from housing industry above targeted level

Aareon and BDS continue to grow

- Aareon
 - NCI increased to € 137 mn (6M/22: € 119 mn) supported by healthy growth in recurring revenues
 - Recurring revenues increased to 76%¹⁾ of total revenues (6M/22: 73%¹⁾)
- BDS
 - NCI further increased to € 16 mn (6M/22: € 15 mn)
 - High share of recurring revenues

Admin expenses / Loan loss provisions (LLP)

Increase in admin expenses and LLP reflect significant investments in the announced strategic measures and headwinds from US office market



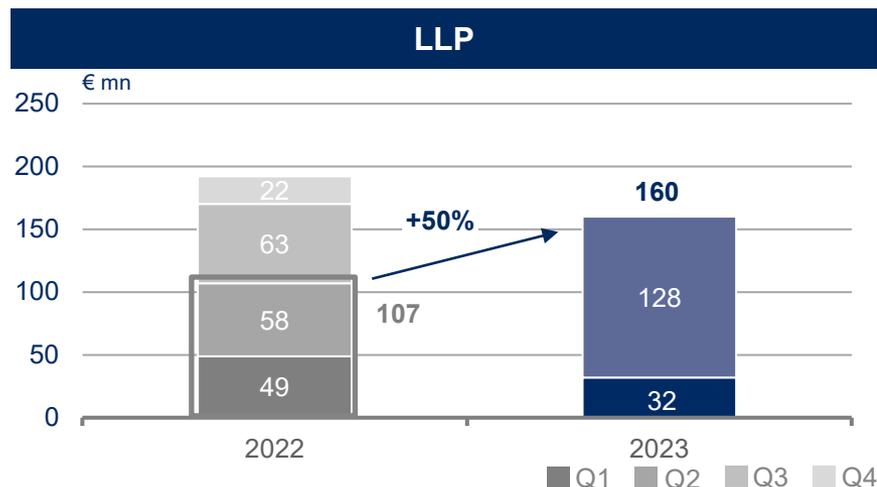
Bank expenses largely unchanged, Aareon expenses incl. almost € 60 mn for efficiency measures

Bank¹⁾

- Stable at € 172 mn (6M/22: € 183 mn, incl. PTO related one-off € 12 mn)
- H1/23 CIR²⁾ Bank at 32% (H1/22: 41%)

Aareon

- Expenses increased to € 175 mn (6M/22: € 118 mn) due to efficiency measures of almost € 60 mn and inorganic growth



Q2 LLP incl. € ~60 mn for swift NPL reduction

- € ~60 mn budget fully allocated
 - Thereof € ~35 mn for sale of Russian exposure
 - Further (legacy) NPLs prepared for resolution in H2
- Total 6M LLP at € 196 mn (incl. € 36 mn FVPL)

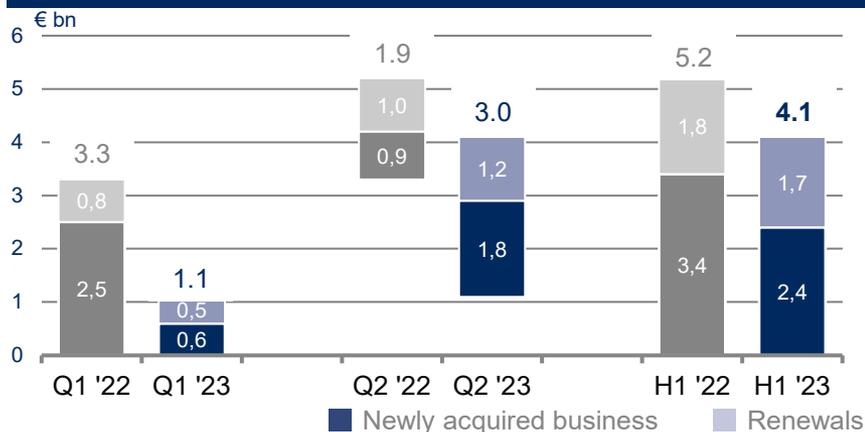
1) Segment SPF & BDS

2) Excl. bank levy/deposit guarantee scheme

Structured Property Financing (SPF)

Selective new business with good LTVs and margins above plan

New business by quarter



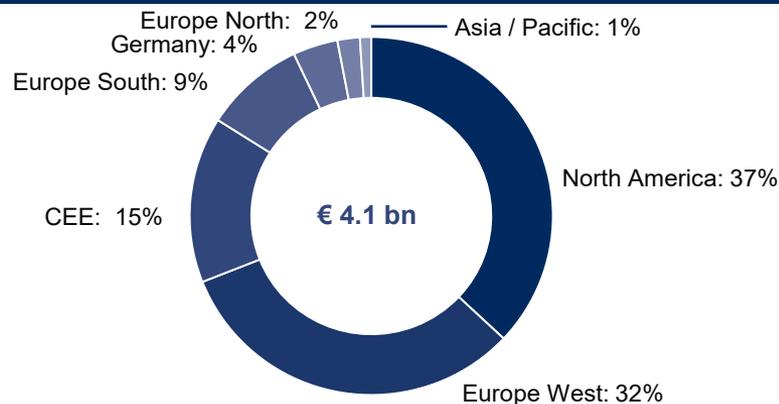
Selective new business

- Conservative avg. LTV of 53%¹⁾ (6M/22: 57%)
- Avg. margin of ~290 bps¹⁾ (6M/22: 227 bps) (FY plan 2023: 240-250 bps¹⁾)
- YE portfolio target for 2023 confirmed

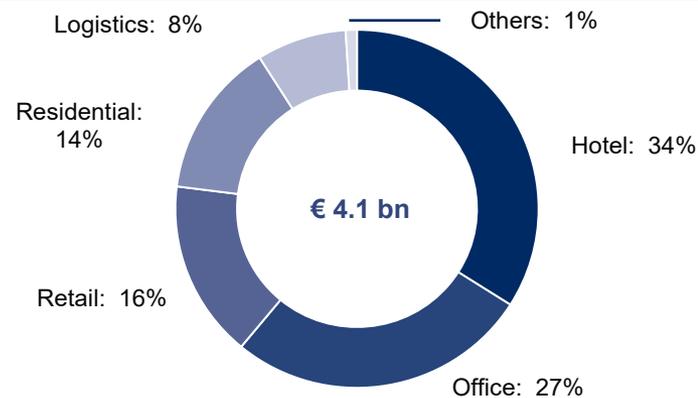
Additional € ~1.4 bn Green loans²⁾ in 6M/23

- € ~900 mn new business
- € ~500 mn eligible existing loans with clients' agreement converted

New business by country



New business by property type

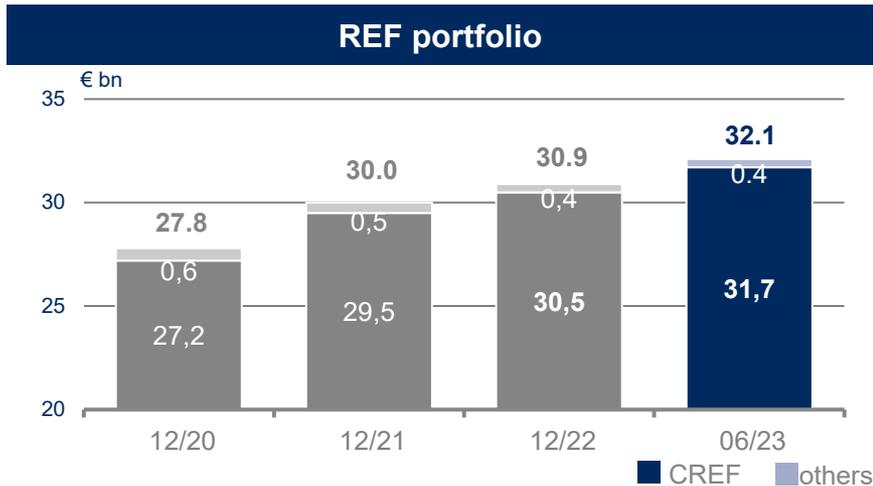


1) Newly acquired business

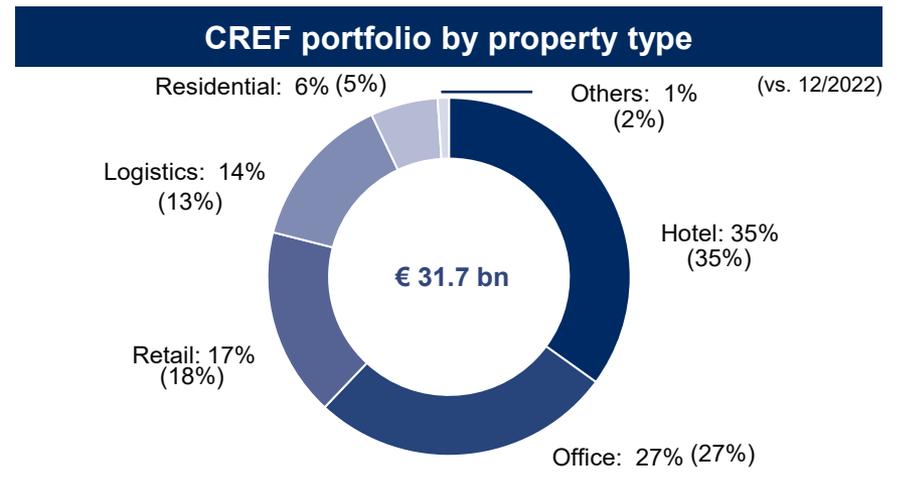
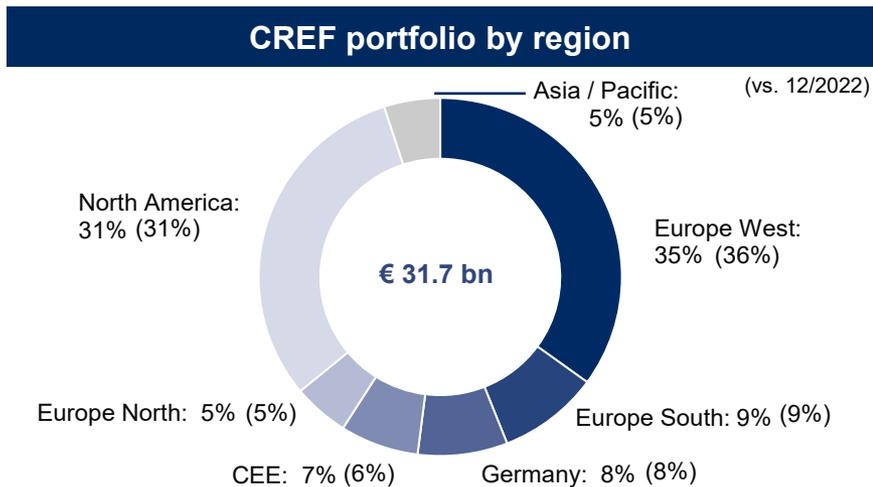
2) Governed by "Green Finance Framework"

Structured Property Financing (SPF)

Portfolio volume increased by selective new business



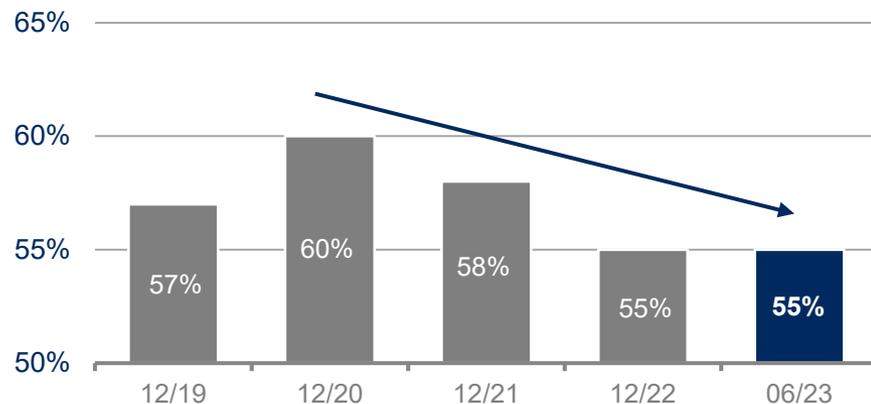
- Sticking to overall country and asset diversification
- YE portfolio target for 2023 of € 32 - 33 bn confirmed
- Virtually no financing of developments (< 1%) however, refurbishments to foster green transition
- Green loan volume at € 3.0 bn (06/22: € 1.5 bn)
- Green property financing portfolio at € 7.7 bn or 24% of total CREF portfolio



Structured Property Financing (SPF)

YoD further increased, stable LTV

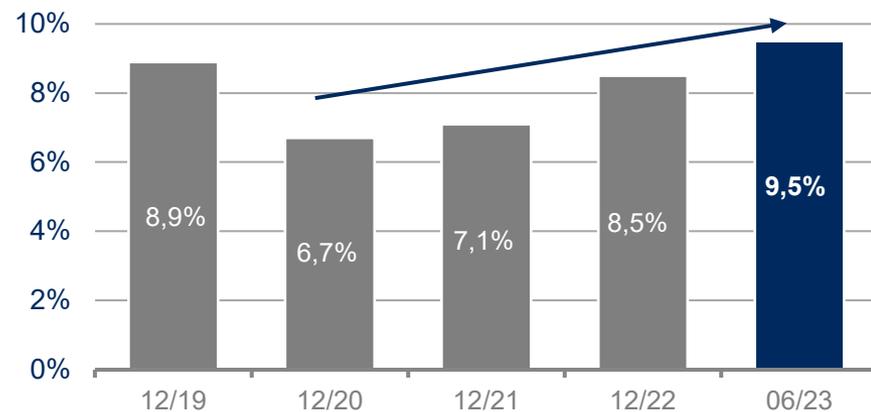
LTV¹⁾



LTV¹⁾ by property type

%	12 '19	12 '20	12 '21	12 '22	06 '23
Hotel	55	62	60	56	55
Logistics	54	56	55	52	53
Office	57	58	58	57	58
Retail	61	61	59	56	56

YoD¹⁾



YoD¹⁾ by property type

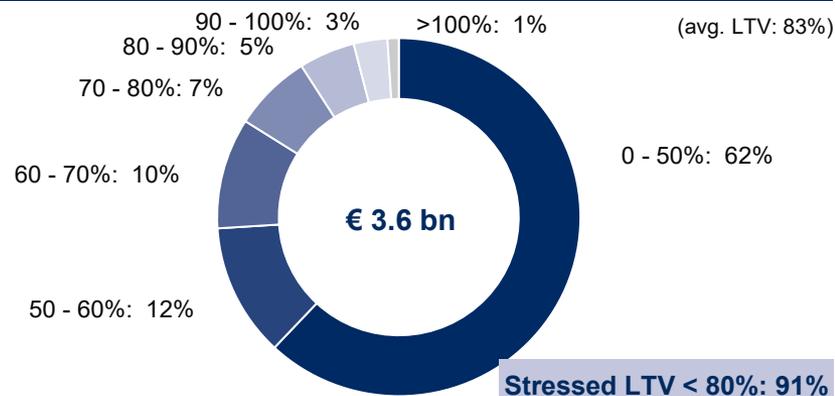
%	12 '19	12 '20	12 '21	12 '22	06 '23
Hotel	9.6	3.0	5.0	9.0	10.9
Logistics	8.5	9.2	8.7	9.0	9.2
Office	7.7	8.1	7.6	6.9	7.0
Retail	9.6	8.8	9.1	9.8	10.7

1) Performing CREF-portfolio only (exposure)

Structured Property Financing (SPF)

Update US office portfolio

Stressed (layered) LTVs¹⁾ – Market values down by 25%



Assumed market value decrease of ~20%

- Avg. / weighted assumed market value decrease in US office of ~15% (class A), ~40% (class B) and ~60% (class C) leads to an average decline ~35%
- This translates into an assumed ~20% decrease for Aareal's portfolio due to focus on prime markets

Portfolio stressed with 25% market value decrease

- Average LTV up to 83% (from ~62% YE 2022)
 - (Layered) LTV above 100%: 1% (< € 50 mn) of exposure
 - (Layered) LTV 80%-100%: 8% (< € 300 mn) of exposure
- Sound headroom even under stress assumptions

Total US office portfolio has been revalued in 2023

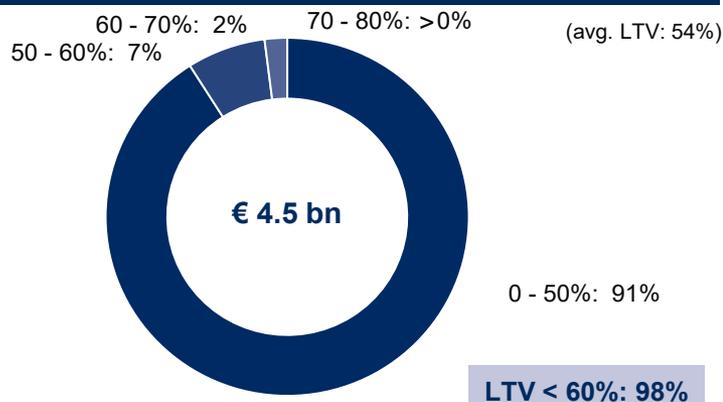
- Values of all US office loans reviewed in 2023, thereof ~50% by external appraiser
- External appraisals 2023:
 - Non-performing: Value decrease of 20 - 35%
→ Value decrease adequately considered in risk provisioning
 - Performing: Average value decrease of ~12%
→ Extrapolation to 100% of performing portfolio results in a pro-forma average LTV of ~70%
- Considering location & quality of the respective properties, value decreases are in general as expected and are comfortably within the headroom assumed in the stressed scenario

1) Performing CREF-portfolio only (exposure)

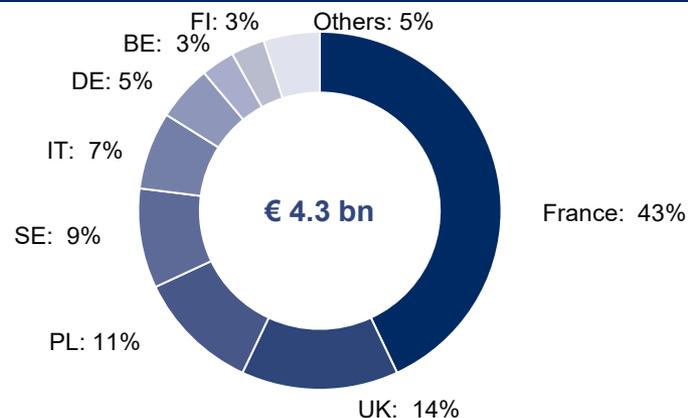
Structured Property Financing (SPF)

European office portfolio well positioned

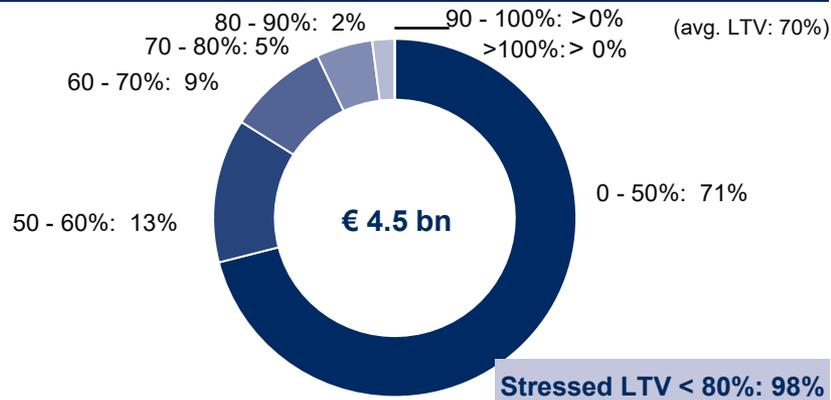
European office portfolio by (layered) LTVs¹⁾



European office portfolio by region



Stressed (layered) LTVs¹⁾ – Market values down by 25%



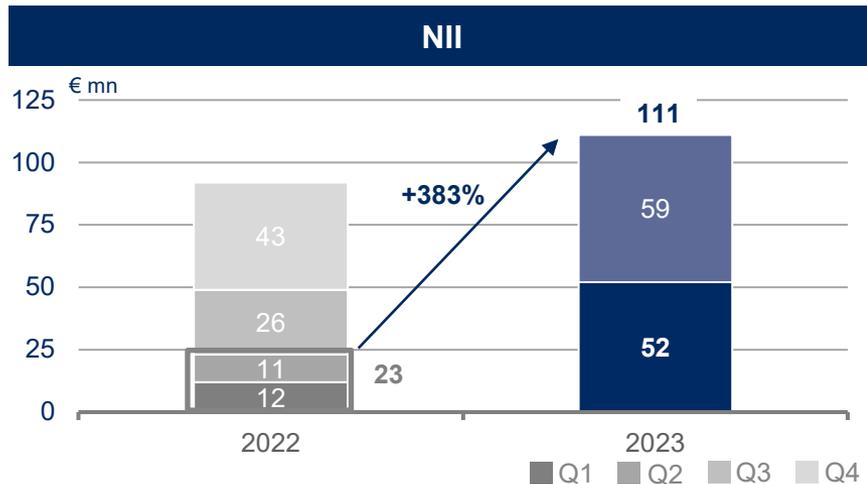
- France (Paris only) with high share of planned refurbishments into green assets (~1/3 of total French office portfolio)
- UK with 9 deals mainly in London area totalling € 0.6 bn
- Structural differences between Europe and US
 - Commuting generally takes longer in the US
 - More IT jobs in the US with more remote work
 - Lower vacancy rates in the Europe
 - Europe with tighter interest rate hedges

Note: others incl. countries with a portfolio below € 100 mn

1) Performing CREF-portfolio only (exposure)

Banking & Digital Solutions (BDS)

NII further benefitting from interest rate environment

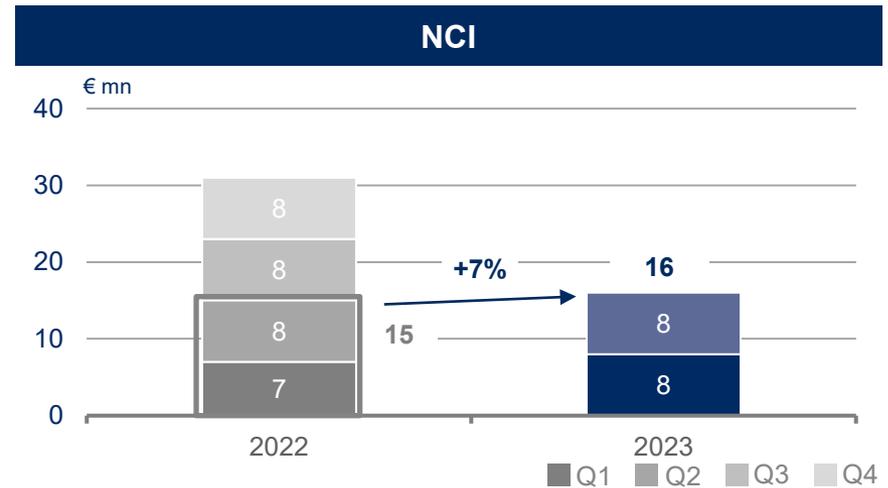
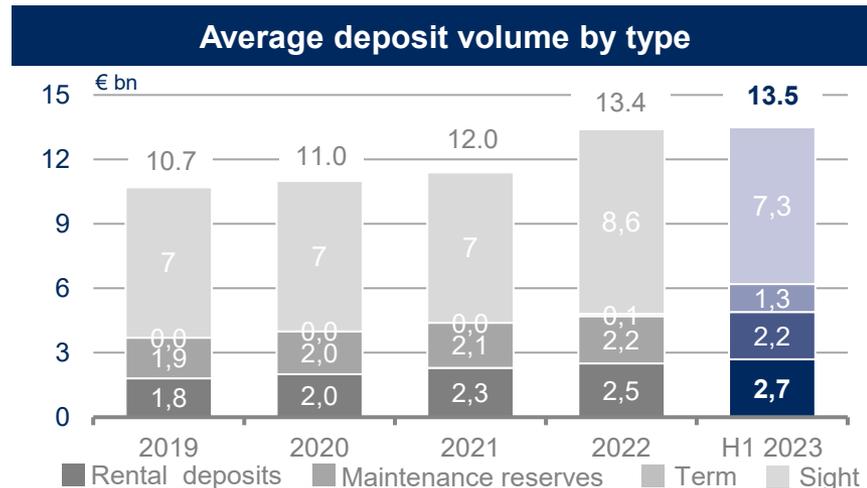


NII increase driven by rising interest rates

- Deposit volume above targeted level of € ~13 bn
- Granular deposit structure from more than 3,700 housing industry clients managing ~8 mn rental units
- Sticky rental deposits continuously growing
- Continuous shift from sight into term deposits

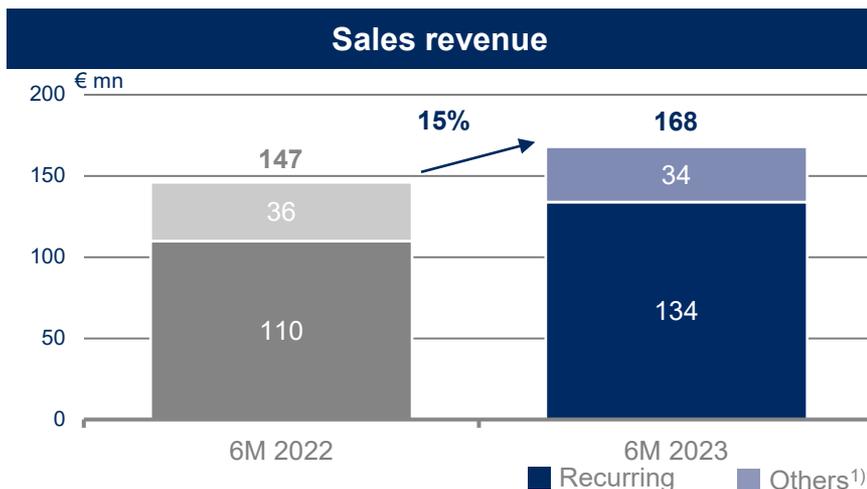
NCI increased as planned

- High share of recurring revenues (banking and software fees)
- New products and services providing growth potential



Aareon

Strong recurring revenue growth, adjusted EBITDA margin and cash generation improved by strategic and efficiency measures



- Overall, sales revenues increased by € 21 mn (+15%)
 - Recurring revenue grew by 21% (incl. SaaS)
 - Share of recurring increased to 76%²⁾ of total revenues (H1/22: 73%)
- Adj. EBITDA increased by € 7 mn to € 39 mn (+24%), adj. EBITDA margin increased to 23% (H1/22: 22%) leading to stronger cash position (Adjusted EBITDAC)
- Major activities in Q2/23:
 - Launch of partner program Aareon Connect in Germany, further increase to more than 20 partners and first customers via platform contracted
 - Continuation of efficiency measures started in Q1/23 with investment in workforce transformation, additional streamlining of UK product portfolio and further process efficiency measures
- Noticeable savings from investments already in H2 expected

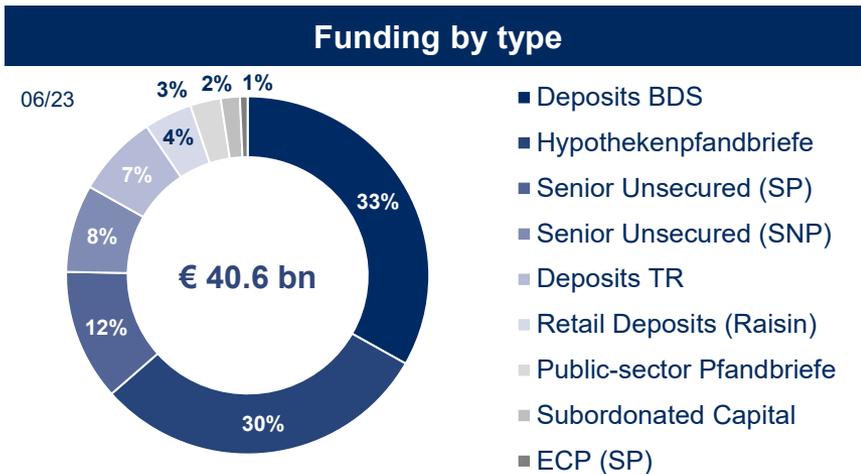
Note: Numbers not adding up refer to rounding

1) Other = Licenses and PS (Professional Services = Consulting business)

2) Last Twelve Months

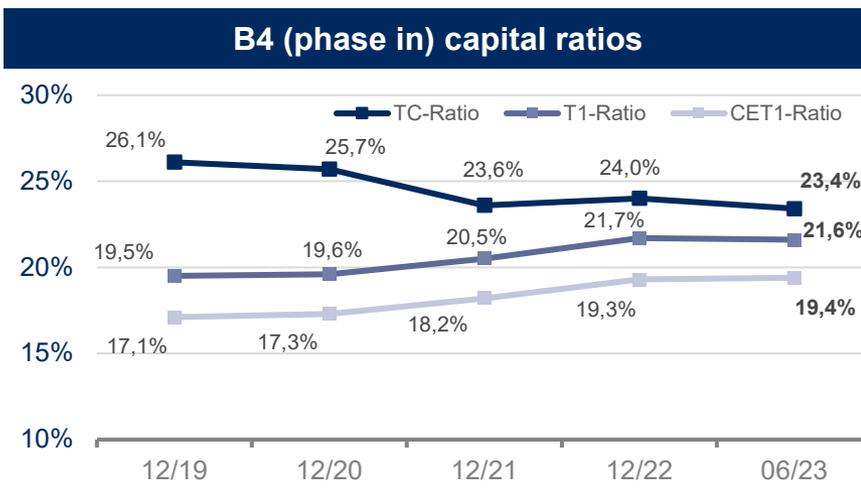
Funding & Capital

Well diversified Funding Mix, solid capital position



Successful 6M funding activities

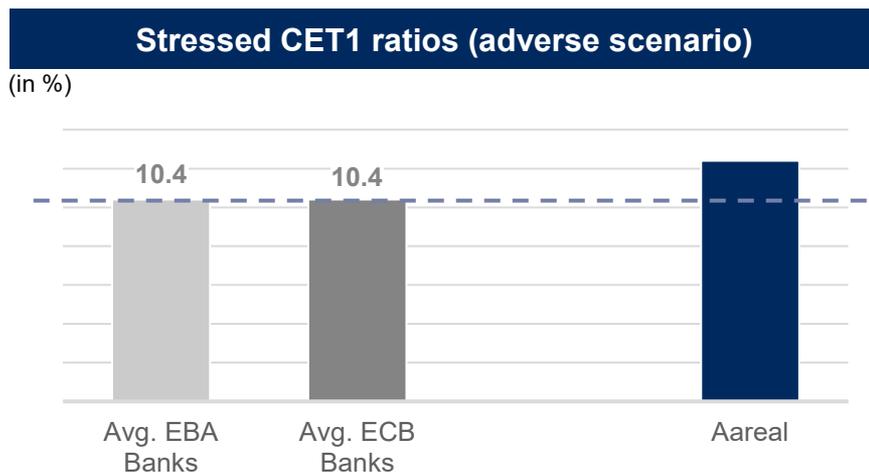
- Pfandbrief and Senior totaling € 2.3 bn incl.
 - 2 Pfandbrief Benchmarks (€ 1.5 bn) in Q1
 - € 500 mn Pfandbrief Benchmark in 07/2023
- Commercial Paper Program enables offering ECP in EUR, GBP & USD as well as in Green format
- Deposits from housing industry at avg. of € 13.5 bn above targeted level of € ~13 bn
- Retail (term) deposits by cooperating with Raisin / Weltsparen significantly increased to € 1.7 bn (12/22: € 0.6 bn)



- Stable CET1 ratio
- Positive effects from dividend retention after successful PTO closing compensate RWA increase from loan portfolio growth and macro economic headwinds
- B4 fully phased ratio at 13.4%
- T1-Leverage ratio at 6.2%

Stress Test 2023

Good Stress Test results demonstrating healthy risk profile and operating resilience



German CRE-lender	Sample	Min. CET1 ratio	Min. Leverage ratio
Bank A	SSM	CET1R \geq 14%	LR \geq 6%
Aareal Bank	SSM	11% \leq CET1R < 14%	4% \leq LR < 5%
Bank B	SSM	8% \leq CET1R < 11%	4% \leq LR < 5%
Bank C	EBA	8% \leq CET1R < 11%	LR < 4%
Bank D	EBA	8% \leq CET1R < 11%	LR < 4%
Bank E	EBA	8% \leq CET1R < 11%	LR < 4%
Bank F	EBA	8% \leq CET1R < 11%	LR < 4%
Bank G	EBA	CET1R < 8%	LR < 4%
Bank H	EBA	CET1R < 8%	LR < 4%

Risk driver stress test 2023

- Significant and abrupt price adjustment in the real estate market (approx. 30% discount) given a severe tightening in financing conditions and a weak economic outlook
- Tighter financing conditions, deteriorated economic activity and high levels of government debt raising sovereign debt sustainability concerns

Aareal Bank's Results

- Stressed CET1 ratio comfortably within 11-14% range above EBA / ECB (SSM) average (10.4%) and well above regulatory requirements
- Stressed leverage ratio above 4%
- **Good stress test results demonstrating healthy risk profile and operating resilience of Aareal Bank**

Outlook 2023

Operating profit targets confirmed

Group	METRIC	Previous OUTLOOK 2023	Current OUTLOOK 2023
	<ul style="list-style-type: none"> Net interest income Net commission income LLP¹⁾ Admin expenses 	<ul style="list-style-type: none"> € 730 - 770 mn € 315 - 335 mn € 170 - 210 mn incl. € 60 mn budget for a swift NPL reduction € 590 - 630 mn incl. € 35 mn budget for Aareon efficiency measures 	<ul style="list-style-type: none"> Above € 770 mn unchanged Above € 210 mn Upper end of guided range (add. Aareon efficiency measures)
<ul style="list-style-type: none"> Operating profit (adjusted) Operating profit Earnings per share (EPS) 	<ul style="list-style-type: none"> € ~350 mn € 240 - 280 mn € 2.40 - 2.80²⁾ 	<ul style="list-style-type: none"> ✓ Lower end ✓ Lower end 	
Developments in the macroeconomic environment remain uncertain			

Segments	METRIC	2022	Current OUTLOOK 2023
	Structured Property Financing	<ul style="list-style-type: none"> REF Portfolio New business 	<ul style="list-style-type: none"> € 30.9 bn € 8.9 bn
Banking & Digital Solutions	<ul style="list-style-type: none"> Deposit volume NCI 	<ul style="list-style-type: none"> € 13.4 bn € 31 mn 	<ul style="list-style-type: none"> € ~13 bn ~13% CAGR (2020-2023)
Aareon	<ul style="list-style-type: none"> Revenues Adj. EBITDA 	<ul style="list-style-type: none"> € 308 mn € 75 mn 	<ul style="list-style-type: none"> € 325 - 345 mn € 90 - 100 mn

1) Incl. value adjustments from NPL fvpl

2) Based on expected FY-tax ratio of ~33%

3) Subject to FX development

Key takeaways

Well equipped for the current challenges

✓ In the fourth year of uncertainty and geopolitical crisis, strong capital ratios and solidly funded

✓ Strong earnings power based on close customer relationships and active risk management

✓ Consistently implementing our strategy and further investing in our future and resilience

Appendix

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Aareal Bank Group

Results H1 2023

	01.01.- 30.06.2023	01.01.- 30.06.2022	Change
	€ mn	€ mn	
Profit and loss account			
Net interest income	462	330	40%
Loss allowance	160	107	50%
Net commission income	149	132	13%
Net derecognition gain or loss	12	22	-45%
Net gain or loss from financial instruments (fvpl)	-41	18	-328%
Net gain or loss on hedge accounting	0	-7	-100%
Net gain or loss from investments accounted for using the equity method	-	-2	-100%
Administrative expenses	342	295	16%
Net other operating income / expenses	7	0	
Operating Profit	87	91	-4%
Income taxes	29	33	-12%
Consolidated net income	58	58	0%
Consolidated net income attributable to non-controlling interests	-9	1	
Consolidated net income attributable to shareholders of Aareal Bank AG	67	57	18%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	67	57	18%
of which: allocated to ordinary shareholders	58	50	16%
of which: allocated to AT1 investors	9	7	29%
Earnings per ordinary share (in €) ²⁾	0.97	0.84	15%
Earnings per ordinary AT1 unit (in €) ³⁾	0.09	0.07	29%

- 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.

Aareal Bank Group

Results H1 2023 by segments

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 30.06. 2023	01.01.- 30.06. 2022	01.01.- 30.06. 2023	01.01.- 30.06. 2022	01.01.- 30.06. 2023	01.01.- 30.06. 2022	01.01.- 30.06. 2023	01.01.- 30.06. 2022	01.01.- 30.06. 2023	01.01.- 30.06. 2022
	€ mn									
Net interest income	365	313	111	23	-14	-6	0	0	462	330
Loss allowance	160	107	0	0	0	0			160	107
Net commission income	1	4	16	15	137	119	-5	-6	149	132
Net derecognition gain or loss	12	22							12	22
Net gain or loss from financial instruments (fvpl)	-41	18	0	0	0	0			-41	18
Net gain or loss on hedge accounting	0	-7							0	-7
Net gain or loss from investments accounted for using the equity method				-1		-1				-2
Administrative expenses	120	146	52	37	175	118	-5	-6	342	295
Net other operating income / expenses	7	-2	-1	-1	1	3	0	0	7	0
Operating profit	64	95	74	-1	-51	-3	0	0	87	91
Income taxes	25	34	23	0	-19	-1			29	33
Consolidated net income	39	61	51	-1	-32	-2	0	0	58	58
Allocation of results										
Cons. net income attributable to non-controlling interests	0	0	0	0	-9	1			-9	1
Cons. net income attributable to shareholders of Aareal Bank AG	39	61	51	-1	-23	-3	0	0	67	57

Aareal Bank Group

Preliminary results – quarter by quarter

	Structured Property Financing					Banking & Digital Solutions					Aareon					Consolidation / Reconciliation					Aareal Bank Group				
	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2
	2023			2022		2023			2022		2023			2022		2023			2022		2023			2022	
€ mn																									
Net interest income	189	176	152	162	163	59	52	43	26	11	-8	-6	-7	-4	-3	0	0	0	0	0	240	222	188	184	171
Loss allowance	128	32	22	63	58	0	0	0	0	0	0	0	0	0	0						128	32	22	63	58
Net commission income	1	0	1	1	2	8	8	8	8	8	70	67	72	61	61	-2	-3	-3	-3	-3	77	72	78	67	68
Net derecognition gain or loss	12	0	-23	2	13																12	0	-23	2	13
Net gain / loss from fin. instruments (fvpl)	-35	-6	4	4	12	0	0	0	0	0	0	0	0	0	0						-35	-6	4	4	12
Net gain or loss on hedge accounting	-4	4	4	1	-3																-4	4	4	1	-3
Net gain / loss from investments acc. for using the equity method			0						-1				0	0	-1								0	0	-2
Administrative expenses	46	74	60	54	61	20	32	25	17	19	79	96	66	60	65	-2	-3	-3	-3	-3	143	199	148	128	142
Net other operating income / expenses	7	0	-2	-2	1	-1	0	0	0	-1	0	1		1	2	0	0	0	0	0	6	1	1	-1	2
Operating profit	-4	68	54	51	69	46	28	26	17	-2	-17	-34	2	-2	-6	0	0	0	0	0	25	62	82	66	61
Income taxes	10	15	18	18	24	14	9	8	6	0	-15	-4	3	0	-2						9	20	29	24	22
Consolidated net income	-14	53	36	33	45	32	19	18	11	-2	-2	-30	-1	-2	-4	0	0	0	0	0	16	42	53	42	39
Cons. net income attributable to non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	-9	0	-1	0						0	-9	0	-1	0
Cons. net income attributable to ARL shareholders	-14	53	36	33	45	32	19	18	11	-2	-2	-21	-1	-1	-4	0	0	0	0	0	16	51	53	43	39

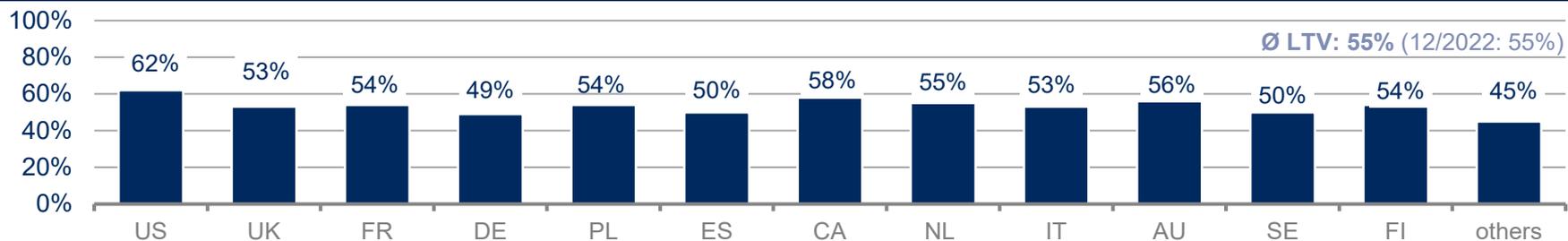
CREF portfolio by country

€ 31.7 bn highly diversified

CREF portfolio (€ mn)



LTV¹⁾



YoD¹⁾



Note: others incl. countries with a portfolio below € 500 mn

1) Performing CREF-portfolio only (exposure)

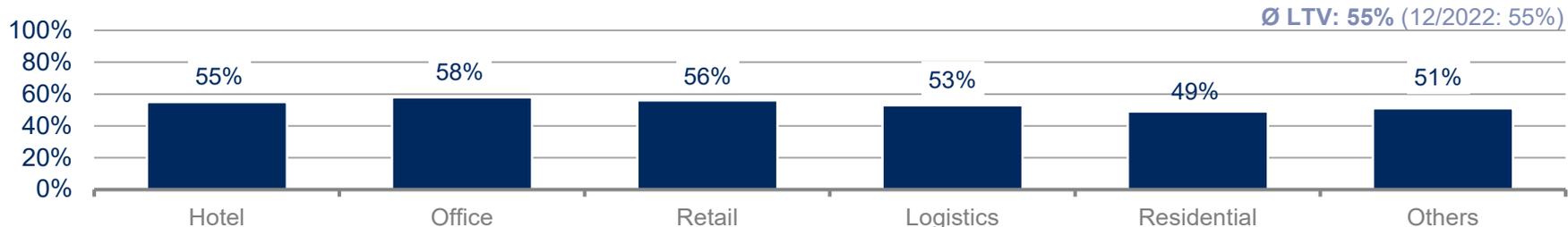
CREF portfolio by property types

€ 31.7 bn highly diversified

CREF portfolio (€ mn)



LTV¹⁾



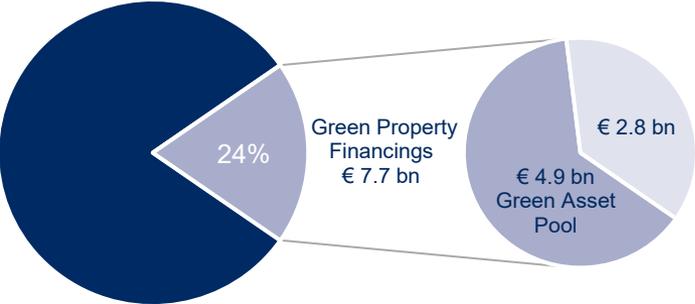
YoD¹⁾



1) Performing CREF-portfolio only (exposure)

ESG: 24% of CREF portfolio classified as Green Property Financings

CREF¹⁾ portfolio

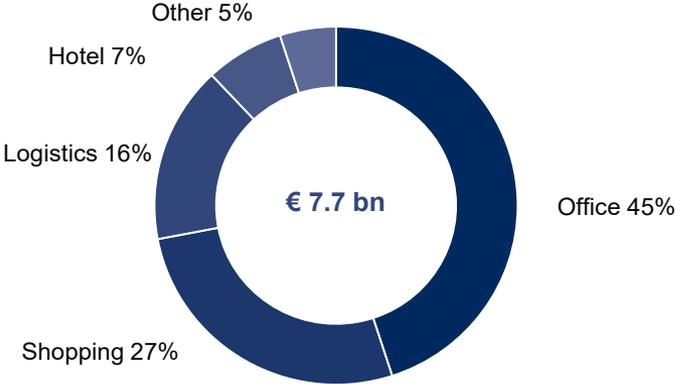


€ 7.7 bn¹⁾ (24%) of total CREF portfolio fulfilling Aareal’s Green Finance Framework and are classified as “Green Property Financings”, thereof

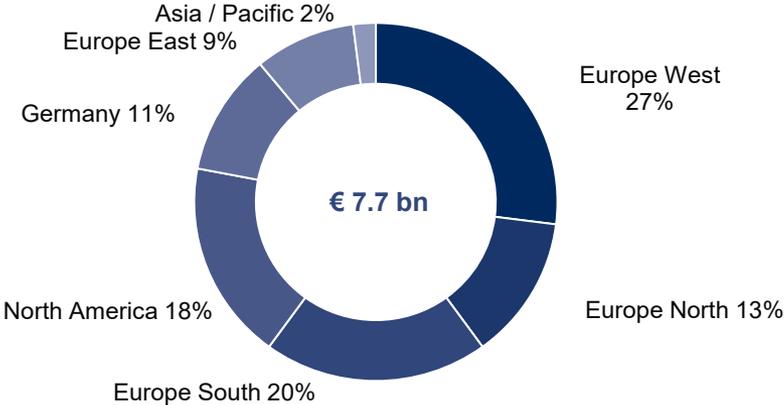
- € 4.9 bn included in green asset pool for underlying of Green bond issues
- € 2.8 bn green property financings mainly for technical reasons not (yet) included

■ CREF portfolio ■ Included in green asset pool ■ Not (yet) included

Green Property Financings²⁾ by property type



Green Property Financings²⁾ by region



1) CREF excl. business not directly collateralized by properties
Portfolio data as at 30.06.2023 – ESG Data as at 30.06.2023

2) Valid certificate is documented

Definitions

New Business	$\text{New business} = \text{Newly acquired business} + \text{renewals}$
Common Equity Tier 1 ratio	$\frac{\text{CET 1}}{\text{Risk weighted assets}}$
NPL ratio	$\frac{\text{NPL-exposure acc. CRR (excl. exposure in cure period)}}{\text{Total REF Portfolio}}$
CIR	$\frac{\text{Admin expenses (excl. bank levy, et al.)}}{\text{Net income}}$
Net income	Net interest income + Net commission income + Net derecognition gain or loss + Net gain or loss from financial instruments (fvpl) + Net gain or loss on hedge accounting + Net gain or loss from investments accounted for using the equity method + Net other operating income / expense
Net stable funding ratio	$\frac{\text{Available stable funding}}{\text{Required stable funding}}$
Liquidity coverage ratio	$\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}}$
Earnings per share	$\frac{\text{operating profit} \cdot / \cdot \text{income taxes} \cdot / \cdot \text{income/loss attributable to non controlling interests} \cdot / \cdot \text{net AT1 coupon}}{\text{Number of ordinary shares}}$
Yield on Debt	$\frac{\text{NOI} \times 100 \text{ (Net operating income, 12-months forward looking)}}{\text{Outstanding incl. prior/pari-passu loans (without developments)}}$
CREF-portfolio	Commercial real estate finance portfolio excl. private client business and WIB's public sector loans
REF-portfolio	Real estate finance portfolio incl. private client business and WIB's public sector loans

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