

Aareal Bank Group – Interim Financial Information

1 January to
31 March 2024

Key Indicators

	1 Jan – 31 Mar 2024	1 Jan – 31 Mar 2023		31 Mar 2024	31 Dec 2023
Results			Moody's		
Operating profit (€ mn)	103	62	Issuer rating	Baa1	A3
Consolidated net income (€ mn)	73	42	Senior Preferred	Baa1	A3
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	63	47	Senior Non-Preferred	Baa3	Baa2
Cost/income ratio (%) ²⁾	31.7	34.7	Bank deposit rating	Baa1	A3
Earnings per ordinary share (€) ¹⁾	1.05	0.78	Outlook	Negative	Negative
RoE before taxes (%) ¹⁾³⁾	12.8	9.0	Mortgage Pfandbrief Rating	Aaa	Aaa
RoE after taxes (%) ¹⁾³⁾	8.7	6.4			
	31 Mar 2024	31 Dec 2023	Fitch Ratings⁵⁾		
Statement of Financial Position			Issuer default rating	BBB	BBB
Property finance (€ mn)	32,140	32,876	Senior Preferred	BBB+	BBB+
Equity (€ mn)	3,385	3,300	Senior Non-Preferred	BBB	BBB
Total assets (€ mn)	47,438	46,833	Deposit ratings	BBB+	BBB+
			Outlook	stable	stable
Regulatory Indicators⁴⁾			ESG Ratings⁶⁾		
Basel IV (phase-in)			MSCI	AA	AA
Risk-weighted assets (€ mn)	13,768	13,720	ISS-ESG	prime (C)	prime (C)
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.7	19.4	CDP	Management Level B	Management Level B
Tier 1 ratio (T1 ratio) (%)	21.9	21.6			
Total capital ratio (TC ratio) (%)	23.7	23.5			
Employees	3,457	3,463			

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

⁴⁾ 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.

31 March 2024: inclusive of the interim profits for 2024 less the pro-rata dividend in accordance with the dividend policy and pro-rata accrual of the interest payable 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 31 March 2024, was 18.5%, reflecting the fact that the Bank had not submitted an application for inclusion of profits on that reporting date to the ECB.

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.

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

2	Key Indicators
4	Business Development
4	Key Events and Transactions
4	Report on the Economic Position
4	Financial Performance
6	Financial Position – Assets
7	Financial Position – Equity and Liabilities
7	Report on Changed Forecasts
8	Events after the Reporting Date
8	Segment Results
9	Financial Calendar
9	Imprint

Business Development

Key Events and Transactions

Aareal Bank Group has started the 2024 financial year with strong results: the Bank is making good progress in achieving consolidated operating profit in a range between € 300 million and € 350 million for the year as a whole. We refer to our comments in the Report on Changed Forecasts.

Yet the environment remains challenging, especially in the US office property market, and the impact of geopolitical and macro-economic uncertainty remains difficult to predict.

Our business has performed well in all segments.

In the Structured Property Financing segment, the Bank originated new business on a selective basis during the first quarter of 2024, faced with volatile markets and low transaction volumes. Nonetheless, we maintain our target for new business, and for a year-end portfolio size of around € 33 billion to € 34 billion. In the Banking & Digital Solutions segment, the average volume of customer deposits of € 13.9 billion has remained above the anticipated level of around € 13 billion.

Aareon was able to further increase sales revenues, as well as the share of recurring revenues, also thanks to M&A transactions closed in the previous year. On 2 January 2024, Aareon Nederland 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. With this acquisition, Aareon is strengthening its portfolio of business intelligence solutions within the Group, offering added value to its clients in the increasingly important area of data management. Moreover, at the beginning of May, Aareon undertook a strategic investment and acquired a majority stake in Stonal, a PropTech and a leading data management platform for property owners and investors in Europe. The investment is set to accelerate the European expansion of both enterprises and to build AI technology expertise within Aareon Group.

Report on the Economic Position

Financial Performance

	1 Jan - 31 Mar 2024	1 Jan - 31 Mar 2023
€ mn		
Net interest income	254	222
Loss allowance	83	32
Net commission income	86	72
Net derecognition gain or loss	3	0
Net gain or loss from financial instruments (fvpl)	-18	-6
Net gain or loss from hedge accounting	8	4
Net gain or loss from investments accounted for using the equity method	-	-
Administrative expenses	147	199
Net other operating income/expenses	0	1
Operating profit	103	62
Income taxes	30	20
Consolidated net income	73	42
Consolidated net income attributable to non-controlling interests	2	-9
Consolidated net income attributable to shareholders of Aareal Bank AG	71	51

>

€ mn	1 Jan – 31 Mar 2024	1 Jan – 31 Mar 2023
Earnings per share (EpS)		
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	71	51
of which: allocated to ordinary shareholders	63	47
of which: allocated to AT1 investors	8	4
Earnings per ordinary share (€) ²⁾	1.05	0.78
Earnings per AT1 unit (€) ³⁾	0.08	0.04

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

²⁾ Earnings per ordinary share are determined by dividing the earnings allocated to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.

³⁾ Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings attributable to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Basic earnings per AT1 unit correspond to diluted earnings per AT1 unit.

At € 103 million, consolidated operating profit for the first quarter of the financial year significantly exceeded the previous year's figure of € 62 million, thanks to strong income growth and the abolition of the bank levy; the previous year's figure was also influenced by one-off expenses for efficiency-enhancement measures at Aareon. Consolidated net income amounted to € 73 million (Q1 2023: € 42 million).

Net interest income of € 254 million was significantly higher than in the previous year (Q1 2023: € 222 million), due to a year-on-year increase in the credit portfolio, good margins as well as the impact of higher interest rates on the enlarged volume of deposits.

As expected, loss allowance of € 83 million remained at a high level in the first quarter (Q1 2023: € 32 million) and within the framework of the full-year planning. This includes a management overlay of € 56 million (consisting of € 29 million in Stage 1 and Stage 2 and € 27 million in Stage 3), to reflect the persistent challenges in the US office property market at an early stage and as comprehensively as possible.

Net commission income increased to € 86 million (Q1 2023: € 72 million), especially due to higher commission income at Aareon. Aareon was able to increase sales revenue (included in commission income) to € 108 million, compared to € 83 million in the same quarter of the previous year, also thanks to M&A transactions closed in the previous year. Aareon's adjusted EBITDA⁴⁾ amounted to € 40 million (Q1 2023: € 18 million).

Net derecognition gain of € 3 million (Q1 2023: € 0 million) was largely attributable to positive market-driven effects from early loan repayments.

Net gain or loss from financial instruments (fvpl) and from hedge accounting in the aggregate amount of € -10 million (Q1 2023: € -2 million) includes negative credit risk-induced valuation losses on defaulted US office property loans.

Despite strong growth, administrative expenses declined to € 147 million (Q1 2023: € 199 million), reflecting the abolition of the bank levy and the fact that one-off expenses for efficiency-enhancement measures at Aareon were no longer incurred in the current year. Taking the abolition of the bank levy into account, the Bank's costs have remained stable year-on-year: at 32% (Q1 2023: 35% – excluding bank levy and contributions to the deposit guarantee scheme, as is customary in the banking sector), the cost/income ratio remained at a very low – and thus very good – level during the quarter under review, even in an international comparison.

Net other operating income/expenses amounted to € 0 million (Q1 2023: € 1 million).

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

Overall, consolidated operating profit for the quarter under review was € 103 million (Q1 2023: € 62 million). Taking into consideration tax expenses of € 30 million and non-controlling interest income of € 2 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 71 million (Q1 2023: € 51 million). Earnings per ordinary share amounted to € 1.05 (Q1 2023: € 0.78), and RoE after taxes to 8.7% (Q1 2023: 6.4%).

Financial Position – Assets

€ mn	31 Mar 2024	31 Dec 2023
Assets		
Financial assets (ac)	39,250	39,181
Cash funds (ac)	3,153	977
Loan receivables (ac)	31,418	32,219
Money market and capital market receivables (ac)	4,555	5,868
Receivables from other transactions (ac)	124	117
Loss allowance (ac)	-392	-428
Financial assets (fvoci)	4,715	4,403
Money market and capital market receivables (fvoci)	4,713	4,401
Equity instruments (fvoci)	2	2
Financial assets (fvpl)	1,920	1,799
Loan receivables (fvpl)	438	255
Money market and capital market receivables (fvpl)	5	6
Positive market value of designated hedging derivatives (fvpl)	799	831
Positive market value of other derivatives (fvpl)	678	707
Non-current assets held for sale	212	215
Investments accounted for using the equity method	9	8
Intangible assets	716	720
Property and equipment	115	119
Income tax assets	46	52
Deferred tax assets	230	222
Other assets	617	542
Total	47,438	46,833

At € 47.4 billion, Aareal Bank Group's consolidated total assets were virtually unchanged compared with the previous year-end.

The volume of Aareal Bank Group's property financing portfolio amounted to € 32.1 billion (31 December 2023: € 32.9 billion). New business originated during the first quarter of 2024 totalled € 0.9 billion (Q1 2023: € 1.1 billion), reflecting the Bank's selective approach in view of volatile markets and low transaction volumes; the total figure comprised approximately € 247 million in green financings¹⁾. The non-current assets held for sale relate to our hotel operations in Italy and two property loans in Italy and the US.

¹⁾ 'Green' financings meet the high energy efficiency requirements of the Aareal Green Finance Framework, and the client undertakes to meet these requirements throughout the term of the loan.

Financial Position – Equity and Liabilities

€ mn	31 Mar 2024	31 Dec 2023
Equity and liabilities		
Financial liabilities (ac)	40,839	40,350
Money market and capital market liabilities (ac)	27,117	26,675
Deposits from the housing industry (ac)	12,617	12,669
Liabilities from other transactions (ac)	832	649
Subordinated liabilities (ac)	273	357
Financial liabilities (fvpl)	2,694	2,683
Negative market value of designated hedging derivatives (fvpl)	1,310	1,321
Negative market value of other derivatives (fvpl)	1,384	1,362
Non-current liabilities held for sale	11	7
Provisions	211	215
Income tax liabilities	152	126
Deferred tax liabilities	44	46
Other liabilities	102	106
Equity	3,385	3,300
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	2,199	2,128
AT1 bond	300	300
Other reserves	-126	-134
Non-controlling interests	111	105
Total	47,438	46,833

At € 47.4 billion, Aareal Bank Group's consolidated total equity and liabilities were virtually unchanged compared with the previous year-end. The average volume of deposits from the housing industry of € 13.9 billion has continued to exceed the anticipated level of around € 13 billion (full year 2023: € 13.6 billion) during the first quarter of 2024.

Aareal Bank Group successfully raised € 521 million on the capital markets during the first quarter of 2024, including a € 500 million benchmark Pfandbrief issue.

Report on Changed Forecasts

Thanks to the strong first-quarter results, Aareal Bank Group is making good progress towards achieving consolidated operating profit for the full year in the communicated range between € 300 million and € 350 million (2023: € 149 million). Accordingly, both earnings per share (EpS) (2023: € 0.69) and RoE after taxes (2023: 1.4 %) are set to rise significantly compared to the previous year.

Yet the environment remains challenging, especially in the US office property market, and the impact of geopolitical and macro-economic uncertainty remains difficult to predict.

Events after the Reporting Date

The ordinary Annual General Meeting on 3 May 2024 approved the squeeze-out of minority shareholders under company law. The relevant resolution provides for minority shareholders to transfer their shares to Atlantic BidCo GmbH, Aareal Bank's main shareholder, against a cash compensation of € 33.20 per share. The squeeze-out has no immediate financial impact on the Company.

There were no other material events after the reporting period which would have to be reported here.

Segment Results

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan – 31 Mar 2024	1 Jan – 31 Mar 2023	1 Jan – 31 Mar 2024	1 Jan – 31 Mar 2023	1 Jan – 31 Mar 2024	1 Jan – 31 Mar 2023	1 Jan – 31 Mar 2024	1 Jan – 31 Mar 2023	1 Jan – 31 Mar 2024	1 Jan – 31 Mar 2023
€ mn										
Net interest income	203	176	65	52	-14	-6	0	0	254	222
Loss allowance	83	32	0	0	0	0			83	32
Net commission income	-1	0	-1	8	90	67	-2	-3	86	72
Net derecognition gain or loss	3	0							3	0
Net gain or loss from financial instruments (fvpl)	-17	-6	-1	0		0			-18	-6
Net gain or loss from hedge accounting	8	4							8	4
Net gain or loss from investments accounted for using the equity method										
Administrative expenses	59	74	24	32	66	96	-2	-3	147	199
Net other operating income/expenses	0	0	-1	0	1	1	0	0	0	1
Operating profit	54	68	38	28	11	-34	0	0	103	62
Income taxes	12	15	12	9	6	-4			30	20
Consolidated net income	42	53	26	19	5	-30	0	0	73	42
Consolidated net income attributable to non-controlling interests	0	0	0	0	2	-9			2	-9
Consolidated net income attributable to shareholders of Aareal Bank AG	42	53	26	19	3	-21	0	0	71	51
Allocated equity ¹⁾	1,567	1,474	416	413	79	43	853	979	2,915	2,909
RoE after taxes (%) ²⁾³⁾	8.7	13.2	24.9	18.7	15.7	-198.7			8.7	6.4

¹⁾ 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%.

²⁾ On an annualised basis

³⁾ The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Financial Calendar

8 August 2024

Publication of results as at 30 June 2024

7 November 2024

Publication of results as at 30 September 2024

Imprint

Contents:

Aareal Bank AG, Group Communications

Layout/Design:

S/COMPANY · Die Markenagentur GmbH, Fulda, Germany

This report is also available in German language.

The German version shall be authoritative.



**Aareal Bank
Group**

Aareal
YOUR COMPETITIVE ADVANTAGE.