

PRESS RELEASE

Strong earnings power allows for active risk management in 2023 – consolidated operating profit expected to rise to between €300 million and €350 million in 2024

- **Bank posts operating profit of €221 million for the 2023 financial year; Aareon with an operating loss of €72 million after investments – consolidated operating profit of €149 million**
- **Diversified business model inspires dynamic income growth, up 31 per cent to €1.3 billion, with record figures for net interest income and net commission income**
- **Risk provisions of €510 million, of which €193 million in Q4 – including provisions to resolve US office NPLs of approx. €0.5 billion in Q1 2024**
- **CET1 ratio rises slightly, to 19.4 per cent, despite portfolio growth**
- **Aareon's adjusted EBITDA increased by 33 per cent, to €100 million**
- **CEO Jochen Klösger: "During 2023, a year shaped by multiple challenges, we focused on risk management, on actively managing our credit portfolios, and on investing in our future. To this end, we consciously accepted considerable extra charges on our annual results."**
- **CFO Marc Hess: "We have used the past year to make significant investments into Aareon, and to actively reduce non-performing loans. We booked substantial risk provisions to this end, which was made possible thanks to our strong earnings power. We will continue to work on sustainably increasing our profitability in 2024."**

Wiesbaden, 29 February 2024 – Following the 2023 financial year, which featured strong income growth, investments and an active risk management, Aareal Bank Group anticipates a significant increase in earnings for the current year. Consolidated operating profit is projected to rise to between €300 million and €350 million in 2024, even though the Bank anticipates continued above-average risk provisions.

Aareal Bank Group closed the 2023 financial year with consolidated operating profit of €149 million (2022: €239 million). Despite additional charges from the takeover by Atlantic BidCo, the repayment of the refinancing line by Aareon and substantial risk provisions, the **Bank** generated operating profit of €221 million, roughly in line with the previous year's €242 million. It booked risk provisions of €193 million in the fourth quarter of 2023, including risk provisions recognised in the net result from financial instruments (fvpl).

The US office property market turned out to be more challenging than originally anticipated around the end of the year. Accordingly, the Bank also booked risk provisions for the significant reduction of non-performing loans (NPLs) for US office property financings in an aggregate volume of approx. €0.5 billion. Restructuring of these exposures is planned for as early as the first quarter of 2024.

Aareal Bank also used 2023 to actively reduce legacy NPL exposures, to a greater extent than originally announced, recognising provisions of €115 million in the financial year.

Including valuation adjustments in the net result from financial instruments (fvpl), the Bank booked aggregate risk provisions of €510 million for the year as a whole, of which €360 million was attributable to financings of US office properties.

Aareal Bank was able to compensate for the substantial risk provisions through its very dynamic income performance. Income rose by 31 per cent in 2023, to a record level of just under €1.3 billion, with €350 million (up 32 per cent) generated in the fourth quarter.

Aareon posted an operating loss (EBT) of €72 million, while adjusted EBITDA rose markedly, by 33 per cent, to €100 million (2022: €75 million).

The operating loss was caused by investments of €96 million, which will no longer be incurred going forward and which are expected to yield a positive annual earnings contribution from efficiency measures of around €20 million. They will also contribute to a planned increase in adjusted EBITDA to between €160 million and €170 million in 2024. Aareon continued its growth path during the financial year under review: sales revenues rose by 12 per cent to €344 million (2022: €308 million). The share of recurring revenue compared to total sales increased to 81 per cent (2022: 74 per cent).

The goal of developing Aareon into a 'Rule of 40' enterprise was therefore achieved earlier than planned. This key performance indicator for software companies means that the sum of EBITDA margin and revenue growth exceeds 40.

Having grown strongly in recent years, both organically and inorganically, Aareon now has business activities in the Germany/Austria/Switzerland (DACH) region, in France, UK, the Netherlands, Scandinavia, and most recently Spain.

Furthermore, in the financial year under review the Group succeeded in refinancing Aareon on a standalone basis: the facility provided by Aareal Bank to Aareon to date was replaced with external long-term debt, and Aareon's capitalisation was strengthened via a capital increase. As a result, Aareon has achieved capital market readiness earlier than announced.

CEO **Jochen Klösger** commented: "During 2023, a year shaped by multiple challenges, we focused on risk management, on actively managing our credit portfolios, and on investing in our future. To this end, we also consciously accepted considerable extra charges on our annual results, thus strengthening the Group's net worth – which is also evident in our very good capital ratio of 19.4 per cent. Whilst we expect the environment to remain challenging, our diversified business model should allow us to generate consolidated operating profit in a range between 300 and 350 million euros in 2024."

CFO **Marc Hess** stated: "We have used the past year to make significant investments into Aareon, and to actively reduce non-performing loans. We booked substantial risk provisions to this end, which was made possible thanks to our strong earnings power. We reached our goals for Aareon earlier than announced, and we are proud to report an excellent cost/income ratio of just over 30 per cent for the Bank. In view of still challenging market conditions we will continue to work on sustainably increasing our profitability."

Business development in 2023 driven by highly dynamic income, impacted by investments and increased risk provisions

Aareal Bank increased **net interest income** by 39 per cent to €978 million in the financial year under review (2022: €702 million). This increase reflected an expanded lending portfolio, strong margins, as well as the positive impact of higher interest rates on the deposit-taking business. The constructive trend of previous quarters continued into the fourth quarter, with net interest income rising to a new record level of €268 million (Q4 2022: €188 million).

Net commission income also increased by 11 per cent, reaching a new record of €307 million in the financial year under review (2022: €277 million), driven in particular by the strong sales revenue development at the Aareon software subsidiary. At €82 million, net commission income in the fourth quarter was 5 per cent higher than in the same period of the previous year (Q4 2022: €78 million).

Risk provisions totalled €441 million in 2023 (2022: €192 million), due in particular to substantial risk provisions booked for US office property financings and the active management of legacy NPLs. An additional €69 million was booked for valuation adjustments in the **net gain or loss from financial instruments (fvpl)**. Fourth-quarter risk provisions (including fvpl) amounted to €193 million (Q4 2022: €28 million). No particular anomalies have been identified to date regarding exposures outside the US office property market.

In view of the planned NPL reduction of approx. €0.5 billion in US office properties in the first quarter of 2024, the Bank expects the share of NPLs in the overall portfolio as at the end of March to remain largely stable compared to the previous year (NPE ratio 31 Dec 2023: 3.4 per cent, 31 Dec 2022: 2.8 per cent), despite the very challenging market environment.

Consolidated **administrative expenses** rose to €645 million (2022: €571 million), due in particular to investments in Aareon. These non-recurring expenses totalled €96 million, exceeding original projections by €61 million. Expenses at the Bank were kept stable thanks to strict cost discipline. Administrative expenses in the fourth quarter totalled €159 million (Q4 2022: €148 million). Aareal Bank improved its cost/income ratio (CIR) in the banking business to 32 per cent for the full year (2022: 40 per cent), retaining its top ranking amongst European peers.

Consolidated operating profit totalled €149 million in the 2023 financial year (2022: €239 million). Fourth-quarter consolidated operating profit was minus €6 million (Q4 2022: €+82 million), including €1 million attributable to the Bank.

Taking tax deductions of €101 million into account, full-year **consolidated net income** was €48 million (2022: €153 million). The income taxes item was impacted by the write-off of Aareon's loss carryforwards in the context of Aareal Bank Group's takeover by Atlantic

BidCo GmbH. Consolidated net income for the fourth quarter thus amounted to minus €56 million (Q4 2022: €+53 million).

Solid capital position and successful funding

Aareal Bank continues to be solidly financed. In fact, despite the tense situation on the US office property market and in view of portfolio growth, the Bank managed to slightly increase its **Common Equity Tier 1 ratio** (Basel IV phase-in ratio) to 19.4 per cent at the end of 2023 (31 Dec 2022: 19.3 per cent). The **total capital ratio** was 23.5 per cent (31 December 2022: 24.0 per cent).

Aareal Bank successfully expanded its **funding activities** during the financial year under review, further diversifying the funding mix and broadening the investor base. The Bank placed a total of €2.4 billion in funding instruments on the capital markets during the financial year under review, including two benchmark Pfandbriefe of €750 million each plus one €500 million issue. The volume of fixed-interest retail deposits sourced through platforms reached approximately €2.6 billion by the end of 2023 (31 Dec 2022: €636 million). Furthermore, via Raisin, Aareal Bank became the first German bank to offer fixed-term deposits in the Netherlands in February 2024.

Growth across all business segments

In the **Structured Property Financing segment**, Aareal Bank increased its lending volume, and hence its interest-bearing business, by €2 billion to €32.9 billion (31 Dec 2022: €30.9 billion), thus reaching the upper end of the full-year forecast range of €32 billion to €33 billion. New business increased to €10 billion (2022: €8.9 billion). Margins on newly-originated loans remained clearly ahead of the previous year's level, averaging around 290 basis points.

Average loan-to-value ratios in the existing portfolio remained at a healthy 56 per cent (2022: 55 per cent).

The Bank completed its exit from any exposure to Russia during the financial year under review; it also no longer holds any lending exposure to China.

A dedicated team for financing alternative living properties was established in the third quarter, with the goal of further expanding financing business in this market segment, which comprises student housing and co-living – a market segment where Aareal Bank already ranks amongst the leading providers. For instance, the Bank provided a GBP 380 million financing to Chapter, a specialist provider in this segment, for a prime portfolio comprising three student housing properties in London. Moreover, the Bank is now also active in the New Zealand market, where it commenced business activities last year.

Aareal Bank also further expanded the share of green loans in its portfolio. The Bank extended approximately €3 billion in newly-originated green loans during the financial year under review, raising the portfolio volume of green financings to around €4.8 billion.

In the **Banking & Digital Solutions** segment, average deposit volumes from housing industry clients rose to €13.6 billion (2022: €13.4 billion), exceeding the target level of

around €13 billion set for the year under review. Net interest income for the segment more than doubled to €238 million (2022: €92 million), reflecting the impact of normalised interest rate levels in conjunction with the continued high volume of deposits. The segment's net commission income also developed favourably, rising to €33 million (2022: €31 million).

With the conclusion of a long-term cooperation agreement (joint venture) between the Bank and Aareon regarding First Financial at the beginning of 2024, Aareal Bank Group has strengthened its market position as a leading international property specialist whilst building the foundations for further growth, especially in the Group's banking and software units.

Software subsidiary **Aareon** increased sales revenues to €344 million in the financial year under review (2022: €308 million). The transformation process towards SaaS and subscription solutions continued to be on track. Recurring revenues rose by 22 per cent, from €228 million to €278 million, raising the share of recurring revenue compared to total sales to 81 per cent (2022: 74 per cent). The adjusted EBITDA margin grew by four percentage points to 29 per cent (2022: 25 per cent), whilst adjusted EBITDA rose by 33 per cent to €100 million (2022: €75 million), reaching the upper end of the target corridor.

During the financial year under review, besides investments in enhancing efficiency and optimising the product range, Aareon continued to focus upon both organic and inorganic growth. Acquisitions included UTS innovative Softwaresysteme GmbH in Germany, and Embrace – The Human Cloud in the Netherlands. Aareon took its first step to explore the Spanish market with the acquisition of software provider IESA. The company also increasingly opened up to third-party solutions with "Aareon Connect". By the end of 2023, the open ecosystem already had more than 30 partners.

Outlook for 2024: marked earnings increase expected

Aareal Bank Group expects the environment in the US office property market to remain challenging in the 2024 financial year. Thanks to its strong earnings power, the Group nonetheless anticipates consolidated operating profit between €300 million and €350 million.

The **Bank** is expected to achieve operating profit of €250 million to €300 million, despite risk provisions projected to remain at above-average levels. This is based on a planned increase in the credit portfolio to between €33 billion and €34 billion, with target new business of €8 billion to €9 billion. The Bank continues to expect deposit volumes to remain stable, averaging around €13 billion.

Aareon's sales revenues are expected to rise to between €440 million and €460 million, with adjusted EBITDA projected to rise to between €160 million and €170 million.

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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 apartments. 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. The Group's subsidiary Aareon, the leading supplier of SaaS solutions for the European property sector, represents the third business segment. It is digitalising property management by offering user-oriented software solutions that simplify and automate processes, support sustainable and energy-efficient operations, and interconnect all process participants.

Aareal Bank Group – Key Indicators

	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Results		
Operating profit (€ mn)	149	239
Consolidated net income (€ mn)	48	153
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	42	138
Cost/income ratio (%) ²⁾	31.7	40.3
Dividend per share (€) ³⁾	-	-
Earnings per ordinary share (€) ¹⁾	0.69	2.32
RoE before taxes (%) ¹⁾	5.0	7.9
RoE after taxes (%) ¹⁾	1.4	5.0
	31 Dec 2023	31 Dec 2022
Statement of Financial Position		
Property finance (€ mn)	32,876	30,901
Equity (€ mn)	3,300	3,258
Total assets (€ mn)	46,833	47,331
Regulatory Indicators⁴⁾		
Basel IV (phase-in)		
Risk-weighted assets (€ mn)	13,720	12,782
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.4	19.3
Tier 1 ratio (T1 ratio) (%)	21.6	21.7
Total Capital Ratio (TC ratio) (%)	23.5	24.0
Basel III		
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.4	19.3
Employees	3,463	3,316

¹⁾ The allocation of earnings is based on the assumption that 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⁾ There are no plans to distribute profits for 2023 in 2024, in line with the strategy. On 10 August 2023, the Annual General Meeting had resolved not to distribute any dividends for the 2022 financial year.

⁴⁾ 31 December 2022: including originally proposed dividend of € 1.60 per share in 2022 and pro rata temporis accrual of interest on the AT1 bond, excluding profits for 2022 under commercial law.

31 December 2023: including profits for 2023 and pro rata temporis accrual of interest on the AT1 bond, given that there are no plans to distribute profits for 2023 in 2024. The appropriation of profits is subject to approval by the Annual General Meeting. The SREP recommendations concerning the NPL inventory and 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 were taken into account. 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 proposal dated 27 October 2021 for implementation of Basel IV (CRR III). 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).

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the financial year 2023
(unaudited, in accordance with IFRSs)

	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	Change
	€ mn	€ mn	%
Net interest income	978	702	39
Risk provisioning	441	192	130
Net commission income	307	277	11
Net derecognition gain or loss	23	1	2,200
Net gain or loss from financial instruments (fvpl)	-71	26	
Net gain or loss from hedge accounting	1	-2	
Net gain or loss from investments accounted for using the equity method	3	-2	
Administrative expenses	645	571	13
Net other operating income/expenses	-6	0	
Operating profit	149	239	-38
Income taxes	101	86	17
Consolidated net income	48	153	-69
Consolidated net income attributable to non-controlling interests	-23	0	
Consolidated net income attributable to shareholders of Aareal Bank AG	71	153	-54
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	71	153	-54
of which: allocated to ordinary shareholders	42	138	-70
of which: allocated to AT1 investors	29	15	93
Earnings per ordinary share (€) ²⁾	0.69	2.32	-70
Earnings per AT1 unit (€) ³⁾	0.29	0.15	93

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

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

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

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter of 2023
(in accordance with IFRSs)

	Q4 2023	Q4 2022	Change
	€ mn	€ mn	%
Net interest income	268	188	43
Risk provisioning	179	22	714
Net commission income	82	78	5
Net derecognition gain or loss	5	-23	
Net gain or loss from financial instruments (fvpl)	-13	4	
Net gain or loss from hedge accounting	3	4	-25
Net gain or loss from investments accounted for using the equity method	1	0	
Administrative expenses	159	148	7
Net other operating income/expenses	-14	1	
Operating profit	-6	82	
Income taxes	50	29	72
Consolidated net income	-56	53	
Consolidated net income attributable to non-controlling interests	-10	0	
Consolidated net income attributable to shareholders of Aareal Bank AG	-46	53	
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	-46	53	
of which: allocated to ordinary shareholders	-54	49	
of which: allocated to AT1 investors	8	4	100
Earnings per ordinary share (€) ²⁾	-0.92	0.83	
Earnings per AT1 unit (€) ³⁾	0.08	0.04	100

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

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

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

Segment Results of Aareal Bank Group
Preliminary results for the 2023 financial year
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
€ mn										
Net interest income	776	627	238	92	-36	-17	0	0	978	702
Risk provisioning	441	192	0	0	0	0			441	192
Net commission income	6	6	33	31	284	252	-16	-12	307	277
Net derecognition gain or loss	23	1							23	1
Net gain or loss from financial instruments (fvpl)	-71	26	0	0	0	0			-71	26
Net gain or loss from hedge accounting	1	-2							1	-2
Net gain or loss from investments accounted for using the equity method	1	0	2	-1		-1			3	-2
Administrative expenses ¹⁾	231	260	110	79	320	244	-16	-12	645	571
Net other operating income/expenses	-4	-6	-2	-1	0	7	0	0	-6	0
Operating profit	60	200	161	42	-72	-3	0	0	149	239
Income taxes	44	70	50	14	7	2			101	86
Consolidated net income	16	130	111	28	-79	-5	0	0	48	153
Consolidated net income attributable to non-controlling interests	-1	0	0	0	-22	0			-23	0
Consolidated net income attributable to shareholders of Aareal Bank AG	17	130	111	28	-57	-5	0	0	71	153

¹⁾ During the course of a regular review, intra-Group cost allocation between the SPF and BDS segments was adjusted in 2023, aligning it to the size of the respective segment.

Segment Results of Aareal Bank Group
Preliminary results for the fourth quarter of 2023
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation / Reconciliation		Aareal Bank Group	
	Q4 2023	Q4 2022	Q4 2023	Q4 2022	Q4 2023	Q4 2022	Q4 2023	Q4 2022	Q4 2023	Q4 2022
€ mn										
Net interest income	212	152	68	43	-12	-7	0	0	268	188
Risk provisioning	179	22	0	0	0	0			179	22
Net commission income	0	1	9	8	77	72	-4	-3	82	78
Net derecognition gain or loss	5	-23							5	-23
Net gain or loss from financial instruments (fvpl)	-13	4	0	0	0	0			-13	4
Net gain or loss from hedge accounting	3	4							3	4
Net gain or loss from investments accounted for using the equity method	1	0				0			1	0
Administrative expenses	58	60	35	25	70	66	-4	-3	159	148
Net other operating income/expenses	-11	-2	-1	0	-2	3	0	0	-14	1
Operating profit	-40	54	41	26	-7	2	0	0	-6	82
Income taxes	16	18	12	8	22	3			50	29
Consolidated net income	-56	36	29	18	-29	-1	0	0	-56	53
Consolidated net income attributable to non-controlling interests	-1	0	0	0	-9	0			-10	0
Consolidated net income attributable to shareholders of Aareal Bank AG	-55	36	29	18	-20	-1	0	0	-46	53