This version of the speech by Thomas Ortmanns and Marc Hess is a translation of the German original provided for the convenience of English-speaking readers. The German text shall be authoritative and binding for all purposes.

Thomas Ortmanns
Marc Hess

Members of the Management Board
of Aareal Bank AG

Speech on the occasion of the Annual General Meeting on 18 May 2021

– The spoken text will prevail in the event of any differences –

[Thomas Ortmanns]

I. Welcome and introduction

Ladies and Gentlemen, dear shareholders,

On behalf of the entire Management Board of Aareal Bank AG, it is my pleasure to welcome you to this year's ordinary Annual General Meeting!

Like last year, we have once again had to opt for a virtual Annual General Meeting. We ask for your understanding that the Covid-19 pandemic leaves us no other choice.

In normal circumstances, Hermann Merkens, as Chairman of the Management Board, would have spoken to you today. But as you know, he resigned from his duties for medical reasons as at 30 April. The entire Management Board and staff of Aareal Bank regret this very much. We want to take this opportunity to wish Mr Merkens a swift and full recovery, and all the best for the future!

During Mr Merkens' previous illness-related absence, my colleague Marc Hess and I have been taking care of his material management and coordination duties since November 2020. Accordingly, Marc Hess and I will divide the duties that are generally assumed by the CEO at today's Annual General Meeting.

First of all, I would like to provide you with an overview of the performance of our operating business last year, and the milestones reached. Marc Hess will then explain our business figures in detail, and provide you with the short- and medium-term outlook as well as our strategic priorities for the years ahead.

II. Review of 2020

Ladies and Gentlemen,

We operated in a very challenging environment last year. In fact, this is unlikely to change much in the near future. More than a year after the outbreak of the crisis, the Covid-19 pandemic is still impacting on the economy and society to an extent that could hardly be anticipated a year ago. The direct and indirect impact of the pandemic continues to present a major challenge for the entire banking sector – and therefore for Aareal Bank, too.

For now, it is a question of ensuring that business operations run smoothly from an organisational perspective, even under the conditions presented by the pandemic. We continued to operate at all times, and without any restrictions.

From the very outset of the crisis, we protected our employees by enabling most of them to work from home. Currently, the vast majority of our workforce are still working from home, and the same applies to Aareon Group.

Organising almost the entire Company remotely was a major challenge at the outset of the pandemic, and in parts still is today – a challenge which we have mastered with flying colours. Together, our IT specialists at Aareal Bank and Aareon have delivered outstanding work and I would like to express my heartfelt thanks to them for their effort.

Of course we also want to thank all our employees who responded quickly and flexibly to the new working arrangements and with their continued tireless commitment, ensured that our Company was able to overcome this unprecedented situation.

This is a tremendous achievement in a business that thrives not least on personal contact, and one that cannot be praised enough. At the same time, we know that the situation places a considerable burden on our staff. We are trying to support them in the best possible way, through suitable measures within the scope of our Human Resources activities. We offer maximum flexibility to balance work and family life in this situation. Specifically, our employees can access our childcare facilities or caring for relatives offers. At the same time, our Learning@Aareal initiative offers a wide variety of training courses and programmes, which enable our employees to optimally gear themselves to the changing requirements during the pandemic and beyond. Roughly half of these programmes can be accessed entirely online at any time.

Our interaction with our clients in all segments of Aareal Bank Group is carried out mainly on the virtual stage during the pandemic. This is a particular challenge, especially when it comes to defining joint approaches on how to overcome the consequences of the crisis.

The repeated lockdowns, which are still in force in numerous countries, have impacted on our property financing clients' businesses, such as the retail or hotel sectors. The consulting business of the Group's two other segments was affected by the temporary shutdown of economic activity and restricted travel opportunities.

As a reliable, long-term partner, we continue to play our part in helping our clients come through this difficult phase to the best extent possible. At Aareon, we continued or even started projects virtually throughout the entire pandemic period, and consistently supported our clients with virtual advisory formats or webinars. Financial measures have also played a role in the property financing business, including postponements of amortisation and additional liquidity lines. These amounted to

€266 million in the year under review and were therefore at a moderate and manageable level overall.

Our clients are investing significant funds themselves to withstand this period. But they also know that they can rely on us. Conversely, we realised once again in the past few months that partnership is not a one-way street. It is also thanks to our clients that constructive, viable solutions could be found for all parties involved in the vast majority of cases. We appreciate the trust you have placed in us and continue to do our utmost to earn this trust again and again.

The pandemic significantly impacted our financial statements, too. As at the 31 December 2020 reporting date, we had covered all conceivable Covid-19-related risks, and therefore accounted for the further intensification of the pandemic at the turn of the year. These comprehensive measures were why we had to report a loss in accordance with IFRSs in the 2020 financial year – the first loss in one and a half decades. Consolidated operating profit was minus €75 million. After taxes, non-controlling interest income and AT1 costs, consolidated net income allocated to ordinary shareholders was minus €90 million.

Our Chief Financial Officer Marc Hess will go into the figures in more detail later. I want to state here that despite the loss for the year, we have mastered the tremendous challenges posed by the corona crisis in 2020 very well overall.

More than that: we have proven the robustness of our operating business, reached important milestones in further shaping our “Aareal Next Level” strategic framework and, not least, strengthened our market position.

This applies to all three segments of Aareal Bank Group.

In the **Structured Property Financing** segment, we strengthened our market position in an environment defined by a pandemic-driven decline in transaction volumes. Thanks to expedited new business totalling €7.2 billion in the course of the year, we expanded our credit portfolio to the upper end of the €26 billion to €28 billion target corridor. All of this was achieved with attractive gross margins of 220 basis points on average that continued to exceed expectations, and low loan-to-value ratios that remained below the 60 per cent mark, fully observing our strict risk criteria. This underlines Aareal Bank's ability to allocate new business flexibly to attractive markets, whilst meeting high quality standards at the same time. We therefore used the opportunities to expand our credit portfolio in a risk-aware manner, which arose especially in an environment that has been changed by the pandemic.

This applies especially to the logistics property asset class, which is rightly considered one of the winners of the pandemic. We therefore paid special attention to the financing of modern, high-quality logistics properties in the year under review. At 27 per cent, their share of our new business increased nearly three-fold last year. The same goes for office property, which in our view offers sound prospects for the future – depending on location and quality, and in spite of potentially changed working conditions and requirements going forward – and at 36 per cent accounted for the largest share of our new business. We concluded attractive transactions in both sectors, especially at the end of the year.

We remain ready to extend finance to the retail sector too, which was particularly hard hit by the pandemic. This asset class's share of new business in 2020 fell only relatively slightly, from 13 to 11 per cent. Undoubtedly, the current situation is extremely challenging for many retailers, yet there is no reason to fundamentally question the future of this asset class. Our focus in this segment is on prime properties in very good locations – properties that offer an experience, which are professionally managed, and which fulfil today's shopping experience expectations.

We also continue to stand by the hotels asset class, one of our traditional strengths, in which we have targeted successful investments for more than 20 years and for which we have a dedicated team of experts with profound industry expertise. At 22 per cent, the share of new business accounted for by the hotel business was also down only slightly on the previous year.

In our opinion, this asset class is often considered without differentiation, and in some cases too superficially. Even though the impacts are not yet fully foreseeable, especially in the business hotel segment, the fact is that the coronavirus pandemic will pass, and people will travel again. We are already seeing the first signs of a global recovery in the sector: not only in China, on the Maldives and in other parts of the Asia-Pacific region, but also in the US and increasingly in the UK. We are therefore ready to extend finance here as well, and anticipate particularly good growth opportunities, thanks to our specific expertise in hotel financing. On the basis of post-Covid valuations, we can currently conclude new business with excellent loan-to-value ratios at very attractive margins. This bears testimony that our strategy is paying off, as we assumed it would.

Ladies and Gentlemen,

The challenges the pandemic presented were no doubt the greatest for the Structured Property Financing segment. We successfully weathered them overall, while at the same time systematically exploiting the opportunities to demonstrate our strengths in the difficult market and competitive environment.

Another focal point of the previous year was the ongoing development of the **Consulting/Services Bank** segment, which was renamed **Banking & Digital Solutions** on 1 January 2021. The new name highlights the sharper business focus of the segment, in which we bundle all our banking activities outside of property financing, as well as the ambitious objectives we follow here. Thanks to new digital solutions and through further partnerships for our clients, we have the opportunity to clearly grow our commission income in the medium term – and hence the equity-light part of our earnings base; Marc Hess will go into this in more detail in his strategic outlook.

We have taken another step in this direction in the 2020 financial year. The segment’s net commission income increased from €23 million to €26 million compared with the previous year. And we have tapped further business opportunities with new products.

For example, we have launched the Aareal Exchange & Payment Platform on the market – an innovative platform solution that will enable companies to implement end-to-end automation of diverse payment and bank-related services, and integrate them easily in their own ERP systems.

The platform allows for seamless integration of various payment providers into the existing payment processes of housing enterprises. Regardless of the payment method a tenant may want to use in the future – all relevant payment information is exchanged with the connected ERP systems.

The Aareal Exchange & Payment Platform also allows housing enterprises to connect external service providers in an uncomplicated manner through ERP interfaces. The first exchange service is the digital tenant deposit guarantee Aareal Aval, a product of Aareal Bank’s plusForta subsidiary. Instead of the still-customary issuance of tenant deposit guarantees in analogue format, the entire process can now be managed in a fully automated and digital format from the ERP system.

Another example of the expansion of our digital business, especially with partners or across industries: Aareal Bank Group, in cooperation with pixolus GmbH, a specialist developer of mobile data recording applications, has developed a new digital solution for recording and processing meter readings. Aareal Meter will help companies from the energy and housing industries to digitalise meter readings, thus boosting efficiency in what used to be a time-consuming and error-prone exercise to date. Furthermore, we have developed an automated invoicing procedure within the scope of a partnership with smartlab Innovationsgesellschaft mbH: Aareal Connected Payments. This solution simplifies invoice management for complex payment flows between different partners, so-called multi-party payments, on a shared platform, hence supporting the progress of e-mobility in Germany.

In addition to expanding our portfolio of digital services and solutions, the deposit-taking business remains one of the core activities of the Banking & Digital Solutions segment. The deposits not only represent a stable, attractive source of additional funding, but also offer considerable potential for additionally increasing income in case of a turnaround in interest rates. The level of deposits remained high in 2020, where it averaged €11 billion. This demonstrates the trust and confidence our clients have placed in us over many years.

Ladies and Gentlemen,

The most important strategic highlight of last year came from our **third segment, Aareon**: the sale of a minority stake of 30 per cent in our IT subsidiary to private equity investor Advent, with whom we agreed on a partnership to significantly further strengthen the growth momentum of Aareon.

The sale was preceded by an intensive, open analysis of all strategic options for the further development of Aareon as a leading provider of ERP software and digital solutions for the European property industry and its partners. We have meanwhile widened the range of options considerably through the successful unbundling between Aareon and Aareal Bank, without threatening existing synergies.

Having given due consideration to all arguments, the selected option of selling a minority stake to a suitable investor clearly was the best recourse. With Advent, we have found a strong and experienced partner to help us unlock the full potential of Aareon as part of Aareal Bank Group even faster, thus creating added value for the Group.

As a long-term investor, Advent will contribute its broad expertise in the technology sector, its proven track record in the sustainable development of its investments, its M&A expertise, and its financial resources – all the requirements to accelerate Aareon's value creation journey, together with us, raising Aareon to a new level of development over the coming years.

Aareal Bank and Advent are thus joining forces to further strengthen Aareon’s market position. This will benefit our clients and employees as well as our shareholders, because as majority shareholder, Aareal Bank will continue to participate significantly in Aareon’s success.

The agreed transaction is an important milestone in the process of developing a strong value proposition for Aareon as a software company, independent of the parent company. Along similar lines, we have benefited from the very favourable market environment for resilient software-centric businesses – especially in the pandemic, which has significantly strengthened the general digitalisation trend even further.

The financial terms of the disposal are based on an enterprise value for Aareon of approximately €960 million. This corresponds to an equity value of approximately €860 million, leading to a purchase price for the 30 per cent stake of approximately €260 million. This has crystallised the true value of Aareon as at the transaction date. As we have always said, Aareon is a true gem, which will continue to perform well in conjunction with Aareal Bank's business – a view shared by Advent.

We pursue the common goal of developing Aareon into a ‘Rule of 40’ business by 2025. That means that the combined EBITDA margin and sales revenue growth rate should be equal to or greater than 40 per cent. We are therefore significantly exceeding our previous objective of increasing Aareon’s EBITDA at least two-fold.

Drawing on the Value Creation Programme for Aareon that we have developed together with Advent, we now aim to increase our subsidiary's adjusted EBITDA to around €135 million instead of the original figure of €110 million. This projection does not include any positive contributions from potential acquisitions, for which Aareon has secured a debt facility of up to €250 million.

Ladies and Gentlemen,

Aareon’s prospects for the future are excellent. Current business is performing well too.

Aareon demonstrated its robustness and resilience to a crisis in an impressive manner in the 2020 pandemic year. Despite weaker consulting business, on account of Covid-19, Aareon increased sales revenues slightly and continued to see particularly strong momentum in digital solutions. Operating profit was nearly unchanged from the previous year, despite the burdens posed by Covid-19 and further acceleration of investments for the future.

Aareon stepped up its organic as well as its inorganic growth last year.

On the M&A side, the acquisition of CalCon Group, closed in 2020, stands out. This allowed Aareon to extend its range of services to include building relationship management solutions, which were integrated into Aareon Smart World. Another important step was the purchase of Arthur Online Ltd. in the UK. Arthur offers a software-as-a-service (SaaS) solution, which brings together property managers, property owners, tenants and contractors on a single platform. Aareon is therefore developing the market especially for small and medium-sized property managers in the UK. This acquisition, which was concluded shortly after Advent came on board as an investor, was the first concrete result of the cooperation. A robust M&A pipeline was built during 2020, with new M&A and post-merger integration teams established to realise further acquisitions. More M&A deals are to be expected.

Aareon continued to successfully develop its organic growth last year, through selective expansion of its product and solutions portfolio. In September 2020, it started marketing the new ERP product generation Wodis Yuneo as part of the "ERP 2025" programme for the German market, and met with a very good response among clients. With this programme, Aareon is investing in the next generation ERP systems.

Aareon took an important step forward in the area of digital solutions with the introduction of the AI-based virtual assistant Neela. Following its launch on the German market, marketing commenced in the UK, the Nordic countries and the Netherlands. It was also launched in France this year.

Ladies and Gentlemen,

As you can see, We are progressing well in all segments of Aareal Bank Group. Our operating business is performing well, our business model is viable, and we set the right priorities at the start of 2020 with our "Aareal Next Level" strategic framework. Nonetheless, we initiated a 360-degree review of "Aareal Next Level" last autumn, in order to be able to fully exploit the opportunities arising from changes induced by Covid-19, and to retain the Bank's successful performance in the future. We successfully concluded this strategic review at the start of this year. Marc Hess will explain the results in more detail shortly, following a detailed look at the 2020 business figures.

[Marc Hess]

III. 2020 business figures, dividends, Q1 and outlook for 2021

Thank you very much, Thomas.

Ladies and Gentlemen,

Thomas Ortmanns has already stated what are probably the most important figures for you. We concluded the 2020 financial year with negative consolidated operating profit under IFRSs of €75 million, having generated a positive figure of €248 million the year before. This resulted in consolidated net income allocated to ordinary shareholders of minus €90 million, compared to plus € 145 million in the previous year. Earnings per ordinary share amounted to minus €1.50 compared to plus €2.42 in 2019.

However, when considering these figures, it must be taken into consideration that the net gain of approximately €180 million from the sale of the minority stake in Aareon to Advent International, which was agreed upon in August 2020 and closed at the end of October, was not recognised in income but directly in equity in the consolidated financial statements in accordance with IFRSs.

If the proceeds of the sale had been recognised in income, we would have remained well in profit in 2020, in what was an exceptional year due to the pandemic. Which is why the single-entity financial statements in accordance with the German Commercial Code look completely different: here we concluded the 2020 financial year with net income of €89.8 million.

Thomas Ortmanns already mentioned the relevant reasons for the losses in accordance with IFRSs: the comprehensive provisions for conceivable future risks in relation to the Covid-19 pandemic. All in all, loss allowance in the previous year increased significantly to €344 million, compared with only €90 million in 2019. €177 million of the total amount was attributable to the fourth quarter alone.

Due to the extension and further tightening of global lockdown measures and the resulting deterioration in the economic outlook, we have generally classified as stage 2 all loans for which liquidity support measures were granted as at the reporting date. This means that we recognised 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. Our valuation reviews of the portfolio particularly affected by the Covid-19 pandemic covered this almost completely at the end of the year, with the share of external valuations accounting for approximately 85% of the lending volume. Overall, the Bank has thus comprehensively taken account of the recent intensification of the pandemic.

In our consolidated financial statements for 2020, we have comprehensively dealt with all recognisable Covid-19 risks, having already made important adjustments to our loan book as part of the successful de-risking exercise over recent years.

In contrast to loss allowance, the most important earnings indicators developed according to plan – demonstrating the robustness of our operating business.

Net interest income of €512 million was down on the previous year. However, this was mainly due to the decline in the lending and securities portfolio during the year, which was attributable to the substantial de-risking measures taken in 2019. As Thomas Ortmanns already mentioned, we had already countered this in the second half of 2020, and expanded the credit portfolio to the upper end of the target corridor of €26 billion to €28 billion by the end of the year. This expansion, which will continue this year and the next, will have a positive effect on net interest income, which we have already seen in the fourth quarter of 2020 and the first quarter of 2021.

Consolidated net commission income increased further to €234 million on the back of the higher sales revenue at Aareon and in the Consulting/Services Bank segment. This continuous increase in recent years has significantly changed the ratio of net interest income to net commission income. The share of net commission income in total income, which stood at 19 per cent back in 2015, already reached 31 per cent in 2020. Very few institutions of our size can report such a high share of equity-light business.

Administrative expenses declined to €469 million in spite of rising expenses in connection with Aareon's growth, also due to cost savings incurred in connection with the Covid-19 pandemic. Cost discipline has always been a priority for us and is very clearly reflected in this figure.

We also performed well in terms of key financial indicators in 2020. Aareal Bank Group's funding activities on the capital market were successful again, maintaining both a strong liquidity position and well diversified sources of funding. We were able to raise a total of €2.1 billion in medium- and long-term funds during the financial year under review, comprising €0.5 billion in Pfandbrief issues and €1.6 billion in bonds. Capitalising on the very attractive funding terms, Aareal Bank participated in the ECB's Targeted Longer-Term Refinancing Operations (TLTRO 3) programme in the second quarter of 2020, raising €4.3 billion under the programme. We continue to significantly exceed all minimum liquidity ratios.

Our capital base also remains very solid indeed. Despite portfolio growth and the effects of the Covid-19 pandemic, the Common Equity Tier 1 (CET1) ratio was comfortable by international standards, too, at 18.8 per cent, and only slightly below the result of the previous year. In fact, the CET1 ratio, determined on the basis of the Basel Committee's final framework – the Basel IV phased-in ratio – increased slightly to 17.3 per cent. We have already taken the targeted total dividend payments of €90 million for the current year into account in all of this.

Dear shareholders,

The successful performance of the operating business, the Group's sound growth prospects overall and our solid capital base enable us to distribute dividends for the past financial year, despite the negative annual results under IFRSs. In doing so, we continue to build on our track record as a reliable payer of dividends, whilst complying with the clear recommendation by the European Central Bank to the banks it supervises directly not to pay out any dividends in the previous year.

Specifically, we plan to distribute a total of €1.50 per share this year in two steps. As you are aware, the Management Board and the Supervisory Board propose to today's Annual General Meeting to distribute a dividend of €0.40 per share in what is a first step. This proposed dividend is in line with the guidance published by the ECB on 15 December 2020.

Depending on further economic developments, regulatory requirements, the Bank's capital position and its risk situation, an extraordinary Annual General Meeting in the fourth quarter of 2021 could then decide on the intended remaining payout of €1.10 per share.

Based on the share price level on 11 May 2021, the day when we published our first-quarter results, the total intended payout would translate into an extremely attractive dividend yield of 6.8 per cent.

Ladies and Gentlemen,

We have a robust, successful operating business, a sound capital base, good cost management, and have comprehensively dealt with all the Covid-19-related risks: despite having posted a loss, we have emerged in rock-solid state from the 2020 pandemic year – a year which we are leaving firmly behind us. We are looking ahead beyond the current pandemic crisis. Aareal Bank Group is well positioned for the economic recovery expected to begin in the current year and to gradually improve thereafter. We have the scope to exploit the opportunities presented to us by the changed environment, consistently, but prudently and in a risk-aware manner at the same time.

We have already done this in the first quarter of 2021. We embarked on the current financial year successfully and dynamically.

As we already presented detailed figures for January to March on 11 May, I would now like to focus on a few material aspects.

As we expected, we have returned to profitability, and significantly so: we increased consolidated operating profit almost three-fold over the same period of the previous year, to €32 million. All in all, consolidated net income for the first three months of 2021 came to €21 million, compared to €7 million in the same period of the previous year, of which €16 million is attributable to shareholders of Aareal Bank AG, after a mere €2 million in the first quarter of 2020.

This good result was mainly due to significantly higher net interest income, a further increase in net commission income and sharply lower loss allowance following the comprehensive measures taken last year.

Net interest income, which increased by around 12 per cent year-on-year, to €138 million, reflected in particular the controlled increase in the lending volume, which we continued in the first quarter. Thanks to ongoing good new business of the same high quality, we exceeded the €28 billion mark again for the first time in four years at the end of March, reaching €28.2 billion.

The expansion of the credit portfolio in line with our strategy is in the context of a marked improvement in the risk situation. Following the comprehensive allowance recognised in the 2020 financial statements, the total volume of non-performing loans was maintained at a stable level. Loss allowance was reduced to only €7 million. However, this welcome figure cannot be projected for the year as a whole.

The positive development also continued in the other two segments, so that consolidated net commission income rose further to €59 million, compared to €57 million in the same quarter of the previous year, in line with the strategic objectives.

Sales revenue at Aareon rose to €66 million (Q1 2020: €64 million) despite the burdens posed by Covid-19, with particularly high momentum among the digital products in the first few months of the current year, too. Despite current investments for the future, Aareon's adjusted EBITDA of €15 million was on a par with the previous year. Both were in line with expectations, whereby Aareon was hardly burdened by Covid-19 in the first quarter of 2020.

Administrative expenses rose to €150 million. As expected, this is due on the one hand to planned business expansion and investments in new products, Aareon's Value Creation Programme, ventures and M&A activities, as well as to the non-recurrence of the cost savings made during the Covid-19 pandemic, which were seen in the same quarter of the previous year. On the other hand, compared with the previous year and in relation to the planning, higher provisions were recognised overall for the bank levy and contributions to the deposit guarantee scheme, due to a deposit protection event (Greensill) and other effects. The full-year effect was recognised to a very large extent in the first quarter of 2021, which is why administrative expenses for the first quarter cannot be projected for the year as a whole.

The strong start to the year is clear evidence that the path of controlled growth taken in all parts of the Group is paying off.

Based on the good start to the year, we can confirm our forecast for the full year 2021. We continue to anticipate being able to generate triple-digit million-euro consolidated operating profit. Given the uncertainty concerning further developments with respect to the pandemic, we are deliberately projecting consolidated operating profit in a comparatively broad range of €100 million to €175 million.

Specifically, we expect net interest income to increase by more than 10 per cent, to between €550 million and €580 million, also based on the mean range. Net commission income should continue to grow, to between €250 million and €270 million. Based on our assumed ‘swoosh’ scenario for the overall economic recovery, Aareal Bank expects loss allowance in a range of €125 million to €200 million, after €344 million in the previous year. Due to the Covid-19 pandemic, however, uncertainty related to this item is much higher than usual. Administrative expenses are expected at between €520 million and €540 million, due to the non-recurrence of the previous year's cost savings due to Covid-19, the planned growth of Aareon and the expenditure for the strategic initiatives.

Aareal Bank plans to generate new business of between €7 billion and €8 billion in the Structured Property Financing segment and to increase the credit volume to around €29 billion. For the Banking & Digital Solutions segment, Aareal Bank assumes further slight growth in net commission income and expects a stable, average deposit volume from the housing industry. It is expected that Aareon will see a marked increase in sales revenue in the region of €276 million to €280 million for the current year. Adjusted EBITDA is likely to further increase to between €63 million and €65 million, after €62 million in the previous year. This excludes any effects from possible future M&A transactions.

Although it goes without saying, it must be expressly emphasised that all these forecasts are of course subject to considerable uncertainty in the current environment. Nonetheless, I hope we have made it clear from our statements that at Aareal Bank, we can look ahead with confidence, even though the corona crisis is not over yet.

IV. Strategy

Ladies and Gentlemen,

This fundamentally optimistic stance is also supported by results from the 360-degree review of our “Aareal Next Level” strategic framework that we mentioned earlier. We had already communicated the results of this process, which was conducted by the Management Board and supported by the Supervisory Board, in January as cornerstones and in detail in February – and met with a very positive response on the equity market, which rewarded our corresponding announcements with a share price increase of around 6 per cent and 17 per cent respectively. It is worth mentioning that the vast majority of analysts have raised their price targets since the strategy announcements. Our numerous talks with investors have also met with positive feedback for our new, adjusted, fine-tuned and sharpened strategy.

What exactly are we working towards for the years ahead?

Firstly, we believe the key findings of the 360-degree review bear out our stance, also considering external challengers we commissioned: our strategy and business model remain viable in a normalised environment, once the pandemic has been overcome. There is no need to reinvent ourselves. However, what we need is partial adjustments to optimally exploit growth opportunities and increase efficiency – and ultimately therefore, the Company’s profitability.

We have developed a clear plan for all this with focused growth strategies for each of our three segments, which we will now consistently implement.

- In the Structured Property Financing segment, we will continue the controlled expansion of the portfolio volume that we started in 2020, in order to improve usage of the existing platform. For the post-Covid period, we anticipate enhanced opportunities for high-margin business whilst maintaining our conservative risk standards. The credit volume is expected to grow to around €29 billion by the end of 2021 and to around €30 billion by the end of 2022 – with the corresponding positive impact on net interest income. We will focus in particular on sustainable financing – an area in which we already have considerable expertise and that promises excellent opportunities for us. Besides the risk-conscious and profit-oriented growth of the credit portfolio, particular focus is on its orientation towards sustainability criteria. For this purpose, we have introduced a Green Finance Framework certified by a third-party, as the basis for future ‘green’ lending offers.

- We also want to grow further in the Banking & Digital Solutions segment, with an independent value contribution. Our objective is to use the growing opportunities from the successful unbundling between Aareon and Aareal Bank to expand the product range – especially in the digital business – and further strategic partnerships, with a particular focus on strengthening the equity-light commission-based business. The segment’s net commission income is expected to double by 2025, to a respectable figure of around €50 million.
- Thomas Ortmanns had already stated the targets for Aareon. I would like to recap the key element: drawing on the Value Creation Programme developed with Advent, the target value for adjusted EBITDA by 2025 is now around €135 million – excluding any positive contribution from possible acquisitions.

Besides the growth strategies we have outlined, we have identified additional potential for raising our profitability in the long term. We want to further optimise our funding mix and capital structure. In addition, we will implement measures to enhance the efficiency of the organisational structure, processes and infrastructure. Overall, we are aiming for a cost/income ratio of less than 40 per cent in the core

Structured Property Financing segment for 2023. This clearly positions us among the best banks in Europe.

Ladies and Gentlemen,

Our further developed “Aareal Next Level” strategy is aimed at achieving long-term success in our markets as well as in financial terms. Including the adjustments we explained, we will be able to generate consolidated operating profit in the range of €300 million – excluding any potential acquisitions – as early as 2023, provided the pandemic has been fully overcome by then and the risk situation has returned to normal again. Assuming a CET1 reference ratio (Basel IV, phased-in), of around 15 per cent which would exceed the market average, this translates into a return on equity after taxes of approximately 8 per cent (both for the Group and for the Bank), in line with the cost of capital.

V. Conclusion

Our adjusted strategy will not only improve our results substantially – also compared to pre-Covid-19 times – whilst maintaining our strict and conservative risk standards. It will also allow us to free up capital for the purposes of active capital management, or for selected acquisitions. All of this will be supported by additional measures to enhance cost efficiency, and by focusing our business even more strongly on ESG criteria, which – as providers of long-term finance – we are predestined to fulfil. Together with our clients, we want to achieve maximum transparency concerning the environmental and climate impact of our commercial property finance portfolio. We affirm our goal to establish full transparency of this impact in 2022.

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 along this path.

Many thanks for your attention!