

To our Shareholders

Letter from the Chairman of the Management Board



from left:

Marc Hess

Member of the Management Board

Nina Babic

Member of the Management Board

Jochen Klösges

Chairman of the Management Board

Christof Winkelmann

Member of the Management Board

Dear shareholders, business associates and staff members,

In this Annual Report 2023 we look back on a truly challenging year that was shaped by multiple political crises, combined with economic uncertainty. Yet at the same time, the year under review – during which our Company celebrated its centenary – saw key decisions to ensure a sustainably successful future. The majority takeover by Atlantic BidCo GmbH, which was closed in May last year, has opened up a new chapter in our corporate history.

With the support of our investors, implementation of our strategy will continue, realising further potential across all segments of Aareal Bank Group. A stable investor base holds considerable advantages in times of economic turbulence. During a year that was sometimes extremely challenging in commercial property finance, we focused on risk management, on actively managing our credit portfolios, and on investing in our future viability – in order to further strengthen the Group's substance. To this end, we consciously accepted considerable extra charges on our annual results.

The downturn in the US office property market turned out to be especially demanding during the year under review: this was due in particular to a combination of working from home, soaring interest rates as well as an overhang in capacity which was already present. Including valuation adjustments in the net result from financial instruments (fvpl), the Bank booked aggregate loss allowance of € 510 million for the year as a whole, of which € 360 million was attributable to US office properties. Besides expenses for the reduction of legacy exposures, the total sum also includes loss allowance booked in the fourth quarter of 2023, which we set aside as a basis for restructuring non-performing loans in 2024. In this way, we want to reduce our NPL portfolio related to US office properties by around half a billion euros by the end of the first quarter.

Aareal Bank was able to compensate for the substantial loss allowance 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.

We also continue to have costs fully under control: our cost/income ratio stands at 32 per cent, which is excellent by comparison with our peers. Despite the considerable headwinds in the US market and the conscious investment in the reduction of non-performing loans, the Bank generated operating profit of € 221 million – only marginally below the previous year's level and original projections. This is evidence of the Bank's strong operating profitability and resilience. On top of this, our Common Equity Tier 1 ratio continued to rise slightly to 19.4 per cent, despite portfolio growth.

The full assessment of 2023 also includes substantial investments into Aareon totalling around € 100 million, a good € 60 million more than originally planned. We have deployed these funds to optimise our software subsidiary's product range, to invest in sales and processes, and also to conduct efficiency enhancements.

Aareon has continued to perform very well indeed in its operating business, with sales revenues up 12 per cent to € 344 million. Adjusted EBITDA, the key earnings indicator for high-growth IT companies, increased by 33 per cent to € 100 million last year; accordingly, its EBITDA margin climbed from 25 to 29 per cent. This has enabled us to evolve Aareon into a "Rule of 40" company, faster than originally planned. This key performance indicator for software companies means that the percentage sum of Aareon's EBITDA margin and revenue growth exceeds 40. Aareon has now passed this threshold.

Moreover, we succeeded in refinancing our subsidiary through external finance providers: the facility provided by Aareal Bank to Aareon was replaced with external long-term debt, and we strengthened Aareon's capitalisation via a capital increase. These facts tell us that Aareon is ready for the capital markets – sooner than planned.

One of the things we want to do in future is to exploit further growth potential by strengthening the partnership between the Bank and Aareon over the long term. We have placed cooperation between both these parts of the Company on a new footing via First Financial, which is at the heart of a new joint venture between Aareon and Aareal Bank. Together, the Bank and Aareon will offer

even better solutions for the housing and commercial property industries in Germany and Europe, and realise significant efficiency potential for our clients.

To summarise: we made substantial investments in the substance of the Group during the financial year under review and absorbed significant charges in the US. Nonetheless, thanks to our strong operating performance, we achieved a respectable consolidated operating profit of € 149 million – proving our ability to actively and successfully manage the current challenges.

We are pursuing long-term goals and are continuously working on improving our business models. We are convinced that the investments of recent years will indeed pay off.

What does that mean for the 2024 financial year? The environment is likely to remain challenging for the time being, with no respite envisaged for the US office property market over the short term. Nonetheless, we are determined to exploit the opportunities which arise on many of the markets we cover, even in the current environment. In the Bank, we want to expand our credit portfolio to between € 33 billion and € 34 billion. To achieve this target, we envisage new business in a range between € 8 billion and € 9 billion, slightly below the previous year's figure. We continue to expect a stable volume of deposits from the housing industry of around € 13 billion.

All in all, the Bank is set to increase operating profit to between €250 million and €300 million, despite loss allowance projected to remain at above-average levels. As a key factor, our markedly increased profitability will continue to compensate for the temporary charges that keep arising from the cyclical property financing business.

Aareon is also expected to continue growing. We anticipate a marked increase in sales revenues to between € 440 million and € 460 million, with a significant rise in adjusted EBITDA to between € 160 million and € 170 million. Following the previous year's negative contribution to results reflecting high levels of investment, we anticipate a contribution to consolidated operating profit of around € 50 million in 2024.

For Aareal Bank Group's consolidated operating profit this means an overall increase to between €300 million and € 350 million for the current financial year, more than double the previous year's figure.

We will continue to keep you informed about our business development with the usual frequency, despite the fact that our shares were delisted from the Regulated Market of the Frankfurt Stock Exchange on 21 November 2023. Transparency remains a high priority for us, especially in these turbulent times! We will remain a reliable partner for all our stakeholders in the future, and we should be delighted if you continue to accompany us on this journey.

Yours sincerely,



Jochen Klösges,
Chairman of the Management Board