Interim Report Aareal Bank Group

1 January to
30 June 2024

Aareal

YOUR COMPETITIVE ADVANTAGE.

Key Indicators

	1 Jan – 30 Jun 2024	1 Jan – 30 Jun 2023
Results		
Operating profit from continuing operations (€ mn)	181	138
Consolidated net income from continuing operations (€ mn)	128	90
Consolidated net income (€ mn)	-8	58
Consolidated net income allocated to ordinary shareholders (€ mn)[1]	6	58
Cost/income ratio (%)[2]	33.8	32.3
Earnings per ordinary share from continuing operations (€)[1]	2.38	1.51
RoE before taxes from continuing operations (%)[1)3]	11.5	8.6
RoE after taxes from continuing operations (%)[1)3]	7.8	5.6

	30 Jun 2024	31 Dec 2023
Statement of Financial Position		
Property finance (€ mn)	32,568	32,876
Equity (€ mn)	3,281	3,300
Total assets (€ mn)	46,289	46,833
Regulatory Indicators from continuing operations[4]		
Basel IV (phase-in)		
Risk-weighted assets (€ bn)	13.7	13.7
Common Equity Tier 1 ratio (CET1 ratio) (%)	20.1	19.4
Tier 1 ratio (T1 ratio) (%)	22.3	21.6
Total capital ratio (TC ratio) (%)	24.0	23.5
Employees	3,462	3,463

	30 Jun 2024	31 Dec 2023
Moody's		
Issuer rating	Baa1	A3
Senior Preferred	Baa1	A3
Senior Non Preferred	Baa3	Baa2
Bank deposit rating	Baa1	A3
Outlook	stable	negative
Mortgage Pfandbrief Rating	Aaa	Aaa
Fitch Ratings[5]		
Issuer default rating	BBB	BBB
Senior Preferred	BBB+	BBB+
Senior Non Preferred	BBB	BBB
Deposit ratings	BBB+	BBB+
Outlook	stable	stable
Sustainability Ratings[6]		
MSCI	AA	AA
ISS-ESG	prime (C)	prime (C)
CDP	Management Level B	Management Level B

[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 Banking & Digital Solutions segments: in line with common practice in the banking sector, bank levy and contributions to the deposit guarantee scheme are not included.
[3] On an annualised basis; without taking into account income of non-controlling interests
[4] 31 December 2023: including profits for 2023 and pro rata temporis accrual of interest on the AT1 bond, since there are no plans to pay out any profits for 2023 in 2024. Regulatory indicators as at 31 December 2023 refer to the entire Group including Aareon.
30 June 2024 (preliminary): including interim results for 2024 less a proposed dividend and including pro rata temporis accrual of net interest on the AT1 bond. The CET1 ratio, determined as the higher of the amounts under Basel III and Basel IV (phase-in), as shown in Aareal Bank's regulatory report as at 30 June, is expected to be 19.3 %. The SREP recommendations concerning the NPL inventory were taken into account, as well as 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.
Adjusted total risk exposure amount (in accordance with Article 3 CRR – RWAs), in accordance with currently applicable law (CRR II) and applying the partial regulation for the "output floor" in connection with commercial property lending and equity exposures, based on the European Commission's final version for implementation of Basel IV (CRR III) on the Regulation 2024/1623 of 31 May 2024. The adjusted risk-weighted exposure amount for commercial property lending and equity exposures is determined using the higher of (i) total RWAs calculated in accordance with CRR II currently in force, and (ii) the figure calculated in accordance with the revised CRSA (pursuant to CRR III), applying the transitional provisions for 2025 (50% output floor).
[5] The ratings as at 31 December 2023 incorporate the most recent rating action on 14 February 2024.
[6] Please refer to our website (https://www.aareal-bank.com/en/responsibility/reporting-on-our-progress/) for more details.

This report contains rounded numbers, which may result in slight differences when aggregating figures and calculating percentages.

Contents

Interim Group Management Report

Report on the Economic Position

Macro-economic environment

Driven by a challenging environment and economic headwinds, the global economy put in a mixed performance in the first half of 2024 but recorded persistent growth. Economic output in the euro zone and in the UK recovered somewhat, following weak momentum in 2023. Previously strong growth in the US eased, but still continued to outpace Europe. Geopolitical tensions and risks remained prominent, clearly evidenced by the war in Ukraine and the armed conflicts in the Middle East. Although the major central banks maintained their restrictive monetary policy stance, the disinflation process faltered in many economies since the start of the year. This impacted the services sector in particular, where salary trends kept price pressure high. While many market players still anticipated timely and swift key rate cuts at the start of the year, these expectations were dashed, especially for the US, where economic and labour market data remained positive during the first half of the year. Interest rates and capital market yields remained elevated in this environment.

Economy

In the euro zone, real gross domestic product rose by 0.3 % in the first quarter compared to the previous quarter, followed by further growth of 0.3 % in the second quarter. All in all, economic output in the first half of 2024 was up 0.5 % on the same period of the previous year. A highly diverse growth pattern persisted in the euro zone due to differing economic structures and the respective importance of the manufacturing sector, the services sector and foreign trade. Among the largest euro zone countries, Spain recorded the greatest year-on-year increase in economic output in the first half of the year with 2.5 %, followed by France with 1.0 % and Italy with 0.8 %. In contrast, economic output in Germany shrank by 0.1 % year-on-year.

Economic developments also varied in selected non-euro zone EU member states. Real economic output increased by 0.4 % year-on-year in Czechia, by 0.7 % in Sweden and by 2.0 % in Poland.

Growth was slightly positive in the United Kingdom too, similar to the trend in the euro zone: at the end of the first half-year, real gross domestic product was 0.6 % higher than in the same period of the previous year. The manufacturing industry, in particular, showed a recovery, and even the long-flagging services sector picked up appreciably.

Economic output in the US rose by 2.9 % year-on-year by the middle of the year. Robust private domestic demand was largely based on a renewed increase in private consumption, principally as a result of strong employment growth and rising real income. There was also a marked increase in gross capital investments despite the tight financing conditions. Canada saw lower economic growth: at the end of the first six months, output was 0.3 % higher than in the same period of the previous year.

In the first half of 2024, persistently tight monetary policy weighed on economic growth in Australia, which hit the brakes on private consumption, among other things. At the same time, there was a significant increase in both imports and exports. Overall, economic output in the first six months of the year rose by 1.1 % compared to the same period of the previous year.

Labour markets in many economies continued to be characterised by low unemployment rates and strong labour demand, which led to growth in real income and higher private consumption. In many markets, the unemployment rates remained close to or at their historical lows. For example, the unemployment rate in the euro zone was 6.4 % at the end of the first half of 2024 and 4.1 % in the US.

Financial and capital markets, monetary policy and inflation

Financial markets remained focused on stubbornly high inflation rates and continued monetary policy tightening. Although expectations at the start of the year were for earlier and rapid key rate cuts, market participants gradually abandoned this stance, postponing such hopes in view of improved economic data, especially in the US. In this environment, long-term interest rates rose, while risky assets benefited from investors' growing risk appetite and stable revenue developments in the corporate world.

Throughout the first half of 2024, the European Central Bank (ECB) retained a restrictive monetary policy to ensure that inflation will return to its mid-term target of 2 %. Having held key rates unchanged for nine months, the ECB's Governing Council considered it reasonable in June to reduce the degree of monetary policy tightening. It based its decision on the observed underlying inflation dynamics and a fresh assessment of the inflation outlook. Key interest rates were thus lowered to 4.25 % (main refinancing operations), 4.50 % (marginal lending facility) and 3.75 % (deposit facility) at the end of the first half of the year, with the Council reiterating key interest rates would remain at restrictive levels for as long as necessary, depending on available data. Securities held under the asset purchase programme (APP) continued to be reduced at a measured pace. During the first half of the year, the ECB continued to fully reinvest the principal repayments from maturing securities bought under the pandemic emergency purchase programme (PEPP). Reinvestments will be reduced for the second half of the year, and discontinued by the end of 2024. In addition, the PEPP portfolio is to be reduced by € 7.5 billion every month in the second half of the year. The Transmission Protection Instrument also allows the ECB to counter market dynamics that it deems to be unwarranted and disorderly.

In response to declining inflation since 2023 (but still remaining above 2 %) and a persistently strong labour market, the US Federal Reserve (Fed) kept its federal funds rate constant in a range of 5.25 % to 5.50 % in the first half of the year, contrary to what many market participants had anticipated. The Fed also stated that it would not consider it appropriate to reduce the target range until it is more confident that inflation is moving sustainably towards the 2 % target. It also emphasised that it would be prepared to adjust the stance of monetary policy, if risks emerge that could impede attainment of the targets. The Fed continued to reduce its holdings of Treasury bonds and mortgage-backed securities. However, it eased the pace of the reduction from June onwards by lowering the monthly cap for redeeming Treasury bonds to USD 25 billion.

The Bank of England (BoE) also maintained its restrictive monetary policy in the first half of 2024 and kept key UK interest rates unchanged at 5.25 %. The BoE highlighted the necessity for a continued restrictive monetary policy to sustainably return inflation to the 2 % target. This strategy was already communicated (and followed) since last autumn to reduce the risk of above-target inflation. It also reduced its holdings of government bonds, as announced, and (since April) no longer holds any corporate bonds.

Other important central banks also kept their key interest rates at restrictive levels, although some went on to lower them. The Bank of Canada, for example, kept its interest rate at 5.00 % until June before reducing it then to 4.75 %. Sweden's Riksbank had already lowered its interest rate to 3.75 % in May, whilst the Swiss Central Bank has cut rates twice this year, to 1.25 %. Meanwhile, the Reserve Bank of Australia kept its interest rate constant at 4.35 %.

Short-term interest rates[1)] in the euro area for the US dollar and Swedish krona at the end of the first half of 2024 were below the year-end 2023 level, whilst remaining stable for pound sterling and rising marginally for the Australian dollar. Long-term interest rate levels[2)] rose uniformly. Pound sterling rates posted the greatest increase with up to 60 basis points compared with the start of the year. Price performances for ten-year government bonds showed a uniform picture as well, with higher yields in evidence.

In the first half of 2024, differing economic conditions led to diverging inflation developments, with some of the target rates set by the central banks being significantly exceeded. Euro area inflation fell slightly at the start of the year before stabilising, although the decline in core inflation was somewhat more pronounced. This decline was caused by weaker goods inflation and a slowdown in service sector price increases. In contrast, a robust economy kept overall inflation high and 2023's disinflationary trend could not be sustained. This was attributable, among other things, to rising housing costs and continued pronounced inflation dynamics in the services sector, reinforced by the positive scenario on the labour market. While a slight deflationary trend was seen for the price of goods, the strong rise in employment and a low unemployment rate drove up demand and therefore the price of services. At the end of the first half of the year, euro zone inflation was 2.5 % compared to the same period of the previous year. It was 3.0 % in the US and 2.0% in the United Kingdom.

1) Calculated on the basis of 3-month Euribor, LIBOR or other comparable rates for other currencies
2) Calculated on the basis of swaps in the respective currencies

Regulatory environment

The environment in which banks are operating continues to be defined by highly dynamic regulatory requirements, as well as by changes in banking supervision. This includes, in particular, the EU Banking Package which stipulates implementation of the final draft of the Basel III framework into EU law (known as Basel IV), as resolved by the Basel Committee (BCBS). The final Regulation (CRR III) and directive (CRD VI) of the EU Banking Package were published in the EU Official Journal on 19 June 2024 and came into effect on 9 July 2024. Meanwhile, the European Banking Authority (EBA), following its roadmap, is working in 2024 on implementing its mandates to prepare technical standards, which serve to further develop and specify the rules and provisions. The first-time application of the new regulations most relevant for the Bank is scheduled for 1 January 2025 – two years later than initially planned by the BCBS.

New reporting on interest rate risk in the banking book will complement existing CoRep reporting. The first reference date for the application of these reporting requirements is 30 September 2024. The supervisory authorities accelerated these requirements through ad-hoc reports for the reporting dates 31 December 2023, 31 March 2024 and 30 June 2024.

On 29 May 2024, BaFin published the final version of the eighth MaRisk amendment for implementing the EBA guidelines for the management of interest rate risks and credit spread risks. The transition period for implementing the changes resulting from the new requirements runs until 31 December 2024.

Moreover, both national and European regulators are imposing various new requirements – including in connection with IT/information security risks, or regarding the prevention of money laundering/terrorist financing and tax evasion. Furthermore, politicians and banking supervisors are deeming it necessary to establish sustainability more strongly within society, and as a regulatory requirement within the economy. To this end, a standard taxonomy was introduced in the EU, which provides the basis for the classification of economic activities with regard to sustainability targets. The taxonomy forms the basis for a large number of disclosure requirements for financial and non-financial entities. Disclosure requirements for the 2024 financial year will also increase due to the first-time application of the Corporate Sustainability Reporting Directive (CSRD). In addition, the number of data points to be published in 2024 will increase due to the requirement for large capital market-oriented institutions to include qualitative and quantitative information on ESG risks in the regulatory disclosure report on a half-yearly basis, as stipulated by the CRR II.

The ECB's Supervisory Review and Evaluation Process (SREP) ensures a common approach on the supervisory review of banks, within the framework of Pillar 2. The SREP is built around a business model analysis, an assessment of governance, as well as of the capital and liquidity risks. Results from the individual areas are aggregated in a score value from which the ECB derives supervisory measures on holding additional capital and/or additional liquidity buffers.

The EU also adopted a package of measures to overhaul its anti-money laundering and countering of terrorist financing frameworks. Aside from a new EU regulation and the revision of current EU directives, it stipulates the creation of a new European anti-money laundering and terrorist financing authority, which is to be established by 2025. Final resolutions about the foundation of this authority and its general responsibilities were already passed in December 2023. The remaining elements of the package were published in the EU Official Journal as at 19 June 2024 and include, among other things, an implementation period of three years, or sometimes shorter as the establishing authorities have to publish detailed standards. Aareal Bank's resulting need for adjustments is currently being analysed and processed within the relevant implementation deadlines.

Sector-specific and business developments

Structured Property Financing segment

Commercial property transactions during the first half of 2024 continued to be heavily influenced by more restrictive lending standards and the higher cost of capital. A general liquidity decline in the property markets and uncertainty concerning the emerging but slow economic recovery in many economies continue to weigh on the market. Overall, the persistent differences in price expectations between buyers and sellers and the continued high level of interest rates pose the most significant obstacles to business activity.

This development reflects the continuing challenge of stabilising the market following the phase of low interest rates that fuelled the property boom after the global financial crisis.

Global transaction volumes in the first half of the year were down by around 11 % compared to the same period of the previous year, but there were signs of the falling transaction activity bottoming out. Only minor differences were observed in relative development regionally: volumes were down by 8 % in Europe while the declines in the Asia/Pacific region and North America were only slightly more pronounced, at -11 % and -14 % respectively. In terms of property types, the transaction volume of hotel property worldwide increased but fewer office, logistics and retail properties changed hands.

The general picture was one of reticence on the part of investors, accompanied by continued difficulty in reaching price agreement. Renewed increases in transaction yields were seen across many markets and property types, whereby the increases were significantly lower year-on-year in quantitative terms as well as relative to the number of markets in which they were observed. Accordingly, the valuation of commercial property remained under pressure in these markets, although a bottom was either emerging or had already been reached, depending on the market and property type. Greater restraint among investors continued to impact office property. This is due to the transition to hybrid working models, which has caused uncertainty among potential buyers. The current correction in prices and values means that many owners are confronted with unrealised losses and few incentives to sell their properties, creating difficulties for the market in the pricing process. Lenders focused their interest primarily on residential and logistics properties, food stores, as well as on high-quality office properties in preferred locations. Properties that are easy to re-let and with sustainable characteristics remained in demand.

Aareal Bank generated new business of € 3.1 billion[1] in the first half of the year (H1 2023: € 4.1 billion). Following a restrained start into the year, new business picked up, especially in the second quarter. Newly-originated loans totalled € 1.8 billion during the first half of the year (H1 2023: € 2.4 billion). Aareal Bank concluded new green financing business of around € 0.9 billion during the first six months; the portfolio volume of green financings rose by a total of € 1.1 billion to approximately € 5.9 billion. In this context, it should be noted that changes to the portfolio volume can also result from existing clients issuing the required undertaking and related certificates for the first time, or from other financings losing their status as green instruments. Green loans meet the minimum energy efficiency requirements of the Aareal Green Finance Framework and the client undertakes to meet these requirements throughout the term of the loan. Properties are classified as green if they adhere to the EU taxonomy criteria, have an above-average sustainability rating by recognised rating agencies or comply with energy efficiency criteria.

At around 77 %, the highest proportion of the new business volume was generated in Europe (H1 2023: 62 %), followed by North America at 23 % (H1 2023: 37 %). No new business was entered into in the Asia/Pacific region during the first half of 2024 (H1 2023: 1 %).[2]

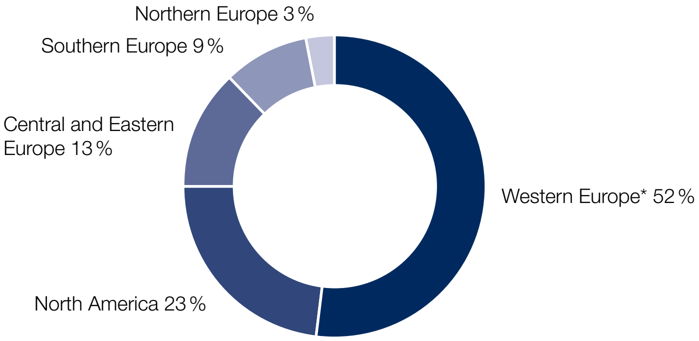
In terms of property type, around 37 % of new business was attributable to office properties. Hotel properties accounted for 35 %, followed by retail properties with 14 %, logistics properties with 9 % and residential with a share of 5 %. Newly-originated loans centred around office properties which accounted for 32 %, concentrated on Europe. Hotel properties accounted for 28 %, followed by retail and logistics properties with 16 % each. Residential property accounted for an 8 % share of the business.

[1] New business, excluding former WestImmo's private client business and local authority lending business.
[2] New business is allocated to the individual regions on the basis of the location of the property used as collateral. For exposures not collateralised by property, allocation is based on the borrower's country of domicile.

New business[1] 1 Jan – 30 Jun 2024

by region, (%)

Total volume: € 3.1 bn



* Incl. Germany

[1] New business, excluding former WestImmo's private client business and local authority lending business

Europe

Transaction volumes in Europe were around 8 % lower year-on-year in the first half of 2024, with individual markets in the region showing significant differences: volumes in Spain, Italy and Poland increased while Sweden, Germany and France saw volumes decline. Volumes in the UK were stable. In terms of property type, hotel properties reported strong growth, while other property types experienced declines.

Average rents in the prime office property segment remained stable during the first half of 2024, while certain sub-markets, such as Munich and London, also saw rent increases. Whilst vacancy rates increased slightly on average, they showed a mixed picture overall: for example, vacancy rates rose in Stockholm and in all relevant German cities (with the exception of Berlin), but decreased in Rome. Retail property rents also remained stable in most markets; this applied to shopping centres as well as to high-street shops. Unlike the developments in recent years, prime rents for logistics properties did not rise again noticeably, but remained stable on average. However, rents in individual sub-markets continued to increase at a greater pace and benefited from ongoing strong demand. All in all, vacancy rates remained low, even though there is evidence that these are rising too.

Following significant increases in previous years, average prime rents for office properties rose at a much slower pace in the first half of 2024. They were stable in many sub-markets whilst continuing to post more marked increases in some French and Italian cities. The picture was largely the same in secondary locations as well. The upward trend in average yields for logistics properties also continued. On average, however, increases compared to the start of the year have been only marginal and rents are stable in many places. In contrast, the increase in yields in some French and Polish sub-markets has been somewhat stronger.

Looking at retail properties, prime yields for both shopping centres and high-street properties remained stable on a European average, which was essentially reflected in secondary locations as well. Increases were reported in Stockholm and Milan.

Travel activity in Europe remained dynamic in the first half of 2024, supported by the growth in disposable income and rising consumer spending. Current data show that longer trips were undertaken, especially international trips as part of the slow travel trend, where the focus is on fewer but longer stays and spending more per trip. The hotel sector continued to be impacted by a shortage of staff, while the increase in business travel was supportive. The volume of overnight visits exceeded that of the previous year in almost all European countries. In this environment, occupancy rates and revenues per available room in European hotel properties increased (for the most part) during the first half of 2024 versus the same period last year. Very significant increases were seen in the Spanish hotel market.

Aareal Bank generated new business of € 2.4 billion in Europe in the first half of the year (H1 2023: € 2.6 billion), most of which was in Western Europe with a focus on the United Kingdom. This was followed by – in descending order – Central and Eastern, Southern, and Northern Europe.

North America

Transaction volumes in North America were down by around 14 % in the first half of 2024 compared with the corresponding period of the previous year. However, momentum is pointing towards an improvement in the market as the decline eases in transaction volumes and in the number of transferred properties. Office properties saw rising volumes whereas volumes for other types of property declined.

Rents offered for prime and secondary office properties in major US cities remained stable in the first half of 2024. This was also true for relevant sub-markets such as New York City or Chicago, as well as San Francisco. However, rental price stability continues to be associated with a high level of incentives for new tenants, for example, in the form of rent-free periods. Vacancy rates for US office properties rose during the first half-year from 13.4 % to 13.9 %, continuing the trend of recent years. The fact that average shopping mall rents in the US remained stable across the country in the first half of the year was also largely reflected in the metropolitan areas relevant to Aareal Bank. The positive development of average rents in Dallas were an exception. Unlike the sharp increase in the prior-year period, average rents of logistics properties rose only moderately in the first half of the year. While some sub-markets continued to report marked rent increases, there was an increase in the number of sub-markets in which rents stabilised.

Since the start of the year, yields for office properties in prime and secondary markets were up only slightly, both on a national average and in all relevant sub-markets. This contrasts with the more substantial increases seen in the same period of the previous year. Increases were similar in prime and secondary markets, but different across sub-markets, with Chicago and San Francisco registering the strongest growth. Yields for retail properties remained largely stable vis-à-vis the start of the year. Similarly, average yields for logistics properties were largely unchanged in the first half of the year.

In the first half of the year, hotel properties in North America continued to experience ongoing demand from domestic and international tourists alike. In the US, revenues in the luxury and upper upscale category increased on average, while occupancy rates continued to rise, despite the first signs of a plateau following the strong growth of recent years. Overall, this led to solid but slow growth in revenue per available room versus the same period last year. The picture was similar for the entire market, which encompasses all hotel categories, although the average occupancy rate did not increase any further. In Canada, the development of revenue per available room in the first half of 2024 was slightly more positive that in the US.

For the North American region, new business of € 0.7 billion (H1 2023: € 1.5 billion) was originated both in Canada and the US. The volume of new business in office properties was insignificant and only generated in connection with existing financing arrangements.

Asia/Pacific

Transaction volumes for commercial property in the Asia/Pacific region were around 11 % in the first half of 2024 compared to the same period of the previous year. In Australia, however, volumes rose strongly, by 22 %. In the Australian market, only hotel properties saw transaction volumes decline year-on-year.

Prime rents for Australian logistics properties continued their year-on-year upward trajectory of recent years in the first half of the year. The metropolitan areas of Perth and Melbourne recorded a particularly marked increase. At the same time, yields remained largely unchanged year-on-year, with Perth being the only city to record an increase of 25 basis points.

Hotel performance in the Asia/Pacific area was defined in the first half of 2024 by high costs for international flights, in particular for long-haul routes, as well as a still-tentative return of the Chinese tourist. Nonetheless, both occupancy rates and revenues increased in most markets, reflecting the ongoing recovery in international tourism. However, it will likely take until around 2025 for long-haul tourism to return to pre-pandemic levels. The main drivers of the development remained short-haul visits and domestic travellers. In this context, the Maldives again recorded a significant increase in visitor numbers. Overall, tourists to the Maldives numbered around 930,000 by the middle of the year, after about 850,000 in the same period of 2023. Occupancy rates and revenues per available room in the key Australian markets increased year-on-year. In contrast, average revenues per available room were down slightly in New Zealand's hotels due to lower room rates. Ratios were largely unchanged year-on-year for hotels in the Maldives.

Aareal Bank originated no new business in the Asia/Pacific area in the first half of the year (H1 2023: € 35 million).

Banking & Digital Solutions segment

The housing and commercial property sectors proved to be stable market segments in the first half of 2024 too, even though the market environment continued to be influenced by high interest rates. Rents for newly-let properties in Germany rose again in the first quarter of 2024, by 5.3 % year-on-year. Although the recent problematic supply chains and steep energy costs continue to normalise, persistently high interest rates are keeping financing costs high, which is affecting new construction projects. Building permits for 71,100 new apartments were granted in the period from January to April 2024, which is 18,900 fewer or 21.0 % less than in the same period of the previous year.

One notable event during the reporting period was the implementation at operational level of the long-term strategic partnership between Aareal Bank, Aareon and First Financial Software GmbH, which was agreed upon towards the end of the previous year.

Stable interest rate developments in the first half of 2024 allowed us to continue offering our clients attractive interest rates, and to attract new deposit volumes (including from new clients) for various deposit categories. At present, more than 4,000 corporate clients throughout Germany are using our process-optimising products and banking services, and the trend is rising. The segment's volume of deposits averaged € 13.8 billion the first half of 2024 (H1 2023: € 13.5 billion). All in all, this reflects the strong trust our clients continue to place in Aareal Bank. Commission income remained largely stable year-on-year. However, due to the aforementioned strategic partnership with First Financial Software GmbH, commission payments were made, which reduced net commission income to € -3 million (H1 2023: € 16 million). Administrative expenses also decreased at the same time. Higher interest rate levels, combined with the persistently high volume of deposits, made a notable contribution to stronger operating profit in the BDS segment.

Financial Position and Financial Performance

Financial performance

Group

Consolidated net income of Aareal Bank Group

€ mn	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023
Net income from continuing operations		
Net interest income	530	476
Loss allowance	163	160
Net commission income	-2	17
Net derecognition gain or loss	9	12
Net gain or loss from financial instruments (fvpl)	-29	-41
Net gain or loss from hedge accounting	8	0
Administrative expenses	180	172
Net other operating income/expenses	8	6
Operating profit from continuing operations	**181**	**138**
Income taxes	53	48
Consolidated net income from continuing operations	**128**	**90**
Net income from discontinued operations	-136	-32
Consolidated net income	**-8**	**58**
Consolidated net income attributable to non-controlling interests	-30	-9
Consolidated net income attributable to shareholders of Aareal Bank AG	22	67

Following the agreement to sell the Aareon software subsidiary, as announced in June 2024, Aareal Bank Group will henceforth report business results separately. Accordingly, Aareon will be reported as a discontinued operation until transaction closing. The banking business will be reported as a continuing operation, being the only reported segment after closing. The previous year's figures were adjusted accordingly.

Operating profit from continuing operations of € 181 million for the first half of the 2024 financial year clearly exceeded the previous year's figure of € 138 million, reflecting strong income growth and in spite of slightly higher costs.

Net interest income of € 530 million was significantly higher than in the previous year (€ 476 million), due to a year-on-year increase in the credit portfolio, good margins as well as the impact of normalised interest rate levels in conjunction with the continued high volume of deposits.

Loss allowance totalled € 163 million (H1 2023: € 160 million), largely attributable to individual new loan defaults of US office properties plus expenses of € 43 million for additions to the existing management overlay.

Commission income in the Banking & Digital Solutions segment remained largely stable, but was offset by increased as well as newly-incurred commission expenses incurred in connection with the strategic partnership with Aareon and First Financial Software GmbH. This resulted in net commission income reducing to € -2 million (H1 2023: € 17 million).

Net derecognition gain of €9 million (H1 2023: €12 million) was largely attributable to positive market-driven effects from early loan repayments. In the previous year, this figure was largely influenced by income on the Treasury portfolio.

Net gain or loss from financial instruments (fvpl) and from hedge accounting in the aggregate amount of € -21 million (H1 2023: € -41 million) includes negative credit risk-induced valuation losses on defaulted US office property loans.

Administrative expenses were up slightly to € 180 million (H1 2023: € 172 million), also reflecting transaction-related expenses from the planned sale of Aareon. At 35 % (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 in the first half of the year, even in an international comparison.

Net other operating income/expenses amounted to € 8 million (H1 2023: € 6 million); as in the previous year, the figure included reversals of provisions.

Overall, this resulted in operating profit from continuing operations of € 181 million (H1 2023: € 138 million).

Net income from discontinued operations of € -136 million (H1 2023: € -32 million) includes Aareon's profit as well as transaction-related expenses totalling around € 150 million after taxes from the agreed sale of Aareon which is expected to be closed in the second half of 2024. The disposal proceeds, calculated at approximately € 2 billion after transaction-related expenses, are expected to be received in the second half of the year, following successful closing.

After taxes of € 53 million and the net income from discontinued operations (€ -136 million), consolidated net income for the first half of 2024 was € -8 million (H1 2023: € 58 million). Taking into consideration non-controlling interest income of € -30 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 22 million (H1 2023: € 67 million). RoE after taxes from continuing operations was 9.9 % (H1 2023: 6.2 %).

Structured Property Financing segment

Structured Property Financing segment result

€ mn	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023
Net interest income	395	365
Loss allowance	163	160
Net commission income	1	1
Net derecognition gain or loss	9	12
Net gain or loss from financial instruments (fvpl)	-28	-41
Net gain or loss from hedge accounting	8	–
Administrative expenses	132	120
Net other operating income/expenses	9	7
Operating profit	**99**	**64**
Income taxes	27	25
Segment result	**72**	**39**

Operating profit in the Structured Property Financing segment amounted to € 99 million in the first half of 2024 (H1 2023: € 64 million), clearly exceeding the previous year's figure.

Net interest income of € 395 million in the segment was significantly higher than in the previous year (€ 365 million) due to a year-on-year increase in the credit portfolio and solid margins.

Loss allowance totalled € 163 million (H1 2023: € 160 million), largely attributable to individual new loan defaults of US office properties plus expenses of € 43 million for additions to the existing management overlay.

Net derecognition gain of € 9 million (H1 2023: € 12 million) was largely attributable to positive market-driven effects from early loan repayments. In the previous year, this figure was largely influenced by income on the Treasury portfolio.

Net gain or loss from financial instruments (fvpl) and from hedge accounting in the aggregate amount of € -20 million (H1 2023: € -41 million) includes negative credit risk-induced valuation losses on defaulted US office property loans.

Segment administrative expenses rose to € 132 million (H1 2023: € 120 million), also due to transaction-related expenses from the planned sale of Aareon as well as the regular review and adjustment of intra-Group pricing between the SPF and BDS segments in 2024.

Net other operating income/expenses amounted to € 9 million (H1 2023: € 7 million); as in the previous year, the figure included reversals of provisions.

Overall, operating profit for the Structured Property Financing segment was € 99 million (H1 2023: € 64 million). After income taxes of € 27 million (H1 2023: € 25 million), the segment result amounted to € 72 million (H1 2023: € 39 million).

Banking & Digital Solutions segment

Banking & Digital Solutions segment result

€ mn	1 Jan-30 Jun 2024	1 Jan-30 Jun 2023
Net interest income	135	111
Net commission income	-3	16
Net gain or loss from financial instruments (fvpl)	-1	0
Net gain or loss from investments accounted for using the equity method	–	–
Administrative expenses	48	52
Net other operating income/expenses	-1	-1
Operating profit	**82**	**74**
Income taxes	26	23
Segment result	**56**	**51**

Given the impact of the normalised market interest rate environment on the continued high volume of deposits, net interest income in the Banking & Digital Solutions segment of € 135 million surpassed the previous year's figure of € 111 million.

Commission income in the Banking & Digital Solutions segment remained largely stable, but was offset by increased as well as newly-incurred commission expenses incurred in connection with the strategic partnership with Aareon and First Financial Software GmbH. These burdened net commission income, reducing it to € -3 million (H1 2023: € 16 million).

At € 48 million (H1 2023: € 52 million), administrative expenses were largely stable year-on-year. The regular review and adjustment of intra-Group pricing between the SPF and BDS segments in 2024 led to a slight decrease.

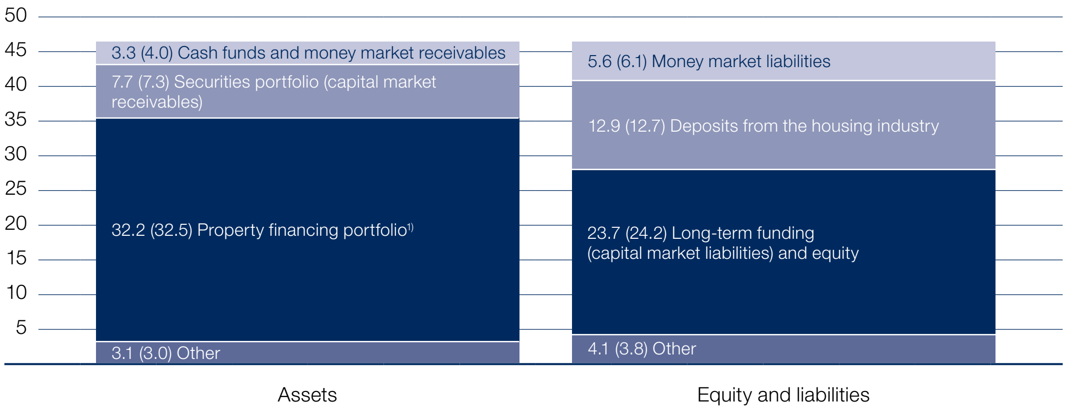
Overall, segment operating profit in the first half of 2024 was € 82 million (H1 2023: € 74 million). After income taxes, the segment result for the first half of the year amounted to € 56 million (H1 2023: € 51 million).

Financial position – assets and liabilities

Consolidated total assets of Aareal Bank Group decreased to € 46.3 billion as at 30 June 2024 (31 December 2023: € 46.8 billion), reflecting the slight decline in the property financing portfolio.

Balance sheet structure as at 30 June 2024 (31 December 2023)

€ bn



[1] Excluding € 0.2 billion in private client business (31 December 2023: € 0.2 billion) and € 0.1 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2023: € 0.2 billion), and excluding loss allowance

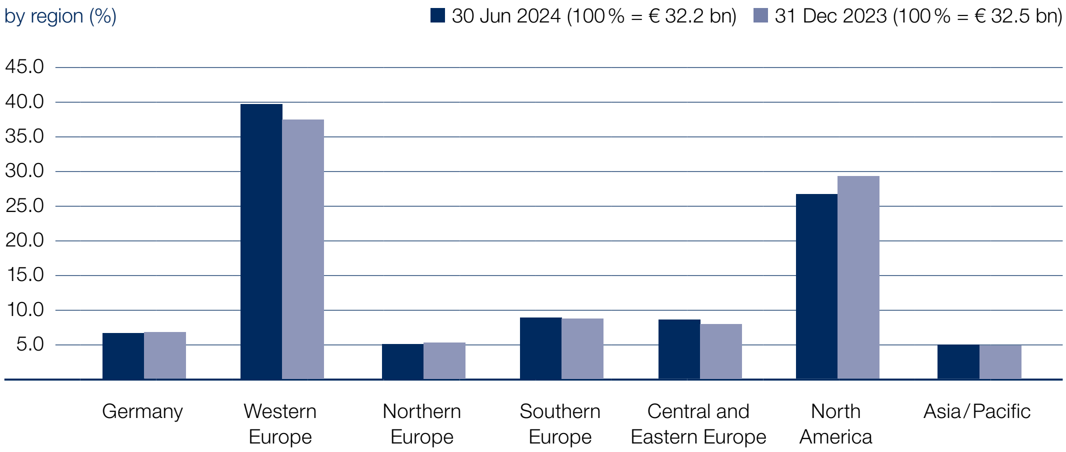
Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio[1] amounted to € 32.2 billion as at 30 June 2024 (31 December 2023: € 32.5 billion). Including private client business (which is being run down) and former WestImmo's local authority lending business, it amounted to € 32.6 billion (31 December 2023: € 32.9 billion), We therefore maintain our target portfolio size of between € 33 billion and € 34 billion at year-end.

At the reporting date (30 June 2024), Aareal Bank Group's property financing portfolio was composed as shown below, compared to year-end 2023.

Property financing volume[1] (amounts drawn)

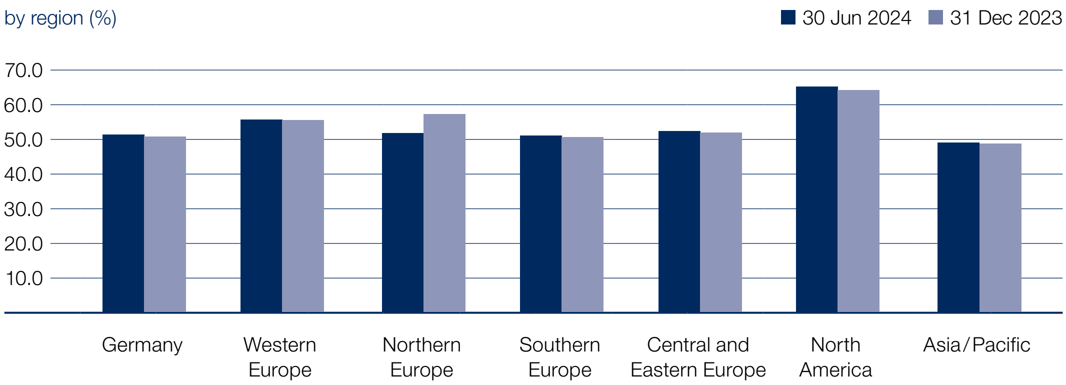
by region (%)



[1] Excluding former WestImmo's private client business and local authority lending business

Average LTV of property financing[1]

by region (%)



[1] Excluding former WestImmo's private client business and local authority lending business

Note that the loan-to-value ratios are calculated on the basis of drawdowns and market values, including supplementary collateral with sustainable value, excluding defaulted property financings.

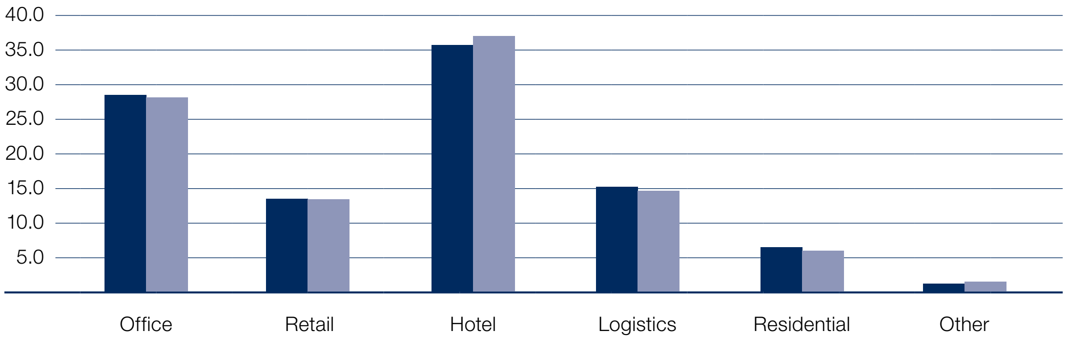
[1] Excluding former WestImmo's private client business and local authority lending business

Portfolio allocation by region and continent also did not change significantly during the period under review. The portfolio share of exposures in Western Europe rose by approximately 2.2 percentage points while the share of exposures to North America was down by around 2.6 percentage points, remaining relatively stable for all other regions.

Property financing volume[1] (amounts drawn)

by type of property (%)

■ 30 Jun 2024 (100 % = € 32.2 bn) ■ 31 Dec 2023 (100 % = € 32.5 bn)

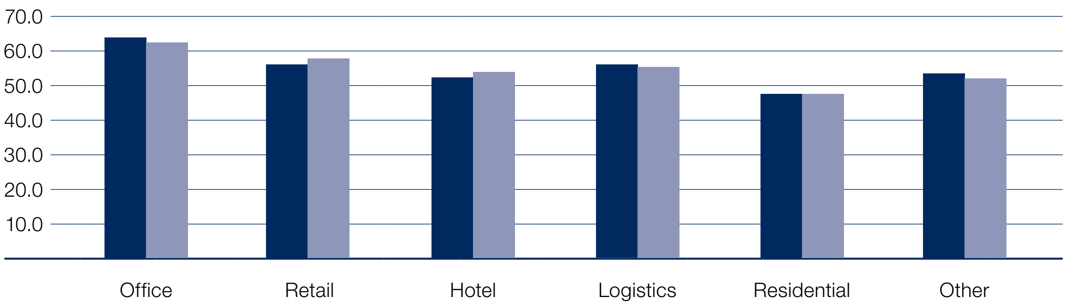


[1] Excluding former WestImmo's private client business and local authority lending business

Average LTV of property financing[1]

by type of property (%)

■ 30 Jun 2024 ■ 31 Dec 2023



[1] Excluding former WestImmo's private client business and local authority lending business

Note that the loan-to-value ratios are calculated on the basis of drawdowns and market values, including supplementary collateral with sustainable value, excluding defaulted property financings.

The breakdown of the portfolio by property type did not change significantly either during the period under review. The share of hotel properties decreased by around 1.3 percentage points compared to year-end 2023, while the share of all other property types remained almost unchanged.

All in all, the high degree of diversification by region and property type within the property financing portfolio was maintained during the period under review.

Treasury portfolio

In terms of its ratings structure, Aareal Bank's Treasury portfolio has a very high credit quality and liquidity.

As at 30 June 2024, the total nominal volume of the Treasury portfolio[1] was € 7.8 billion (31 December 2023: € 7.1 billion).

In terms of asset classes, the portfolio comprises public-sector borrowers, covered bonds and a very small portion of bank bonds (financials), with the public-sector asset class accounting for the largest share of the portfolio (currently at around 69 %). Approximately 31 % was allocated to covered bonds.

The high credit quality requirements are also reflected in the portfolio's rating breakdown. 99.8 % of the portfolio has an investment grade rating[2], with 89.7 % having an AAA to AA- rating.

The portfolio currently comprises almost exclusively (96 %) securities denominated in euros, and its average remaining term as at the reporting date was 5.9 years.

Financial position – liquidity

Funding and equity

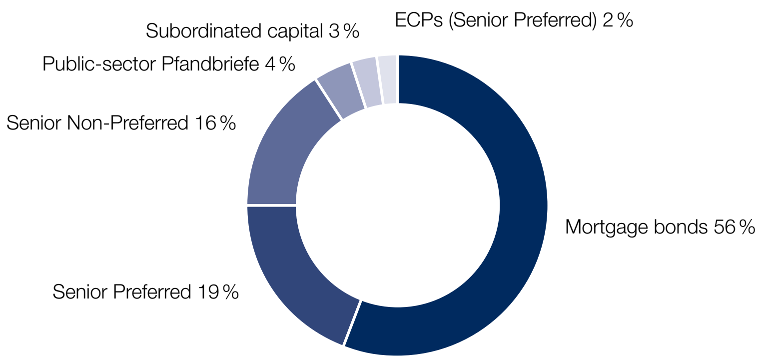
Funding

Aareal Bank Group has remained very solidly funded throughout the first half of the 2024 financial year, evidenced by its major share of long-term funding. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinated issues. According to its legal characteristics, we recognise European Commercial Paper (ECP) as debt even though its maturity is usually less than one year. Subordinated capital includes subordinated liabilities and the Additional Tier 1 (AT1) bond.

As at 30 June 2024, the notional volume of the long-term refinancing portfolio was € 21.7 billion. Carrying amounts of the long-term funding portfolio totalled € 20.7 billion.

Capital market funding mix as at 30 June 2024

% Total volume (nominal): € 21.7 bn



As at the reporting date, Aareal Bank also had € 12.9 billion at its disposal in deposits generated from the business with the housing industry (31 December 2023: € 12.7 billion). Money-market liabilities amounted to € 5.6 billion (31 December 2023: € 6.1 billion), including € 1.1 billion in deposits from institutional investors and € 3.5 billion in retail deposits.

Aareal Bank Group raised € 1.2 billion on the capital market during the first half of 2024. This included a € 500 million benchmark Pfandbrief issue and an increase of an outstanding benchmark Pfandbrief by € 125 million, as well as Aareal Bank's debut senior non-preferred benchmark transaction: this € 500 million bond was placed as a green issue.

Since we conduct our business activities in a range of foreign currencies, we have secured our foreign currency liquidity over the longer term by means of appropriate measures.

[1] As at 30 June 2024, the securities portfolio was carried at € 7.7 billion (31 December 2023: € 7.3 billion).
[2] The rating details are based on the composite ratings.

Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 3,281 million as at 30 June 2024 (31 December 2023: € 3,300 million).

Please also refer to the statement of changes in equity, and to the explanations provided in Note 22 of the consolidated interim financial statements for the first half of 2024.

Regulatory Indicators – continuing operations[1)]

€ mn	30 Jun 2024	31 Dec 2023
Basel IV (phase-in)		
Common Equity Tier 1 (CET1) capital	2,744	2,661
Tier 1 (T1) capital	3,044	2,961
Total capital (TC)	3,280	3,218
%		
Common Equity Tier 1 ratio (CET1 ratio)	20.1	19.4
Tier 1 ratio (T1 ratio)	22.3	21.6
Total capital ratio (TC ratio)	24.0	23.5

[1)] Aareal Bank AG utilises the rules set out in section 2a of the KWG in conjunction with Article 7 of the CRR, pursuant to which regulatory indicators may only be determined at Group level. In this respect, the following disclosures relate to Aareal Bank Group.
31 December 2023: including profits for 2023 and pro rata temporis accrual of interest on the AT1 bond, since no payout of profits for 2023 will be made in 2024. Regulatory indicators as at 31 December 2023 refer to the entire Group including Aareon.
30 June 2024 (preliminary): including interim results for 2024 less a proposed dividend and including pro rata temporis accrual of net interest on the AT1 bond. The CET1 ratio, determined as the higher of the amounts under Basel III and Basel IV (phase-in), as shown in Aareal Bank's regulatory report as at 30 June, is expected to be 19.3 %.
The SREP recommendations concerning the NPL inventory were taken into account, as well as 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.
Adjusted total risk exposure amount (in accordance with Article 3 CRR – RWAs), in accordance with currently applicable law (CRR II) and applying the partial regulation for the "output floor" in connection with commercial property lending and equity exposures, based on the European Commission's final version for implementation of Basel IV (CRR III) on the Regulation 2024/1623 of 31 May 2024.. The adjusted risk-weighted exposure amount for commercial property lending and equity exposures is determined using the higher of (i) total RWAs calculated in accordance with CRR II currently in force, and (ii) the figure calculated in accordance with the revised CRSA (pursuant to CRR III), applying the transitional provisions for 2025 (50 % output floor).

Analysis of risk-weighted assets (RWAs) – continuing operations[2)]

€ mn	RWA amounts 30 Jun 2024	Minimum capital requirements Total 30 Jun 2024	RWA amounts 31 Dec 2023	Minimum capital requirements Total 31 Dec 2023
Credit risk (excluding counterparty credit risk)	11,592	927	11,454	916
Counterparty credit risk	373	30	520	42
Market risk[3)]	97	8	–	–
Operational risk	1,614	129	1,283	103
Additional RWA pursuant to Article 3 of the CRR	–	–	463	37
Total	**13,676**	**1,094**	**13,720**	**1,098**

[2)] Adjusted total risk exposure amount (as defined in Article 3 CRR – RWAs), in accordance with currently applicable law (CRR II) and applying the partial regulation for the "output floor" in connection with commercial property lending and equity exposures, based on the European Commission's final version for implementation of Basel IV (CRR III) on the Regulation 2024/1623 of 31 May 2024. The adjusted risk-weighted exposure amount for commercial property lending and equity exposures is determined using the higher of (i) total RWAs calculated in accordance with CRR II currently in force, and (ii) the figure calculated in accordance with the revised CRSA (pursuant to CRR III), applying the transitional provisions for 2025 (50 % output floor).
31 December 2023: Regulatory indicators as at 31 December 2023 refer to the entire Group including Aareon.
[3)] 31 December 2023: there was no requirement to cover market risk with regulatory capital since, under article 351 of the CRR, the sum total of the net foreign currency position in aggregate did not exceed 2 % of regulatory capital.

Risk Report

Aareal Bank Group Risk Management

The Group Management Report 2023 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of the present Interim Report, we briefly reiterate the key elements of our risk management, also outlining material developments during the period under review.

The business policy set by the Management Board, and duly acknowledged by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the Bank's risk appetite (as defined in the Risk Appetite Framework), we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the Bank's business strategy, are adapted to the changed environment at least once a year, adopted by the Management Board, and duly acknowledged by the Supervisory Board. Appropriate risk management and risk control processes are deployed to implement the risk strategies and to ascertain the Bank's ability to bear risk. An internal risk report regularly informs Management Board and Supervisory Board about all material risks.

Aareal Bank regularly reviews the appropriateness and effectiveness of its corporate governance systems (including risk governance systems).

The Bank's risk management also incorporates sustainability risks, i. e. ESG risks from the environmental, social and governance areas. Aareal Bank considers sustainability risks to include overarching risks or risk drivers that are influenced directly or indirectly by environmental or social issues, or by monitoring processes. All material sustainability risks were able to be classified as a form of existing financial and non-financial risks. In line with this, they are managed implicitly as part of the risk types under which they are classified. ESG risks are a component of the regular risk inventory process. Physical climate-related risk and transition risk in terms of investor behaviour that have an impact on credit, liquidity, property and reputational risk, were identified as the major short-term risk factors. This is complemented by the material mid- to long-term risk factors of climate transition risk related to technology, the risk of regulatory breaches as well as governance factors such as fraud, sustainability management and data protection. In addition, there is client behaviour as an overarching factor. Management and monitoring of ESG risks are further refined on an ongoing basis, and suitable risk indicators and limits for climate-related and environmental risks are currently being developed.

Risk-bearing capacity and risk limits

The Bank's ability to carry and sustain risk (as determined within the framework of the Internal Capital Adequacy Assessment Process (ICAAP)) is a core determining factor governing the structure of its risk management system. To ensure its uninterrupted risk-bearing capacity, Aareal Bank Group has adopted a dual management approach comprising two complementary perspectives: the normative and the economic perspective.

The normative perspective aims to ensure Aareal Bank Group's ability to fulfil all of its regulatory requirements over a multi-year period. This perspective thus accounts for all material risks which may impact upon relevant regulatory indicators over the multi-year planning period.

The normative ICAAP perspective is embedded into Aareal Bank Group's planning process, which – in particular – also includes capital planning. Group planning covers three planning years, it comprises both baseline and adverse scenarios. Results of Group planning are shown as a projected consolidated income statement for Aareal Bank Group. Planning also encompasses the balance sheet structure, as well as key regulatory indicators, plus additional internal management indicators.

Besides the planning process itself, intra-year computation adjustments to Aareal Bank Group's planning process also included the ongoing monitoring of management indicators as well as checking whether limits in the normative perspective were being complied with. Management indicators in the normative perspective (which are being monitored, and for which limits have been set) comprise various regulatory ratios.

We are using the ICAAP economic perspective, whose purpose is to safeguard Aareal Bank Group's economic substance and thus, in particular, to protect creditors against economic losses. The procedures and methods are part of the Supervisory Review and Evaluation Process (SREP) and are applied in order to identify and quantify potential economic losses, and to determine the required capital backing.

The purpose of internal capital is to serve as a risk-bearing component under the economic perspective. Within Aareal Bank Group, the current regulatory Common Equity Tier 1 (CET1) capital forms the basis for determining economic aggregate risk cover. Additional Tier 1 (AT1) capital is not added to internal capital. Tier 2 capital, as well as projected results to be incurred during the risk analysis horizon, are not taken into account.

Moreover, the value-oriented approach adopted under the economic perspective requires suitable adjustments to be made to regulatory Tier 1 capital, in order to bring aggregate risk cover into line with the economic assessment. Specifically, this may entail adjustments regarding conservative valuation, hidden encumbrances, or a management buffer, with the latter also including adjustments for climate risks.

Aareal Bank Group consistently applies a period of one year (or 250 trading days) as a risk analysis horizon, as well as for the holding period as part of risk models under the economic perspective. The appropriateness of model assumptions is verified within the scope of independent validation of the corresponding risk models and parameters.

Looking at correlation effects between material types of risk within the framework of the economic ICAAP perspective, Aareal Bank Group has prudently opted for aggregation of risk levels; accordingly, no risk-mitigating correlation effects are being taken into account. Where we measure risks on the basis of quantitative risk models for the purposes of calculating risk-bearing capacity, these are based on a confidence interval of 99.9 %.

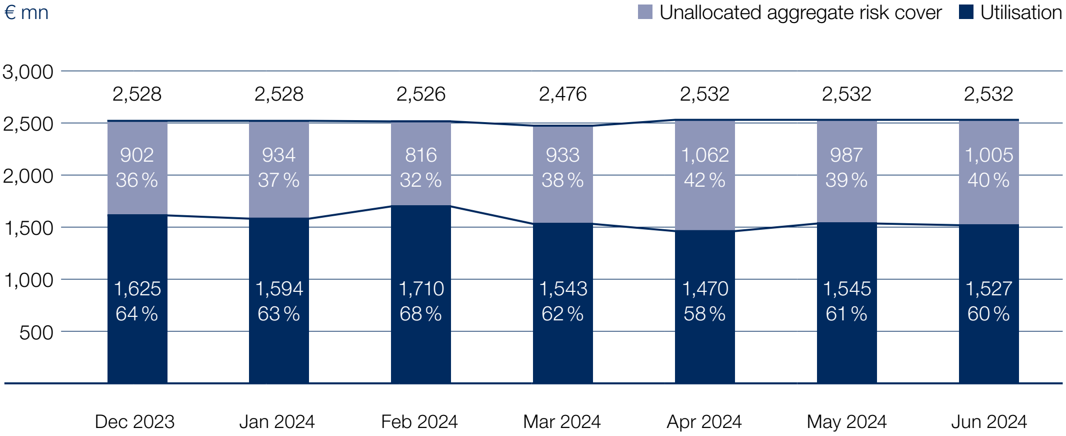
Limits for specific risk types are determined in such a manner that aggregate limits do not exceed economic aggregate risk cover, less a risk buffer designed to cover risks not explicitly covered by limits (among other things), and to also absorb other fluctuations of internal capital over time. Individual limits are set on the basis of existing risk exposures and historical levels of potential risks, and to an extent that is in line with the Bank's business and risk strategy. Specific limits have been set in a way that each limit is sufficient for utilisation in line with planned business development, as well as for common market fluctuations.

A detailed monthly report provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. These are being monitored as part of daily reporting. No limit breaches at the aggregate risk level were detected during the period under review.

Risk-bearing capacity (ICAAP – economic perspective)

€ mn	30 Jun 2024	31 Dec 2023
Common Equity Tier 1 capital (CET1 in accordance with Basel III)	2,713	2,661
Economic adjustments	-181	-133
Aggregate risk cover	**2,532**	**2,528**
Utilisation of aggregate risk cover		
Loan loss risks	741	680
Interest rate risk in the banking book (IRRBB)	58	99
Pension risks	99	118
Market risks	279	385
Operational risks	129	103
Investment risks	40	43
Property risks	112	100
Business and strategic risks	69	97
Total utilisation	**1,527**	**1,625**
Utilisation (% of aggregate risk cover)	**60 %**	**64 %**

Utilisation of aggregate risk cover during the course of 2024



Since risk cover potential is an inadequate measure to assess the risk-bearing capacity in terms of monitoring the Bank's ability to meet its payment obligations (liquidity risk in the narrower sense), we have defined special tools within the framework of the Internal Liquidity Adequacy Assessment Process (ILAAP) for managing and monitoring this type of risk.

Loan loss risks

Definition

Aareal Bank defines loan loss risk as the risk of losses being incurred due to (i) a deterioration in a business partner's credit quality (migration risk); (ii) a business partner defaulting on contractual obligations; (iii) collateral being impaired; or (iv) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty credit risk. Counterparty credit risk exposure from trading activities may refer to risk exposure vis-à-vis counterparties or issuers. Country risk is also defined as a form of counterparty credit risk.

Risk measurement and monitoring

Regulatory requirements are taken into account for the organisation of Aareal Bank's operations and workflows in the credit and trading businesses.

Processes in the credit and trading businesses are designed to consistently respect the clear functional division of Sales units ("Markt") and Credit Management ("Marktfolge"), up to and including senior management level. The independent Risk Controlling division is responsible for identifying, quantifying and monitoring all material risks at portfolio level, and for maintaining a targeted risk reporting system.

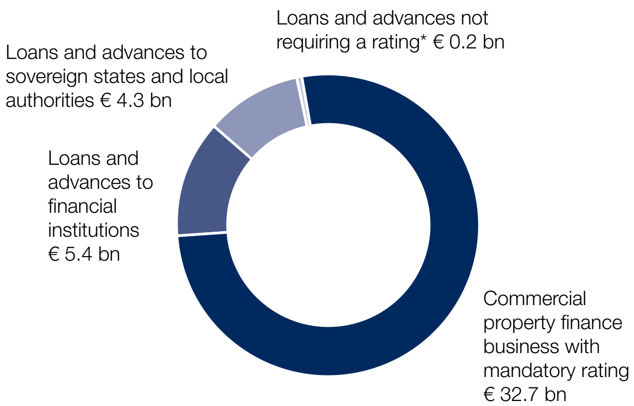
Aareal Bank employs different risk classification procedures tailored to the requirements of the respective type of business for the initial, regular, or event-driven assessment of counterparty credit risk. Forward-looking as well as macro-economic information is taken into consideration for risk classification procedures, and in the valuation of collateral. The respective procedures and parameters are subject to regular review and adjustment. Responsibility for development, quality assurance, and monitoring implementation of procedures, is outside the Sales units.

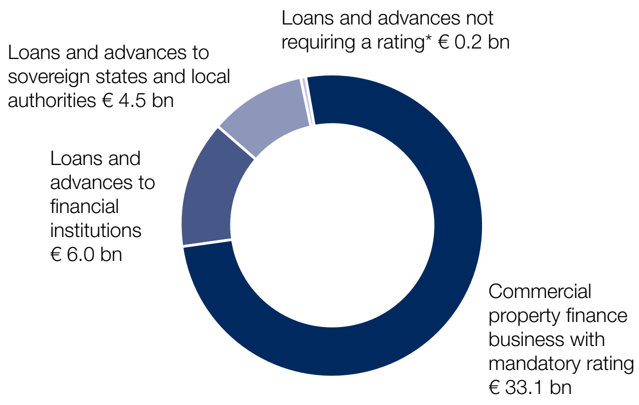
In light of geopolitical and macro-economic uncertainty, special attention is currently paid to economic forecasts. In the context of this ongoing review, we also rely on projections published by the ECB, apart from those issued by our usual data providers.

Breakdown of on-balance sheet and off-balance sheet business (gross carrying amounts)

by rating procedure, € bn

30 Jun 2024 | 31 Dec 2023





* Including the private client business of former WestImmo

We use a credit risk model to measure, control and monitor concentration and diversification effects on a portfolio level, supplemented by limits on individual and sub-portfolio level to facilitate operating management. Based on these instruments, the Bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business with financial institutions. The models in question allow the Bank to include, in particular, rating changes and correlation effects in the assessment of the risk concentrations.

Within the process-oriented monitoring of individual exposures, the Bank uses various tools to monitor exposures on an ongoing basis: besides the tools already described, this includes rating reviews, the monitoring of payment arrears, and the regular, individual analysis of the largest exposures. The intensity of loan coverage is oriented upon the credit risk exposure.

The following tables provide a breakdown of gross carrying amounts of on-balance sheet as well as off-balance sheet credit business, money-market business, and capital markets business, by rating classes and loss allowance stages, in line with credit risk management at Group level. Higher interest rate levels on the international markets burdened debt service requirements, resulting in continued high levels of Stage 2 loss allowance compared to historical levels. Figures are based on Aareal Bank Group's internal default risk rating classes. The default definition follows the definition pursuant to Article 178 of the CRR, which is decisive for management purposes.

On-balance sheet commercial property finance business with mandatory rating

	30 Jun 2024					31 Dec 2023				
	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
€ mn										
Class 1	–	–	–	–	**–**	–	–	–	–	**–**
Class 2	23	–	–	–	**23**	50	–	–	–	**50**
Class 3	128	–	–	–	**128**	48	–	–	–	**48**
Class 4	769	35	–	–	**804**	734	–	–	–	**734**
Class 5	3,113	–	–	18	**3,131**	3,359	19	–	18	**3,396**
Class 6	4,297	5	–	68	**4,370**	4,249	–	–	68	**4,317**
Class 7	7,076	121	–	–	**7,197**	6,268	79	–	5	**6,352**
Class 8	4,720	848	–	–	**5,568**	4,393	912	–	32	**5,337**
Class 9	4,099	2,016	–	42	**6,157**	4,254	2,551	–	0	**6,805**
Class 10	835	581	–	25	**1,441**	1,378	794	–	23	**2,195**
Class 11	229	510	–	–	**739**	234	372	–	–	**606**
Class 12	–	197	–	–	**197**	–	188	–	–	**188**
Classes 13-15	–	264	–	296	**560**	–	426	–	–	**426**
Defaulted	–	–	1,230	103	**1,333**	–	–	1,468	109	**1,577**
Total	**25,289**	**4,577**	**1,230**	**552**	**31,648**	**24,967**	**5,341**	**1,468**	**255**	**32,031**

[1] fvpl = at fair value through profit or loss (in accordance with IFRSs)

Off-balance sheet commercial property finance business with mandatory rating

	30 Jun 2024					31 Dec 2023				
	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
€ mn										
Classes 1-3	1	–	–	–	**1**	1	–	–	–	**1**
Class 4	2	–	–	–	**2**	7	–	–	–	**7**
Class 5	27	–	–	–	**27**	13	–	–	–	**13**
Class 6	109	–	–	–	**109**	134	–	–	–	**134**
Class 7	205	–	–	–	**205**	151	–	–	–	**151**
Class 8	143	10	–	–	**153**	167	21	–	–	**188**
Class 9	175	77	–	–	**252**	205	102	–	–	**307**
Class 10	102	14	–	3	**119**	122	–	–	3	**125**
Class 11	90	39	–	–	**129**	100	49	–	–	**149**
Classes 12-15	–	–	–	–	**–**	–	3	–	–	**3**
Defaulted	–	–	24	–	**24**	–	–	10	–	**10**
Total	**854**	**140**	**24**	**3**	**1,021**	**900**	**175**	**10**	**3**	**1,088**

[1] fvpl = at fair value through profit or loss (in accordance with IFRSs); commitments for loan portions earmarked for syndication

On-balance sheet loans and advances to financial institutions

	30 Jun 2024					31 Dec 2023				
	Stage 1	Stage 2	Stage 3	fvpl [1]	Total	Stage 1	Stage 2	Stage 3	fvpl [1]	Total
€ mn										
Class 1	726	–	–	–	**726**	478	–	–	–	**478**
Class 2	168	–	–	–	**168**	418	–	–	–	**418**
Class 3	365	–	–	–	**365**	281	–	–	–	**281**
Class 4	1,158	–	–	–	**1,158**	2,579	–	–	–	**2,579**
Class 5	290	–	–	–	**290**	55	–	–	–	**55**
Class 6	82	–	–	–	**82**	281	–	–	–	**281**
Class 7	1,638	–	–	–	**1,638**	1,141	–	–	–	**1,141**
Class 8	705	–	–	–	**705**	593	–	–	–	**593**
Class 9	73	–	–	–	**73**	87	–	–	–	**87**
Class 10	132	44	–	–	**176**	30	8	–	–	**38**
Classes 11-18	–	–	–	–	**–**	–	–	–	–	**–**
Defaulted	–	–	–	–	**–**	–	–	–	–	**–**
Total	**5,337**	**44**	**–**	**–**	**5,381**	**5,943**	**8**	**–**	**–**	**5,951**

[1] fvpl = at fair value through profit or loss (in accordance with IFRSs)

On-balance sheet loans and advances to sovereign states and local authorities

	30 Jun 2024					31 Dec 2023				
	Stage 1	Stage 2	Stage 3	fvpl [1]	Total	Stage 1	Stage 2	Stage 3	fvpl [1]	Total
€ mn										
Class 1	1,731	–	–	–	**1,731**	1,887	–	–	–	**1,887**
Class 2	1,252	–	–	–	**1,252**	1,317	–	–	–	**1,317**
Class 3	445	145	–	–	**590**	451	146	–	–	**597**
Class 4	179	–	–	–	**179**	40	–	–	–	**40**
Class 5	28	–	–	–	**28**	12	–	–	–	**12**
Class 6	13	–	–	–	**13**	112	–	–	–	**112**
Class 7	556	–	–	–	**556**	24	–	–	–	**24**
Class 8	–	–	–	–	**–**	550	–	–	–	**550**
Class 9	–	–	–	–	**–**	–	–	–	–	**–**
Classes 10-20	–	–	–	–	**–**	–	–	–	–	**–**
Defaulted	–	–	–	–	**–**	–	–	–	–	**–**
Total	**4,204**	**145**	**–**	**–**	**4,349**	**4,393**	**146**	**–**	**–**	**4,539**

[1] fvpl = at fair value through profit or loss (in accordance with IFRSs)

Monthly reporting covers the material aspects of credit risk; including detailed information on specific credit portfolio developments (broken down by country, property and product type, risk classes, and collateral categories, for example). Risk concentrations are being taken into account in particular.

Trading activities are restricted to counterparties for whom the requisite limits are in place. All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Persons holding position responsibility are informed about relevant limits and their current usage, regularly and without delay.

In principle, Aareal Bank pursues a "buy and manage" strategy in managing its credit portfolio – with the primary objective of holding the majority of loans extended on its balance sheet until maturity; at the same time, targeted exit measures are deployed for actively managing the portfolio and the risks involved.

In summary, during the period under review, the existing set of tools and methods continued to enable the Bank to adopt suitable risk management or risk mitigation measures, where required, without any undue delay.

Country risks

Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process. The respective country limits are determined on the basis of a country risk assessment by the Bank's senior management. The Risk Controlling division is responsible for the continuous monitoring of country limits and limit utilisation, and for periodical reporting.

Interest rate risk in the banking book

Definition

Interest rate risk in the banking book (IRRBB) is defined as the risk exposure of instruments held in the banking book which are sensitive to changes in interest rates, caused by yield curve shifts.

Specifically, for Aareal Bank this includes:

- risks arising from maturity transformation in the event of yield curve shifts (gap risk),
- risks from cash flows which are sensitive to interest rates, in terms of spreads to the general yield curve (basis risk),
- risks from explicit and implied options (option risk), and
- risks from changes in Aareal Bank's specific funding spreads (funding risk).

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and the present-value exposure to interest rate risk in the banking book on a daily basis (the "economic value of equity" perspective). This is supplemented, on a monthly basis, by an analysis of possible deviations of planned income in the event of adverse interest rate scenarios (the earnings perspective). The interest rate scenarios used for the measurement of potential plan deviations comprise interest rate shocks (both increases and reductions) as well as time-based increases or reductions of the interest rate projection used to determine planned interest income.

The present value VaR concept has been broadly accepted as the predominant method for measuring economic interest rate risk in the banking book. VaR quantifies risk as the maximum loss that will occur within a certain period of time, and given a defined probability.

A variance-covariance approach (delta-normal method) is used throughout the Group to determine the VaR indicator. Determined on a daily basis for the Group, the VaR figure takes into account the correlation between individual risk types. Statistical parameters used in the VaR model are calculated directly from a 250-day historical data pool maintained within the Bank. The loss potential is determined applying a 99.9 % confidence interval under the economic perspective.

By their very nature, VaR calculations are based on numerous assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances and deposits at notice which are factored into calculations for a period of up to ten years (1.88 years on average), using the average residual amount of deposits observed in the past.

Financial wholesale deposits are excluded from modelling as per the EBA guidelines on the management of interest rate risks of non-trading book activities (EBA/GL/2022/14).

Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures). Aareal Bank Group's consolidated equity is not taken into account as a risk-mitigating item, which tends to overstate VaR.

Pension risks

Pension risks arise from the measurement of pension obligations entered into, and of plan assets held under pension plans. Risk is mitigated by structuring plan assets – largely a special investment fund held in trust – accordingly.

VaR, which requires sensitivity data for risk factors (representing exposure) as well as a covariance matrix of such risk factors (volatility and correlation) to map market dynamics, is calculated as the simplest stochastic model in the delta-normal approach.

Pension risks are managed directly by the Asset-Liability Committee (ALCO); for this purpose, the ALCO has also assumed the function of Investment Committee for the plan assets. Pension obligations and plan assets are subject to regular risk reviews and assessments.

Market risks

Definition

Market risks are broadly defined as the threat of losses due to changes in market parameters; this refers to market risks which are not assigned to the IRRBB. In particular, this also encompasses any type of spread risk exposure of instruments held in the banking book which are sensitive to changes in interest rates, and which are neither included in IRRBB nor in credit risk.

Specifically, for Aareal Bank this includes:

- risks resulting from fluctuations of spot foreign exchange (FX) rates (spot FX risk);
- risks resulting from fluctuations of forward foreign exchange rates (forward FX risk); and
- risks from the regulatory review of the trading book (Financial Risk in the Trading Book – FRTB).

Since Aareal Bank did not pursue any trading book activities (as defined by the CRR) during the period under review, trading book risks had no relevance.

Commodities are irrelevant for the Bank's business. Currency risks are controlled through derivatives.

Additional elements of market risk are:

- valuation risks due to changes in credit spreads (credit spread risk);
- risks from fluctuations in the value of fund assets (fund risk); and
- risks from adjustments to the credit valuation of OTC derivatives (CVA risk).

This means that credit spread risk in the banking book (CSRBB) is assigned to market risk. The requirements of new EBA Guidelines on the management of interest rate risk and credit spread risk arising from non-trading book activities (EBA/GL/2022/14) have been applicable since 31 December 2023. The calculation of credit spread risks was reviewed and adjusted during the course of implementation of these new guidelines. A material adjustment in this context involved incorporating sensitivities associated with the Bank's own benchmark issues to suitable Pfandbrief and senior unsecured spreads in the risk indicators.

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and exposure to other market risks on a daily basis.

The VaR concept has been broadly accepted as the predominant method for measuring economic market risk. VaR quantifies risk as the maximum loss that will occur within a certain period of time, and given a defined probability.

A variance-covariance approach (delta-normal method) is used to determine the aggregated VaR indicator for market risk. Determined on a daily basis for the Group, the VaR figure takes into account the correlation between individual risk types. Statistical parameters used in the VaR model are calculated directly from a historical data pool maintained within the Bank, which covers at least 250 days[1]. The loss potential is determined applying a 99.9% confidence interval.

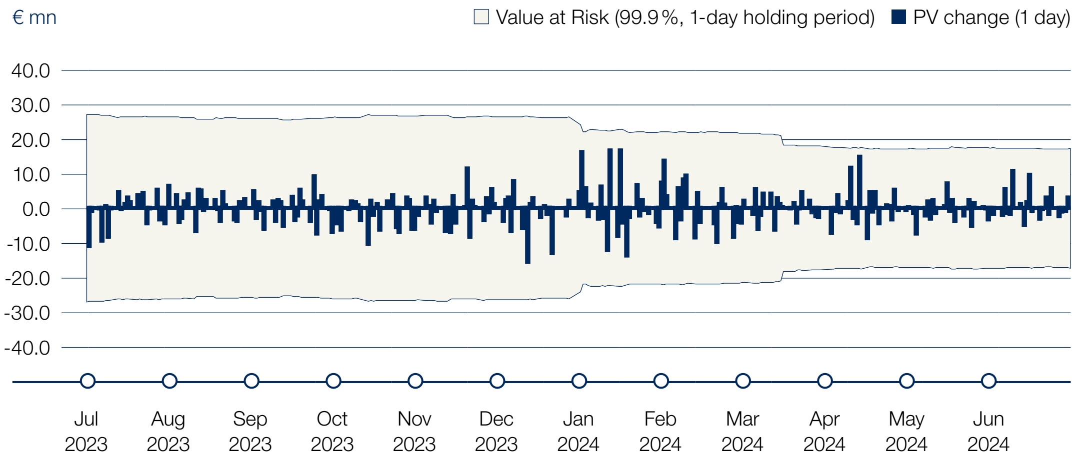
Backtesting

The quality of forecasts made using statistical models is checked through a monthly backtesting process. The quality of the statistical procedure used to measure risk is checked using a method referred to as binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast on the previous day (known as 'clean back-testing'). In line with the selected confidence interval of 99.9 %, only a small number of negative outliers are expected.

The backtesting exercise shown below comprises all risk positions subject to daily changes from the "Market risks" category.

No negative outliers were observed at Group level during the past 250 trading days, affirming the high forecasting quality of the VaR model we use.

Present values and 1-day VaR during the course of 2023/2024



[1] Historical data covering two years is used for the sub-risk type of credit spread risk.

Operational risks

The Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. To the extent that they are caused by operational risks, ESG risk factors as well as model and reputational risks are also taken into consideration within this type of risk.

It is the objective of the policy pursued by Aareal Bank to achieve a risk-minimising or loss-limiting effect at an early stage by employing a pro-active approach. The Bank resorts to various risk control tools to manage operational risk. Data is collected on a decentralised basis and all material operational risks of the Group compiled centrally. The tools described above are used to prepare the regular risk reporting to the Bank's senior management. Taken together, these tools for managing operational risks result in an integrated control circuit which leads to risk identification, evaluation, and management – through to risk control.

The responsibility for implementing operative risk-reducing measures rests with those responsible for the Bank's risk management. The utilisation of freely available funds for operational risks – as part of the Bank's risk-bearing capacity – is determined using the regulatory standardised approach under Pillar I.

Investment risks

Aareal Bank defines investment risk as the threat of unexpected losses incurred due to an impairment of the investment's carrying amount, or a default of loans extended to investees. The concept of investment risk also encompasses additional risks arising from contingencies vis-à-vis the relevant Group entities.

The investment risk model breaks down investments outside the regulatory scope of consolidation into two groups, whereby risk-equivalent exposures are determined for material investments using the regulatory IRB formula. For non-material investments, equity coverage is determined using the simple risk weight function for investments in accordance with the CRR. Risk exposure for investments within the regulatory scope of consolidation is measured using the look-through principle, based on the assets of the respective investment.

Property risks

We define property risk as the threat of unexpected losses arising from changes in the value of property held by the Bank, or by fully-consolidated subsidiaries.

Due to the special character of property risk (involving marketing risks, for example), special methods and procedures are employed to deal with this risk. All relevant property holdings are subject to a regular review and assessment of their risk situation.

In order to measure and monitor risks, property yields are analysed for different regions and property types, and over the time horizons available: on this basis, potential yield increases for different regions and property types over a one-year horizon are determined applying a 99.9 % confidence interval. A property's risk contribution results from the difference between the current market value and the property value adjusted for the yield increase.

In addition, the model also takes idiosyncratic shock events for each property into account, which may occur independently of general market developments.

Property holdings increased as at the reporting date as a result of the acquisition of a property SPV from a US lending exposure.

Business and strategic risks

Business and strategic risks are defined as risks that may potentially threaten achievement of corporate objectives, and which may result (for example) from changes in the competitive environment, or from an unsuitable strategic positioning in the macro-economic environment. We distinguish between allocation risk and investment risk, whereby allocation risk is defined as a divergence of operating results due to lower-than-expected income from allocated capital that cannot be offset through reductions in costs or administrative expenses. Investment risk is defined as the risk that the Bank is unable to compensate for any divergence in operating results through activities or investments in alternative business segments that generate results to the same or similar extent.

Allocation risk is already covered by various planning scenarios, and is thus incorporated in aggregate risk cover.

Investment risk is measured across segments: it is quantified assuming that additional upfront investment is required to establish an investment opportunity which was previously unavailable. Such upfront investment is assumed to represent potential risk.

Liquidity risks

Liquidity risk in the narrower sense is defined as the risk that payment obligations cannot be met in full or on time. Aareal Bank Group's liquidity risk management system is designed to ensure that the Bank has sufficient cash and cash equivalents to honour its payment obligations at any future point in time. The risk management processes have been designed to cover not only the liquidity risk in the narrower sense (insolvency risk), but also market liquidity risk and refinancing risk, including cost risk which is measured and limited accordingly as a component of the IRRBB. All elements have been integrated in an overarching ILAAP, which maps liquidity risks in both the normative and the economic perspective. Within the framework of Group planning, the Bank considers not only ICAAP risk parameters, but also ILAAP risk parameters for a three-year horizon.

Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including preparation of a daily liquidity report, and a contribution to the monthly risk report to the entire Management Board.

Report on Expected Developments and Opportunities

Macro-economic environment

Economic activity, the financial markets and commercial property all have exposure to numerous risks. The Russian attack on Ukraine, which has caused enormous humanitarian and economic distress, remains a major concern. Other risks that could have a negative impact include geopolitical risks, persistent (albeit declining) inflation, potential excessive monetary policy restrictions by the central banks, high levels of public and private debt, doubts about the future cohesion of the European Union as well as consequences of the economy's transformation towards more climate neutrality.

Russia's war of aggression against Ukraine, further geopolitical tensions – for example between Taiwan and China and in the Middle East following Hamas's attack on Israel – as well as terrorism, represent major risks that can influence the global economy through the channels of investor uncertainty, possible disruptions to supply chains or supply shortages of raw materials. The growing threat of cyber attacks and sabotage of critical infrastructures should be mentioned here too. Mounting trade tensions between China and Western countries can also have implications for global economic activity.

Although inflationary pressure has eased compared to the previous year, a still-elevated level of core inflation implies that companies are passing on the higher prices to customers. Energy price deflation is also easing in the US as well as in the euro zone. Given the prolonged high inflation, and the fact that it can be sensitive to geopolitical shocks, the most important central banks will probably retain their course of restrictive monetary policy for longer than expected at the start of the year, which represents a risk for the financial and property markets. Such an excessively long period of monetary tightening could have serious consequences, triggering a rise in bond yields and negative corrections on the equity and property markets. In addition, limited liquidity on the funding markets may place financial institutions under enormous pressure and, combined with uncertainties about economic momentum, could inhibit lending activity. Another source of stress for banks' profitability is the ECB's decision to cut the interest rate on minimum reserves to 0%, and the further tightening of regulatory capital requirements. Lifting the level of required minimum reserves – an option that is currently being discussed by some Eurosystem central banks – would make life for banks even more difficult.

The impending US elections will have repercussions for the US economy beyond the year 2024 and are a significant source of uncertainty in the near term.

Another risk is that government indebtedness and bond yields in many economies have risen considerably as a result of the massive fiscal support provided during the pandemic and also as a consequence of the economic downturn and the obstacles to reform (e.g. in the United Kingdom and in the euro zone). The expiry of asset purchase programmes, some of which have already begun reduction, together with the central banks' ongoing monetary tightening, create a danger that the risk premiums for heavily indebted countries will rise again. Non-financial corporate debt has also climbed to a high level in many advanced economies, mainly reflecting bond issuance. Reduced macro-economic activity or other risks could be a reason for downgrading the rating of these bonds.

The political shift away from European cohesion poses a significant threat not only to the EU, but also to Europe as a whole, in the longer term. Insufficient coordination and cooperation in the refugee crisis, and the slowdown in economic growth, have fuelled the rise of populism and heightened electoral successes for populist and some EU-sceptic parties in many countries, including the EU Parliament itself. France might see political instability and stalemate after the snap parliamentary elections, which could intensify the economic uncertainty and weaken France's role as a strong European player. The reform backlog and structural economic problems in some euro zone countries present further uncertainty, risk and stress factors. Although the EU's investment package is aimed at supporting these countries in particular, there is a risk that the measures will be insufficient to address structural problems.

The efforts of many countries and companies to limit global warming require a radical transformation of the entire economy. The macro-economic impact of this transition is uncertain, and the actual effects depend on a number of factors. This transition also entails costs. Nonetheless, this also offers opportunities for investment in related technologies or the decarbonisation of properties, and to support them as financing providers. In addition to the transition costs incurred in decarbonising the global economy, the costs directly attributable to climate change will also increase over the medium term. Extreme weather events, temperature fluctuations and more frequent extreme heat events are causing physical damage that will increase over time. The extent of this increase will depend on how well the global community succeeds in reducing greenhouse gas emissions.

Relating to macroeconomic development, these factors are also significant for the financial and capital markets, and could trigger further disruption on these markets if they were to materialise to any considerable extent. Similarly, ESG is a topic that is being included in the regulation of financial markets.

Opportunities lie in a faster decline in inflation combined with faster than expected monetary easing and a further reduction in the excess savings accumulated during the Covid-19 pandemic, which could boost private consumption. Productivity increases, for example through the adoption of digital technology or progress with AI, should also be mentioned here.

Economy

Positive momentum overall is expected for the global economy in the second half of 2024, driven by consumer spending. More favourable economic conditions, thanks to monetary easing and higher real income, should support the economic growth. Both overall and core inflation are expected to ease further, allowing major central banks to start or continue cutting interest rates during the remainder of the year. Whilst lower inflation should support consumption, it could be countered by a slight increase in unemployment that might slow the growth of real disposable household incomes and therefore have a dampening effect on consumer spending. In general, the major central banks will maintain their restrictive monetary policy stance until the end of the year, lowering interest rates only gradually and depending on data.

Real gross domestic product in the euro zone should be slightly more positive in 2024 as a whole than in the previous year. The economy should continue to gain momentum in the second half of the year, supported by lower inflation, continuing monetary easing and improved demand in industry. Although private consumption should rise year-on-year, driven by higher real income, a stronger recovery is not expected until we see further rate cuts from the ECB.

Positive real economic growth is also expected for the UK in the full year 2024, reaching a similar level as in the euro zone. Driven by a real increase in household income due to falling inflation, private consumption will play a key role in the recovery during the second half of the year, although the impact of previous interest rate increases and tighter monetary policy will limit the extent.

Wage development, which remains strong, will support household purchasing power, but the effects of higher taxes and rising mortgage rates will dampen growth.

We expect real positive growth in the US for the full year, which should be significantly higher than in the euro zone and the UK, as in the previous year. The economy should continue to grow at a moderate pace in the second half of the year, despite the delayed start to monetary policy easing. Similarly, a significant increase in redundancies or the unemployment rate is not expected. Most households benefit from an increase in real income, which continues to support private consumption.

We also expect positive real growth for Australia in the full year 2024, albeit at a lower rate than in the previous year.

Financial and capital markets, monetary policy and inflation

The risks and uncertainty factors referred to above are also significant for the financial and capital markets, and could cause disruption. Steeper funding costs are a reflection of monetary policy tightening induced by rising inflation, along with higher levels of uncertainty. These should remain at an elevated level for the remainder of the year before declining, depending on the extent of monetary policy easing. Major central banks recently reaffirmed their intention to keep key interest rates at restrictive levels for as long as necessary, depending on data.

We assume that the positive developments at the end of the first half of the year regarding access to the relevant funding markets will continue for Aareal Bank in the second half of 2024 as well. Nevertheless, the developments seen in 2023 and the apparent reservations about commercial property finance suggest that higher risk premiums for property finance providers are likely to remain higher than in the medium term.

We expect inflationary pressures to ease further by the end of the year, albeit at a slower pace than in the previous year. For the euro zone, we expect inflation to fall below the European Central Bank's 2 % target during the second half of 2024. In the United Kingdom, we forecast an inflation rate close to the 2 % mark for the remainder of 2024. Inflation should also ease in the US, on the back of easing price momentum for the cost of housing and a slowdown in nominal wage growth. Nonetheless, there is uncertainty in many economies as to the speed at which the inflation targets will be met. The pace of the decline will vary, depending on the country and specific supply and demand factors.

The key priority for central banks in the second half of 2024 will still be to steer inflation rates back towards target values. As inflation converges towards their targets, the central banks will turn their attention more to future economic conditions and adjust monetary policy accordingly. However, in view of the sharp rise in inflation, we expect them to proceed with prudence. The focus will be on cautiously lowering key interest rates to less restrictive levels, whilst continuing to trim central bank balance sheets.

Regulatory environment

It is fair to expect the trend towards a tighter regulatory framework to persist in the years ahead.

This includes, in particular, the final steps to fully implement the EU Banking Package which stipulates implementation of the final draft of the Basel III framework into EU law (known as Basel IV), as resolved by the Basel Committee (BCBS). The final Regulation (CRR III) and directive (CRD VI) of the EU Banking Package were published in the EU Official Journal on 19 June 2024 and came into effect on 9 July 2024. Meanwhile, the European Banking Authority (EBA), following its roadmap, is working in 2024 on implementing its mandates to prepare technical standards, which serve to further develop and specify the rules and provisions. The scheduled first-time application of the new regulations most relevant for the Bank is 1 January 2025 – two years later than initially planned by the BCBS.

Quarterly reporting requirements regarding interest rate risk in the banking book will have to be met regularly from the reporting date of 30 September 2024 onwards. The supervisory authorities accelerated these requirements through ad-hoc reports for the reporting dates of 31 December 2023, 31 March 2024 and 30 June 2024.

To improve the sector's resilience vis-à-vis information and communication technology risks, the EU Commission and the European Council adopted the "Regulation on digital operational resilience for the financial sector (known as the Digital Operational Resilience Act (DORA))" at the end of 2022; implementation is scheduled at the latest by 17 January 2025. From this point onwards, serious IT incidents will have to be reported centrally to BaFin.

In addition, requirements for sustainable business and ESG risk management will increasingly define the regulatory landscape in the years to come. To that end, CRD VI, which has to be transposed into national law by January 2026 at the latest, is setting out more requirements that will be specified further through corresponding publication by the EBA. Another material foundation here is the introduction and further expansion of the EU taxonomy for the classification of economic activities. Disclosure requirements for the 2024 financial year will also increase due to the first-time application of the Corporate Sustainability Reporting Directive (CSRD). In addition, the number of data points to be published in 2024 will increase due to the requirement for large capital market-oriented institutions to include qualitative and quantitative information on ESG risks in the regulatory disclosure report on a half-yearly basis, as stipulated by the CRR II.

ESG risk management will also play an increasingly important role in the context of risk management and the SREP. In addition, the supervisory authorities are also considering taking ESG factors into account when determining regulatory capital requirements.

Moreover, 2023 saw a trend towards the (re)introduction of capital buffer requirements, with regulatory authorities in many countries defining or increasing countercyclical capital buffers and/or capital buffers for systemic risks. Should it continue, this trend will lead to further increases in capital buffer requirements.

Sector-specific and business developments

Structured Property Financing segment

The macro-economic risks and challenges described above are also of great relevance for the commercial property markets.

Demand for commercial property will vary in the second half of 2024, depending on the region and property type. Since financing costs remain high, conditions for the property markets remain challenging. There are several uncertainties and risks in the macro-economic environment that could influence the market. Political and geopolitical uncertainties could impair the stability of the markets and lead to reticence among investors. Low transaction volumes also make it difficult to determine prices on the market. Sluggish economic development could dampen demand for commercial property, while restrictive lending standards and high borrowing costs could make investing and a timely recovery difficult. The continual restructuring of fixed-rate loans means that the average effective interest rate paid by the market in 2024 will continue to rise. Especially when fixed-rate periods or hedging instruments expire, this may have a negative impact on the viability of debt service or investors' free cash flow after debt servicing. A loss of tenants due to negative economic developments and the resulting lower demand may even exacerbate the situation.

The prospects of further interest rate cuts or the start of a rate-cutting cycle by the large central banks is a positive factor for the commercial property sector. In addition, there are promising signs that the losses in value might ease or even recover in 2024. The slower decline in property prices signals that pessimism towards this asset class is gradually waning, as the prospect of a less restrictive monetary policy is becoming more likely. Although these are not the only decisive factors, lower interest rates and more clarity about future monetary policy can help the market for commercial property find a more stable basis. If economic growth remains robust, as is currently predicted, investor demand should remain intact. Furthermore, the decline in new construction activity suggests that supply is adjusting in line with the current demand situation.

For the financing markets, Aareal Bank anticipates that strong competitive pressures will persist, especially in regions (and for property types) that have already experienced high demand in recent years. Higher financing costs and restrictive lending standards should counteract an increase in loan-to-value ratios (LTV); we thus assume stable LTV ratios for new business. Nonetheless, changes in the market environment could increase the pressure on gross and net margins or lead to moderately higher LTVs. The substantial accumulation of as yet uninvested capital from investors around the world, and an attractive yield level, should mitigate another significant downward pressure on demand. Transaction activity is expected to remain lower, especially in the full year 2024, which in itself limits the opportunities for new business.

Should the trend towards increased remote working continue or even intensify, more and more companies may decide to rent less office space. The transition to such a new way of working could exert pressure on rental prices for office properties and on the demand for office space. It can be assumed that the impact varies depending on the market, the country and a property's quality. On the other hand, communal and flexible working space will be increasingly sought after in a changing world of work, which could halt or even reverse the pre-pandemic trend of decreasing office space per employee. There is also the possibility that office properties that do not meet the changed tenant requirements may permanently leave the market, which could lead to a shortage of office supply that might prevent a decline in rent levels.

On average, Aareal Bank expects that higher interest rates and financing costs relative to the last two years will continue to impair commercial property valuations during the remainder of the year. This can lead to further downside pressure, depending on the sub-market and property type. Although market values have already increased slightly in individual sub-markets in 2024, they are likely to remain under pressure until 2025. This should be followed by a period of stabilisation or growth. However, market value developments will be influenced not only by the quality and location of properties, but also increasingly by compliance with sustainability criteria (ESG).

With regard to retail properties, we expect that private consumer spending will support the outlook for value-driving rental revenues. Although the sales forecasts remain optimistic in most markets, risks remain too. High interest rates alongside slightly weaker labour markets could lead to underwhelming private consumption, which in turn could have a negative impact on rental growth. Sustained low unemployment rates on the other hand should continue to mitigate negative effects on the retail segment. It should be noted that the retail market had already seen valuations decline in recent years.

Hotels saw a significant recovery in both occupancy and income over the last two years, depending on location and segment. However, the recovery seems now largely achieved even if international tourism has not yet returned to pre-pandemic levels. The rise in real income also suggests that sector's fundamental data and income should remain sound in the near term. Unemployment continues to be low. However, hotel revenues are unlikely to grow much more, given that room rates have already increased substantially. Whilst higher operating and personnel costs continue to have a negative effect on free cash flows, we do not see this as a fundamental threat to the hotel segment. The high interest rate levels should continue to weigh on average market values in the short term.

We have a positive outlook for co-living (i.e. shared living for a given period of time) and for student accommodation, where demand from international students remains strong. The supply of new buildings here is not keeping pace with the rise in student numbers at many university and technical college locations. In addition, given that this property type is considered to possess a certain resilience, especially in times of economic uncertainty, we anticipate investor interest remaining high in this segment.

For the current year, we again expect that the market values of office properties will continue to experience the greatest price pressures on average compared to other property types and that rental growth will also likely slow, driven by potential changes in space requirements and the increasing influence of sustainability standards. We expect underperformance from properties that fail to comply with corporate environmental and sustainability goals along with government climate targets. A significant downside risk for this forecast lies in a sharper than expected decline in the market values of office properties. The market is undergoing a period of price recalculations; the small number of transactions is complicating this process, though. If the number of office properties in serious distress increased strongly, yields would rise due to higher risk premiums, while market values would plummet.

Logistics properties continue to be assessed positively, as structural demand drivers remain in place, which should lead to rising rental income in the near future. However, growth is likely to be more moderate than the exceptionally strong increases seen in recent years. Overall demand will continue to be supported by a shift from just-in-time to just-in-case production. Companies are undertaking this shift in an attempt to counter supply chain challenges and prevent delays, leading to greater demand for warehouse space. The low level of availability is supported by additional demand from retail companies and logistics service providers.

As a matter of principle, it is worth noting that estimation uncertainty – concerning the economy, markets and the impact on Aareal Bank – is currently still at a high level. Therefore, we are simulating further potential macro-economic scenarios in addition to our "baseline" scenario.

In line with current Group planning, our baseline scenario assumes the following macro-economic parameters:

in %	2023	2024	2025	2026
“Baseline” scenario				
Gross domestic product (year-on-year change in %)				
Euro zone	0.6	0.8	1.7	1.7
USA	2.5	2.4	1.8	2.0
United Kingdom	0.1	0.9	2.0	2.0
Unemployment (%)				
Euro zone	6.6	6.5	6.4	6.3
USA	3.6	3.9	4.1	4.2
United Kingdom	4.0	4.2	4.0	3.8
Long-term interest rates (10-year government bonds) (%)				
Euro zone	3.3	3.0	2.8	2.7
USA	4.0	4.3	3.9	3.6
United Kingdom	4.0	4.1	3.8	3.4
Portfolio-weighted property price development (2023 basis = 100 %)	100 %	97 %	96 %	97 %

For the Structured Property Financing segment, we anticipate new business of between € 8 billion and € 9 billion for the 2024 financial year. Taking repayments into account, we therefore envisage Aareal Bank Group’s property financing portfolio at approximately € 33 billion to € 34 billion, subject to exchange rate fluctuations. To manage our portfolio and risk exposure, we also use syndications.

The forecasts are based on the assumption that the macro-economic risks and uncertainty factors described above will not materialise to a significant extent, or only in a manageable manner: otherwise, they might influence business development, for example, in terms of new business.

Banking & Digital Solutions segment

Germany’s housing and commercial property industries are expected to continue to show solid development in 2024, despite the geopolitical and macro-economic uncertainties. The need for housing will continue to outstrip supply, given that persistently high construction finance interest rates are bound to have an impact on the affordability of new construction projects, despite the continued easing of construction costs and shortage of materials.

Overall, therefore, it is fair to expect further rent increases, on account of increasing pressure on the housing market – firstly, due to moves to metropolitan areas and university cities (expected to prevail at least until 2035) and secondly, given the impact of war refugees. This will be reinforced by the current trend towards smaller households and a further decline in the number of approved newbuild housing projects.

Even though the Bank’s market share in the institutional housing industry is already high, we continue to see excellent opportunities in 2024 for acquiring new clients as well as enhancing our existing client relationships. We plan to achieve this by continuing to invest in the expansion of the “Housing Industry Ecosystem”, the cross-sector development of interface products and the expansion into related ecosystems, such as companies from the energy and waste disposal industries. The long-term strategic partnership between Aareal Bank, Aareon and First Financial Software GmbH will make a contribution to this too.

In our view, the range of services that connect alternative and digital payment solutions to existing systems – thus helping to overcome process gaps (even across industry sectors) – are particularly attractive. Leveraging the AI-supported intelligent invoicing and dunning system of our subsidiary Collect Artificial Intelligence GmbH (CollectAI), we continue to see opportunities to support our clients in the housing and energy industries in establishing standards for digital receivables management in the context of integrating various payment routes. We also consistently review options for expanding our solutions with new partners and realising business opportunities.

We continue to anticipate further growth from the tenant deposit guarantee product Aareal Aval and Aareal Account Kautionen (Aareal Account tenant deposits).

With this in mind, we are aiming for a continuous increase in commission income. However, commission payments – from the strategic partnership with Aareon concerning First Financial Software GmbH – will lead to a charge on net commission income. We also anticipate an average deposit volume from the housing industry of over € 13 billion, which will make a significant contribution to consolidated net income.

Strategic focus

Aareal Bank Group's strategy focuses on sustainable business success. Environmental, social and governance aspects are therefore key elements of its business strategy. All of these aspects are covered by short- and medium-term targets. The medium-term strategic development is therefore being pursued under the guiding principle of "Aareal Next Level". The general strategic orientation will continue – with international commercial property financing on the one hand, and consulting services and digital solutions for the institutional housing sector in Europe and related industries on the other.

Based on the "Aareal Next Level" strategy, individual business activities will be developed further, in a targeted manner, in order to sharpen their own independent profiles, accelerate the Group's growth overall, and create value for shareholders and other stakeholders. Specifically, the Bank wants to carry on exploiting opportunities for profitable growth.

The Structured Property Financing segment continues to focus on the controlled, risk-conscious expansion of its portfolio volume within its target range, considering ESG criteria and taking advantage of its flexible approach with regard to countries, property types and financing structures. We will continue to use syndications as one of the tools for active portfolio management. In addition, we intend to actively reduce non-performing loans (NPL) and sustainably lower the NPL ratio.

Within the Banking & Digital Solutions segment, Aareal Bank aims to expand its equity-light business in particular, and thus increase net commission income. This will be achieved principally by expanding its product offering, leveraging its USPs in payments and digital solutions, and through further strategic partnerships. The Bank aims to maintain a high average deposit volume from the housing industry.

Besides the growth initiatives for the two segments, Aareal Bank Group will use additional levers to sustainably raise profitability, including an optimisation of the funding mix and the capital structure. In addition, numerous further measures are being implemented to enhance the efficiency of the organisational structure, processes and infrastructure.

The squeeze-out under company law that was put to a vote at the request of Atlantic BidCo GmbH was agreed to by the representatives at the ordinary Annual General Meeting – it is expected to be closed. Atlantic BidCo GmbH is Aareal Bank AG's main shareholder, holding a stake of around 95 %.

Atlantic BidCo is indirectly held by funds controlled, managed or advised by Advent International Corporation ("Advent") and Centerbridge Partners ("Centerbridge") as well as CPP Investment Board Europe S.à r.l., a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPP Investments"), and other minority shareholders.

At the end of June 2024, Aareal Bank and Advent announced that they had concluded an agreement with TPG, a leading private equity company, and CDPQ, a global investment group, on the acquisition of Aareon. The financial terms of the sale are based on an enterprise value for Aareon of approximately € 3.9 billion, corresponding to an equity value of around € 2.1 billion for Aareal Bank's stake in Aareon. Closing is expected to take place in the second half of 2024, subject to customary closing conditions and regulatory approvals.

Group targets

Thanks to strong results in the first half of the year, Aareal Bank Group's continuing operations are well on track to achieve planned operating profit levels for the year as a whole. Due to the Aareon sale, significantly higher consolidated net income of around € 2.2 billion is expected, including an anticipated gain from the disposal of around € 2 billion, after transaction-related expenses.

Operating profit from continuing operations is expected to remain in the range between € 250 million and € 300 million (2023: € 221 million) that was communicated by the Bank. Given the net gain from the disposal of Aareon, RoE from continuing operations after taxes will be markedly higher.

We expect the environment in the US office property market to remain challenging throughout 2024, and therefore anticipate elevated loss allowance levels in the current financial year. The effects of geopolitical and macro-economic uncertainty remain difficult to estimate.

In the Structured Property Financing segment, Aareal Bank plans to achieve a portfolio size of around € 33 billion to € 34 billion by the end of the year, market conditions permitting and subject to exchange rate fluctuations. Aareal Bank is planning for new business volume of € 8 billion to € 9 billion on this basis.

For the Banking & Digital Solutions segment, Aareal Bank is assuming € 13 billion as an average volume of deposits from the housing industry.

With regard to capitalisation, Aareal Bank continues to expect a solid CET1 ratio (Basel IV phase-in) from continuing operations, markedly exceeding the standardised capital requirement of 15 %, despite the planned portfolio growth and subject to further regulatory changes. This applies even excluding the gain realised on the sale of Aareon. All else being unchanged however, the gain will create a notable but temporary upward spike in the CET1 ratio.

Consolidated Interim Financial Statements

Statement of Comprehensive Income

Income Statement[1)]

€ mn	Note	1 Jan-30 Jun 2024	1 Jan-30 Jun 2023
Net income from continuing operations			
Interest income from financial instruments (ac and fvoci)		1,346	1,098
Interest income from financial instruments (fvpl)		34	20
Market-driven modification gains		0	1
Interest expenses for financial instruments (ac and fvoci)		725	487
Interest expenses for financial instruments (fvpl)		125	155
Market-driven modification losses		0	1
Net interest income	1	**530**	**476**
Loss allowance excluding credit-driven net modification gain or loss		143	155
Credit-driven net modification gain or loss		20	5
Loss allowance	2	**163**	**160**
Commission income		23	23
Commission expenses		25	6
Net commission income	3	**-2**	**17**
Net gain or loss on the derecognition of financial assets (ac)		9	4
Net gain or loss on the derecognition of financial liabilities (ac)		0	3
Net gain or loss on the derecognition of financial assets (fvoci)		0	5
Net derecognition gain or loss	4	**9**	**12**
Net gain or loss from financial instruments (fvpl)	5	-29	-41
Net gain or loss from hedge accounting	6	8	0
Net gain or loss from investments accounted for using the equity method		–	–
Administrative expenses	7	180	172
Net other operating income/expenses	8	8	6
Operating profit from continuing operations		**181**	**138**
Income taxes		53	48
Consolidated net income from continuing operations		**128**	**90**
Net income from discontinued operations	9	-136	-32
Consolidated net income		**-8**	**58**
Consolidated net income attributable to non-controlling interests		-30	-9
Consolidated net income attributable to shareholders of Aareal Bank AG		22	67

[1)] In accordance with IFRS 5, net income from discontinued operations (see Note 9 for explanations) is disclosed separately; the previous year's figures have been adjusted.

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan-30 Jun 2024	1 Jan-30 Jun 2023
Consolidated net income	**-8**	**58**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	**14**	**-6**
Remeasurements of defined benefit plans	20	-9
Taxes on remeasurements of defined benefit plans	-6	3
Changes in the reserve from the measurement of equity instruments (fvoci)	**0**	**0**
Gains and losses from equity instruments (fvoci)	–	–
Reclassifications to retained earnings from equity instruments (fvoci)	0	0
Taxes on gains and losses from equity instruments (fvoci)	–	–
Items that are reclassified subsequently to profit or loss		
Changes in the reserve from the measurement of debt instruments (fvoci)	**7**	**-10**
Gains and losses from debt instruments (fvoci)	10	-9
Reclassifications to the income statement from debt instruments (fvoci)	0	-5
Taxes on gains and losses from debt instruments (fvoci)	-3	4
Changes in the reserve from foreign currency basis spreads	**6**	**9**
Gains and losses from foreign currency basis spreads	9	13
Reclassifications to the income statement from foreign currency basis spreads	–	–
Taxes on gains and losses from foreign currency basis spreads	-3	-4
Changes in currency translation reserves	**-1**	**-6**
Gains and losses from translating foreign operations' financial statements	-4	-7
Reclassifications to the income statement from translating foreign operations' financial statements	–	–
Taxes on gains and losses arising from translating foreign operations' financial statements	3	1
Other comprehensive income	**26**	**-13**
Total comprehensive income	**18**	**45**
Total comprehensive income attributable to non-controlling interests	-30	-11
Total comprehensive income attributable to shareholders of Aareal Bank AG	48	56

Statement of Financial Position

€ mn	Note	30 Jun 2024	31 Dec 2023
Assets			
Financial assets (ac)	10	**37,826**	**39,181**
Cash funds (ac)		1,658	977
Loan receivables (ac)		31,519	32,219
Money market and capital market receivables (ac)		4,572	5,868
Receivables from other transactions (ac)		77	117
Loss allowance (ac)	11	-406	-428
Financial assets (fvoci)	12	**4,835**	**4,403**
Money market and capital market receivables (fvoci)		4,833	4,401
Equity instruments (fvoci)		2	2
Financial assets (fvpl)	13	**1,830**	**1,799**
Loan receivables (fvpl)		552	255
Money market and capital market receivables (fvpl)		4	6
Positive market value of designated hedging derivatives (fvpl)		769	831
Positive market value of other derivatives (fvpl)		505	707
Non-current assets held for sale	14	1,215	215
Investments accounted for using the equity method		9	8
Intangible assets	15	44	720
Property and equipment	16	79	119
Income tax assets		38	52
Deferred tax assets		226	222
Other assets	17	593	542
Total		**46,289**	**46,833**
Equity and liabilities			
Financial liabilities (ac)	18	**38,937**	**40,350**
Money market and capital market liabilities (ac)		25,690	26,675
Deposits from the housing industry (ac)		12,912	12,669
Liabilities from other transactions (ac)		68	649
Subordinated liabilities (ac)		267	357
Financial liabilities (fvpl)	19	**2,683**	**2,683**
Negative market value of designated hedging derivatives (fvpl)		1,298	1,321
Negative market value of other derivatives (fvpl)		1,385	1,362
Non-current liabilities held for sale	14	1,073	7
Provisions	20	130	215
Income tax liabilities		154	126
Deferred tax liabilities		10	46
Other liabilities	21	21	106
Equity	22	**3,281**	**3,300**
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		2,112	2,128
AT1 bond		300	300
Other reserves		-108	-134
Non-controlling interests		76	105
Total		**46,289**	**46,833**

Statement of Changes in Equity

€ mn	Sub-scribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves					Total	Non-con-trolling interests	Equity
					Reserve from remeasure-ments of defined benefit plans	Reserve from the measure-ment of equity instru-ments (fvoci)	Reserve from the measure-ment of debt instru-ments (fvoci)	Reserve from changes in the value of foreign currency basis spreads	Currency translation reserve			
Equity as at 1 January 2024	**180**	**721**	**2,128**	**300**	**-86**	**-4**	**-18**	**-22**	**-4**	**3,195**	**105**	**3,300**
Total comprehensive income for the period	–	–	22	–	13	0	7	6	0	**48**	-30	**18**
Consolidated net income	–	–	22	–	–	–	–	–	–	**22**	-30	**-8**
Other comprehensive income	–	–	-	–	13	0	7	6	0	**26**	0	**26**
Payments to non-controlling interests	–	–	-	–	–	–	–	–	–	**–**	-2	**-2**
AT1 coupon	–	–	-33	–	–	–	–	–	–	**-33**	–	**-33**
Changes in ownership interests in subsidiaries	–	–	-	–	–	–	–	–	–	**–**	–	**–**
Other changes	–	–	-5	–	–	–	–	–	–	**-5**	3	**-2**
Equity as at 30 June 2024	180	721	2,112	300	-73	-4	-11	-16	-4	3,205	76	3,281

€ mn	Sub-scribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves					Total	Non-con-trolling interests	Equity
					Reserve from remeasure-ments of defined benefit plans	Reserve from the measure-ment of equity instru-ments (fvoci)	Reserve from the measure-ment of debt instru-ments (fvoci)	Reserve from changes in the value of foreign currency basis spreads	Currency translation reserve			
Equity as at 1 January 2023	**180**	**721**	**2,076**	**300**	**-73**	**-4**	**4**	**-8**	**-7**	**3,189**	**69**	**3,258**
Total comprehensive income for the period	–	–	67	–	-6	0	-10	9	-4	**56**	-11	**45**
Consolidated net income	–	–	67	–	–	–	–	–	–	**67**	-9	**58**
Other comprehensive income	–	–	-	–	-6	0	-10	9	-4	**-11**	-2	**-13**
Payments to non-controlling interests	–	–	-	–	–	–	–	–	–	**–**	-2	**-2**
AT1 coupon	–	–	-17	–	–	–	–	–	–	**-17**	–	**-17**
Changes in ownership interests in subsidiaries	–	–	3	–	–	–	–	–	–	**3**	1	**4**
Equity as at 30 June 2023	180	721	2,129	300	-79	-4	-6	1	-11	3,231	57	3,288

Statement of Cash Flows (condensed)

€ mn	2024	2023
Cash and cash equivalents as at 1 January	**977**	**5,424**
Cash flow from operating activities	733	878
Cash flow from investing activities	86	-22
Cash flow from financing activities	-138	-32
Total cash flow	**681**	**824**
Cash and cash equivalents as at 30 June	**1,658**	**6,248**

Notes (condensed)

Basis of Accounting

Legal framework

Aareal Bank AG is a public limited company incorporated under German law, with its registered office in Wiesbaden, Germany. It is the parent company of an international property finance and services group, and registered under no. HRB 13184 in the Commercial Register at the local court in Wiesbaden, Germany (Amtsgericht Wiesbaden). It is majority-owned by Atlantic BidCo GmbH, which in turn is a subsidiary of Lux HoldCo S.à r.l.

This half-yearly financial report for the period ended 30 June 2024 was prepared pursuant to the provisions of section 115 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 117 no. 2 of the WpHG and was approved for publication by the Management Board on 31 July 2024. It comprises the present condensed consolidated interim financial statements, as well as an interim group management report.

Aareal Bank AG prepares its condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315e (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). In particular, the consolidated interim financial state-ments comply with the requirements for interim financial reporting set out in IAS 34. The reporting currency is the euro (€).

Reporting entity structure

Subsidiaries of Aareal Bank AG are included in the consolidated financial statements by way of full consolidation. Companies over which Aareal Bank AG may exercise a significant influence ("associates") are included in the consolidated financial statements, using the equity method. The present interim report is based on the same consolidation methods as were applied in the consolidated financial statements 2023.

Four companies constituted the material additions to the reporting entity structure during the period under review.

In January 2024, through its subsidiary Aareon Nederland B.V., Aareon acquired 100 % of the shares in Blue-Mountain Group B.V., a Dutch provider of business intelligence solutions for housing associations, healthcare and education institutions. The purchase price amounted to approximately € 7 million. The fair value of assets and liabilities amounts to approximately € 3 million, and is largely attributable to client relationships acquired. The acquisition results in goodwill of € 4 million, including potential market value effects and synergies. With this acquisition, Aareon will strengthen its portfolio of business intelligence solutions across the Group.

Aareal Bank acquired a US property in March 2024: the Met Tower Owners LLC property was valued at € 73 million upon acquisition.

In May 2024, through its Aareon Holding France SAS subsidiary, Aareon acquired 100 % of the shares[1)] in Stonal SAS, a French provider of data management platforms for property owners and investors in Europe. The preliminary purchase price is approximately € 76 million. The preliminary fair value of assets and liabilities amounts to approximately € 17 million, largely comprising € 8 million in software, € 19 million related to client relationships; and € -10 million in other assets and liabilities. The acquisition results in preliminary goodwill of € 59 million, including potential market value effects and synergies. With this acquisition, Aareon will strengthen its portfolio and expertise in the areas of data management and artificial intelligence.

[1)] Aareon will immediately acquire 65 % of the shares, with a put/call option on the remaining 35 % of the shares to be acquired in 2028. A purchase price liability (instead of a non-controlling interest) is recognised in accordance with IFRSs.

In June 2024, through its Aareon Holding GmbH subsidiary, Aareon acquired 100 % of the shares in German Haufe-Lexware Real Estate AG. The purchase price amounted to approximately € 38 million. The preliminary fair value of assets and liabilities amounts to approximately € 8 million, divided into roughly € 3 million in software, € 10 million related to client relationships, € 1 million in brand rights, and € 6 million in liabilities. The acquisition results in a preliminary goodwill of € 27 million. Through this acquisition, Aareon takes over an ERP provider to the property industry with a strong focus on property managers, further strengthening this market segment.

There were no other material changes to the reporting entity structure.

Accounting Policies

Unless specifically indicated otherwise, the accounting policies applied in preparation of the consolidated financial statements 2023 were also applied in preparation of these condensed consolidated interim financial statements, including the calculation of comparative figures.

The following new or amended financial reporting standards (IASs/IFRSs) were required to be applied for the first time in the reporting period:

- **IAS 1 Classification of Liabilities as Current or Non-current**
  The amendments to IAS 1 are meant to clarify the classification of liabilities as current or non-current. In future, only rights that exist as at the end of the reporting period shall be relevant for the classification of a liability. In addition, further guidance as to the interpretation of the criterion "right to defer settlement for at least twelve months" as well as explanations regarding settlement characteristics were included.

- **IFRS 16 Lease Liability in a Sale and Leaseback**
  The amendment includes guidance on subsequent measurement of leases in a sale and leaseback transaction for seller-lessees. The objective of the amendment is primarily to harmonise subsequent measurement of lease liabilities to avoid any inappropriate recognition of gains. In general, the amendment has the effect that the lease payments expected at the commencement date are to be taken into account as part of subsequent measurement of lease liabilities in a sale and leaseback transaction. In each period, the carrying amount of the lease liability is reduced by the expected payments; the difference to the actual payments is recognised through profit or loss.

- **IAS 1 Non-Current Liabilities with Covenants**
  The amendments to IAS 1 serve to clarify the classification of liabilities as current or non-current: only those covenants which an entity must fulfil on or before the reporting date influence classification as current or non-current. However, entities are required to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period.

- **IAS 7 and IFRS 7 Supplier Finance Arrangements**
  The purpose of the amendments is to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments supplement existing disclosure requirements to the effect that entities are required to disclose qualitative and quantitative information on financing arrangements with suppliers.

The new or revised standards did not have any material consequences for the consolidated financial statements of Aareal Bank Group.

Notes to the Statement of Comprehensive Income[1)]

(1) Net interest income

€ mn	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023
Interest income from financial assets (ac and fvoci)	1,346	1,098
Loan receivables	1,179	997
Money market and capital market receivables	167	101
Interest income from financial liabilities (ac)	–	0
Money market and capital market liabilities	–	0
Deposits from the housing industry	–	0
Interest income from financial instruments (fvpl)	34	20
Loan receivables	18	10
Other derivatives	16	10
Market-driven modification gains	0	1
Total interest and similar income	**1,380**	**1,119**
Interest expenses from financial liabilities (ac)	725	486
Money market and capital market liabilities	639	455
Deposits from the housing industry	77	21
Liabilities from other transactions	0	1
Subordinated liabilities	9	9
Interest expenses for financial assets (ac and fvoci)	–	1
Cash funds	–	–
Money market and capital market receivables	–	1
Interest expenses for financial instruments (fvpl)	125	155
Other derivatives	125	155
Market-driven modification losses	0	1
Total interest and similar expenses	**850**	**643**
Total	**530**	**476**

Net interest income of € 530 million was significantly higher than in the previous year (€ 476 million), due to a year-on-year increase in the credit portfolio, good margins as well as the impact of normalised interest rate levels on the continued high volume of deposits.

(2) Loss allowance

€ mn	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023
Additions	256	217
Reversals	109	61
Recoveries on loans and advances previously written off	3	1
Loss allowance – other items	-1	–
Credit-driven net modification gain or loss	20	5
Total	**163**	**160**

[1)] Separate disclosure in accordance with IFRS 5; previous year's figures have been adjusted.

Loss allowance totalled € 163 million (H1 2023: € 160 million), largely attributable to individual new loan defaults of US office properties plus expenses of € 43 million for additions to the existing management overlay.

Model-based Stage 1 and Stage 2 loss allowance was recognised in an aggregate amount of € 68 million, as a result of a post-model adjustment comprising multiple components. A technical overlay of € 51 million is designed to cover three aspects which are currently in the final stages of technical implementation in the production environment. Specifically, these are (i) scenario-based incorporation of prob-abilities of default (PDs) using a forward-looking information (FLI) model based on macroeconomic factors); (ii) incorporating funding risks in estimating lifetime PD; and (iii) calibration effects to be expected in the rating procedure that increase PDs by 10 %. The methodology applied to these aspects is identical to the one used in the 2023 financial statements. In contrast to the approach as at the year-end 2023, the scenarios now incorporate an additional stress scenario (weighted at 20 %) that accounts for roughly € 25 million of the effects. Other than that, the scenario composition has remained unchanged, comprising a base case (36 % weight), three adverse scenarios covering all material risks (such as interest rate levels remaining higher for longer, or an escalation in the Middle East – with a 28 % weight), and a best case (16 % weight). The technical overlay led to the following changes to the individual stages: Stage 1 loss allowance increased by € 11 million, and Stage 2 loss allowance by € 40 million. In addition, we recognised an event-based overlay of € 17 million to account for political developments in Europe and associated uncertainty. We derived this overlay by applying a collective staging approach on the portfolio in France, generally assuming a migration of Stage 1 loss allowance to Stage 2, connected with a rating deterioration.

Please also refer to Note (11).

(3) Net commission income

€ mn	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023
Commission income from		
Recurring services	5	7
Non-recurring services	–	–
Banking business and other activities	18	16
Total commission income	**23**	**23**
Commission expenses for		
Purchased services	–	–
Banking business and other activities	25	6
Total commission expenses	**25**	**6**
Total	**-2**	**17**

Commission income generated in the Banking & Digital Solutions segment remained largely stable year-on-year but was offset by increased commission expenses incurred in connection with the strategic partnership with Aareon and First Financial Software GmbH. Net commission income was reduced accordingly, to € -2 million (H1 2023: € 17 million).

(4) Net derecognition gain or loss

€ mn	1 Jan-30 Jun 2024	1 Jan-30 Jun 2023
Net gain or loss on the derecognition of financial assets (ac)		
Loan receivables	9	2
Money market and capital market receivables	–	2
Net gain or loss on the derecognition of financial liabilities (ac)		
Money market and capital market liabilities	0	3
Net gain or loss on the derecognition of financial assets (fvoci)		
Money market and capital market receivables	0	5
Total	**9**	**12**

Net derecognition gain of € 9 million (H1 2023: € 12 million) was largely attributable to positive market-driven effects from early loan repayments.

(5) Net gain or loss from financial instruments (fvpl)

€ mn	1 Jan-30 Jun 2024	1 Jan-30 Jun 2023
Net gain or loss from loan receivables	-9	-36
Net gain or loss from money market and capital market receivables	-1	0
Net gain or loss from other derivatives	-20	-5
Currency translation	1	0
Total	**-29**	**-41**

As in the previous year, factors influencing net gain or loss from financial instruments (fvpl) included credit-risk induced measurement losses of defaulted property loans, especially in the US.

(6) Net gain or loss from hedge accounting

€ mn	1 Jan-30 Jun 2024	1 Jan-30 Jun 2023
Ineffective portion of fair value hedges	8	0
Ineffective portion of net investment hedges	0	0
Total	**8**	**0**

(7) Administrative expenses

€ mn	1 Jan-30 Jun 2024	1 Jan-30 Jun 2023
Staff expenses	98	84
Wages and salaries	84	68
Social security contributions	10	10
Pensions	4	6
Other administrative expenses	74	81
Depreciation, amortisation and impairment of property and equipment and intangible assets	8	7
Total	**180**	**172**

Administrative expenses were also up slightly, reflecting transaction-related expenses from the planned sale of Aareon.

(8) Net other operating income/expenses

€ mn	1 Jan-30 Jun 2024	1 Jan-30 Jun 2023
Income from properties	22	17
Income from the reversal of provisions	2	11
Income from goods and services	–	0
Other operating income	26	7
Total other operating income	**50**	**35**
Expenses for properties	34	24
Expenses for other taxes	5	2
Other operating expenses	3	3
Total other operating expenses	**42**	**29**
Total	**8**	**6**

Net other operating income/expenses amounted to € 8 million (H1 2023: € 6 million); as in the previous year, the figure included reversals of provisions.

(9) Net income from discontinued operations (Aareon)[1)]

€ mn	1 Jan-30 Jun 2024	1 Jan-30 Jun 2023
Net interest income	-28	-14
Loss allowance	0	0
Net commission income	184	137
Net gain or loss from financial instruments (fvpl)	0	–
Net gain or loss from investments accounted for using the equity method	–	–
Administrative expenses	305	175
Net other operating income/expenses	2	1
Operating profit	**-147**	**-51**
Income taxes	-11	-19
Net from discontinued operations	**-136**	**-32**

At the end of June 2024, Aareal Bank and Advent announced that they had concluded an agreement with TPG, a leading private equity company, and CDPQ, a global investment group, on the acquisition of Aareon. The financial terms of the sale are based on an enterprise value for Aareon Group (with Aareon AG as the parent entity) of approximately € 3.9 billion, corresponding to an equity value of around € 2.1 billion for Aareal Bank's stake in Aareon. Closing is expected to take place in the second half of 2024, subject to customary closing conditions and regulatory approvals.

Net interest income from discontinued operations (Aareon) amounted to € -28 million, reflecting debt-financed M&A activities (H1 2023: € -14 million).

Net commission income increased as planned to € 184 million (H1 2023: € 137 million), also thanks to M&A transactions closed in the previous year. Sales revenues (which are reported in commission income) rose to € 219 million (H1 2023: € 168 million), whilst Aareon's adjusted EBITDA[2)] amounted to € 80 million (H1 2023: € 39 million).

1) IFRS 5 requires the separate presentation of net income from discontinued operations, as well as a breakdown of revenue, expenses, profit or loss and related income taxes, in a separate note to the financial statements.

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

Administrative expenses increased to € 305 million (H1 2023: € 175 million), firstly because of transaction-related expenses totalling around € 150 million from the agreed sale of Aareon which is expected to be closed in the second half of 2024, and secondly due to Aareon's growth. The previous year's figure was burdened by efficiency-enhancement measures amounting to approximately € 55 million.

After taking income taxes into consideration, net income from discontinued operations was € -136 million in the first half of the year (H1 2023: € -32 million).

Notes to the Statement of Financial Position

(10) Financial assets (ac)

€ mn	30 Jun 2024	31 Dec 2023
Cash funds (ac)	**1,658**	**977**
Cash on hand	0	0
Balances with central banks	1,658	977
Loan receivables (ac)	**31,519**	**32,219**
Property loans	31,291	31,973
Public-sector loans	216	232
Other loan receivables	12	14
Money market and capital market receivables (ac)	**4,572**	**5,868**
Money market receivables	1,664	2,977
Promissory note loans	1,079	1,224
Debt securities	1,829	1,667
Receivables from other transactions (ac)	**77**	**117**
Trade receivables	7	50
Other financial receivables	70	67
Total	**37,826**	**39,181**

(11) Loss allowance (ac)

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Position as at 1 January 2024	**38**	**83**	**304**	**3**	**428**
Additions	11	48	187	1	**247**
Utilisation	–	–	138	0	**138**
Reversals	7	38	59	0	**104**
Transfer to Stage 1	2	-2	–	–	**–**
Transfer to Stage 2	-2	8	–6	–	**–**
Transfer to Stage 3	-1	-5	6	–	**–**
Interest rate effect	–	–	12	–	**12**
Currency adjustments	0	2	8	0	**10**
Transfers	–	–	-48	-1	**-49**
Position as at 30 June 2024	**41**	**96**	**266**	**3**	**406**

The loss allowance for financial assets measured at amortised cost refers to loan receivables, money and capital market receivables as well as receivables from other transactions (largely trade receivables) that are measured at amortised cost.

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance(ac)
Position as at 1 January 2023	**42**	**59**	**386**	**3**	**490**
Additions	11	40	162	0	**213**
Utilisation	–	–	238	0	**238**
Reversals	16	30	13	0	**59**
Transfer to Stage 1	5	-5	–	–	**–**
Transfer to Stage 2	-4	4	–	–	**–**
Transfer to Stage 3	–	-4	4	–	**–**
Interest rate effect	–	–	10	–	**10**
Currency adjustments	0	-1	0	0	**-1**
Transfers	–	–	-50	–	**-50**
Position as at 30 June 2023	**38**	**63**	**261**	**3**	**365**

(12) Financial assets (fvoci)

€ mn	30 Jun 2024	31 Dec 2023
Money market and capital market receivables (fvoci)	**4,833**	**4,401**
Bonds	4,833	4,401
Equity instruments (fvoci)	**2**	**2**
Equities and other non-fixed income securities	0	0
Other investments	2	2
Total	**4,835**	**4,403**

(13) Financial assets (fvpl)

€ mn	30 Jun 2024	31 Dec 2023
Loan receivables (fvpl)	**552**	**255**
Property loans	552	255
Money market and capital market receivables (fvpl)	**4**	**6**
Fund units	4	6
Positive market value of designated hedging derivatives (fvpl)	**769**	**831**
Positive market value of fair value hedges	768	826
Positive market value of net investment hedges	1	5
Positive market value of other derivatives (fvpl)	**505**	**707**
Positive market value of economic hedging derivatives	167	271
Positive market value of other derivatives	338	436
Total	**1,830**	**1,799**

(14) Non-current assets and obligations held for sale

Non-current assets held for sale are attributable in the amount of € 1,021 million to discontinued operations (Aareon); € 121 million are attributable to our hotel operations in Italy and € 73 million to four property loans in the US, Italy and Spain (which account for aggregate additions to loss allowance of € 37 million).

€ 1,061 million of non-current obligations held for sale are attributable to discontinued operations (Aareon), with our hotel operations in Italy accounting for € 12 million.

(15) Intangible assets

€ mn	30 Jun 2024	31 Dec 2023
Goodwill	9	486
Proprietary software	29	107
Other intangible assets	6	127
Total	**44**	**720**

The strong reduction in goodwill was almost entirely attributable to the reclassification of Aareon and its related goodwill.

(16) Property and equipment

€ mn	30 Jun 2024	31 Dec 2023
Land and buildings and construction in progress	71	96
Office furniture and equipment	8	23
Total	**79**	**119**

(17) Other assets

€ mn	30 Jun 2024	31 Dec 2023
Properties	506	417
Contract assets	–	23
Miscellaneous	87	102
Total	**593**	**542**

Property holdings increased as a result of the acquisition of a property SPV from a US lending exposure.

(18) Financial liabilities (ac)

€ mn	30 Jun 2024	31 Dec 2023
Money market and capital market liabilities (ac)	**25,690**	**26,675**
Money market liabilities	5,493	6,134
Promissory note loans	2,606	2,662
Mortgage Pfandbriefe	11,550	11,759
Public-sector Pfandbriefe	1,079	1,119
Other debt securities	4,902	5,001
Other financial liabilities	60	-
Deposits from the housing industry (ac)	**12,912**	**12,669**
Payable on demand	8,948	8,816
Term deposits	3,964	3,853
Liabilities from other transactions (ac)	**68**	**649**
Trade payables	16	22
Other liabilities	52	627
Subordinated liabilities (ac)	**267**	**357**
Total	**38,937**	**40,350**

(19) Financial liabilities (fvpl)

€ mn	30 Jun 2024	31 Dec 2023
Negative market value of designated hedging derivatives (fvpl)	**1,298**	**1,321**
Negative market value of fair value hedges	1,288	1,305
Negative market value of net investment hedges	10	16
Negative market value of other derivatives (fvpl)	**1,385**	**1,362**
Negative market value of economic hedging derivatives	467	298
Negative market value of other derivatives	918	1,064
Total	**2,683**	**2,683**

(20) Provisions

€ mn	30 Jun 2024	31 Dec 2023
Provisions for pensions and similar obligations	26	76
Provisions for unrecognised lending business	10	5
Other provisions	94	134
Total	**130**	**215**

Changes in the discount rate applicable to pensions require a revaluation of the amount of obligations. This is recognised directly in other comprehensive income, under changes in the reserve from defined benefit plans. The discount rate rose to 3.59 % as at 30 June 2024 (31 December 2023: 3.15 %). Moreover, the reclassification of Aareon (and the related items) led to the strong reduction in provisions, especially pension provisions.

(21) Other liabilities

€ mn	30 Jun 2024	31 Dec 2023
Lease liabilities	11	37
Deferred income	2	0
Liabilities from other taxes	7	34
Contract liabilities	–	31
Miscellaneous	1	4
Total	**21**	**106**

(22) Equity

€ mn	30 Jun 2024	31 Dec 2023
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	2,112	2,128
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-73	-86
Reserve from the measurement of equity instruments (fvoci)	-4	-4
Reserve from the measurement of debt instruments (fvoci)	-11	-18
Reserve from foreign currency basis spreads	-16	-22
Currency translation reserves	-4	-4
Non-controlling interests	76	105
Total	**3,281**	**3,300**

The item “Reserve from the measurement of debt instruments (fvoci)” includes loss allowance of € 1 million (31 December 2023: € 1 million).

Treasury shares

No treasury shares were held during the period under review.

Distributions

The Annual General Meeting on 3 May 2024 resolved that the net retained profit of € 452,310,000.00 for the 2023 financial year, as reported under the German Commercial Code (HGB), be carried forward.

In addition, on 30 April 2024, the Management Board resolved on a distribution in relation to the AT1 instruments, in accordance with the terms and conditions of the notes.

Within Aareal Bank Group’s consolidated statement of financial position, a distribution on the AT1 bond reduces the retained earnings item within consolidated equity.

Notes to Financial Instruments

A detailed description of the system in place at Aareal Bank Group to measure, limit, and manage risks throughout the Group is presented in the Risk Report as part of the Interim Group Management Report. The disclosures on the description and the extent of the risks arising from financial instruments in accordance with IFRS 7 are included (in part) in the Risk Report.

(23) Determination of fair value

The determination of fair value is governed by IFRS 13 and applies to both financial instruments and non-financial assets or liabilities. In accordance with IFRS 13.9, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction under current market conditions at the measurement date. The determination of the fair value is based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Another factor to be taken into account is whether Aareal Bank can enter into a transaction for the relevant asset or liability at the price in that market at the measurement date. The principal market is the market with the greatest volume and the highest level of activity for the asset or liability to which Aareal Bank has access. The most advantageous market is the market that maximises the amount that would be received to sell the asset, or minimises the amount that would be paid to transfer the liability.

Fair value hierarchy

In accordance with IFRS 13.72 et seqq., the fair value determination is based on the fair value hierarchy pursuant to which the inputs used are classified into various hierarchy levels on the basis of their respective market proximity and objectivity. The fair value of assets and liabilities is allocated to Level 1 of the fair value hierarchy if it is determined on the basis of unadjusted qualifying prices in active markets for identical assets or liabilities. Fair values determined using inputs other than qualifying prices included within Level 1 that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of the fair value hierarchy. Fair values determined using valuation techniques where one or more material inputs are not based on observable market data are assigned to Level 3 of the fair value hierarchy. The estimation uncertainties as regards fair value measurement increase the higher the level is.

Measurement methods

The property and public-sector loans included in loan receivables are measured using the discounted cash flow method for the purpose of the determination of fair value. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for risks specific to the counterparty as well as credit costs. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions. In the case of defaulted loans, future cash flows are reduced by the expected losses.

Debt securities and promissory note loans for which no current market price is available in an active market are measured through an analysis of future payments using the fully-capitalised earnings value approach, where the inputs are based on observable market data to the extent possible. These approaches include the discounted cash flow (DCF) method which is used to determine the present value of contractual cash flows until the expected end of the term. The present value is determined based on the benchmark curve applicable for the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or numerical procedures.

In the case of unquoted financial investments in equity instruments, the costs of acquisition may also be the best estimate of fair value. Their recoverability is reviewed regularly.

The fair value of OTC derivatives is determined on the basis of sector-specific standardised measurement models, such as the present value method or option pricing models. These techniques are based on inputs of active markets, such as interest rates, yield curves and credit spreads. The fair value of foreign exchange forwards is generally based on current forward exchange rates quoted on active markets. Since the derivatives are part of highly effective collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives Transactions) which are each subject to a master collateralisation agreement, measurement adjustments to reflect any potential counterparty credit risk or own credit risk (CVA and DVA) are not required for reasons of materiality. The Bank uses the overnight interest rate swap curve (OIS curve) for the measurement of derivatives secured by cash collateral.

Amortised cost is an adequate estimate of fair value for cash funds, other loan receivables as well as short-term money market receivables and liabilities.

(24) Fair value hierarchy in accordance with IFRS 13

The carrying amounts of financial instruments held by Aareal Bank Group which are reported at fair value in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument:

30 June 2024

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**4,835**	**4,693**	**140**	**2**
Money market and capital market receivables (fvoci)	4,833	4,693	140	–
Equity instruments (fvoci)	2	–	0	2
Financial assets (fvpl)	**1,830**	**0**	**1,274**	**556**
Loan receivables (fvpl)	552	–	–	552
Money market and capital market receivables (fvpl)	4	0	–	4
Positive market value of designated hedging derivatives (fvpl)	769	–	769	–
Positive market value of other derivatives (fvpl)	505	–	505	–
Financial liabilities (fvpl)	**2,683**	**–**	**2,683**	**–**
Negative market value of designated hedging derivatives (fvpl)	1,298	–	1,298	–
Negative market value of other derivatives (fvpl)	1,385	–	1,385	–

31 December 2023

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**4,403**	**4,160**	**241**	**2**
Money market and capital market receivables (fvoci)	4,401	4,160	241	–
Equity instruments (fvoci)	2	–	0	2
Financial assets (fvpl)	**1,799**	**0**	**1,539**	**260**
Loan receivables (fvpl)	255	–	–	255
Money market and capital market receivables (fvpl)	6	0	1	5
Positive market value of designated hedging derivatives (fvpl)	831	–	831	–
Positive market value of other derivatives (fvpl)	707	–	707	–
Financial liabilities (fvpl)	**2,683**	**–**	**2,683**	**–**
Negative market value of designated hedging derivatives (fvpl)	1,321	–	1,321	–
Negative market value of other derivatives (fvpl)	1,362	–	1,362	–

During the first six months of the financial year 2024, financial assets (fvoci) € 14 million were transferred from Level 1 to Level 2, and € 9 million from Level 2 to Level 1.

The fair values of loan receivables recognised at fair value in the statement of financial position that are assigned to Level 3 of the fair value hierarchy developed as follows during the period under review:

Loan receivables (fvpl)

€ mn	2024	2023
Fair value as at 1 January	**255**	**427**
Change in measurement	**-4**	**-36**
Portfolio changes		
Additions	301	66
Derecognition	1	173
Deferred interest	1	-1
Fair value as at 30 June	**552**	**283**

Financial instruments held in the Bank's portfolio contributed € -12 million to the net gain or loss from financial instruments fvpl (H1 2023: € -40 million).

Regarding loan receivables (fvpl), the add-ons for risks specific to the counterparty represent the material input parameter not observable in the market. Regarding the non-defaulted loans, an increase/decrease by 1 % would lead to a decrease/increase of the fair value by approximately € 5 million (H1 2023: approximately € 4 million).

(25) Comparison of carrying amounts and fair values of financial instruments

The fair values of financial instruments are compared with their carrying amounts (including loss allowance) in the following table. The presentation is made for each class of financial instrument:

€ mn	30 Jun 2024 Carrying amount	30 Jun 2024 Fair Value	31 Dec 2023 Carrying amount	31 Dec 2023 Fair Value
Financial assets (ac)	**37,419**	**37,355**	**38,753**	**38,635**
Cash funds (ac)	1,658	1,658	977	977
Loan receivables (ac)	31,116	31,213	31,795	31,847
Money market and capital market receivables (ac)	4,571	4,420	5,867	5,708
Receivables from other transactions (ac)	74	64	114	103
Financial assets (fvoci)	**4,833**	**4,835**	**4,402**	**4,403**
Money market and capital market receivables (fvoci)	4,831	4,833	4,400	4,401
Equity instruments (fvoci)	2	2	2	2
Financial assets (fvpl)	**1,830**	**1,830**	**1,799**	**1,799**
Loan receivables (fvpl)	552	552	255	255
Money market and capital market receivables (fvpl)	4	4	6	6
Positive market value of designated hedging derivatives (fvpl)	769	769	831	831
Positive market value of other derivatives (fvpl)	505	505	707	707
Financial liabilities (ac)	**38,937**	**38,712**	**40,350**	**40,062**
Money market and capital market liabilities (ac)	25,690	25,461	26,675	26,381
Deposits from the housing industry (ac)	12,912	12,912	12,669	12,669
Liabilities from other transactions (ac)	68	68	649	649
Subordinated liabilities (ac)	267	271	357	363
Financial liabilities (fvpl)	**2,683**	**2,683**	**2,683**	**2,683**
Negative market value of designated hedging derivatives (fvpl)	1,298	1,298	1,321	1,321
Negative market value of other derivatives (fvpl)	1,385	1,385	1,362	1,362

Segment Reporting

(26) Segment results[1)]

€ mn	Structured Property Financing		Banking & Digital Solutions		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023
Net interest income	395	365	135	111	0	0	530	476
Loss allowance	163	160	0	0	0		163	160
Net commission income	1	1	-3	16	0	0	-2	17
Net derecognition gain or loss	9	12					9	12
Net gain or loss from financial instruments (fvpl)	-28	-41	-1	0			-29	-41
Net gain or loss from hedge accounting	8	0					8	0
Net gain or loss from investments accounted for using the equity method								
Administrative expenses	132	120	48	52	0	0	180	172
Net other operating income/expenses	9	7	-1	-1	0	0	8	6
Operating profit from continuing operations	**99**	**64**	**82**	**74**	**0**	**0**	**181**	**138**
Income taxes	27	25	26	23			53	48
Net income from continuing operations	**72**	**39**	**56**	**51**	**0**	**0**	**128**	**90**
Net income from discontinued operations					-136	-32	-136	-32
Consolidated net income	**72**	**39**	**56**	**51**	**-136**	**-32**	**-8**	**58**
Consolidated net income/loss attributable to non-controlling interests	0	0	0	0	-30	-9	-30	-9
Consolidated net income attributable to shareholders of Aareal Bank AG	72	39	56	51	-106	-23	22	67
Allocated equity[2)]	1,632	1,508	415	405	830	985	2,877	2,898
RoE after taxes from continuing operations (%)[3) 4)]	7.0	4.1	26.9	25.1			9.9	6.2
Employees (average)	**816**	**747**	**385**	**475**	**2,257**	**2,118**	**3,458**	**3,340**
Segment assets	**31,128**	**34,757**	**13,843**	**13,534**	**1,318**	**738**	**46,289**	**49,029**

1) Presentation in line with the structure prescribed by IFRS 5. Details regarding the number of employees and segment assets at Group level include Aareon.
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%.
3) On an annualised basis
4) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Commission income from contracts with clients (revenue within the meaning of IFRS 15) is allocated to the segments as follows:

	Structured Property Financing		Banking & Digital Solutions		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023	1 Jan - 30 Jun 2024	1 Jan - 30 Jun 2023
€ mn								
Recurring services		2	5	5			5	7
Non-recurring services								
Banking business and other activities	6	2	12	14			18	16
Total	**6**	**4**	**17**	**19**			**23**	**23**

Other Notes

(27) Contingent liabilities and loan commitments

	30 Jun 2024	31 Dec 2023
€ mn		
Contingent liabilities	147	141
Loan commitments	1,361	1,430
of which: irrevocable	1,120	1,185

(28) Employees

The number of Aareal Bank Group employees is shown below:

	30 Jun 2024[1]	Average 1 Jan - 30 Jun 2024[2]	31 Dec 2023[1]	Average 1 Jan - 31 Dec 2023[2]
Salaried employees	3,281	3,277	3,281	3,168
Executives	181	181	182	178
Total	**3,462**	**3,458**	**3,463**	**3,346**
of which: part-time employees	635	628	728	700

[1] This number does not include 301 employees of the hotel business (31 December 2023: 37 employees).
[2] This number does not include 200 employees of the hotel business (1 January to 31 December 2023: 186 employees).

(29) Related party disclosures in accordance with IAS 24

Transactions with related parties occurred during the reporting period. One member of the Management Board, one member of the Supervisory Board and one related company of a Supervisory Board member of Aareal Bank AG made a regular way purchase of debt securities totalling € 1.2 million.

(30) Events after the interim reporting period

There were no material events after the end of the interim reporting period which would require reporting here.

(31) Executive bodies of Aareal Bank AG

Supervisory Board

Jean Pierre Mustier [1) 2)]
(since 10 August 2023)
Chairman of the Supervisory Board
(since 15 January 2024)
Former CEO of UniCredit S.p.A. and former President of the European Banking Federation

Sylwia Bach [5) 6)]
Aareon Deutschland GmbH

Henning Giesecke [2) 3) 4)]
Former Chief Risk Officer of UniCredit S.p.A. and UniCredit Bank AG

Denis Hall [3) 4) 5)]
Chairman of the Audit Committee
Former Chief Risk Officer Global Consumer Banking of GE Capital EMEA

Petra Heinemann-Specht [2) 3) 4) 6)]
Aareal Bank AG

Barbara Knoflach [1) 4) 5)]
Deputy Chairwoman of the Supervisory Board
Former Global Head of BNP Paribas Real Estate Investment Management and Deputy Chief Executive Officer of BNP Paribas Real Estate S.A.

Jan Lehmann [3) 5) 6)]
Aareon Deutschland GmbH

Hans-Hermann Lotter [1) 2) 3)]
Deputy Chairman of the Supervisory Board
Self-employed consultant for private equity investments, mergers, takeovers and restructurings, and Managing Director of Atlantic BidCo GmbH

Marika Lulay [1) 5)]
Chairwoman of the Technology and Innovation Committee
Chief Executive Officer and Managing Director of GFT Technologies SE

Klaus Novatius [1) 2) 6)]
Deputy Chairman of Aareal Bank AG's Supervisory Board

José Sevilla Álvarez [1) 3) 4) 5)]
Chairman of the Risk Committee
Former Chief Executive Officer of Bankia S.A.

Maximilian Rinke [2) 3) 4)]
(since 3 May 2024)
Senior Managing Director, Centerbridge Partners
Managing Director of MR Ventures UG

Prof. Dr Hermann Wagner [1) 2) 3) 4)]
(until 3 May 2024)
Chairman of the Supervisory Board
(until 23 January 2024)
Chartered accountant and tax adviso

Management Board

Jochen Klösges
Chairman of the Management Board
(until 31 July 2024)

Dr Christian Ricken
Chairman of the Management Board
(from 1 August 2024)

Nina Babic
Member of the Management Board

Marc Hess
Member of the Management Board

Christof Winkelmann
Member of the Management Board

[1)] Member of the Executive and Nomination Committee; [2)] Member of the Remuneration Control Committee; [3)] Member of the Audit Committee;
[4)] Member of the Risk Committee; [5)] Member of the Technology and Innovation Committee; [6)] Elected by employees

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Wiesbaden, 31 July 2024

The Management Board

Jochen Klösges **Nina Babic**

Marc Hess **Christof Winkelmann**

Review Report

We have reviewed the condensed interim consolidated financial statements as of 30 June 2024 of Aareal Bank AG, Wiesbaden – which comprise the statement of financial position as of 30 June 2024, statement of comprehensive income, statement of changes in equity, statement of cash flows – condensed – and the notes to the financial statements – condensed – together with the interim group management report for the period from 1 January to 30 June 2024. The preparation of the condensed interim consolidated financial statements in accordance with IAS 34 "Interim Financial Reporting", and of the interim group management report in accordance with the requirements applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34 "Interim Financial Reporting", and that the interim group management report has not been prepared, in material respects, in accordance with the requirements applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, "Interim Financial Reporting", or that the interim group management report has not been prepared, in material respects, in accordance with the requirements applicable to interim group management reports.

This report is addressed to Aareal Bank AG for information purposes. Aareal Bank AG may point out that we have reviewed the condensed interim consolidated financial statements as at 30 June 2024 in accordance with IDW PS 900 and are using this certificate for communication purposes instead of the non-reviewed financial statements in accordance with section 115 WpHG. Any other use of this certificate vis-à-vis third parties or its use in sales prospectuses or other similar public documents or media is excluded.

The engagement, in the performance of which we provided the aforementioned services for Aareal Bank AG, was based on the General Engagement Terms for German Public Auditors and German Public Audit Firms dated 1 January 2024. By acknowledging and using the information contained in this report, the recipient confirms that he has taken note of the provisions made therein (including the liability provision under No. 9 of the General Engagement Terms) and acknowledges their validity in relation to us.

Frankfurt/Main, 2 August 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Wiechens	**Winner**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
[German Public Auditor]	**[German Public Auditor]**

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The German version shall be authoritative.

Aareal Bank Group

08/2024

Aareal

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