

PRESS RELEASE

Aareal Bank posts a very good start to the 2024 financial year

- Consolidated operating profit rises to € 103 million in the first quarter, reaching the highest level since 2018
- Strong earnings power: net interest income of € 254 million, net commission income grows to € 86 million
- Risk provisions of € 83 million, including a € 56 million management overlay, remain at an elevated level, reflecting challenges on the US office property market
- NPL reduction in excess of € 500 million successfully implemented
- Common Equity Tier 1 ratio rises to 19.7 per cent
- Aareon's adjusted EBITDA more than doubled to € 40 million
- CEO Jochen Klösger: "The good start to the year demonstrates once again the extent to which Aareal Bank Group has been able to increase its earnings power in recent years. This is especially important in times like these. Thanks to our high operational resilience, we are well prepared for the current challenges."

Wiesbaden, 15 May 2024 – Aareal Bank Group achieved very good results for the first quarter of 2024: consolidated operating profit of € 103 million was up by 66 per cent year-on-year (Q1 2023: € 62 million), reaching the highest level since 2018. The Bank accounted for around € 92 million of consolidated operating profit. Higher income and lower costs clearly offset risk provisions of € 83 million, which remain at an elevated level but within the framework of full-year planning. Aareal Bank was able to reduce more than € 500 million in non-performing loans (NPLs) during the first quarter, as announced. Software subsidiary Aareon has also developed favourably, with sales revenue increasing by 31 per cent and adjusted EBITDA by 115 per cent. Aareon also successfully continued its M&A activities, making further acquisitions.

Chief Executive Officer **Jochen Klösger** said: "The good start to the year demonstrates once again the extent to which Aareal Bank Group has been able to increase its earnings power in recent years. This is especially important in times like these. Thanks to our high operational resilience, we are well prepared for the current challenges."

Net interest income rose by 14 per cent in the first quarter, to € 254 million (Q1 2023: € 222 million). The higher portfolio volume compared to the same quarter of the previous year and the good margins on new business originated in previous quarters had a positive impact here, whilst the deposit-taking business continued to benefit from normalised interest rate levels.

Net commission income also continued to increase, rising 19 per cent compared to the same quarter of the previous year, to reach € 86 million (Q1 2023: € 72 million), driven by Aareon's strong sales revenue growth in particular.

As expected, **risk provisions** of € 83 million remained at an elevated level in the first quarter (Q1 2023: € 32 million). This includes a management overlay of € 56 million, to reflect the persistent challenges in the US office property market at an early stage and as comprehensively as possible. Together with risk provisions booked as valuation adjustments in net gain or loss from financial instruments (fvpl), total risk provisions amounted to € 86 million in the first quarter (Q1 2023: € 35 million).

Administrative expenses amounted to € 147 million, significantly lower than in the same quarter of the previous year (Q1 2023: € 199 million). Besides continued cost discipline, lower expenses for the bank levy and deposit protection contributions, which are regularly posted for the full year during the first quarter, also contributed to the lower figure. Furthermore, the previous year's quarter was influenced by significant investments made by Aareon. The Bank's cost/income ratio remained at a very good level of 32 per cent for the first quarter of 2024 (Q1 2023: 35 per cent).

Considering taxes of € 30 million, **consolidated net income** was € 73 million (Q1 2023: € 42 million).

Capital position remained very solid during in the first quarter. Despite the challenging situation on the US office property market, Aareal Bank managed to increase its **Common Equity Tier 1 ratio** (Basel IV phase-in ratio) to a very comfortable 19.7 per cent (31 Dec 2023: 19.4 per cent). The **Total Capital Ratio** stood at 23.7 per cent (31 December 2023: 23.5 per cent).

One focal aspect of **funding activities** was the continued expansion of retail deposits: the volume of fixed-interest retail deposits sourced through platforms rose to € 3 billion (31 Dec 2023: € 2.6 billion). Whilst deposits were sourced from Germany to date, the Bank extended deposit-taking activity to the Netherlands and Austria in order to further diversify the deposits base and plans further geographic expansion for the future. The Bank also issued a benchmark Pfandbrief of € 500 million.

Chief Financial Officer **Marc Hess** said: "Capital markets were characterised by strong volatility during the first quarter. Thanks to our very successful broadening of the funding mix, only a small amount of capital markets funding was required in this environment. Deposits from private investors are now an integral part of our funding, which we want to further diversify in the future. Our liquidity indicators also remain at a very good level."

Developments by business segment

As announced at the annual press conference in February, as planned, Aareal Bank reduced its portfolio of non-performing loans (NPLs) for US office properties in the **Structured Property Financing** segment, during the first quarter. No further risk provisions were required for that reduction, and only one new NPL case occurred. As of the end of March, the NPL portfolio was down to € 1.1 billion (31 Dec 2023: € 1.6 billion); the NPE ratio fell correspondingly to 2.9 per cent (31 Dec 2023: 3.4 per cent).

In view of volatile markets and low transaction volumes, Aareal Bank originated new business on a selective basis, totalling € 0.9 billion in the first three months of the current financial year (Q1 2023: € 1.1 billion), including € 0.7 billion in newly-originated loans. Margins on new business remained good, and loan-to-value ratios low. Portfolio volume at the end of the first quarter totalled € 32.1 billion, slightly lower than at the end of 2023 (31 Mar 2023: € 30.7 billion; 31 Dec 2023: € 32.9 billion). Average loan-to-value ratios in the existing portfolio of only 56 per cent reflect the high quality of financings in the Bank's credit portfolio.

Aareal Bank also extended its largest "green" loan to date in the Asia/Pacific region in the first quarter: it financed a hotel portfolio of five properties in Australia for Pro-Invest Group. The total volume of green financings in Aareal Bank's credit portfolio rose to € 5.5 billion at the end of March.

In the **Banking & Digital Solutions segment**, net interest income rose to € 65 million in the first quarter (Q1 2023: € 52 million), reflecting normalised interest rate levels in conjunction with the continued high volume of client deposits from the housing and energy industries. At € 13.9 billion, the average volume in the first quarter remained well above the targeted level of around € 13 billion.

The first quarter also saw the establishment of a joint venture, First Financial Software GmbH, expanding the foundations for long-term cooperation between Aareal Bank and Aareon and further strengthening the Group's banking and software businesses.

Software subsidiary **Aareon** saw its sales revenues rise by 31 per cent to € 108 million in the first quarter, up 31 per cent (Q1 2023: € 83 million). The share of recurring revenue compared to total sales revenues increased to 83 per cent (Q1 2023: 75 per cent). Adjusted EBITDA more than doubled to € 40 million in the first quarter (Q1 2023: € 18 million).

Aareon is thus on track to achieve its sales revenue and profit targets for 2024. Aareon also continued its M&A activities: in January, it acquired Blue-Mountain Group B.V., a Dutch provider of business intelligence solutions for housing associations, healthcare and education institutions. Aareon announced a strategic investment in Stonal, a French proptech, at the beginning of May. Stonal is one of the leading data management platforms for property owners and investors in Europe. Its collaborative, AI-driven platform supports decision-making, facilitating ESG reporting and investment planning alongside other functions. With both investments, Aareon is thus strengthening its portfolio within the Group, offering its clients added value in the area of data management.

Outlook

After the successful start into the year, Aareal Bank Group is well on track to achieve its communicated goals.

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About Aareal Bank Group

Aareal Bank Group, headquartered in Wiesbaden, is a leading international property specialist. The Bank uses its expertise to identify trends, challenges and opportunities at an early stage, and to exploit them for the benefit of its stakeholders. Aareal Bank Group provides smart financings, software products, and digital solutions for the property sector and related industries, and is present across three continents, Europe, North America and the Asia/Pacific region. Aareal Bank Group's business strategy focuses on sustainable business success, with environmental, social and governance (ESG) aspects as an integral part of this strategy.

Aareal Bank AG comprises the business segments Structured Property Financing, Banking & Digital Solutions, and Aareon. The Structured Property Financing segment encompasses all of Aareal Bank Group's property financing and funding activities. Here, the Bank supports its clients in making large-volume commercial property investments. The investment properties mostly comprise office buildings, hotels, shopping centres, logistics and residential property, as well as student housing. In the Banking & Digital Solutions segment, Aareal Bank Group supports businesses from the housing, property management and energy industries as a digitalisation partner – combining extensive advisory services and product solutions with traditional corporate banking services and deposit-taking. Its subsidiary Aareon, Europe's trusted provider of SaaS solutions for the property industry, represents the third business segment. Committed to connecting people, process, and property, Aareon brings the ecosystem closer together. Aareon's Property Management System promotes efficient property management and maintenance, enabling superior digital experiences for everyone involved.

Aareal Bank Group – Key Indicators

	1 Jan-31 Mar 2024	1 Jan-31 Mar 2023
Results		
Operating profit (€ mn)	103	62
Consolidated net income (€ mn)	73	42
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	63	47
Cost/income ratio (%) ²⁾	31.7	34.7
Earnings per ordinary share (€) ¹⁾	1.05	0.78
RoE before taxes (%) ^{1) 3)}	12.8	9.0
RoE after taxes (%) ^{1) 3)}	8.7	6.4
	31 Mar 2024	31 Dec 2023
Statement of Financial Position		
Property finance (€ mn)	32,140	32,876
Equity (€ mn)	3,385	3,300
Total assets (€ mn)	47,438	46,833
Regulatory Indicators⁴⁾		
Basel IV (phase-in)		
Risk-weighted assets (€ mn)	13,768	13,720
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.7	19.4
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: including interim profits for 2024, deducting the pro rata dividend in line with the dividend policy, and incorporating the pro-rata accrual of net interest payable on the AT1 bond.

The 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.

Consolidated Income Statement for the first quarter of 2024
(in accordance with IFRSs)

	1 Jan-31 Mar 2024	1 Jan-31 Mar 2023	Change
	€ mn	€ mn	%
Net interest income	254	222	14
Loss allowance	83	32	159
Net commission income	86	72	19
Net derecognition gain or loss	3	0	
Net gain or loss from financial instruments (fvpl)	-18	-6	200
Net gain or loss from hedge accounting	8	4	100
Net gain or loss from investments accounted for using the equity method	-	-	
Administrative expenses	147	199	-26
Net other operating income/expenses	0	1	
Operating profit	103	62	66
Income taxes	30	20	50
Consolidated net income	73	42	74
Consolidated net income attributable to non-controlling interests	2	-9	
Consolidated net income attributable to shareholders of Aareal Bank AG	71	51	39
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	71	51	39
of which: allocated to ordinary shareholders	63	47	34
of which: allocated to AT1 investors	8	4	100
Earnings per ordinary share (€) ²⁾	1.05	0.78	35
Earnings per AT1 unit (€) ³⁾	0.08	0.04	100

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.

Segment results for the first quarter of 2024 (in accordance with IFRSs)

	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