

# To our Shareholders

## Outlook: growth

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# Letter from the Chairman of the Management Board



from left:

**Christiane Kunisch-Wolff**

Member of the Management Board

**Marc Hess**

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,

Our annual report is published at a time of serious shifts in the fabric of the world and an erosion of the general feeling of security. The Covid-19 pandemic, which has lasted for two years now, has not only laid bare our own vulnerability but also the fragility of the economic and social balance. Russia's recent attack on Ukraine marks a geopolitical and possibly an economic turning point. It has turned situations thought to have been overcome on European soil into bitter reality again.

We sympathise with all those who are suffering under this escalation of violence, who have lost loved ones, or have to fear for their own lives. At the same time, we welcome the decisive reaction of the western world to the Russian aggression and, alongside all peace-loving people, hope that political and economic pressure will make an impact.

Regardless of how this crisis progresses further, there is a need for reliability and a clear course, especially in times of greatest political and economic uncertainty. This applies to political leadership as well as to companies. This is Aareal Bank Group's commitment, too: we aim to be a secure employer for our staff, a loyal partner for our clients, and a value-adding investment for our shareholders – not only in the short term but on a long-term horizon.

We made every effort in the 2021 financial year to meet this commitment – in very challenging circumstances: the pandemic continued to have a strong impact on the past year, with numerous disruptions. We also had to deal with a takeover bid in the fourth quarter. We did not seek out this offer but were legally obliged to review it thoroughly. We presented it to our shareholders, as we considered the price to be appropriate for a risk-free cash offer, also in the prevailing environment, and because the strategic prospects were promising for the Company. In addition, the likelihood of the transaction being implemented successfully was seen as sufficiently high. We therefore could not withhold this offer from our shareholders, also in compliance with legal requirements.

As you know, the offer failed to reach a majority and is therefore consigned to history. Nonetheless, we remained focused throughout this period. Having posted a loss in 2020 due to the Covid-19 pandemic, we delivered a rapid and clear turnaround. We achieved this by never losing sight of our clients' requirements, and by consistently forging ahead with our "Aareal Next Level" strategy programme that is geared towards long-term profitable growth. In doing so, we reached our material strategic objectives in 2021, even exceeding them for the most part.

Consolidated operating profit improved by € 230 million to € 155 million. This was in the upper third of our forecast range, and even exceeded our ambitious plans. Very pleasing: the turnaround was mainly driven by revenue. Net interest income in 2021 was up 17 % on the previous year and net commission income continued to rise. Moreover, risk developments during the second year of the pandemic were in line with expectations: although loss allowance was still above the long-term average, it was reduced by around half year-on-year. Together with our clients, we have therefore come through the ultimate stress test presented by the Covid-19 pandemic well so far, with capital ratios even slightly higher than in 2019.

All this shows that Aareal Bank Group is in robust shape. Yet again, we have significantly improved our starting position for sustainable and profitable growth in the years ahead, in all segments.

In the Structured Property Financing segment, we will vigorously seize opportunities the market offers. We already managed to extend our portfolio to € 30 billion in the past financial year, exceeding our original projections – at very good margins and with conservative risk parameters, and we will continue to do so. We will increase our lending volume by € 1 billion every year up to 2024, to reach a level of € 33 billion.

We can generate this growth in the traditional asset classes and regions. However, there is the option of expanding into areas where we can leverage our strengths. We will also continue to further strongly expand our share of green financings in the years ahead, as part of our strategic ESG orientation. We already developed our global Green Finance Network last year and realised the first financings in excess of € 400 million. We aim to take an additional € 2 billion in new green financings onto our books between now and 2024, of which around one-third already this year.

We can finance the targeted portfolio growth from our own resources, thanks to a very solid capital position. Furthermore, we generate additional capital every year, which we can use for forward-looking investments or for distributions. We want to continue to be a reliable payer of dividends; this is underlined by the proposal to this year's Annual General Meeting to distribute a total dividend of € 1.60 per share. This comprises a dividend of € 0.50 based on 2021 consolidated net income, plus a dividend of € 1.10 per share which was retained due to the takeover offer. We will adjust the balance between investments and distributions as part of our existing dividend policy cautiously and in the interest of our shareholders, to create as much value as possible for them with the resources available.

Our focus in the Banking & Digital Solutions segment will be on playing even more to our strengths in the coming months and years. BDS has the potential to provide even greater support to the housing industry with digital banking products, especially in relation to the core offering in payment services. In future, we will take even greater advantage of our cross-selling opportunities with Aareon's international clients. At the same time, we will continue to strengthen our deposit base, which is important for our funding.

Our third segment, Aareon, is about to start a phase of clearly accelerated growth. Since 2020, together with our partner Advent we have pursued a sustainable and resilient growth and investment plan for our software

subsidiary, geared towards 2025. We want to develop Aareon into a “Rule of 40” company, thus maximising its value for us, for our shareholders, and for our clients. We will start to see these already executed investments bear fruit during the course of this year and we expect growth at Aareon to continue to accelerate over the coming years, both in terms of sales revenue and earnings.

Aareon has much potential, but needs more time to realise it. For this reason, we strongly believe that at present, Aareon’s interests are best served under the umbrella of Aareal Bank, in partnership with Advent. Of course, this doesn’t necessarily have to remain the case indefinitely. The transfer of Aareon to new ownership, be it through a sale or an IPO, is no taboo for us, if you look at our target horizon in 2025 – it could also happen earlier provided the conditions are right.

The growth initiatives in our three segments should pay off rapidly at Group level. Consolidated operating profit is envisaged to rise further, to between € 210 million and € 250 million, already this year. Positive earnings momentum will remain intact and the trend towards normalisation should continue on the risk side. We are sticking to our planning of consolidated operating profit of around € 300 million for 2023 and anticipate a further increase to up to € 350 million in 2024.

There is however one major uncertainty factor which we have not taken into consideration in our forecasts: the potential effects of the war in Ukraine that are as yet impossible to estimate – in relation to our limited exposure in Russia as well as to the economic consequences of the imposed sanctions and escalated geopolitical tensions.

The crisis is overshadowing the international situation and our entrepreneurial actions. Nonetheless, we remain confident as far as Aareal Bank Group’s prospects are concerned. We want to exploit the growth opportunities available to us in all three segments and continue to focus on the effective management of risks, strict cost control, and on further improving the Bank’s infrastructure. Overall, we will create sustainable value for shareholders, clients and employees.

Aareal Bank Group is efficient, financially sound and has drawn up a clear plan for sustainable, profitable growth. We hope you will continue to place your trust in us in the future, too.

*Yours sincerely,  
Jochen Klösges*

**Jochen Klösges,  
Chairman of the Management Board**

# The Aareal Bank Share

## Investor Relations activities

During the financial year under review, the Covid-19 pandemic continued to noticeably impact the economy, considerably affecting both public and private life. Regardless of these adverse effects, Aareal Bank, as a listed public limited company, is 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 further intensify this dialogue.

Given the uncertainty amid the prevailing pandemic, the dialogue was particularly detailed and intensive: in fact, such dialogue is a prerequisite for the success of a listed public company over the long term. Only when current company developments are communicated and, if needed, 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 conferences, among other things, are held each year for investors, analysts and the media. This time around, the pandemic forced the Bank to switch to a virtual format. The Management Board adapted to the virtual format, presenting the results of the previous financial year in great detail and providing a strategic outlook for the future, which comprised the current financial year as well as the strategic review – in other words the adjusted medium-term horizon of the Bank's current "Aareal Next Level" growth strategy – in February 2021. Aareal Bank also uses the quarterly publications conference calls as an opportunity to inform investors, analysts and the media about current Group developments.

Whilst in-person events proved to be nearly impossible in 2021 due to the prevailing pandemic, the Investor Relations team attended nine virtual international capital markets conferences and one in-person event in the course of the financial year under review. Only four virtual roadshows were held in 2021, reflecting the ongoing impact of the pandemic on day-to-day work. However, the more flexible format of online meetings replaced roadshows and more than made up for the reduced number of in-person roadshow events, so that market communications – by and large – remained at a high level throughout 2021. 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, Banking & Digital Solutions, and Aareon, on its website at [www.aareal-bank.com](http://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.

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 2022. We continue to actively seek dialogue with our investors and analysts – using all modern communication channels to remain in personal contact.

## Key data and indicators of the Aareal Bank share

	2021	2020
Share price (€) <sup>1)</sup>		
Year-end price	28.760	19.550
High	29.420	31.690
Low	18.330	13.670
Book value per ordinary share (€)	45.02	43.54
Dividend per ordinary share (€) <sup>3)</sup>	1.60	0.40
Earnings per ordinary share (€)	0.89	-1.50
Price/earnings ratio <sup>2)</sup>	32.34	-13.03
Dividend yield (%) <sup>2)</sup>	5.56	2.05
Market capitalisation (€ mn) <sup>2)</sup>	1,721	1,170
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	

<sup>1)</sup> XETRA® closing prices

<sup>2)</sup> Based on Xetra® year-end closing prices

<sup>3)</sup> 2020: with regard to the takeover offer and the Investment Agreement entered with Atlantic BidCo GmbH, only € 0.40 per share of the intended € 1.50 were distributed in 2021.

2021: Proposal to be submitted to the Annual General Meeting to pay a dividend in a total amount of € 1.60 per share in 2022 for the financial year 2021, including the amount of € 1.10 per share not paid out in 2021.

## Shareholder structure

since 3 February 2015



## Analysts' opinions

In addition to the 12 brokerages and analyst firms that were regularly covering Aareal Bank at the start of the financial year, one firm was able to resume coverage during the course of the year after it had temporarily suspended its research activities on Aareal Bank in 2019. One firm discontinued coverage during the course of the year after giving up this line of business. And at the end of the financial year under review, two more firms announced that they would generally discontinue equity coverage for economic reasons, as a result of which ten brokerages and analyst firms regularly cover Aareal Bank as at the beginning of the new 2022 financial year.

There were two “buy” and eight “neutral” recommendations compared to three “sell” recommendations at the end of the year. The assessments were influenced by the takeover offer published by Atlantic BidCo at the end of November; hence, they only reflected Aareal Bank Group’s operating performance to a limited extent. At present, there are four “buy” and five “neutral” recommendations, with one “sell” recommendation.

We regularly update and publish the analysts’ recommendations on our website [www.aareal-bank.com](http://www.aareal-bank.com) on the Investor Relations page.

# Relative performance of the Aareal Bank share price

## 1 17 January 2021

Aareal Bank leaves the pandemic year 2020 firmly behind with extensive loss allowance and – following a strategy review – targets consolidated operating profit in the range of € 300 million in 2023

## 2 24 February 2021

Following a loss-making year as a result of the pandemic, Aareal Bank anticipates a triple-digit million-euro positive operating result again for 2021

## 3 31 March 2021

Aareal Bank Group publishes its Annual Report 2020

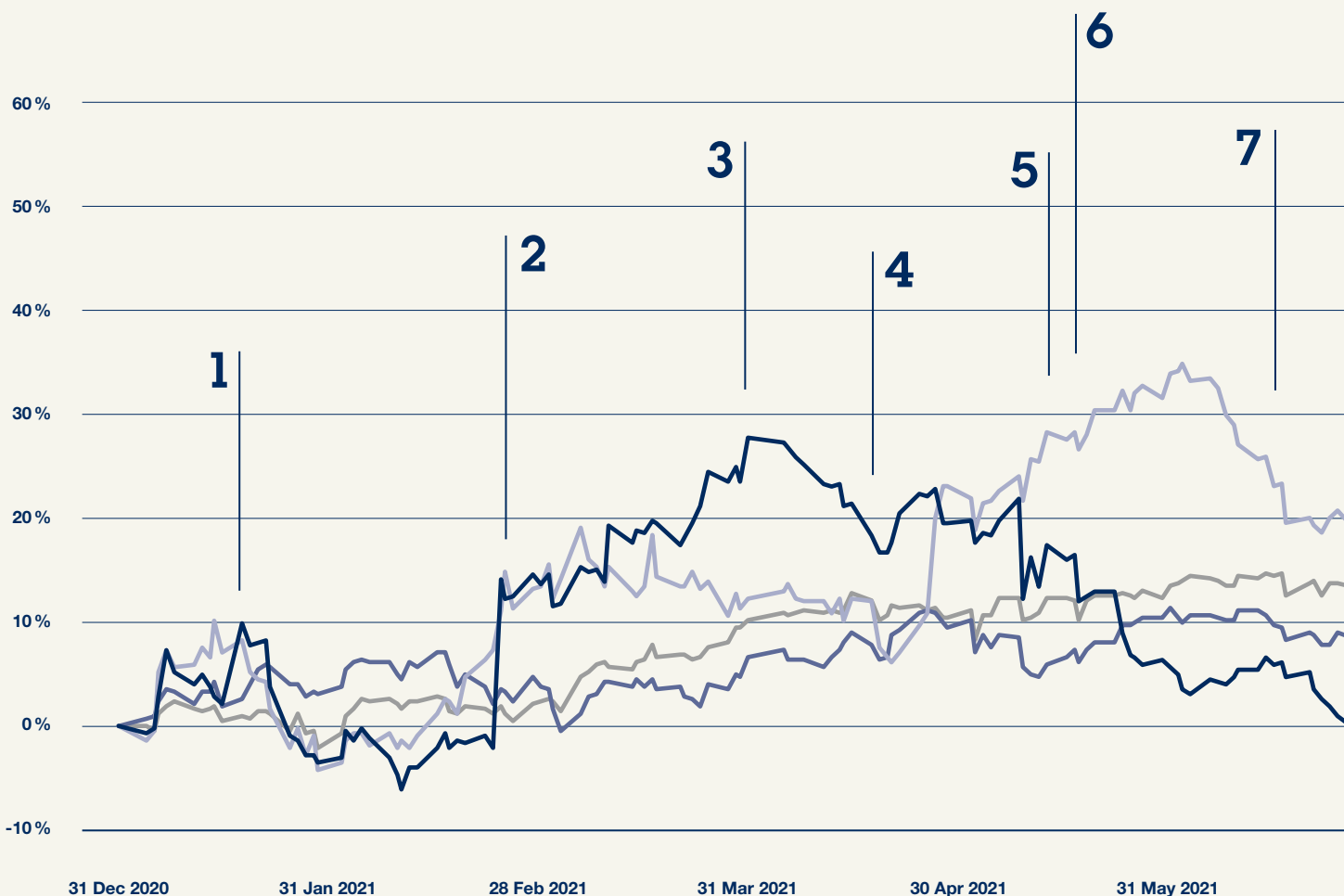
## 4 20 April 2021

CEO Hermann J. Merkens will not return to office – search for a successor has reached an advanced stage

## 5 11 May 2021

Aareal Bank Group posts clearly positive consolidated operating profit in the first quarter, forecast affirmed for full year 2021

■ Aareal Bank ■ DAX-Index (total return)  
■ SDAX-Index (total return) ■ CXPB (total return)





**6 18 May 2021**  
Annual General Meeting of Aareal Bank AG supports the current Supervisory Board, rejects partial replacement of Supervisory Board members

**7 15 June 2021**  
Jochen Klösger is appointed new Chief Executive Officer of Aareal Bank AG, with effect from 15 September

**8 2 August 2021**  
Aareal Bank announces a non-recurring adverse tax effect and reports preliminary results of the second quarter

**9 12 August 2021**  
Aareal Bank Group significantly increases earnings in the second quarter of 2021

**10 7 October 2021**  
Aareal Bank confirms open-ended talks with a group of financial investors regarding a majority interest

**11 11 November 2021**  
Aareal Bank Group continues its positive development with a solid third quarter

**12 23 November 2021**  
Aareal Bank concludes Investment Agreement – the bidder company, with the participation of Advent International and Centerbridge Partners, announces takeover offer

**13 9 December 2021**  
Extraordinary General Meeting of Aareal Bank AG resolves on the removal of Supervisory Board members

**14 27 December 2021**  
The Management Board and Supervisory Board of Aareal Bank recommend accepting the takeover offer made by Atlantic BidCo GmbH

