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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 Ortmann

The Aareal Bank Share

Investor Relations activities

In the financial year under review, the Covid-19 pandemic impacted the economy to an unprecedented extent; the resulting burdens touched all aspects of public and private life. Despite this, Aareal Bank, as a listed public limited company, remains subject to numerous disclosure obligations. Especially in such challenging times, Aareal Bank sees these as an opportunity not only to enter into a consistently open and constructive dialogue with analysts, investors and clients, as well as with the media – but also to intensify this dialogue.

Especially given the more difficult environment and the uncertainty amid the pandemic, the dialogue has become all the more detailed and intensive: in fact, it is a prerequisite for a listed public company to be successful over the long term. Only when company developments are communicated and – if needed – also discussed with Aareal Bank in a timely, open and transparent manner can market participants evaluate potential opportunities and risks that may result from the pandemic and market developments as well as from regulatory changes.

To this end, two face-to-face conferences are held, among other things, in Frankfurt each year for investors, analysts and the media. Back at Aareal Bank's conference in February 2020, the Management Board was still able to personally present the results of the previous financial year in great detail, and also provided a strategic outlook for the future, comprising the current financial year as well as the medium-term horizon ("Aareal Next Level"). Aareal Bank also uses the quarterly publications conference calls as an opportunity to inform investors, analysts and the media about current Group developments.

In the course of the financial year under review, the Investor Relations team took part in eight international capital markets conferences. After three successful conferences in Asia, Europe and the US, all conferences from the second quarter onwards were held online, due to the pandemic. With only nine (partly virtual) roadshows, significantly fewer of these events were hosted than in previous years. As face-to-face meetings were impossible in 2020, one-on-one discussions were replaced by virtual meetings that could also be scheduled more flexibly. These individual online meetings more than made up for the fewer roadshows, so that market communications – by and large – remained at a high level throughout 2020. The fact that the members of the Management Board also attend online conferences, roadshows, and one-on-one meetings on a regular basis, and are available for discussions, is highly appreciated by investors.

In order to ensure access to timely, open and transparent information of relevance to the capital markets, Aareal Bank provides shareholders and analysts with detailed information on Aareal Bank Group and its three segments Structured Property Financing, Consulting/Services Bank (renamed Banking & Digital Solutions with effect from 1 January 2021), and Aareon on its website at www.aareal-bank.com. Furthermore, published ad-hoc disclosures and press releases, financial reports, as well as current Investor Relations presentations, are available for download from our Investor Relations portal. The financial calendar offers an overview of the most important dates in the Company's calendar.

Key data and indicators of the Aareal Bank share

	2020	2019
Share price (€) ¹⁾		
Year-end price	19.550	30.250
High	31.690	31.200
Low	13.670	22.710
Book value per ordinary share (€)	43.54	42.77
Dividends per ordinary share (€) ²⁾	1.50	./.
Earnings per ordinary share (€)	-1.50	2.42
Price/earnings ratio ³⁾	-13.03	12.50
Dividend yield (%) ³⁾	7.67	./.
Market capitalisation (€ mn) ³⁾	1.170	1.811
ISIN	DE 000 540 811 6	
German Securities ID (WKN)	540 811	
Mnemonic		
Deutsche Börse	ARL	
Bloomberg (Xetra)	ARL.GY	
Reuters (Xetra)	ARL.DE	
Issued share capital (number of bearer unit shares)	59,857,221	

¹⁾ XETRA® closing prices

²⁾ Dividend payments of € 1.50 for 2020 (to be effected in 2021) would need to be made in two steps. In compliance with the requirements published by the European Central Bank (ECB) on 15 December 2020, the distributable amount is calculated at € 0.40 per share. The Management Board plans to submit a corresponding proposal for the appropriation of profits to the ordinary Annual General Meeting in May 2021. Depending on further economic developments, regulatory requirements, the Bank's capital position and its risk situation, an extraordinary Annual General Meeting, which could possibly take place during the fourth quarter of 2021, could then decide on the intended remaining payout of € 1.10 per share. 2019: following a request of the ECB to refrain from distributing dividends, the AGM decided that net retained profit for 2019 be transferred to retained earnings.

³⁾ Based on XETRA® year-end closing prices

Shareholder structure

since 3 February 2015



To further strengthen shareholders' confidence in the sustainable performance of Aareal Bank Group's business model, we will not waver in our efforts to make our strategic course transparent during the financial year 2021. We continue to actively seek the dialogue with our investors and analysts – using all modern communications channels as a substitute to personal discussions, to the extent possible.

Analysts' opinions

Of the 15 brokerages and analyst firms that regularly covered Aareal Bank at the start of the financial year, two firms stopped and one firm temporarily suspended coverage of Aareal Bank in the course of the year, so that at the end of 2020, a total of 12 brokerages and analyst firms published independent studies and comments about developments at Aareal Bank Group.

Having finished the 2019 financial year on a positive note, in 2020, Aareal Bank needed to meet expectations by market participants and analysts in the light of the Covid-19 pandemic. Four "buy" and five "neutral" recommendations compared to three "sell" recommendations.

We regularly update and publish the analysts' recommendations on our website www.aareal-bank.com on the Investor Relations page.

Relative performance of the Aareal Bank share price

2017-2019

■ Aareal Bank (total return) ■ DAX ■ MDAX ■ CXPB

25%

0%

-25%

-50%

-75%

31 Dec 2017

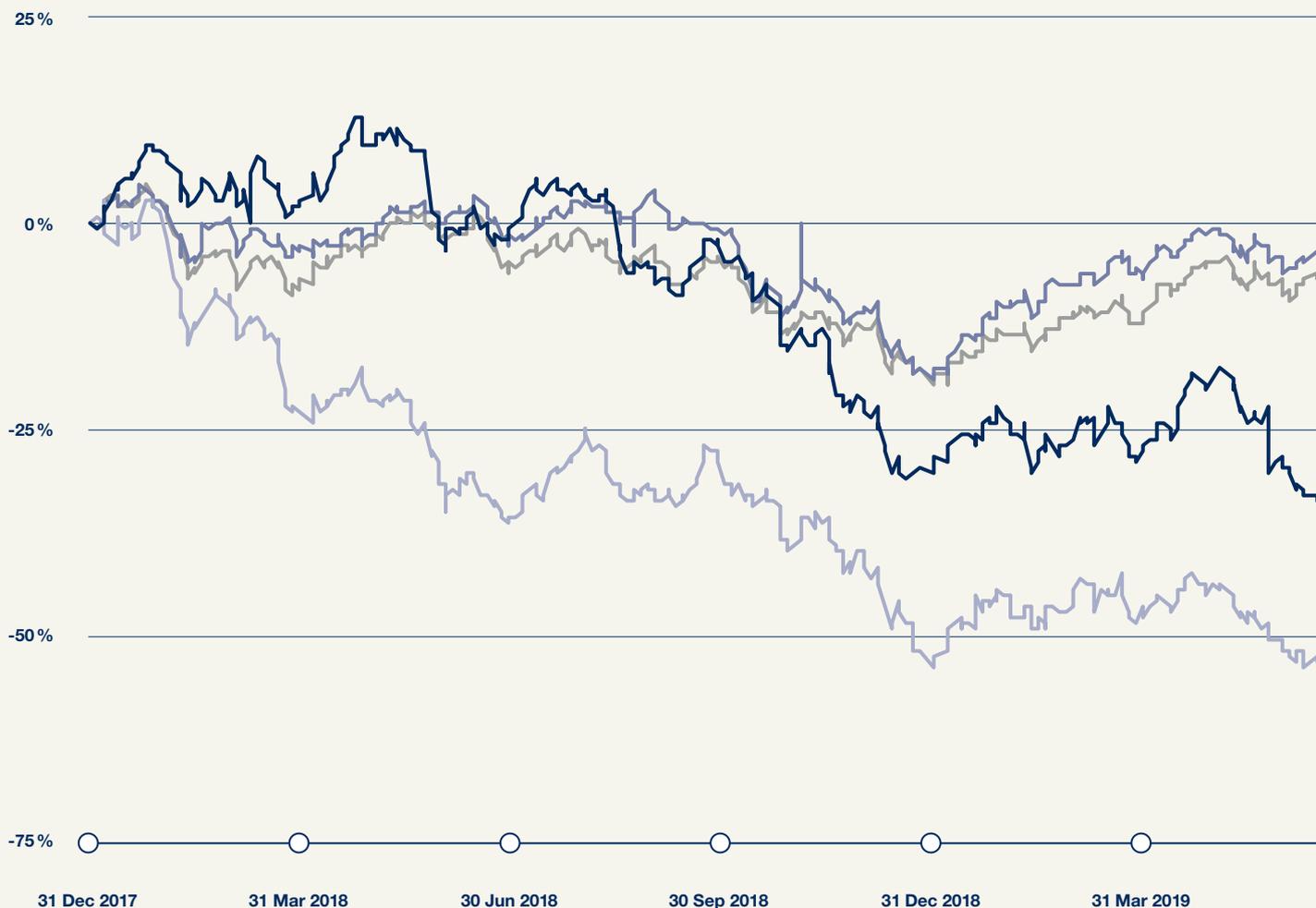
31 Mar 2018

30 Jun 2018

30 Sep 2018

31 Dec 2018

31 Mar 2019



- 1 26 February 2020**
Following a strong performance in the 2019 financial year, Aareal Bank Group expects stable 2020 consolidated net income
- 2 26 March 2020**
Aareal Bank Group publishes its Annual Report 2019
- 3 12 May 2020**
Aareal Bank Group delivers positive results for the first quarter of 2020, having accounted for effects of Covid-19
- 4 27 May 2020**
Annual General Meeting of Aareal Bank AG approves dividend waiver recommended by the ECB by a large majority

- 5 13 August 2020**
Aareal Bank Group posts positive results for the second quarter of 2020 as well, despite burdens of Covid-19 and a successful de-risking
- 6 14 August 2020**
Aareal Bank sells 30 per cent stake in IT subsidiary Aareon to Advent International – long-term partnership agreed upon
- 7 12 November 2020**
Aareal Bank Group once again posts positive consolidated operating profit in the third quarter, despite persistent significant burdens due to Covid-19

