from left:

Thomas Ortmanns
Member of the Management Board

Dagmar Knopek
Member of the Management Board

Marc Hess
Member of the Management Board

Hermann J. Merkens
Chairman of the Management Board

Christiane Kunisch-Wolff
Member of the Management Board

Christof Winkelmann
Member of the Management Board

Letter from the Management Board

Dear shareholders, business associates and staff members,

Aareal Bank Group is looking back at a very challenging 2020 financial year. The global spread of the coronavirus has drastically impacted economic activity around the globe, plunging the global economy into the deepest crisis in decades. Direct and indirect effects of the pandemic, namely the lockdowns in numerous countries, have hit many of our clients' businesses; thus, we have also felt a considerable impact. As a reliable, long-term partner, we have helped our clients get through these difficult times in the best way possible, whilst also having to take account of our own changed risk situation and the increased uncertainty that still prevails.

The pandemic has especially led to higher loss allowance in the Structured Property Financing segment. Based on the global lockdown measures – extended and further tightened at the end of the year – and the resulting deterioration in the economic outlook, we have generally classified as stage 2 all loans for which liquidity support measures were granted in our annual financial statements 2020 – thus recognising loss allowance for default risks which are possible but have not yet materialised. In addition, stage 3 allowance for loans which are potentially or actually non-performing was also raised. Overall, we booked loss allowance of € 344 million in the 2020 financial year, thus comprehensively covering all Covid-19-related risks conceivable at the time of preparing the annual financial statements.

Massively increased loss allowance is the main reason for Aareal Bank Group having reported a loss in the past financial year – for the first time in many years. Consolidated operating profit amounted to € -75 million. After taxes, consolidated net income allocated to ordinary shareholders was € -90 million. The deteriorated risk situation contrasted with a successful operating performance. Thanks to lively new business almost on a par with the previous year, we expanded our credit portfolio to the upper end of the € 26 billion to € 28 billion target corridor. Our subsidiary Aareon also demonstrated its potential and resilience to a crisis with renewed growth in sales revenue.

In light of provisions recognised for the pandemic effects, the solid operating performance in all segments, and our solid capitalisation, we are looking ahead with confidence – and already beyond the current crisis. We feel well positioned for the economic recovery set to begin in the current year and to gradually improve thereafter. On the one hand, this allows us to distribute a dividend – despite the negative result. In the current year, we intend to pay a dividend of € 1.50 per share in two steps, subject to the approval of the supervisory authority and economic conditions permitting. On the other hand, we now have scope to pursue the opportunities arising in the changed environment.

Our fundamentally optimistic stance is also supported by results from the 360-degree review of our "Aareal Next Level" strategic framework which we performed in the past months. The key finding: Aareal Bank Group's business model and strategy remain viable in a normalised environment, once the pandemic has been overcome. However, adjustments will be made within "Aareal Next Level" in order to be able to fully exploit the opportunities arising from changes induced by Covid-19, and to retain the Bank's successful and efficient performance in the future.

By adjusting the strategy, we will be able to generate consolidated operating profit in the range of € 300 million – excluding effects of potential acquisitions – as early as 2023, provided the pandemic has been fully overcome by then and the risk situation has returned to normal. In the recent past, we were only able to achieve a similar level of results in exceptional years that featured strong one-off effects due to acquisitions, accompanied by a significantly more favourable interest rate environment than we expect for 2023.

We will make use of all available levers to realise this significant increase in profitability. We will optimise our funding mix and our capital structure, and also launch a bundle of additional measures aimed at enhancing the efficiency of the organisational structure, processes and infrastructure. Earnings, however, are our main focus: we see opportunities for profitable growth in all our business areas.

In our Structured Property Financing segment, we want to continue controlled expansion of the credit portfolio, in order to improve usage of the existing platform. By year-end 2022 we will achieve a figure of around € 30 billion, whilst adhering to our conservative risk standards – with positive effects for net interest income, which is expected to rise sharply already in the current year.

Growth is also our aim in the Consulting/Services segment. To clarify the main thrusts here, the segment has been renamed "Banking & Digital Solutions" with retroactive effect from 1 January 2021. Our focus will lie on expanding our digital product range and forging further strategic partnerships – alongside the deposit-taking business which we will continue to operate on a similar level as before. A separate innovation budget is at our disposal to achieve these goals. We expect significantly increased net commission income in this segment as a result of the various growth initiatives.

Our IT subsidiary Aareon has been on a profitable growth journey for quite some time. Working side by side with our partner Advent International, we aim to accelerate Aareon's growth momentum – both organically and via further acquisitions. To finance the latter, Aareon not only has equity at its disposal; we will also be able to mobilise a significant amount of debt capital, thus continuing to drive Aareon's inorganic growth together with Advent. Yet even without M&A effects, we are targeting a rise in Aareon's adjusted EBITDA to approximately € 135 million by 2025 based, on the jointly developed Value Creation Programme. The gem within our portfolio that is Aareon is shining brighter and brighter. And with Aareal Bank as majority owner, shareholders will continue to benefit from Aareon's value appreciation.

Aareal Bank Group's medium-term growth prospects are sound – as are short-term prospects, with the picture materially improving in our view. We anticipate a clearly visible macro-economic recovery as early as this year, and therefore plan to return to profitability. The extent of the turnaround will depend primarily on how quickly the recovery gains traction, and how loss allowance develops. From today's perspective, we expect loss allowance for 2021 to fall significantly to between € 125 million and € 200 million, albeit still remaining above its long-term average. Based on a strong operating performance, we are projecting a consolidated operating profit in a broad range of € 100 million to € 175 million, taking into account the uncertainties that currently prevail.

The 2021 financial year will be an important interim step on the path that we have embarked upon with the evolutionary development of our strategy. We have set out a clear plan, showing how we can exploit opportunities for profitable growth in all our segments. This will not only allow us to substantially increase our results – we will also be able to free up capital for the purposes of active capital management, or for selected acquisitions. In the years to come, Aareal Bank Group will thus not only become stronger and more profitable than we are today, but more sustainable too.

We look forward to your continued support and thank you for your trust. I hope you will stay with us in the future too!

On behalf of the entire Management Board

Marc Hess

Thomas Ortmanns