ANNUAL REPORT 2021

Outlook: growth

Aareal

YOUR COMPETITIVE ADVANTAGE.

Key Indicators

	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Results		
Operating profit (€ mn)	155	-75
Consolidated net income (€ mn)	68	-69
Consolidated net income allocated to ordinary shareholders (€ mn) [1]	53	-90
Cost/income Ratio (%) [2]	43.6	44.2
Dividend per share (€) [3]	1.60	0.40
Earnings per ordinary share (€) [1]	0.89	-1.50
RoE before taxes (%) [1]	5.3	-4.1
RoE after taxes (%) [1]	2.1	-3.6

	31 Dec 2021	31 Dec 2020
Statement of financial position		
Property finance (€ mn)	30,048	27,834
Equity (€ mn)	3,061	2,967
Total assets (€ mn)	48,728	45,478
Regulatory indicators [4]		
Basel IV (phase-in) [5]		
Risk-weighted assets (€ mn)	12,817	13,195
Common Equity Tier 1 ratio (CET1 ratio) (%)	18.2	17.3
Tier 1 ratio (T1 ratio) (%)	20.5	19.6
Total capital ratio (TC ratio) (%)	23.6	25.7
Basel III		
Common Equity Tier 1 ratio (CET1 ratio) (%)	22.2	18.8
Employees	3,170	2,982

	31 Dec 2021	31 Dec 2020
Moody's		
Issuer rating	A3	A3
Bank deposit rating	A3	A3
Outlook	negative	negative
Mortgage Pfandbrief Rating	Aaa	Aaa
Fitch Ratings		
Issuer default rating	BBB+	BBB+
Senior Preferred	A-	A-
Senior Non Preferred	BBB+	BBB+
Deposit ratings	A-	A-
Outlook	negative	negative
Sustainability ratings [6]		
MSCI	AA	AA
ISS-ESG	prime (C+)	prime (C+)
CDP	Awareness Level C	Awareness Level C
Share price		
XETRA® closing price (€)	28.70	19.55

[1] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
[2] Structured Property Financing segment: in line with common practice in the banking sector, bank levy and contributions to the deposit guarantee scheme are not included.
[3] 2020: with regard to the takeover offer and the Investment Agreement entered into 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.
[4] 31 December 2020: excluding planned dividend of € 1.50 per share in 2021 and including pro rata temporis accrual of net interest payments on the AT1 bond;
31 December 2021: excluding planned dividend of € 1.60 per share in 2022 for the 2021 financial year, including € 1.10 per share not distributed in 2021, and the pro rata temporis accrual of net interest payments on the AT1 bond. The appropriation of profits is subject to approval by the Annual General Meeting.
The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.
[5] Underlying RWA estimate in accordance with the current version of the CRR plus revised AIRBA requirements for commercial property lending, based on the European Commission's draft for the European implementation of Basel IV dated 27 October 2021. The calculation includes a buffer (maintaining the scaling factor of 1.06 for AIRBA risk weights, and the 370 % risk weight for the IRBA equity exposure class), to account for the uncertainty surrounding the final wording of CRR III as well as the implementation of further regulatory requirements such as EBA requirements for internal Pillar 1 models. When Basel IV enters into force on 1 January 2025, RWA will be calculated based on the European requirements, which will have been finalised by then, and the higher of the revised AIRBA and the revised CRSA (standardised approach for credit risk) phase-in output floor.
[6] Please refer to our website (www.aareal-bank.com/en/responsibility/reporting-on-our-progress/) for more details.

This report contains rounded numbers, which may result in slight differences when aggregating figures and calculating percent-ages.

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Our online Annual Report:
ar2021.aareal-bank.com

Outlook: growth

Transformation in the property sector opens up manifold opportunities for Aareal Bank Group

Aareal Bank Group

The changing face of the property industry

While nobody knows where the journey is headed, one thing is clear: things are changing in the property industry. The continuously growing importance of sustainability, demographic trends as well as urbanisation, individualisation and other megatrends require new concepts and ideas for the way we want to live and work tomorrow. The market needs properties suited to the sort of future in which people across the globe can, and indeed want to, live in the long term.

These developments have heralded the start of a process of profound transformation within the industry, evidenced by trends towards revamped urban planning, new concepts for property use, an increasing number of green properties and the more widespread use of smart technology. At the same time, the priorities and needs of property users, operators and owners alike are changing, too.

This process of transformation also has implications for property financing and the need for digital solutions. As a partner of – and a pioneer within – the property industry, Aareal Bank Group is thus also adapting to these far-reaching changes. Our aim is to provide our clients with future-oriented products and services that tap into competitive advantages, help to facilitate long-term business success and help clients achieve their sustainability targets.

A broad range of services

We provide players in the property sector and related industries, such as the housing and energy industries, with a wide range of advice and support services. These include:

- financing solutions for commercial properties;
- banking services and digital solutions to drive process optimisation;
- offering ERP software and digital solutions for the European property industry and its partners.

Our ambition is to demonstrate that we are a leading international provider of smart financing, software products, digital solutions and payment transaction applications in the property sector and related industries. We do business, act and make decisions sustainably – out of conviction.

"Aareal Next Level is bearing fruit: we achieved a significant turnaround in the financial year under review, further strengthening our starting position for sustainable growth. We want to use this as a basis for dynamic growth over the coming years, not only within Aareon, but also in the banking business."

René Steurer

Managing Director Group Strategy

The process of transformation within the property industry opens up a whole host of potential for us to continue on, and forge further ahead with, our successful growth trajectory in each and every one of our business segments. We have defined exactly how we intend to seize these opportunities and what objectives we have set as part of our strategy in our "Aareal Next Level" concept.

Aareal Next Level: enhancing growth

The core element of this strategy is our objective of achieving consolidated operating profit of around € 300 million in 2023. We are aiming for another marked increase to up to € 350 million in 2024. This is, of course, subject to the assumption that the pandemic will have been fully overcome by then, and that the risk situation will have returned to normal.

We are keeping a close eye on the demands placed upon us by relevant stakeholders, as well as on the impact of our actions in both the short and long term. Bearing in mind the social, ecological and governance aspects of business decisions allows us to add value sustainably – for all our stakeholders.

In our quest to achieve these goals, we are focusing on tapping into new growth opportunities and on an expanded range of strategic options. Moreover, we will optimise our funding mix and capital structure, implementing a range of measures to make us more efficient. Our aim is to achieve a cost/income ratio of below 40 % in the Bank's financing business by 2023. Aareal Bank will leverage its solid capital position to finance growth and investments for the future – whereby a change in the balance between distributions and investments will be examined within the framework of its existing dividend policy.

Our three business segments are subject to different overall conditions, meaning that their growth potential varies, too. As a result, they are pursuing different goals and have different focal points within the context of our Group strategy.

Structured Property Financing: from ACTIVATE! to GROW!
Our aim is to increase our portfolio volume by € 1 billion a year to arrive at a figure of around € 33 billion by the end of 2024. We are seeking to grow in our core sectors and regions in particular. We will also be looking at opportunities to expand into new areas where our expertise can be deployed.

Banking & Digital Solutions: from ELEVATE! to LEVERAGE!
We are aiming to achieve growth in net commission income averaging around 13 % a year between now and 2023. We want to achieve this mainly by expanding our product range, in particular in the digital arena, and through further strategic partnerships. We are aiming to keep deposit volumes – which are important for our funding – stable at the current level of more than € 12 billion up to 2024.

Aareon: continue to ACCELERATE!
Aareon is to become a "Rule of 40" SaaS company by 2025, with Aareon's combined EBITDA margin and revenue growth rate to exceed 40 per cent in the long run. At the same time, adjusted EBITDA is to increase to around € 155 million, including earnings of around € 20 million contributed by the acquisitions already completed to date. This does not yet include the positive effects of possible further acquisitions over the coming years. In order to achieve this objective, we will continue to grow organically with our ERP systems and digital solutions, while also implementing the Value Creation Programme and expanding the software-as-a-service business. We will be further accelerating Aareon's inorganic growth at the same time by making targeted acquisitions.

Sustainability: a key component of our development

Doing business sustainably is a top strategic priority for us. We want to use the way we think, act and make decisions to promote sustainable development and create long-term value while taking ESG risks into account. We are guided in these efforts by both the international climate protection targets of the Paris Climate Agreement and the United Nations' Sustainable Development Goals.

We are involved in a process of ongoing dialogue with our stakeholders on ESG issues and once again made sure they were closely involved in the further development of our materiality analysis over the past financial year. This process left no doubt as to one thing: ESG remains an issue that is increasingly important for almost all of our business segments. The topics of corporate integrity and transparency, in particular, have become even more relevant. The analysis also confirmed the considerable importance attached to the topics of "client focus" and "attractive employer". The overall area of ESG offerings – in other words, which products and services from our three business segments contribute to the sustainable development of business and society – was also seen as a key topic.

As a bank, we are required to meet governance requirements in particular, over and above taking environmental and social interests into account. To make ourselves fit for the future in this respect, we overhauled our ESG governance structure in 2021, redefining roles and responsibilities at various levels, among other measures.

Mastering and shaping the transformation process

Our aim is to use our products and services to help shape the transformation of the property industry. This is why we attach a great deal of importance to picking up on emerging developments and trends early on and assessing them correctly. After all, this is a must if we want to be able to forecast changing needs and market structures and translate these into innovative products and services that offer our clients real added value.

This is something we are all the better placed to achieve if we remain curious, open and agile, if we show drive and enthusiasm, have lively discussions to identify the best solutions and pair our skills with ambition and genuine passion.

Find out more about our **Foresight and Innovation Management**, and our **partnerships with start-ups** – in the online version of our Annual Report.

Our working environment is changing. Please refer to our Online Annual Report for details on the initiatives we have launched in this context.

More information concerning our **sustainability management** and **materiality analysis** is available on our corporate website.

"We aim to provide services that are consistent with sustainability standards and our own commitment to acting responsibly to play an active role in influencing sustainable economic and social development, focusing on both the opportunities and risks involved."

Julia Taeschner

Group Sustainability Officer Aareal Bank

Structured Property Financing

Tailored financing for discerning investors

In the Structured Property Financing segment, we support our clients in making their commercial property investments. The investment properties mostly comprise office buildings, hotels, shopping centres, logistics and residential property, as well as student housing. Our clients include institutional investors, private equity firms, family offices, financial institutions, private individuals, listed property companies, pension funds, and investors with a focus on a particular sector.

The regional focus of our activities is on Europe and North America as well as on the Asia-Pacific region. Our local staff, in close coordination with our sector experts at the Group's head office, ensure that the requisite know-how is available for every transaction.

The Structured Property Financing segment includes not only Aareal Bank AG but also Aareal Estate AG, whose services include property management and various consultancy services.

"ESG is moving further and further into the investor spotlight. This process is giving rise to far-reaching changes that we intend to use to our advantage – and to the benefit of society as a whole."

Bettina Graef-Parker

Managing Director Special Property Finance

"Innovative technologies like artificial intelligence, process mining and big data are helping to make us more effective and efficient. This will boost our competitive standing and allow us to offer our clients even better service."

Vast range of market opportunities

The market for financing commercial property has shown very solid development over the past financial year, in spite of the considerable uncertainty and restrictions resulting from the Covid-19 pandemic and its implications. Demand for property remains unabated, with risk-return profiles that are still attractive to investors. This is opening up promising growth and development opportunities for us across all types of property – office buildings, hotels, shopping centres, logistics and residential properties, as well as student housing.

The biggest growth drivers in the market include:

Logistics properties
The logistics industry is booming: e-commerce and changing supply chains, in particular, are driving high demand for industrial and logistics space and for corresponding financing.

Cross-border transactions
The trend towards increasing internationalisation is also driving demand for cross-border financial transactions. Complex financing solutions that provide investors with a high degree of flexibility at the same time are proving to be increasingly sought-after.

Green Finance
Demand for green forms of financing is growing at a rapid rate. The markets for both green loans and green bonds have been showing dynamic development for years now, and open up a whole number of new prospects for providers.

Growth through flexibility

Our aim is to expand our financing business further, paying due attention to the risks involved, and leverage the opportunities offered for attractive new business even more in the years ahead – whilst maintaining our conservative risk policy. Portfolio volume – which had already reached the € 30 billion level at the end of 2021, one year earlier than planned – is set to increase further by € 1 billion per annum over the next three years. This means it will grow to € 33 billion by 2024 – with the corresponding positive impact on income.

Thanks to our international markets access, we can generate this growth in our traditional asset classes and regions. We will rely first of all on our flexibility in terms of regions, property types and structures, and second on our expertise in structuring financing, also offering participations in our credit portfolios to business partners. We could also envisage financing further asset classes for which there is increasing demand and in which we can establish specific expertise. This means that we will be monitoring markets and developments even more closely than in the past and seizing opportunities for new business with attractive risk/return profiles as and when they arise.

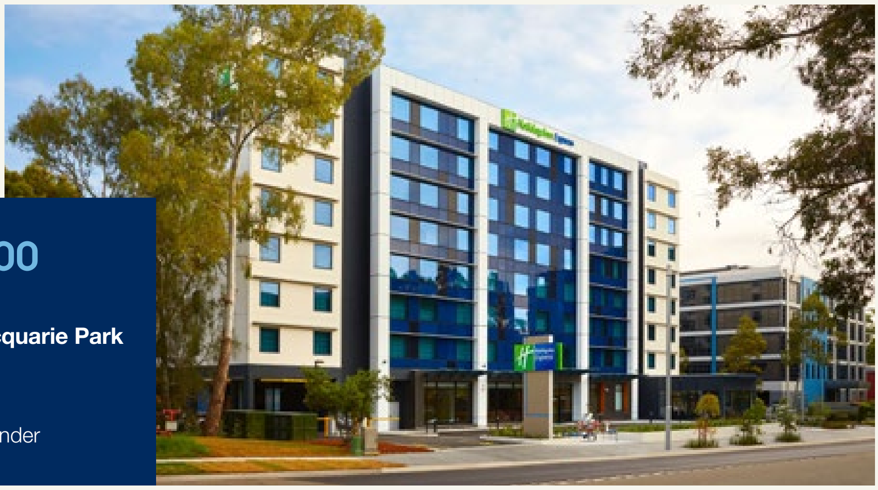
Moreover, the Bank will continue to gradually expand its ESG-compliant business over the next years, with € 2 billion in new green financings to be originated between now and 2024, of which roughly one third already in the current year.

Growth in the lending business is set to go hand in hand with more efficient portfolio management, investments in further improving the Bank's infrastructure and in lowering the segment's cost/income ratio, from 43.6 % – already a very good level by industry standards – to below 40 % by 2023.

The use of artificial intelligence (AI) opens up new options for data analysis – for example when it comes to meeting ESG requirements, analysing markets and performing property valuations. As a result, we are aiming to make greater use of AI in risk management, lending, and in industry and market monitoring.

Find out more about our **Green Finance** Framework, on how we deploy artificial intelligence in **evaluating risks in property finance**, or about the **digital optimisation of our credit management process** – this and more topics related to commercial property finance are covered in our Online Annual Report.

Transaction highlights 2021



AUD 39,000,000

For the financing of the hotel
Holiday Inn Express Macquarie Park
in Sydney, Australia

Aareal Bank acted as
Arranger, Agent and Sole Lender

EUR 400,000,000

For the financing of
Project Ruby – A cross-boarder portfolio of 27 prime logistics properties
in France, Germany, the Netherlands, Belgium and United Kingdom

Aareal Bank acted as
Arranger and Lender

EUR 177,500,000

For the financing of
Campus Student Housing Portfolio
in Germany

Aareal Bank acted as
Arranger, Agent and Sole Lender

USD 340,000,000

For the financing of the hotel
Beverly Hilton-Waldorf Astoria
in Beverly Hills, USA

Aareal Capital Corporation acted as
Agent and Sole Lender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GJ 123

Banking & Digital Solutions

Unique combination of banking and digital expertise

In our Banking & Digital Solutions segment, we offer companies from the housing, property, energy and related industries access to comprehensive banking services, as well as digital solutions for financial processes and bulk payment transactions.

A promising and changing market

Companies in the housing, property and energy industries have been faced with major challenges for several years now. These include sustainable transformation and technological change, the trend toward urbanisation and the sharing economy, e-mobility, the availability of an increasing volume of data, and much more. To remain successful in the future, these companies are adapting their processes and business models, and need innovative banking services and process optimisation products to help them do so.

"Our products allow us to inspire an increasing number of clients and grow in the process. The upcoming moves to expand our offering will, however, provide even greater impetus for our development."

Lars Ernst
Managing Director BDS

The main growth drivers in this market include:

Increasing digitalisation
More and more processes in the housing, property and energy industries are being digitalised. This also translates into increased demand for innovative and suitable digital solutions for banking and financial services.

Changing needs of property users
Digitalisation is one of the factors currently driving a process of significant change in the needs and wishes of property users. They not only expect better digital infrastructure, but also want greater consideration to be given to sustainability requirements and want to benefit from faster, more effective and cheaper processes – for example when it comes to service charge invoicing, rent payments or tenant deposit management.

Cross-company and cross-sector networking
Cross-company and cross-sector networking within the housing, property and energy industries is becoming increasingly important in the drive to optimise processes. Aareal Bank offers various solutions to support this process – for example by facilitating standardised, cross-sector invoice exchange in the payment transactions segment.

Changes in payment preferences
From PayPal to instant bank transfers and Apple Pay: the choice of available payment methods is growing constantly. Solutions that allow housing companies to provide their tenants with easy access to alternative payment methods, so as to increase the level of service on offer, are in high demand.

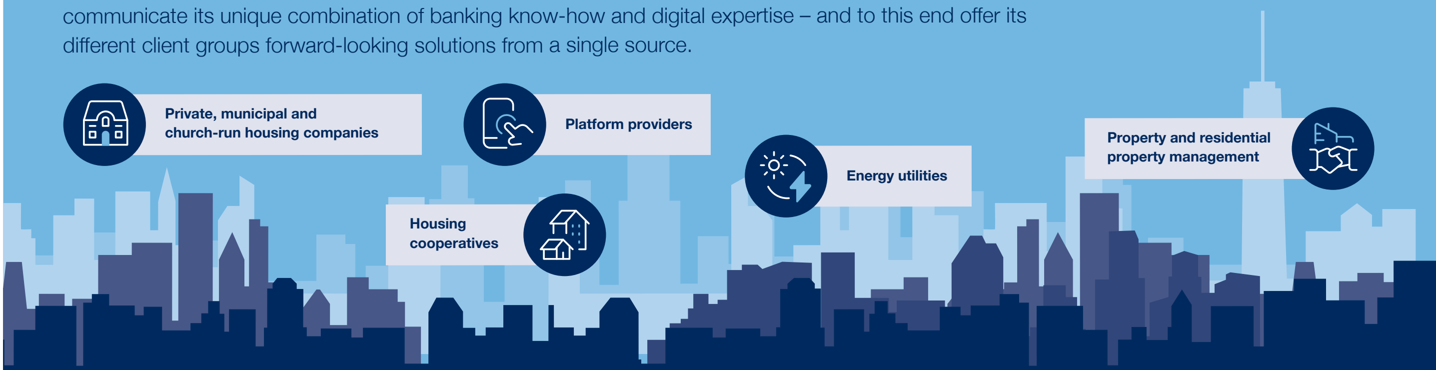
More intense competition and mounting cost and efficiency pressure
The disruptive changes in the housing, property and energy industries have allowed new providers and business models to emerge. This makes competition more intense, and puts mounting cost and efficiency pressure on established providers. The response to this trend lies in IT solutions that optimise processes and/or open up new sources of income.

New technologies
AI, big data, Blockchain These rank among the key technologies of the future within the financial sector and are becoming increasingly important in the housing, property and energy industries, too. They also open up new opportunities for expanding our own service portfolio and tapping into additional attractive business areas.

Banking & Digital Solutions

The best of both worlds

By repositioning its second business segment Banking & Digital Solutions, Aareal Bank Group wants to further communicate its unique combination of banking know-how and digital expertise – and to this end offer its different client groups forward-looking solutions from a single source.



Traditional banking products

- Standard payment transactions (corporate client banking)
- Cash investments
- Virtual account numbers

Integrated products (IT products)

Energy sector

- BK01 Payment Management
- BK01 Immoconnect
- BK01 eConnect

Housing Sector

- BK01 Rent Management
- BK01 Operating Cost Management
- BK01 Invoice Data Processing
- BK01 Kautionen Management (tenency bond management)
- BK01 Open Item Management

Platform products

- Aareal Exchange & Payment Platform
- Aareal Account Kautionen (tenancy bond management)
- Aareal Portal
- Aareal Meter

Cooperation products

- Aareal Aval
- Kautionsfrei.de
- heysafe

"We intend to systematically exploit the numerous growth opportunities emerging in the markets relevant to us by launching a vast range of initiatives and measures over the next few years. Some of the products and services we launched on the market only recently are already showing very promising development."

Dr Christian Fahrner

Managing Director BDS

Growth through expansion

In the Banking & Digital Solutions segment, we are focusing, on the one hand, on maintaining the stability of deposit volumes – important for our funding – up to 2024 at the current level of more than € 12 billion. On the other hand, we will concentrate on making more effective use of our core payment solutions offering. In doing so, we will be focusing on acquisitions as well as on intensified cross-selling with our own clients and Aareon's international clients. The segment's net commission income is expected to increase by around 13 % per annum on average (2020-2023).

We are planning to expand our product portfolio based on our expertise in payment transactions, in particular. We have already developed a variety of initiatives and measures to help us achieve this, including, for example, the market launch of several promising digital solutions, such as Aareal Meter, Aareal Aval, Aareal Exchange & Payment Platform and Aareal Connected Payments. We also tapped into the fast-growing market with private landlords and small-scale property managers through our investment in objego back in 2020, and are working with our subsidiary plusForta on our package of solutions for digital deposit guarantees to round off our tenant deposit management portfolio.

Furthermore, we are aiming to exploit the growth potential that cooperations and partnerships offer us, particularly in the areas of product development and marketing. We are also planning to make acquisitions in our core business areas in order to allow us to incorporate promising innovative products and integrate attractive, fast-growing companies.

New digital products and services for the housing and energy sectors and related industries

- ↗ **Aareal Connected Payments**
- ↗ **Aareal Exchange & Payment Platform**
- ↗ **Aareal Meter**
- ↗ **Aareal Aval**
- ↗ **Aareal Client Service Portal, featuring the Taara chatbot**

↗ Quo vadis, Metropolis? Discover many exciting topics around **urban trends, mobility**, and **connected cities** in our WE.thinkfuture portal.

Aareon

Digitalisation partner for the property industry

Aareon is the leading provider of ERP software and digital solutions for the European property industry and its partners. We are using our user-friendly software solutions to digitalise the property industry, streamline and automate processes, support sustainable and energy-efficient action, and create networks for all of the parties involved in a specific process.

We are represented in nine European countries and serve more than 7,000 clients with around 12 million (residential) units under management.

Dynamic market development

The digital transformation process in the property industry has gained momentum in recent years, not least driven by the Covid-19 pandemic. More and more companies are recognising the manifold benefits that digitalisation has to offer when it comes to making their processes more efficient by networking market participants, increasing the quality of their services and moving into new markets. In line with this trend, the demand for software, as well as for corresponding services, has been rising steadily for years now.

"Aareon Smart World allows us to use various digital solutions to create networks linking property companies and their employees with clients, business partners, buildings and building technology. Among other things, this allows us to help ensure that properties can be managed much more effectively."

Alf Tomalla

Managing Director Digital Solutions,

Aareon Deutschland

The following market developments and trends are having a particularly positive impact on Aareon, as our pioneering work in the past allowed us to prepare for them:

Increasing importance of digital ecosystems
The acceptance and use of digital ecosystems have increased steadily in recent years. More and more companies are identifying opportunities and forward-looking business models through participation in ecosystems and platform solutions. For years now, Aareon has been offering the Aareon Smart World digital ecosystem, which is being expanded on an ongoing basis.

High demand for software-as-a-service (SaaS)
SaaS offers numerous advantages for users: it allows them to access systems and data wherever they are, allowing them to work remotely, removes the need to purchase and install software and offers attractive payment models. Aareon has been offering ERP systems and digital solutions as part of a SaaS model for many years now.

Increasing need for networking
The creation of networks linking property companies, their business partners and clients/tenants, as well as their buildings, creates considerable potential for process optimisation. This also opens up opportunities for more effective communication channels and innovative services. Aareon is networking market participants with the Aareon Smart World digital ecosystem.

“When it comes to developing and enhancing ERP systems and digital solutions, we pursue a collaborative approach working hand-in-hand with our clients. This allows us to ensure that our products offer the greatest possible benefits and are intuitive to use.”

Torsten Rau

Managing Director Operations,

Aareon Deutschland

Smart buildings and the Internet of Things
Smart buildings and the Internet of Things make a vast volume of data available for process automation. This creates considerable potential for the property industry, for example when it comes to optimising building maintenance. Aareon uses AI and has started marketing PrediMa for predictive maintenance.

New technologies
The use of new technologies such as AI, BI and big data will facilitate quantum leaps in process optimisation and the development of entirely new services. Examples include predictive maintenance, new forms of communication or the automation of management and administrative tasks. Aareon is taking these new technologies into account in its research and development activities.

Growth through expansion

The goal is to push Aareon’s performance to establish it as a “Rule of 40” SaaS company by 2025. This means that the combined EBITDA margin and revenue growth rate are then to exceed 40 % in the long run. Adjusted EBITDA is also set to increase to around € 155 million by 2025, including earnings of around € 20 million contributed by the acquisitions already completed to date, plus positive effects of potential further acquisitions in the coming years.

In order to achieve our targets, we will be optimising the market launch of our products at Aareon and targeting new clients, in particular, whilst also making greater use of cross-selling and up-selling opportunities. At the same time, we will be striving to expand the range of value-added solution packages we offer our clients, to further develop the software-as-a-service business and become more efficient in implementing software.

We will be using M&A activities to tap into additional growth potential for Aareon. Throughout this process, we intend to not only secure the loyalty of our existing client base with an expanded range of products, but also to reach related client groups and target them with our established product portfolio. In addition, we are planning to develop new products for adjacent client groups.

Aareon took over six companies in the last financial year alone, including GAP-Group, wohnungshelden, Arthur Online, Tilt, Fixflo and Twinq, and we are determined to keep up the pace. To finance further acquisitions, we plan to extend the revolving credit facility by € 100 million, bringing our credit line for acquisitions made by Aareon to a total of € 350 million.

M&A deals 2021

Dynamic expansion through acquisitions

In order to implement its ambitious M&A strategy, Aareon acquired several companies during the last financial year – thus further expanding the product portfolio for its clients and opening up new market segments. The six M&A transactions, where a 100% shareholding was acquired in each case, are:

GAP-Group

Germany

GAP-Group is one of the leading manufacturers of sector-specific enterprise software in the housing and property industry. Its core product is the immotion ERP system.

wohnungshelden

Germany

wohnungshelden specialises in digital housing brokerage and offers a SaaS solution that allows housing companies and cooperatives to digitalise their entire letting process.

Arthur

UK

Arthur Online offers a modern SaaS solution and brings together property managers, owners, tenants and contractors in one single platform.

Tilt

UK

With its three platforms Origin, Elevate and Affinity, TILT, which was acquired by Arthur Online in July 2021, offers a comprehensive, web-based software package to small and medium-sized property managers, brokers and social housing companies.

Fixflo

UK

Fixflo is a SaaS repairs and maintenance platform that connects property managers, owners and tenants to handle the repairs and maintenance management of more than one million apartments throughout Great Britain.

Twinq

Netherlands

Twinq offers SaaS solutions for residential property management in the Netherlands. It is aimed at professional managers of residential owners' associations and at the owners themselves.

Visit the website to discover **new, ground-breaking digital Aareon solutions** for your clients!

To our Shareholders

Outlook: growth

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,
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 it 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. 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 (€)[1]		
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 (€)[3]	1.60	0.40
Earnings per ordinary share (€)	0.89	-1.50
Price/earnings ratio[2]	32.34	-13.03
Dividend yield (%)[2]	5.56	2.05
Market capitalisation (€ mn)[2]	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

[1] XETRA® closing prices
[2] Based on Xetra® year-end closing prices
[3] 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 on the Investor Relations page.

Relative performance of the Aareal Bank share price

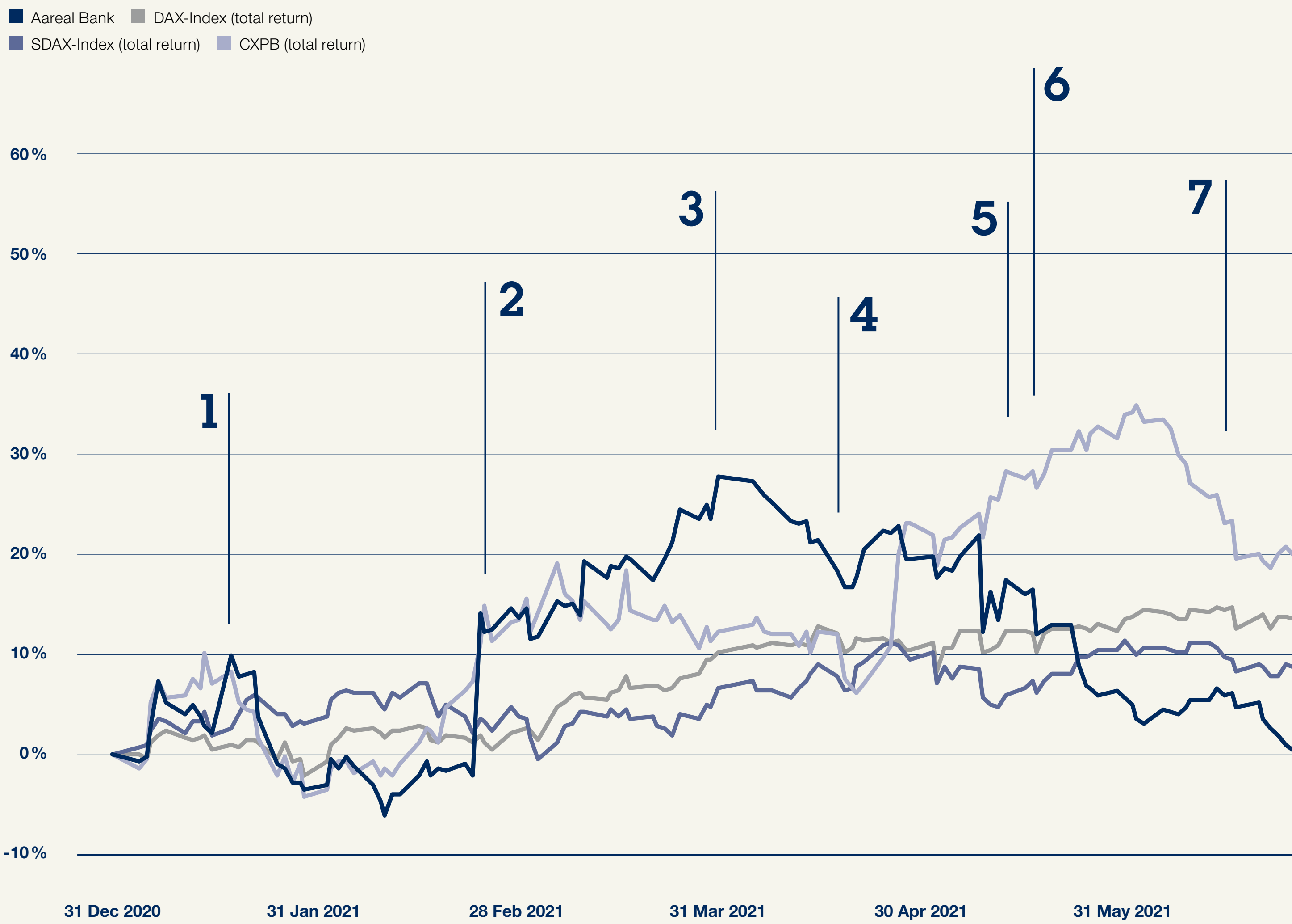
1 17 January 2021
Aareal Bank leaves the pandemic year 2020 firmly behind with extensive loss allowance and – following a strategy review – targets consolidated operating profit in the range of € 300 million in 2023

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



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 Klösges 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

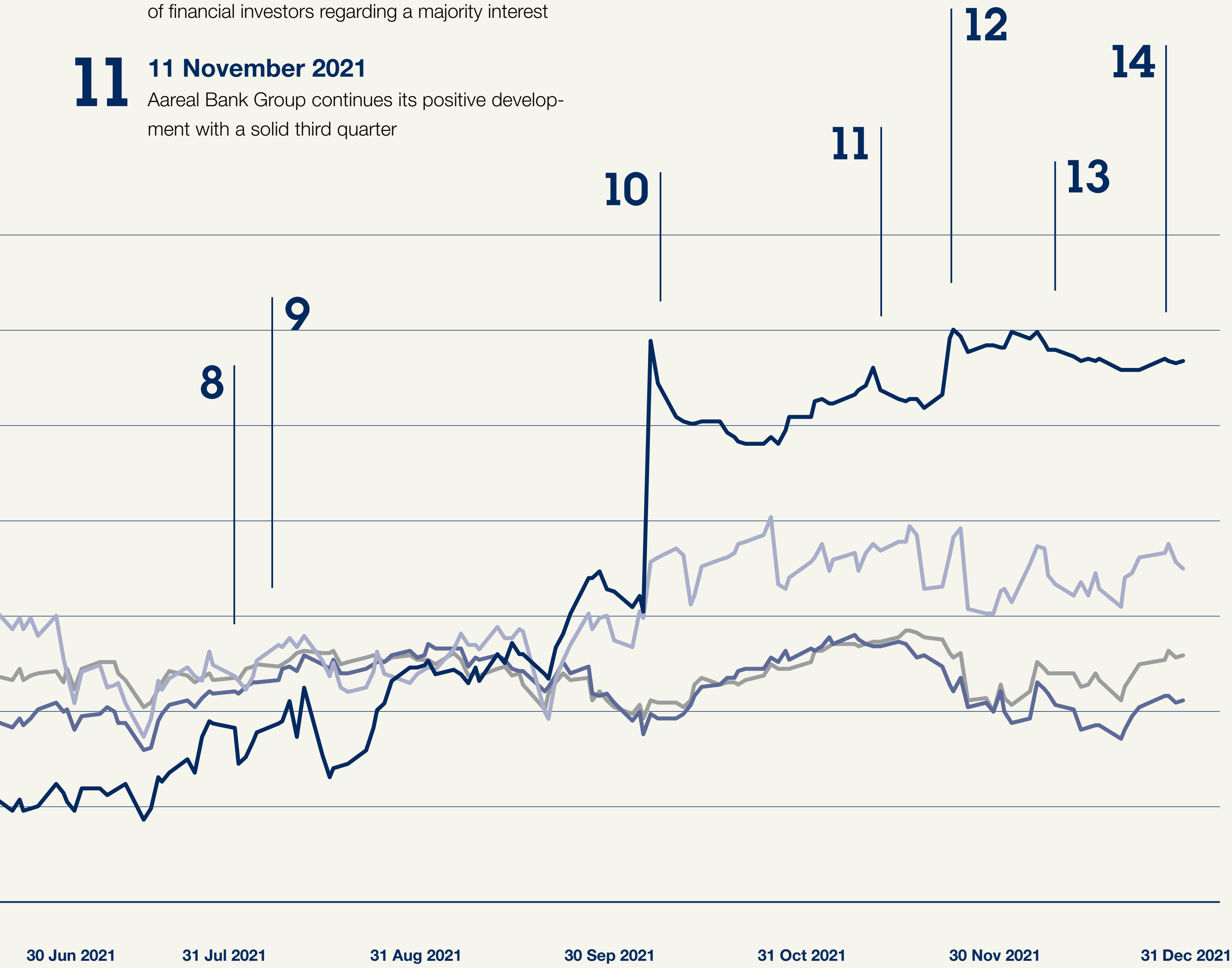
10 **7 October 2021**
Aareal Bank confirms open-ended talks with a group of financial investors regarding a majority interest

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



Aareal Bank Group is a leading provider of smart financing, software products and digital solutions for the property sector and related industries. It is active in more than 20 countries across three continents – in Europe, North America and Asia/Pacific.

Group Management Report

Outlook: growth

Group Management Report

Aareal Bank Group is an international property specialist. It is active in more than 20 countries across three continents – in Europe, North America, and in the Asia/Pacific region.

Fundamental Information about the Group

Business model

Aareal Bank AG, headquartered in Wiesbaden, Germany, is the parent company of the Group. Its shares are admitted to trading on the regulated market (geregelter Markt) of the Frankfurt Stock Exchange. Aareal Bank Group's strategy focuses on sustainable business success.

The strategic business segments of Aareal Bank Group are commercial property financing and services, software products and digital solutions for the property sector and related industries. The strategic business segments are broken down into the three segments Structured Property Financing, Banking & Digital Solutions and Aareon.

Structured Property Financing

In the Structured Property Financing segment, Aareal Bank facilitates property investments for its domestic and international clients, and is active in Europe, North America and the Asia/Pacific region. Aareal Bank finances commercial property investments, especially for office buildings, hotels, retail, logistics and residential properties, with a focus on existing buildings. By combining local market expertise with sector-specific know-how from the Group's head office, Aareal Bank can offer financing concepts that meet the special requirements of its domestic and international clients, as well as conclude structured portfolio and cross-border financings.

Aareal Bank manages its sales activities in the individual regions worldwide via a network of sales centres (hubs). In addition to the locally-based experts, the distribution centres for sector specialists covering the financing of hotels, retail and logistics properties, as well as those catering to the specific needs of investment fund clients, are located in Wiesbaden.

There are two regional hubs in Europe: one hub combines sales activities for the euro zone, with a focus on the Benelux countries, France, Germany, Italy and Spain. An additional hub focuses on sales activities outside the euro zone, with a focus on the UK[1] and Central and Eastern Europe. Distribution in Northern Europe is managed from the head office in Wiesbaden. As before, the hubs have a network – comprising branches in London, Paris, Rome, Stockholm and Warsaw – at their disposal. Aareal Bank also has a branch office in Dublin, where it conducts exclusively Treasury business and holds securities. Representative offices are located in Istanbul, Madrid, and Moscow.

Aareal Bank Group's activities on the North American market are carried out through the subsidiary Aareal Capital Corporation, operating from New York City. The Singapore subsidiary Aareal Bank Asia Limited conducts the sales activities in the Asia/Pacific region.

Funding

Aareal Bank is an active issuer of Pfandbriefe, which account for a major share of its long-term funding. Moody's Aaa rating of the Pfandbriefe confirms the quality of the cover assets pool. To cater to a broad investor base, Aareal Bank uses a wide range of other refinancing tools, including senior preferred and senior non-preferred bonds, as well as other promissory notes and bonds. Depending on market conditions, the Bank places large-sized public issues or private placements. In the Banking & Digital Solutions segment, the Bank also generates bank deposits from the housing industry, which represent a strategically important additional source of funding. Further-

[1] Hereinafter refers to the United Kingdom of Great Britain and Northern Ireland.

more, it has recourse to institutional money market investor deposits.

Banking & Digital Solutions

In the Banking & Digital Solutions segment, Aareal Bank Group offers its clients from the institutional housing industry, commercial property companies, as well as the energy and utilities industries, amongst other things services for the management of properties for residential use and the integrated processing of payment flows, thus contributing to a more efficient and sustainable structuring of their fundamental business processes. With its BK01 software, it operates a procedure for the automated settlement of mass payments, in the German property industry. The procedure is integrated in licenced ERP systems. In conjunction with payment transactions processed via Aareal Bank's systems, deposits are generated that contribute significantly to Aareal Bank Group's refinancing base. Besides the German property industry, the German energy sector forms a second major client group of the segment for the services mentioned above. This enables the offer of further products, facilitating the cross-sector cooperation of client groups by realising synergies via end-to-end digital processes. Aareal Bank Group is further strengthening its market position with its growing range of digital products and invoicing solutions within this segment. These products include mobile solutions for recording and processing meter readings, a platform solution for managing B2B payment processes and services, as well as a solution for simplifying invoice management of complex payment flows, whose first application was in e-mobility. The Banking & Digital Solutions segment also includes the First Financial Solutions, plusForta and BauGrund subsidiaries. The start-up objego, in which Aareal Bank holds an equity interest as part of a joint venture with ista, is also allocated to this segment.

Aareon

In the Aareon segment, the Aareon sub-group offers the European property industry and its partners user-oriented ERP software and digital solutions that simplify and automate processes, and support sustainable and energy-efficient operations. The integrated digital ecosystem Aareon Smart World, with the country-specific ERP systems at its core, networks property companies and their employees with clients, business partners as well as technical equipment in apartments and buildings across different digital solutions. The ERP systems are a starting point for cross-selling activities for the digital solutions. Aareon consistently invests in expanding Aareon Smart World's portfolio of products. This involves on the one hand the co-creative development of the digital ecosystem and the cooperation with PropTech companies, and targeted acquisitions on the other as part of the international growth strategy. Aareon Group has an international presence with offices in the DACH region, Finland, France, the UK, the Netherlands, Norway and Sweden, and operates a development company in Romania.

Management system

Aareal Bank Group is managed using key financial performance indicators, taking the Group's risk-bearing capacity into account. Management takes place primarily at Group level, and is additionally differentiated by business segment. Group management is based on medium-term Group planning, prepared annually, which is geared towards the Group's long-term business strategy. An extensive (management) reporting system regularly provides the information required for management and monitoring purposes.

The following indicators implemented within the scope of business and return management are Aareal Bank Group's key financial performance indicators:

- **Group**
  - Net interest income (in accordance with IFRSs)
  - Net commission income (in accordance with IFRSs)
  - Loss allowance (in accordance with IFRSs)
  - Administrative expenses (in accordance with IFRSs)

  - Operating profit (in accordance with IFRSs)
  - Return on equity (RoE) after taxes[1)]
  - Earnings per ordinary share (EpS)[2)]
  - Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (phase-in)

- **Structured Property Financing segment**
  - New business[3)]
  - Credit portfolio of Aareal Bank Group

- **Banking & Digital Solutions segment**
  - Average deposit volume from the housing industry
  - Net commission income (in accordance with IFRSs)

- **Aareon segment**
  - Sales revenue (in accordance with IFRSs)
  - Adjusted EBITDA[4)]

The Group's existing risk management system is used to manage and monitor the various risk exposures of Aareal Bank Group entities, in a centralised manner. All management-relevant information is systematically collected and analysed, to develop suitable strategies for risk management and monitoring. We also employ forecasting models for balance sheet structure, liquidity and portfolio development for strategic business and revenue planning. In addition to business-related management tools, we also use various other instruments to optimise our organisation and workflows. These include comprehensive cost management, centralised management of project activities and Human Resources controlling, for example.

Structured Property Financing also deploys supplementary management tools and indicators. The property financing portfolio is actively managed throughout Aareal Bank Group, with the aim of optimising its risk diversification and profitability. To develop risk- and return-oriented strategies for our portfolio, we evaluate market and business data, using this as a basis to simulate potential lending strategies, and to identify a target portfolio, which is part of Group planning. This helps us to identify – and to respond to – market changes at an early stage. Active portfolio management makes it possible for us to optimally allocate equity to the most attractive products and regions from a risk/return perspective, within the scope of our strategy. By taking into consideration maximum allocations to individual countries, products and property types in the portfolio, we ensure a high level of diversification and avoid risk concentrations.

The Banking & Digital Solutions and Aareon segments also have specific management indicators typical for the respective business. The deposit volume from the housing industry and net commission income are key financial performance indicators for the Banking & Digital Solutions segment. Aareon is managed on the basis of target figures commonly applied to software companies, such as sales revenue and adjusted EBITDA[4)].

Report on the Economic Position

Macro-economic environment

Developments surrounding the Covid-19 pandemic defined the global economic performance in 2021 too. Thanks to the rollout of the vaccination campaign at the start of the year and supported by monetary policy as well as fiscal stimulus, many economies recovered strongly in part over the course of the year. This was driven largely by the easing of measures taken to prevent infections,

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[1)] RoE after taxes = $\dfrac{\text{Operating profit ./. income taxes ./. consolidated net income attributable to non-controlling interests ./. AT1 coupon (net)}}{\text{Average equity (IFRS) excluding non-controlling interests, AT1 bond and dividends}}$

[2)] EpS = $\dfrac{\text{Operating profit ./. income taxes ./. consolidated net income attributable to non-controlling interests ./. AT1 coupon (net)}}{\text{Number of ordinary shares}}$

[3)] New business = newly-originated loans plus renewals

[4)] Earnings before interest, taxes, depreciation and amortisation excluding strategic investments (venture and M&A activities) and non-recurring effects which led to a recovery in private consumption and in particular to higher revenues in the services sector. However, the global economic recovery lost some momentum again in the second half of the year. Disruptions to supply chains and the spread of Covid-19 mutations halted economic activity again in some countries. Imbalances between supply and demand in conjunction with the economic recovery also contributed to a considerable rise in inflation.

Economy

In the euro zone, real gross domestic product in 2021 climbed by 5.2 % compared with 2020. After infection control measures and regional lockdowns held back economic performance at the beginning of the year, a broad-based upswing in line with the improving pandemic situation was recorded from the second quarter onwards, particularly in the contact-intensive services sector. In addition to a continued high level of capacity utilisation in the manufacturing industry, economic output at the end of the third quarter was only 0.3 percentage points below the pre-pandemic level thanks to rising investments and strong private consumption. However, a large number of stress factors meant that the economy grew by only 0.3 % quarter-on-quarter during the fourth quarter. Pronounced supply chain problems, among other things, impeded efforts to process the high order backlog in the manufacturing industry. Furthermore, weak exports and a deterioration of the health situation owing to another rise in new infection figures led to a marked economic burden, especially in the services sector. Economic growth for the full year 2021 in the largest countries in the euro zone was 7.0 % in France, 6.5 % in Italy, 5.0 % in Spain and 2.8 % in Germany.

The EU governments again supported companies and employees in 2021 with fiscal aid measures. In addition to liquidity and capital aid for companies, income support, debt and contract relief, for example, was provided in some countries. While individual measures were phased out during the year, other programmes, such as easier access to aid for short-time work in Germany, were extended until the end of June 2022. On a European level, the limited recovery fund NextGenerationEU had started raising funds in June 2021 by issuing bonds on the capital markets. The fund's main objective is to address the negative impact of the pandemic by making targeted investments aimed at the digitalisation, decarbonisation and cohesion of the EU.

The recovery reported in some countries within the European Union that are not members of the euro zone was milder than was seen on average in the euro zone member states. Sweden, for example, achieved economic growth of 4.9 % in 2021 and the Czech Republic 3.1 % growth year-on-year. Poland's economy, on the other hand, expanded to a somewhat greater extent by 5.7 %.

Brexit continued to impact on the UK economy, leading to weak exports, despite the trade agreement with the EU. Migration by workers also resulted in a shortage of labour. Other factors, however, had a stimulating effect on the economy: The rapid vaccination progress supported the lifting of measures taken to prevent infections ahead of many European countries and promoted private consumption. An expansive fiscal policy also supported the economic recovery. However, stress factors mounted in the second half of the year in the form of supply chain problems and a renewed deterioration of the health situation, which was reflected by a more cautious stance taken by consumers and companies alike. All in all, economic output in 2021 rose by 7.5 % compared with 2020.

Supported by an expansive fiscal policy, economic output in the US increased by 5.7 % in 2021 compared with the previous year and in the second quarter had already exceeded the pre-crisis level of the fourth quarter of 2019. Job creation on the labour market continued, so that employment levels at the end of 2021 were only around 2 % lower than the pre-crisis level in February 2020. Growth was driven by private consumption, which was supported by the withdrawal of the measures taken to prevent infections, the reduction in the people's high levels of savings, one-off state payments made to the households and pandemic-related unemployment support. The economic development halted slightly at the start of the third quarter, as supply chain problems impacted on industrial production. The high level of new infections related to the spread of the Delta and Omicron variants also inhibited consumer confidence and private consumption. In Canada, economic performance at the end of 2021 was 4.7 % higher than in the previous year.

Following a weak start, gross domestic product in China increased by 8.1 % in the year as a whole, thus benefiting from the global economic recovery. Restrictive lending and a zero-Covid policy, where isolated infection cases were met with drastic measures, had a dampening effect. Large-scale quarantine regulations and the closure of tourist attractions and hotels in the peak tourist season depressed private consumption. Additionally, some parts of the country experienced production restrictions in the second half of the year due to a shortage of energy. Since June, financial problems of several large conglomerates, especially from the construction sector, impacted on investment activity and the economy. Economic output in Australia was up 4.3 % on the previous year, despite repeated regional lockdowns in 2021. The recovery in private consumption and higher investments played an essential part in this development.

Annual rate of change in real gross domestic product

%	2021[1]	2020[2]
Europe		
Euro zone	5.2	-6.5
Belgium	6.1	-5.7
Germany	2.8	-4.9
Finland	3.6	-2.8
France	7.0	-8.0
Italy	6.5	-9.0
Luxembourg	6.0	-1.8
Netherlands	4.6	-3.8
Austria	4.7	-6.8
Spain	5.0	-10.8
Other European countries		
Denmark	3.8	-2.1
United Kingdom	7.5	-9.4
Poland	5.7	-2.5
Russia	4.4	-3.0
Sweden	4.9	-3.1
Switzerland	3.6	-2.5
Czech Republic	3.1	-5.8
North America		
Canada	4.7	-5.2
USA	5.7	-3.4
Asia/Pacific		
Australia	4.3	-2.2
China	8.1	2.2
Maldives	17.2	-32.0

[1] Preliminary figures; [2] Adjusted to final results

The labour markets in many countries were influenced by state aid programmes for part or all of the year. The services sector in particular benefited during the year from the reopening of customer and consumer-related sectors, and reported a marked growth in employment. The unemployment rate in the euro zone was at 7.0 % at the end of 2021 and therefore below the pre-crisis level at year-end 2019. At 3.9 % in the US at the end of 2021, it was just slightly above the pre-crisis level and significantly lower than the figure of 6.7 % at year-end 2020.

Financial and capital markets, monetary policy and inflation

In addition to the monetary policy responses to the Covid-19 pandemic and the global economic recovery, high inflation rates and rising inflation expectations impacted on the international financial markets, especially from the second half of 2021 onwards. The most important central banks continued to pursue a very expansive monetary policy to support the economy. Their targeted goal was not to jeopardise the fragile economic development through higher volatility on the capital markets and higher interest rates.

The European Central Bank (ECB) continued to follow the path of a very accommodating monetary policy adopted in 2020, in order to promote favourable financing conditions for the real economy in times of heightened uncertainty and support the economic recovery. The main refinancing rate and deposit rate remained at 0 % and -0.5 % respectively in the two-tier system based on the deposit volume. The ECB also continued to provide the banks with liquidity through targeted long-term refinancing operations (TLTRO 3), to support bank lending to companies and private households. Provided that banks participating in these refinancing operations realise positive net lending to non-financial enterprises and private individuals in the euro zone within a specified reference period, this represents an attractive refinancing option. A new strategy with a symmetrical inflation target of 2 % was agreed in July, whereby the ECB is not forced to take immediate action in case of a temporary overshooting of the inflation rate, therefore allowing for more scope and flexibility in monetary policy. In December the ECB's Governing Council resolved to reduce net purchases under the Pandemic Emergency Purchase Programme (PEPP) for bonds issued by public and private borrowers and to discontinue it in March 2022. The ECB will reinvest maturing principal payments from bonds purchased under the PEPP at least until the end of 2024. The ECB reserves the right to reinstate the PEPP again if this is necessary to overcome new pandemic shocks. Net purchases under the Asset Purchase Programme (APP) will be doubled temporarily to € 40 billion monthly in 2022 and then gradually reduced again to € 20 billion.

The US Federal Reserve Bank (Fed) also maintained its expansive monetary policy stance in 2021. The federal funds rate therefore remained unchanged at 0 % - 0.25 % and the purchase programme for government bonds and mortgage-backed securities was continued. These measures were designed to free up liquidity in the banking system, so as to support lending to households and the corporate sector. Against the background of the recovery on the US labour market and heightened upside risks of inflation, the Fed made the decision in November to reduce their net monthly purchases. In January 2021, the Fed started to accelerate the tapering of net purchases as agreed in December, ultimately discontinuing purchases in the first quarter of 2022. Aside from this, some of the economic subsidy programmes started by the Fed in 2020 to contain the impact of the Covid-19 pandemic were already discontinued in the first half of 2021.

The Bank of England responded to a tight labour market and rising inflation, by raising the bank rate by 0.15 percentage points in December to 0.25 %, while leaving the target value for the programme for purchasing government and corporate bonds unchanged at GBP 895 billion.

Short-term interest rates[1] in the euro area at year-end 2021 were almost unchanged from the end of 2020. The same applied to the US dollar, the Swedish krona, the Australian dollar and the Canadian dollar interest rates, whereas pound sterling interest rates rose moderately. Long-term interest rates[2] rose in all of the currency areas that are relevant to Aareal Bank. This was due to heightened inflation expectations and the outlook for or communication of monetary policy tightening, and was less pronounced for the euro area than for other currency areas. Yields on ten-year government bonds also painted a uniform picture and rose year-on-year.

Expectations of inflation developments and future monetary policy in the individual currency areas also shaped the currency markets. The euro lost value vis-a-vis the US dollar in the course of the year, with significant volatility observed at times. At the end of the year, the exchange rate was USD 1.13 to the euro and therefore below the rate of 31 December 2020 (USD 1.23 to the euro). The euro weakened against the Canadian dollar over the same period, from CAD 1.56 per euro to CAD 1.44 per euro. The euro fell initially against the pound sterling in the first quarter, followed by a relatively stable performance. The exchange rate fell from GBP 0.90 to the euro at the end of 2020 to GBP 0.84 to the euro at year-end 2021. The

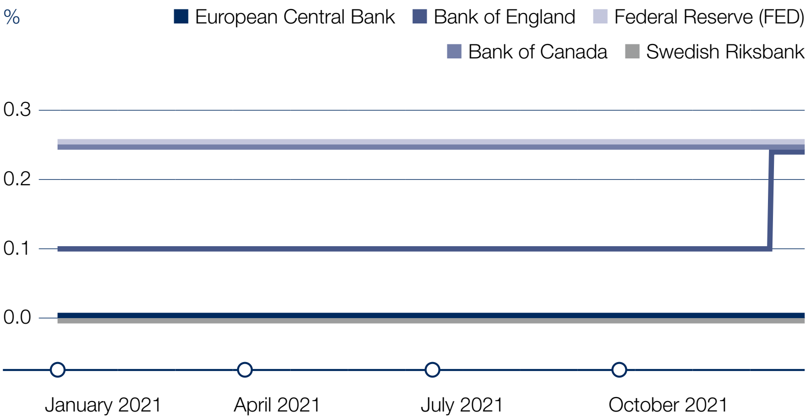
[1] Calculated on the basis of 3-month Euribor or the corresponding LIBOR or other comparable rates for other currencies.
[2] Calculated on the basis of ten-year swaps in the respective currencies.

euro remained virtually unchanged relative to the Swedish krona, and appreciated from SEK 10.03 to the euro to SEK 10.25. During the same period, the euro remained almost unchanged to the Australian dollar and was trading at AUD 1.56 per euro at the end of 2021.

In 2021, inflation rose worldwide and significantly in some regions, having fallen to very low and even negative levels at times in the previous year as a result of the Covid-19 pandemic. Basis effects arising from the curbing of economic activity in 2020 were largely instrumental for the rise, with inflationary pressure increasing in the course of the year. Besides higher energy costs and prices of goods, as a result of disruptions to worldwide supply chains, the rise in the price of services also played an essential part in this development. Especially in the sectors that were hit particularly hard by the crisis, such as the hospitality industry, high demand here met with limited supply. Inflation in the euro zone rose by 5.0 % year-on-year at the end of 2021. The increase was 5.4 % in the UK and 7.1 % in the US. In the US, wage growth as a result of the shortage of labour impacted increasingly on the inflationary trend.

The average volume of the new euro benchmark covered bonds was never as low as in 2021, due for one to monetary policy measures taken, such as the ECB's TLTRO. Most new covered bond issues featured slightly positive yields again vis-a-vis 2020. The yield differentials between covered bonds and German government bonds widened considerably in 2021.

Key rate developments in 2021[1)]



1) The upper level of the corridor for Fed key rates is shown in the chart.

Regulatory environment

Following the phasing out of a large number of regulatory relief measures that were granted on a temporary basis, as an immediate response to the outbreak of the Covid-19 pandemic, the environment for banks continues to be defined by highly dynamic regulatory requirements, as well as by changes in banking supervision. This includes, in particular, the implementation of the final draft of the Basel III framework into EU law (known as "Basel IV"), which was resolved by the Basel Committee (BCBS). The EU Commission submitted proposals on this on 27 October 2021, which shall now be finalised as part of the trilogue procedure. The proposed first-time application of the new regulation is 1 January 2025 and therefore two years later than planned by the BCBS.

After BaFin published the sixth amendment to the Minimum Requirements for Risk Management (MaRisk) in 2021, a first draft of the seventh amendment is expected in 2022. The focus here will be on implementing the EBA guidelines on loan origination and monitoring, new requirements for banks' proprietary property business and the risk management of sustainability risks.

Moreover, both national and European regulators are imposing various new requirements – including in connection with IT/information security risks, or regarding the prevention of money laundering/terrorist financing and tax evasion. Furthermore, politics and the banking supervision deem it necessary to establish sustainability more strongly with society, and as a regulatory requirement within the economy. To this end, a standard taxonomy was introduced in the EU, which creates the basis for the classification of economic activities with regard to sustainability targets. The taxonomy forms the basis for a large number of disclosure requirements for financial and non-financial entities. Initial, minor disclosure requirements for ESG matters are applicable as of 31 December 2021 for the first time, with the scope increasing over time. The ECB will also carry out a climate stress test exercise for the first time in 2022.

The ECB's Supervisory Review and Evaluation Process (SREP) ensures a common approach on the supervisory review of banks, within the framework of Pillar 2. The SREP is built around a business model analysis and an assessment of governance, capital and liquidity risks. The results of the individual areas are aggregated in a score value, from which the ECB derives supervisory measures on holding additional capital and/or additional liquidity buffers. In 2020, the ECB took a pragmatic SREP approach, which was mainly focused on the assessment of Covid-19-related risks. As a result, the score values and the requirements for additional capital and liquidity buffers remained unchanged except in justified individual cases. As a result, there were no changes for Aareal Bank. The SREP followed the regular ECB/EBA systematic approach again in the past 2021 financial year. An EBA/ECB stress test was also conducted in 2021. This led to adjustments or changes in the Bank's SREP score values and to the requirements for additional capital and liquidity buffers.

Sector-specific and business developments

Structured Property Financing segment

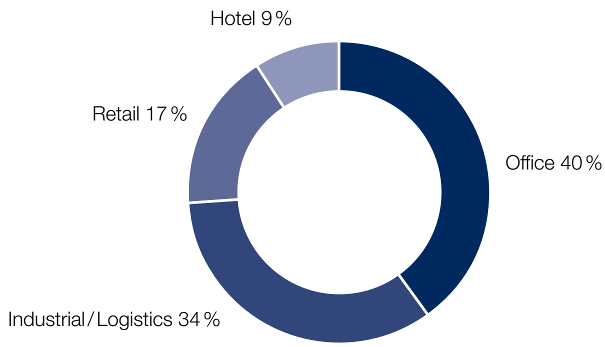
Economic development in 2021 was also reflected in the commercial property markets. The gradual normalisation of the business environment was impacted regionally and in particular at the start of the year by restrictions imposed in the course of the Covid-19 pandemic. However, it supported transaction activity on the whole, and the global transaction volume increased year-on-year under these circumstances. However, there were differences between the regions. While the volume increased by 81 % and 27 %, respectively, in North America and in the Asia/Pacific region, and was therefore above the pre-crisis year 2019 in both cases, the increase compared with 2020 was slightly more moderate in Europe (14 %).

There were regional differences between property types as well: In Europe, demand for logistics and hotel properties was strong in 2021. Transaction volumes in this area increased year-on-year, while volumes for office properties were flat and volumes for retail properties were lower. In the Asia/Pacific region as well as in North America, the volume of property transferred was greater than in the previous year for all property types. One factor common to all regions is that the lifting of the pandemic-related restrictions enabled hotel properties, in particular, to recover from the very low level of the previous year.

Lenders focused their interest on residential and logistics properties, foodstores, as well as on office properties in preferred locations. Increasing interest was seen in the demand for hotel financing, which was focused on the premium hotels with renowned branding. Competition in commercial property financing remained intense overall, which was reflected in partly falling margins in the course of the year. The high level of investor interest in the logistics sector ensured that the margins for office and logistics properties converged and were at the same level in some markets at the end of the year.

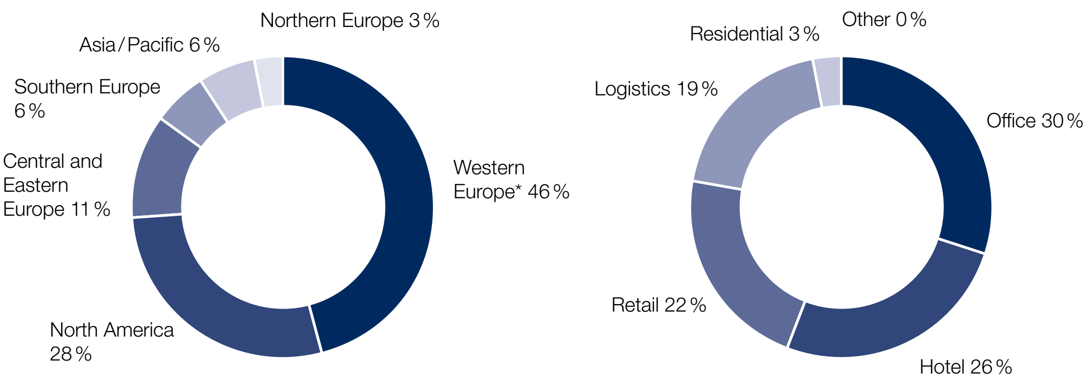
Share of transaction volume observed worldwide in 2021

%



New business[1] 2021

by regions | by type of property (%)



* Incl. Germany

While the loan-to-value ratios remained largely stable in the first half-year, the significant interest in funding in the second half of the year led to rising upward pressure on the loan-to-value ratios in some markets.

In an environment that is shaped by the economic recovery but remains defined by uncertainties, Aareal Bank generated new business[1] of € 8.5 billion (2020: € 7.2 billion), which is slightly above the communicated target corridor of € 7 billion to € 8 billion The share of newly-originated loans was 63 % (2020: 76 %) or € 5.4 billion (2020: € 5.5 billion). Renewals amounted to € 3.1 billion (2020: € 1.7 billion). The first "green" loan was granted in June: a hotel financing concluded in Australia. This was followed by additional financings in Australia, Europe and the US in the second half of the year, so that "green" financings totalling around € 430 million were concluded in the year as a whole. Green financings meet the high energy efficiency requirements of the "Aareal Green Finance Framework" and the client undertakes to meet these requirements throughout the term of the loan. The criteria for classification as a green building comprise the EU taxonomy criteria, an above-average sustainability rating by recognised rating agencies or compliance with conservative energy efficiency criteria. All in all, Aareal Bank Group's property financing portfolio has grown to € 30 billion at year-end 2021.

At 66 % (2020: 59 %), Europe accounted for the largest share of new business, followed by North America with 28 % (2020: 37 %) and the Asia/Pacific region with 6 % (2020: 5 %).[2]

With a share of 30 %, office properties accounted for the largest share in new business in terms of property type (2020: 36 %), followed by hotel property with 26 % (2020: 22 %), ahead of retail property with 22 % (2020: 11 %) and logistics property with 19 % (2020: 27 %). Residential property, which accounted for a 3 % (2020: 4 %) share of new business, and other property and financings, remained roughly unchanged from the previous year.

Europe

Transaction volumes rose by around 14 % in Europe. Transaction volumes declined in Germany and France, while volumes increased year-on-year in

[1] New business, excluding former WestImmo's private client business and local authority lending business

[2] New business is allocated to the individual regions on the basis of the location of the property used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile.

Italy, Spain, Sweden and the UK. Demand for logistics property remained strong across Europe, while the volume of retail properties transferred was lower than in 2020. The only exceptions are good-quality office properties in particularly good locations; demand for these remained strong. Although the volume of logistics transactions was lower in 2021 than of office and residential property, the gap between these sectors has narrowed significantly compared to previous years. Investor positions changed only marginally compared with the previous year. Cross-border investors remained on the buy side for the most part, while private investors tended to be sellers. Institutional investors and REIT structures assumed a more balanced position overall.

Average rents in the prime office property segment rose slightly during 2021, while some sub-markets, e.g. Stockholm and London, saw more distinct rent increases. In the case of retail properties, rents declined on average, albeit no longer to the same extent as in the previous year. Within the same market, the development varied greatly in some cases, depending on the retail segment. In the UK market, for example, which was impacted in particular by the Covid-19 pandemic, higher rents for shopping centre properties were observed again in individual cities compared with 2020. Rents for logistics properties benefited from the ongoing strong demand in the entire segment and could continue the positive development of the last few years.

Prime yields for office properties changed only marginally year-on-year and thus remained low. Thanks to the persistently strong demand, the trend of falling yields for logistics properties continued, so that lower yields than for office properties are meanwhile seen in some markets. Yields declined by up to 115 basis points in the most important markets. The development on the retail property market varied within the property type. Prime yields for high-street properties remained stable on average, while rising by 10 to 25 basis points in places for shopping centres. They even increased by around 65 basis points on average in the UK. Increases in yields were generally more pronounced in secondary locations. Yields in the supermarket and local supplier segment fell by around 25 basis points on average compared with the previous year, with the focus mainly on Western Europe.

For hotel properties in Europe, occupancy and revenue per available room rose during the year, when measures taken to protect against the spread of the infection were eased, even though the level reached at the end of the year was nowhere near the pre-crisis level. Because of the international travel restrictions that applied for quite some time, domestic demand was the main factor driving hotel performance in the whole of Europe.

The Bank originated new business of € 5.6 billion (2020: € 4.2 billion) in Europe during the year under review. As in previous years, Western Europe accounted for the largest share of around € 3.9 billion (2020: € 2.5 billion). This was followed by Central and Eastern Europe, where new business of € 1.0 billion (2020: € 1.0 billion) was generated mostly in Poland, € 0.5 billion (2020: € 0.2 billion) in Southern Europe and € 0.2 billion (2020: € 0.5 billion) in Northern Europe.

North America

Transaction volumes in North America were up by around 81 % in 2021 compared with the previous year. In terms of volume and number of transferred properties, transactions still lagged behind the previous year's figures in the first quarter, before transaction activity performed in line with the pre-crisis year 2019 as the year progressed and even exceeded 2019 levels in the fourth quarter. Cross-border and institutional investors were on the buy side for the most part. In contrast, REIT structures and private investors were mostly on the sellers' side.

Rents offered for prime office properties in US metropolitan areas stagnated on average in 2021. Developments did, however, vary from market to market. Rents in San Francisco fell by around 5 % on average, while remaining stable, for example, in the major cities of Atlanta and Chicago and slightly easing in New York and Washington compared with the previous year. With the exception of New York and San Francisco, rental development in secondary locations in these markets stagnated too. Rents for shopping centres increased on average for the country as a whole, but also developed differently depending on the metropolitan areas. Increases of 4 %, 2 % and 6 % respectively were observed in Chicago, New York and Atlanta, while rents eased by 9 % in San Francisco. This means that, overall, the negative trend from the previous year has reversed. The rents for logistics properties rose significantly by around 10 % on average on a national level. An increase was reported in all the important individual markets.

Yields on prime and secondary office properties have remained almost unchanged since the start of the year and have fallen slightly on average in the metropolitan areas, owing to the availability of liquidity and the readiness to provide financing in the market. Yields on retail property declined slightly during the course of the year on a national average, but again, differences were observed between metropolitan areas. While yields remained stable for example in Chicago, Dallas and San Francisco, they went down in Philadelphia, as the year progressed. Falling yields could also be observed on a national average for logistics properties.

Hotel occupancy and revenues in North America have improved significantly during the year. Occupancy ratios and revenues per available room in the luxury & upper upscale category in the US have increased continuously between January and December. Revenues per available room increased by around 60 % on average throughout the country between December 2020 and December 2021. In Canada, average revenues increased by around 30 % during the same reference period.

In North America, new business of € 2.4 billion (2020: € 2.7 billion) was originated in 2021, almost all of which was attributable to the US.

Asia/Pacific region

Transaction volumes for commercial property in the Asia/Pacific region were roughly 27 % higher in 2021 than in the previous year. The increase in transaction volumes in Australia was particularly strong at 106 %, while growth was more moderate in China (18 %). Cross-border and institutional investors were on the buy side for the most part, while REIT structures and private investors were predominantly sellers.

Prime rents for logistics properties in the Australian metropolitan areas of Sydney, Melbourne and Adelaide showed a rising trend in 2021 compared with the previous year. Rents for retail properties developed differently depending on the Chinese metropolitan areas; they increased significantly in Shanghai but stagnated in Beijing.

The previous year's trend for yields for logistics properties in Australia's important markets continued in 2021, with yields declining by between 80 and 115 basis points. In contrast, yields of retail properties in Shanghai and Beijing were flat year-on-year.

Hotels in the Asia/Pacific region recovered significantly in part in 2021, thanks to strong domestic demand for travel and comprehensive support measures provided by the government to the tourism sector. Individual markets, such as Sydney and Melbourne, lagged behind, as travel and overnight stays in Australia were halted by renewed lockdown measures and contact restrictions. Markets that depend heavily on international demand for travel generally recovered at a slower pace. Nevertheless, the Maldives recorded a strong increase of foreign tourists compared with 2020. Overall, around 1.3 million tourists visited the Maldives in 2021, after around 0.6 million tourists in 2020. From August, monthly tourist figures even returned to the levels of the corresponding month in the pre-crisis year 2019.

The Bank originated new business of € 0.5 billion in the Asia/Pacific region in the reporting year 2021 (2020: € 0.3 billion).

Banking & Digital Solutions segment

The residential and commercial property sectors are proving to be stable market segments, even in the second year of the Covid-19 pandemic. In the top 7 cities in particular, rents rose again by around 4 % in the first half of 2021, and by as much as 6 % in the other large and mid-sized cities, while in the student cities the increase declined to 2 % due to a temporary fall in demand. No material defaults of rental payments have been observed. In the commercial property sector, rents fell by 2.2 % as a result of a partial drop in local demand in some segments and the discontinuation of businesses in certain product groups, especially in prime locations. Rents in peripheral locations were flat. New-build rents in the fourth quarter rose by 1.1 % in the municipal districts and by 1.0 % in rural areas. Year-on-year (compared with the fourth quarter of 2020), the increase in Germany amounts to 4.4 %.

We once again strengthened our range of property industry services in the current year and, together with our Aareal First Financial Solutions subsidiary, extended the range of digital solutions for the housing industry and its clients.

With the Aareal Exchange & Payment Platform (AEPP), we offer a solution that enables companies to integrate alternative payment methods in the automatic administrative processes. AEPP also opens up the opportunity to implement new customer services and to invoice efficiently. AEPP was expanded by further payment methods such as PayPal and credit cards in the reporting period, with the alternative payment methods being made accessible also for companies from the energy industry.

plusForta, the Group's specialist for tenant deposit guarantees, launched heysafe, the first completely digital deposit guarantee solution.

At present, around 4,200 corporate clients throughout Germany are using our process-optimising products and banking services. The segment's volume of deposits averaged at € 12 billion in the 2021 financial year (2020: € 11.0 billion) and was thus in line with our forecast, which we raised in the third quarter. All in all, this reflects the strong trust our clients continue to place in Aareal Bank. Despite accounting for expected effects from the current court ruling on general terms and conditions clauses, net commission income was increased, as planned, to € 28 million (2020: € 26 million).

Aareon segment

Aareon is a provider of ERP software and digital solutions for the European property industry and its partners. The company digitalises the property sector with user-oriented software solutions that simplify and automate processes, support sustainable and energy-efficient operations, and interconnect all process participants. Aareon pursues an international growth strategy based on expanding the operating business, realising the VCP (Value Creation Programme) that was developed in 2020 and the inorganic growth through mergers & acquisitions.

As in 2020, the 2021 financial year was also defined by the Covid-19 pandemic. This impacted in particular on Aareon's "traditional" consulting business. Some projects were not executed at all, or only executed with delays, and the provision of on-site consultation was often impossible due to access restrictions. This revenue could not be offset fully by "Green Consulting" (virtual consulting). The product business, on the other hand, was increased. Clients with a higher level of digitalisation were already at an advantage in managing the crisis. Client events and bigger events, such as Aareon Live as a German industry event with more than 1,000 participants, were held virtually for the most part. All in all, the Covid-19 pandemic further reinforced the importance of digitalisation in the property industry.

Thanks in particular to higher recurring revenues in the operating business and because of acquisitions carried out in 2021, Aareon increased its sales revenue to € 269 million in 2021 (2020: € 258 million) and generated an adjusted EBITDA[1] of € 67 million (2020: € 62 million). Nevertheless, revenue was impacted by the effects of the

[1] Earnings before interest, taxes, depreciation and amortisation before new products, Value Creation Programme (VCP), ventures, M&A activities and non-recurring effects

longer-than-expected Covid-19 pandemic on the consulting business as well as by the further transformation into a SaaS company. Revenue was therefore at the lower end of the forecast of € 270 million to 274 million, which was adjusted at the end of the third quarter (original forecast: € 276 million to 280 million). In contrast, the adjusted EBITDA was slightly above the forecast of € 63 million to 65 million. Sales revenue from the ERP business (excluding consulting business) increased year-on-year by 3 %, while digital solutions (excluding consulting business) posted an increase of 23 %.

Sales revenue from the ERP business in the DACH region was roughly unchanged from the previous year, due to lower consulting revenue as a result of the pandemic. Sales revenue generated with Wodis Sigma declined for the same reason. In the course of realising the Value Creation Programme (VCP), Aareon launched a campaign for the new Wodis Yuneo product generation in June 2021 in order to further increase the focus on the trend of using software as a service and hence on the transformation to a SaaS company. In this context, process-oriented product packages were offered simultaneously, which are oriented to the clients' individual needs and simplify the offer structure for the clients. Accordingly, the share of recurring sales revenue increased. Sales revenues from SAP® ERP software solutions, including Blue Eagle, and from RELion for the commercial property business, were on par with the previous year due to low consulting revenue. In October 2021, Aareon extended its ERP product offer by acquiring the Bremen-based GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH (GAP-Group) and the ERP immotion® system, thus creating further potential for cross selling the digital solutions. BauSecura's insurance business developed favourably. Sales revenue from the international ERP business exceeded the previous year's level, due above all to Aareon France and Aareon Nederland. In the Netherlands, the transformation of the business model to a SaaS operation continued. Sales revenues generated with the Dutch REMS ERP solution for the commercial property business increased slightly year-on-year. With the 100 % acquisition of BriqVest B.V. (Twinq), Oosterhout, a Dutch provider of software for managing property, in May 2021, Aareon tapped the market segment for residential property management in the Netherlands. From the 2022 financial year onwards, Twinq will be integrated into Aareon Nederland. Demand was strong for the new release of Prem'Habitat, which was launched in 2020 in France. In the Nordics, sales revenue expectations could not be met due to the delayed delivery of Aareon Xpand's new release and the focus on the core market Sweden. Aareon UK's sales revenues were in line with the previous year's level. Aareon tapped the market for small and medium-sized property managers in the UK in 2021 with the acquisition of Arthur Online and Tilt. Arthur Online has already acquired a large number of new clients, while good progress is being made in migrating clients from the Tilt software to that of Arthur Online.

The business volume with the digital solutions was increased further in 2021. Demand was strong in the DACH region and abroad in particular for the WRM (Workforce Relationship Management) and CRM (Customer Relationship Management) digital solutions. With the marketing launch of the Digital Agency, Aareon offers its clients in Germany a platform that reflects the entire tenant life cycle. The development of the AI-based virtual assistant Neela (CRM solution) was continued in 2021 together with cooperation partners and pilot clients. The Mareon service portal for tradesmen connectivity (SRM) celebrated its 20th anniversary in 2021. Mareon has been delivering a reliable, relevant contribution to revenue for many years. Even before the new German Heating Costs Ordinance came into force, Aareon had offered its clients an EED-compliant solution for the property industry's new information duties to their tenants through the interaction between the CRM app/portal and occupant change management (CRM). Aareon acquired PropTech wohnungshelden GmbH in August 2021. wohnungshelden's CRM software solution enables housing companies to digitalise their entire rental process, thus complementing Aareon's existing product portfolio for the rental process. In the Building Relationship Management (BRM) segment, Aareon and its cooperation partners have developed PrediMa, a digital predictive maintenance solution. Revenue for epiqr and AiBATROS® was significantly down year-on-year due to the lower demand for consulting services in light of the Covid-19 pandemic. In the international business, demand for digital solutions was particularly strong in the Netherlands and in France, while sales revenue in the Nordics was down on the previous year. The BRM solutions of the UK company Tactile Ltd. (Fixflo), which was acquired in May 2021, have already made a significant contribution to sales revenue. The cross-selling has started here too. This acquisition also contributed towards developing the market segment for smaller and medium-sized property managers.

Financial Position and Financial Performance

Financial performance

Group

Consolidated operating profit for the 2021 financial year came to € 155 million and was thus significantly above the previous year (€ -75 million) and within the upper third of the communicated earnings forecast range, despite a non-recurring adverse tax effect and the conclusion of the de-risking exercise in Italy. Consolidated net income amounted to € 68 million (2020: € -69 million).

Net interest income increased by 17 % to € 597 million, primarily driven by a higher lending volume compared to the previous year, higher margins in the lending business and improved refinancing costs (2020: € 512 million), and exceeded the expectations, which had been raised once more during the third quarter.

Loss allowance of € 133 million was significantly below the previous year's figure (€ 344 million), which was largely affected by Covid-19, but was still on an elevated level as expected. Loss allowance resulted from individual new loan defaults (Stage 3) and one addition to an existing exposure (Stage 3) recorded in order to adequately account for the uncertainty surrounding the Covid-19 pandemic (especially given the currently rampant Omicron variant) as regards the loans concerned, by applying corresponding scenario weightings. Moreover, the Bank used the reversal of loss allowance for a defaulted loan to conclude the

Consolidated net income of Aareal Bank Group

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Net interest income	597	512
Loss allowance	133	344
Net commission income	245	234
Net derecognition gain or loss	23	28
Net gain or loss from financial instruments (fvpl)	-30	-32
Net gain or loss from hedge accounting	-5	6
Net gain or loss from investments accounted for using the equity method	-2	1
Administrative expenses	528	469
Net other operating income/expenses	-12	-11
Operating profit	**155**	**-75**
Income taxes	87	-6
Consolidated net income	**68**	**-69**
Consolidated net income attributable to non-controlling interests	1	5
Consolidated net income attributable to shareholders of Aareal Bank AG	67	-74

accelerated de-risking in Italy; on aggregate, this required additional loss allowance of € 13 million.

Net commission income also increased to € 245 million (2020: € 234 million) on the back of sales growth at Aareon and in the Banking & Digital Solutions segment, in line with expectations which were slightly adjusted in the third quarter.

Net derecognition gain of € 23 million (2020: € 28 million) was largely attributable to market-driven effects from early loan repayments. Effects from de-risking measures of € 3 million in the securities portfolio were compensated by repurchases in the Treasury business of € 3 million within the scope of market support (2020: € 7 million).

The net loss from financial instruments (fvpl) and from hedge accounting in the aggregate amount of € 35 million (2020: € -26 million) was largely due to credit-risk-induced valuation losses on defaulted property loans which are reflected in net gain or loss from financial instruments (fvpl). As with loss allowance, this item was still burdened by the effects of Covid-19 and formed part of our loss allowance forecast.

Administrative expenses rose to € 528 million (2020: € 469 million) and were therefore within the range we had projected at the start the year. As expected, this is due on the one hand to business expansion and investments into new products, Aareon's Value Creation Programme (VCP), ventures and M&A activities, as well as to lower cost savings, as expected, related to the Covid-19 pandemic, compared to the previous year, on the other hand – with the marked share price increase being one of the factors involved.

Net other operating income/expenses of € -12 million (2020: € -11 million) was burdened by € 11 million in interest on tax back payments. Income from properties held by the Bank was largely balanced overall: lower current income as a result of Covid-19 was offset by a € 3 million write-up on a property held. The previous year's figure included a Covid-19-related impairment of a property held by the Bank.

All in all, consolidated operating profit for the 2021 financial year totalled € 155 million (2020: € -75 million), with a RoE before taxes of 5.3 % (2020: -4.1 %). Taking into consideration income taxes of € 87 million (2020: € -6 million) and non-controlling interest income of € 1 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 67 million (2020: € -74 million). Results were burdened by the consideration of new findings on the tax treatment of a legacy fund investment which was sold in 2012. As a result, the expected tax rate for the year under review increased to 56 %, and the above-mentioned € 11 million in expenses on tax back payments needed to be recognised in net other operating income/expenses. The capitalisation of deferred taxes had a positive impact on the previous year's income tax expenses. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 53 million (2020: € -90 million). Earnings per ordinary share (EpS) amounted to € 0.89 (2020: € -1.50), and RoE after taxes 2.1 % (2020: -3.6 %). Thus, despite the tax effect, EpS were in line with the adjusted and original forecast, while RoE after taxes slightly exceeded it.

Structured Property Financing segment

At € 154 million, operating profit generated in the Structured Property Financing segment was clearly higher than in the previous year (€ -99 million).

Net interest income increased to € 560 million, mainly due to a year-on-year increase in the lending volume, higher margins in the lending business and improved refinancing costs (2020: € 474 million).

Loss allowance of € 133 million was significantly below the previous year's figure (€ 344 million), which was largely affected by Covid-19, but was still on an elevated level as expected. Loss allowance resulted from individual new loan defaults (Stage 3) and one addition to an existing exposure (Stage 3) recorded in order to adequately account for the uncertainty surrounding the Covid-19 pandemic (especially given the currently rampant

Structured Property Financing segment result

€ mn	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Net interest income	560	474
Loss allowance	133	344
Net commission income	8	8
Net derecognition gain or loss	23	28
Net gain or loss from financial instruments (fvpl)	-30	-32
Net gain or loss from hedge accounting	-5	6
Net gain or loss from investments accounted for using the equity method	0	2
Administrative expenses	256	227
Net other operating income/expenses	-13	-14
Operating profit	**154**	**-99**
Income taxes	82	-14
Segment result	**72**	**-85**

Omicron variant) as regards the loans concerned, by applying corresponding scenario weightings. Moreover, we recognised a reversal of loss allowance for a defaulted loan to conclude the accelerated de-risking in Italy; on aggregate, this required additional loss allowance of € 13 million.

Net derecognition gain of € 23 million (2020: € 28 million) was largely attributable to market-driven effects from early loan repayments. Effects from de-risking measures of € 3 million in the securities portfolio were compensated by re-purchases in the Treasury business of € 3 million within the scope of market support (2020: € 7 million).

The net loss from financial instruments (fvpl) and from hedge accounting in the aggregate amount of € 35 million (2020: € -26 million) was largely due to credit-risk-induced valuation losses on defaulted property loans which are reflected in net gain or loss from financial instruments (fvpl). As with loss allowance, this position was still burdened by the effects of Covid-19.

Administrative expenses rose to € 256 million (2020: € 227 million). As expected, this is due to lower cost savings related to the Covid-19 pandemic compared to the previous year, including the much better share price development.

Net other operating income/expenses of € -13 million (2020: € -14 million) was burdened by € 11 million in interest on tax back payments. Income from properties held by the Bank was largely balanced overall: lower current income as a result of Covid-19 was offset by a € 3 million write-up on a property held. The previous year's figure included a Covid-19-related impairment of a property held by the Bank.

Overall, operating profit for the Structured Property Financing segment was € 154 million (2020: € -99 million). Taking into consideration income taxes of € 82 million (2020: € -14 million), the segment result amounted to € 72 million (2020: € -85 million). Given said non-recurring tax effect, income taxes rose above the increased expected tax rate for the current year. The capitalisation of deferred taxes had a positive impact on the previous year's income tax expenses.

Banking & Digital Solutions segment

Net interest income in the Banking & Digital Solutions segment amounted to € 43 million (2020: € 39 million). Net interest income continues to be burdened by the negative margins from the deposit-taking business due to the persistently low level of interest rates.

Despite accounting for expected effects from the current court ruling on general terms and conditions clauses, net commission income was increased, as planned, to € 28 million (2020: € 26 million).

Compared with the previous year and in relation to the planning, administrative expenses increased to € 73 million (2020: € 68 million) as a result of higher overall provisions recognised for the annual bank levy and contributions to the deposit guarantee scheme due to a deposit protection event (Greensill) and other effects.

Overall, segment operating profit was € -4 million (2020: € -3 million). Taking income taxes into consideration, the segment result amounted to € -3 million (2020: € -2 million).

Aareon segment

Net interest income amounted to € -6 million, reflecting partially debt-financed M&A activities (2020: € -1 million).

Net commission income at Aareon increased to € 221 million (2020: € 213 million), mainly thanks to higher recurring operating income and acquisitions completed in 2021. Sales revenue from digital solutions (excluding the consulting business) grew at a particularly high rate of 23 %, while the effects

Banking & Digital Solutions segment result

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Net interest income	43	39
Loss allowance	0	0
Net commission income	28	26
Administrative expenses	73	68
Net other operating income/expenses	-1	0
Operating profit	**-4**	**-3**
Income taxes	-1	-1
Segment result	**-3**	**-2**

Aareon segment result

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Net interest income	-6	-1
Loss allowance	0	0
Net commission income	221	213
Net gain or loss from financial instruments (fvpl)	–	0
Net gain or loss from investments accounted for using the equity method	-1	-1
Administrative expenses	211	188
Net other operating income/expenses	2	4
Operating profit	**5**	**27**
Income taxes	6	9
Segment result	**-1**	**18**

of the longer-than-expected Covid-19 pandemic on the consulting business as well as the further transformation into a SaaS company had a negative impact.

Administrative expenses increased as expected to € 211 million (2020: € 188 million) due to business expansion and high investments into new products, the Value Creation Programme (VCP), ventures and M&A activities.

Overall, segment operating profit was € 5 million (2020: € 27 million). Taking income taxes into consideration, the segment result amounted to € -1 million (2020: € 18 million).

Financial position – assets and liabilities

Consolidated total assets of Aareal Bank Group increased to € 48.7 billion as at 31 December 2021 (31 December 2020: € 45.5 billion), particularly reflecting the increase in the lending volume. Funding was covered by a higher level of deposits from the housing industry, and other capital market issues including European Commercial Paper (ECP).

Cash reserve and money market receivables

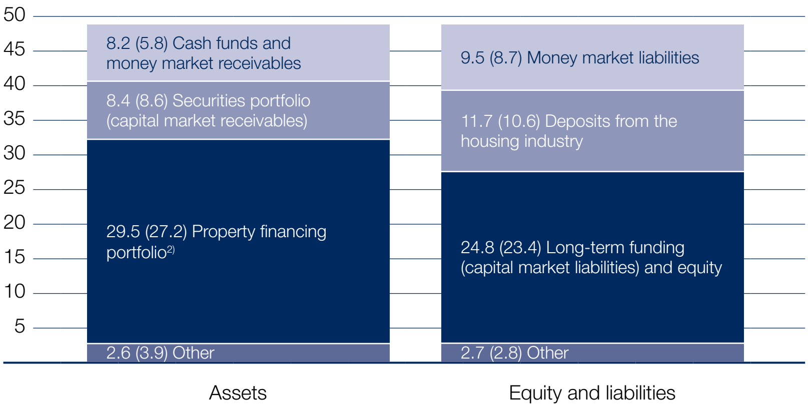
The cash reserve and money market receivables position contains excess liquidity invested at short maturities. As at 31 December 2021, this comprised predominantly cash funds and deposits with central banks and money-market receivables from banks.

Property financing portfolio

As at 31 December 2021, the volume of Aareal Bank Group's property financing portfolio[1] stood at € 29.5 billion (previous year: € 27.2 billion). Including the former WestImmo's private client and local authority lending businesses it amounted to € 30.0 billion. Thus, the target portfolio size, which was raised by € 1 billion to approximately € 30 billion in the third quarter, was achieved.

[1] Excluding the former WestImmo's private client business and local authority lending business

Statement of financial position – structure as at 31 Dec 2021 (31 Dec 2020)
€ bn



[2] Excluding € 0.3 billion in private client business (31 December 2020: € 0.3 billion) and € 0.3 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2020: € 0.3 billion), and excluding loss allowance

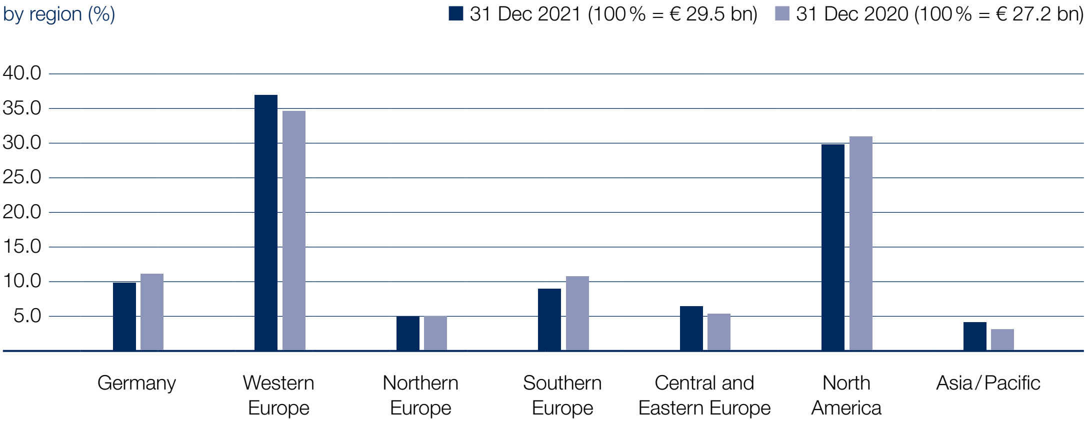
At the reporting date (31 December 2021), Aareal Bank Group's property financing portfolio was composed as shown in the following tables, compared to year-end 2020.

Portfolio allocation by region and continent did not change significantly compared with the end of the previous year. Whilst the portfolio share of exposures in Western Europe rose by around 2.2 percentage points, it was down by around 1.7 percentage points for Southern Europe, due to accelerated de-risking in Italy. It remained relatively stable for all other regions. LTVs, which had slightly increased in the previous year due to the Covid-19 pandemic, declined across all regions, except for Asia/Pacific.

The breakdown of the portfolio by property type did not change significantly during the reporting period. The share of hotel properties increased by around 1.8 percentage points compared to year-end 2020. The share of office, retail, logistics and residential properties, as well as other financings in the overall portfolio remained almost unchanged compared to year-end 2020. LTVs, which had slightly increased in the previous year due to the Covid-19 pandemic, declined across all property types.

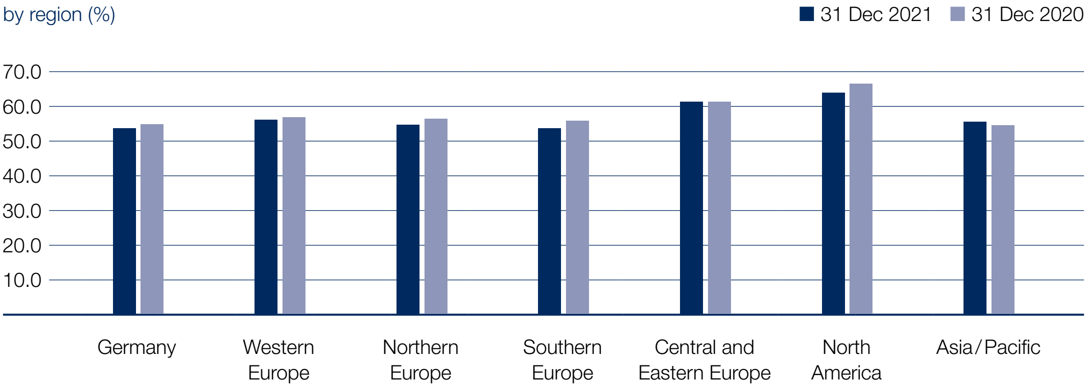
Property financing volume[1] (amounts drawn)

by region (%)



Average LTV of property financing[1]

by region (%)



Note that the loan-to-value ratios are calculated on the basis of drawdowns and market values, including supplementary collateral with sustainable value, excluding defaulted property financings.

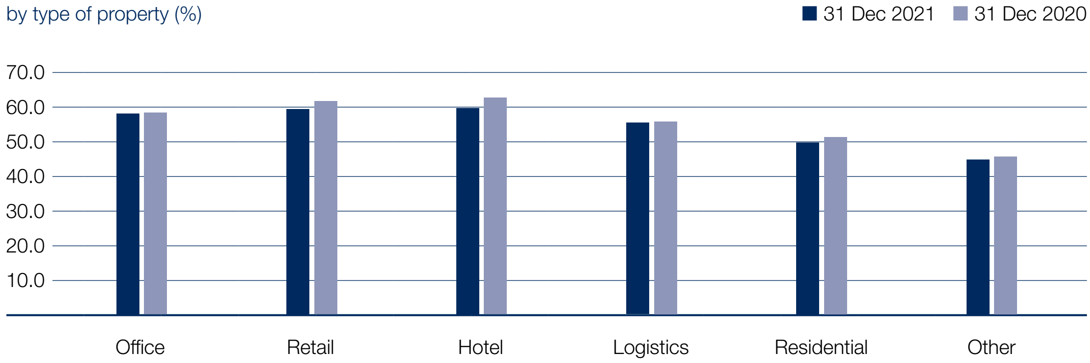
Property financing volume[1] (amounts drawn)

by type of property (%)

[1] Excluding former WestImmo's private client business and local authority lending business

Average LTV of property financing[1)]

by type of property (%)



Note that the loan-to-value ratios are calculated on the basis of drawdowns and market values, including supplementary collateral with sustainable value, excluding defaulted property financings.

1) Excluding former WestImmo's private client business and local authority lending business

All in all, the high degree of diversification by region and property type within the property financing portfolio was maintained during the period under review.

Treasury portfolio

In terms of its ratings structure, Aareal Bank's Treasury portfolio has a very high credit quality and liquidity. As part of the overall management of the Bank, it fulfils two major tasks: On the one hand, the bulk of the securities are held for the liquidity portfolio, which accounts for a major part of the liquidity reserve from both the economic and normative perspective of risk-bearing capacity. In addition to the liquidity portfolio, part of the Treasury portfolio is also used as a collateral portfolio. We define this mainly as the securities and promissory note loans that are used as collateral for the two Pfandbrief programmes.

Key aspects taken into account for portfolio management are good credit quality and the related value stability, as well as a high degree of liquidity, depending on the intended use.

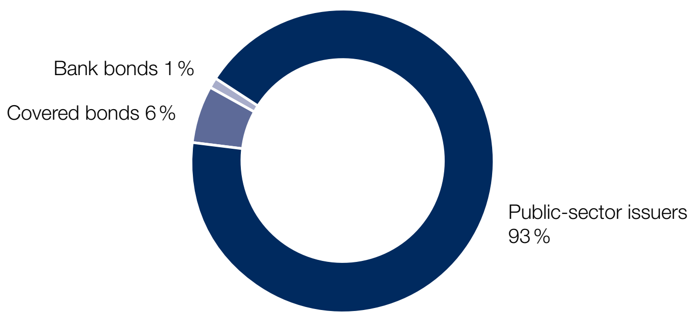
As at 31 December 2021, the total nominal volume of the Treasury portfolio[2)] was € 7.4 billion (31 December 2020: € 7.2 billion).

The portfolio comprises the asset classes public-sector borrowers, covered bonds and bank bonds (financials), with the public-sector asset class currently accounting for the largest share of the portfolio at around 93 %.

The high creditworthiness requirements are also reflected in the rating breakdown in the portfolio. 99.8 % of the portfolio has an investment grade rating[3)], and 86.6 % of the positions have an AAA to AA- rating (2020: 83.3 %).

Treasury portfolio as at 31 December 2021

% Total volume (nominal): € 7.4 bn



2) As at 31 December 2021, the securities portfolio was carried at € 8.4 billion (31 December 2020: € 8.6 billion).
3) The rating details are based on the composite ratings.

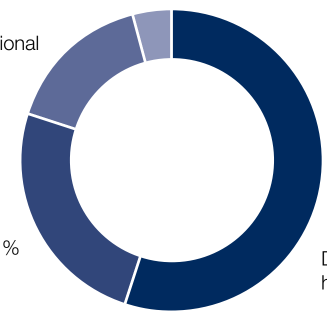
The portfolio currently comprises almost exclusively (98 %) securities denominated in euros and its average remaining term on the reporting date was 6.2 years.

Given the high requirements as regards liquidity of the positions as part of their use for the liquidity portfolio, 94 % of the portfolio can be pledged as collateral with the ECB and 82 % fulfils the requirements for inclusion as "High Quality Liquid Assets" (as defined in the Liquidity Coverage Ratio (LCR)).

Money market funding mix as at 31 December 2021

%

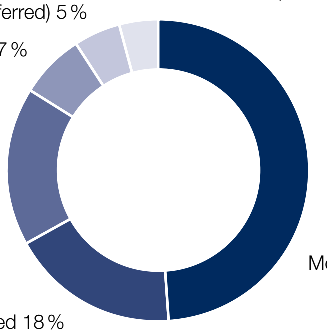
Total volume: € 21.2 bn



Capital market funding mix as at 31 December 2021

%

Total volume (nominal): € 21.1 bn



Financial position – liquidity

Money-market liabilities and deposits from the housing industry

Generally, in addition to deposits from housing industry clients and institutional investors, Aareal Bank also uses interbank and repo transactions for short-term refinancing, the latter being used primarily to manage liquidity and cash positions.

As at 31 December 2021, Aareal Bank had € 11.7 billion at its disposal in deposits generated from the business with the housing industry (31 December 2020: € 10.6 billion). Money market liabilities, including targeted longer-term refinancing operations (TLTROs) of Deutsche Bundesbank, amounted to € 9.5 billion (31 December 2020: € 8.7 billion).

Long-term funding and equity

Funding structure

Aareal Bank Group continues to be solidly funded, a development visible by its major share of long-term funding. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinated capital. According to its legal characteristics, we recognise European Commercial Paper (ECP) as debt even though their maturity is usually less than one year. Subordinated capital includes subordinated liabilities and the Additional Tier 1 (AT 1) bond.

As at 31 December 2021, the notional volume of the long-term refinancing portfolio was € 21.1 billion. Book values of the long-term refinancing portfolio totalled € 20.9 billion.

Refinancing activities

During the financial year 2021, Aareal Bank Group was able to place € 3.5 billion on the capital market, comprising € 2.3 billion of Pfandbriefe, € 1.2 billion of senior preferred and a low volume of senior non-preferred issues. TLTRO 3 borrowing was increased by € 1.0 billion to € 5.3 billion. In addition, the ECP programme was launched successfully in the year under review, and a total volume of € 1.1 billion was raised on the market, including € 0.5 billion of "green" ECP issues, which meet the high requirements of our "Aareal Green Finance Framework".

Since we conduct our business activities in a range of foreign currencies, we have secured our foreign currency liquidity over the longer term by means of appropriate measures.

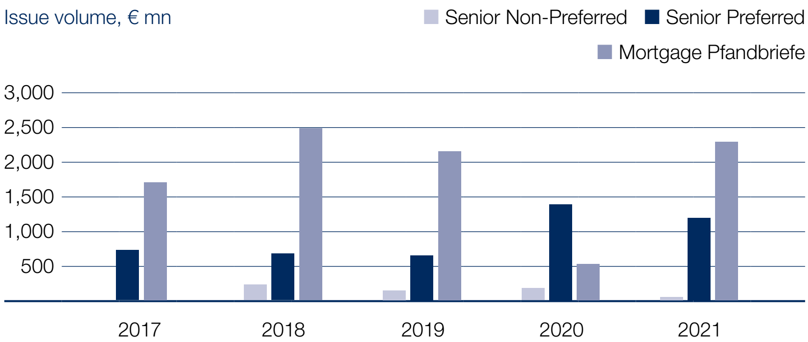
Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 3,061 million as at 31 December 2021 (31 December 2020: € 2,967 million), comprising € 300 million for the Additional Tier 1 (AT 1) bond. Please also refer to the statement of changes in equity, and to our explanations in Note 58 of the consolidated financial statements.

At 18.2 %, the Common Equity Tier 1 ratio (CET 1 ratio) – Basel IV (phase-in) – was markedly above the target value of 16 % in the year under review, as expected.

Issuing activities – 2017 to 2021

Issue volume, € mn



Regulatory indicators[1)]

€ mn	31 Dec 2021	31 Dec 2020
Basel IV (phase-in)[2)]		
Common Equity Tier 1 (CET1) capital	2,327	2,286
Tier 1 (T1) capital	2,627	2,586
Total capital (TC)	3,021	3,395
%		
Common Equity Tier 1 ratio (CET1 ratio)	18.2	17.3
Tier 1 ratio (T1 ratio)	20.5	19.6
Total capital ratio (TC ratio)	23.6	25.7
Basel III		
Common Equity Tier 1 ratio (CET1 ratio)	22.2	18.8

1) Aareal Bank AG utilises the rules set out in section 2a of the KWG in conjunction with Article 7 of the CRR, pursuant to which regulatory indicators of own funds may only be determined at Group level. In this respect, the following disclosures relate to Aareal Bank Group.
31 December 2020: excluding planned dividend of € 1.50 per share in 2021 and including pro rata temporis accrual of net interest payments on the AT1 bond;
31 December 2021: excluding planned dividend of € 1.60 per share in 2022 for the 2021 financial year, including € 1.10 per share not distributed in 2021, and the pro rata temporis accrual of net interest payments on the AT1 bond. The appropriation of profits is subject to approval by the Annual General Meeting.
The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of new NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

2) Underlying RWA estimate in accordance with the current version of the CRR plus revised AIRBA requirements for commercial property lending, based on the European Commission's draft for the European implementation of Basel IV dated 27 October 2021. The calculation also includes a buffer (maintaining the scaling factor of 1.06 for AIRBA risk weights, and the 370 % risk weight for the IRBA equity exposure class), to account for the uncertainty surrounding the final wording of CRR III as well as the implementation of further regulatory requirements such as EBA requirements for internal Pillar 1 models. When Basel IV enters into force on 1 January 2025, RWA will be calculated based on the European requirements, which will have been finalised by then, and the higher of the revised AIRBA and the revised CRSA (standardised approach for credit risk) phase-in output floor.

Our Employees

The ongoing Covid-19 pandemic continued to confront our staff with changes in the year under review. After the first lockdown, we introduced a rolling attendance system with varying attendance ratios, depending on infection rates. Implemented alongside a strict hygiene concept, this allowed both working at the office and mobile work in the year under review. Where appropriate and compatible with the local regulations, this system was implemented at our international locations correspondingly. After another year with SARS-CoV-2, we have further strengthened those ways of cooperation in an exceptional situation and mastered the crisis well thanks to the measures and decisions taken.

Qualification and training programmes

Qualified and motivated employees make a decisive contribution to our Company's economic performance and are thus a key factor in its success – as well as a competitive advantage. For this purpose, Aareal Bank Group operates a human resources approach aimed at the further qualification of its managers, experts and employees. In line with the corporate strategy, the human resources policy is continuously developed in a targeted way. Aareal Bank Group supports employees in change processes, and promotes lifelong professional learning to enhance their expertise.

With the new training and continuing professional development approach Learning@Aareal, which was introduced already in 2020, Aareal Bank supports employees through targeted offers that are focused on the corporate and human resources strategy, and Aareal Bank's USP (unique selling point).

Learning@Aareal is integrated in Aareal Bank's strategic development approach, which uses a skill matrix as the basis for talent development at an organisational level. By linking skill matrix, Learning@Aareal, clear selection procedures and management and expert career paths, we are facilitating the sustainable development of our employees, which, since 2021, has been supplemented by the mandatory development dialogue for all managers and employees. In this dialogue between employees and their managers, individual development measures are agreed upon for a medium- to long-term horizon covering 36 months so that employees will develop competencies and invest their talent in a forward-looking way.

This development dialogue promotes and develops both soft skills and hard skills (technical, methodological and digital skills) based on the current task – in the interests of the Company and the employee. In this context, networking knowledge contributes to the permanent development of the organisation and guarantees that specialist knowledge is secured through sustainable succession planning.

This integrated qualification and professional development approach also helps to further improve the balance between work and family life, which is one of Aareal Bank's core concerns. As a matter

Employee data as at 31 December 2021

	31 Dec 2021	31 Dec 2020	Change
Number of employees at Aareal Bank Group	3,170	2,982	6.3%
Years of service	10.9 years	10.8 years	0.1 years
Staff turnover rate	5.8%	4.5%	1.3%

The overview of employee key indicators in the "Responsibility" section of the Company's website (www.aareal-bank.com/en/responsibility/reporting-on-our-progress/) provides more information, including the breakdown by gender, age and region.

of consequence, 50 % of the training content is available in digital format, therefore facilitating permanent learning regardless of time or location.

Personnel development at Aareon continued in digital format during the Covid-19 pandemic. Via an e-learning management system, training on housing industry topics (held by EBZ Bochum) and on management, agile project management, soft skills, communication and health were provided. Other offers included intercultural training, specific consulting courses and a digital coaching programme, which lasts several months.

A digital language learning portal helped to further build language and communications skills at both Aareal Bank and Aareon, within the scope of internationalisation. This learning portal was expanded in 2021 and allows all employees throughout the Group to improve their language skills, anywhere (even at home) and at any time.

Another personnel development measure was to conduct the cross-mentoring programme again at both Aareal Bank and Aareon. Due to strong demand, two parallel groups embarked on the programme in 2021, which is designed to promote knowledge transfer between the companies by facilitating the targeted exchange of staff.

Promoting the next generation

Promoting the next generation through training is a central element of Human Resources work at Aareal Bank Group. The specialist knowledge required in our business segments requires us to invest continuously – and in a targeted manner – in training the next generation. For this reason, talent recruitment and training are integral parts of our sustainable succession planning and our structured knowledge management. In 2021, we continued to expedite talent recruitment and training and were able to fill almost half of the vacancies with young professionals.

Aareal Bank's programme aimed at promoting the next generation comprises not only trainee programmes, but also the dual studies Business Informatics and Business Administration in cooperation with DHBW Mannheim and RheinMain University, as well as the on-the-job Bachelor's degree Business Administration in cooperation with the University of Applied Sciences Mainz. Moreover, Aareal Bank promotes dual courses of study and offers vocational training for IT applications developers, in cooperation with other companies in the region. Aareal Bank closely collaborates with universities in the region through various initiatives, which are being expanded continuously. In addition to the successful transfer of specialist knowledge and the gathering of new perspectives, the specific measures taken at Aareal Bank to empower young professionals have already reduced the average age.

Besides training programmes, Aareon offers the dual courses of study "Business information systems" and "Media, IT and management" as well as various vocational training opportunities for office managers, IT applications developers, or IT systems integrators.

In the course of the measures for promoting the next generation, Aareon supports the JOBLINGE initiative aimed at socially deprived young citizens. In addition, Aareon is cooperating with several universities, offers placements and supports students as part of the German scholarship of the Johannes Gutenberg University in Mainz.

Remuneration system

In addition to a fixed remuneration component, all permanent employees receive performance-based variable remuneration. The objective is to offer a remuneration level that is both appropriate and attractive to all Group employees.

Work-life balance

Aareal Bank Group places great importance on supporting its employees to achieve compatibility between career and family. This is emphasised by a broad range of dedicated support services such as partnerships with childcare institutions or service providers for the provision of private childcare, holiday programmes for employees' children, the availability of parent-child workrooms, flexible working policies, part-time positions and the option of mobile working or alternating teleworking for all employees. Another component of improving the work-life balance of the employees consists of services that make it easier to combine working life with the care of close relatives. This includes, among other things, the offer of counselling and support in the event of illness as well as nursing care for close relatives (available throughout Germany), as well as the option of participating in various training courses in the Bank for better compatibility between family, care and work.

As an innovative company that promotes the digital transformation process holistically and manages the related process of change for its employees, Aareon had already implemented numerous measures as part of the "work4future" project concluded in 2020. The works agreement on mobile working was already implemented in 2019, increasing our employees' work flexibility. Then, a digital collaboration tool was introduced for internal communications, which brought employees even closer together in the Covid-19 pandemic, despite social distancing. This was supported through various campaigns and regular posts by members of the Management Board. Aareon has been awarded the "berufundfamilie" certificate for being very family-friendly. It was first awarded this certificate already in 2008. In September 2021, Aareon was moreover awarded the certificate as attractive employer according to the Great Place to Work® standard for Germany and France.

Health

In order to verify the effectiveness and continuous improvement of occupational safety management, occupational safety committees meet quarterly. These include the respective company doctor and occupational safety specialists, in addition to various company officers.

In order to protect and promote the health of its employees in a targeted manner, Aareal Bank Group offers a comprehensive range of health-promoting measures in the areas of information, prophylaxis, exercise and ergonomics, nutrition, mental health and relaxation that are always based on employees' current needs. Despite the restrictions imposed by the pandemic in the reporting year, successful formats continued to be applied in the Bank. These included preventative, individual health consultations on various topics, consultations with the company doctor including screenings, flu vaccinations, skin screenings, colorectal cancer screening and ergonomics advice, as well as business yoga that was continued digitally. In June and July, Aareal Bank also offered all its employees their first Covid-19 vaccinations, which were administered on the Bank's premises.

In company health management, Aareon implemented numerous measures for supporting employees in the digital working worlds in 2021 – this was particularly relevant against the background of the Covid-19 pandemic. Space concepts were developed to meet the requirements of a modern and inspiring working environment, with many open spaces, niches and meeting islands supporting this new form of cooperation.

Risk Report

Aareal Bank Group Risk Management

The ability to correctly assess risks, and to manage them in a targeted manner, is a core skill in banking. Accordingly, being able to control risks in all their relevant variations is a key factor for a bank's sustainable, commercial success. This economic motivation for a highly-developed risk management system is continuously increased by extensive regulatory requirements for risk management.

Aareal Bank regularly reviews the appropriateness and effectiveness of its corporate governance systems (including risk governance systems). The regular review of the Risk Appetite Framework and the credit risk strategies carried out during the first quarter of 2021 did not indicate any material adjustments.

The Bank's risk management also incorporates sustainability risks, i. e. ESG risks from the environmental, social and governance areas. Aareal Bank considers sustainability risks to include overarching risks or risk drivers that are influenced directly or indirectly by environmental or social issues, or by monitoring processes. All material sustainability risks were able to be classified as a form of existing financial and non-financial risks. In line with this, they are managed implicitly as part of the risk types under which they are classified. ESG risks have been a component of the regular risk inventory process since 2021. Physical climate risk and transition risk in terms of investor behaviour that have an impact on credit, liquidity, property and reputational risk, were identified as the major short-term risk factors. This is complemented by the major mid- to long-term risk factors of the transition risk in relation to the regulatory environment and technology as well as governance factors such as fraud, sustainability management and data protection. In addition, there is client behaviour as an overarching factor.

Risk management – scope of application and areas of responsibility

Aareal Bank AG, as the parent entity of the Group, has implemented extensive systems and procedures to monitor and manage the Group's risk exposure.

Uniform methods and procedures are deployed to monitor material risks generally associated with banking business across all entities of Aareal Bank Group. Specific risk monitoring methods have been developed and deployed to suit the relevant risk exposure at the subsidiaries. In addition, risk monitoring for these subsidiaries is carried out at Group level via the relevant control bodies of the respective entity, and equity investment risk controlling.

Type of risk	Risk management	Risk monitoring
Overall responsibility: Management Board and Supervisory Board of Aareal Bank AG		
Loan loss risks		
Property Financing	Loan Markets & Syndication Credit Risk Credit Portfolio Management Credit Transaction Management Workout	Risk Controlling Second Line of Defence (NPL)
Treasury business	Treasury	Risk Controlling
Country risks	Treasury Credit Risk Credit Transaction Management	Risk Controlling
Interest rate risk in the banking book (IRRBB)	Treasury, Asset-Liability Committee	Risk Controlling Finance & Controlling
Market risks	Treasury, Asset-Liability Committee	Risk Controlling
Operational risks	Process owners	Non-Financial Risks
Investment risks	Group Strategy	Risk Controlling Finance & Controlling Controlling bodies
Property risks	Aareal Estate AG	Risk Controlling
Business and strategic risks	Group Strategy	Risk Controlling
Liquidity risks	Treasury	Risk Controlling
Process-independent monitoring: Internal Audit		

Overall responsibility for risk management and risk monitoring remains with the Management Board and – in its function of monitoring the Management Board – the Supervisory Board of Aareal Bank AG. The diagram below provides an overview of the responsibilities assigned to the respective organisational units.

The Management Board formulates the business and risk strategies, as well as the so-called Risk Appetite Framework. For this purpose, "risk appetite" means the maximum risk exposure where the Bank's continued existence is not threatened, even in the event of risks materialising. For individual business units (the "First Line of Defence"), the Risk Appetite Framework defines guidelines for the independent and responsible handling of risks.

The risk monitoring function (the "Second Line of Defence") regularly measures utilisation of risk limits, and reports on the risk situation. In this context, the Management Board is supported by the Risk Executive Committee (RiskExCo). The RiskExCo develops proposals for resolutions in line with delegated tasks, and promotes risk communications and a risk culture within the Bank. The risk management system was supplemented by a recovery plan, in line with regulatory requirements, which comprises the definition of threshold values for key indicators – both from an economic and a normative perspective. These are designed to ensure that any negative market developments having an impact upon our business model are identified at an early stage and corresponding action is taken in order to safeguard the sustained continuation of business operations. Risk Controlling is responsible for monitoring financial risks at portfolio level, whilst the Non-Financial Risk division exercises this function for non-financial risks. Both divisions report directly to the Group Chief Risk Officer (GCRO).

On top of this, Group Internal Audit (as the "Third Line of Defence") reviews the organisational structure and procedures, as well as risk processes – including the Risk Appetite Framework – and assesses their appropriateness. Moreover, internal processes provide for the involvement of the Compliance function whenever there are facts which are compliance-relevant.

In order to efficiently perform its control function, amongst other measures, the Supervisory Board has established a Risk Committee, whose responsibility includes the risk strategies as well as the management and monitoring of all material types of risk.

Strategies

The business policy set by the Management Board, and duly acknowledged by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. The Risk Appetite Framework, which also outlines the key elements of the risk culture put in place, is defined consistently with the business strategy and building on the defined risk appetite. Taking the Risk Appetite Framework as a basis, and strictly considering the Bank's risk-bearing capacity, we have formulated detailed strategies for managing the material types of risk, in terms of capital as well as liquidity. Taken together, these represent the Group's risk strategy. These strategies are designed to ensure a professional and conscious management of risks. Accordingly, these strategies include general policies, to ensure a uniform understanding of risks across all parts of the Group. They also provide a cross-sectional, binding framework applicable to all divisions. The Bank has implemented adequate risk management and risk control processes to implement these strategies, and to safeguard the Bank's risk-bearing capacity.

The business strategy, the Risk Appetite Framework and the risk strategies are subject to review on an ongoing basis, and are updated if necessary. Besides the regular review (and, if appropriate, adjustment) of the business strategy (and consequently, of the Group risk strategy), the Bank's risk-bearing capacity and its material risk models are independently validated at least once a year. For this purpose, the appropriateness of risk measurement methods, processes, and risk limits is examined in particular. During the financial year under review, the strategies were adopted by the

Management Board, duly noted, and approved by the Supervisory Board.

The Bank has defined escalation and decision-making processes to deal with limit breaches. Risk Controlling prepares timely and independent risk reports for the management.

Aareal Bank Group maintains a decentralised Internal Control System (ICS), with control activities and results being outlined in the Written Set of Procedural Rules. These describe individual processes of divisions, subsidiaries, or other units. Internal controls may run upstream, downstream, or in parallel to workflows; this applies both to automatic control and monitoring functions as well as to the respective manual steps. Accordingly, the ICS comprises the entire universe of control activities; its objective is to ensure that qualitative and quantitative standards are adhered to (compliance with legal or regulatory requirements, with limits etc.).

The appropriateness and effectiveness of controls is reviewed on an event-driven basis; in any case, at least once a year. The results are discussed with the corresponding units within the Second and Third Lines of Defence (Risk Controlling, Compliance and Internal Audit), and reported to the Management Board and the Supervisory Board. In the event of any irregularities or violations, depending on the severity of the event, the Management Board (as well as the Supervisory Board, if appropriate) must be notified without delay, so that adequate measures or audit activities can be initiated at an early stage.

Risk-bearing capacity and risk limits

The Bank's ability to carry and sustain risk (as determined within the framework of the Internal Capital Adequacy Assessment Process (ICAAP)) is a core determining factor governing the structure of its risk management system. To ensure its uninterrupted risk-bearing capacity, Aareal Bank Group has adopted a dual management approach comprising two complementary perspectives: the normative and the economic perspective.

The normative perspective aims to ensure Aareal Bank Group's ability to fulfil all of its regulatory requirements over a multi-year period. This perspective thus accounts for all material risks which may impact upon relevant regulatory indicators over the multi-year planning period.

The normative ICAAP perspective is embedded into Aareal Bank Group's planning process, which – in particular – also includes capital planning. Group planning covers three planning years, it comprises both baseline and adverse scenarios. Results of Group planning are shown as a projected consolidated income statement for Aareal Bank Group. Planning also encompasses the balance sheet structure, as well as key regulatory indicators, plus additional internal management indicators.

Besides the planning process itself, intra-year computation adjustments to Aareal Bank Group's planning process also included the ongoing monitoring of management indicators as well as checking whether limits in the normative perspective were being complied with. Management indicators in the normative perspective (which are being monitored, and for which limits have been set) comprise various regulatory ratios.

We are using the ICAAP economic perspective, whose purpose is to safeguard Aareal Bank Group's economic substance and thus, in particular, to protect creditors against economic losses. The procedures and methods are part of the Supervisory Review and Evaluation Process (SREP) and are applied in order to identify and quantify potential economic losses, and to determine the required capital backing.

The purpose of internal capital is to serve as a risk-bearing component under the economic perspective. Within Aareal Bank Group, the current regulatory Tier 1 capital serves as the basis for determining economic aggregate risk cover. Accordingly, available internal capital comprises Common Equity Tier 1 (CET1) capital, supplemented by Additional Tier 1 (AT1) capital. Tier 2 capital, as well as projected results to be incurred during the risk analysis horizon, are not taken into account.

Moreover, the value-oriented approach adopted under the economic perspective requires suitable adjustments to be made to regulatory Tier I capital, in order to bring aggregate risk cover into line with the economic assessment. Specifically, this may entail adjustments regarding conservative valuation, hidden encumbrances, or a management buffer.

Aareal Bank Group consistently applies a period of 250 trading days as a risk analysis horizon, as well as for the holding period as part of risk models under the economic perspective. To the extent that risks are measured on the basis of quantitative risk models, a uniform observation period of at least 250 trading days (or at least one year) is applied to the risk parameters used. The appropriateness of model assumptions is verified within the scope of independent validation of the corresponding risk models and parameters.

Looking at correlation effects between material types of risk within the framework of the economic ICAAP perspective, Aareal Bank Group has prudently opted for aggregation of risk levels; accordingly, no risk-mitigating correlation effects are being taken into account. Where we measure risks on the basis of quantitative risk models for the purposes of calculating risk-bearing capacity, these are based on a confidence level of 99.9 %.

Limits for specific risk types are determined in such a manner that aggregate limits do not exceed economic aggregate risk cover, less a risk buffer designed to cover risks not explicitly covered by limits, and to also absorb other fluctuations of internal capital over time. Individual limits are set on the basis of existing risk exposures and historical levels of potential risks, and to an extent that is in line with the Bank's business and risk strategy. Specific limits have been set in a way that each limit is sufficient for utilisation in line with planned business development, as well as for common market fluctuations.

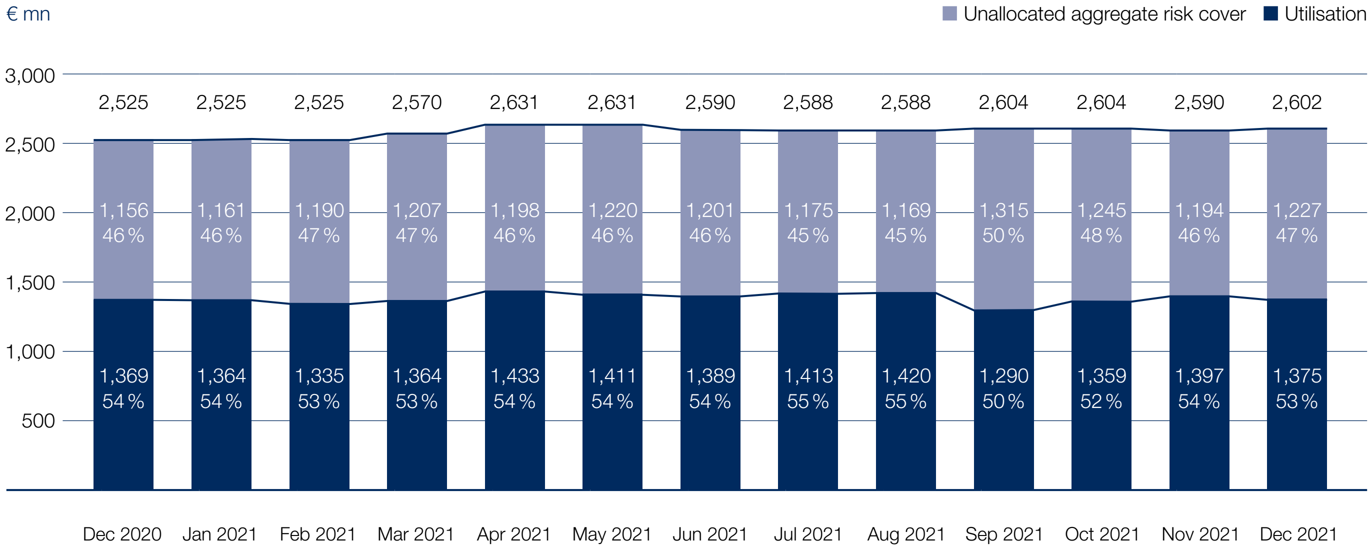
A detailed monthly report provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. These are being monitored as part of daily reporting. No limit breaches were detected during the period under review.

Risk-bearing capacity of Aareal Bank Group (ICAAP – economic perspective)

€ mn	31 Dec 2021	31 Dec 2020
Tier 1 capital (T1 in accordance with Basel III)	2,622	2,586
Economic adjustments	-20	-61
Aggregate risk cover	**2,602**	**2,525**
Utilisation of aggregate risk cover		
Loan loss risks	574	637
Interest rate risk in the banking book (IRRBB)	136	68
Market risks	373	415
Operational risks	93	102
Investment risks	62	35
Property risks	79	76
Business and strategic risks	58	36
Total utilisation	**1,375**	**1,369**
Utilisation (% of aggregate risk cover)	**53 %**	**54%**

Utilisation of aggregate risk cover during the course of 2021

€ mn



Utilisation of aggregate risk cover developed during the period under review as shown above.

Since risk cover potential is an inadequate measure to assess the risk-bearing capacity in terms of monitoring the Bank's ability to meet its payment obligations (liquidity risk in the narrower sense), we have defined special tools within the framework of the Internal Liquidity Adequacy Assessment Process (ILAAP) for managing and monitoring this type of risk. These tools are described in detail in the section "Liquidity risks".

Stress testing

Within the scope of ICAAP and ILAAP, scenario analyses are carried out in all perspectives, as a core element of our risk management system. This involves conducting stress tests for all material risks, using both historical parameters as well as hypothetical stress testing scenarios. To also be able to assess cross-relationships between the various types of risk, we have defined multi-factor stress scenarios, so-called "global" stress tests. For instance, the impact of the crisis affecting financial markets and the economy, which broke out in 2007, on individual types of risk and aggregate risk is analysed within the scope of a historical scenario. In the hypothetical scenario, current potential developments are derived from factors such as political developments, and are combined with significant macro-economic deterioration. The stress testing methodology implemented also takes into account the impact of any risk concentrations. Stress scenarios are analysed both from an economic and a normative perspective, with the respective cross-relationships being taken into consideration – meaning that any economic risks which may materialise (from a normative view) over the analysis period being incorporated in the normative perspective, unless they are sufficiently covered already. The Bank is currently working on integrating climate risks in stress testing. The integration process is scheduled to be completed in 2022.

The Management Board and the Supervisory Board are informed of the results issued by the stress analyses on a quarterly basis.

Lending business

Division of functions and voting

Aareal Bank Group's structural organisation and business processes consider regulatory requirements regarding the organisational structure and procedures in the credit business.

Processes in the credit business are designed to consistently respect the clear functional division of Sales units ("Markt") and Credit Management ("Marktfolge"), up to and including senior management level. In addition, the Risk Controlling division, which is not involved in making lending decisions, is responsible for monitoring all material risks whilst ensuring an adequate and targeted risk reporting system at portfolio level.

Lending decisions regarding credit business classified as relevant for the Bank's risk exposure require two approving votes submitted by a Sales unit and a Credit Management unit. The Bank's Schedule of Powers defines the relevant lending authorities within Sales units and Credit Management. Where authorised persons are unable to come to a unanimous lending decision, the loan involved cannot be approved, or must be presented to the next-highest decision-making level for a decision.

The RiskExCo, which has delegated authority to the Heads of Risk Controlling, Credit Transaction Management and Credit Portfolio Management (organisational units which are independent of the Sales units), is responsible for the approval of counterparty, issuer, or country limits.

We have implemented and documented the clear separation of Sales and Credit Management processes across all relevant divisions.

Process requirements

The credit process comprises the credit approval and further processing phases, each governed by a control process. Credit exposures subject to increased risks involve supplementary processes for intensified handling, the handling of problem loans, and – if necessary – for recognising allowance for credit losses. The corresponding processing principles are laid down in the Bank's standardised rules and regulations. Important factors determining the counterparty credit risk of a credit exposure are identified and assessed on a regular basis, taking into account sector and (where appropriate) country risks. Critical issues regarding an exposure are highlighted, and analysed assuming different scenarios where appropriate.

Suitable risk classification procedures are applied to evaluate risks for lending decisions, as well as for regular or event-driven monitoring of exposures. This classification scheme is reviewed at least once a year; depending on the risk situations, the review cycle may be shortened significantly. Furthermore, the risk assessment results influence pricing.

The organisational guidelines contain provisions governing escalation procedures and further handling in the event of limit breaches, or of a deterioration in individual risk parameters. Measures involved may include the provision of extra collateral, or an impairment test.

Early risk detection procedures

The early identification of credit risk exposure, using individual or combined (early warning) criteria is a core element of our risk management approach.

In particular, the procedures applied for the early detection of risks serve the purpose of identifying borrowers or exposures where higher risks start emerging, at an early stage. For this purpose, we generally monitor individual exposures and the parties involved (such as borrowers or guarantors) regularly throughout the credit term, assessing quantitative and qualitative factors, using instruments such as periodic monitoring and internal ratings. The intensity of the ongoing assessments is based on the risk level and size of the exposure. The Group's risk management processes ensure that counterparty credit risk is assessed at least once a year.

A CRE Credit Risk Committee (CRC) has been established in order to enhance the Bank's procedures for the early detection of risks. The CRC promotes the risk culture by identifying and addressing risk-relevant issues concerning individual credit exposures; the committee is also involved in each credit exposure with mandatory rating that is subject to higher risk exposure. Specifically, the CRC decides upon the exercise of discretion regarding classification of exposures as “normal”, “intensified” or “problem loan” handling, as well as approval of action plans. The transfer of know-how is enhanced through the cross-divisional representation on the CRC. Contractual measures related to Covid-19 – such as the waiver of certain agreements, deferrals of repayments, or the provision of liquidity facilities – are being reported to the Management Board on a regular basis, and closely monitored.

Extensive IT resources are deployed to identify risk positions, and to monitor and assess risks. Overall, the existing set of tools and methods enables the Bank to adopt risk management measures, where required, at an early stage.

Actively managing client relationships is crucially important in this context: approaching clients in time to jointly develop a solution to any problems which may arise. Where necessary, we muster the support of experts from the independent restructuring and recovery functions.

Risk classification procedures

Aareal Bank employs risk classification procedures tailored to the requirements of the respective asset class for the initial, regular, or event-driven assessment of counterparty credit risk. Responsibility for development, quality assurance, and monitoring implementation of risk classification procedures, and for annual validation, lies with two separate divisions outside the Sales units which are independent from each other.

The ratings determined using internal risk classification procedures are an integral element of the Bank’s approval, monitoring, and management processes.

Property financing business

The Bank employs a two-level risk classification procedure for large-sized commercial property finance exposures, specifically designed to match the requirements of this type of business.

In a first step, the client’s probability of default (PD) is determined using a rating procedure. The method used in this context comprises two main components, a property rating and a corporate rating.

The relative impact of the two components on the rating result is determined by the structure of the exposure concerned. The client’s current and future default probability is determined based on specific financial indicators, together with qualitative aspects and expert knowledge.

The second step involves calculating the loss given default (LGD). The LGD estimates the extent of the economic loss in the event of a borrower defaulting. In simple terms, this is the amount of the claim not covered by the proceeds from the realisation of collateral.

When evaluating collateral, haircuts are applied or recovery rates used, depending on the type of collateral involved and specific realisation factors. For financings of domestic properties, recovery rates are taken from a pool of data used across the Bank, whilst recovery rates for international properties are derived using statistical methods, given the low number of realisations.

In this context, PD and LGD procedures are also applied for accounting purposes, for determining model-based loss allowance. Concerning the scenario analyses to be taken into account when determining individual LGDs, we applied an updated scenario mix, going beyond the customary process. This probability-weighted scenario mix reflects the uncertainties as to how the Covid-19 pandemic will develop further and supplements our baseline scenario (swoosh) with the addition of divergent developments over an observation period of three years.

The expected loss (EL) in the event of default of an exposure is determined as the product of PD, LGD and EAD. As a risk parameter related to the financing, EL is used as an input factor for the tools used to manage the property financing business.

Financial institutions

Aareal Bank Group employs an internal rating procedure for financial institutions, which incorporates qualitative and quantitative factors as well as our client's group affiliation, to classify the risk exposure to banks, financial services providers, securities firms, public-sector development banks, and insurance companies. Financial institutions are assigned to a specific rating grade by way of assessing relevant financial indicators and taking into account expert knowledge.

Sovereign states and local authorities
In addition, Aareal Bank Group employs internal rating methods for sovereign borrowers and regional governments, local and other public-sector entities. In this context, rating grades are assigned using clearly defined risk factors, such as fiscal flexibility or the level of debt. The expert knowledge of our rating analysts is also taken into account for the rating.

In general, the risk classification procedures employed by the Bank are dynamic methods which are permanently adapted to changing risk structures and market conditions.

Trading activities

Functional separation
We have implemented a consistent functional separation between Sales units and Credit Management for the conclusion, settlement and monitoring of trading transactions, covering the entire processing chain.

On the Sales side, the processing chain comprises the Treasury division, whilst Credit Management tasks are carried out by the independent Credit Transaction Management and Risk Controlling divisions. Beyond this, Finance & Controlling and Audit are responsible for tasks not directly related to processes.

We have laid down organisational guidelines providing for binding definitions of roles and responsibilities along the processing chain; with clearly defined change processes.

The detailed assignment of responsibilities is outlined below.

Treasury is responsible for risk management and trading activities as defined by the Minimum Requirements for Risk Management ("MaRisk"). Treasury is also responsible for asset/liability management, and for managing the Bank's market and liquidity risk exposures. In addition, we have established an Asset-Liability Committee (ALCO), to develop strategies for the Bank's asset/liability management and proposals for their implementation. The ALCO, which comprises the Management Board member responsible for Treasury, the Head of Treasury, and other members appointed by the Management Board, meets on a weekly basis.

Credit Transaction Management is responsible for controlling trading activities, confirming trades to counterparties, and for trade settlement. The division is also responsible for verifying that trades entered into are in line with prevailing market conditions, as well as for the legal assessment of non-standard agreements, and of new standard/master agreements.

To assess counterparty credit risk in the trading business, a rating is prepared for all counterparties and issuers on a regular or event-driven basis. The rating is a key indicator used to determine the limit for the relevant counterparty or issuer.

The tasks of the Risk Controlling division comprise identifying, quantifying and monitoring market price, liquidity and counterparty credit risk exposure from trading activities, and the timely and independent risk reporting to senior management.

Process requirements
Processes are geared towards ensuring end-to-end risk management, from conclusion of the trade right through to monitoring portfolio risk. The monitoring and reporting function comprises deploying adequate risk measurement systems, deriving limit systems, and ensuring the transparency of Aareal Bank Group's overall risk exposure from trading activities, in terms of scope and structure.

Change processes (as defined in section AT 8 of the MaRisk) are consistently measured via Group-wide framework directives, with the RiskExCo involved in all cases. Moreover, processes and systems are designed in a way that allows to incorporate new products into the risk monitoring system swiftly and adequately, in order to ensure the flexibility of the Sales units in their business activities.

A standardised process exists for the intensified handling of counterparties and issuers, and for dealing with problems. This process comprises identifying early warning indicators, applying them for the purposes of risk analysis, as well as determining further action to be taken. In the event of counterparty or issuer default, the RiskExCo will be involved in devising an action plan, in cooperation with the Bank's divisions involved.

Escalation and decision-making processes have been set out to deal with limit breaches.

Loan loss risks

Definition

Aareal Bank defines loan loss risk as the risk of losses being incurred due to (i) a deterioration in a business partner's credit quality (migration risk); (ii) a business partner defaulting on contractual obligations; (iii) collateral being impaired; or (iv) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty credit risk. Counterparty credit risk exposure from trading activities may refer to risk exposure vis-à-vis counterparties or issuers. Country risk is also defined as a form of counterparty credit risk.

Credit risk strategy

Based on the Bank's overall business strategy, Aareal Bank's credit risk strategy sets out all material aspects of the Group's credit risk management and policies. The credit risk strategy serves as a strategic guideline for dealing with each respective category of risk within Aareal Bank Group; it also provides a binding, overarching framework applicable to all divisions.

The credit risk strategy will be reviewed, at least once a year, as to its suitability regarding the Bank's risk-bearing capacity and its business environment; amendments will be made as necessary. In this context, we also incorporate ESG criteria to assess the properties' sustainable intrinsic value. The associated process is instigated by senior management, and implemented by Risk Controlling, which submits a proposal, which has been agreed upon with all divisions to senior management. The credit risk strategy adopted is subsequently discussed by the Supervisory Board.

Designed in principle for a medium-term horizon, the credit risk strategy is adapted when necessary to reflect material changes in the Group's credit risk and business policies, or in the Group's business environment.

Risk measurement and monitoring

Regulatory requirements are taken into account for the organisation of operations and workflows in the credit and trading businesses.

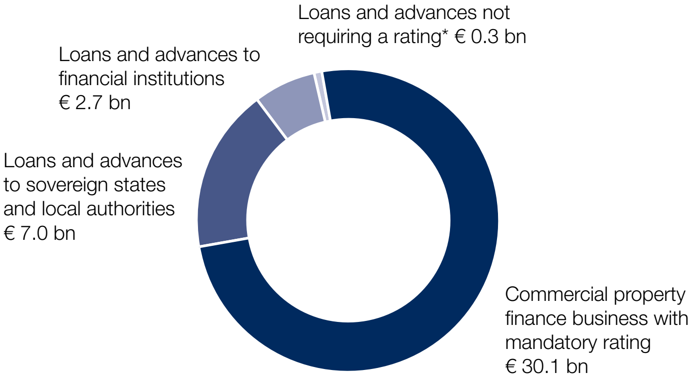
Processes in the credit and trading businesses are designed to consistently respect the clear functional division of Sales units ("Markt") and Credit Management ("Marktfolge"), up to and including senior management level. The independent Risk Controlling division is responsible for identifying, quantifying and monitoring all material risks at portfolio level, and for maintaining a targeted risk reporting system.

Aareal Bank employs different risk classification procedures tailored to the requirements of the respective type of business for the initial, regular, or event-driven assessment of counterparty credit risk. Forward-looking as well as macro-economic information is taken into consideration for risk classification procedures, and in the valuation of collateral. The respective procedures and parameters are subject to regular review and adjustment. Responsibility for development, quality assurance, and monitoring implementation of procedures, is outside the Sales units.

Against the background of the Covid-19 pandemic, special attention is currently paid to macro-economic forecasts. In the context of this ongoing review, we also rely on projections published by the ECB, apart from those issued by our usual data providers. Yet estimation uncertainties are currently much higher than usual, as the pandemic has provoked a situation unprecedented in recent history. Data and experience are therefore both lacking.

Breakdown of on-balance sheet and off-balance sheet business (gross carrying amounts)

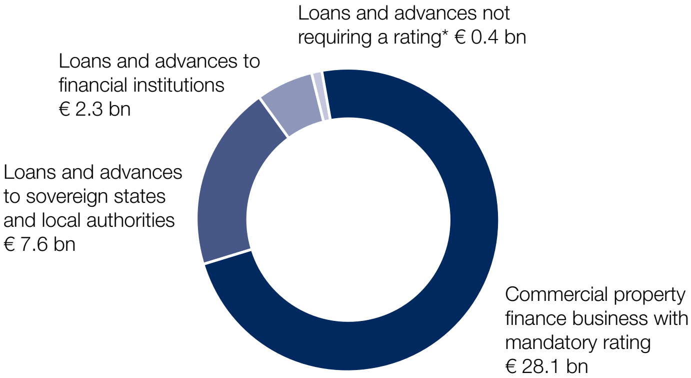
by rating procedure, € bn 31 Dec 2021



* Including the private client business of former WestImmo

Breakdown of on-balance sheet and off-balance sheet business (gross carrying amounts)

by rating procedure, € bn 31 Dec 2020



* Including the private client business of former WestImmo

We use two different credit risk models to measure, control and monitor concentration and diversification effects on a portfolio level. These are supplemented by limits on individual and sub-portfolio level to facilitate operating management. Based on these instruments, the Bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business with financial institutions. The models in question allow the Bank to include in particular, rating changes and correlation effects in the assessment of the risk concentrations.

Within the process-oriented monitoring of individual exposures, the Bank uses various tools to monitor exposures on an ongoing basis: besides the tools already described, this includes rating reviews, the monitoring of payment arrears, and the regular, individual analysis of the largest exposures. The intensity of loan coverage is oriented upon the credit risk exposure.

Against the background of the Covid-19 pandemic, Aareal Bank was in close contact with most property financing clients with mandatory rating, and has amended contractual arrangements to clients' updated business plans to the extent necessary and possible. Given the lockdown, this primarily affected financings of hotels and shopping centres, as well as involving waivers of certain contractual agreements without impact on payments (covenants). Our clients and sponsors have provided a significant portion of the required liquidity from their own resources. In addition, funds obtained from government assistance were used and a few clients reduced their exposures. The gross carrying amount of the on-balance-sheet lending business under government moratoria amounted to € 4 million, whilst the gross carrying amount of on-balance sheet lending business subject to Covid-19-related forbearance measures amounted to € 6.6 billion.

On top of existing processes, additional measures were implemented for those portfolios particularly affected by the Covid-19 pandemic, such as retail, hotels, and student housing. These portfolios were subject to particular monitoring (regardless of whether liquidity facilities were provided), including ad-hoc valuation reviews of the financed properties, which were increasingly backed by external appraisals. The frequency for periodic monitoring and internal rating (which also comprise a detailed target/actual comparison of the business plan) was adjusted to a semi-annual cycle. The CRE Credit Risk Committee was closely involved in evaluating and assessing all credit or monitoring decisions. A separate reporting system was established for the affected portfolios, enabling follow-ups of individual exposures and providing credit-relevant information, in order to be able to derive suitable measures at portfolio level, at an early stage.

When accounting for these measures, we have taken the recommendations made by the IASB, and by relevant regulatory authorities such as the EBA, the ECB and ESMA, into consideration – with the objective of providing a realistic assessment of expected losses. Intensified handling triggers recognition of loss allowance, in the amount of lifetime expected credit loss for the financial instrument concerned (Stage 2). The same applies for financings for which a forbearance measure has been granted.

The following tables provide a breakdown of gross carrying amounts of on-balance sheet as well as off-balance sheet credit business, money-market business, and capital markets business, by rating classes and loss allowance stages, in line with credit risk management at Group level. Compared to historical data, the impact of the Covid-19 pandemic has led to an increase in Stage 2 loss allowance. Figures are based on Aareal Bank Group's internal default risk rating classes. The default definition follows the definition pursuant to Article 178 of the CRR, which is decisive for management purposes.

On-balance sheet commercial property finance business with mandatory rating

	31 Dec 2021					31 Dec 2020				
	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
€ mn										
Class 1	–	–	–	–	**–**	–	–	–	–	**–**
Class 2	116	–	–	–	**116**	73	–	–	–	**73**
Class 3	203	3	–	–	**206**	249	4	–	–	**253**
Class 4	694	–	–	–	**694**	1,142	–	–	–	**1,142**
Class 5	3,602	105	–	160	**3,867**	3,684	9	–	249	**3,942**
Class 6	4,800	185	–	138	**5,123**	3,920	426	–	184	**4,530**
Class 7	4,337	331	–	67	**4,735**	2,991	297	–	253	**3,541**
Class 8	3,034	1,158	–	82	**4,274**	3,140	574	–	38	**3,752**
Class 9	1,004	2,545	–	48	**3,597**	2,565	1,271	–	14	**3,850**
Class 10	908	3,366	–	39	**4,313**	707	2,961	–	17	**3,685**
Class 11	38	731	–	–	**769**	453	514	–	–	**967**
Class 12	–	77	–	–	**77**	1	16	–	–	**17**
Classes 13-15	–	74	–	–	**74**	–	–	–	–	**–**
Defaulted	–	–	1,503	64	**1,567**	–	–	1,547	95	**1,642**
Total	18,736	8,575	1,503	598	29,412	18,925	6,072	1,547	850	27,394

[1] fvpl = at fair value through profit and loss (in accordance with IFRSs)

Off-balance sheet commercial property finance business with mandatory rating

	31 Dec 2021					31 Dec 2020				
€ mn	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
Classes 1-3	–	–	–	–	**–**	–	–	–	–	**–**
Class 4	8	–	–	–	**8**	29	–	–	–	**29**
Class 5	157	–	–	–	**157**	69	–	–	10	**79**
Class 6	70	–	–	–	**70**	168	–	–	–	**168**
Class 7	102	–	–	–	**102**	87	0	–	14	**101**
Class 8	15	9	–	–	**24**	123	9	–	–	**132**
Class 9	113	47	–	–	**160**	158	41	–	–	**199**
Class 10	65	66	–	–	**131**	12	80	–	–	**92**
Class 11	23	8	–	–	**31**	30	11	–	–	**41**
Classes 12-15	–	1	–	–	**1**	–	–	–	–	**–**
Defaulted	–	–	6	–	**6**	–	–	1	5	**6**
Total	553	131	6	–	690	676	141	1	29	847

[1] fvpl = at fair value through profit and loss (in accordance with IFRSs); commitments for loan portions earmarked for syndication

On-balance sheet loans and advances to financial institutions

	31 Dec 2021					31 Dec 2020				
€ mn	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
Class 1	619	–	–	–	**619**	853	–	–	–	**853**
Class 2	160	–	–	–	**160**	213	–	–	–	**213**
Class 3	373	–	–	–	**373**	26	–	–	–	**26**
Class 4	212	–	–	–	**212**	108	–	–	–	**108**
Class 5	21	–	–	–	**21**	48	–	–	–	**48**
Class 6	93	–	–	–	**93**	26	–	–	–	**26**
Class 7	708	–	–	–	**708**	677	–	–	–	**677**
Class 8	424	3	–	–	**427**	320	–	–	–	**320**
Class 9	30	–	–	–	**30**	–	–	–	–	**–**
Class 10	27	–	–	–	**27**	33	–	–	–	**33**
Classes 11-18	–	–	–	–	**–**	–	–	–	–	**–**
Defaulted	–	–	–	–	**–**	–	–	–	–	**–**
Total	2,667	3	–	–	2,670	2,304	–	–	–	2,304

[1] fvpl = at fair value through profit and loss (in accordance with IFRSs)

On-balance sheet loans and advances to sovereign states and local authorities

	31 Dec 2021					31 Dec 2020				
€ mn	Stage 1	Stage 2	Stage 3	fvpl [1]	Total	Stage 1	Stage 2	Stage 3	fvpl [1]	Total
Class 1	3,400	–	–	–	**3,400**	3,622	–	–	–	**3,622**
Class 2	1,777	–	–	–	**1,777**	1,674	–	–	26	**1,700**
Class 3	656	–	–	–	**656**	778	–	–	62	**840**
Class 4	69	–	–	–	**69**	76	–	–	–	**76**
Class 5	64	–	–	–	**64**	36	–	–	–	**36**
Class 6	1	–	–	–	**1**	177	–	–	–	**177**
Class 7	187	–	–	–	**187**	151	–	–	–	**151**
Class 8	0	–	–	–	**0**	1	–	–	–	**1**
Class 9	620	186	–	–	**806**	404	556	–	–	**960**
Classes 10-20	–	–	–	–	**–**	–	–	–	–	**–**
Defaulted	–	–	–	–	**–**	–	–	–	–	**–**
Total	6,774	186	–	–	6,960	6,919	556	–	88	7,563

[1] fvpl = at fair value through profit and loss (in accordance with IFRSs)

Monthly reporting covers the material aspects of credit risk; it is supplemented by detailed information – which also fully covers specific credit portfolio developments (broken down by country, property and product type, risk classes, and collateral categories, for example), in line with regulatory requirements – at least on a quarterly basis. Risk concentrations are being taken into account in particular.

Trading activities are restricted to counterparties for whom the requisite limits are in place. All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Persons holding position responsibility are informed about relevant limits and their current usage, regularly and without delay.

In principle, Aareal Bank pursues a “buy and manage” strategy in managing its credit portfolio – with the primary objective of holding the majority of loans extended on its balance sheet until maturity; at the same time, targeted exit measures are deployed for actively managing the portfolio and the risks involved.

In summary, during the period under review, the existing set of tools and methods continued to enable the Bank to adopt suitable risk management or risk mitigation measures, where required, without any undue delay.

Credit risk mitigation

The Bank accepts various types of collateral to reduce default risk exposure. This includes impersonal collateral, such as liens on immobile (property) and mobile assets; liens on receivables, such as rents; and third-party undertakings, such as guarantees.

As an international property finance house, Aareal Bank focuses on property when collateralising loans and advances. As a rule, loans are granted and the security interest perfected in accordance with the jurisdiction in which the respective property is located.

Mortgage lending values or fair values are set or determined in accordance with the responsibilities for decision-making on lending, and form an integral part of the lending decision. The values to be determined by the Bank are generally pegged on the valuation prepared by a valuer, which is subject to an internal plausibility check. Any diverging assessment must be substantiated in writing. In any case, the market and mortgage lending values determined by the Bank must not exceed the values assessed by independent internal or external valuers.

To mitigate credit risk, the Bank also accepts collateralisation through a pledge of shareholdings in property companies or special purpose entities not listed on a stock exchange. The Bank has set out detailed provisions governing the valuation of such collateral.

The Bank also accepts guarantees or indemnities as well as financial collateral (such as securities or payment claims) as standard forms of collateral. The collateral value of the indemnity or guarantee is determined by the guarantor's credit quality. For this purpose, the Bank differentiates between banks, public-sector banks, and other guarantors. The value of financial collateral is determined according to the type of collateral. Haircuts are generally applied when determining the value of guarantees/indemnities and financial collateral.

The defined credit processes provide for the regular review of collateral value. The risk classification is adjusted in the event of material changes in collateral value. An extraordinary review of collateral is carried out where the Bank becomes aware of information indicating a negative change in collateral value. Moreover, the Bank ensures that disbursement is only made after the agreed conditions for payment have been met. Collateral is recorded in the Bank's central credit system, including all material details.

Credit risk mitigation for trading activities

To reduce counterparty risk in Aareal Bank's trading business, the master agreements for financial derivatives and master agreements for securities repurchase transactions (repos) used by the Bank[1] provide for various credit risk mitigation techniques, via mutual netting framework agreements.

The master agreements for financial derivatives used by the Bank contain netting framework agreements at a single transaction level (so-called "payment netting"), and arrangements for the termination of individual transactions under a master agreement (so-called "close-out netting").

In general, all master agreements are based on the principle of a common agreement. This means that, in the case of a termination, the individual claims are netted, and that only such net amount can and may be claimed with regard to the defaulted counterparty. This claim must not be affected by any insolvency, i. e. it must be legally valid and enforceable. This, in turn, means that the jurisdictions concerned must recognise the concept of a common agreement which protects the net amount of the claim from imminent access by the insolvency administrator.

Above all, the close-out netting is subject to (international) legal risks. The Bank reviews these legal risks by reference to legal opinions regarding the validity and enforceability of mutual netting framework agreements in the case of a counterparty's insolvency. These legal opinions are evaluated based on various criteria such as product type, jurisdiction of the registered office and branch office of the counterparty, individual contract supplements and other criteria, and using a database developed for this purpose. In doing so, the Bank decides for each individual transaction whether or not netting is possible. The Bank uses eligible bilateral netting framework agreements within the meaning of the CRR for all transactions with financial institutions; in many cases there are additional collateral agreements which further reduce the relevant credit risk.

[1] Any comments below referring to the German Master Agreement on Financial Derivatives (Deutscher Rahmenvertrag für Finanztermingeschäfte – "DRV") also pertain to the master agreement issued by the International Swaps and Derivatives Association Inc. (ISDA) (the "ISDA Master Agreement"). Both agreements are standardised agreements recommended by leading associations – among others, by the Association of German Banks (Bundesverband deutscher Banken – "BdB").

The Bank enters into repo transactions both on a bilateral basis and via Eurex Clearing AG as a central counterparty. For repo transactions, depending on the counterparty, payment or delivery netting is agreed upon. Master agreements for repo transactions generally contain provisions on close-out netting. The Bank does not use the option permitted by regulatory authorities to reduce capital requirements for repo transactions.

Furthermore, counterparty risk is reduced through derivatives settlement via central counterparties (CCPs): Aareal Bank uses Eurex Clearing AG and LCH.Clearnet Limited.

The Bank uses an internal rating system to assess the credit quality of counterparties. Credit Transaction Management is responsible for the daily valuation of the Bank's trades, including collateral accepted or pledged, and using validated valuation procedures.

Collateral for derivative transactions is usually provided in cash. Repo transactions are usually collateralised through securities, pledged on a daily basis.

Some collateral agreements provide for higher collateral levels in the event of material downgrade to a contracting party's rating.

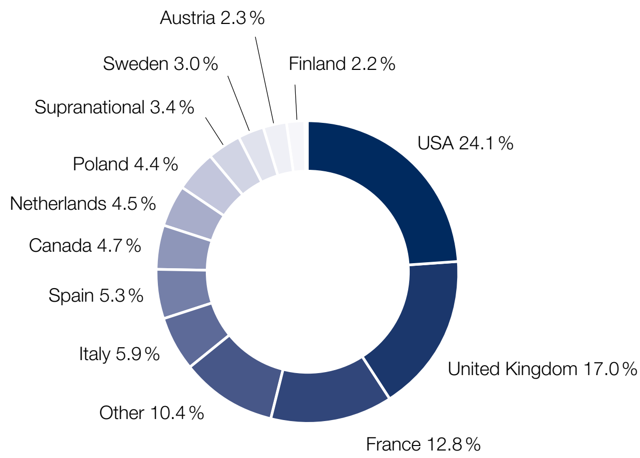
Country risks

Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process. The respective country limits are determined on the basis of a country risk assessment by the Bank's senior management. The Risk Controlling division is responsible for the continuous monitoring of country limits and limit utilisation, and for periodical reporting.

The diagram below illustrates the risk exposure by country (comprising receivables and off-balance sheet obligations) in the Bank's international business, at year-end. In the property financing business, country exposures are allocated by location of the property used as collateral. For exposures not

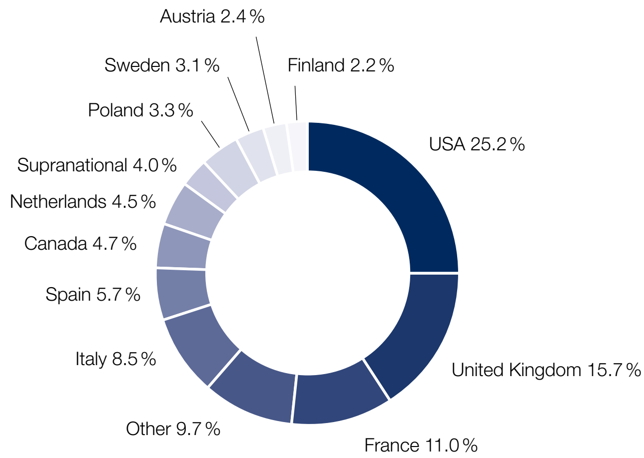
Breakdown of country exposure in the international business

% 31 Dec 2021



Breakdown of country exposure in the international business

% 31 Dec 2020



collateralised by property, the allocation is based on the borrower's country of domicile. This reflects the exposure of the property finance business, as well as the activities of Treasury.

Interest rate risk in the banking book

Definition

Interest rate risk in the banking book (IRRBB) is defined as the risk exposure of instruments held in the banking book which are sensitive to changes in interest rates, caused by yield curve shifts.

Specifically, for Aareal Bank this includes:

- risks arising from maturity transformation in the event of yield curve shifts (so-called gap risk), which, in turn, are broken down into:
  - risks from cash flows which are sensitive to interest rates, relative to the general yield curve (interest rate risk or repricing risk);
  - risks arising from the valuation of future cash flows, relative to the general yield curve (yield curve risk);
- risks from cash flows which are sensitive to interest rates, in terms of spreads to the general yield curve (basis risk);
- risks from explicit and implied options (option risk);
- risks arising from changing valuation of pension liabilities (pension risk);
- risks from fluctuations in the value of fund assets (fund risk); and
- risks from changes in Aareal Bank's specific funding spreads (funding risk).

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and the present-value exposure to interest rate risk in the banking book on a daily basis (the "economic value of equity" perspective). This is supplemented, on a monthly basis, by an analysis of possible deviations of planned income in the event of adverse interest rate scenarios (the earnings perspective). Underlying interest rate scenarios applied for measuring potential planning deviations comprise upside and downside interest rate shocks as well as increases and decreases in forecast interest rates used for planning interest income over time.

The present value VaR concept has been broadly accepted as the predominant method for measuring economic interest rate risk in the banking book. VaR quantifies risk as the maximum loss that will occur within a certain period of time, and given a defined probability.

A variance-covariance approach (delta-normal method) is used throughout the Group to determine the VaR indicator. Determined on a daily basis for the Group, the VaR figure takes into account the correlation between individual risk types. Statistical parameters used in the VaR model are calculated directly from a 250-day historical data pool maintained within the Bank. The loss potential is determined applying a 99.9 % confidence interval under the economic perspective.

By their very nature, VaR calculations are based on numerous assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances and deposits at notice which are factored into calculations for a period of up to ten years (2.75 years on average), using the average residual amount of deposits observed , in the past. Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures). Aareal Bank Group's consolidated equity is not taken into account as a risk-mitigating item. This tends to overstate VaR, demonstrating our goal to pursue a conservative approach adopted in our risk measurement processes.

The change in net interest income in the relevant interest rate shock scenarios is determined in addition, and in accordance with the EBA guidelines EBA/GL/2018/02 on managing interest rate risk in the banking book (IRRBB). Net interest income equals the difference between interest income and interest expenses on all interest-bearing assets and liabilities in the banking book, including derivatives and off-balance sheet items in accordance with IFRSs. In contrast to a present-value analysis, net interest income is not limited to modelled earnings contributions of existing assets and liabilities as at the planning/forecast date, but additionally includes income and expenses from planned new business and renewals. Changes essentially reflect the diverging developments of forward interest rates prior and after an interest rate shock, as well as the resulting modelled impact on client behaviour.

Interest rate sensitivity

An additional instrument used to quantify interest rate risk exposure is the calculation of interest rate sensitivity, expressed by the so-called “delta” parameter. The first step to determine this parameter requires calculating the present values of all asset and equity/liability items on the statement of financial position. In a second step, the interest rates of yield curves used for this calculation are subjected to a one basis point parallel shift up (a method known as the “key rate method”). Delta is the present value of the profit or loss resulting from this yield curve change.

Present-value impact of an interest rate shock

The following tables show the changes in present value as prescribed by BaFin circular 06/2019, applying EBA guidelines EBA/GL/2018/02 on controlling interest rate risk in the banking book (IRRBB).

The standard test prescribed therein outlines present value changes in the banking book in the event of a maximum 200 basis point parallel shift for each currency. As in the previous years, the ratio of the aggregate results to Aareal Bank Group’s regulatory capital is clearly below the prescribed threshold of 20 %.

Furthermore, present value changes are determined (and their ratio to Tier I capital shown) for six early-warning indicators, applying the prescribed scenarios. The ratio of the aggregate result to Aareal Bank Group’s Tier I capital is clearly below the prescribed threshold of 15 %.

Net interest income is a metric derived from the income statement. To measure income risk, changes in net interest income due to a 200 basis point parallel yield curve shift over the next twelve months are determined. In this context, assumptions regarding client behaviour and the competitive environment in such a scenario are especially subject to idealised model parameters.

Changes in present value

	31 Dec 2021		31 Dec 2020	
	-200 bp	+200 bp	-200 bp	+200 bp
€ mn				
EUR	-23	101	9	49
GBP	8	-16	19	-21
USD	84	-43	62	-39
Other	10	-9	8	-18
Total	**79**	**33**	**98**	**-29**
Percentage ratio to regulatory capital	**2.6**	**1.1**	**2.9**	**0.9**

€ mn	31 Dec 2021	31 Dec 2020
Parallel shock up	29	-32
Interest rate coefficient for parallel shock up (%)	1.1	1.2
Parallel shock down	80	98
Interest rate coefficient for parallel shock down (%)	3.1	3.8
Steepener shock	64	50
Interest rate coefficient for steepener shock (%)	2.4	1.9
Flattener shock	-26	2
Interest rate coefficient for flattener shock (%)	1.0	0.1
Short rates shock up	-22	-39
Interest rate coefficient for short rates shock up (%)	0.8	1.5
Short rates shock down	81	92
Interest rate coefficient for short rates shock down (%)	3.1	3.6
Tier 1 capital (T1 in accordance with Basel III)	**2,622**	**2,586**

Market risks

Definition

Market risks are broadly defined as the threat of losses due to changes in market parameters; this refers to market risks which are not assigned to the IRRBB. In particular, this also encompasses any type of spread risk exposure of instruments held in the banking book which are sensitive to changes in interest rates, and which are neither included in IRRBB nor in counterparty credit risk.

Specifically, for Aareal Bank this includes:

- risks resulting from fluctuations of spot foreign exchange (FX) rates (spot FX risk);
- risks resulting from fluctuations of forward foreign exchange rates (forward FX risk); and
- risks from the regulatory review of the trading book (Financial Risk in the Trading Book – FRTB).

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the CRR. Given that no such trades were concluded during the financial year under review, trading book risks played a negligible role in the overall risk scenario during the period.

Commodities are irrelevant for the Bank's business. Currency risks are controlled through derivatives.

Additional elements of market risk are:

- valuation risks due to changes in credit spreads (credit spread risk);
- specific price risks from the bond portfolio, wherein the bonds are mainly sovereign bonds (sovereign risk);
- risks from adjustments to the credit valuation of OTC – derivatives (CVA risk).

To differentiate spread risks (credit spread risk and sovereign risk) in terms of their credit risk exposure, reported market risk is adjusted accordingly.

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and exposure to other market risks on a daily basis.

The VaR concept has been broadly accepted as the predominant method for measuring economic market risk. VaR quantifies risk as the maximum loss that will occur within a certain period of time, and given a defined probability.

A variance-covariance approach (delta-normal method) is used throughout the Group to determine the VaR indicator. Determined on a daily basis for the Group, the VaR figure takes into account the correlation between individual risk types. Statistical parameters used in the VaR model are calculated directly from a historical data pool maintained within the Bank, which covers at least 250 days[1]. The loss potential is determined applying a 99.9 % confidence interval.

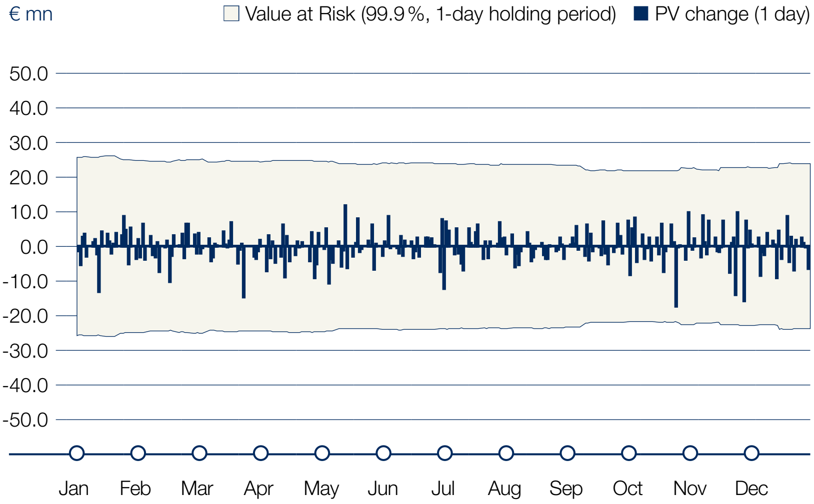
Backtesting

The quality of forecasts made using statistical models is checked through a monthly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast on the previous day (known as "clean backtesting"). In line with the selected confidence level of 99.9 %, only a small number of events are expected to break out of the VaR projection.

The backtesting exercise shown below comprises all risk positions subject to daily changes from the "Market risks" category.

No negative outliers were observed at Group level during the past 250 trading days, affirming the high forecasting quality of the VaR model we use.

Present values and 1-day VaR during the course of 2021



Operational risks

Definition

The Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. To the extent that they are caused by operational risks, model and reputational risks are also taken into consideration within this type of risk. ESG risk factors have also been taken into account within operational risk since 2021. Systemic risks (or their impact on operational risks) are not affected by this.

Risk measurement and monitoring

It is the objective of the policy pursued by Aareal Bank to achieve a risk-minimising or loss-limiting effect at an early stage by employing a pro-active approach.

The Bank currently uses the following risk control tools to manage operational risks:

- Self-assessments: analysis thereof can provide management with indicators of any potential risks within the organisational structure.
- Risk inventories that include a periodic systematic identification and compilation of all relevant risks.

[1] Historical data covering two years is used for the sub-risk type of credit spread risk.

- A loss database, in which relevant damages incurred are reported, and in which they can be monitored until they are officially closed.

Data are collected on a decentralised basis and all material operational risks of the Group compiled centrally.

The three tools described above are used to prepare the regular risk reporting to the Bank's senior management. The responsibility for implementing operative risk-reducing measures rests with those responsible for the Bank's risk management. The utilisation of freely available funds for operational risks – as part of the Bank's risk-bearing capacity – are determined using the regulatory standardised approach.

In addition to the reports prepared from the tools stated above, appropriate stress tests are conducted every quarter. These are hypothetical and historical scenarios as well as sensitivity analyses on the risk inventories. The results of the stress tests are reported regularly to the Management Board and serve as an indicator for potential developments within the operational risks that could jeopardise the continued existence of the Group.

Aareal Bank's legal department monitors any litigation the Bank is involved in (whether in court or out-of-court), and deals with any legal issues of fundamental importance. where necessary, using the support of external lawyers.

Legal also compiles all information concerning any legal disputes involving Aareal Bank Group, whether in or out of court. To this extent, the involvement of the legal department is based on corresponding Group-wide guidelines. The Bank's decentralised operating legal entities, as well as the legal departments of subsidiaries submit quarterly reports on legal risks identified to Aareal Bank's legal department; where particular risks have occurred, such reports are submitted on an event-driven basis. When required, Aareal Bank's legal department discusses and coordinates any concrete measures with the reporting unit.

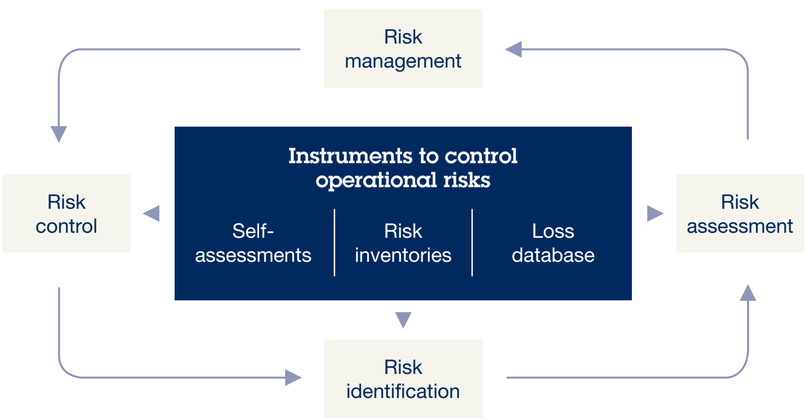
The legal department reports to the Management Board, (at least) on a quarterly basis, as well as on an event-driven basis. Moreover, information about legal risks is included in operational risk reporting.

Operational risk is quantified using the regulatory standardised approach. Supplementary operational risk management tools – in particular, the monitoring of indicators, analyses of loss events, scenario analyses and the self-assessment – do not indicate potential elevated risk either; nor were any material risk concentrations evident. Even though loss cases are recorded in the loss database on an ongoing basis, the aggregate impact of such losses during the year under review amounted to less than 20 % of the regulatory capital to be maintained for operational risks.

Further to these tools, the Bank reviews relevant individual scenarios, and implements any measures required, on the basis of external data. Taken together, these tools for managing operational risks result in an integrated control circuit which leads to risk identification, evaluation, and management – through to risk control.

Tools to control operational risk are supplemented by a system to manage and monitor outsourced activities and processes (outsourcing), whereby the

Management of operational risks



relevant organisational units regularly assess the performance of outsourcing providers, using defined criteria. The results of this process, and actions taken, are communicated to the Bank's senior management within the scope of operational risk reporting, thus allowing for risk-mitigating steps to be taken where needed.

Investment risks

Definition

Aareal Bank defines investment risk as the threat of unexpected losses incurred due to an impairment of the investment's carrying amount, or a default of loans extended to investees. The concept of investment risk also encompasses additional risks arising from contingencies vis-à-vis the relevant Group entities.

Risk measurement and monitoring

All relevant Group entities are subject to regular audits, including a review and assessment of their risk situation within the framework of risk measurement and monitoring. Due to the special character of some exposures (e.g. marketing risks), special methods and procedures are employed to deal with investment risk. The Bank uses an internal valuation method to quantify investment risk, and to include it in the calculations of the Bank's ability to carry and sustain risk, and for the purpose of limitation. The limit defined for investment risk was always complied with during the financial year under review.

The existing procedures used to measure and monitor risk exposure are supplemented by subjecting the equity portfolio to regular stress testing.

Strategy Development, as well as Finance & Controlling and Risk Controlling, are responsible for measuring and monitoring investment risk exposure.

Risk Controlling is responsible for submitting a quarterly equity investment risk report to the Bank's Management Board.

Property risks

Definition

We define property risk as the threat of unexpected losses arising from changes in the value of property held by the Bank, or by fully-consolidated subsidiaries.

Due to the special character of property risk (involving marketing risks, for example), special methods and procedures are employed to deal with investment risk. All relevant property holdings are subject to regular audits, including a review and assessment of their risk situation.

Risk measurement and monitoring

In order to measure and monitor risks, property yields are analysed for different regions, and over the time horizons available: on this basis, potential yield increases over a one-year horizon are determined applying a 99.9 % confidence interval. A property's risk contribution results from the difference between the current market value and the property value adjusted for the yield increase.

Business and strategic risks

Definition

Business and strategic risk is defined as the risk of unexpected losses, usually brought about by a decline in profits due to income falling short of expectations, whereby the shortfall cannot be compensated for by cost reductions. Strategic risk may emerge from changes in the competitive or regulatory environment, or due to unsuitable positioning in the macro-economic environment.

Risk measurement and monitoring

In this context, we distinguish between investment risk and allocation risk, whereby allocation risk is already covered by various planning scenarios, and is thus incorporated in aggregate risk cover.

Investment risk is measured across segments: it is quantified assuming that additional upfront investment is required to establish an investment opportunity which was previously unavailable. Such upfront investment is assumed to represent potential risk.

Liquidity risks

Definition

Liquidity risk in the narrower sense is defined as the risk that current or future payment obligations cannot be met in full or on time. Aareal Bank Group's liquidity risk management system is designed to ensure that the Bank has sufficient cash and cash equivalents to honour its payment obligations at any future point in time. The risk management processes have been designed to cover not only the liquidity risk in the narrower sense (insolvency risk), but also market liquidity risk and refinancing risk, including cost risk which is measured and limited accordingly as a component of the IRRBB. All elements have been integrated in an overarching ILAAP, which maps liquidity risks in both the normative and the economic perspective. Within the framework of Group planning, in addition to ICAAP risk parameters taken into account for capital planning purposes, ILAAP risk parameters for a three-year horizon are also considered.

Risk measurement and monitoring

Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including a daily liquidity report submitted to Treasury, and a contribution to the monthly risk report to the entire Management Board. The following tools are used for this purpose:

Cash flow forecast

We have developed a cash flow forecast, tracking cash flows from all balance sheet items and derivatives, on a daily basis, over a ten-year period. This liquidity risk information helps to assess the Bank's short-term liquidity position, broken down by currency or product. Strategic liquidity is taken into account using this ten-year cash flow profile. We use statistical modelling to incorporate the expected cash flow profile of products without a fixed contractual lifetime.

Liquidity run-off profile

The appropriateness of the Bank's liquidity from an economic perspective is assessed using a liquidity run-off profile (liquidity risk model): the aggregate of all conservatively expected cash inflows and outflows over a three-month period is compared to the liquidity stock. This liquidity stock comprises all assets that can be liquidated at very short notice. The difference of both figures (in absolute terms) indicates excess liquidity, once all claims assumed in the run-off profile have been fulfilled through the liquidity stock. There were no liquidity shortages throughout the period under review.

Stress testing

Moreover, we employ stress tests and scenario analyses to assess the impact of sudden stress events onto the Bank's liquidity situation. The various standardised scenarios used, which include at least one historic, one idiosyncratic and one combined scenario, are evaluated based on the liquidity run-off profile.

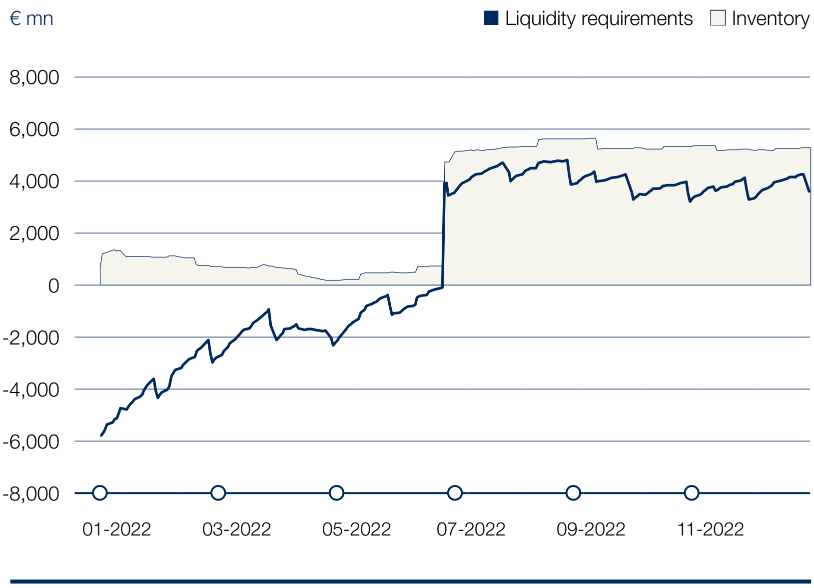
We generally consider the withdrawal of deposits from the housing industry as the most significant scenario. Even in this stress scenario, liquidity is sufficient to cover the expected liquidity needs under stress conditions.

Time to illiquidity

To safeguard adequate liquidity beyond the three-month horizon covered by the liquidity run-off profile, we use the concept of time to illiquidity as a parameter. For this purpose, a liquidity run-off profile was developed which compares liquidity requirements occurring with the liquidity stock, for a one-year period. Time to illiquidity ("TtI") denotes the remaining period (expressed in days) during which Aareal Bank Group can be regarded as sufficiently liquid, even under adverse conditions. In other words, liquidity requirements (including security add-on for adverse future events) do not exceed the liquidity stock.

The calculations are based on contractual cash flows and the short-term risk assessment methodology (liquidity run-off profile), as well as the portfolio development within the current plan scenario.

The following chart shows the projected development of the liquidity stock, together with aggregate liquidity requirements (incorporating planned portfolio developments, and including security add-ons for adverse future events) until the end of 2022. The chart demonstrates that the liquidity stock will always exceed liquidity requirements, even under adverse conditions. The increase in the liquidity stock from June 2022 onwards reflects the maturity of Targeted Longer-term Refinancing Operations (TLTROs), together with related collateral.



Further details are provided in the comments on the Bank's liquidity in the section on the "Financial position".

Funding profile

Diversifying the Bank's refinancing profile by type of investor, and by product, represents a further key aspect of our approach to liquidity risk management. Core sources of funding such as customer deposits and funds invested by institutional clients – alongside covered and uncovered bond issues – constitute the foundation of our liability profile. In this context, we refer to the comments regarding the breakdown of funding between money markets and capital markets, as set out in the description of financial position.

Concentration limits

Besides the pure measurement of risk indicators, we also monitor concentrations of liquid assets and of funding sources, determining the percentage share of the ten largest counterparties and/or positions, relative to the total portfolio.

A limit is set for each indicator in order to restrict the dependency upon individual positions or counterparties.

LCR forecast

We have developed the LCR forecast as a measurement tool designed to ensure that we maintain compliance with the regulatory Liquidity Coverage Ratio. A preview of the Liquidity Coverage Ratio is calculated over a horizon of up to three years, determining the ratio of highly liquid assets to cumulative net cash outflows for various end-of-month dates – thus identifying any potential liquidity shortfalls or reserves.

NSFR forecast

The NSFR forecast, which is a projection of the Net Stable Funding Ratio over a period of up to three years, represents another important component of our liquidity management. This measurement tool allows us to forecast the regulatory Net Stable Funding Ratio for future dates, thus identifying any potential liquidity shortfalls or reserves in terms of the NSFR at an early stage.

Long Term LAB

The long-term liquidity run-off profile (Long Term LAB) provides a forecast of the economic perspective and enables an outlook of the liquidity run-off profile (liquidity risk model) over a period of up to three years. This liquidity run-off profile compares the expected liquidity requirements and available liquidity for different scenarios at various points in time in the future; thus, any potential liquidity shortfalls or liquidity reserves arising in the future are identified with regard to the liquidity run-off profile.

Accounting-Related Internal Control and Risk Management System

Tasks of the accounting-related Internal Control System (ICS) and the Risk Management System (RMS)

The accounting-related Internal Control and Risk Management System includes principles, procedures and measures to ensure the effectiveness and the efficiency of internal and external accounting, in accordance with applicable legal provisions. The tasks of the accounting-related Internal Control System mainly include ensuring proper conduct of business activities, guaranteeing proper internal and external accounting, as well as ensuring compliance with relevant statutory and legal requirements applicable to the Company.

The objective of the accounting-related Risk Management System is to identify, assess and limit risks which may impede the compliance of the financial statements with applicable rules and regulations. As with any other Internal Control System, the accounting-related ICS and RMS may only provide reasonable – but not absolute – assurance with regard to achieving this objective, regardless of how much care is used to design and operate this system.

Organisation of the accounting-related ICS and RMS

The Internal Control System of Aareal Bank takes into account the principles established by the Minimum Requirements for Risk Management (MaRisk) related to the company-specific design of the ICS. The design of this Internal Control System comprises organisational and technical measures to control and monitor the Company's activities, covering all entities of Aareal Bank Group. The Management Board of Aareal Bank AG is responsible for designing, implementing, applying, further developing and reviewing an appropriate accounting-related Internal Control System. The Management Board makes decisions as regards the scope and the design of specific requirements; it has defined the responsibilities for the individual process steps in connection with accounting by means of organisational guidelines, and has delegated these responsibilities to individual organisational units.

Aareal Bank prepares its financial statements in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – "HGB") and its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as applicable in the European Union. The Finance & Controlling division controls accounting processes, to ensure conformity with legal requirements, as well as with any further internal and external provisions. The accounting-related requirements that have to be applied are documented in guidelines and IT requirements.

For the consolidated financial statements in accordance with IFRSs, the companies that form part of the Group create an IFRS package as at the respective reporting date. This includes financial statements prepared under IFRSs and in accordance with the IFRS Group Accounting Manual, as well as the Notes and consolidation information (intercompany balances). All packages are recorded by the Finance & Controlling division in a consolidation software and aggregated for the purpose of preparing the consolidated financial statements.

The Supervisory Board is responsible for monitoring the Management Board. Within the scope of financial reporting, it approves the single-entity financial statements of Aareal Bank AG as well as the consolidated financial statements and group management report. Measures taken by the Supervisory Board to ensure an efficient performance of its control functions include the establishment of an Audit Committee, which is primarily responsible for financial reporting issues and monitors the effectiveness of Aareal Bank's Internal Control System. It analyses and assesses the presented financial statements and internal risk reports as well as the annual report submitted by Internal Audit. In addition, the Audit Committee is responsible for determining the focal points of the audit, as well as for evaluating the auditors' findings. The Audit

Committee includes an expert in the fields of accounting or auditing, pursuant to section 100 (5) of the German Public Limited Companies Act (Aktiengesetz – "AktG").

Internal Audit also assumes a monitoring function not related to the process. It reports directly to the Management Board, and provides auditing and consulting services which are designed to optimise Aareal Bank's business processes with regard to accuracy, safety and efficiency. The Internal Audit division supports the Management Board by evaluating the effectiveness and appropriateness of the process-dependent Internal Control System and of the Risk Management System in general. Any detected weaknesses regarding the identification, evaluation and reduction of risks are reported and addressed within the context of specific action plans.

Internal Audit also performs Group audit functions for Aareal Bank's subsidiaries, within the context of the Group's risk management. The review of the risk management's effectiveness and appropriateness covers the risk management and risk control systems, reporting, information systems, and the accounting process. To perform its tasks, Internal Audit has full and unrestricted information rights with respect to activities, processes and IT systems of Aareal Bank AG and its subsidiaries. Internal Audit is informed on a regular basis about material changes related to the Internal Control and Risk Management System.

The review of process-integrated controls conducted by Internal Audit is based on a set of internal regulations, procedural instructions and guidelines of Aareal Bank Group. The audit activities of Internal Audit comprise all of the Group's operational and business processes, and are carried out using a risk-based approach.

Components of the accounting-related ICS and RMS

Within Aareal Bank, various measures related to the Bank's organisational structures and procedures help to fulfil the monitoring duties within the framework of its Internal Control System.

A prerequisite for the monitoring system to work efficiently is a Written Set of Procedural Rules governing the distribution of tasks between the individual divisions and the scope of the respective activities. The organisational structure of the Finance & Controlling division is set out in the Bank's organisational guidelines. Aareal Bank's accounting system is structured observing the principle of separation of functions, which makes for a split between operative and administrative roles, and is designed to ensure a sufficient level of control.

Various guidelines exist for activities and processes. These guidelines are set out in the Written Set of Procedural Rules of Aareal Bank and available for inspection to all employees. There are requirements as regards data entry and control – as well as data storage – which have to be observed in general by all of the Bank's posting units. If necessary, results are reconciled across divisions or companies. Uniform accounting methods and measurement techniques are guaranteed through guidelines applicable throughout the Group. The requirements of these Group-wide guidelines substantiate legal provisions, and are adjusted on an ongoing basis to take current standards into account. The valuation techniques used, as well as the underlying parameters, are controlled regularly, and adjusted if necessary.

In addition, the Bank's Risk Manual summarises the material elements of Aareal Bank Group's Risk Management System. Specifically, the Manual describes the organisational workflows as well as methods and instruments used in the context of risk management. In this context, reference is made to our explanations in the Risk Report.

Clearly-defined rules as regards delegation of authorities facilitating the allocation of professional responsibilities also contribute to reliable financial reporting. Any decisions taken are always based on relevant authorities. Internal controls defined on the basis of risk considerations are embedded in the accounting process. Compliance with the principle of dual control in all material processes is one of the principles for ensuring accurate accounting. Where no integrated approval system/dual control feature has been implemented in the accounting IT systems for material transactions, this has been integrated and documented in the manual process workflows.

Adherence of accounting to generally accepted accounting principles is ensured by both preventive and detective controls, as well as through a review of processed data. The preparation of the consolidated financial statements is characterised by multiple analyses and plausibility checks. Besides the evaluation of individual accounting issues, these include comparisons of periods, and between plan and actual data. Control processes have been implemented for both manual and automated accounting transactions.

In order to increase the level of control quality, all relevant divisions are involved in the reconciliation process. An example of cross-divisional reconciliation is the process for the preparation of annual and interim reports. All divisions involved must ensure and (prior to preparation by the Management Board) confirm the quality of the sections of the reports they are responsible for. This represents an additional control level for the data to be disclosed.

In terms of organisational workflows, the accounting-related Internal Control and Risk Management System is based on a comprehensive standardisation of processes and software. Aareal Bank Group uses both standard and customised software. The consolidation software provides technical support to the reconciliation of Group-internal relationships, in a clearly-defined process. The data of the units included is reported using a uniform standardised chart of accounts. The Group's accounting-related IT systems were designed in such a way that both manual controls and automatic plausibility checks are performed for material technical and procedural system steps of the applications used. The controls in relation to processing within the IT systems are also integrated in the processes, as well as being independently performed. Process-integrated controls comprise, for example, the review of error and exception reports or the regular analysis of internal service quality. In contrast, Internal Audit conducts IT reviews independently from processes.

Data and IT systems must be protected from unauthorised access. A differentiated access authorisation concept is in place for the systems used for finance and accounting, preventing manipulation of data. Access authorisations are allocated to the responsible employees, reviewed regularly, and adjusted if necessary in accordance with internal criteria.

Aareal Bank reviews its accounting-related Internal Control and Risk Management System on an ongoing basis. Necessary adjustments are made with respect to the accounting process based on the Bank's reviews. Adjustments may have to be made, for example, in connection with changes in the Group structure, to the business model, or due to new legal requirements.

Aareal Bank has to comply with legal requirements. If these requirements change, for example in the form of new laws or changes in accounting standards, the processes or IT systems will be adjusted as required in separate projects across divisions – based on a clearly-defined allocation of functions, and the accounting-related Risk Management System will be adjusted to take the amended rules into account. Current developments of statutory and legal provisions applicable for Aareal Bank are constantly monitored and reported, not only by the responsible division, but also by a steering committee established by the Bank. This committee also initiates any required adjustments to be made to systems and processes, and reports the results to the Management Board.

Report on Expected Developments and Opportunities

Macro-economic environment

The economy, financial markets, and commercial property are all exposed to a number of risks, with some downside risks dissipating or diminishing in 2021, evident in the availability of Covid-19 vaccines, for instance, and the ongoing economic recovery in many economies. However, there are risks that could still have a negative impact, particularly the ongoing Covid-19 pandemic with its emerging or potential new viral mutations and associated economic restrictions. Doubts about the cohesion of the European project, increased government and private debt, geopolitical risks such as the conflict in Ukraine, persisting disruptions in the supply chain, continued high inflation as well as the consequences of the transition of the economy towards climate neutrality pose other significant risks.

An ongoing Covid-19 pandemic due to high rates of new infections and virus mutations or a sluggish vaccination progress could slow down or halt the recovery of individual regions. Extension or reintroduction of infection control measures could have adverse consequences on demand and the services sector in particular. Countries with major deficits as regards vaccination progress are likely to face the biggest social and economic challenges in view of potential new waves of infection.

The political shift away from European cohesion poses a significant threat not only to the EU, but also to Europe, in the long term. This refers to governments in Central and Eastern Europe with nationalist attitudes. The Covid-19 pandemic has also elevated the risk of a rise in populism in several countries. The reform backlog and structural economic problems in some euro zone countries present further uncertainties, risk and stress factors. While the EU's recovery package specifically seeks to support these countries, there is still the risk that the measures in place will not be used efficiently or will not be enough to fully address structural problems at play and the negative impact of the Covid-19 pandemic.

Rising national debt as a result of the massive fiscal support provided, but also as a consequence of the previous year's economic slump, is a global problem. While central banks continue to provide favourable refinancing conditions, risk premiums for highly indebted sovereigns could rise as bond-buying programmes come to an end. Non-financial corporate debt has expanded in many advanced economies, mainly due to an increase in bond issuance.

However, the risk of disruption to free trade remains, despite some easing and the recent lack of further tightening. In addition, further geopolitical risks such as cyberattacks, terrorism and political or military conflicts are likely to have a significant impact on markets and their participants. Sanctions related to the conflict in Ukraine could mean that our remaining (collateralised) exposure to Russia of around € 200 million, which is being further reduced, may not be serviced due to political interventions (transfer risk).

The global value creation and supply chains currently face considerably more severe effects than would be expected in a recovery cycle based on historical experience. If the existing supply bottlenecks remained or even deteriorated, this would represent a significant risk factor, eventually decelerating growth of the economy as a whole, but in particular growth of production output in the manufacturing sector.

The strong global demand for goods and services as pent-up savings are being used for consumption, high capital expenditure and the pick-up in energy prices have already significantly accelerated the rise in price levels and, in some economies, lifted them to the highest rate in several decades. If this demand encounters bottlenecks on the supply side due to capacity constraints and disruptions in the supply chains also in the future, prices of some goods and services may rise further, contributing to rising inflation and possibly to persistently higher inflation expectations. A sustained high inflation rate might lead to tighter monetary policy in the medium term.

The efforts of many countries and companies to limit global warming requires a radical transformation of the entire economy. The macro-economic impact of this transformation process is uncertain, and the actual effects depend on a number of factors. Similarly, this change entails costs that will likely be borne by companies and end-consumers alike. Decarbonisation of the economy, for instance, not only involves energy supply, but also requires significant changes in industry, transport, construction and agriculture.

Relating to macro-economic development, these factors are also significant for the financial and capital markets, and could trigger further disruption on these markets if they were to materialise to a considerable extent.

Economy

After the global upswing in 2021, with sometimes very high growth rates, economic recovery is expected to continue in 2022, albeit at a slower pace. Despite the fact that some risk factors represent an immediate threat and new virus mutations may emerge, the situation for public health is expected to normalise over the year and many supply chain problems should disappear. Contact-intensive industries in particular should continue to benefit from the recovery, and the shift in consumption from manufacturing to services should also continue. All in all, this potential for catch-up and strong private consumption support the assumption that the global economy will resume strong real growth in 2022, which will be defined by significant shifts in key macro-economic trends. Structural budget deficits in industrialised countries will narrow next year as support measures continue to come to an end, making fiscal policy more restrictive. However, private consumption of excess savings may soften the impact of tighter fiscal policy. Depending on the willingness of private households to spend, the main growth impulse should thus be returned from fiscal policy to the private sector.

Real gross domestic product in the euro zone is expected to increase significantly again in 2022. In this context, private consumption is likely to be the most important growth driver with a considerable share of the savings accumulated by households expected to be spent. With growth in world trade having reached its temporary peak in 2021, a slowdown in goods exports is expected. Supported by the EU investment package, rising investment spending should stimulate growth. Since each member state has chosen its own focus for investment and is affected to varying degrees by the consequences of the Covid-19 pandemic, the subsequent recovery of the EU member states will vary from country to country.

For the UK as well, a strong economic recovery is expected for 2022. This is due to rising business investment, the conversion of part of household savings into consumption, and pent-up demand that still exists in the wake of the sharp economic downturn in 2020. In addition, a strong increase in exports is expected, in contrast to the euro zone. While the recovery in 2021 still benefited from extraordinary fiscal policy measures, this stimulus will be gradually withdrawn in 2022, which will see the recovery enter a new phase.

We also expect the US economy to grow significantly in 2022. Extensive fiscal stimulus, employment recovering to pre-crisis levels and private consumption will be the main drivers of this growth. Exports are also expected to grow faster than imports in 2022 for the first time since 2013. Driven by private consumer spending and rising exports, we also expect Canada's real GDP to increase significantly in 2022.

Due to the downturn in the construction sector and the zero-Covid policy, which is burdening production and private consumption, we expect China's growth to be weaker in 2022 than in 2021. It also represents a return to China's transition economy with growth rates slowing relative to pre-pandemic levels. Based on private consumption and an increase in industrial production, Australia's economy is expected to grow significantly in 2022. However, declining investment is likely to result in a slightly lower growth rate than in 2021.

Financial and capital markets, monetary policy and inflation

The risks and uncertainties referred to above are also significant for the financial and capital markets and could once again cause considerable disruption. However, we remain confident that the funding markets will continue to offer favourable funding conditions.

Due to ongoing uncertainties and to ensure that the recovery is not interrupted, we expect monetary policy to remain expansive overall and continued low interest rates in 2022. However, given current labour market and inflation developments, the major central banks have started to tighten their monetary policies. This is a sign that the focus of monetary policy is now on price stability and no longer mainly on stimulating the economy.

Apart from discontinuing net asset purchases, the Fed announced in January 2022 that it expects to raise its key interest rate soon in 2022 against the backdrop of an inflation rate of well above 2 % and a strong labour market. Following an initial rate hike in December 2021, the Bank of England is also forecast to raise its bank rate again in 2022. In contrast, the ECB will probably stick to a more expansive monetary policy approach in 2022. Although it has announced that it will terminate net purchases under the PEPP in March 2022, the ECB is likely to buy a higher number of bonds under the APP at the same time. Since the ECB will, by its own admission, first terminate the net purchases of the programme before raising interest rates, it is not expected to raise interest rates in the euro zone in 2022. However, it is expected that deposit rates might be raised as early as 2022.

Several factors are likely to cause inflationary pressures in 2022 to fall below the high levels reached at the end of 2021, even if new highs can be expected in the meantime, depending on the region. Supply-side bottlenecks in the manufacturing sector should ease as supply chains are repaired. In addition, a progressive reduction in the consumption backlog, the expiry of base effects and an easing of energy price rises will probably contribute to a decline in price increases. Inflation rates, however, are likely to remain higher than before the onset of the coronavirus pandemic.

Regulatory environment

The Covid-19 pandemic also impacted the regulatory environment, at least temporarily. For example, as an immediate reaction to the outbreak of the pandemic, various regulatory initiatives were deferred and temporary relief resolved for financial institutions. Nonetheless, the trend towards a tighter regulatory framework is set to persist in the years ahead, too. For instance, the finalisation of the Basel III framework, adopted by the Basel Committee's Group of Governors and Heads of Supervision (GHOS), will bring about extensive changes to the approaches used for determining risk-weighted capital requirements ("Basel IV"). The EU Commission submitted a proposal on this in October 2021, which will now be finalised as part of the trilogue procedure. The proposed first-time application of the new regulation is 1 January 2025 and therefore two years later than planned by the BCBS.

The EU also adopted a package of measures to overhaul its anti-money laundering and countering of terrorist financing frameworks. Aside from a new EU regulation and a revision of the applicable EU directives, it stipulates the creation of a new anti-money laundering and terrorist financing authority from 1 January 2023 onwards, which is to be fully established by 2025.

In addition, over the next few years, the regulatory environment will be increasingly defined by growing requirements with regard to sustainable business and ESG (Environmental, Social, Governance) risk management. One of the main foundations here is the introduction and further expansion of the EU taxonomy for the classification of economic activities. Initial, minor disclosure requirements for ESG matters are applicable as of 31 December 2021 for the first time, with the scope increasing over time. The ECB will also carry out a climate stress test exercise for the first time in 2022.

ESG risk management will also play an increasingly important role in the context of risk management and the SREP. In addition, the supervisory authorities are also considering taking ESG factors into account when determining regulatory capital requirements.

In addition, several countries have already announced to (re-)introduce the countercyclical capital buffer previously suspended in almost all countries due to the Covid-19 pandemic. For example, the package of macroprudential measures as resolved by the German Federal Financial Supervisory Authority (BaFin) in January 2022 provides for a reinstatement of the countercyclical capital buffer for risk exposures located in Germany as well as the first-time introduction of a sector-specific systemic risk buffer for loans collateralised by residential properties in 2023. This will result in increasing capital buffer requirements for the Bank.

Sector-specific and business developments

Structured Property Financing segment

Commercial property is generally expected to benefit in 2022 from the assumed continued strong economic momentum and the increasing normalisation of business operations in most sectors of the economy. The Bank anticipates competition in the commercial property financing markets to remain intense, particularly in regions and for property types that were already in high demand in 2021. However, given the attractive yields and lower risks, property types that were hit harder by the pandemic are also expected to experience higher demand. Loan-to-value ratios for new business are likely to remain stable for the most part and only tend to increase slightly for commercial properties that are in particularly high demand. Intense competition is expected to put downward pressure on commercial property financing margins this year.

Uncertainty remains for commercial property in the wake of the Covid-19 pandemic, mainly due to the pandemic development and further economic recovery, which will vary depending on the region. This uncertainty relates in particular to possible new infection control measures, which are likely to have varying effects depending on the country and type of property, albeit not at the same level as in the past. A renewed tightening of contact bans, travel restrictions and business closures of a temporary nature could have a negative impact on cash flows in 2022, particularly for hotel and retail properties.

Moreover, other uncertainty factors and risks in the macro-economic environment are also relevant for commercial property markets. Various factors are expected to have an impact on how commercial property values develop in 2022. While very low interest rates in combination with positive rental developments support property prices, rising political uncertainty, economic downturns or investor reticence as a result of emerging risks can all have a negative impact on these prices. Rising interest rates also pose risks. For example, the increase in the cost of capital associated with rising interest rates can result in a lower valuation of commercial properties if the higher cost of capital is not offset by rent increases.

With regard to commercial property, we expect stable to rising market values in the current year, followed by rising interest rates as a result of tighter monetary policy, which is likely to preclude any further increase in market values. Considering the assumed economic recovery, most commercial properties should continue their positive development and return to their pre-crisis values in the years to come. This development will be influenced not only by the quality and location of the property, but also increasingly by compliance with sustainability criteria (ESG).

With a view to retail properties, we expect a slower recovery, as the structural change in shopping behaviour is having a dampening effect on the outlook of value-driving rental revenues, depending on location and segment. Also depending on location and segment, we see hotel properties recovering to more or less pre-crisis levels over the coming years, driven by increasing travel activity. We expect a similar development with student housing, where demand from international students should recover over the next few years as a result of the return to face-to-face teaching. As for office properties, we believe market values will rise over the next few years. However, value appreciation will be lower than in the pre-crisis period, as rental growth is expected to weaken. Logistics properties continue to be assessed positively, as we expect the trend of rising market values of these properties to prevail.

Overall, the forecast is subject to far greater uncertainty than usual on account of the Covid-19 pandemic, also against the background of the rapid spread of the highly contagious Omicron variant, and any potential new waves of infection and contact restrictions in 2022.

As a matter of principle, it is worth noting that estimation uncertainty – concerning the economy, markets and the impact on Aareal Bank – is currently still at a high level. Due to this higher estimation uncertainty, we have simulated two "bad case" scenarios in addition to our "swoosh" scenario. In the so-called "bad case 1" and "bad case 2" scenarios, loss allowance for the overall portfolio increases by approximately 15 basis points and 10 basis points, respectively, compared to our "swoosh" scenario in 2022. In line with current Group planning, these scenarios are based on the following macro-economic factors:

%	2021	2022	2023	2024
"Swoosh" scenario				
Gross domestic product (year-on-year change in %)				
Euro zone	5.1	3.9	2.7	1.5
US	5.6	4.0	2.5	1.9
UK	7.2	4.4	2.8	1.5
Unemployment (%)				
Euro zone	7.7	7.4	7.3	7.2
US	5.4	3.8	3.6	3.5
UK	5.7	4.4	4.1	3.8
Portfolio-weighted property price development (2021 basis = 100%)	100 %	102 %	102 %	101 %
"Bad case" scenario #1				
Gross domestic product (year-on-year change in %)				
Euro zone	5.1	1.4	3.4	2.0
US	5.6	1.3	3.4	2.1
UK	7.2	2.3	3.5	1.6
Unemployment (%)				
Euro zone	7.7	8.1	8.0	7.5
US	5.4	4.3	3.9	3.7
UK	5.7	4.9	4.6	4.1
Portfolio-weighted property price development (2021 basis = 100%)	100 %	92 %	93 %	96 %

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%	2021	2022	2023	2024
"Bad case" scenario #2				
Gross domestic product (year-on-year change in %)				
Euro zone	5.1	2.9	1.3	0.9
US	5.6	2.4	1.2	1.4
UK	7.2	3.6	1.2	0.4
Unemployment (%)				
Euro zone	7.7	7.5	7.6	7.5
US	5.4	4.1	4.0	3.9
UK	5.7	4.5	4.6	4.6
Portfolio-weighted property price development (2021 basis = 100%)	100 %	99 %	96 %	94 %

In the Structured Property Financing segment, we aim to originate new business of between € 7 billion and € 8 billion for the 2022 financial year, so that Aareal Bank Group's property financing portfolio will amount to approximately € 31 billion at the end of 2022, subject to exchange rate fluctuations. To manage our portfolio and risk exposure, we also use syndications.

The forecasts are based on the assumption that the macro-economic risks and uncertainty factors described above will not materialise to a significant extent, or only in a manageable manner: otherwise, they might influence business development, for example, in terms of new business.

Banking & Digital Solutions segment

The German housing and commercial property industries are expected to remain solid in 2022, in spite of the Covid-19 pandemic, and we expect rents to remain largely steady overall. Growth in the residential and logistics segments will remain particularly robust. Since the retail trade in everyday consumer goods is also largely stable, mixed-use properties represent opportunities for growth in the commercial property market.

Urbanisation is set to continue to rise over the coming years as well, with the ongoing trend towards smaller households due to demographic change, thus placing additional pressure on housing providers to modernise. Housing shortages continue to be a problem, as construction work is unable to keep pace with the influx of new residents. We expect cost pressure for the German housing industry to increase as a result of the climate targets, despite government support programmes.

Even though the Bank's market share in the institutional housing industry is already high based on the number of residential units, we see excellent opportunities for acquiring new clients and enhancing our existing client relationships in the course of the 2022 financial year. We plan to achieve this by continuing to invest in the expansion of the "Housing Industry Ecosystem", the cross-sector development of interface products, and the expansion into adjacent ecosystems, such as companies from the utilities and waste disposal industries. The focus here remains on, for example, the functional expansion of the Aareal Portal corporate client platform as regards the digitalisation of client communication and account processing.

In our view, the range of services that connect alternative online payment solutions to existing systems, thus helping to overcome process breaks (even across industry sectors), are particularly interesting. The Aareal Exchange & Payment Platform, which integrates alternative payment methods with existing accounting systems, has been available since 2020 with an interface to viacash and was expanded in May 2021 to include additional payment methods such as PayPal and credit cards. We also see potential in technical solutions for automating billing processes as part of electromobility in the network of charging stations. The corresponding Aareal Connected Payments product was launched successfully on the market in 2020. Further growth is anticipated from the integrated rental security product Aareal Aval and from Aareal Meter, a solution that uses mobile meter reading and subsequent data capture without disrupting traffic to provide a digital solution to a labour-intensive analogue process gap.

Against this background, we are aiming for renewed net commission income growth in our core activities and expect the average deposit volume from the housing industry to remain around € 12 billion. The persistently low interest rate environment, which is relevant for the results from our deposit-taking business, will continue to burden segment results. However, the importance of this business goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. This is because the deposits from the housing industry represent a strategically important, stable and alternative source of funding for Aareal Bank.

Aareon segment

Aareon will accelerate its growth strategy in the 2022 financial year, to become a "Rule of 40" entity in the medium term, by 2025. This indicator is calculated on the basis of revenue growth and EBITDA margin (earnings before interest, taxes, depreciation and amortisation). The sum of the two should add up to 40 % in order to achieve a balance between growth and profitability. In this context, the Aareon Flight Plan will be implemented further. This plan includes investments in existing and new products, as well as measures from the Value Creation Programme. Inorganic growth will also be achieved through mergers & acquisitions. Measures from the Value Creation Programme include the expansion of sales activities, such as the marketing of process-oriented product packages – which combine an ERP product with various digital solutions – that started in 2021, the accelerated transformation of the in-house operating model to a software as a service (SaaS) operating model, and the switch to a subscription-based rental model.

Aareon's consolidated sales revenues for the 2022 financial year are expected to increase significantly to between € 305 million and € 325 million (2021: € 269 million). While this should be realised through the expansion of the operating business, the acquisitions made during the year in 2021 will also contribute to this increase. Revenue growth from ERP products is expected to be in the low double-digit percentage range. Plans to continue to expand the SaaS business, coupled with the rental model as a payment option, will lead to markedly lower licence revenues. However, recurring revenues will contribute significantly over the short to medium term. Adjusted EBITDA[1] is expected to be significantly higher than the previous year between € 73 million to € 78 million (2021: € 67 million) and will include adjustments of between € 13 million and € 15 million (2021: € 24 million).

Demand for the new Wodis Yuneo product generation in the DACH region is expected to increase further. The ERP system Wodis Yuneo, launched in September 2020, will be a revenue driver in 2022 both as a subscription model and as software as a service. Aareon expects revenues from SAP® solutions and Blue Eagle to be in line with the previous year. Revenue from the RELion ERP solution, which is focused on the commercial property industry, is expected to be markedly higher than in 2021, mainly due to a resurgence in consulting services. The business volume generated from Aareon Cloud Services and BauSecura insurance management will be in line with the previous year's level. The ERP system immotion®, which was added to the product portfolio through the acquisition of the GAP Group, will contribute to the strong development of ERP sales revenues in 2022. Aareon's market share of SaaS in the Netherlands will increase significantly, driven by the acquisition

[1] "Earnings before interest, taxes, depreciation and amortisation" before new products, Value Creation Programme (VCP), ventures, M&A activities and non-recurring effects

of BriqVest B.V. (Twinq) in May 2021, which opens up a new market segment. Revenue is expected to increase strongly in France. A major client project is due to be implemented in the 2022 financial year. In the UK market, the QL ERP software distributed by Aareon UK is expected to be available in a SaaS-capable version from 2022 onwards, strongly boosting recurring revenues. The UK market segment of small and medium-sized clients is expected to continue its high rate of client acquisition. We also forecast an increase in recurring revenues for the Nordic countries. The software solution offered here will henceforth be promoted as standard software, which is why consulting revenues will be on the previous year's level.

Digital solutions will make a decisive contribution towards realising the growth potential. Among the main drivers here are the digital solutions acquired through the takeovers in 2021 and the cross-selling of digital solutions to our existing clients. Since 2021, some of the digital solutions have been sold in various process-oriented product packages together with an ERP product. SaaS revenues are expected to increase particularly for WRM (Workforce Relationship Management) and CRM (Customer Relationship Management) products due to additional products being rolled out, including a new generation of the "Mobile" solution in the UK. Higher revenues with SRM (Supplier Relationship Management) products should be achieved thanks to greater volumes of tradesmen's orders that are settled via the Mareon service portal, as well as new business generated by Aareon's occupant change management solution. In 2022, Aareon anticipates very strong revenue growth from the BRM (Building Relationship Management) solution of CalCon Deutschland GmbH, which was acquired in 2020, when on-site consultancy services will resume without pandemic-related restrictions.

Aareon will continue in 2022 with its development drive in new products and services. The virtual assistant Neela is being developed further as planned and new functional features being added. The first pilot clients are in the introduction or test phase and will go live in 2022. This also applies to the Aareon Smart Platform and Smart Partner solutions, which will be offered in all countries in 2022. Further investments in new products are also planned for 2022. In addition, the capacities built up for M&A and post-merger integration will be used to further accelerate Aareon's inorganic growth in 2022, and to successfully integrate the acquisitions already made. For this purpose, Aareal Bank will provide its subsidiary with an additional € 100 million, bringing its credit line for acquisitions to a total of € 350 million for the planning period up to 2024.

Business strategy

Aareal Bank Group's strategy focuses on sustainable business success. Environmental, social and governance aspects are therefore key elements of its business strategy. These aspects will be complemented with ESG targets in 2022. The medium-term strategic development is being pursued under the guiding principle of "Aareal Next Level". The general strategic orientation will continue – with large-volume, international commercial property financing on the one hand, and consulting services and digital solutions for the institutional housing sector in Europe and related industries on the other. Based on the "Aareal Next Level" strategy, individual business activities will be developed in a targeted manner, in order to sharpen their own independent profiles, accelerate the Group's growth overall and create value for the shareholders and other stakeholders. Specifically, the Bank wants to increasingly exploit opportunities for profitable growth, in order to further accelerate the pace of growth in all three segments – also leveraging its solid, crisis-tested capital position.

The Structured Property Financing segment continues to focus on the controlled, risk-conscious expansion of its portfolio volume within its target range, in accordance with ESG requirements and taking advantage of its flexible approach with regard to countries, property types and financing structures. We will continue to use syndications as one of the tools for active portfolio management.

Within the Banking & Digital Solutions segment, Aareal Bank aims to expand its equity-light business in particular, and thus increase net commission income, mainly by expanding its product offering leveraging its USPs in payments and digital solutions, and through further strategic partnerships.

Aareon's position as a provider of ERP Software and digital solutions for the European property industry and its partners is set to be expanded further – with the clear objective of developing Aareon into a "Rule of 40" enterprise. Together with its partner Advent International, the Group wants to further boost the pace of Aareon's growth, through initiatives for organic growth within the framework of the Value Creation Programme. An institutionalised M&A pipeline and credit lines support inorganic growth.

Besides the growth initiatives for the three segments, Aareal Bank Group will use additional levers to sustainably raise profitability, including an optimisation of the funding mix and the capital structure. In addition, numerous measures are being implemented to enhance the efficiency of the organisational structure, processes and infrastructure.

Given the general market environment, regulatory dividend restrictions and the perspectives that the results of our strategic review process, including the Value Creation Programme for Aareon, have opened up, our shareholder group and its expectations have already changed, with further changes possibly arising in this respect. One indicator of this is the significant interest that financial investors have been showing for some time now in companies operating in the financial sector. Should new investors acquire substantial stakes in Aareal Bank, further strategic options could arise.

Group targets

Besides the strategic initiatives and measures within the framework of "Aareal Next Level", Aareal Bank Group's focus in the 2022 financial year will remain on coping with the impact of the Covid-19 pandemic in the best way possible – together with its clients. With a view to the "swoosh"-shaped economic development, Aareal Bank Group anticipates further marked recovery during the current year[1].

Based on this assumption and despite continued elevated loss allowance required due to the pandemic, Aareal Bank Group expects consolidated operating profit in a range between € 210 million and € 250 million for the 2022 financial year as a whole (2021: € 155 million), thus almost reaching levels achieved prior to the Covid-19 pandemic. On this basis, earnings per share (EpS) are expected to amount to between € 2.00 and € 2.50 (2021: € 0.89), while RoE after taxes should range between 4.5 % and 6 % (2021: 2.1 %).

Aareal Bank Group expects income to continue to rise significantly over the previous year. Net interest income is expected to rise further, to between € 600 million and € 630 million (2021: € 597 million), reflecting the higher (and further growing) loan portfolio and despite the partial cessation of TLTRO benefits. Net commission income should also rise significantly, thanks in particular to Aareon's growth, to between € 270 million and € 290 million (2021: € 245 million).

Loss allowance, which remains elevated (compared to normalised risk costs) due to Covid-19 effects, is expected to be in a range between € 100 million and € 140 million (2021: € 169 million). This also includes credit risk-induced valuation adjustments of defaulted property loans, which are reported in net gain or loss from financial instruments (fvpl).

Administrative expenses are expected to be above the previous year's level, in a range of between € 540 million and € 570 million (2021: € 528 million), due to strong growth at Aareon.

In the Structured Property Financing segment, we plan to achieve a portfolio size of around € 31 billion by the end of the year, market conditions per-

[1] For details, please refer to our explanations and the description of macro-economic influencing factors in the Report on Expected Developments and Opportunities of the Structured Property Financing segment.

mitting and subject to exchange rate fluctuations. Aareal Bank plans new business volume of € 7 billion to € 8 billion on this basis.

For the Banking & Digital Solutions segment, Aareal Bank assumes slight growth in net commission income for the core activities and expects an average deposit volume from the housing industry of around € 12 billion.

It is expected that Aareon will see a marked increase in sales revenue in the region of € 305 million to € 325 million for the current year (2021: € 269 million). Adjusted EBITDA[1] is also likely to see a further increase to between € 73 million and € 78 million (2021: € 67 million).

Aareal Bank envisages achieving consolidated operating profit of around € 300 million and a cost/income ratio[2] below 40 % already in 2023, provided the pandemic has been fully overcome by then.

With regard to capitalisation, Aareal Bank expects a CET1 ratio (Basel IV (phase-in)) of more than 16 % by the end of the year, despite the planned portfolio growth and subject to further regulatory changes.

Takeover Disclosures in Accordance with Section 315a (1) of the German Commercial Code (HGB)

Composition of subscribed capital, and rights and obligations attached to shares

The composition of Aareal Bank AG's subscribed capital is shown in the Note "Equity" to the consolidated financial statements. Each share casts one vote at a General Meeting. There are no shares with special rights granting supervisory powers to any shareholder or shareholder group. The Company currently does not hold any treasury shares, which would not be entitled to vote.

Restrictions affecting voting rights or the transfer of shares

The transfer and exercise of voting rights is governed exclusively by legal restrictions. Voting rights are not limited to a certain number of shares, or of votes. All shareholders who have registered to attend a General Meeting in good time, and who have provided the Company with evidence of their shareholding and their right to vote, are entitled to attend the General Meeting, and to exercise their voting rights from all shares held and so registered. The exercise of voting rights from the shares concerned is precluded by law in the cases where section 136 of the German Public Limited Companies Act (Aktiengesetz – "AktG") applies. Where the Company holds treasury shares, section 71b of the AktG prohibits the exercise of rights vested in such shares. We are not aware of any other restrictions affecting voting rights or the transfer of shares.

Shareholdings exceeding 10 % of voting rights

Details regarding any shareholdings exceeding 10 % of voting rights are provided in the Note "Disclosures pursuant to section 160 (1) no. 8 of the AktG".

Shares with special rights granting the holder supervisory powers

Aareal Bank AG's Memorandum and Articles of Association do not grant any shareholder the right to nominate members to the Supervisory Board, nor are there any other shares with special rights granting the holder supervisory powers.

[1] "Earnings before interest, taxes, depreciation and amortisation" before new products, Value Creation Programme (VCP), ventures, M&A activities and non-recurring effects

[2] Structured Property Financing segment; in line with common practice in the banking sector, bank levy and contributions to the deposit guarantee scheme are not included.

Type of control of voting rights regarding shares held by employees with their rights of control not being directly exercised

There are no Aareal Bank AG shares held by employees where the rights of control cannot be directly exercised.

Statutory provisions, and provisions in the Memorandum and Articles of Association regarding the appointment and removal of members of the Management Board, and regarding amendments to the Memorandum and Articles of Association

The appointment and removal of members of the Management Board of Aareal Bank AG is carried out in accordance with sections 84 and 85 of the AktG and Article 7 of the Memorandum and Articles of Association, according to which the Management Board must have a minimum of two members. The Supervisory Board shall appoint the members of the Management Board and determine their number. The Supervisory Board may appoint deputy members, and may appoint one member of the Management Board to be the Chairman of the Management Board. The members of the Management Board are appointed for a maximum term of five years. This term of office may be renewed or extended for a maximum of five years in each case.

Pursuant to section 179 of the AktG, the Memorandum and Articles of Association may be amended by way of resolution passed by the General Meeting. Resolutions of the General Meeting regarding amendments to the Memorandum and Articles of Association are passed by a simple majority of the votes cast, or – to the extent permitted by law – by the majority of the issued share capital present at the Meeting. In accordance with section 181 (3) of the AktG, such amendments become effective upon their entry in the Commercial Register. In the event of a capital change, the Supervisory Board is authorised to modify the wording of the Articles of Association in line with the amount of the capital change (Article 5 (7) of the Memorandum and Articles of Association).

Authorisation of the Management Board to issue or repurchase shares

Authorised capital

The Annual General Meeting held on 31 May 2017 resolved to authorise the Management Board to increase, on one or more occasions, the Company's share capital, subject to the approval of the Supervisory Board, by up to a maximum total amount of € 89,785,830 by issuance of new shares for contribution in cash or in kind; the Management Board is also authorised, within defined limits, to disapply pre-emptive rights, given the fulfilment of certain conditions. This authorisation will expire on 30 May 2022. When exercising this authorisation, the Management Board will restrict the exclusion of shareholders' pre-emptive rights to a total of 20 % of the Company's share capital – including treasury shares and any shares issued during the term of this authorisation, under the authorisation under agenda item no. 6 of the Annual General Meeting held on 21 May 2014. The authorised capital has not been utilised to date.

Conditional capital

Based on a resolution passed by the General Meeting on 22 May 2019, the Management Board was authorised to issue, on one or more occasions until 21 May 2024, profit-participation certificates with a limited or unlimited term for contribution in cash or in kind of up to € 900,000,000. The profit-participation certificates must be constructed in such a way that the funds paid for them after issuance can be recognised as banking regulatory capital pursuant to the legal regulations applicable as at the time of issuance. Profit-participation certificates and other hybrid promissory note loans to be issued according to this authorisation shall be connected with conversion rights for the holder, entitling or compelling, in accordance with their respective conditions, the holder to purchase Company shares. Conversion rights or obligations may be attached exclusively to no-par value bearer shares and are limited to a maximum amount of € 71,828,664.00 of the Company's share capital. The sum of shares to be issued so as to service conversion or option rights or conversion obligations from profit-participation certificates or hybrid promissory note loans issued pursuant to this authorisation, including shares issued during validity of this authorisation as a result of another authorisation (especially from the Authorised Capital 2017), may not exceed an amount of € 71,828,664.00 (which equals approx. 40 % of the current share capital). Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in relation to the profit-participation rights in certain cases.

Accordingly, the Company's share capital is subject to a conditional capital increase not exceeding € 71,828,664.00 by issuance of up to 23,942,888 new no-par value bearer shares ("Conditional Capital 2019"). The purpose of the conditional capital increase is to grant shares to holders or creditors of convertible bonds issued in accordance with the aforementioned authorisation. The new no-par value bearer shares may only be issued at a conversion price in line with the resolution passed by the General Meeting on 22 May 2019. The conditional capital increase shall only be carried out insofar as conversion rights are exercised or as conversion obligations from such convertible bonds are fulfilled or as the Company makes use of alternative performance and insofar as no cash compensation is granted or treasury shares are used to service the rights. The new shares shall be entitled to a share in the profits from the beginning of the financial year in which they come into existence through the exercise of conversion rights or the fulfilment of conversion obligations The Management Board is authorised to determine the further details of the conditional capital increase. The Management Board is also authorised to determine the further contents of share rights and the terms governing the issuance of shares, subject to the approval of the Supervisory Board.

Authorisation to purchase treasury shares

The General Meeting authorised the Management Board by way of a resolution dated 27 May 2020, pursuant to section 71 (1) no. 7 of the AktG, to purchase and sell treasury shares for the purposes of securities trading, at a price not falling below or exceeding the average closing price of the Company's share in Xetra trading (or a comparable successor system) during the three trading days on the Frankfurt Stock Exchange prior to the relevant purchase or prior to assuming a purchase obligation by more than 10 %. This authorisation expires on 26 May 2025. The volume of shares acquired for this purpose must not exceed 5 % of the issued share capital of Aareal Bank AG at the end of any given day.

Furthermore, the Management Board was authorised by means of a resolution of the General Meeting held on 27 May 2020, pursuant to section 71 (1) no. 8 of the AktG, to purchase treasury shares in a volume of up to 10 % of the share capital for any permitted purposes. This authorisation expires on 26 May 2025. Such purchases may be effected via stock exchanges or public purchase offers made to all shareholders, taking into account the prices as specified in the respective Annual General Meeting's resolution, which are in turn based on the Company's stock exchange share price. This authorisation may be exercised – also by the direct or indirect subsidiaries of Aareal Bank AG – in full or in part, on one or more occasions.

The shares acquired in accordance with this or an earlier authorisation may also be sold, subject to Supervisory Board approval, outside the stock exchange and without an offer directed at all shareholders, subject to the exclusion of shareholders' pre-emptive rights, if the shares sold do not exceed 10 % of the share capital and the issue price is not significantly below the prevailing stock exchange price or in the event of a sale against contributions in kind, or when the shares sold are used to service rights from convertible bonds or bonds with warrants. This also applies to shares issued by subsidiaries. The treasury shares may also be given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The shares can also be withdrawn, without such a withdrawal or its implementation requiring a further resolution by the General Meeting.

The Management Board was also authorised to effect the acquisition of treasury shares by using put or call options. However, any and all share purchases involving the use of derivatives shall be limited to a maximum threshold value of 5 % of the Company's share capital. In addition, any acquisition of shares shall count towards the 10 % threshold for the authorisation to acquire treasury shares. Where treasury shares are acquired using equity derivatives, the shareholders' right to enter into any option transactions with the Company is excluded in analogous application of section 186 (3) sentence 4 of the AktG.

Material agreements which are subject to change of control clauses triggered in the event of a takeover offer

There are no material agreements which are subject to change of control clauses triggered in the event of a takeover offer. Any public offers to acquire the Company's shares are governed exclusively by the law (including the provisions of the German Securities Acquisition and Takeover Act), and the Memorandum and Articles of Association.

Compensation agreements entered into with members of the Management Board or employees in the event of a takeover offer

For details regarding compensation agreements entered into with members of the Management Board or employees in the event of a takeover bid, please refer to the Remuneration Report.

Separate Combined Non-Financial Report

The Separate Combined Non-Financial Report pursuant to sections 289b (3) and 315b (3) of the HGB has been published on the Company's website, on www.aareal-bank.com/en/responsibility/reporting-on-our-progress/.

Corporate Governance Statement

Since Aareal Bank AG is the only listed Group entity, and also the Group's parent undertaking, only one Corporate Governance Statement will be issued.

The full Corporate Governance Statement pursuant to sections 289f and 315d of the HGB is publicly available on the Company's website (www.aareal-bank.com/en/about-us/corporate-governance/), and in the "Transparency" section of the Group Annual Report. It contains a reference to the Remuneration Report, which is also published on the website.

Aareal Bank is a public limited company incorporated under German law, with its registered office in Wiesbaden, Germany. It is the parent company of an international property finance and services group. Exchange-listed Aareal Bank AG prepares its financial statements in accordance with IFRSs.

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Income Statement

€ mn	Note	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Interest income from financial instruments (ac and fvoci)		769	720
Interest income from financial instruments (fvpl)		20	34
Market-driven modification gains		1	0
Interest expenses for financial instruments (ac and fvoci)		64	75
Interest expenses for financial instruments (fvpl)		126	166
Market-driven modification losses		3	1
Net interest income	31	**597**	**512**
Loss allowance excluding credit-driven net modification gain or loss		131	343
Credit-driven net modification gain or loss		2	1
Loss allowance	32	**133**	**344**
Commission income		297	283
Commission expenses		52	49
Net commission income	33	**245**	**234**
Net gain or loss on the derecognition of financial assets (ac)		20	19
Net gain or loss on the derecognition of financial liabilities (ac)		3	7
Net gain or loss on the derecognition of financial assets (fvoci)		0	2
Net derecognition gain or loss	34	**23**	**28**
Net gain or loss from financial instruments (fvpl)	35	-30	-32
Net gain or loss from hedge accounting	36	-5	6
Net gain or loss from investments accounted for using the equity method	37	-2	1
Administrative expenses	38	528	469
Net other operating income/expenses	39	-12	-11
Operating profit		**155**	**-75**
Income taxes	40	87	-6
Consolidated net income		**68**	**-69**
Consolidated net income attributable to non-controlling interests		1	5
Consolidated net income attributable to shareholders of Aareal Bank AG		67	-74
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG[1]		67	-74
of which: allocated to ordinary shareholders		53	-90
of which: allocated to AT1 investors		14	16
Earnings per ordinary share (€)	41	0.89	-1.50
Earnings per AT1 unit (€)	41	0.14	0.16

[1] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Consolidated net income	**68**	**-69**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	**34**	**-29**
Remeasurements of defined benefit plans	49	-43
Taxes on remeasurements of defined benefit plans	-15	14
Changes in the reserve from the measurement of equity instruments (fvoci)	**1**	**0**
Gains and losses from equity instruments (fvoci)	1	0
Reclassifications to retained earnings from equity instruments (fvoci)	–	–
Taxes on gains and losses from equity instruments (fvoci)	0	0
Items that are reclassified subsequently to profit or loss		
Changes in the reserve from the measurement of debt instruments (fvoci)	**4**	**5**
Gains and losses from debt instruments (fvoci)	6	9
Reclassifications to the income statement from debt instruments (fvoci)	0	-2
Taxes on gains and losses from debt instruments (fvoci)	-2	-2
Changes in the reserve from foreign currency basis spreads	**3**	**-11**
Gains and losses from foreign currency basis spreads	4	-16
Reclassifications to the income statement from foreign currency basis spreads	–	–
Taxes on gains and losses from foreign currency basis spreads	-1	5
Changes in currency translation reserves	**14**	**-13**
Gains and losses from translating foreign operations' financial statements	7	-5
Reclassifications to the income statement from translating foreign operations' financial statements	–	–
Taxes on gains and losses arising from translating foreign operations' financial statements	7	-8
Other comprehensive income	**56**	**-48**
Total comprehensive income	**124**	**-117**
Total comprehensive income attributable to non-controlling interests	3	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	121	-122

Statement of Financial Position

€ mn	Note	31 Dec 2021	31 Dec 2020
Assets			
Financial assets (ac)	42	**42,345**	**37,999**
Cash funds (ac)	10	6,942	4,744
Loan receivables (ac)	11	29,434	27,277
Money market and capital market receivables (ac)	12	5,884	5,884
Receivables from other transactions (ac)	14	85	94
Loss allowance (ac)	43	-492	-592
Financial assets (fvoci)	44	**3,753**	**3,672**
Money market and capital market receivables (fvoci)	12	3,749	3,667
Equity instruments (fvoci)	13	4	5
Financial assets (fvpl)	45	**1,734**	**3,167**
Loan receivables (fvpl)	11	598	856
Money market and capital market receivables (fvpl)	12	4	93
Positive market value of designated hedging derivatives (fvpl)	15	900	1,431
Positive market value of other derivatives (fvpl)	16	232	787
Investments accounted for using the equity method	17, 46	19	13
Intangible assets	18, 47	394	207
Property and equipment	19, 48	278	289
Income tax assets	20, 49	66	116
Deferred tax assets	21, 50	168	176
Other assets	22, 51	463	431
Total		**48,728**	**45,478**
Equity and liabilities			
Financial liabilities (ac)	52	**43,017**	**39,823**
Money market and capital market liabilities (ac)	23	30,597	28,206
Deposits from the housing industry (ac)	24	11,717	10,592
Liabilities from other transactions (ac)	25	94	86
Subordinated liabilities (ac)	26	609	939
Financial liabilities (fvpl)	53	**1,882**	**1,906**
Negative market value of designated hedging derivatives (fvpl)	15	971	1,298
Negative market value of other derivatives (fvpl)	16	911	608
Provisions	27, 54	558	583
Income tax liabilities	55	17	20
Deferred tax liabilities	21, 56	56	36
Other liabilities	28, 57	137	143
Equity	29, 58	**3,061**	**2,967**
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,937	1,902
AT1 bond		300	300
Other reserves		-143	-197
Non-controlling interests		66	61
Total		**48,728**	**45,478**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Reserve from the measurement of equity instruments (fvoci)	Other reserves: Reserve from the measurement of debt instruments (fvoci)	Other reserves: Reserve from changes in the value of foreign currency basis spreads	Other reserves: Currency translation reserve	Total	Non-controlling interests	Equity
Equity as at 1 January 2021	**180**	**721**	**1,902**	**300**	**-166**	**-4**	**12**	**-26**	**-13**	**2,906**	**61**	**2,967**
Total comprehensive income for the period	–	–	67	–	33	1	4	3	13	**121**	3	**124**
Consolidated net income	–	–	67	–	–	–	–	–	–	**67**	1	**68**
Other comprehensive income	–	–	–	–	33	1	4	3	13	**54**	2	**56**
Payments to non-controlling interests	–	–	–	–	–	–	–	–	–	**–**	-2	**-2**
Dividend	–	–	-24	–	–	–	–	–	–	**-24**	–	**-24**
AT1 coupon	–	–	-14	–	–	–	–	–	–	**-14**	–	**-14**
Changes in ownership interests in subsidiaries	–	–	7	–	–	–	–	–	–	**7**	3	**10**
Other changes	–	–	-1	–	–	–	–	–	–	**-1**	1	**0**
Equity as at 31 December 2021	**180**	**721**	**1,937**	**300**	**-133**	**-3**	**16**	**-23**	**0**	**2,995**	**66**	**3,061**

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Reserve from the measurement of equity instruments (fvoci)	Other reserves: Reserve from the measurement of debt instruments (fvoci)	Other reserves: Reserve from changes in the value of foreign currency basis spreads	Other reserves: Currency translation reserve	Total	Non-controlling interests	Equity
Equity as at 1 January 2020	**180**	**721**	**1,812**	**300**	**-141**	**-4**	**7**	**-15**	**-1**	**2,859**	**2**	**2,861**
Total comprehensive income for the period	–	–	-74	–	-29	0	5	-11	-13	**-122**	5	**-117**
Consolidated net income	–	–	-74	–	–	–	–	–	–	**-74**	5	**-69**
Other comprehensive income	–	–	–	–	-29	0	5	-11	-13	**-48**	0	**-48**
Payments to non-controlling interests	–	–	–	–	–	–	–	–	–	**–**	-2	**-2**
Dividend	–	–	–	–	–	–	–	–	–	**–**	–	**–**
AT1 coupon	–	–	-16	–	–	–	–	–	–	**-16**	–	**-16**
Changes in ownership interests in subsidiaries	–	–	180	–	4	–	–	–	1	**185**	56	**241**
Other changes	–	–	–	–	–	–	–	–	–	**–**	–	**–**
Equity as at 31 December 2020	**180**	**721**	**1,902**	**300**	**-166**	**-4**	**12**	**-26**	**-13**	**2,906**	**61**	**2,967**

Statement of Cash Flows

€ mn	Cash flow 1 Jan-31 Dec 2021	Cash flow 1 Jan-31 Dec 2020
Consolidated net income	**68**	**-69**
Additions to and reversals of loss allowances	135	348
Amortisation, depreciation, impairment and write-ups of non-current assets	48	45
Other non-cash changes	146	-117
Gains/losses on the disposal of non-current assets	-1	-8
Other adjustments	-441	-569
Adjusted consolidated net income	**-45**	**-370**
Changes in financial assets (ac) (excluding cash funds)	-2,793	-641
Changes in financial assets (fvoci)	-187	-151
Changes in financial assets (fvpl)	1,258	-104
Changes in other assets	8	-46
Changes in financial liabilities (ac) (excluding subordinated capital)	4,055	4,297
Changes in financial liabilities (fvpl)	-29	-435
Changes in provisions	-60	-70
Changes in other liabilities	-22	-4
Income taxes paid/income tax refunds	-93	16
Interest received	740	790
Interest paid	-206	-273
Cash flow from operating activities	**2,626**	**3,009**
Proceeds from the disposal of equity instruments and investments accounted for using the equity method	4	0
Payments for the acquisition of equity instruments and investments accounted for using the equity method	-10	-4
Proceeds from the disposal of property and equipment and intangible assets	5	40
Payments for the acquisition of property and equipment and intangible assets	-39	-41
Effect of changes in reporting entity structure	0	0
Cash flow from investing activities	**-40**	**-5**
Dividends paid and AT1 coupon payments	-38	-16
Changes in subordinated liabilities	-348	24
Changes due to other financing activities	-2	238
Cash flow from financing activities	**-388**	**246**
Cash and cash equivalents as at 1 January	**4,744**	**1,494**
Cash flow from operating activities	2,626	3,009
Cash flow from investing activities	-40	-5
Cash flow from financing activities	-388	246
Cash and cash equivalents as at 31 December	**6,942**	**4,744**

Notes
Basis of Accounting

Aareal Bank AG is a public limited company incorporated under German law, with its registered office in Paulinenstrasse 15, 65189 Wiesbaden, Germany. Aareal Bank AG is the parent company of an international property finance and services group, and registered under no. HRB 13184 in the Commercial Register at the Wiesbaden local court (Amtsgericht Wiesbaden, Germany).

As a listed public limited company, Aareal Bank AG has prepared its consolidated financial statements for the financial year ended on 31 December 2021 in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315e of the German Commercial Code (Handelsgesetzbuch – "HGB"). The reporting currency is the euro (€). In addition, the consolidated financial statements were prepared using the European Single Electronic Format pursuant to Commission Delegated Regulation (EU) No. 2019/815 as amended (i.e. in the XHTML format) and were complemented with tags based on Inline XBRL technology.

The Management Board approved the consolidated financial statements for publication on 1 March 2022; they will be published in the German Federal Gazette.

Accounting Policies

(1) Accounting standards

Recognition and measurement within Aareal Bank Group are based on accounting policies applied consistently throughout the Group. The consolidated financial statements are prepared on a going concern basis.

We apply accounting policies – and the presentation of financial statements – consistently, in order to ensure the comparability of financial statements over time.

Information is presented in accordance with the principle of materiality. Minor differences may occur regarding the figures stated, due to rounding.

The Bank observes the general prohibition of setting off assets against liabilities. To the extent that the criteria of IAS 12.74 are met, deferred tax assets and deferred tax liabilities are offset. If the requirements set out in IAS 32.42 are met, financial assets and liabilities are reported on a net basis.

Income and expenses are recognised on an accrual basis and recorded in the income statement in the period to which they relate.

Interest income and expenses are recognised using the effective interest method. In the case of impaired receivables, interest income and expenses are recognised only on the basis of the net carrying amount. Interest from derivatives designated for hedge accounting and economic hedging relationships is included in net interest income. Interest from derivative hedging instruments is shown under interest from financial instruments (ac and fvoci), while interest from economic hedging relationships is reported under interest from financial instruments (fvpl). We provide specific information on negative interest from financial assets or positive interest from financial liabilities in the Notes, under net interest income. These assets and liabilities are deposits as well as money market and securities repurchase transactions. The interest benefit from the ECB's Targeted Longer-Term Refinancing Operations (TLTRO) is recognised if there is reasonable certainty that it will be granted.

Dividend income is recognised when there is a corresponding legal title.

Commission income and expenses include revenue from the provision of goods or services in the ordinary course of business. This mainly refers to IT consulting projects, trainings, licence and maintenance agreements and hosting or outsourcing services.

The presentation of the financial position and the financial performance in the consolidated financial statements depends on the recognition and measurement methods underlying the preparation of the financial statements, as well as on estimates and assumptions made by the management in relation to uncertain future events. Any assessments required for recognition and measurement are prepared in line with the relevant accounting standards. Estimates and assumptions are based on historical experience and other factors, such as planning and current expectations and forecasts with respect to the occurrence of future events. The estimates and assessments themselves as well as the underlying assessment factors and estimation techniques are reviewed regularly and compared with actual outcome. In our view, the parameters used are relevant and reasonable.

The most significant estimation uncertainties and judgments of the management primarily refer to the calculation of provisions, allowances for credit losses and provisions in the lending business, the measurement of goodwill, property and tax assets and liabilities. We refer to the item-specific disclosures in this section for information related to the estimates and assumptions actually made within the context of recognition and measurement.

An asset is recognised in the statement of financial position when it is probable that an associated future economic benefit will flow to the Company and the asset can be measured reliably.

A liability is recognised if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when the settlement amount of the liability can be measured with sufficient reliability.

(2) Changes in accounting policies

The following financial reporting standards (IASs/IFRSs) were applied for the first time in the reporting period:

- **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 2)**
  The second phase of the standard amendments as a result of the effects of the IBOR reform refers to the period when the existing interest rate benchmarks are replaced. Apart from hedge accounting requirements, the amendments concern practical expedients regarding the recognition of modifications of financial instruments and other disclosure requirements.

  The effects of the IBOR reform are analysed and monitored, and any resulting new requirements are implemented, as part of a separate project. The transition of collateral agreements and of discounting OTC derivatives has been implemented gradually on a case-by-case basis in accordance with the bilateral agreements between the counterparties since the second half of 2020. Any existing hedging relationships did not have to be discontinued.

  The necessary adjustments for new business were made to account for the new benchmark interest rates; corresponding transactions were concluded. The adjustments referred to the currencies EUR (€STR), GBP (SONIA), USD (SOFR) and CHF (SARON).

  The existing transactions will be changed on a currency-by-currency basis. The transactions based on EONIA interest were changed to €STR terms and conditions. As a result of the discontinuation of the CHF and GBP LIBOR, respectively, as at 31 December 2021, the existing transactions were modified as at year-end, except for one syndicated financing and two defaulted loans. The syndicated financing was modified in January 2022. This was partly implemented using the practical relief applicable to the accounting treatment for modifications. The modification was made using prevailing market conditions; there were no material effects from transition. Such effects are neither expected from further transition.

  The new yield curves are taken into account as part of the risk management strategy and integrated into risk management so that transactions based on new reference interest rates can be appropriately assessed and managed. Apart from the major market price risks (interest rate and basis risks), additional risks such as process, legal and documentation risks are addressed and implemented within the context of the project. If the discontinuation of reference interest rates requires contracts to be modified, such modifications are discussed with the customers and contracts adjusted accordingly. Any newly concluded contracts already refer to the new reference interest rates to the extent possible. Any necessary adjustments to processes, the Written Set of Procedural Rules and documentation requirements are developed as part of the project and transferred to line activities.

- **IFRS 16 Covid-19-related rent concessions beyond 30 June 2021**
  The amendments grant lessees an exemption from the assessment as to whether rent concessions granted due to the Covid-19 pandemic (such as rent-free periods or temporary rent reductions) constitute a lease modification. If an entity elects to apply this exemption, rent concessions have to be accounted for as if they did not represent modifications of the lease agreement. The changes originally applied to rent concessions which lead to a reduction of the rental payments due on or before 30 June 2021. Application was prolonged in the current financial year until 30 June 2022. In the 2020 financial year, Aareal Bank Group decided to opt for an early application of these standards. There were no relevant rent concessions in the reporting period.

The new and revised financial reporting standards and interpretations did not have material consequences for the consolidated financial statements of Aareal Bank Group.

Until 31 December 2021, the following financial reporting standards (IASs/IFRSs) and interpretations (IFRICs), which are required to be applied in future financial years had been published by the International Accounting Standards Board (IASB) and endorsed by the EU Commission:

New International Financial Reporting Standards/Interpretations		Issued	Endorsed	Effective date
IFRS 17	Insurance Contracts	May 2017/June 2020	November 2021	Financial years beginning on or after 1 January 2023

International Financial Reporting Standards		Issued	Endorsed	Effective date
IFRS 3	Reference to the Conceptual Framework	May 2020	June 2021	Financial years beginning on or after 1 January 2022
IAS 37	Onerous Contracts – Costs of Fulfilling a contract	May 2020	June 2021	Financial years beginning on or after 1 January 2022
IAS 16	Property, Plant & Equipment: Proceeds before Intended Use	May 2020	June 2021	Financial years beginning on or after 1 January 2022
	Annual Improvements 2018-2020	May 2020	June 2021	Financial years beginning on or after 1 January 2022
IAS 1	Classifications of Liabilities as Current or Non-current	May 2020		Financial years beginning on or after 1 January 2023
IAS 1	Disclosure of Accounting Policies	February 2021		Financial years beginning on or after 1 January 2023
IAS 8	Definition of Accounting Estimates	February 2021		Financial years beginning on or after 1 January 2023
IAS 12	Deferred tax related to Assets and Liabilities arising from a Single Transaction	May 2021		Financial years beginning on or after 1 January 2023

- **IFRS 17 Insurance Contracts**
  The standard governs the accounting for insurance contracts. IFRS 17 replaces the previously applicable interim standard IFRS 4. The new standard applies to insurance contracts, reinsurance contracts as well as investment contracts with discretionary participation features. In accordance with IFRS 17, insurance contracts are generally measured using the general measurement model. Under this model, the fulfilment cash flows and the contractual service margin are determined upon initial recognition for a group of insurance contracts. Depending on what any changes in underlying parameters refer to, subsequent measurement affects either insurance revenue or insurance finance income or expenses, or the contractual service margin may have to be adjusted first, which will affect the income statement only in later periods.

- **IFRS 3 Reference to the Conceptual Framework**
  The amendments result in an update of IFRS 3 pursuant to which the standard now refers to the Conceptual Framework 2018 and no longer to the Conceptual Framework 1989. Moreover, two additions were made. In terms of the identification of liabilities that an acquirer has assumed in a business combination, the acquirer has to apply the provisions set out in IAS 37 or IFRIC 21 (instead of those included in the Conceptual Framework) for transactions and similar events that are within the scope of IAS 37 or IFRIC 21. Moreover, the explicit statement that contingent assets acquired in a business combination shall not be recognised was included.

- **IAS 37 Onerous Contracts – Costs of Fulfilling a Contract**
  The amendments determine that the "cost of fulfilling a contract" comprises the "costs that relate directly to a contract". Such costs may either be incremental costs of fulfilling that contract (for example, direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract).

- **IAS 16 Property, Plant & Equipment: Proceeds before Intended Use**
  As a result of the amendments, it is now prohibited to deduct income from the cost of an item of property, plant and equipment that results from selling any goods produced while such item of property, plant and equipment is being brought to the location and condition necessary for it to be capable of operating in the manner intended by the management. Instead, an entity recognises the proceeds from such disposals and the costs for the production of these goods under operating profit. As before, costs for test runs carried out to test whether the item of property, plant and equipment is working properly are an example for directly attributable costs.

- **Annual Improvements 2018 – 2020**
  Improvements to IFRS 1, IFRS 9, IFRS 16 and IAS 41

- **IAS 1 Classifications of Liabilities as Current or Non-current**
  The amendments to IAS 1 are meant to clarify the classification of liabilities as current or non-current. In future, only rights that exist as at the end of the reporting period shall be relevant for the classification of a liability. In addition, further guidance as to the interpretation of the criterion "right to defer settlement for at least twelve months" as well as explanations regarding settlement characteristics were included.

- **IAS 1 Disclosure of Accounting Policies**
  The amendments to IAS 1 are intended to support preparers in their decision which accounting policies are required to be disclosed in the financial statements. Entities are now required to disclose material accounting policy information rather than their significant accounting policies.

- **IAS 8 Definition of Accounting Estimates**
  The amendments to IAS 8 are intended to provide support to make a distinction between accounting policies and accounting estimates. In this context, the definition of a change in accounting estimates is replaced by a definition of accounting estimates. According to the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates when the accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. Changes in accounting estimates that result from new information or new developments do not represent a correction of an error.

- **IAS 12 Deferred tax related to Assets and Liabilities arising from a Single Transaction**
  The amendment to IAS 12 narrows the scope of the initial recognition exemption pursuant to which no deferred tax assets or liabilities are recognised upon initial recognition of an asset or a liability. If the transaction gives rise simultaneously to equal taxable and deductible temporary differences, such differences no longer fall under the scope of the exemption; accordingly, deferred tax assets and liabilities have to be recognised.

Aareal Bank Group did not opt for early application of these standards in 2021, which are required to be applied in future financial years.

Aareal Bank Group is currently reviewing the effects of the application of the new and amended financial reporting standards on the consolidated financial statements.

(3) Consolidation

Consolidation principles

The consolidated financial statements of Aareal Bank Group include all subsidiaries which are controlled directly or indirectly by Aareal Bank AG. Aareal Bank controls an investee when it has the power to direct the investee's relevant activities, has an exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of such returns. If control is exercised via voting rights, Aareal Bank assumes that a parent-subsidiary relationship exists if more than half of the voting rights are held directly or indirectly. In cases where voting rights are not conclusive in determining control relationships, other factors are used to assess whether Aareal Bank Group has the power over the company. For this purpose, an assessment is made of the following: purpose and design of an investee, what are the relevant activities of the company, what is the decision-making process in relation to these relevant activities and whether Aareal Bank, by virtue of its rights, currently has the ability to direct these relevant activities. In addition, we assess whether Aareal Bank Group exercises control as principal or as agent or whether a third party acts as agent for the Group. If the assessment shows that Aareal Bank has the sole power over an investee and additionally has the ability to use its power over the investee to affect the amount of the investor's returns, the investee is included in the consolidated financial statements.

Consolidation of a subsidiary begins from the date the Group obtains significant influence (full consolidation). Subsidiaries are deconsolidated when there is no longer the ability to exercise significant influence.

Any non-controlling interests resulting from full consolidation are shown in the statement of financial position, as a separate item of equity. This also applies to a partial disposal without the loss of control over the subsidiary (sale of a non-controlling interest).

Initial consolidation of an entity in the event of an acquisition is based on the purchase method, in accordance with IFRS 3, whereby remeasured amounts must be used when recognising assets and liabilities (including any hidden reserves and hidden encumbrances) of an entity to be consolidated. This may lead to the recognition of new assets and liabilities (including contingent liabilities) that were previously not reported in the statement of financial position of the company to be consolidated. Any excess of acquisition cost over the Group's interest in the fair value of net assets is recognised as (positive) goodwill. Any negative goodwill determined during this comparison is charged against income. Intra-group transactions, balances and results of transactions between Group entities are eliminated. Accounting policies applied by subsidiaries were amended for the purpose of preparing consolidated financial statements to the extent required to ensure consistent accounting throughout the Group.

Joint arrangements are defined as contractual arrangements where two or more parties carry out business activities that are subject to joint control. Joint control only exists when the decisions about the relevant activities require unanimous consent of the parties sharing control. In general, a distinction is made between joint operations and joint ventures. The parties to a joint operation that have joint control have the rights to the assets, and the obligations for the liabilities, relating to the arrangement. Assets and obligations, as well as revenue and expenses are carried on a pro-rata basis. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Interests in joint ventures are measured using the equity method.

Associates are companies in which the Group has an equity interest and may exercise significant influence, without having control. Significant influence is deemed to exist when an investor holds 20% – 50% of the voting rights of a company. Associates are also measured using the equity method.

In accordance with the equity method, the Group's share in the profit or loss of associates and joint ventures is recognised in the consolidated income statement from the date of acquisition and is included in the carrying amount of the equity investment, taking into account interim distributions. Further information on investments accounted for using the equity method is included in Note (46).

Associates and joint ventures are no longer accounted for using the equity method from the date when Aareal Bank loses significant influence over the company or when joint control ends.

As at the reporting date, Aareal Bank was not exposed to material limitations as regards the access to, or use of, assets of the Group and as regards the settlement of liabilities of the Group.

Reporting entity structure

As at 31 December 2021, the reporting entity structure comprised 85 companies (2020: 68), including Aareal Bank AG as well as 75 (2020: 59) subsidiaries, one joint arrangement (2020: one) as well as eight associates (2020: seven).

In the reporting period, several companies or groups were added to the reporting entity structure. Aareon acquired several companies which we will present in the following by region.

In the UK, Aareon AG had previously signed an agreement for the acquisition of 100% of the shares in Arthur Online Ltd. (Arthur), London, on 23 December 2020. The company was acquired with effect from 29 January 2021. Thus, Aareon completes its entry into a new market segment with small and medium-sized customers in the UK. With the total acquisition of the UK company Tactile Ltd., London, on 21 May 2021, Aareon has extended its product range in the UK to include software for property servicing and maintenance. On 2 July 2021, Aareon fully acquired RentPro Ltd. and Curo Software Ltd., two companies based in Warrenpoint, operating under the name Tilt Property Software (Tilt). The goodwill arising from the acquisitions made in the UK reflects the opportunities from the entry into the segment comprising small and medium-sized clients. Arthur's platform concept promises to generate high margins for Aareon and comprehensive services for the clients. The goodwill also comprises synergy effects due to cross-selling opportunities in relation to the digital solution Fixflo offered by Tactile Ltd. to clients of

Arthur Online Ltd. as well as opportunities to increase revenues significantly, in particular revenues with clients of Tilt that are migrated to the Arthur platform.

In the Netherlands, BriqVest B.V., Oosterhout, was fully acquired together with four additional subsidiaries (Twinq) on 7 May 2021. This transaction marks the market entry into the segment of residential property management. The goodwill represents the opportunities associated with the market entry into the segment of residential property management, a niche market previously not served by Aareon Nederland. The transaction has a high cross-selling potential from Aareon Smart World.

In the DACH region, the start-up wohnungshelden GmbH, Munich, was fully acquired on 10 August 2021. wohnungshelden's digital solution enables housing companies to digitalise their entire rental process. The solution complemented the existing product portfolio for the rental process with Aareon's Immoblue Pro solution. On 17 August 2021, Aareon acquired the remaining shares of office rental PropTech company OFI Group GmbH, Frankfurt am Main, thus having become the sole shareholder. Previously, Aareon had held almost 36 % of the shares in the online platform for digital office rental. On 29 October 2021, 100 % of the shares in GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH, Bremen, as well as one additional subsidiary (GAP-Group) were acquired. The company is a long-standing provider of a sophisticated ERP solution in the German market. This acquisition enables Aareon to generate significant synergies in the German ERP market. The goodwill resulting from the acquisitions in the DACH region represents opportunities from the increase in market shares, in particular from the acquisition of GAP Group. Synergies such as cross-selling of the digital solutions of Aareon Smart World may be realised as a result of the business combination. In addition, the acquisition of wohnungshelden enables us to expand our digital solutions portfolio in the rental process.

€ mn	Tactile	Twinq	GAP Group	Other
Consideration				
Cash	41	33	53	32
Addition from full consolidation of OFI Group GmbH	–	–	–	1
Equity interests of Aareon AG	–	–	–	2
Contingent consideration				
Recognised amount	–	–	–	4
Earnings estimate	–	–	–	0-8
Net assets acquired	**41**	**33**	**53**	**38**
Selected assets				
Goodwill	36	24	43	31
Software	2	6	5	5
Customer relationships	4	9	8	4
Trademark rights	0	0	0	1
Revenue and earnings				
Revenue since date of acquisition	4	2	1	3
Earnings since date of acquisition	1	1	1	-1
Revenue if acquired as at 1 January (estimate)	5	6	8	4
Earnings if acquired as at 1 January (estimate)	1	1	3	-1
Associated transaction costs	1	0	2	2

There are contingent purchase prices from the acquisition of Tilt which are contingent upon the migration of Tilt clients to Arthur Online, as well as from the acquisition of wohnungshelden which depend on the increase in recurring revenue.

Moreover, companies were established for a Management Equity Programme introduced by Aareon.

There were no other material changes to the reporting entity structure.

Note (90) "List of Shareholdings" includes an overview of the Group companies.

(4) Currency translation

Individual line items in the financial statements of each Group entity are measured on the basis of the currency of the primary economic environment the respective entity operates in ("functional currency").

The consolidated financial statements are prepared in euro, being both the functional and the reporting currency.

Monetary assets and liabilities denominated in a foreign currency, unsettled cash market/spot transactions and non-monetary items measured at fair value are all translated to the functional currency on the basis of the ECB reference rate prevailing on the balance sheet date. Non-monetary items measured at amortised cost are translated using historical rates.

Currency translation adjustments on monetary assets and liabilities must be recognised in income. Depending on the relevant measurement category, currency translation adjustments on non-monetary items are either recognised directly in equity (in the currency translation reserves), or recognised in the income statement (in net gain or loss from transactions measured at fair value).

Financial statements of consolidated subsidiaries, which are presented in a currency other than the euro, are translated at the ECB reference rate prevailing at the reporting date (statement of financial position) and at (monthly) average rates (income statement). Translation differences are recognised in equity, in the currency translation reserves.

(5) Revenue recognition

Aareal Bank Group recognises revenue in all segments. Revenue or other income is recognised when the performance obligation is satisfied or the goods or products and services have been delivered to the customer, i.e. the customer has obtained control.

Revenue recognition in the banking business mainly refers to the provision of loans, the administration of syndicated loans or the provision of payment systems for the property and energy industries. Aareal Bank Group recognises revenue in the same period in which the services are provided. When contracts comprise various performance obligations, each of the performance obligations are priced separately. Mostly, fixed fees are agreed. Commissions from the lending and other banking business mainly arise over a specified period of time. The customer obtains control over the service while Aareal Bank is providing it. The agreed transaction price is invoiced to the customer on a pro-rata basis as at the end of an agreed period (normally monthly or quarterly). The Bank recognises the invoiced amount as revenue when it is entitled to a consideration in an amount that directly corresponds to the value of the services already provided. Invoiced amounts are payable immediately in the agreed amounts. Since the service has already been provided at the time the invoice is issued, an unconditional right to consideration arises, and a receivable due from the customer is recorded.

In the Aareon segment, Aareal Bank Group generates revenue mainly from licence, maintenance, subscription, SaaS and consultancy contracts. The contracts may be offered individually, but also in combination. For example, a licence contract generally is complemented by a maintenance contract. These contracts are considered in combination from a commercial point of view. The transaction price is allocated to the performance obligation based on the price observable in the market.

Revenue from licence contracts mainly relates to the granting of rights to use software products that are operated by clients under an in-house model. In-house model means that clients use Aareon's software products on their own servers and are responsible for the software's operability. The solutions developed by Aareon are based on databases of third-party providers such as SAP®, Oracle® or Microsoft®. In most cases, Aareon acts for its own account in the distribution of such third-party licences and is subject to the implementation risk. The right of use is granted for an unlimited period in most of the cases. The software products are technical solutions that clients in the property industry use to organise their operational processes and, for example, to manage and control their housing portfolios. The performance obligation toward the client is the granting of the right to use the software products mentioned above. Revenue from licence contracts is deemed to be realised when there is an agreement signed by both parties without a right of rescission, the product has been delivered in its entirety (e.g. via licence keys), the licence fee is fixed, and payment is probable. Thus, the client obtains control over the right of use granted. The payment is made primarily after the licence agreement has been concluded or after successful implementation of the software with a credit term of up to 45 days.

Maintenance contracts are entered into when the client enters into a licence contract under the in-house model described above (i. e. the client operates the software on its own servers and is therefore also responsible for their operability). Aareon's services provided as part of maintenance work comprise the regular provision of updates as well as support services for ongoing operation of the software.

Since the financial year 2021, Aareon has also offered subscription contracts (rental software). In the DACH region, Aareon is committed to deliver material new functions to the client in very short intervals. On the other hand, the client is required to install these new functionalities and releases in a timely manner since Aareon provides its maintenance and support services only for these new functionalities and releases. In contrast to the licence contract, Aareon is also obliged to ensure the functionality of the rented software at all times. The client, in turn, is obliged to surrender the software after the termination of the rental contract without any damages.

In the case of SaaS (software-as-a-service) contracts, the software product is not operated in-house, i. e. not by the clients themselves. Instead, the client has access to Aareon's server which is used to provide the functionalities of the software. The performance obligation of Aareon comprises the provision of the access rights as well as, in line with the maintenance contract, the installation of regular updates and the provision of support services.

Revenue generated from maintenance and subscription contracts with the product Wodis Yuneo as well as SaaS services is recognised pro rata temporis over the contractual term of service provision. The contractual performance period starts with the go-live date. The clients pay their fees in advance on a monthly basis or for a specified period (not more than one year). The advance payments that refer to performance obligations that have not yet been satisfied are accrued as contract liabilities and released to revenue on a pro-rata basis as the services are provided in future. The client obtains the benefits from the service and uses the service at the same time as it is provided.

Consulting services include, among other things, requests for customisation of their products, training services how to use the software (modules) or implementation services for migration projects. Revenue is recognised once the service has been provided. This involves the generation or enhancement of assets for the customers over which they obtain control. Revenue recognition as well as the recognition of the contract asset are based on the progress towards complete satisfaction which is measured using an input method. The stage of completion is determined based on a comparison of contract costs incurred – mainly in connection with deployed workforce/external advisers – with the total contract costs expected for the project. Customers make advance payments for the services provided by Aareon. These are offset against the related contract assets, or reported as contract liabilities if the advance payment received exceeds the contract asset.

In many cases, Aareon's contracts consist of only one performance obligation so that an allocation of the transaction price is not necessary. When several contracts are combined or several performance obligations are contained in a contract, the amounts invoiced separately correspond to the relative stand-alone selling prices. In the limited cases where the invoiced amounts do not correspond to the relative stand-alone selling prices, allocation and break-down is made for accounting purposes based on the adjusted market assessment approach.

Operating expenses are recognised in profit or loss at the time the service is used or at the time the expense is incurred. Interest income and expenses are recognised on an accrual basis.

Apart from the country-specific ERP business in the property and energy industries, Aareon offers digital solutions – sometimes on a cross-country basis – in the CRM (Customer Relationship Management), WRM (Workforce Relationship Management), SRM (Supplier Relationship Management) and BRM (Building Relationship Management) segments. Moreover, Aareon offers additional products and services such as insurance management with BauSecura and Aareon Cloud Services (Hosting). The products have been distributed since the financial year 2021 also in form of bundles, i.e. one ERP product together with several digital solutions.

Standardised contracts are concluded within Aareal Bank Group for the vast majority of contracts with customers. This does not involve costs of obtaining a contract. In addition, there are no material amounts of variable consideration for the various services. The customers are not granted significant financing components.

(6) Leases

A lease is a contract or a part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In accordance with IFRS 16, a lessee has to recognise a liability for lease payments made as well as an asset for the right granted to use the underlying asset during the lease term. The practical relief provided for by the IFRS 16 as regards short-term lease agreements and low-value leased assets is made use of. The lease liabilities include the present value of the lease payments to be made over the lease term. Lease payments may comprise:

- fixed payments less any lease incentives receivable,
- variable lease payments that depend on an index or interest rate,
- amounts expected to be payable under residual value guarantees,
- the exercise price of a purchase option if the exercise of the option is reasonably certain, and
- payments of penalties for terminating the lease if terminating the lease is reasonably certain.

To determine the present value, the lease payments are discounted using the interest rate implicit in the lease. If such rate cannot be determined, discounting is based on Aareal Bank Group's incremental borrowing rate for the corresponding maturity band and the corresponding currency. The lease term is determined as the non-cancellable period of a lease, taking into account both extension options and termination options if it is reasonably certain that such options are exercised.

The right-of-use asset is measured upon initial measurement at cost which comprises the following amounts:

- the amount of the lease liability,
- any lease payments made to the lessor at or before the commencement date, less any lease incentives received,
- any initial direct costs, and
- asset retirement obligations.

These items are re-measured at amortised cost. The right-of-use assets are depreciated on a straight-line basis over the lease term.

Aareal Bank Group does not apply the IFRS 16 rules to leases where the Bank acts as the lessee involving intangible assets. If contracts include both lease components and non-lease components, the practical expedient as provided for by the standard not to separate these components is made use of.

Aareal Bank Group also acts as lessor, in which case a distinction has to be made between operating and finance leases. The basis for this classification is the extent to which the risks and rewards incidental to ownership of an underlying asset are attributable to either the lessor or the lessee. If a substantial portion of the risks and rewards remain with the lessor, the lease is classified as an operating lease. Where substantially all risks and rewards are transferred to the lessee, the lease is classified as a finance lease.

The major rental contracts of Aareal Bank Group as lessor are operating leases and mainly refer to let property. They are reported in the statement of financial position under other assets. Lease contracts are entered into individually and include various terms and conditions.

In the case of operating leases, the leased asset continues to be recognised as an asset at amortised cost. The lease payments received are reported in the income statement in net other operating income/expenses.

In the case of finance leases, Aareal Bank Group derecognises the carrying amount of the leased asset as at the commencement date and recognises a receivable at an amount equal to the net investment in the lease. Any gains or losses on disposal are recognised in the income statement.

For subsequent measurement, interest income from the lease receivable is recognised and the net investment in the lease is reduced by the lease payments received. Any impairments resulting from these lease receivables are included in the loss allowance in accordance with IFRS 9.

(7) Consolidated statement of cash flows

Aareal Bank Group's statement of cash flows records cash flows pertaining to the areas of operating activities, investing activities and financing activities for the period under review. The starting point of the consolidated statement of cash flows is the amount of cash and cash equivalents, consisting of cash on hand, balances with central banks as well as public-sector debt instruments and bills of exchange eligible for refinancing at central banks.

The definition of the term "operating activities" is consistent with the composition of the operating profit in the statement of comprehensive income. Cash flows from investing activities include proceeds from and payments for property and equipment, intangible assets, equity instruments and investments. Cash flows from financing activities include cash flows from transactions with providers of equity and subordinated capital.

(8) Determination of fair value

The determination of fair value is governed by IFRS 13 and applies to both financial instruments and non-financial assets or liabilities. In accordance with IFRS 13.9, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction under current market conditions at the measurement date. The determination of the fair value is based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Another factor to be taken into account is whether Aareal Bank can enter into a transaction for the relevant asset or liability at the price in that market at the measurement date. The principal market is the market with the greatest volume and the highest level of activity for the asset or liability to which Aareal Bank has access. The most advantageous market is the market that maximises the amount that would be received to sell the asset, or minimises the amount that would be paid to transfer the liability.

The measurement of financial instruments lies in the responsibility of the Risk Controlling division and is made as part of the risk management process. Any anomalies and changes as regards measurement are analysed and checked on a continuous basis. The measurement methodologies are validated on a regular basis by cross-divisional teams.

Fair value hierarchy

In accordance with IFRS 13.72 et seqq., the fair value determination is based on the fair value hierarchy pursuant to which the inputs used are classified into various hierarchy levels on the basis of their respective market proximity and objectivity. The fair value of assets and liabilities is allocated to Level 1 of the fair value hierarchy if it is determined on the basis of unadjusted qualifying prices in active markets for identical assets or liabilities. Fair values determined using inputs other than qualifying prices included within Level 1 that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of the fair value hierarchy. Fair values determined using valuation techniques where one or more material inputs are not based on observable market data are assigned to Level 3 of the fair value hierarchy. The estimation uncertainties as regards fair value measurement increase the higher the level is. The procedure is set out in a corresponding working instruction ("Fair Value Measurement in accordance with IFRS 13"). At year-end, 11 of the Bank's own issues (financial liabilities (ac)) were transferred from Level 2 to Level 1, based on evidence of prices being available for these liabilities in active markets. In addition, 21 financial assets (ac and fvoci) were transferred from Level 1 to Level 2 since no prices were available for these assets in active markets on the reporting date. The changes were largely due to an enhanced procedure for classification of active markets.

To determine the reclassification of a financial instrument, the level at the beginning of the reporting period is compared with the level at the end of the reporting period and any changes are disclosed.

Measurement methods

The property and public-sector loans included in loan receivables are measured using the discounted cash flow method for the purpose of the determination of fair value. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for risks specific to the counterparty as well as credit costs based on the assumption that a regular-way transaction existed when the transaction was entered into. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions. In the case of defaulted loans, future cash flows are reduced by the expected losses. Debt securities and promissory note loans for which no current market price is available in an active market are measured through an analysis of future payments using the fully-capitalised earnings value approach, where the inputs are based on observable market data to the extent possible. These approaches include the discounted cash flow (DCF) method which is used to determine the present value of contractual cash flows until the expected end of the term. The present value is determined based on the benchmark curve applicable for the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or numerical procedures.

In the case of unquoted financial investments in equity instruments, the costs of acquisition may also be the best estimate of fair value. Their recoverability is reviewed regularly.

The fair value of OTC derivatives is determined on the basis of sector-specific standardised measurement models, such as the present value method or option pricing models. These techniques are based on inputs of active markets, such as interest rates, yield curves and credit spreads. Since the derivatives are part of highly effective collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives Transactions) which are each subject to a master collateralisation agreement, measurement adjustments to reflect any potential counterparty credit risk or own credit risk (CVA and DVA) are not required for reasons of materiality. Nevertheless, with respect to defaulted property loans, receivables arising from associated derivatives are taken into account in the determination of loss allowances. The Bank uses the overnight interest rate swap curve (OIS curve) for the measurement of derivatives secured by cash collateral.

Amortised cost is an adequate estimate of fair value for cash funds, other loan receivables as well as short-term money market receivables and liabilities.

(9) Recognition and measurement of financial instruments

Pursuant to IAS 32, a financial instrument is any contract that gives rise to a financial asset at one contracting party and a financial liability or equity instrument at another contracting party.

Recognition

Financial instruments (including derivative financial instruments) must be recognised if the reporting entity has become a party to the contractual provisions of such financial instruments. Trade date and settlement date are not the same for regular way purchases and sales of financial assets. Such regular way purchases and sales may be accounted for either at trade date or at settlement date. At Aareal Bank Group, financial instruments (fvpl) are recognised at the trade date, while all other financial instruments are recognised at the settlement date.

Financial instruments have to be derecognised when the contractual rights to the cash flows from the financial asset expire or an entity transfers the financial asset, including substantially all its risks and rewards. The modification of the contractual terms may also result in the derecognition of a financial instrument and the recognition of a new financial instrument.

If only a portion of risks and rewards is transferred and a portion of control is retained, the financial asset is recognised only to the extent of its continuing involvement. The extent of the continuing involvement corresponds to the extent to which the Company is still exposed to changes in the value of the financial asset. A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged.

Modification

As a matter of principle, a modification is defined as any change made to existing terms of a loan agreement or a contractual adjustment during the loan or contract term. This applies regardless of the reasons for the modification (credit-driven or market-driven). Contractual adjustments may either lead to the derecognition of the "old" and the recognition of a "new" asset when such adjustments are substantial to the extent that they, in essence, constitute a new asset (hereinafter referred to as "substantial modification") or to the recalculation of the carrying amount and the recognition of a net modification gain or loss, when such adjustments constitute an adjustment of an existing asset (hereinafter referred to as "non-substantial modification").

The contractual adjustments subject to modifications may generally be caused by the borrower's credit quality and solvency (credit-driven modifications) or the granting of more favourable terms and conditions in an existing contract or the adjustment of the framework for financings as a result of changes in the customer's financing needs (market-driven modifications).

Both substantial and non-substantial modifications have an impact on profit or loss.

The amount of net modification gains or losses arising from non-substantial modifications is determined by the difference of the gross carrying amounts before and after the modification. Net modification gains or losses arising from market-driven modifications are recognised in net interest income, while credit-driven modifications are reported in the loss allowance. Subsequently, the changes in the carrying amount of the receivable is amortised over the remaining term of the receivable and recorded in net interest income.

In the case of a substantial modification, the old asset has to be derecognised, and a new asset has to be recognised. The difference of the gross carrying amounts before and after the modification is reported as net derecognition gain or loss after utilisation of the existing loss allowance in the case of market-driven modifications. The basis for the assessment initially are qualitative criteria such as obligor change or the extension of terms of loans that are not subject to an impaired credit quality. If these criteria do not apply, it is reviewed whether the present value of the newly agreed cash flows discounted with the original effective interest rate deviate by at least 10 % from the present value that results from discounting the original cash flows with the original effective interest rate. If this is the case, the matter also qualifies as a substantial modification. The derecognition and new recognition of the loan results in a new significance level being determined for a later migration in Stage 2. In the case of credit-driven modifications, a loss allowance is recorded prior to derecognition in an amount that covers the entire difference between the old carrying amount and the fair value determined at the time of initial recognition.

Measurement

Upon initial recognition, financial instruments are measured at fair value, for subsequent measurement at ac or fvoci (cf. section Classification), in each case plus any transaction costs.

Subsequent measurement of financial assets is based on the classification of the financial instrument. Depending on the classification, financial assets are measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. Investments in equity instruments are measured at fair value through profit or loss, unless an irrevocable election is made per individual instrument at initial recognition to present subsequent changes in fair value in other comprehensive income. Within Aareal Bank Group, this election is exercised as a rule due to the investment characteristics of the equity instruments.

Financial liabilities are measured at amortised cost.

In addition, financial assets and liabilities may be designated as at fair value through profit or loss if certain prerequisites are met. Aareal Bank Group does not make use of this option.

Classification

The classification, i. e. the determination of the measurement category of a financial asset, is to be assessed on the basis of two criteria. The objective criterion refers to the contractual design as to whether the payments solely represent payments of interest and principal on the principal amount outstanding (SPPI = solely payments of principal and interest). Relevant criteria were defined that are reviewed at initial recognition. For example, this may be financings with a primary investment risk or contractually agreed payments that depend on the borrower's economic performance. The subjective classification criterion refers to the business model, i.e. the aim that a company pursues for a group of assets.

Subsequent measurement has to be based on amortised cost (ac) when the financial instrument is held in order to collect contractual cash flows (business model "Hold") and additionally the contractual cash flows represent solely payments of principal and interest, i. e. are SPPI compliant. This classification category is used for a large portion of the lending and securities business.

Subsequent measurement at fair value, with changes in fair value being recognised initially directly in equity and subsequently reclassified to profit or loss (so-called recycling) (fair value

through other comprehensive income (fvoci)), has to be made when financial instruments are SPPI compliant and are held either to collect contractual cash flows or to be sold (business model "Hold & Sell").

Subsequent measurement at fair value, with changes in fair value being recognised through profit or loss (fvpl), has to be made if the financial instrument is not SPPI compliant or cannot be allocated to one of the two business models mentioned above. The latter is the case for example when there is the purpose of selling such financial instruments in the near term due to syndication covenants.

Loss allowance

Loss allowances are based on the internal staging and expected credit loss (ECL/EL) model of Aareal Bank. For this purpose, financial instruments measured at amortised cost and at fair value through other comprehensive income as well as loan commitments and financial guarantees are allocated to various stages at both initial recognition and subsequent measurement. The related loss allowances are recognised in the amount of the twelve-month or the lifetime expected credit loss.

Stage 1: All financial instruments without impairment trigger are allocated to this stage at initial recognition. Any disposal and addition involving a substantial modification does not result in a change of allocation. If the credit risk is not significantly increased, the financial instrument has to remain in Stage 1 for subsequent measurement. Loss allowances are recognised in the amount of the losses expected for the following twelve months and interest income is calculated on the basis of the gross carrying amount, applying the effective interest method. Loss allowances have to be recognised on a present value basis.

Stage 2: All financial instruments where credit risk has increased significantly since initial recognition are allocated to this stage. Any disposal and addition involving a substantial modification does not result in a change of allocation. Loss allowances are recognised in the amount of the losses expected for the entire remaining term of the instrument and interest income is calculated on the basis of the gross carrying amount, applying the effective interest method. Loss allowances have to be recognised on a present value basis. The significant increase in credit risk for the allocation to Stage 2 is determined using the so-called bank-internal expected downgrade staging model and taking into consideration quantitative and qualitative criteria such as the credit rating of the customer, the intensity of customer handling (intensified handling), the existence of forbearance measures and/or payment defaults. If the significant increase in credit risk no longer applies, the financial instrument is re-transferred to Stage 1. A description of the credit risk methods and systems in place at Aareal Bank AG is presented in the Risk Report as part of the Group Management Report.

Stage 3: This stage includes all financial instruments where there is objective evidence of impairment (impairment trigger or credit impaired). Loss allowances are recognised in the amount of the losses of the lifetime expected credit loss, and interest income is calculated on the basis of the net carrying amount (i.e. gross carrying amount less loss allowance) using the effective interest method. The lifetime expected credit loss in Stage 3 is determined as the difference between the gross carrying amount and the present value of expected future cash flows (discounted using the original effective interest). If the impairment triggers no longer apply, the financial instrument is re-transferred to Stage 1 or 2.

POCI (purchased or originated credit impaired): This category includes all financial instruments that were subject to an impairment trigger at initial recognition. The loss allowance is recorded in the amount of the lifetime expected credit loss.

The expected credit loss is generally determined by Aareal Bank using a model-based procedure where, depending on the stage, one- or multi-year parameters are used. The calculation of the expected loss in Stage 1 and of lifetime expected credit loss in Stage 2 is based on the one-year or lifetime probability of default (PD), respectively, the loss given default (LGD), the expected exposure at default (EAD), a discount factor (DF) and the expected contractual term. Current and expected country-specific economic conditions such as the GDP, long-term interest rates and unemployment rate are included in the LGD by means of a scenario-weighted market value forecast. This probability-weighted scenario mix reflects the uncertainties as to how the Covid-19 pandemic will develop further and supplements our baseline scenario (swoosh) with the addition of divergent developments over an observation period of three years. In addition, the economic outlook is taken into consideration implicitly in the estimation of the future development of the borrowers' financial position and performance and the expected property cash flows and, hence, in the probability of default (PD).

When accounting for Covid-19-related adjustments to rules set out in loan agreements, we have used as guidelines the recommendations made by the IASB, and by relevant regulatory authorities such as the EBA, the ECB and ESMA – with the objective of providing a realistic assessment of expected losses. Intensified handling triggers recognition of loss allowance, in the amount of lifetime expected credit loss for the financial instrument concerned (Stage 2). The same applies for financings for which a forbearance measure has been granted. In the third quarter of 2021, we adjusted the qualitative Stage 2 criteria to the extent that there are no longer pandemic-related justified exceptions. This prospective change in estimates resulted in an addition to loss allowances of approximately € 10 million.

A period of not more than twelve months is assessed for Stage 1, while the expected contractual term of the financial instrument has to be taken into account for Stages 2 and 3 (and, in addition, the expected term for repayment of the financial instrument in Stage 3).

The expected loss in Stage 3 is usually determined on the basis of individually estimated cash flows (ECF procedure) in three probability-weighted scenarios. The amount of the loss allowance is determined as being the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted using the original effective interest rate applicable at initial recognition or after the most recent interest rate adjustment in the case of variable-rate financial instruments (taking into account cash flows from realisation of collateral provided). Collateral is largely provided in the form of land charges or mortgages; these are measured at fair value of the respective scenario which is generally based on either the income capitalisation approach or the discounted cash flow method. Impairment triggers are strong indications for a decline of the borrower's credit quality, arrears, external expert opinions as well as further indications that not all interest and principal payments can be made as contractually agreed.

The loss allowance for debt instruments measured at amortised cost is reported in the item "Loss allowance (ac)", for debt instruments measured at fair value through other comprehensive income in the item "Reserve from the measurement of debt instruments (fvoci)" and for loan commitments and financial guarantees under provisions. Debt instruments reported under POCI are accounted for on a net basis, i. e. without any loss allowance. Changes in loss allowance are reflected by increasing or decreasing the carrying amount through other loss allowance.

If the receivables are not recoverable, the corresponding loss allowance is utilised and the receivable is derecognised. Direct write-offs are not made.

The loss allowance for receivables from other transactions is determined using a simplified procedure in the amount of the lifetime expected credit loss.

Hedging relationships

The risk management strategy set out in the Risk Report of the Group Management Report is the basis for the recognition of hedging relationships. At Aareal Bank Group, risks from value fluctuations are hedged in the case of transactions not measured at fair value through profit or loss. In this context, the risks from hedged items are intended to be offset by entering into hedging derivatives where the fair value changes have the opposite direction compared to those of the hedged item. Average prices of the hedges are not relevant for risk management. Hedging relationships are not recorded for transactions that are measured at fair value through profit or loss. The results from economic hedging relationships are offset in net gain or loss from transactions measured at fair value.

Hedge accounting in accordance with IFRS 9 distinguishes various forms of hedging relationships.

Fair value hedges are used to hedge hedged items against fair value changes resulting from changes in interest rates or from changes in interest and exchange rates that are determined accordingly as hedged risk. At Aareal Bank Group, property loans, securities and promissory note loans are typically hedged using interest rate swaps and cross-currency swaps. The derivatives used for hedging are accounted for at fair value through profit or loss. The offsetting fair value changes of the hedged item resulting from the hedged risk are also recognised through profit or loss. The proportion of the fair value changes of the hedged item not attributable to the hedged risk is accounted for in line with the classification of the hedged item. A fully effective hedging relationship results in offsetting measurement results. The hedging relationship may result in adjustments in the carrying amount of the underlying transaction. Such adjustments will only be recognised in income at the end of the transaction term.

Hedges of a net investment in a foreign operation are used to hedge currency risks arising on the translation of the net assets of foreign Group companies. The effective portion of measurement gains or losses from derivative hedging instruments is recognised directly in equity in the currency translation reserve. The ineffective portion of the hedging derivative's fair value changes has to be recognised in the income statement. The gain or loss on the hedging derivative relating to the effective portion of the hedge that has been recognised directly in equity shall be recognised in profit or loss on disposal of the foreign operation. Any translation differences resulting from the translation of an entity with a different functional currency into the Group currency also have to be recognised directly in equity in the currency translation reserve; they will be reclassified to the income statement upon disposal of the foreign operation.

The effectiveness of hedging relationships is reviewed by way of a forward-looking sensitivity analysis regarding the hedged risks. For this purpose, basis point values, i.e. sensitivities of the IFRS carrying amounts of the hedged items and the hedging transactions, are compared. Factors which may lead to ineffectiveness include differences in the term of transactions or payment dates, or diverging market conventions for underlying transactions and related hedges which affect the relevant measurement parameters (e.g. discounting using an OIS rate) and all risk and hedge types. Currency basis spreads are accounted for as hedging costs, with fair value changes of this element recognised in other comprehensive income. In the event of any changes to hedging relationships occurring in the course of risk management, the hedge ratio of existing hedges and/or hedged items is adjusted accordingly.

Please also refer to our explanations in the Notes (36) and (70).

(10) Cash funds

Cash funds include cash on hand and balances with central banks. Cash funds are exclusively allocated to the measurement category “ac”.

(11) Loan receivables

The item “Loan receivables” comprises property loans, public-sector loans and other loan receivables, including deferred interest. Loan receivables can be allocated to all measurement categories. At present, they are allocated to the ac and fvpl measurement categories. The portion of loan commitments not disbursed is reported as contingent liabilities.

(12) Money market and capital market receivables

The item “Money market and capital market receivables” comprises money market receivables, promissory note loans and debt securities, including deferred interest. Money market and capital market receivables may generally be allocated to all measurement categories.

(13) Equity instruments

This item includes unconsolidated equity instruments. They are allocated to the measurement category “fvoci”.

(14) Receivables from other transactions

The item “Receivables from other transactions” comprises trade receivables and other financial receivables. Receivables from other transactions are exclusively allocated to the measurement category “ac”.

(15) Positive market value of designated hedging derivatives / Negative market value of designated hedging derivatives

The items “Positive market value of designated hedging derivatives” and “Negative market value of designated hedging derivatives” include derivatives with positive or negative market values from fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation, including deferred interest. Derivatives are exclusively allocated to the measurement category “fvpl”. The basis for the recognition of hedging relationships is described in the chapter “Recognition and measurement of financial instruments” in this section. Effects from the measurement of these derivatives are reported in the item “Net gain or loss from hedge accounting”, together with the effects from the measurement of the underlying transactions.

(16) Positive market values of other derivatives / Negative market value of other derivatives

Derivative financial instruments that are not part of recognised hedging relationships are reported in Aareal Bank Group under positive or negative market values of other derivatives. They are mainly used to hedge economic market price risks. Derivatives are exclusively allocated to the measurement category "fvpl". Results from the measurement and the termination of the derivatives are reported in the item "Net gain or loss from financial instruments (fvpl)". Interest received or paid in connection with these derivatives is also recorded generally in the item "Net gain or loss from financial instruments (fvpl)". Interest received or paid for derivatives entered into for hedging purposes which, however, do not meet the hedge accounting criteria, is reported in net interest income. Effects from the measurement of these derivatives are reported in the item "Net gain or loss from financial instruments (fvpl)", together with the effects from the measurement of the transactions.

(17) Investments accounted for using the equity method

The item "Investments accounted for using the equity method" includes shares in companies where Aareal Bank Group can exercise significant influence (associates) as well as shares in joint ventures.

Investments in associates included in this item are recognised at cost when the significant influence arises, and subsequently carried at amortised cost whereby, in particular, the share of results of operations of any financial year is recognised in income.

The equity method applied to the major associates was based on the most recent available financial statements.

(18) Intangible assets

The item "Intangible assets" consists of proprietary software, goodwill and other intangible assets such as purchased software and licences.

Intangible assets (except goodwill) are carried at cost, less accumulated amortisation and any impairment losses.

Research costs incurred in connection with software development are expensed as they are incurred. Development costs are capitalised from the time when the software development can be regarded as completed from a technical perspective, and several other conditions are fulfilled. They are amortised on a straight-line basis, using an estimated economic life of generally five years. Purchased software is also deemed to have a limited useful life. Amortisation is recognised in administrative expenses.

Goodwill is defined as the excess of the cost of acquisition over the fair value of the Group's interest in the net assets of an acquired entity, at the time of acquisition (positive difference). Goodwill is carried at historical cost less accumulated impairments. Any negative goodwill arising upon acquisition is immediately recognised in income.

In case the impairment test (which must be carried out at least on an annual basis) shows that there are indications of impairment of intangible assets (as set out in IAS 36) and that the recoverable amount is lower than the carrying amount of the asset concerned, the asset is written down through profit or loss, to the estimated recoverable amount.

If it is impossible to estimate the recoverable amount for a specific asset, the recoverable amount of the cash-generating unit that the asset belongs to must be determined. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Aareal Bank Group defines cash-generating units either on the basis of a single subsidiary or on product level. The recoverable amount of an asset or a cash-generating unit is the higher of fair value less costs to sell and value in use. Value in use is the present value of future cash flows expected to arise from the continuing use of an asset or cash-generating unit. Future cash flows are determined based on medium-term projections. The present value of the future cash flows is determined using discount factors which are in line with the risks involved. Accordingly, the recognition of intangible assets and the impairment test are also subject to estimation uncertainties.

(19) Property and equipment

Property and equipment includes owner-occupied land and buildings as well as office furniture and equipment, and their right-of-use assets. Property and equipment also includes a hotel operated by Aareal Bank. Property and equipment is measured at cost, less accumulated depreciation, impairment losses and write-downs. Depreciation, impairment losses and write-downs are reported under administrative expenses, while those of the owner-operated hotel are shown in net other operating income/expenses.

Owner-occupied buildings reported under property and equipment are depreciated on a straight-line basis, over a period of 25 to 50 years. Owner-occupied land is not depreciated. Please refer to the explanations in the Notes on other assets for the accounting method to be applied for land and buildings which are not owner-occupied. Office furniture and equipment items are depreciated using the straight-line method, applying the following periods:

	Depreciation period
Other property and equipment	
IT equipment	3-7 years
Other office furniture and equipment	5-13 years

Tenant improvements are depreciated based on the principles applicable for the relevant building.

For details on recognising impairments as defined in IAS 36, please refer to the explanations in the Note on intangible assets in this section.

Gains and losses upon disposal of property and equipment are recognised in income (in net other operating income/expenses).

The costs to purchase property and equipment in the amount of up to € 250.00 (low-value assets) are expensed as they are incurred.

Any items of property and equipment with a cost of more than € 250.00 net, but not exceeding € 1,000.00, can be combined in a collective account for the year, which is then depreciated on a straight-line basis over a period of five years.

(20) Income tax assets / income tax liabilities

The measurement of uncertain tax positions is made using the best estimate of the expenditure required to settle the obligation (most likely amount). In contrast, measurement is based on the expected value if this helps to achieve a more precise estimate.

(21) Deferred tax assets / deferred tax liabilities

Deferred tax assets are recognised when they are deemed recoverable. The recoverability is assessed using tax planning (internal assessment) on the basis of medium-term Group planning. Accordingly, deferred tax assets are only recognised to the extent that we deem it probable that future taxable profits will be available against which the temporary differences and tax loss carryforwards can be utilised. In this context, the matters underlying the deferred tax items were subjected to a maturity analysis. Deferred taxes are calculated on the basis of country- and company-specific tax rates expected to apply at the time of the realisation of temporary differences and set-off against loss carryforwards.

Deferred tax assets and deferred tax liabilities are offset in accordance with IAS 12.74 when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or tax group.

We generally assume that the deferred tax items are of a long-term nature. The remaining maturity or the time of the expected realisation is long-term when there is more than one year between the reporting date and the maturity date.

(22) Other assets

The item “Other assets” includes, amongst other things, properties and contract assets. Properties reported under other assets are intended for short-term disposal. They are measured at the lower of cost or net realisable value, in accordance with IAS 2, and therefore are subject to estimation uncertainties.

(23) Money market and capital market liabilities

The item “Money market and capital market liabilities” comprises money market liabilities, mortgage Pfandbriefe, registered public-sector Pfandbriefe, promissory note loans and other debt securities, including deferred interest. Money market and capital market liabilities are allocated to the measurement category “ac”.

(24) Deposits from the housing industry

The item "Deposits from the housing industry" includes deposits payable on demand and term deposits, including deferred interest. Deposits from the housing industry are allocated to the measurement category "ac".

(25) Liabilities from other transactions

The item "Liabilities from other transactions" comprises trade payables and other financial liabilities. Liabilities from other transactions are exclusively allocated to the measurement category "ac".

(26) Subordinated liabilities

Subordinated funds raised do not provide for any early repayment obligation. In the event of liquidation or insolvency, claims on interest and principal from these liabilities are subordinated to the claims of all other creditors, which are not subordinated themselves. Subordinated liabilities are allocated to the measurement category "ac".

(27) Provisions

The item "Provisions" comprises provisions for pensions and similar obligations, provisions for staff expenses and non-staff operating costs, provisions for risks related to unrecognised items in the lending business, provisions for legal or tax risks, as well as other provisions. Provisions are recognised when as at the reporting date, there is a present legal or constructive obligation towards third parties arising from a past event, the outflow of resources to meet this obligation is probable and the amount of the obligation can be reliably estimated. The measurement of provisions is made using the best estimate of the expenditure required to settle the obligation (most likely amount). In the context of acquisitions in accordance with IFRS 3, contingent liabilities were also recognised at their fair value (expected value). These are released when the reasons for their recognition cease to exist.

Measurement is subject to several uncertainties and often requires significant estimates made by the management in relation to various factors that may not apply subsequently. The final amount of the liabilities may deviate significantly from the measurement previously made in accounting. For example, the outcome of individual legal proceedings may not be predicted with certainty.

If utilisation from the obligation is not expected in the short term, i.e. within twelve months, the provision will be recognised at present value.

Provisions for pensions and similar obligations

Aareal Bank Group maintains various pension plans as defined in IAS 19. For the purpose of reporting pension obligations, IAS 19 makes a distinction between defined contribution plans and defined benefit plans.

Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or a fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions paid to the statutory pension insurance scheme are also classified as defined contribution plans. The contributions paid to a defined contribution plan are recorded as staff expenses.

Defined benefit obligations are all pension obligations that do not meet the criteria of a defined contribution obligation. The amount of obligations usually depends on one or several factors, including age, length of service, and salary.

The Group's obligations under defined benefit plans are recognised as a provision in the consolidated statement of financial position. These are based on general works agreements on an employee pension scheme, individual agreements with executive staff as well as individual agreements concluded with the members of the Company's senior management. Projected economic and demographic developments as well as salary trends must be applied to the calculation of the provisions. Calculating the amount of provisions in the Group is based on actuarial opinions which are prepared by external actuaries on the basis of Aareal Bank-specific and Group-wide standardised parameters.

Provisions for pensions and similar obligations under defined benefit plans are determined in accordance with IAS 19 on the basis of the projected unit credit method; the various defined benefit plans are measured separately. The fair value of the plan assets is deducted from the present value of the pension obligation, taking into account, if applicable, the rules for the asset ceiling in relation to a surplus of plan assets over the benefit obligation. The resulting amount represents the net defined benefit liability (provision) or the net defined benefit asset. As at year-end, the measurement of reinsurance policies was changed from the capitalised value (Aktivwert) to fair value. The transitional effect was insignificant. Net interest expense in the financial year is determined by applying the discount rate calculated at the beginning of the financial year to the net liability calculated as at that date. The discount rate used to determine the present value of the obligation is based on the capital market rate of high quality corporate bonds with comparable maturities at the reporting date. Determination is based on the GlobalRate:Link method by Willis Towers Watson. The data basis consists of corporate bonds recorded by Bloomberg which have a rating of at least "AA" and are denominated in the same currency as the underlying pension obligation. Actuarial gains and losses (remeasurements), which – in connection with the amount of obligations – arise on changes in expectations regarding life expectancy, pension increases, salary development and discount rate compared to the estimation made at the beginning of the period or compared to the actual trend during the period, are recorded in other comprehensive income in the item "Changes in the reserve from remeasurements of defined benefit plans". Actuarial gains and losses (remeasurements) recorded in other comprehensive income may not be reclassified subsequently to profit or loss (recycling). Differences between the expected return on plan assets, determined at the beginning of the period using the then applicable discount rate, and the actual return on plan assets (remeasurement) at the end of the period are also recognised in other comprehensive income. Actuarial gains and losses as well as the difference between expected and actual return on plan assets are included in other reserves. They are reported separately in the statement of changes in equity. Thus, the recognition of pension obligations is based on estimates which are subject to uncertainty.

Share-based payment

Aareal Bank Group maintains share-based payment plans subject to cash settlement in accordance with IFRS 2. We refer to our comments in Note (80) to the consolidated financial statements, which include a detailed description of the plans and their scope as well as information on the valuation model applied and the effects of share-based payments on the Group's financial position and performance.

Provisions for obligations arising from share-based remuneration plans are recognised under administrative expenses, in the amount of the fair value of the relevant obligation as at the reporting date.

(28) Other liabilities

The item "Other liabilities" includes, among other things, contract liabilities, deferred income and liabilities from other taxes.

(29) Equity

The item "Equity" comprises subscribed capital, capital reserves, retained earnings and other reserves. Other reserves include the reserve from remeasurements of defined benefit plans, the reserves from the measurement of equity and debt instrument at fair value through other comprehensive income, the reserve from changes in the value of foreign currency basis spreads and currency translation reserve. In addition, the item "Equity" includes non-controlling interests as well as the so-called Additional Tier I bond (AT1 bond). The AT1 bond is classified as equity since there is neither an obligation to repay the bond nor is there an obligation for ongoing debt service (payment of a dividend). The transaction costs directly attributable to the issue of the AT1 bond as well as dividends paid are deducted directly from equity, net of taxes.

(30) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when due. A guarantor recognises a financial guarantee contract as a liability at the date of addition, using the fair value of the guarantee obligation. The obligation is subsequently measured at the greater of the impaired amount and the original amount, less any accumulated amortisation. Within Aareal Bank Group, financial guarantee contracts are presented based on the present value of the claim resulting from the future premium payments of the holder, and offset with the obligation for the guarantee (net basis).

Notes to the Statement of Comprehensive Income

(31) Net interest income

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Interest income from financial assets (ac and fvoci)	684	674
Loan receivables	684	677
Money market and capital market receivables	0	-3
Interest income from financial liabilities (ac)	85	46
Money market and capital market liabilities	66	31
Deposits from the housing industry	19	15
Interest income from financial instruments (fvpl)	20	34
Loan receivables	16	18
Money market and capital market receivables	–	4
Other derivatives	4	12
Market-driven modification gains	1	0
Total interest and similar income	**790**	**754**
Interest expenses from financial liabilities (ac)	17	57
Money market and capital market liabilities	0	33
Deposits from the housing industry	0	1
Liabilities from other transactions	2	1
Subordinated liabilities	15	22
Interest expenses for financial assets (ac and fvoci)	47	18
Cash funds	29	15
Money market and capital market receivables	18	3
Interest expenses for financial instruments (fvpl)	126	166
Other derivatives	126	166
Market-driven modification losses	3	1
Total interest and similar expenses	**193**	**242**
Total	**597**	**512**

Net interest income increased by 17 % to € 597 million, primarily driven by a higher lending volume compared to the previous year, higher margins in the lending business and better refinancing costs (2020: € 512 million).

In the financial year under review, Aareal Bank increased the amount for the ECB's Targeted Longer-Term Refinancing Operations (TLTROs) by € 1 billion to € 5.3 billion. Apart from the favourable refinancing rate, the ECB grants interest benefits as part of its monetary policy measures provided that Aareal Bank's net lending volume in the euro area continued to increase. Based on its new business and portfolio planning, Aareal expects to receive these interest benefits. The interest benefit is recognised on a straight-line basis over its reference period as a result of its features. Aareal Bank reports the pro rata interest income of € 26 million within interest income from money market liabilities, expecting an interest benefit in the amount of € 13 million for 2022. The negative base interest rate on the funding transaction is offset by the interest rate bonus.

(32) Loss allowance

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Additions	245	380
Reversals	113	33
Recoveries on loans and advances previously written off	1	4
Loss allowance – other items	0	0
Credit-driven net modification gain or loss	2	1
Total	**133**	**344**

The loss allowance of € 133 million was significantly below the previous year's figure (€ 344 million), which was largely affected by Covid-19, but was still on an elevated level as expected. Loss allowance resulted from individual new loan defaults (Stage 3) and one addition to an existing exposure (Stage 3) recorded in order to adequately account for the uncertainty surrounding the Covid-19 pandemic (especially given the currently rampant Omicron variant) as regards the loans concerned, by applying corresponding scenario weightings. Moreover, the Bank used the reversal of loss allowance for a defaulted loan to conclude the accelerated de-risking in Italy; on aggregate, this required additional loss allowance of € 13 million.

The recognition of loss allowances and the collateral values is based on the expected recovery of our 'swoosh' scenario. The scenario is based on the following macroeconomic factors:

%	2021	2022	2023	2024
"Swoosh" scenario				
Gross domestic product (year-on-year change in %)				
Euro zone	5.1	3.9	2.7	1.5
US	5.6	4.0	2.5	1.9
UK	7.2	4.4	2.8	1.5
Unemployment (%)				
Euro zone	7.7	7.4	7.3	7.2
US	5.4	3.8	3.6	3.5
UK	5.7	4.4	4.1	3.8
Portfolio-weighted property price development (2021 basis = 100%)	100 %	102 %	102 %	101 %

The Stage 1 and 2 loss allowances are calculated using the probability of default (PD) and the loss given default (LGD) based on models and largely depend on the market value of the properties. In case of an increase/decrease of the market value by 5 % at year-end, the loss allowance would have decreased/increased by a low double-digit million euro amount. This calculation includes the so-called quantitative stage transfer to Stage 2 based on the so-called expected downgrade model, but does not include qualitative criteria for a significant increase in credit risk.

Please also refer to our explanations in Note (63).

(33) Net commission income

€ mn	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Commission income from		
ERP products (incl. add-on products)	182	179
Digital solutions	70	61
Banking business and other activities	45	43
Total commission income	**297**	**283**
Commission expenses for		
Purchased services	48	45
Banking business and other activities	4	4
Total commission expenses	**52**	**49**
Total	**245**	**234**

Net commission income increased to € 245 million (2020: € 234 million) on the back of higher sales revenue at Aareon and in the Banking & Digital Solutions segment.

Commission income from ERP products and digital solutions includes € 19 million of licence revenue (2020: € 21 million) recognised at a point in time. In the reporting period, revenue of € 2 million (2020: € 1 million) was recorded attributable to performance obligations of earlier periods.

The net amount of commission income and commission expenses from financial assets and financial liabilities not measured at fair value amounts to € 9 million (2020: € 10 million).

(34) Net derecognition gain or loss

€ mn	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Net gain or loss on the derecognition of financial assets (ac)		
Loan receivables	23	22
Money market and capital market receivables	-3	-3
Net gain or loss on the derecognition of financial liabilities (ac)		
Money market and capital market liabilities	3	7
Net gain or loss on the derecognition of financial assets (fvoci)		
Money market and capital market receivables	0	2
Total	**23**	**28**

Net derecognition gain of € 23 million (2020: € 28 million) was attributable to market-driven effects (derecognition gains) from early loan repayments. Effects from de-risking measures of € 3 million in the securities portfolio (derecognition losses) were compensated by repurchases in the Treasury business (derecognition gains) in the amount of € 3 million within the scope of market support (2020: € 7 million).

(35) Net gain or loss from financial instruments (fvpl)

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Net gain or loss from loan receivables	-30	-35
Net gain or loss from money market and capital market receivables	-17	-3
Net gain or loss from other derivatives	21	4
Currency translation	-4	2
Total	**-30**	**-32**

The net loss from financial instruments of € -30 million (2020: € -32 million) largely resulted from credit-risk induced measurement losses of defaulted property loans which are reflected in net gain or loss from financial instruments (fvpl), due to failure to meet the SPPI criterion. As with loss allowance, this position was still burdened by the effects of Covid-19.

(36) Net gain or loss from hedge accounting

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Ineffective portion of fair value hedges	-5	6
Ineffective portion of net investment hedges	0	0
Total	**-5**	**6**

Please also refer to our explanations in the Notes (9) and (70).

(37) Net gain or loss from investments accounted for using the equity method

In the past financial year, there was a net loss from investments accounted for using the equity method of € -2 million (2020: € 1 million); this was also in line with the pro-rata results from joint ventures and associates.

(38) Administrative expenses

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Staff expenses	323	286
Wages and salaries	257	224
Social security contributions	40	37
Pensions	26	25
Other administrative expenses	159	142
Depreciation, amortisation and impairment of property and equipment and intangible assets	46	41
Total	**528**	**469**

Administrative expenses rose to € 528 million (2020: € 469 million). As expected, this is due on the one hand to business expansion and investments into new products, Aareon's Value Creation Programme (VCP), ventures and M&A activities, as well as to lower cost savings, as expected, related to the Covid-19 pandemic, compared to the previous year, on the other hand – with the marked share price increase being one of the factors involved.

Staff expenses include contributions to defined contribution plans in the amount of € 16 million (2020: € 16 million).

Other administrative expenses include administrative costs for research and development in relation to existing and new functions and products not eligible for capitalisation in the amount of € 30 million (2020: € 34 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the financial year 2021, which consists of the following sub-items:

€ 000's	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Auditing fees	4,066	4,056
Other assurance services	192	173
Tax advisory services	–	2
Other services	26	102
Total	4,284	4,333

Other assurance services include the review in accordance with the German Securities Trading Act (WpHG), the remuneration report, comfort letters and the review of the separate combined non-financial report. Other services primarily include regulatory advice.

(39) Net other operating income/expenses

€ mn	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Income from properties	26	20
Income from the reversal of provisions	0	11
Income from goods and services	0	0
Other operating income	21	32
Total other operating income	**47**	**63**
Expenses for properties	32	57
Expenses for other taxes	8	6
Other operating expenses	19	11
Total other operating expenses	**59**	**74**
Total	-12	-11

Income from properties held by the Bank was largely balanced overall: lower current income as a result of Covid-19 was offset by a € 3 million write-up on a property held. The previous year's result included a Covid-19-related impairment of a property held by the Bank. Miscellaneous other operating expenses were affected by interest on tax back payments of € 11 million.

(40) Income taxes

€ mn	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Current income taxes	93	-15
Deferred taxes	-6	9
Total	**87**	**-6**

Taking into account new insights of the tax treatment of a former fund investment which was disposed of in 2012 resulted in a higher expected tax rate for the current year of 56 %.

The differences between calculated and reported income taxes are presented in the following reconciliation:

€ mn	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Operating profit (before income taxes)	155	-75
Expected tax rate	31,7 %	31,7 %
Calculated income taxes	**49**	**-24**
Reconciliation to reported income taxes		
Different foreign tax burden	-3	-1
Tax attributable to tax-exempt income	0	-3
Tax attributable to non-deductible expenses	22	19
Remeasurement of deferred taxes	0	-7
Taxes for previous years	18	9
Other tax effects	1	1
Reported income taxes	**87**	**-6**
Effective tax rate	56 %	8 %

(41) Earnings per share

Earnings per ordinary share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.

Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Basic earnings per AT1 unit correspond to diluted earnings per AT1 unit.

Notes to the Statement of Financial Position

(42) Financial assets (ac)

€ mn	31 Dec 2021	31 Dec 2020
Cash funds (ac)	**6,942**	**4,744**
Cash on hand	0	0
Balances with central banks	6,942	4,744
Loan receivables (ac)	**29,434**	**27,277**
Property loans	29,059	26,852
Public-sector loans	323	360
Other loan receivables	52	65
Money market and capital market receivables (ac)	**5,884**	**5,884**
Money market receivables	1,264	1,029
Promissory note loans	1,691	1,714
Bonds	2,929	3,141
Receivables from other transactions (ac)	**85**	**94**
Trade receivables	38	40
Other financial receivables	47	54
Total	**42,345**	**37,999**

The sale of a property loan in the amount of € 16 million, which temporarily had fulfilled the "held for sale" criteria in the fourth quarter of 2021, is no longer expected as a result of a change in strategy.

(43) Loss allowance (ac)

31 December 2021

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Balance as at 1 January	**19**	**77**	**492**	**4**	**592**
Additions	12	30	200	0	**242**
Utilisation	0	–	295	1	**296**
Reversals	9	43	57	0	**109**
Transfer to Stage 1	0	0	–	–	**–**
Transfer to Stage 2	-13	13	0	–	**–**
Transfer to Stage 3	0	-4	4	–	**–**
Interest rate effect	–	–	41	–	**41**
Currency adjustments	0	4	18	0	**22**
Changes in the basis of consolidation	–	–	–	–	**–**
Balance as at 31 December	**9**	**77**	**403**	**3**	**492**

The loss allowance for financial assets measured at amortised cost refers to loan receivables, money and capital market receivables as well as receivables from other transactions (largely trade receivables) that are measured at amortised cost.

A detailed breakdown of loss allowance by classes of financial assets is disclosed in Note (63) in the chapter "Notes related to financial instruments".

31 December 2020

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Balance as at 1 January	**22**	**16**	**345**	**3**	**386**
Additions	23	72	279	3	**377**
Utilisation	0	–	129	1	**130**
Reversals	12	9	11	0	**32**
Transfer to Stage 1	0	0	–	–	**–**
Transfer to Stage 2	-14	16	-2	–	**–**
Transfer to Stage 3	0	-17	17	–	**–**
Interest rate effect	–	–	5	–	**5**
Currency adjustments	0	-1	-7	-1	**-9**
Changes in the basis of consolidation	–	–	-5	–	**-5**
Balance as at 31 December	**19**	**77**	**492**	**4**	**592**

(44) Financial assets (fvoci)

€ mn	31 Dec 2021	31 Dec 2020
Money market and capital market receivables (fvoci)	**3,749**	**3,667**
Bonds	3,749	3,667
Equity instruments (fvoci)	**4**	**5**
Equities and other non-fixed income securities	0	0
Other investments	4	5
Total	**3,753**	**3,672**

(45) Financial assets (fvpl)

€ mn	31 Dec 2021	31 Dec 2020
Loan receivables (fvpl)	**598**	**856**
Property loans	598	852
Other loan receivables	–	4
Money market and capital market receivables (fvpl)	**4**	**93**
Promissory note loans	–	89
Bonds	–	–
Fund units	4	4
Positive market value of designated hedging derivatives (fvpl)	**900**	**1,431**
Positive market value of fair value hedges	892	1,343
Positive market value of net investment hedges	8	88
Positive market value of other derivatives (fvpl)	**232**	**787**
Positive market value of economic hedging derivatives	111	578
Positive market value of miscellaneous derivatives	121	209
Total	**1,734**	**3,167**

(46) Investments accounted for using the equity method

Aareal Bank holds interests in seven associates (2020: seven) and two joint ventures (2020: one) that are accounted for using the equity method. The sum total of the carrying amounts of the equity investments amounted to € 19 million (2020: € 13 million).

(47) Intangible assets

€ mn	31 Dec 2021	31 Dec 2020
Goodwill	235	102
Proprietary software	75	55
Other intangible assets	84	50
Total	**394**	**207**

Goodwill is entirely attributable to the Banking & Digital Solutions and Aareon segments and can be allocated as follows.

€ mn	31 Dec 2021 Goodwill	31 Dec 2020 Goodwill
Banking & Digital Solutions		
Germany	4	4
Aareon		
DACH	106	48
International Business		
SMB UK	54	–
Aareon Netherlands	47	22
Aareon France	12	12
Aareon Nordics	8	11
Aareon UK	5	5
Total	**236**	**102**

The increase in goodwill is attributable to the acquisitions conducted by Aareon.

Goodwill is generally tested for impairment as at 31 December each year within the context of an impairment test for each cash-generating unit ("CGU"). Apart from the CGU Banking & Digital Solutions, Aareon has defined the following CGUs: Aareon DACH, SMB ("small and medium business") UK, Aareon Netherlands, Aareon France, Aareon Nordics and Aareon UK. The basis for the valuation is the present value of future cash flows (value in use), which are determined using medium-term projections. In this context, the projected cash flows determined on the basis of the three-year plan are used. Accordingly, there is an individual planning of revenue and expense items within the first three years. The parameters underlying the major assumptions are based on internal and external factors as well as on past experience. The major basis is the previous year's planning. Revenue projections are largely subject to assumptions in relation to new business, as well as renewals of contracts and follow-up business with existing customers. At the same time, these represent the key sources for estimation uncertainty. Regular sales revenues, such as maintenance and fees from transactions with existing customers, are normally not subject to major estimation uncertainty. The projections for cost of materials are derived from revenue projections. The projections for staff expenses predominantly take into account the number of employees, as well as wage and salary trends. Other costs are projected based on the previous year's figures, taking into account known one-off effects. Estimation uncertainties in relation to costs arise as a result of unplanned price increases or unforeseeable one-off effects. In principle, estimation uncertainty increases if assumptions are made further into the future. Cash flows beyond the four-year horizon are usually determined by way of a perpetual annuity.

The present values of future cash flows were determined on the basis of a risk-adequate discount factor of 7.5 % for the Aareon segment and of 6.13 % after taxes for the Banking & Digital Solutions segment. The discount factor is calculated based on a risk-free basic interest rate of 0.07 % plus a company-specific risk premium of 7.5 %, multiplied with a beta factor of 0.99 for the Aareon segment and of 0.81 for the Banking & Digital Solutions segment. In view of the uncertainty surrounding the planning beyond the three-year horizon, the growth rate is assumed to be 2 % based on a cautious view of the market environment. The recoverable amounts show an excess compared to the carrying amounts, with the exception of the CGU Nordics which is part of the International Business division covering the countries Sweden, Norway and Finland. The recoverable amount of the CGU Nordics resulted in impairment losses required to be recognised for goodwill in the amount of € 3 million. The reason for this is that the current software portfolio which requires intensive advisory services does not fully meet client requirements; therefore, it is planned to implement a transition to a software portfolio that requires less advisory services. This initially leads to investment costs and in future to slightly lower revenue. No impairment is incurred for all other CGUs even if, ceteris paribus, the above-mentioned material assumptions were to change significantly (such as a 1 % increase in the risk-adequate discount factor, a 5 % decline in the EBITDA included in the cash flow projections, or a decrease in the growth rate to 1 %).

Intangible assets developed as follows:

	2021				2020			
€ mn	Goodwill	Proprietary software	Other intangible assets	Total	Goodwill	Proprietary software	Other intangible assets	Total
Cost								
Balance as at 1 January	**140**	**134**	**133**	**407**	**142**	**111**	**119**	**372**
Additions	–	31	2	**33**	–	22	12	**34**
Transfers	–	0	0	**0**	–	2	-8	**-6**
Disposals	0	20	19	**39**	15	1	3	**19**
Changes in the basis of consolidation	134	–	44	**178**	13	–	13	**26**
Currency translation differences	2	0	0	**2**	0	0	0	**0**
Balance as at 31 December	276	145	160	581	140	134	133	407
Amortisation and impairment losses								
Balance as at 1 January	**38**	**79**	**83**	**200**	**53**	**74**	**70**	**197**
Amortisation and impairment losses	3	11	11	**25**	–	9	18	**27**
of which: impairment losses	–	–	–	**–**	–	–	–	**–**
Transfers	–	–	–	**–**	–	-3	-2	**-5**
Disposals	0	20	19	**39**	15	1	3	**19**
Currency translation differences	0	0	1	**1**	0	0	0	**0**
Balance as at 31 December	41	70	76	187	38	79	83	200
Carrying amount as at 1 January	**102**	**55**	**50**	**207**	**89**	**37**	**49**	**175**
Carrying amount as at 31 December	235	75	84	394	102	55	50	207

(48) Property and equipment

€ mn	31 Dec 2021	31 Dec 2020
Land and buildings and construction in progress	253	260
Office furniture and equipment	25	29
Total	**278**	**289**

Property and equipment developed as follows:

	2021			2020		
€ mn	Land and buildings and construction in progress	Office furniture and equipment	Total	Land and buildings and construction in progress	Office furniture and equipment	Total
Cost						
Balance as at 1 January	**360**	**90**	**450**	**371**	**87**	**458**
Additions	11	8	**19**	5	10	**15**
Transfers	0	0	**0**	-3	-1	**-4**
Disposals	7	9	**16**	15	6	**21**
Changes in the basis of consolidation	2	1	**3**	4	0	**4**
Currency translation differences	2	0	**2**	-2	0	**-2**
Balance as at 31 December	**368**	**90**	**458**	**360**	**90**	**450**
Amortisation and impairment losses						
Balance as at 1 January	**100**	**61**	**161**	**94**	**53**	**147**
Amortisation and impairment losses	18	12	**30**	17	13	**30**
of which: impairment losses	–	–	**–**	–	–	**–**
Write-ups	–	0	**0**	1	–	**1**
Transfers	0	0	**0**	-2	0	**-2**
Disposals	4	8	**12**	7	5	**12**
Changes in the basis of consolidation	–	–	**–**	–	–	**–**
Currency translation differences	1	0	**1**	-1	0	**-1**
Balance as at 31 December	**115**	**65**	**180**	**100**	**61**	**161**
Carrying amount as at 1 January	**260**	**29**	**289**	**276**	**34**	**310**
Carrying amount as at 31 December	**253**	**25**	**278**	**260**	**29**	**289**

(49) Income tax assets

Income tax assets in a total amount of € 66 million as at 31 December 2021 (2020: € 116 million) include € 21 million (2020: € 20 million) expected to be realised after a period of more than twelve months.

(50) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 340 million (2020: € 405 million).

Deferred tax assets were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2021	31 Dec 2020
Financial assets (ac)	90	4
Financial assets (fvpl)	2	–
Property and equipment	0	0
Other assets	0	0
Financial liabilities (ac)	242	451
Financial liabilities (fvpl)	56	5
Provisions	100	113
Other liabilities	–	0
Tax loss carryforwards	17	8
Deferred tax assets	**508**	**581**

Of the deferred taxes on loss carryforwards, an amount of € 8 million (2020: € 2 million) is attributable to foreign permanent establishments. The existing loss carryforwards may be carried forward for an unlimited period. Deferred taxes on losses carried forward were recognised to the extent that they are expected to be realised within the next five years.

The deferred tax assets not recognised or not subject to valuation adjustments amount to € 77 million (2020: € 80 million). No deferred tax assets were recognised on unlimited tax loss carryforwards of € 352 million (2020: € 358 million) since it is not probable that future taxable profit will be available against which the unused tax loss carryforwards can be utilised.

Deferred tax assets in the amount of € 66 million (2020: € 76 million) were reported under other reserves.

(51) Other assets

€ mn	31 Dec 2021	31 Dec 2020
Properties	348	326
Contract assets	20	19
Miscellaneous	95	86
Total	**463**	**431**

A € 3 million mark-up on the value of a property held by the Bank was recognised in the year under review. In addition, costs for value-enhancing measures were capitalised.

The portion of the unsatisfied performance obligation from IT consulting projects in the amount of € 7 million (2020: € 7 million) is expected to be realised in the amount of € 7 million (2020: € 7 million) in the subsequent year, and in the amount of € 0 million (2020: € 0 million) thereafter. We do not disclose the portion of unsatisfied performance obligations from other contracts since the consideration from the client equals the services provided.

(52) Financial liabilities (ac)

€ mn	31 Dec 2021	31 Dec 2020
Money market and capital market liabilities (ac)	**30,597**	**28,206**
Money market liabilities	9,501	8,717
Promissory note loans	3,373	4,077
Mortgage Pfandbriefe	10,620	9,755
Public-sector Pfandbriefe	1,734	1,971
Other debt securities	5,369	3,686
Other financial liabilities	–	0
Deposits from the housing industry (ac)	**11,717**	**10,592**
Payable on demand	9,409	8,426
Term deposits	2,308	2,166
Liabilities from other transactions (ac)	**94**	**86**
Trade payables	19	13
Other liabilities	75	73
Subordinated liabilities (ac)	**609**	**939**
Total	**43,017**	**39,823**

The step-up of TLTRO 3 by € 1.0 billion led to an increase in money market liabilities.

The changes in subordinated liabilities in the amount of € -330 million (2020: € -29 million) consist of € -300 million (2020: € -23 million) related to cash payments of principal as well as an amount of € -30 million (2020: € -6 million) related to non-cash changes in fair value and changes of accrued interest.

(53) Financial liabilities (fvpl)

€ mn	31 Dec 2021	31 Dec 2020
Negative market value of designated hedging derivatives (fvpl)	**971**	**1,298**
Negative market value of fair value hedges	947	1,298
Negative market value of net investment hedges	24	–
Negative market value of other derivatives (fvpl)	**911**	**608**
Negative market value of economic hedging derivatives	526	128
Negative market value of other derivatives	385	480
Total	**1,882**	**1,906**

(54) Provisions

€ mn	31 Dec 2021	31 Dec 2020
Provisions for pensions and similar obligations	425	474
Provisions for unrecognised lending business	3	4
Other provisions and contingent liabilities	130	105
Total	**558**	**583**

A detailed breakdown of the provisions for unrecognised lending business by classes of financial assets is disclosed in Note (63) in the chapter "Notes related to financial instruments".

Provisions for pensions and similar obligations

The pension obligations result mainly from retirement benefit plans maintained at Aareal Bank, Aareon, BauGrund and Westdeutsche Immobilien Servicing (former WestImmo), which are classified as defined contribution plans or defined benefit plans in accordance with IAS 19.

Aareal Bank contributed assets held to cover existing pension obligations into a Contractual Trust Arrangement (CTA). This is to ensure improved insolvency protection of the pension claims as a result of the limited protection provided by the German Pension Guarantee Association (Pensionssicherungsverein; PSVaG). For this purpose, a bilateral trust was agreed between Aareal Bank AG (trustor) and Aareal Pensionsverein e.V. as legally independent third party (trustee). The trustee is registered in the Register of Associations at the Wiesbaden District Court.

The trustee holds in trust the special fund for the trustor (administrative trust). Simultaneously, but senior to the administrative trust, the trustee holds the special fund for all beneficiaries on trust to secure the recorded entitlements (security trust).

The security trust is established in the interest of the beneficiaries by way of a genuine agreement for the benefit of third parties (section 328 (1) of the German Civil Code (Bürgerliches Gesetzbuch – "BGB")). On the basis of this security trust, the beneficiaries may request from the trustee that the trustee holds and manages this special fund pursuant to the regulations of this trust agreement for the purpose of securing the recorded entitlements. Upon the occurrence of an insured event, the beneficiaries may, based on the security trust, request from the trustee that the trustee satisfies their recorded entitlements pursuant to the regulations of this trust agreement out of the special fund.

The Bank is the economic beneficiary of the assets. The assets are managed by HSBC INKA in a special fund under German investment law ("Spezialfonds"). Based on an investment guideline, HSBC INKA takes investment decisions for staff pensions. A joint investment committee was established, comprising staff from HSBC INKA and Aareal Bank. The Bank transfers new assets to be invested to Aareal Pensionsverein e. V. on an annual basis, which in turn acquires additional units in the special fund. The fund manager invests interest income during the course of the year.

The Bank has taken out reinsurance policies for a portion of the benefit entitlements of active members of the Management Board and former Management Board members. These policies were also transferred to Aareal Pensionsverein e.V. on a trust basis. The Bank provides corresponding funds for contribution paid to these policies.

Transferring assets to Aareal Pensionsverein e.V. on the one hand secures benefit entitlements and claims under occupational pension schemes, and on the other hand creates plan assets within the meaning of IAS 19 which may be offset with benefit obligations of the trustor.

Brief description of the material pension plans

DePfa Bank Betriebsvereinbarung dated 14 December 1999 (BV 97)

BV 97 applies for new joiners since 1 January 1997. The following benefits are granted after a waiting period of five pensionable service years: old-age pension after completing the 65th year of age (also after any previous disability), early old-age pension, disability pension until completing the 65th year of age, as well as widow(er)'s pension.

The Bank shall grant its employees a basic pension from own contributions and additional benefits in the form of corresponding individual agreements on deferred compensation. The basic pension for the pensionable service period is calculated based on an annual benefit expense of 3.5 % for portions of the pensionable income below the contribution ceiling and 10 % for portions of pensionable income above the contribution ceiling. The employer contributions thus calculated as well as the contributions from deferred compensation are contributed into a CTA at the end of each financial year. The benefit assets, including any allocated surpluses, bear interest at a rate of at least 4 %. The annual benefit payments are calculated based on an annuitisation of the benefit assets upon occurrence of the insured event, using a fixed annuitisation table.

The pensionable service period is deemed to be the period from completing the 20th year of age to completing the 65th year of age. Pensionable income is the gross remuneration received within one year.

Any actuarial deductions upon claiming old-age pensions before completing the 65th year of age are taken into account through an annuitisation of the benefit assets. The widow(er)'s pension amounts to 60 % of the employee pension. The Bank increases the current benefit payments annually by 1 %; there is no obligation to provide for an inflation adjustment.

Management Board

The four active Management Board members receive their benefits based on individual commitments.

Three individual benefit commitments are aligned to the fixed annual employer contributions and the amounts from deferred compensation, which are paid to the relevant benefit account and bear interest at a rate of 4%. In the case of disability or death, the existing benefit assets from the employer contributions are increased by the sum total of the amounts that would have been credited in future (up to a maximum contribution period of ten years) for each full calendar year prior to turning 62 or 63. The benefit assets and the assets from deferred compensation are translated into a lifelong old-age or disability pension upon the occurrence of an insured event, using actuarial principles. Annuitisation is based on biometric principles and a notional interest rate of 4% p.a. and takes into account a guaranteed pension increase of 1% p.a. The widow pension amounts to 60% of the beneficiary's pension entitlement. The current benefit payments are increased annually by 1%; there is no obligation to provide for an inflation adjustment. The old-age pension benefits based on one of these individual commitments were secured through reinsurance policies. These reinsurance policies include benefits in the case of disability or death.

The fourth individual commitment involves the provision of an annual fixed employer's contribution which is credited to the personal benefit account. The benefit assets bear interest that corresponds to the capital gains generated in the form of a real or virtual financial investment. The investment is made in form of a real investment as part of the Contractual Trust Agreement (CTA) to the extent that the benefit contribution is paid into the CTA established for the Bank as trust assets. To the extent that the benefit contribution is not paid into the CTA's trust assets, the investment is made and the capital gains are determined on a virtual basis so that the result of the virtual investment corresponds to the result of the investment as if the investment had been made entirely in form of a real investment. In the case of disability or death, the existing benefit assets are increased by the sum total of the amounts that would have been credited in future (up to a maximum contribution period of five years) for each full calendar year prior to turning 62. The benefit assets are generally disbursed in form of a one-off payment. The pension for the surviving dependants amounts to 60% of the beneficiary's pension entitlement. To the extent that the benefits are paid in form of an annuity, the benefits are increased by 1% each year.

DePfa Bank Dienstvereinbarung dated 30 December 1955 (DePfa 55)

DePfa 55 is a pay-related benefit commitment for new entrants before 31 December 1988. It provides for benefit payments after completing the 65th year of age after a waiting period of five service years and benefits paid in case of occupational incapacity (disability) as well as benefits for surviving dependants, each in form of a monthly annuity.

The amount of the entitlement is based on the following increases: 5% of the last annual salary for the first five service years each, 2% of the last annual salary for the next 20 service years each, and 1% of the last annual salary for any following service year, up to a maximum percentage of 75% of the last annual salary after 35 service years. The widow(er)'s pension amounts to 60% of the old-age or disability pension. Benefits paid by social security insurance and VBL/Gerling are charged to the benefit entitlements. DePfa 55 does not include any provision allowing for an early payout of old-age pensions or for an adjustment of current benefit payments.

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

BauBoden agreement dated 1 July 1968 (BauBoden 68)
This agreement applies to employees after completing their 18th year of age who were employed by the Bank on 1 January 1967 or joined the Bank not later than on 31 December 1983. The following benefits are granted after a waiting period of ten service years: old-age pension after completing the 65th year of age, early old-age pension, (total) occupational incapacity pension as well as widow(er)'s pension.

Benefits consist of an overall pension, comprising the statutory pension insurance scheme, the additional pension insurance scheme at VBL or BVV (which is taken into account), or the group insurance contracts and the bank subsidy. The overall pension amounts to 55 % of the pensionable salary after ten years of service. The overall pension is increased by 1 % of the pensionable salary for any further service year, up to the maximum rate of 75 %. The pensionable salary is the last monthly gross salary received during service.

No actuarial deductions are made upon claiming old-age pensions before completing the 65th year of age. The widow(er)'s pension amounts to 60 % of the bank subsidy. The current pension payments are adjusted pursuant to section 16 of the German Occupational Pensions Act (Betriebsrentengesetz; "BetrAVG").

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

BauBoden agreement dated 12 December 1984 (BauBoden 84)
and DePfa Bank Versorgungsordnung dated 28 November 1990 (DePfa 90)
BauBoden 84 applies to employees who joined the Company after 31 December 1983 and have completed their 20th year of age. DePfa 90 applies to employees who joined the Company after 31 December 1988. The following benefits are granted after a waiting period of ten service years: old-age pension and early old-age pension, (total) occupational incapacity pension as well as widow(er)'s pension.

The benefit entitlements of the employees vest after completing their 65th year of age. The amount of the monthly pension entitlement is calculated for each pensionable service year (up to a maximum of 40 service years) as follows: 0.6 % of pensionable salary up to the contribution ceiling, 2 % of the portion of pensionable salary exceeding the contribution ceiling, with pensionable salary and contribution ceiling being calculated using the average for the last twelve months. Benefits paid by BVV are charged to the benefit entitlements under BauBoden 84.

The Bank does not make any actuarial deductions upon claiming early old-age pensions. The widow(er)'s pension amounts to 60 % of the entitlements to benefit payments. The current pension payments are adjusted pursuant to section 16 of the BetrAVG.

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to section 16 of the BetrAVG. Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

AHB – General works agreement on additional pension benefits (company pension scheme) of former Corealcredit

The pension benefits to former employees of Allgemeine Hypothekenbank AG, whose employment relationship began prior to 1 January 1994, are governed by the additional benefit arrangement dated 29 August 1995 on the basis of the complementing general works agreement dated 7 March 1995.

This benefit commitment is based on aggregate benefits derived from pension benefits for civil servants. After a waiting period of five years of service, the aggregate benefit rate is 50 % of pensionable income. For each year after completing the 37th year of age, the aggregate benefit rate increases by 1 % of pensionable income, up to a maximum 75 % of pensionable income. The entitlement amounts to at least 65 % of pensionable income in the case of (total) occupational incapacity and 75 % of pensionable income in the case of workplace accidents. Pensionable income is the annual income (calculated on the basis of 14 monthly salaries), divided by 12.

The pension benefits of the statutory pension insurance and the BVV, which are based on mandatory contributions, are taken into account in the pension determined as described. To that extent, the benefit obligation directly depends on the development of the level of pensions from the statutory pension insurance on the one hand and from the BVV on the other.

As a result of the German Pension Reform Act of 1992 and the associated cuts in statutory pension insurance, the pension scheme was restructured in 1995. The main pillar of the new structure is the limitation of the Bank's deficiency guarantee for the declining level of statutory pensions due to deduction factors applied at early retirement (Rentenzugangsfaktor) and the lower adjustment of the pension value. Accordingly, the Bank continues to assume the deficiency guarantee on a pro-rata basis for the periods of service until the restructuring on 31 December 1995 in relation to the deduction factors applied at early retirement and for the reduced level of the current pension value (net adjustment factor). The reduction in the level of statutory pensions that occurred during the service periods from the restructuring date until retirement is taken into account at the expense of the beneficiary.

From the start of retirement, the AHB pension is decoupled from the development of the statutory pension and the BVV pension already prior to the restructuring since only the AHB pension is adjusted for inflation on an annual basis.

Accordingly, the obligation for the pension commitment during the qualification period is, on the one hand, directly dependent upon the development of the statutory pension and the BVV pension. On the other hand, it is fully dependent upon salary development for all years of service, even including past service. The volume of the obligation also depends upon the fluctuation of inflation and hence pension increases.

Rheinboden Hypothekenbank AG – pension scheme in the version dated 1 December 1991 of former Corealcredit

The former employees of Rheinboden Hypothekenbank AG are entitled to old-age and disability pensions as well as surviving dependant's benefits in accordance with the pension schemes in the version dated 1 December 1991.

The monthly benefits for employees who commenced service prior to 1 October 1978 amount to 5 % of pensionable remuneration (most recent monthly salary based on collective or individual agreements) after ten service years and increase by 0.5 % of pensionable remuneration for each service year, up to 14 % of pensionable remuneration after 15 service years. The monthly benefit entitlement increases by 0.3 % of pensionable remuneration for any additional service years, up to a maximum of 20 %. The BVV benefits are taken into account in such entitlement to the extent that these are based on employer contributions.

The benefits for employees who commenced service after 30 September 1978 amount to 0.15 % of pensionable remuneration up to the contribution ceiling as well as 1.5 % of pensionable remuneration above the contribution ceiling for each year of service between the 25th and 65th year of age. The maximum number of recognisable service years is 35.

The old-age pension under the Rheinboden pension schemes is paid after completing the 65th year of age or upon commencement of old-age pension under the statutory pension insurance scheme (full pension). In case of early retirement, the benefits are subject to deductions of 0.3 % per month of early retirement prior to the age of 65 as a partial compensation for the additional costs associated with early retirement. The surviving dependant's benefits amount to 60 % of the employee's pension entitlement for widow(er)s as well as 15 % for half-orphans and 20 % for orphans, however, in aggregate not exceeding the amount of the employee's pension entitlement.

Supplementary individual contractual arrangements were agreed with individual pensioners and leavers with vested benefits for the purpose of the transition from the old to the new Rheinboden pension scheme and the application of the BVV benefits.

In addition, individual contractual commitments apply to former management board members and general managers – currently pensioners and one leaver with vested benefits.

The adjustment of current pensions on the basis of the Rheinboden commitments is performed on the basis of the inflation allowance set out in section 16 of the German Occupational Pensions Act (BetrAVG), with the exception of a small group of approximately ten pensioners where adjustment is made pursuant to the collective agreement for banks.

WestImmo – Pension fund rules dated 1 October 1995

The pension fund rules dated 1 October 1995 represent a defined contribution scheme. The following benefits are paid after a waiting period of five year of service: old-age pension, early old-age pension, (total) occupational incapacity pension as well as widow(er)'s and orphan's pension.

The amount of the old-age pension, the early old-age pension and the (total) occupational incapacity pension is calculated based on the sum of the pension components earned during the pensionable service period. If the pensionable service period exceeds 40 years, the monthly pension is calculated based on the sum of the highest 40 pension components earned during the pensionable service period. The amount of one pension component is derived from multiplying the reference contribution (since 2021: € 311), the personal earnings relation (relation between pensionable income and contribution ceiling of the German statutory pension insurance; earnings components above the contribution ceiling are weighted with a factor of 3.75) and the annuitisation factor in the relevant age pursuant to the annuitisation table.

The amount of the early old-age pension is reduced by 0.5 % for each month in which annuity is paid prior to completing the 65th year of age. The widow(er)'s pension entitlement amounts to 60 %.

If necessary, the determination of the amount of pension obligations is based on the following actuarial assumptions applied consistently throughout the Group:

	31 Dec 2021	31 Dec 2020
Calculation method	Projected unit credit method	Projected unit credit method
Calculation basis	Actuarial tables issued by K. Heubeck in 2018	Actuarial tables issued by K. Heubeck in 2018
Actuarial assumptions (in %)		
Interest rate used for valuation	1.17	0.74
Development of salaries	2.00	2.00
Pension increase	1.47	1.49
Rate of inflation	1.75	1.75
Staff turnover rate	3.00	3.00

Development of net pension liabilities:

€ mn	Present value of pension obligations	Fair value of plan assets	Net pension liability
Balance as at 1 January 2021	**580**	**-106**	**474**
Pension expense	**21**	**-1**	**20**
Current service cost	17	–	17
Net interest cost	4	-1	3
Payments	**-17**	**-3**	**-20**
Pension benefits paid	-21	8	-13
Employer's contributions	–	-7	-7
Contributions made by beneficiaries of defined benefit plans	4	-4	0
Remeasurements	**-46**	**-4**	**-50**
due to experience adjustments	2	–	2
due to changes in financial assumptions	-48	–	-48
due to changes in demographic assumptions	0	–	0
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-4	-4
Balance as at 31 December 2021	**539**	**-114**	**425**

€ mn	Present value of pension obligations	Fair value of plan assets	Net pension liability
Balance as at 1 January 2020	**526**	**-98**	**428**
Pension expense	**19**	**-1**	**18**
Current service cost	14	–	14
Net interest cost	5	-1	4
Payments	**-9**	**-6**	**-15**
Pension benefits paid	-13	1	-12
Employer's contributions	–	-3	-3
Contributions made by beneficiaries of defined benefit plans	4	-4	0
Remeasurements	**44**	**-1**	**43**
due to experience adjustments	4	–	4
due to changes in financial assumptions	40	–	40
due to changes in demographic assumptions	0	–	0
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-1	-1
Balance as at 31 December 2020	**580**	**-106**	**474**

The weighted duration of pension liabilities is 19.2 years as at 31 December 2021 (2020: 20.1 years).

Expected maturities of the defined benefit obligation (DBO):

€ mn	31 Dec 2021	31 Dec 2020
Up to 1 year	15	14
Between 1 year and 5 years	65	60
Between 5 years and 10 years	88	86
Total	**168**	**160**

Contributions in the amount of € 13 million (2020: € 16 million) are expected to be paid in the financial year 2022.

Sensitivity of the defined benefit obligation (DBO) compared to the central actuarial assumptions

Based on the qualitative plan description, the valuation parameters significant for calculating the amount of the obligation were derived and corresponding calculations were made as regards sensitivity:

		Defined benefit obligation 2021	Change	Defined benefit obligation 2020	Change
		€ mn	%	€ mn	%
Present value of obligations		**539**		**580**	
Interest rate used for valuation	Increase by 1.0 percentage points	449	-17	478	-17
	Decrease by 1.0 percentage points	656	22	714	23
Development of salaries	Increase by 0.5 percentage points	549	2	591	2
	Decrease by 0.5 percentage points	529	-2	569	-2
Pension increase	Increase by 0.25 percentage points	546	1	588	2
	Decrease by 0.25 percentage points	531	-1	571	-1
Life expectancy	Increase by 1 year	567	5	611	6
	Decrease by 1 year	510	-5	547	-6

The sensitivity analysis takes into account, in each case, the change of an assumption, while the other assumptions remain unchanged compared to the original calculation, i.e. any potential correlation effects between the individual assumptions are not taken into consideration.

Plan assets can be broken down as follows:

€ mn	31 Dec 2021	31 Dec 2020
Cash	0	0
Investment funds	82	73
Reinsurance	32	33
Total	**114**	**106**

Apart from the usual actuarial risks, the risks associated with defined benefit obligations primarily relate to financial risks in connection with plan assets. Amongst others, these may include counterparty credit risks and market price risks. These risks are taken into account in the risk management of Aareal Bank Group. The measurement of investment funds has to be allocated to Level 2 of the fair value hierarchy.

Other provisions

Other provisions developed as follows:

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions for legal and tax risks	Other provisions	Total
Carrying amount as at 1 Jan 2021	**89**	**2**	**14**	**105**
Additions	57	1	13	**71**
Utilisation	39	0	2	**41**
Reversals	6	0	1	**7**
Interest	0	–	0	**0**
Reclassifications	0	–	–	**0**
Changes in the basis of consolidation	–	–	–	**–**
Exchange rate fluctuations	2	–	0	**2**
Carrying amount as at 31 Dec 2021	**103**	**3**	**24**	**130**

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions for legal and tax risks	Other provisions	Total
Carrying amount as at 1 Jan 2020	**118**	**9**	**24**	**151**
Additions	42	0	3	**45**
Utilisation	47	0	9	**56**
Reversals	21	6	4	**31**
Interest	0	–	0	**0**
Reclassifications	-1	-1	0	**-2**
Changes in the basis of consolidation	–	–	0	**0**
Exchange rate fluctuations	-2	–	0	**-2**
Carrying amount as at 31 Dec 2020	**89**	**2**	**14**	**105**

Other provisions of € 130 million include € 27 million expected to be realised after a period exceeding twelve months (2020: € 21 million).

Provisions for staff expenses and non-staff operating costs refer to personnel provisions in the amount of € 74 million (2020: € 65 million) and provisions for non-staff operating costs in the amount of € 29 million (2020: € 24 million). Personnel provisions consist of, among other things, provisions for bonuses (cash and share-based), partial retirement, severance pay and existing working hours accounts; Provisions for staff expenses include € 4 million in provisions for severance pay and for partial retirement (2020: € 8 million). Provisions for non-staff operating expenses mainly include provisions for professional and legal advice.

(55) Income tax liabilities

Income tax liabilities in a total amount of € 17 million as at 31 December 2021 (2020: € 20 million) include € 4 million (2020: € 7 million) expected to be realised after a period of more than twelve months.

(56) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 340 million (2020: € 405 million).

Due to a changed interpretation of the tax treatment of a special investment fund, share price gains may arise in the amount of approximately € 62 million which would be taxable upon disposal of that special fund. However, since there are no plans to dispose of this special fund, no deferred tax liabilities need to be recognised even in the event of changes in share price gains.

Deferred tax liabilities were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2021	31 Dec 2020
Financial assets (ac)	325	368
Financial assets (fvoci)	30	43
Financial assets (fvpl)	1	7
Intangible assets	20	12
Property and equipment	10	8
Other assets	6	2
Other liabilities	2	0
Deferred tax liabilities	**396**	**441**

(57) Other liabilities

€ mn	31 Dec 2021	31 Dec 2020
Lease liabilities	81	82
Deferred income	3	1
Liabilities from other taxes	21	35
Contract liabilities	24	20
Miscellaneous	8	5
Total	**137**	**143**

An amount of € 17 million (2020: € 14 million) of the contract liabilities was recorded in profit or loss in the current reporting period.

(58) Equity

€ mn	31 Dec 2021	31 Dec 2020
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,937	1,902
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-133	-166
Reserve from the measurement of equity instruments (fvoci)	-3	-4
Reserve from the measurement of debt instruments (fvoci)	16	12
Reserve from foreign currency basis spreads	-23	-26
Currency translation reserves	0	-13
Non-controlling interests	66	61
Total	**3,061**	**2,967**

The item "Reserve from the measurement of debt instruments (fvoci)" includes loss allowance of € 0 million (2020: € 0 million).

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (2020: € 180 million). It is divided into 59,857,221 notional fully-paid no-par value shares ("unit shares") with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

Treasury shares

The General Meeting authorised the Management Board by way of a resolution dated 27 May 2020, pursuant to section 71 (1) no. 7 of the German Public Limited Companies Act (Aktiengesetz – "AktG"), to purchase and sell treasury shares for the purposes of securities trading, at a price not falling below or exceeding the average closing price of the Company's share in Xetra trading (or a comparable successor system) during the three trading days on the Frankfurt Stock Exchange prior to the relevant purchase or prior to assuming a purchase obligation by more than 10 %. This authorisation expires on 26 May 2025. The volume of shares acquired for this purpose must not exceed 5 % of the share capital of Aareal Bank AG at the end of any given day.

Furthermore, the Management Board was authorised by means of a resolution of the General Meeting held on 27 May 2020, pursuant to section 71 (1) no. 8 of the AktG, to purchase treasury shares in a volume of up to 10 % of the share capital for any permitted purposes. This authorisation expires on 26 May 2025. Shares may be acquired via the stock exchange or by means of a public offer to buy directed at all shareholders, and at purchase prices stipulated in the authorisation and based on the prevailing market price of the Company's shares. This authorisation may be exercised – also by the direct or indirect subsidiaries of Aareal Bank AG – in full or in part, on one or more occasions.

The shares acquired in accordance with this or an earlier authorisation may be sold, subject to Supervisory Board approval, outside the stock exchange and without an offer directed at all shareholders, subject to the exclusion of shareholders' pre-emptive rights, when the shares sold do not exceed 10 % of the share capital and the issue price is not significantly below the prevailing stock exchange price or in the event of a sale against contributions in kind, or when the shares sold are used to service rights from convertible bonds or bonds with warrants. This also applies to shares issued by subsidiaries. The treasury shares may also be given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The shares can also be withdrawn, without such a withdrawal or its implementation requiring a further resolution by the General Meeting.

The Management Board was also authorised to effect the acquisition of treasury shares by using put or call options. Any acquisition of shares using derivatives is limited to 5 % of share capital. In addition, any acquisition of shares shall count towards the 10 % threshold for the authorisation for the acquisition of treasury shares. Where treasury shares are acquired using equity derivatives, the shareholders' right to enter into any option transactions with the Company is excluded in analogous application of section 186 (3) sentence 4 of the AktG.

Authorised capital

Aareal Bank has authorised capital pursuant to the resolution by the Annual General Meeting held on 31 May 2017. Accordingly, the Management Board is authorised to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 89,785,830 (Authorised Capital 2017) by issuance of new no-par value bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board; this authority will expire on 30 May 2022. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right, unless the Management Board exercises its authority to exclude shareholder's pre-emptive subscription rights. The Management Board may exclude shareholders' subscription rights, subject to approval by the Supervisory Board and the conditions set out below:

a) In the event of a capital increase against cash contributions, provided that the issue price of the new shares is not significantly below the prevailing stock exchange price of the Company's listed shares at the time of the final determination of the issue price. However, this authorisation shall be subject to the proviso that the aggregate value of shares sold to the exclusion of shareholders' subscription rights, in accordance with section 203 (1) and (2) and section 186 (3) sentence 4 of the AktG, shall not exceed 10 % of the issued share capital at the time said authorisation comes into effect or – if lower – at the time it is exercised. Any shares that were issued or sold during the term and prior to the exercising of said authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, shall count towards the above threshold of 10 % of the issued share capital. Said ten percent threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation;

b) for fractional amounts arising from the determination of the applicable subscription ratio;

c) where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by the Company or its affiliated companies, which subscription rights are required to entitle these holders to the same extent as they would have been entitled to upon exercising their conversion or option rights or upon performance of a conversion obligation, if any, thus protecting such holders against dilution;

d) for an amount of up to € 4,000,000, to offer employees (of the Company or its affiliated companies) shares for subscription.

e) in the event of a capital increase against contributions in kind for the purpose of acquiring companies, divisions of companies or interests in companies or other assets.

The above authorisation for the exclusion of shareholders' subscription rights in the case of capital increases against contributions in cash or in kind is limited to a total of 20% of the share capital; this limit may be exceeded neither at the time said authorisation comes into effect, nor at the time it is exercised. The above-mentioned 20% threshold shall furthermore include treasury shares which are sold to the exclusion of shareholders' subscription rights during the validity of this authorisation as well as such shares which are issued to service debt securities, provided that the debt securities were issued to the exclusion of shareholders' subscription rights during the validity of this authorisation due to the authorisation under agenda item 6 of the Annual General Meeting on 21 May 2014. When a new authorisation for the exclusion of shareholders' subscription rights is resolved after the reduction and said new authorisation comes into effect, the upper limit, reduced in accordance with the above-mentioned requirements, shall be increased again to the amount permitted by the new authorisation, with a maximum total of 20% of the share capital in accordance with the above-mentioned requirements.

The authorised capital has not yet been utilised.

Conditional capital

Based on a resolution passed by the General Meeting on 22 May 2019, the Management Board was authorised to issue, on one or more occasions until 21 May 2024, profit-participation certificates with a limited or unlimited term for contribution in cash or in kind of up to € 900,000,000. The profit-participation certificates must be constructed in such a way that the funds paid for them after issuance can be recognised as banking regulatory capital pursuant to the legal regulations applicable as at the time of issuance. Profit-participation certificates and other hybrid promissory note loans to be issued according to this authorisation shall be connected with conversion rights, entitling or compelling, in accordance with their respective conditions, the holder to purchase Company shares. Conversion rights or obligations may be attached exclusively to bearer no-par value shares and are limited to a maximum amount of € 71,828,664.00 of the Company's share capital. The sum of shares to be issued so as to service conversion or option rights or conversion obligations from profit-participation certificates or hybrid promissory note loans issued pursuant to this authorisation, including shares issued during validity of this authorisation as a result of another authorisation (especially from the Authorised Capital 2017), may not exceed an amount of € 71,828,664.00 (which equals approx. 40% of the current share capital). Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in relation to the profit-participation rights in certain cases.

Accordingly, the Company's share capital is subject to a conditional capital increase not exceeding € 71,828,664.00 by issuance of up to 23,942,888 new no-par value bearer shares ("Conditional Capital 2019"). The purpose of the conditional capital increase is to grant shares to holders or creditors of convertible bonds issued in accordance with the aforementioned authorisation. The new no-par value bearer shares may only be issued at a conversion price in line with the resolution passed by the General Meeting on 22 May 2019. The conditional capital increase shall only be carried out insofar as conversion rights are exercised or as conversion obligations from such convertible bonds are fulfilled or as the Company makes use of alternative performance and insofar as no cash compensation is granted or treasury shares are used to service the rights. The new shares shall be entitled to a share in the profits from the beginning of the financial year in which they come into existence through the exercise of conversion rights or the fulfilment of conversion obligations The Management Board is authorised to determine the details of the conditional capital increase. The Management Board is also authorised to determine the further contents of share rights and the terms governing the issuance of shares, subject to the approval of the Supervisory Board.

To date, the Conditional Capital has not yet been utilised.

Capital reserves

The capital reserves contain premiums received upon the issuance of shares. Costs incurred within the framework of a capital increase reduce capital reserves.

Retained earnings

Retained earnings are comprised of statutory reserves (pursuant to section 150 of the AktG) of € 5 million (2020: € 5 million) and of other retained earnings of € 1,932 million (2020: € 1,897 million).

Additional Tier 1 bond (AT1 bond)

On 13 November 2014, the Management Board issued notes in an aggregate nominal amount of € 300 million with a denomination of € 200,000 and an initial interest rate of 7.625 %, based on the authorisation granted by the Annual General Meeting on 21 May 2014.

The notes bore interest of 7.625 % p.a. from the interest commencement date to 30 April 2020. The rate of interest for any interest period commencing on or after 30 April 2020 shall be equal to the reference rate (one-year EUR swap rate) determined on the relevant interest determination date plus a margin of 7.18 % p.a.

The notes constitute unsecured and subordinated obligations of the issuer.

Upon the occurrence of a trigger event, the redemption amount and the principal amount of each note shall be reduced by the amount of the relevant write-down. The write-down shall be effected pro rata with all other Additional Tier 1 instruments within the meaning of the CRR, the terms of which provide for a write-down upon the occurrence of the trigger event. A trigger event occurs if the Common Equity Tier 1 capital ratio, pursuant to Article 92 (1) (a) CRR or a successor provision, and determined on a consolidated basis, falls below 7.0 %. After a write-down has been effected, the principal amount and the redemption amount of each note, unless previously redeemed or repurchased and cancelled, may be written up in each of the financial years of the issuer subsequent to such write-down until the full initial principal amount has been reached.

The notes may be redeemed, in whole but not in part, at any time at the option of the issuer, subject to the prior consent of the competent supervisory authority, upon not less than 30 and not more than 60 days' prior notice of redemption at their redemption amount (taking into account a potential write-down) together with interest accrued until the redemption date (to the extent that interest payment is not cancelled or ruled out in accordance with the terms and conditions of the notes), when the tax or regulatory reasons set out in the terms and conditions of the notes apply. The issuer may also redeem the notes, in whole but not in part, at any time, subject to the prior consent of the competent supervisory authority, upon not less than 30 days' notice of redemption with effect as at 30 April 2020 for the first time and, thereafter, with effect as at each interest payment date at their redemption amount together with interest (if any) accrued to the redemption date.

Distributions

Aareal Bank intends 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. Against the backdrop of the originally planned takeover by Atlantic BidCo GmbH, only € 0.40 per share of the intended € 1.50 were distributed in 2021.

The Management Board proposes to the Annual General Meeting on 18 May 2022 that the net retained profit in a total amount of € 95,771,553.60 for the financial year 2021, including the profit carried forward from the financial year 2020 in the amount of € 65,842,943.10, be used to distribute a dividend of € 1.60 per share.

In addition, on 30 April 2022, the Management Board will resolve on a distribution in relation to the AT1 instruments, pursuant to the terms and conditions of the notes.

Notes to Financial Instruments

A detailed description of the system in place at Aareal Bank Group to measure, limit, and manage risks throughout Aareal Bank Group is presented in the Risk Report as part of the Group Management Report. The disclosures on the description and the extent of the risks arising from financial instruments in accordance with IFRS 7 are included (in part) in the Risk Report.

(59) Net gains/losses of financial instruments by category

The following overview shows the net gains or net losses from financial instruments in accordance with the classification and measurement categories of financial assets and liabilities (from which the results are generated):

€ mn	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Net gain or loss from financial assets (ac)	-115	-322
Net gain or loss from financial liabilities (ac)	3	7
Net gain or loss from financial assets (fvoci) recognised in other comprehensive income	6	9
Net gain or loss from financial assets (fvoci) transferred to the income statement	0	2
Net gain or loss from equity instruments (fvoci)	1	0
Net gain or loss from financial instruments (fvpl)	-30	-32
Net gain or loss from financial guarantee contracts and loan commitments	1	-2

The net results include measurement gains and losses, realised gains/losses on disposal, subsequent recoveries on loans and advances previously written off in relation to all financial instruments of the respective measurement category. The net gain or loss from financial instruments (fvpl) also comprises the net gain or loss from currency translation.

The hedge result from hedged items is aggregated with the hedge result from derivative hedging instruments in one line item and amounted to € -5 million (2020: € 6 million) in the year under review. Moreover, the change in the reserve from foreign-currency basis spreads amounted to € 4 million (2020: € -16 million).

(60) Fair value hierarchy in accordance with IFRS 13

The carrying amounts of financial instruments held by Aareal Bank Group which are reported at fair value in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument.

31 December 2021

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**3,753**	**3,365**	**386**	**2**
Money market and capital market receivables (fvoci)	3,749	3,365	384	–
Equity instruments (fvoci)	4	–	2	2
Financial assets (fvpl)	**1,734**	**0**	**1,132**	**602**
Loan receivables (fvpl)	598	–	–	598
Money market and capital market receivables (fvpl)	4	0	–	4
Positive market value of designated hedging derivatives (fvpl)	900	–	900	–
Positive market value of other derivatives (fvpl)	232	–	232	–
Financial liabilities (fvpl)	**1,882**	**–**	**1,882**	**–**
Negative market value of designated hedging derivatives (fvpl)	971	–	971	–
Negative market value of other derivatives (fvpl)	911	–	911	–

At year-end, € 353 million in financial assets (fvoci) were transferred from Level 1 to Level 2.

31 December 2020

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**3,672**	**3,667**	**3**	**2**
Money market and capital market receivables (fvoci)	3,667	3,667	–	–
Equity instruments (fvoci)	5	–	3	2
Financial assets (fvpl)	**3,167**	**0**	**2,307**	**860**
Loan receivables (fvpl)	856	–	–	856
Money market and capital market receivables (fvpl)	93	0	89	4
Positive market value of designated hedging derivatives (fvpl)	1,431	–	1,431	–
Positive market value of other derivatives (fvpl)	787	–	787	–
Financial liabilities (fvpl)	**1,906**	**–**	**1,906**	**–**
Negative market value of designated hedging derivatives (fvpl)	1,298	–	1,298	–
Negative market value of other derivatives (fvpl)	608	–	608	–

The fair values of loan receivables recognised at fair value in the statement of financial position that are assigned to Level 3 of the fair value hierarchy developed as follows during the period under review:

Loan receivables (fvpl)

€ mn	2021	2020
Fair value as at 1 January	**856**	**1.050**
Change in measurement	**-29**	**-36**
Portfolio changes		
Additions	85	175
Derecognition	314	333
Deferred interest	0	0
Fair value as at 31 December	**598**	**856**

Receivables held in the Bank's portfolio contributed € -32 million to the net gain or loss from loan receivables (fvpl) (2020: € -21 million). The net gain or loss from loan receivables (fvpl) is reported in the net gain or loss from financial instruments (fvpl).

Regarding loan receivables (fvpl), the add-ons for risks specific to the counterparty represent the material input parameter not observable in the market. In addition, transactions-specific parameters such as liquidity spread and equity and processing costs are taken into account in measurement. Regarding the non-defaulted loans, an increase/decrease by 1 % would lead to a decrease/increase of the fair value by approximately € 10 million (2020: approximately € 22 million).

The fair values of financial instruments held by Aareal Bank Group which are reported at amortised cost in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument:

31 December 2021

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (ac)	**41,960**	**1,879**	**10,829**	**29,252**
Cash funds (ac)	6,942	–	6,942	–
Loan receivables (ac)	29,100	–	0	29,100
Money market and capital market receivables (ac)	5,836	1,879	3,852	105
Receivables from other transactions (ac)	82	–	35	47
Financial liabilities (ac)	**43,242**	**7,692**	**35,431**	**119**
Money market and capital market liabilities (ac)	30,782	7,692	23,062	28
Deposits from the housing industry (ac)	11,717	–	11,717	–
Liabilities from other transactions (ac)	94	–	3	91
Subordinated liabilities (ac)	649	–	649	–

At the end of the year, € 6,170 million of financial liabilities (ac) were transferred from Level 2 to Level 1 and € 807 million of financial assets (ac) were transferred from Level 1 to Level 2.

31 December 2020

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (ac)	**37,655**	**2,827**	**7,813**	**27,015**
Cash funds (ac)	4,744	–	4,744	–
Loan receivables (ac)	26,952	–	1	26,951
Money market and capital market receivables (ac)	5,869	2,827	3,041	1
Receivables from other transactions (ac)	90	–	27	63
Financial liabilities (ac)	**40,033**	**1,855**	**38,064**	**114**
Money market and capital market liabilities (ac)	28,371	1,545	26,798	28
Deposits from the housing industry (ac)	10,592	–	10,592	–
Liabilities from other transactions (ac)	86	–	0	86
Subordinated liabilities (ac)	984	310	674	–

(61) Comparison of carrying amounts and fair values of financial instruments

The fair values of financial instruments are compared with their carrying amounts (including loss allowance) in the following table. The presentation is made for each class of financial instrument:

€ mn	31 Dec 2021 Carrying amount	31 Dec 2021 Fair Value	31 Dec 2020 Carrying amount	31 Dec 2020 Fair Value
Financial assets (ac)	**41,853**	**41,960**	**37,407**	**37,655**
Cash funds (ac)	6,942	6,942	4,744	4,744
Loan receivables (ac)	28,948	29,100	26,695	26,952
Money market and capital market receivables (ac)	5,881	5,836	5,879	5,869
Receivables from other transactions (ac)	82	82	89	90
Financial assets (fvoci)	**3,753**	**3,753**	**3,672**	**3,672**
Money market and capital market receivables (fvoci)	3,749	3,749	3,667	3,667
Equity instruments (fvoci)	4	4	5	5
Financial assets (fvpl)	**1,734**	**1,734**	**3,167**	**3,167**
Loan receivables (fvpl)	598	598	856	856
Money market and capital market receivables (fvpl)	4	4	93	93
Positive market value of designated hedging derivatives (fvpl)	900	900	1,431	1,431
Positive market value of other derivatives (fvpl)	232	232	787	787

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€ mn	31 Dec 2021 Carrying amount	31 Dec 2021 Fair Value	31 Dec 2020 Carrying amount	31 Dec 2020 Fair Value
Financial liabilities (ac)	**43,017**	**43,242**	**39,823**	**40,033**
Money market and capital market liabilities (ac)	30,597	30,782	28,206	28,371
Deposits from the housing industry (ac)	11,717	11,717	10,592	10,592
Liabilities from other transactions (ac)	94	94	86	86
Subordinated liabilities (ac)	609	649	939	984
Financial liabilities (fvpl)	**1,882**	**1,882**	**1,906**	**1,906**
Negative market value of designated hedging derivatives (fvpl)	971	971	1,298	1,298
Negative market value of other derivatives (fvpl)	911	911	608	608

(62) Financial instruments that have not yet been switched to an alternative benchmark rate

The following table presents the nominal amounts for derivative and non-derivative financial instruments for which no official cessation effective date has been communicated and/or for which no contractual arrangements for transition have been made. Aareal Bank has become an adhering party to the ISDA protocol and gradually concludes the so-called IBOR Supplemental Agreements to the German Master Agreement for Financial Derivatives Transactions (Deutscher Rahmenvertrag für Finanztermingeschäfte) on a bilateral basis with the counterparties. In the case of derivatives, the presentation is made per cash flow leg:

€ mn	Non-derivative financial assets	Non-derivative financial liabilities[3]	Derivative financial assets	Derivative financial liabilities
EURIBOR[1]	6,558	764	29,371	23,429
USD LIBOR	6,830	–	–	–
CAD CDOR	197	–	1,217	1,352
SEK STIBOR	264	3	787	1,016
DKK CIBOR	78	–	99	130
AUD BBSW[1]	461	–	139	404
GBP LIBOR[2]	171	–	–	–
Total	**14,559**	**767**	**31,613**	**26,331**

[1] changeover currently not yet resolved upon
[2] one syndicated financing (changeover in January 2022) and two defaulted loans
[3] including AT1 bond

(63) Disclosures on credit risk

For information on risk management practice and input factors, please refer to the chapter “Credit default risk” in the Risk Report included in the Management Report. The chapter also provides a breakdown of gross carrying amounts of on-balance sheet as well as off-balance sheet credit business, money-market business, and capital markets business, by rating class and loss allowance stages.

The following overviews present the loss allowance and the provisions for credit risks per stage and separately by product groups.

Loss allowance (ac)

2021

€ mn	Balance as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Changes in the basis of consolidation	Balance as at 31 December
Stage 1	**19**	**12**	**–**	**9**	**0**	**-13**	**0**	**–**	**0**	**–**	**9**
Loan receivables (ac)	18	11	–	8	0	-13	0	–	0	–	8
Money market and capital market receivables (ac)	1	1	–	1	0	0	–	–	0	–	1
Stage 2	**77**	**30**	**–**	**43**	**0**	**13**	**-4**	**–**	**4**	**–**	**77**
Loan receivables (ac)	71	30	–	39	0	13	-4	–	4	–	75
Money market and capital market receivables (ac)	6	0	–	4	0	0	–	–	–	–	2
Stage 3	**492**	**200**	**295**	**57**	**–**	**0**	**4**	**41**	**18**	**–**	**403**
Loan receivables (ac)	492	200	295	57	–	0	4	41	18	–	403
Receivables from other transactions (ac)	**4**	**0**	**1**	**0**	**–**	**–**	**–**	**–**	**0**	**–**	**3**
Total	592	242	296	109	–	–	–	41	22	–	492

2020

€ mn	Balance as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 2	Interest effect	Currency adjustment	Changes in the basis of consolidation	Balance as at 31 December
Stage 1	**22**	**23**	**0**	**12**	**0**	**-14**	**0**	**–**	**0**	**–**	**19**
Loan receivables (ac)	21	23	0	12	0	-14	0	–	0	–	18
Money market and capital market receivables (ac)	1	0	–	0	0	0	–	–	0	–	1
Stage 2	**16**	**72**	**–**	**9**	**0**	**16**	**-17**	**–**	**-1**	**–**	**77**
Loan receivables (ac)	14	69	–	9	0	15	-17	–	-1	–	71
Money market and capital market receivables (ac)	2	3	–	0	0	1	–	–	–	–	6
Stage 3	**345**	**279**	**129**	**11**	**–**	**-2**	**17**	**5**	**-7**	**-5**	**492**
Loan receivables (ac)	345	279	129	11	–	-2	17	5	-7	-5	492
Receivables from other transactions (ac)	**3**	**3**	**1**	**0**	**–**	**–**	**–**	**–**	**-1**	**–**	**4**
Total	386	377	130	32	–	0	–	5	-9	-5	592

The loss allowance for financial assets (ac) is reported in the item "Loss allowance (ac)" on the assets side of the statement of financial position.

Loss allowance in the reserve from the measurement of debt instruments (fvoci)

The loss allowance for debt instrument (fvoci) amounts to € 0 million (2020: € 0 million) and is reported on the equity and liabilities side of the statement of financial position under other reserves.

Provisions for unrecognised lending business

2021

€ mn	Provisions as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Provisions as at 31 December
Stage 1	2	1	–	2	0	0	–	–	0	1
Stage 2	2	1	–	1	0	0	–	–	0	2
Stage 3	0	–	–	–	–	–	–	–	–	0
Total	**4**	**2**	**–**	**3**	**–**	**–**	**–**	**–**	**0**	**3**

2020

€ mn	Provisions as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 2	Interest effect	Currency adjustment	Provisions as at 31 December
Stage 1	2	1	–	1	0	0	–	–	0	2
Stage 2	0	2	–	0	0	0	–	–	0	2
Stage 3	0	–	0	0	–	–	–	–	–	0
Total	**2**	**3**	**0**	**1**	**–**	**–**	**–**	**–**	**0**	**4**

The provisions for unrecognised lending business refer to loan commitments and contingent liabilities and are reported on the equity and liabilities side of the statement of financial position under provisions.

No impaired financial assets were recognised for the first time in the financial year 2021, nor were assets acquired within the context of the realisation of collateral (2020: € – million).

Credit quality of financial receivables from other transactions

Financial receivables from other transactions are subject to credit risk. Of the receivables from other transactions in the amount of € 85 million (2020: € 94 million), € 79 million (2020: € 86 million) were neither overdue nor impaired, € 3 million (2020: € 2 million) were overdue but not impaired and € 3 million (2020: € 6 million) were impaired.

(64) Reconciliation of gross carrying amounts of financial assets

The following tables show the development of the gross carrying amounts of financial assets that are subject to the impairment rules and to which the loss allowance mentioned above can be attributed.

Financial assets (ac)

2021

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Loan receivables (ac)	**27,277**	**10,151**	**8,554**	**–**	**–**	**–**	**-283**	**-4**	**847**	**29,434**
Stage 1	19,318	9,603	6,084	544	-4,667	-129	–	-2	558	19,141
Stage 2	6,410	546	2,110	-500	4,682	-487	–	0	247	8,788
Stage 3	1,549	2	360	-44	-15	616	-283	-2	42	1,505
POCI	–	–	–	–	–	–	–	–	–	–
Money market and capital market receivables (ac)	**5,884**	**1,593**	**1,395**	**–**	**–**	**–**	**–**	**–**	**-198**	**5,884**
Stage 1	5,328	1,593	1,300	249	-14	–	–	–	-161	5,695
Stage 2	556	0	95	-249	14	–	–	–	-37	189
Receivables from other transactions (ac)	**94**	**39**	**50**	**–**	**–**	**–**	**–**	**–**	**2**	**85**
Total	33,255	11,783	9,999	–	–	–	-283	-4	651	35,403

2020

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer in Stage 1	Transfer in Stage 2	Transfer in Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Loan receivables (ac)	**25,783**	**9,881**	**7,745**	**–**	**–**	**–**	**-118**	**-1**	**-523**	**27,277**
Stage 1	23,923	9,709	7,071	163	-6,704	-90	-	0	-612	19,318
Stage 2	916	172	459	-163	6,704	-750	-	0	-10	6,410
Stage 3	944	0	215	–	0	840	-118	-1	99	1,549
POCI	–	–	–	–	–	–	–	–	–	–
Money market and capital market receivables (ac)	**6,618**	**633**	**1,347**	**–**	**–**	**–**	**–**	**–**	**-20**	**5,884**
Stage 1	6,493	633	1,278	–	-494	–	–	–	-26	5,328
Stage 2	125	–	69	–	494	–	–	–	6	556
Receivables from other transactions (ac)	**77**	**57**	**40**	**–**	**–**	**–**	**–**	**–**	**0**	**94**
Total	32,478	10,571	9,132	–	–	–	-118	-1	-543	33,255

Financial assets (fvoci)

2021

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Money market and capital market receivables (fvoci)	**3,667**	**947**	**752**	**–**	**–**	**–**	**–**	**–**	**-113**	**3,749**
Stage 1	3,667	947	752	–	–	–	–	–	-113	3,749
Equity instruments (fvoci)	**5**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**0**	**4**
Stage 1	5	–	1	–	–	–	–	–	0	4
Total	**3,672**	**947**	**753**	**–**	**–**	**–**	**–**	**–**	**-113**	**3,753**

2020

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Money market and capital market receivables (fvoci)	**3,415**	**869**	**620**	**–**	**–**	**–**	**–**	**–**	**3**	**3,667**
Stage 1	3,415	869	620	–	–	–	–	–	3	3,667
Equity instruments (fvoci)	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0**	**5**
Stage 1	5	–	–	–	–	–	–	–	0	5
Total	**3,420**	**869**	**620**	**–**	**–**	**–**	**–**	**–**	**3**	**3,672**

Please refer to the presentation of the items of the statement of financial position in the section "Notes to the statement of financial position" for information on maximum credit risk exposure since the carrying amount corresponds to the maximum credit risk exposure of Aareal Bank as at the balance sheet date, for both items that are subject to the impairment rules and for financial assets that are not subject to the impairment rules. The collateral received is described in the Report on the Economic Position and in the Risk Report as part of the Group Management Report.

As at the current reporting date, receivables from the lending business in the amount of € 1 million that were written off during the reporting year were still part of foreclosure proceedings (2020: € – million).

(65) Modification effects

If modifications are made to financial assets during the contract term leading to changes in the contractual cash flows and if these changes are not that extensive that the financial asset is derecognised and a new asset is recognised, such modifications are non-substantial modifications. Following a non-substantial modification, the carrying amount of a financial asset is remeasured and a net modification gain or loss is recorded in net interest income or in the loss allowance.

The following table shows the amortised cost before modification of financial assets that were subject to non-substantial modifications in the reporting period as well as the related modification gain or loss.

	2021			2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
€ mn						
Amortised cost before modification	45	836	283	283	1,689	264
Net gain or loss on modification	-2	0	-2	0	0	-1
Amortised cost after modification	**43**	**836**	**281**	**283**	**1,689**	**263**

During the financial year 2021, receivables from the lending business in the amount of € 99 million were reclassified from Stage 2 or Stage 3 to Stage 1, which had been modified since they were first classified as Stage 2 or Stage 3 receivables (2020: € – million).

(66) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when currently there is a legally enforceable right to set off the recognised amounts, and when the Bank intends either to settle on a net basis – or to realise the asset and settle the liability simultaneously. The following overviews show whether and to what extent financial instruments were actually offset as at the current reporting date. The tables also include disclosures on financial instruments that are part of an enforceable master netting or similar arrangement that do not meet the criteria for offsetting in the statement of financial position.

Financial assets

31 December 2021

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	1,143	–	1,143	877	251	15
Reverse repos	–	–	–	–	–	–
Total	**1,143**	**–**	**1,143**	**877**	**251**	**15**

31 December 2020

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	2,245	–	2,245	1,058	1280	-93
Reverse repos	–	–	–	–	–	–
Total	**2,245**	**–**	**2,245**	**1,058**	**1,280**	**-93**

Financial liabilities

31 December 2021

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
Derivatives	1,884	–	1,884	877	900	107
Repos	–	–	–	–	–	–
Total	**1,884**	**–**	**1,884**	**877**	**900**	**107**

31 December 2020

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
Derivatives	1,906	–	1,906	1,058	852	-4
Repos	–	–	–	–	–	–
Total	**1,906**	**–**	**1,906**	**1,058**	**852**	**-4**

To reduce counterparty risk, Aareal Bank Group concludes standardised master agreements for financial derivatives and securities repurchase agreements, such as the ISDA Master Agreement, the German Master Agreement on Financial Derivatives or the Master Agreement for Securities Repurchase Transactions. In addition, Aareal Bank enters into collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives) in which a mutual collateralisation of all claims between the contracting parties is agreed and which include netting arrangements.

The master agreements for financial derivatives used by Aareal Bank include netting arrangements at a single transaction level (so-called "payment netting"), which provide for a netting of payments when both parties need to make payments in the same currency on the same date, as set out in the contract. Aareal Bank does not offset financial derivatives according to the rules related to payment netting, as the transactions are not settled on a net basis. Aareal Bank Group has not entered into arrangements providing for netting of derivatives across several transactions.

For securities repurchase transactions (repo), depending on the counterparty, payment or delivery netting is made. In line with the rules set out in the master agreement for repo transactions, payments or deliveries of securities may be offset when both counterparties have to make payments in the same currency on the same date, or have to deliver securities of the same type. Transactions effected on the basis of the master agreement for repo transactions generally meet the offsetting requirements of IAS 32.

(67) Assets provided or accepted as collateral

Assets provided as collateral

Aareal Bank Group has provided financial assets as collateral for its liabilities, including TLTRO, or ontingent liabilities. The following overview shows the carrying amount of the collateral provided and the items of the statement of financial position in which they are reported.

€ mn	31 Dec 2021	31 Dec 2020
Money market and capital market receivables (ac, fvoci and fvpl)	5,695	5,729
Receivables from other transactions (ac)	35	30
Total	**5,730**	**5,759**

In addition, € 1.2 billion of the Bank's own Pfandbriefe were provided as collateral for TLTRO.

The protection buyer has no right to sell or re-pledge any of the financial assets pledged as collateral (2020: € – million). There is a fully cash-collateralised and irrevocable payment obligation in the amount of € 35 million (2020: € 30 million) from the bank levy and also for the deposit guarantee scheme of German banks. This obligation is reported under receivables from other transactions (ac).

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. No fixed-income securities were accepted as collateral for repo transactions as at the reporting date (2020: € – million).

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions and on the collateralisation of forward transactions.

(68) Transfer of financial assets without derecognition

Aareal Bank Group sells securities subject to a take-back requirement as borrower within the framework of genuine repurchase agreements. Within the scope of such agreements, securities were transferred to lenders without resulting in the securities being derecognised since Aareal Bank Group retains the substantial risks and rewards from the securities. The risks to which Aareal Bank Group is still exposed comprise the default risk, the interest rate risk and other price risks. The equivalent values received as collateral during the transfer of securities are accounted as money-market receivables or liabilities. Within the context of securities repurchase transactions, the unrestricted title and the unrestricted power of disposition is transferred to the lender upon delivery of the securities. The lender has the right to sell or pledge these securities, however, he is required to retransfer securities of the same type and in the same amount as at the repurchase date.

As in the previous year, no securities were part of repurchase agreements as at the balance sheet date.

(69) Derivative financial instruments

The following table shows positive and negative market values (including pro-rata interest) of all derivative financial instruments by hedge and risk types:

	Fair value as at 31 Dec 2021		Fair value as at 31 Dec 2020	
	positive	negative	positive	negative
€ mn				
Fair value hedge derivatives	**892**	**947**	**1,343**	**1,298**
Interest rate risk	892	919	1,343	1,267
Interest rate swaps	892	919	1,343	1,267
Interest rate and currency risk	–	28	–	31
Cross-currency swaps	–	28	–	31
Hedge of net investments	**8**	**24**	**88**	**–**
Currency risk	8	24	88	–
Cross-currency swaps	8	24	88	–
Other derivatives	**232**	**911**	**787**	**608**
Interest rate risk	123	384	209	503
Interest rate swaps	112	373	208	502
Swaptions	–	–	–	–
Caps, floors	11	11	1	1
Interest rate and currency risk	109	527	578	105
Spot and forward foreign exchange transactions	2	10	7	7
Cross-currency swaps	107	517	571	98
Total	**1,132**	**1,882**	**2,218**	**1,906**

Derivatives have been entered into with the following counterparties:

€ mn	Fair value as at 31 Dec 2021 positive	Fair value as at 31 Dec 2021 negative	Fair value as at 31 Dec 2020 positive	Fair value as at 31 Dec 2020 negative
OECD banks and central governments	1,073	1,785	2,132	1,853
Companies and private individuals	59	97	86	53
Total	**1,132**	**1,882**	**2,218**	**1,906**

The following overview shows the cash flows of derivative financial instruments by risk types, based n the contractual maturity. The amounts shown in the table represent the contractually agreed future undiscounted cash flows.

31 December 2021

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Interest rate risk					
Interest rate swaps					
Cash inflows	92	265	641	152	**1,150**
Cash outflows	114	204	579	166	**1,063**
Caps, floors					
Cash inflows	0	0	11	0	**11**
Cash outflows	0	0	11	0	**11**
Interest rate and currency risk					
Spot and forward foreign exchange transactions					
Cash inflows	1,407	174	–	–	**1,581**
Cash outflows	1,416	174	–	–	**1,590**
Cross-currency swaps					
Cash inflows	528	1,929	10,813	-9	**13,261**
Cash outflows	583	2,116	11,395	–	**14,094**
Total cash inflows	**2,027**	**2,368**	**11,465**	**143**	**16,003**
Total cash outflows	**2,113**	**2,494**	**11,985**	**166**	**16,758**

31 December 2020

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Interest rate risk					
Interest rate swaps					
Cash inflows	107	286	745	166	**1,304**
Cash outflows	119	224	676	127	**1,146**
Caps, floors					
Cash inflows	0	0	1	0	**1**
Cash outflows	0	0	1	0	**1**
Interest rate and currency risk					
Spot and forward foreign exchange transactions					
Cash inflows	1,808	132	–	–	**1,940**
Cash outflows	1,808	132	–	–	**1,940**
Cross-currency swaps					
Cash inflows	200	2,101	9,298	54	**11,653**
Cash outflows	212	2,033	9,118	–	**11,363**
Total cash inflows	**2,115**	**2,519**	**10,044**	**220**	**14,898**
Total cash outflows	**2,139**	**2,389**	**9,795**	**127**	**14,450**

The procedure for measuring and monitoring liquidity risk is described in the Risk Report, part of the Group Management Report.

(70) Disclosures on hedging relationships

Disclosures on hedging derivatives

The following tables show designated hedging derivatives separately for each type of hedging relationship, risk category and product type:

Positive market value of designated hedging derivatives

€ mn	Carrying amount 31 Dec 2021	Nominal amount 31 Dec 2021	Fair value change 1 Jan - 31 Dec 2021	Carrying amount 31 Dec 2020	Nominal amount 31 Dec 2020	Fair value change 1 Jan - 31 Dec 2020
Fair value hedges						
Interest rate risk						
Interest rate swaps	892	16,618	-268	1,343	16,694	181
Hedge of net investments						
Currency risk						
Cross-currency swaps	8	441	0	88	1,027	0
Total	**900**	**17,059**	**-268**	**1,431**	**17,721**	**181**

Negative market value of designated hedging derivatives

€ mn	Carrying amount 31 Dec 2021	Nominal amount 31 Dec 2021	Fair value change 1 Jan - 31 Dec 2021	Carrying amount 31 Dec 2020	Nominal amount 31 Dec 2020	Fair value change 1 Jan - 31 Dec 2020
Fair value hedges						
Interest rate risk						
Interest rate swaps	919	14,841	-159	1,267	14,609	189
Interest rate and currency risk						
Cross-currency swaps	28	119	-12	31	111	3
Hedge of net investments						
Currency risk						
Cross-currency swaps	24	670	0	–	–	–
Currency swaps	0	19	0	–	–	–
Total	**971**	**15,630**	**-171**	**1,298**	**14,720**	**192**

The following overview presents the nominal amounts of the hedging derivatives by maturities:

31 December 2021

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Fair value hedges					
Interest rate risk					
Interest rate swaps	1,335	3,880	19,057	7,186	**31,458**
Interest rate and currency risks					
Cross-currency swaps	–	–	119	–	**119**
Hedge of net investments					
Currency risk					
Cross-currency swaps	90	359	662		**1,111**
Currency swaps	19	–	–	–	**19**
Total nominal amounts	**1,444**	**4,239**	**19,838**	**7,186**	**32,707**

Aareal Bank applies the standard amendments from the first part of the effects of the interest rate benchmark reform (IBOR reform) on financial reporting in the period prior to the replacement of an existing interest rate benchmark. The uncertainties refer to the hedging of changes in fair value from interest rate risk. This applies to variable reference rates with terms of one to six months for the currencies AUD, CAD, DKK, EUR, SEK and USD. As a result of the discontinuation of the GBP and the CHF LIBOR as at 31 December 2021, all derivative hedging instruments denominated in GBP and CHF were fully switched so that uncertainties no longer arise in this regard. An amount of € 26.5 billion of the total of € 32.7 billion is attributable to benchmark interest rates for which no official cessation effective date has been communicated and/or for which no contractual arrangements for transition have been made. Aareal Bank still does not expect the changes from the IBOR reform (Phase 1) to require the discontinuation of hedging relationships.

31 December 2020

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Fair value hedges					
Interest rate risk					
Interest rate swaps	1,301	4,730	17,656	7,617	**31,304**
Interest rate and currency risks					
Cross-currency swaps	–	–	111	–	**111**
Hedge of net investments					
Currency risk					
Cross-currency swaps	55	421	551	–	**1,027**
Currency swaps	–	–	–	–	**–**
Total nominal amounts	**1,356**	**5,151**	**18,318**	**7,617**	**32,442**

Disclosures on hedged items

Hedged items of fair value hedges

The following tables show hedged items separately for each type of hedging relationship and risk category:

	Active hedging relationships			Discontinued hedging relationships
€ mn	Carrying amount 31 Dec 2021	Accumulated hedge adjustment 31 Dec 2021	Change in hedged fair values 1 Jan - 31 Dec 2021	Balance of hedge adjustments 31 Dec 2021
Interest rate risk				
Loan receivables (ac)	7,765	8	-247	42
Money market and capital market receivables (ac)	2,935	514	-114	143
Money market and capital market receivables (fvoci)	3,617	51	-87	1
Money market and capital market liabilities (ac)	18,026	503	-553	37
Subordinated liabilities (ac)	489	28	-16	2
Interest rate and currency risk				
Money market and capital market receivables (ac)	156	37	-12	–

€ mn	Active hedging relationships			Discontinued hedging relationships
	Carrying amount 31 Dec 2020	Accumulated hedge adjustment 31 Dec 2020	Change inhedged fair values 1 Jan - 31 Dec 2020	Balance of hedge adjustments 31 Dec 2020
Interest rate risk				
Loan receivables (ac)	7,045	224	168	58
Money market and capital market receivables (ac)	2,990	701	10	165
Money market and capital market receivables (fvoci)	3,534	148	18	2
Money market and capital market liabilities (ac)	19,433	1,086	82	46
Subordinated liabilities (ac)	818	45	-6	3
Interest rate and currency risk				
Money market and capital market receivables (ac)	160	49	3	–

Hedge of net investments

The change in value of currency-hedged net investments in foreign operations amounted to € -85 million (2020: € 93 million) in the financial year under review. The balance of the hedging reserve (net) stood at € -10 million (2020: € 68 million) at year-end.

Net gain or loss from hedge accounting

Fair value hedges

The net gain or loss from hedge accounting include the following ineffective portions of fair value hedges by risk categories:

€ mn	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Interest rate risks	-6	6
Interest rate and currency risks	1	0
Total	**-5**	**6**

Hedge of net investments

The ineffective portion of currency-hedged net investments in foreign operations amounted to € 0 million (2020: € 0 million), reported in net gains or losses from hedge accounting. No amounts were reclassified from the reserve for currency-hedged net investments to the income statement.

Please also refer to our explanations in the Notes (9) and (36).

(71) Maturities of financial liabilities

The following overview shows the future undiscounted cash flows of non-derivative financial liabilities and of loan commitments.

Maturities as at 31 December 2021

€ mn	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Money market and capital market liabilities (ac)	605	2,884	8,593	11,362	8,489	**31,933**
Deposits from the housing industry (ac)	9,409	2,307	1	1	–	**11,718**
Subordinated liabilities (ac)	–	4	198	319	135	**656**
Financial liabilities from other transactions (ac)	93	–	1	–	–	**94**
Lease liabilities	–	3	9	35	34	**81**
Financial guarantees	120	–	–	–	2	**122**
Loan commitments	1,062	–	–	–	–	**1,062**

Maturities as at 31 December 2020

€ mn	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Money market and capital market liabilities (ac)	1,444	1,427	6,898	10,924	8,476	**29,169**
Deposits from the housing industry (ac)	8,428	2,166	–	–	–	**10,594**
Subordinated liabilities (ac)	–	17	22	445	550	**1,034**
Financial liabilities from other transactions (ac)	85	–	1	–	–	**86**
Lease liabilities	–	3	10	34	36	**83**
Financial guarantees	160	–	–	–	2	**162**
Loan commitments	1,258	–	–	–	–	**1,258**

The Risk Report, part of the Group Management Report, includes a detailed description of the liquidity risk associated with financial liabilities.

Segment Reporting

(72) Operating segments of Aareal Bank

Aareal Bank prepares its segment reporting in accordance with IFRS 8 Operating Segments.

In accordance with the “management approach” set out in IFRS 8, the segment report discloses, on a segment-specific basis, financial information which is relevant for internal control of an entity and which is also used by such entity’s management to make decisions on the allocation of resources as well as to measure the financial performance of segments.

Three operating segments were defined within Aareal Bank in line with internal management reporting, based on the organisational structure established according to the various products and services offered.

The **Structured Property Financing segment** comprises the property financing and refinancing activities. In this segment, Aareal Bank facilitates property investments for its domestic and international clients, and is active in Europe, North America and Asia / Pacific. It offers commercial property financing solutions, especially for office buildings, hotels, retail, logistics and residential properties. Its particular strength lies in its success in combining local market expertise and sector-specific know-how. In addition to local experts, the Bank also has industry specialists at its disposal, to create financing packages for logistics and retail properties and hotels. This enables Aareal Bank to offer tailor-made financing concepts that meet the special requirements of its national and international clients. What makes Aareal Bank special are its direct client relationships, which – in very many cases – it has maintained for many years.

Aareal Bank is an active issuer of Pfandbriefe, which account for a major share of its long-term funding. Moody’s Aaa rating of the Pfandbriefe confirms the quality of the cover assets pool. To cater to a broad investor base, Aareal Bank uses a wide range of other refinancing tools, including senior preferred and senior non-preferred bonds, as well as other promissory notes and bonds. Depending on market conditions, the Bank places large-sized public issues or private placements. In the Banking & Digital Solutions segment, the Bank also generates bank deposits from the housing industry, which represent a strategically important additional source of funding. Furthermore, it has recourse to institutional money market investor deposits.

In the **Banking & Digital Solutions segment**, Aareal Bank Group offers services, products and solutions to the housing and commercial property industries to optimise digital payment, electronic banking and cash management processes. With its BK01 software, it offers a procedure for the automated settlement of mass payments, in the German property industry. The procedure is integrated in licenced ERP systems. Therefore, customers in Germany may process their payment transactions and account management from the administration software employed. Apart from the German residential and commercial property sector, the German energy and waste disposal industry is a second important customer group of the segment. This enables the offer of further products, facilitating the cross-sector cooperation of target groups and realising synergy effects via end-to-end digital processes. The use of the payment transaction products of Aareal Bank generates deposits that contribute significantly to Aareal Bank Group’s refinancing base.

As part of the **Aareon segment**, the Aareon sub-group offers the IT systems and advisory business for the housing and commercial property sector. Aareon offers its customers reliable, pioneering solutions in the fields of consulting, software and services to optimise IT-supported business processes in the digital age. The ERP (Enterprise Resource Planning) systems, which are tailored to the needs of the respective market, may be supplemented by further digital solutions for purposes of process optimisation.

The majority of these integrated systems forms the digital ecosystem “Aareon Smart World”. It connects property companies with customers, employees and business partners as well as technical “equipment” in apartments and buildings. Aareon Smart World can be used to restructure and optimise processes. The applications help to reduce costs, enable the creation of new business models by providing links between all participants and offer more ease-of-use in the dialogue between tenants and employees of the housing industry.

Aareon offers software solutions both in Germany and abroad that may be used in various types of operating environments: in-house services, hosting and Software as a Service (SaaS) from the exclusive Aareon Cloud. Data from Aareon’s Cloud Computing is held in Aareon’s certified data-processing centre in Mainz, which guarantees data security and protection at the highest level. Following successful advice, implementation and training, customers usually opt for a maintenance model covering regular support services.

Income and expenses within Aareal Bank are predominantly attributable to transactions with third parties, and are directly allocated to the responsible business segment. Revenue from transactions between Aareal Bank’s segments was not generated in a significant amount. Therefore, we elected not to distinguish between internal and external revenue in the following disclosures. Administrative expenses not directly attributable to any of the business segments are segmented in line with the internal cost allocation, based on the principle of causation.

The results of the business segments are measured by the operating profit and the return on equity (RoE). RoE, which indicates a segment’s profitability, is calculated as the ratio of the segment’s operating result (after non-controlling interests and after AT1 interest) to the portion of equity allocated to that segment on average. Allocated equity is calculated on the basis of the capital requirements pursuant to Basel IV (phase-in).

(73) Segment results

€ mn	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Net interest income	560	474	43	39	-6	-1	0	0	597	512
Loss allowance	133	344	0	0	0	0			133	344
Net commission income	8	8	28	26	221	213	-12	-13	245	234
Net derecognition gain or loss	23	28							23	28
Net gain or loss from financial instruments (fvpl)	-30	-32	0	0		0			-30	-32
Net gain or loss from hedge accounting	-5	6							-5	6
Net gain or loss from investments accounted for using the equity method	0	2	-1		-1	-1			-2	1
Administrative expenses	256	227	73	68	211	188	-12	-14	528	469
Net other operating income/expenses	-13	-14	-1	0	2	4	0	-1	-12	-11
Operating profit	**154**	**-99**	**-4**	**-3**	**5**	**27**	**0**	**0**	**155**	**-75**
Income taxes	82	-14	-1	-1	6	9			87	-6
Consolidated net income	**72**	**-85**	**-3**	**-2**	**-1**	**18**	**0**	**0**	**68**	**-69**
Consolidated net income attributable to non-controlling interests	0	0	0	0	1	5			1	5
Consolidated net income attributable to shareholders of Aareal Bank AG	72	-85	-3	-2	-2	13	0	0	67	-74
Allocated equity[1]	1,664	1,849	262	199	39	32	578	442	2,543	2,522
RoE after taxes (%)[2]	3.5	-5.4	-1.3	-1.0	-4.8	39.2			2.1	-3.6
Employees (average)	**785**	**785**	**378**	**385**	**1,914**	**1,745**			**3,077**	**2,915**
Segment assets	**36,095**	**34,101**	**12,084**	**10,997**	**549**	**380**			**48,728**	**45,478**

[1] For management purposes, the allocated equity is calculated for all segments from 2021 onwards on the basis of capital requirements pursuant to Basel IV (phase-in). Reported equity on the statement of financial position differs from this. Aareon's total equity as disclosed in the statement of financial position amounts to € 143 million (2020: € 140 million).

[2] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Commission income from contracts with clients (revenue within the meaning of IFRS 15) is allocated to the segments as follows:

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
€ mn										
ERP products (incl. add-on products)					200	197	-18	-18	182	179
Digital solutions					70	61			70	61
Banking business and other activities	10	11	35	32	0	0			45	43
Total	**10**	**11**	**35**	**32**	**270**	**258**	**-18**	**-18**	**297**	**283**

(74) Income by geographical markets

€ mn	2021	2020
Germany	563	505
Rest of Europe	145	142
North America	120	90
Asia/Pacific	7	6
Total	**835**	**743**

Income includes net interest income (excluding loss allowance), net commission income, net gain or loss on derecognition and net gain or loss from financial instruments (fvpl). Allocation to geographical markets is based on the registered office or domicile of the Group company or branch office.

Other Notes

(75) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2021	31 Dec 2020
USD	12,059	11,092
GBP	5,080	4,279
CAD	1,412	1,291
SEK	938	862
CHF	324	313
DKK	102	59
Other	633	459
Total	**20,548**	**18,355**

Foreign currency liabilities

€ mn	31 Dec 2021	31 Dec 2020
USD	12,047	11,106
GBP	5,095	4,359
CAD	1,398	1,289
SEK	931	855
CHF	323	311
DKK	102	59
Other	627	452
Total	**20,523**	**18,431**

(76) Subordinated assets

In the event of insolvency or liquidation of the issuer, subordinated assets are those subordinate to the claims of all other creditors. Subordinated assets in the financial year 2021 amounted to € 309 million (2020: € 350 million).

(77) Leases

Leases where the Bank acts as the lessee

The following overview shows the movements in the right-of-use assets from leases where Aareal Bank Group acts as the lessee.

€ mn	2021 Right-of-use assets in land and buildings	2021 Right-of-use assets in office furniture and equipment	2021 Total	2020 Right-of-use assets in land and buildings	2020 Right-of-use assets in office furniture and equipment	2020 Total
Cost						
Balance as at 1 January	**67**	**6**	**73**	**69**	**7**	**76**
Additions	10	3	**13**	5	4	**9**
Transfers	–	–	**–**	-2	0	**-2**
Amortisation and impairment losses	6	1	**7**	5	2	**7**
Disposals	7	3	**10**	2	3	**5**
Changes in the basis of consolidation	2	0	**2**	4	–	**4**
Currency translation differences	2	0	**2**	-2	0	**-2**
Balance as at 31 December	**68**	**5**	**73**	**67**	**6**	**73**

Right-of-use assets are recognised under property and equipment.

Aareal Bank Group primarily rents properties which are, in some cases, subject to longer-term rental agreements with extension options of up to ten years where the exercise is reasonably certain. The leases are not subject to material residual value guarantees.

The entire cash outflows from leases where Aareal Bank Group is the lessee in the current period amount to € 17 million (2020: € 14 million) as at the reporting date.

Expenses and income from Aareal Bank Group include the following amounts from leases with Aareal Bank Group as the lessee:

€ mn	31 Dec 2021	31 Dec 2020
Interest expenses for lease liabilities	2	2
Expenses for short-term leases	2	2
Expenses for low-value leases	0	1
Income from the sublease of right-of-use assets	0	1

In the financial year 2021, no material variable lease payments were agreed upon (2020: € – million).

The future undiscounted cash flows from lease liabilities based on their maturities are disclosed in the Note "Maturities of financial liabilities".

Leases where the Bank acts as the lessor

Aareal Bank Group acts as lessor as regards the lease of property. The material rental contracts are classified as operating leases. Properties leased by the Group are reported under the item "Other assets". Not all properties reported under the item "Other assets" are currently let. The risks of these properties are included in property risk management.

Income from operating leases amounted to € 12 million (2020: € 9 million) in the year under review. It is recognised in the income statement on a straight-line basis over the lease term.

The following overview shows the future undiscounted payments under operating leases based on their maturities where Aareal Bank Group acts as the lessor.

€ mn	31 Dec 2021	31 Dec 2020
Up to 1 year	9	6
Longer than 1 year, and up to 5 years	19	14
Longer than 5 years	6	6
Total minimum lease payments	**34**	**26**

(78) Contingent liabilities and loan commitments

€ mn	31 Dec 2021	31 Dec 2020
Contingent liabilities	122	163
Loan commitments	1,062	1,258
of which: irrevocable	740	896

Contingent liabilities include irrevocable payment obligations regarding the bank levy and the liability to the deposit guarantee scheme of German banks. These and the values reported under loan commitments given represent the maximum default risk to which Aareal Bank Group is exposed at the end of the reporting period.

Furthermore, the Bank is involved in legal disputes. Based on a legal analysis, successful outcome of these disputes is more likely than not. Essentially, these are legal disputes with borrowers (or former borrowers) who claim damages against the Bank. These are included in the table above, with a probability-weighted amount of € 27 million (2020: € 92 million), but have not been recognised as liabilities. We estimate the maximum default risk in the medium double-digit million range. The duration of proceedings depends on the complexity of each individual litigation, and the legal remedies available in each case. Likewise, the final amount in the event of defeat may vary considerably, depending upon the duration of proceedings and the legal remedies. Refunds of litigation costs are possible.

In the year under review, the tax risks were included for the first time in the contingent liabilities at a probability-weighted amount of € 37 million. They result from the diverging assessment of tax matters and potential legal changes. This is offset by opportunities, albeit to a somewhat lesser extent. We estimate the maximum tax risk to be in the low triple-digit million range.

Accordingly, the recognition of contingent liabilities is also subject to estimation uncertainties.

(79) Regulatory capital and capital management

As regards meeting minimum capital ratios, Aareal Bank Group has to comply with the capital adequacy requirements set out in the Capital Requirements Regulation (CRR), the Capital Requirements Directive IV (CRD IV), the German Banking Act (Kreditwesengesetz, KWG) and the German Solvency Regulation (Solvabilitätsverordnung, SolvV). This requires Aareal Bank to comply with a Total SREP Capital Requirement (TSCR) in 2022 of 10.75 % (2021: 10.25 %). This comprises an additional own funds requirement (Pillar 2 Requirements – P2R) of 2.75 %, which has to be maintained in the form of at least 56.25 % in Common Equity Tier 1 capital and 75 % of Tier 1 capital. The increase is the result of the fact that especially the market for commercial properties has been affected by the Covid-19 pandemic. The Overall Capital Requirement (OCR) of Aareal Bank in 2022 amounts to 13.25 % (2021: 12.75 %), resulting from the TSCR plus the capital conservation buffer of 2.5 % and the currently applicable countercyclical buffer of 0.0 % (2021: 0.0 %). Both of the buffers have to be maintained in the form of Common Equity Tier 1 capital. In addition, several countries have already announced to (re-)introduce the countercyclical capital buffer previously suspended in almost all countries due to the Covid-19 pandemic. For example, the package of macroprudential measures as resolved by the German Federal Financial Supervisory Authority (BaFin) in January 2022 provides for a reinstatement of the countercyclical capital buffer for risk exposures located in Germany as well as the first-time introduction of a sector-specific systemic risk buffer for loans collateralised by residential properties in 2023. This will result in increasing capital buffer requirements for the Bank.

The objectives of capital management are optimising the capital base as well as an efficient capital allocation to the individual business areas in terms of risk and income. Aareal Bank has defined the CET1 ratio (Basel IV (phase-in)) as a key management indicator, subject to further regulatory changes. The capital ratios are managed through the generation of profits, an active dividend policy, optimisation of the capital structure, and an efficient management of risk assets.

Within the context of capital management, projections are made on a regular basis showing the changes of the individual capital components and risk-weighted assets, as well as the resulting capital ratios. This is reported regularly to the Management Board within the framework of management reporting. The strategic allocation of capital to the individual business segments is incorporated in the Group's annual overall planning process.

Aareal Bank Group's regulatory capital[1] pursuant to Basel IV (phase-in) is composed of the following:

€ mn	31 Dec 2021	31 Dec 2020
Tier 1 capital (T1)		
Subscribed capital and capital reserves	900	900
Eligible retained earnings	1,804	1,782
Accumulated other comprehensive income	-127	-180
Amounts to be deducted from CET 1 capital	-250	-216
Sum total of Common Equity Tier 1 (CET1) capital	**2,327**	**2,286**
AT1 bond	300	300
Sum total of Additional Tier 1 (AT1) capital	**300**	**300**
Sum total of Tier 1 capital (T1)	**2,627**	**2,586**
Tier 2 (T2) capital		
Subordinated liabilities	346	752
Other	48	57
Sum total of Tier 2 capital (T2)	**394**	**809**
Total capital (TC)	**3,021**	**3,395**

The estimate for risk-weighted assets (RWAs) is based on the current version of the CRR plus revised AIRBA requirements for commercial property lending, and on the European Commission's draft for the European implementation of Basel IV dated 27 October 2021. The calculation also includes a buffer (maintaining the scaling factor of 1.06 for AIRBA risk weights, and the 370 % risk weight for the IRBA equity exposure class), to account for the uncertainty surrounding the future final wording of CRR III as well as the implementation of further regulatory requirements such as EBA requirements for internal Pillar I models. When Basel IV enters into force on 1 January 2025, RWA will be calculated based on the European requirements, which will have been finalised by then, and the higher of the revised AIRBA and the revised CRSA (standardised approach for credit risk) phase-in output floor.

Analysis of risk-weighted assets (RWA)[2] under Basel IV (phase-in)

€ mn	Risk-weighted assets (RWA) 31 Dec 2021	Minimum capital requirements Total 31 Dec 2021	Risk-weighted assets (RWA) 31 Dec 2020	Minimum capital requirements Total 31 Dec 2020
Credit risk (excluding counterparty credit risk)	11,305	904	11,355	909
Counterparty credit risk	381	31	517	41
Market risk[2]	n/a	n/a	87	7
Operational risk	1,131	91	1,236	99
Total	**12,817**	**1,026**	**13,195**	**1,056**

[1] 31 December 2021: excluding proposed dividend of € 1.60 per share in 2022 for the financial year 2021, including the dividend of € 1.10 per share not distributed in 2021 as well as the pro rata temporis accrual of net interest on the AT1 bond. The appropriation of profits is subject to approval by the Annual General Meeting.
31 December 2020: excluding proposed dividend of € 1.50 per share in 2021 and incorporating the pro rata accrual of net interest on the AT1 bond. Previous year's figures were adjusted as the disclosures in the previous year were made in accordance with Basel III.
The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

[2] Previous year's figures were adjusted as the disclosures in the previous year were made in accordance with Basel III.

[3] There was no requirement to determine market risk as the sum total of the net foreign currency position in aggregate did not exceed 2 % of regulatory capital.

(80) Remuneration disclosures

Management and Supervisory Board

In the financial year 2021, the Management Board's total remuneration, excluding benefits from pension commitments, amounted to € 9 million (2020: € 10 million), of which € 4 million (2020: € 4 million) referred to variable components.

Benefit payments to former Management Board members, including those retired from the Board during the year under review, and their respective surviving dependants totalled € 8 million in 2021 (2020: € 2 million).

The total amount of pension obligations to active and former members of the Management Board was € 65 million as at 31 December 2021 (2020: € 70 million). Of that amount, € 11 million (2020: € 34 million) related to active members of the Management Board as at the end of the reporting year, € 55 million (2020: € 37 million) was attributable to former members of the Management Board, including those retired from the Board during the year under review, and their surviving dependants.

The total remuneration of members of the Supervisory Board for the financial year 2021 amounted to € 2 million (2020: € 2 million). The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG.

Total remuneration of executives in key positions is analysed below:

€ 000's	31 Dec 2021	31 Dec 2020
Short-term benefits	7,542	8,193
Post-employment benefits	4,176	3,957
Other long-term benefits	1,112	967
Termination benefits	–	–
Share-based remuneration	2,377	1,985
Total	**15,207**	**15,102**

Post-employment benefits reported comprise service cost resulting from pension provisions for Management Board members who were in active service during the financial year as well as past service cost. The previous year's figures were adjusted accordingly.

Provisions for pension obligations concerning key executives totalled € 32 million as at 31 December 2021 (2020: € 34 million).

Disclosures on share-based remuneration

Share-based remuneration for risk takers

In the case of risk takers whose variable remuneration exceeds an exemption threshold, a portion of the variable remuneration is granted in form of a share-based payment, with the amount of such remuneration upon disbursement depending on the development of the price of Aareal Bank AG's shares. In this context, a distinction is made between an immediately due share bonus subject to a holding period (20% to 30% of the variable remuneration) and a deferred share-based payment (also 20% to 30% of the variable remuneration). The deferral period of the deferred share-based payment amounts to three to five years, with disbursement being made pro rata temporis, also after a holding period. The disbursement is normally made via cash settlement. Until the disbursement of the share-based remuneration components, these components are also subject to defined penalty conditions that enable a subsequent reduction up to a full elimination. In addition, share-based payment elements that were granted after 2017, may be reclaimed in certain situations ("clawback").

These rules also apply to the members of the Management Board, with the deferral period amounting to at least five years since the financial year 2018 and the deferred share-based payment amounting to at least 35%. The deferral period is also increased for newly appointed Management Board members for the first year of service to seven years and for the second year of service to six years. The deferral period is five years from the third year of service.

Valuation model and valuation assumptions

The obligations resulting from share-based payment arrangements as at the balance sheet date correspond to the remuneration granted, discounted to the balance sheet date. The discount period corresponds to the period from the balance sheet date to the earliest exercise or payout date, per plan and per tranche. The discount is based on the Euribor swap rate applicable as at the relevant balance sheet date, depending on the term.

Amount of cash-settled share-based payment transactions

The total amount of outstanding virtual shares in relation to existing share-based payment arrangements changed as follows:

Quantity (number)	2021	2020
Balance (outstanding) as at 1 January	**703,561**	**699,743**
Granted during the reporting period	254,153	313,908
Expired during the reporting period	–	–
Exercised during the reporting period	303,649	310,090
Balance (outstanding) as at 31 December	**654,065**	**703,561**
of which: exercisable	–	–

As at the reporting date, the total amount of virtual shares granted during the reporting period was € 7 million (2020: € 6 million).

The virtual shares exercised during the reporting period were converted at a weighted average price of the Aareal Bank AG share of € 22.28 (2020: € 25.38).

Impact on financial performance

The total amount expensed for share-based payment transactions was € 6 million during the financial year 2021 (2020: total income of € 2 million). The obligation from share-based payment transactions as at 31 December 2021 amounted to € 26 million (2020: € 19 million). It is reported in the statement of financial position in the line item "Provisions".

Management Equity Programme

Together with Advent International, Aareal Bank set up a Management Equity Programme (MEP) for Aareon in the year under review and, in line with its shareholding, contributed Aareon shares with a market value of € 6 million into a management equity company, in which individual members of Aareon's management as well as independent members of the Advisory Board acquired an interest – also at market value – of € 4 million. The remaining shares can be issued at a later date.

In the event of a divestment of Aareon, depending on Aareon's performance, the MEP leads to either a gain or loss for the participants in form of Aareon shares (equity-settled). The entitlements generally vest on a quarterly basis over a period of five years. The break-even point is at an appreciation of approximately 60 % and is increased by a minimum interest of 12 % p.a. If the break-even point is exceeded, the management participates in potential disposal gains in a leveraged manner.

The MEP is measured based on an option pricing model with an assumed term of five years and an historic volatility of approximately 30 %.

(81) Related party disclosures in accordance with IAS 24

The group of related parties of Aareal Bank Group comprises the members of management or supervisory bodies of Aareal Bank AG (see preceding note) and close members of these persons' families. The group of companies related to Aareal Bank Group consists of the companies set out in Note 90 "List of Shareholdings". Intra-group receivables and liabilities, as well as consolidated income and expenses, are not shown here.

The following list provides an overview of the balances of existing transactions with related parties:

€ mn	31 Dec 2021	31 Dec 2020
Management Board	–	–
Supervisory Board	–	–
Other related parties	16	20
Total	**16**	**20**

The item "Other related parties" includes a loan of € 16 million which was provided to our investee Mount Street Group Limited on an arm's length basis. Moreover, there is a receivable in the amount of € 0.2 million due from the BauGrund/TREUREAL syndicate.

Together with Advent International, Aareal Bank set up a Management Equity Programme (MEP) for Aareon and, in line with its shareholding, contributed Aareon shares with a market value of € 6 million into a management equity company, in which individual members of Aareon's management as well as independent members of the Advisory Board also acquired an interest at market value.

In addition, there were no further significant transactions within the meaning of IAS 24.

(82) Events after the reporting date

The voluntary public takeover offer made by Atlantic BidCo GmbH on 17 December 2021, a company indirectly held by the financial investors Advent International Corporation and Centerbridge Partners, L.P. and other investors, was not successful as the required minimum acceptance level was not reached, resulting in the offer becoming void.

Sanctions related to the conflict in Ukraine could mean that our remaining (collateralised) exposure to Russia of around € 200 million, which is being further reduced, may not be serviced due to political interventions (transfer risk). It was not yet possible to provide an estimate of the financial impact at the time of preparing the financial statements.

There were no other material matters subsequent to the end of the reporting period that need to be disclosed at this point.

(83) Contingencies

By means of a Letter of Comfort in favour of the Monetary Authority of Singapore, Aareal Bank AG has undertaken to ensure that Aareal Bank Asia Ltd. is able to fulfil its obligations at any time.

(84) Disclosures pursuant to section 160 (1) no. 8 of the AktG

Pursuant to the German Securities Trading Act (WpHG), any investor whose shareholding in a listed company reaches, exceeds or falls short of certain threshold values in terms of voting rights (whether by purchase, sale or by any other means) must notify the Company and the German Federal Financial Supervisory Authority. The lowest threshold for this notification requirement is 3 %. 100 % of Aareal Bank AG shares are held in free float.

As at 31 December 2021, we were aware of the following shareholders holding a share in the voting rights of at least 3 % pursuant to section 33 (1) of the WpHG:

	Location	Voting rights from shares	Threshold reached on (according to notification)
Responsible entity			
Morgan Stanley	Wilmington, Delaware	10.11 %	25 November 2021
Deka	Frankfurt	9.60 %	22 May 2018
VBL[1]	Karlsruhe	6.50 %	3 February 2015
Daniel Křetínský (Vesa Equity Investment S.à r.l.)		7.80 %	10 November 2021
Klaus Umek (Petrus Advisers Investments Fund L.P.)		5.35 %	17 August 2021
Till Hufnagel (Petrus Advisers Investments Fund L.P.)[2]			
Igor Kuzniar		5.06 %	23 April 2020
Teleios Global Opportunities Master Fund Ltd.[3]	George Town		
Janus Henderson Group plc	St. Helier	4.96 %	13 December 2021
Talomon Capital Limited	London	3.46 %	25 October 2021
Dimensional Holdings Inc.	Austin, Texas	3.13 %	1 December 2021

[1] Shares are managed by Deka and are therefore included in Deka's holding.
[2] Shares are also attributed to Klaus Umek and therefore correspond to his shareholding.
[3] Shares are also attributed to Igor Kuzniar and therefore correspond to his shareholding.

(85) Declaration of Compliance in accordance with section 161 of the AktG

The Management Board and the Supervisory Board issued the Declaration of Compliance as stipulated in section 161 of the AktG, and made this Declaration available to shareholders. It is available to the public on the Company's website on www.aareal-bank.com/en/about-us/corporate-governance/declaration-of-compliance.

(86) Employees

The number of Aareal Bank Group employees is shown below:

	31 Dec 2021[1]	Average 1 Jan - 31 Dec 2021[2]	31 Dec 2020[1]	Average 1 Jan - 31 Dec 2020[2]
Salaried employees	2.998	2.905	2.817	2.751
Executives	172	172	165	164
Total	**3.170**	**3.077**	**2.982**	**2.915**
of which: part-time employees	590	586	584	567

[1] This number does not include 30 employees of the hotel business (31 December 2020: 35 employees).
[2] This number does not include 88 employees of the hotel business (1 January to 31 December 2020: 52 employees).

(87) Nature and extent of interests in unconsolidated structured entities

In accordance with IFRS 12.24, the nature and extent of interests in unconsolidated structured entities as well as the nature of, and changes in, the risks associated with such interests have to be disclosed in the consolidated financial statements. An interest in a structured entity arises from a contractual and/or non-contractual involvement which entitles the Group to receive variable returns from the relevant activities of the structured entity. Examples for this are equity or debt instruments of structured entities or the provision of financing, collateral and guarantees to structured entities.

Structured entities are companies where voting rights or similar rights are not the dominant factor to assess control of the company. The relevant activities of structured entities are directed by means of contractual arrangements; any voting rights relate to administrative tasks only. Structured entities are characterised by features or attributes such as restricted activities, a narrow and well-defined objective and/or insufficient equity. In addition, structured entities may relate to financings in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks. Examples of structured entities are securitisation vehicles, asset-backed financings and some investment funds.

Aareal Bank Group mainly interacts with structured entities such as open-ended property funds and leased property companies. In this context, the Group provides financing to structured entities in the form of loans or guarantees. In the following table, strategic investments made by the Group as well as the Management Equity Programme (MEP) for Aareon are shown under "Other". The leased property companies were established by third parties for the financing of particular transactions and have the legal form of a German private limited company with a limited liability company as general partner (GmbH & Co KG). In the year under review and the previous year, Aareal Bank Group did not provide any non-contractual support for unconsolidated structured entities.

To the extent that this is relevant, the following table shows the carrying amounts of assets and liabilities recognised by Aareal Bank Group as at the reporting date as well as the existing off-balance sheet risk exposures that relate to unconsolidated structured entities. The carrying amounts of the assets and off-balance sheet items correspond to the Group's maximum loss exposure from interests in unconsolidated structured entities (without taking into account collateral). The size of the structured entities was determined on the basis of the net fund assets for open-ended property funds and other vehicles and on the basis of total assets for leased property companies.

31 December 2021

€ mn	Open-ended property funds	Leased property companies	Other	Total
Assets				
Loan receivables	30	16	8	**54**
Off-balance sheet exposures				
Loan commitments and guarantees (nominal value)	–	–	2	**2**
Size range of structured units	**€ 242 million – € 1,247 million**	**€ 3 million – € 47 million**	**€ 1 million – € 36 million**	

31 December 2020

€ mn	Open-ended property funds	Leased property companies	Other	Total
Assets				
Loan receivables	31	17	4	**52**
Off-balance sheet exposures				
Loan commitments and guarantees (nominal value)	–	–	2	**2**
Size range of structured units	**€ 167 million – € 896 million**	**€ 5 million – € 47 million**	**€ 1 million – € 11 million**	

(88) Disclosures on material non-controlling interests

Advent International holds around 30 % of the shares in Aareon AG. Voting rights are attached to the shares. Consolidated net income attributable to the non-controlling interest amounted to € 3 million (2020: € 5 million). Aareon's segment assets (before consolidation) amount to € 549 million (2020: € 380 million), comprising € 361 million (2020: € 173 million) in intangible assets, € 73 million (2020: € 92 million) in financial assets, and € 71 million (2020: € 72 million) in property and equipment. Assets are backed by equity of € 209 million (2020: € 201 million). In addition, there are lease liabilities of € 62 million (2020: € 62 million) and € 54 million (2020: € 54 million) in provisions. For further details, please refer to the explanations in relation to the Aareon segment.

(89) Country-by-Country Reporting

The disclosure requirements refer to information on registered office, revenue, profit or loss, taxes on profit or loss, received government assistance as well as wage and salary earners of Aareal Bank AG, together with its foreign branches and domestic and foreign subsidiaries included in the reporting entity-structure, prior to consolidation.

For this purpose, the Bank's entities – subsidiaries as well as Aareal Bank AG's foreign branches – are allocated to our three business segments, Structured Property Financing, Banking & Digital Solutions and Aareon.

Aareal Bank defines the branch offices' operating profit, which is used as a proxy for revenue, as the sum of the following consolidated income statement items (in accordance with IFRSs):

- Net interest income before loss allowance
- Net commission income
- Net derecognition gain or loss
- Net gain or loss from financial instruments (fvpl)
- Net gain or loss from hedge accounting
- Net gain or loss from investments accounted for using the equity method;
- Net other operating income/expenses

Taxes disclosed are tax expenses in accordance with IFRSs.

The number of wage and salary earners relates to average full-time equivalent staff employed during the financial year.

The following overview shows all countries where Aareal Bank AG has offices, including foreign branches and subsidiaries. Please refer to the list of shareholdings as regards the allocation of individual subsidiaries to the relevant country of domicile. Aareal Bank AG's foreign branches are located in France, Ireland, Italy, Poland, Sweden and the UK.

2021

	Revenues	Profit/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**541**	**154**	**82**	**752**
Belgium	3	3	–	–
France	8	4	1	8
Germany	376	107	63	662
Ireland	1	0	0	1
Italy	16	-60	-10	27
Poland	8	4	1	5
Singapore	6	4	–	7
Sweden	4	6	1	3
United Kingdom	10	6	1	5
USA	112	80	25	34
Consolidation	-3	–	–	–
Banking & Digital Solutions segment	**59**	**-4**	**-1**	**271**
Germany	69	-4	-1	271
Consolidation	-10	–	–	–
Aareon segment	**216**	**5**	**6**	**1,794**
Finland	0	-2	–	3
France	31	8	2	220
Germany	126	1	1	973
Netherlands	35	6	2	291
Norway	1	0	–	4
Sweden	7	-7	0	98
United Kingdom	16	-1	1	205
Consolidation	–	–	–	–
Total	**816**	**155**	**87**	**2,817**

Government assistance was not received in the financial year 2021 (2020: –).

Aareal Bank Group's return on assets, calculated as the ratio of net profit to total assets, was 0.14 % as at the record date.

2020

	Revenues	Profit/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**466**	**-99**	**-14**	**752**
Belgium	0	0	–	–
France	8	5	1	7
Germany	330	-40	1	660
Ireland	2	0	0	1
Italy	-12	-13	5	28
Poland	8	5	0	5
Singapore	5	3	0	6
Spain	0	0	–	–
Sweden	2	–	1	3
United Kingdom	46	-32	-23	6
USA	83	-27	1	36
Consolidation	-6	–	–	–
Banking & Digital Solutions segment	**57**	**-3**	**-1**	**265**
Germany	65	-3	-1	265
Consolidation	-8	–	–	–
Aareon segment	**215**	**27**	**9**	**1,595**
Finland	1	0	–	3
France	28	7	2	206
Germany	132	16	6	889
Netherlands	31	4	1	275
Norway	2	1	0	7
Sweden	10	-1	0	94
United Kingdom	11	0	0	121
Consolidation	–	–	–	–
Total	**738**	**-75**	**-6**	**2,612**

(90) List of shareholding

The list of shareholdings is prepared pursuant to section 313 (2) of the HGB. The disclosures in relation to the companies' equity and earnings are retrieved from the financial statements based on the respective local financial reporting principles.

31 December 2021

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated subsidiaries				
2	Aareal Bank Asia Ltd.	Singapore	100.0	SGD 34.5 mn	SGD 7.4 mn [1]
3	Aareal Beteiligungen AG	Frankfurt	100.0	167.0	0.0 [3]
4	Aareal Capital Corporation	Wilmington	100.0	USD 995.9 mn	USD 57.5 mn [4]
5	Aareal Estate AG	Wiesbaden	100.0	2.9	0.0 [3]
6	Aareal First Financial Solutions AG	Mainz	100.0	7.2	0.3 [3]
7	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.8	0.1 [1]
8	Aareal Holding Realty LP	Wilmington	100.0	USD 239.9 mn	USD -0.3 mn [4]
9	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	416.7	0.0 [3]
10	Aareon AG	Mainz	70.0	151.1	-21.2 [1]
11	Aareon Deutschland GmbH	Mainz	100.0	56.8	0.0 [3]
12	Aareon Finland Oy	Helsinki	100.0	0.2	-1.0 [2]
13	Aareon France S.A.S.	Meudon-la Forêt	100.0	11.7	4.6 [2]
14	Aareon Holding France SAS	Meudon-la Forêt	100.0	0.0	0.0 [1]
15	Aareon Nederland B.V.	Emmen	100.0	28.9	0.5 [2]
16	Aareon Norge AS	Oslo	100.0	NOK 10.5 mn	NOK 9.9 mn [2]
17	Aaeron Planungs- und Bestandsentwicklungs GmbH	Mainz	100.0	1.7	0.9 [1]
18	Aareon RELion GmbH	Augsburg	100.0	1.5	0.2 [1]
19	Aareon SMB HUB UK Limited	Kenilworth	100.0	0.0	0.0 [1]
20	Aareon Sverige AB	Mölndal	100.0	SEK 48.2 mn	SEK -9.7 mn [2]
21	Aareon UK Ltd.	Coventry	100.0	GBP 7.0 mn	GBP 0.0 mn [2]
22	Alexander Quien Nova GmbH	Bremen	100.0	0.1	0.0 [1]
23	Arthur Online Ltd.	London	100.0	2.0	-1.4 [1]
24	AV Management GmbH	Mainz	100.0	0.4	0.0 [3]
25	BauContact Immobilien GmbH	Wiesbaden	100.0	16.1	0.5 [1]
26	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 [3]
27	BauGrund Solida Immobilien GmbH	Frankfurt	100.0	0.2	0.0 [1]
28	BauGrund TVG GmbH	Munich	100.0	0.1	0.0 [1]
29	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	4.5	4.3 [1]
30	BriqVest B.V.	Amsterdam	100.0	6.3	0.1 [2]
31	BVG – Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	152.3	0.0 [3]

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[1] Preliminary figures as at 31 December 2021; [2] Equity and results as at 31 December 2020;
[3] Profit and loss transfer agreement/control and profit transfer agreement; [4] Disclosures in accordance with IFRSs

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
32	CalCon Austria GmbH	Vienna	100.0	0.4	0.0 [1]
33	CalCon Deutschland GmbH	Munich	100.0	2.0	0.1 [1]
34	CalCrom S.R.L.	Iasi	83.3	0.1	0.0 [1]
35	Cave Nuove S.p.A.	Rome	100.0	-37.7	-1.0 [1]
36	Curo Software Ltd.	Warrenpoint	100.0	0.0	0.0 [1]
37	DBB Inka	Dusseldorf	100.0	99.3	-0.9
38	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	0.3	-1.0 [1]
39	Deutsche Structured Finance GmbH	Wiesbaden	100.0	2.0	-0.5 [1]
40	DSF Flugzeugportfolio GmbH	Wiesbaden	100.0	0.0	0.0 [3]
41	DHB Verwaltungs AG	Wiesbaden	100.0	5.1	0.0 [3]
42	FIRE B.V.	Utrecht	60.0	0.0	0.0 [2]
43	GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH	Bremen	100.0	1.7	0.5 [1]
44	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	3.0	0.0 [3]
45	GEV Beteiligungsgesellschaft mbH	Wiesbaden	100.0	0.1	0.0 [1]
46	GVN-Grundstücks- und Vermögensverwaltungsgesell-schaft mit beschränkter Haftung	Frankfurt	100.0	0.2	0.0 [3]
47	Houses2021 MEP Beteiligungs GmbH	Frankfurt	65.6	137.9	-0.7 [1]
48	Houses2021 MEP Verwaltungs GmbH	Frankfurt	70.0	0.2	0.0 [1]
49	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	2.5	0.0 [1]
50	Izalco Spain S.L.	Madrid	100.0	10.6	0.3 [1]
51	La Sessola Holding GmbH	Wiesbaden	100.0	92.6	0.0 [1]
52	La Sessola S.r.l.	Rome	100.0	68.4	-6.6 [1]
53	La Sessola Service S.r.l.	Rome	100.0	2.9	-3.2 [1]
54	Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn [4]
55	Mercadea S.r.l.	Rome	100.0	15.1	-1.0 [1]
56	Mirante S.r.l.	Rome	100.0	3.8	-0.3 [1]
57	Northpark Realty LP	Wilmington	100.0	USD 97.3 mn	USD 9.0 mn [4]
58	OFI GROUP GmbH	Frankfurt	100.0	-1.6	-0.2 [1]
59	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	3.5	0.0 [3]
60	Participation Elfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3]
61	Participation Zehnte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3]
62	phi-Consulting GmbH	Bochum	100.0	0.1	0.0 [3]
63	Pisana S.p.A.	Rome	100.0	-4.7	1.3 [1]
64	plusForta GmbH	Dusseldorf	100.0	0.2	0.0 [3]
65	RentPro Ltd.	Warrenpoint	100.0	0.2	0.1 [1]
66	Tactile Limited	London	100.0	1.0	0.6 [1]
67	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	100.0	4.7	0.0 [3]
68	Terrain Beteiligungen GmbH	Wiesbaden	94.0	60.5	1.4 [1]
69	Tintoretto Rome S.r.l.	Rome	100.0	2.3	-0.2 [1]
70	Twinq Facilitair B.V.	Oosterhout	100.0	1.9	0.1 [2]
71	Twinq Holding B.V.	Oosterhout	100.0	2.5	0.3 [2]
72	Twinq Uitwijk en Escrow B.V.	Oosterhout	100.0	0.2	0.0 [2]

[1] Preliminary figures as at 31 December 2021; [2] Equity and results as at 31 December 2020;
[3] Profit and loss transfer agreement/control and profit transfer agreement; [4] Disclosures in accordance with IFRSs

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No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
73	Twinq Verkoop en Service B.V.	Oosterhout	100.0	0.4	0.1 [2]
74	Westdeutsche Immobilien Servicing AG	Mainz	100.0	50.0	0.0 [3]
75	wohnungshelden GmbH	Munich	100.0	0.3	0.2 [1]
76	WP Galleria Realty LP	Wilmington	100.0	USD 137.2 mn	USD -4.3 mn [4]
	II. Joint arrangements				
77	ImmoProConsult GmbH[5]	Leverkusen	50.0	0.0	0.0 [1]
78	Konsortium BauGrund/TREUREAL[5]	Bonn	50.0	0.0	0.0 [1]
	III. Associates				
79	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Bremen	48.4	0.3	0.0 [2]
80	Ecaria GmbH	Berlin	35.9	0.6	-0.3 [1]
81	Houses2021 Management Beteiligungs GmbH & Co. KG	Frankfurt	41.7	8.6	0.0 [1]
82	Mount Street Group Limited	London	20.0	GBP -8.7 mn	GBP -4.5 mn [1]
83	objego GmbH	Essen	40.0	3.7	-3.6 [1]
84	Refurbio GmbH	Berlin	33.4	0.2	-0.6 [1]
85	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	0.0	0.0 [2]
	IV. Other enterprises				
86	blackprint Booster Fonds International GmbH & Co. KG	Frankfurt	49.9	0.7	-0.1 [2]
87	Houses Nominee Ltd.	London	70.0	0.0	0.0 [1]
88	PropTech1 Fund I GmbH & Co. KG	Berlin	9.6	50.2	-2.3 [1]

[1] Preliminary figures as at 31 December 2021; [2] Equity and results as at 31 December 2020;
[3] Profit and loss transfer agreement/control and profit transfer agreement; [4] Disclosures in accordance with IFRSs; [5] Joint operation

(91) Executive Bodies of Aareal Bank AG

The members of the Management Board and the Supervisory Board disclose their offices held, in accordance with the requirements set out in section 285 No. 10 of the HGB in conjunction with section 125 (1) sentence 5 of the AktG.

Composition of Supervisory Board's committees

Executive and Nomination Committee	
Prof. Dr Hermann Wagner	Chairman
Richard Peters	Deputy Chairman
Klaus Novatius	
Sylvia Seignette	
Elisabeth Stheeman	

Audit Committee	
Prof. Dr Hermann Wagner	Chairman
Sylvia Seignette	Deputy Chairman
Holger Giese	
Petra Heinemann-Specht	
Friedrich Munsberg	
Dr Ulrich Theileis	

Risk Committee	
Sylvia Seignette	Chairman
Elisabeth Stheeman	Deputy Chairman
Jana Brendel	
Petra Heinemann-Specht	
Friedrich Munsberg	
Prof. Dr Hermann Wagner	

Technology and Innovation Committee	
Jana Brendel	Chairman
Dr Ulrich Theileis	Deputy Chairman
Holger Giese	
Thomas Hawel	
Jan Lehmann	
Elisabeth Stheeman	

Remuneration Control Committee	
Prof. Dr Hermann Wagner	Chairman
Friedrich Munsberg	Deputy Chairman
Petra Heinemann-Specht	
Klaus Novatius	
Richard Peters	

Supervisory Board

Prof. Dr Hermann Wagner, Chairman of the Supervisory Board (since 23 November 2021)
German Chartered Accountant, tax consultant

capsensixx AG (subsidiary of PEH Wertpapier AG)	Member of the Supervisory Board	
PEH Wertpapier AG	Member of the Supervisory Board	
Squadra Immobilien GmbH & Co. KGaA	Chairman of the Supervisory Board	
(Membership on comparable German and foreign supervisory bodies)		
Corestate Capital Holding S.A.	Deputy Chairman of the Supervisory Board	until 31 December 2021

Richard Peters, Deputy Chairman of the Supervisory Board
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder

Klaus Novatius*, Deputy Chairman of the Supervisory Board
Aareal Bank AG

Jana Brendel, Chairman of the Technology and Innovation Committee
Chief Information Officer 1&1 Telecommunication SE

(Membership in other statutory supervisory boards)		
IQ-optimize Software AG (Tochtergesellschaft der 1&1 Drillisch AG)	Chairman of the Supervisory Board	since 12 December 2021

* Employee representative member of the Supervisory Board of Aareal Bank AG

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Holger Giese since 14 January 2022
Lawyer, former General Counsel Private Bank Germany, Deutsche Bank AG

Thomas Hawel*
Aareon Deutschland GmbH

(Membership in other statutory supervisory boards)		
Aareon Deutschland GmbH (Aareal Bank Group)	Deputy Chairman of the Supervisory Board	

Petra Heinemann-Specht*
Aareal Bank AG

Jan Lehmann*
Aareon Deutschland GmbH

(Membership in other statutory supervisory boards)		
Aareon Deutschland GmbH (Aareal Bank Group)	Member of the Supervisory Board	

Friedrich Munsberg since 14 January 2022
Former Managing Director of KOFIBA Kommunalfinanzierungsbank GmbH (formerly Dexia Kommunalbank Deutschland AG)

Sylvia Seignette, Chairman of the Risk Committee
Former CEO for Germany and Austria, Crédit Agricole CIB (formerly Calyon)

Elisabeth Stheeman
External Member des Financial Policy Committee and of the Financial Market Infrastructure Board, Bank of England, Prudential Regulation Authority

(Membership in other statutory supervisory boards)		
alstria office REIT-AG	Member of the Supervisory Board	since 6 May 2021
(Membership on comparable German and foreign supervisory bodies)		
Asian Infrastructure Investment Bank	Member of the Board of Directors	since 1 April 2021
Edinburgh Investment Trust Plc	Member of the Board of Directors	

Dr Ulrich Theileis since 14 January 2022
Former Deputy Chairman of the Management Board of L-Bank, Landeskreditbank Baden-Württemberg – Förderbank

(Membership on comparable German and foreign supervisory bodies)		
Sächsische Aufbaubank	Member of the Board of Directors	

Retired members

Marija Korsch, Chairman of the Supervisory Board (until 23 November 2021) until 9 December 2021
Former partner of Bankhaus Metzler seel. Sohn & Co. Holding AG

(Membership in other statutory supervisory boards)		
Instone Real Estate Group AG	Member of the Supervisory Board	until 9 June 2021
Just Software AG	Member of the Supervisory Board	
(Membership on comparable German and foreign supervisory bodies)		
Nomura Financial Products Europe GmbH	Member of the Supervisory Board	until 15 November 2021

* Employee representative member of the Supervisory Board of Aareal Bank AG

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Christof von Dryander **Senior Counsel (retired Partner), Cleary Gottlieb Steen & Hamilton LLP**		until 9 December 2021
(Membership in other statutory supervisory boards)		
DWS Investment GmbH	Deputy Chairman of the Supervisory Board	

Hans-Dietrich Voigtländer **Associate Partner at BDG Innovation + Transformation GmbH & Co. KG**		until 9 December 2021

Management Board

Jochen Klösges, Chairman of the Management Board (CEO) **Banking & Digital Solutions, Corporate Affairs, Group Audit, Group Communications & Governmental Affairs, Group Human Resources & Infrastructure, Group Strategy, Group Technology**		since 15 September 2021
(Membership in other statutory supervisory boards)		
Aareon AG (Aareal Bank Group)	Chairman of the Supervisory Board	since 16 December 2021
(Membership on comparable German and foreign supervisory bodies)		
Oest-Stiftung (Oest Group)	Member of the foundation and administrative board	

Marc Hess, Member of the Management Board (CFO) **Finance & Controlling, Investor Relations, Treasury**		
(Membership in other statutory supervisory boards)		
Aareal Beteiligungen AG (Aareal Bank Group)	Member of the Supervisory Board	
Aareon AG (Aareal Bank Group)	Member of the Supervisory Board	

Christiane Kunisch-Wolff, Member of the Management Board (CRO) **Credit Management, Information Security & Data Protection, Non Financial Risk, Regulatory Affairs, Risk Controlling**		
(Membership in other statutory supervisory boards)		
Aareal Estate AG (Aareal Bank Group)	Member of the Supervisory Board	2 June to 18 August 2021

Christof Winkelmann, Member of the Management Board (CMO) **Aareal Asia/Pacific, Business Management & Economic Analysis, Euro-Hub, Loan Markets & Syndication, Non-Euro-Hub, Special Property Finance 1 and 2, Strategy & Business Development, USA Origination**		
(Membership in other statutory supervisory boards)		
Aareal Estate AG (Aareal Bank Group)	Chairman of the Supervisory Board	since 2 June 2021
	Member of the Supervisory Board	until 2 June 2021
(Membership on comparable German and foreign supervisory bodies)		
Aareal Bank Asia Ltd. (Aareal Bank Group)	Chairman of the Board of Directors	
Aareal Capital Corporation (Aareal Bank Group)	Chairman of the Board of Directors	since 31 May 2021
	Member of the Board of Directors	until 31 May 2021

Retired members

Hermann Josef Merkens, Chairman of the Management Board (CEO)		until 30 April 2021
(Membership in other statutory supervisory boards)		
Aareal Beteiligungen AG (Aareal Bank Group)	Chairman of the Supervisory Board	
Aareal Estate AG (Aareal Bank Group)	Chairman of the Supervisory Board	
Aareon AG (Aareal Bank Group)	Deputy Chairman of the Supervisory Board	
(Membership on comparable German and foreign supervisory bodies)		
Aareal Capital Corporation (Aareal Bank Group)	Chairman of the Board of Directors	
Becker & Kries family foundation	Member of the Board of Trustees	

Dagmar Knopek, Member of the Management Board (CLO)		until 31 May 2021
(Membership in other statutory supervisory boards)		
Aareal Estate AG (Aareal Bank Group)	Member of the Supervisory Board	since 28 January 2021
HypZert GmbH	Chairman of the Supervisory Board	

Thomas Ortmanns, Member of the Management Board (CDO)		until 30 September 2021
(Membership in other statutory supervisory boards)		
Aareon AG (Aareal Bank Group)	Chairman of the Supervisory Board	

Wiesbaden, 1 March 2022

The Management Board

Jochen Klösges   Marc Hess

Christiane Kunisch-Wolff   Christof Winkelmann

Independent Auditor's Report

To Aareal Bank AG, Wiesbaden, Germany

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Aareal Bank AG, Wiesbaden and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Aareal Bank AG for the financial year from 1 January to 31 December 2021.

In accordance with the German legal requirements we have not audited the content of the components of the group management report referred to in the notes to the audit opinion.

The group management report contains references not required by law. In accordance with German legal requirements, we have not audited the content of the references named in the notes to the auditor's opinion and the information relating to references.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the components of the group management report named in the notes to the audit opinion. The group management report contains references not required by law. Our audit opinion does not cover the references named in the notes to the audit opinion and information relating to the references.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter the "EU Audit Regulation"), taking into account the German Generally Accepted Standards for Financial Statements Audits promulgated by the German Institute of Public Auditors in Germany (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) EU Audit Regulation we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are such matters that, in our professional judgement, were the most significant in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

■ Measurement of the bail-out purchases

For information on the accounting polices applied, please refer to Note 19 – Property, plant and equipment and 22 – Other assets.

THE FINANCIAL STATEMENT RISK

In the consolidated financial statements of Aareal Bank AG as at 31 December 2021 property and land from previous loan exposures – so-called "bail-out purchases" – were recognised under "Property, plant and equipment" and "Other assets".

Depending on the development status of the bail-out purchases and property strategy, in line with IFRS there are different classifications of the bail-out purchases which have significant influence on the subsequent measurement of the bail-out purchase.

The bail-out purchases are held in property companies and, with one exception, are intended for sale in the ordinary course of business. The subsequent measurement takes place in line with IAS 2 according to the lower of cost and net realisable value. With the support of a third-party, a hotel property is being used by the Bank itself for rental. The subsequent measurement is performed in line with IAS 16 on the basis of the cost model. In addition, if there are indications of impairment it must be assessed whether the carrying amount exceeds the recoverable amount and thus whether impairment is required. The properties are either hotel, residential office or retail properties.

In the context of subsequent measurement, Investment Management at the Bank examined the recoverability of the properties and land at each reporting date. In doing so, the Bank mandates independent experts and considers their methodology and results. The market values of the properties are derived as the present value of future cash flows (DCF method or residual value method for project developments), or on the basis of space-related comparable values.

The planning calculations thus integrate various assumptions subject to uncertainty, e.g. property completion, leasing and marketing. Furthermore, as a result of the corona pandemic there is an ongoing high level of uncertainty in respect to the future development, particularly for hotel and retail properties.

These assumptions which are subject to estimating uncertainty have a substantial impact on the net realisable value and the recoverable amount of the bail-out purchases and thus also on the assessment of the recoverability of the carrying amounts of the bail-out purchases.

For the consolidated financial statements there is the risk that inappropriate subsequent measurement is implemented on the basis of an incorrect classification of the bail-out purchases. There is also the risk that the calculating methods underlying the appraisals are inappropriate or that as a result of the inappropriate exercise of judgement resulting from the assumptions subject to uncertainty impairment of the bail-out purchases is not identified.

OUR AUDIT APPROACH

Based on our risk assessment and the assessment of the error risks, we based our audit opinion on both control-based audit procedures and substantive audit procedures.

Based on our audit we initially examined the classification of the bail-out purchases in line with IFRS and thus the accuracy of the subsequent measurement.

We also examined the Bank's controls and processes to validate the appraisals obtained in terms of appropriateness and effectiveness.

Furthermore, with the involvement of KPMG property experts, we examined selected appraisals, in particular in respect to the following focal points:

- Assessment of the expertise, ability and objectivity the external experts
- Assessment of the general appropriateness of the measurement methods used
- Reasonableness of material assumptions subject to assessment uncertainty used by the experts, especially in light of the corona pandemic

In addition, we audited whether the management's currently envisaged development plans and assumptions are appropriate and were appropriately integrated into the appraisals.

OUR OBSERVATIONS

The classification of the bail-out purchases is appropriate. The measurement methods used in the appraisals which are subject to assessment uncertainty are appropriate and proper.

Recoverability of goodwill from the Aareon subgroup

For information on the accounting polices applied, please refer to Note 18 – Intangible assets (in the section on accounting policies). Information on the impairment test is described in Note 47 – Intangible assets (in the balance sheet disclosures section).

RISK FOR THE FINANCIAL STATEMENTS

As at 31 December 2021, goodwill from the Aareon subgroup amounted to € 232 million (previous year: € 99 million).

The recoverability of the goodwill of the Aareon subgroups is tested annually at the level of the six cash-generating units (CGUs) separated by the regions of the Aareon subgroup. In doing so, the carrying amount is compared with the recoverable amount of the CGU group. If the carrying amount is higher than the recoverable amount, there is a need for impairment. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the CGU group. The reporting date for the impairment test is 31 December 2021.

The impairment test for goodwill is complex and is based on a range of assessments where judgement is exercised. These include in particular the expected business and earnings developments of the CGUs individually broken down by region for the next five years, the assumed long-term growth rates and the discount rate applied.

In the 2021 financial year, due to various new acquisitions goodwill at the level of Aareon subgroups increased by € 133 million to € 232 million. These acquisitions included start-ups still in the development phase whose development in respect to future business potential, revenue growth, the assumed long-term growth rate and the discount rate are subject to a particularly high level of uncertainty.

For the consolidated financial statements there is the risk that the underlying calculation methods are not appropriate or not in line with the measurement principles to be applied. There is also the risk that a goodwill impairment as at the reporting date is not identified as a result of an inappropriate exercise of the judgement described.

OUR AUDIT APPROACH

Based on our risk assessment and the assessment of the error risks, we planned to base our audit opinion on both control-based audit procedures and substantive audit procedures.

Based on our audit we assessed the processes and the ICS relating to the corporate planning for identifying impairment requirements. This result was that no appropriate audit evidence was gained so that our audit opinion is based solely on the substantive audit procedures described below.

We examined the appropriate transfer of corporate planning into the goodwill impairment tests.

In addition, with the involvement of our measurement specialists we assessed, among other matters, the appropriateness of the material assumptions and the calculation methodology of the goodwill impairment tests. To do this we discussed with those responsible for planning in particular the anticipated business and earnings development and the long-term growth rates assumed. In addition, we assessed the consistency of the assumptions against external market estimates.

Furthermore, we satisfied ourselves of the previous forecast quality of the companies by comparing planning of previous financial years with the results actually realised and analysed deviations. As slight changes to the discount rate can have a material impact on the results of the impairment tests, we compared the assumptions and data underlying the discount rate, in particular the risk-free interest rate, the market risk premiums and the beta factor with our own assumptions and publicly available data.

We verified the mathematical accuracy of the measurement model used by the Company.

In order to take account of the existing forecast uncertainty, we examined the impact of possible changes in the discount rate, the earnings trend and the long-term growth rate on the recoverable amount by calculating alternative scenarios and comparing them with the values obtained by the Company (sensitivity analysis).

OUR OBSERVATIONS
The calculation method used for the goodwill impairment test is appropriate and is consistent with the measurement principles to be applied. The assumptions of the Company underlying the measurement are reasonable overall.

Appropriateness of risk provisions Stage 3

For information on the accounting polices applied, please refer to Note 9 – Recognition and measurement of financial instruments and Note 43 – Risk provisions and Note 63 – Disclosures on the credit risk.

THE FINANCIAL STATEMENT RISK
The credit business at Aareal Bank preponderately comprises large-volume commercial property financing for which the Aareal Bank Group individually calculates the risk provisions. As at 31 December 2021, the Aareal Bank Group recognises impairment on credit receivables of € 486 million. € 403 million of these relate to Stage 3 provisions.

One of the material requirements of IFRS 9 – Financial Instruments is that the measurement of the risk provision generally takes place on the basis of probability-weighted scenarios and thus consequently also for credit-impaired debt instruments (the State 3 provision). In this context account is also to be taken of macroeconomic factors on the default risks.

In determining scenarios by number and content, the derivation of expected cash flows in the respective scenario and assessment of the probability judgement is to be exercised to a material extent. These estimates are subject to uncertainty because they can be intensified as a result of the consequences of the Covid-19 pandemic.

For this reason it was particularly important for our audit that the number of scenarios observed was consistent with the complexity of situations determining the individual default risks including the dependency on macroeconomic factors. We regarded it as equally important that the selection of the specific scenarios, the assessment of probabilities and the assessment of the expected cash flows in the respective scenarios was verifiable, appropriately substantiated and incontrovertibly implemented and documented.

OUR AUDIT APPROACH

Based on our risk assessment and the assessment of the error risks, we based our audit opinion on both control-based and substantive audit procedures. The audit procedures we performed thus included the following:

In a first step, we obtained a comprehensive overview on the development of the credit portfolio, the related counterparty default risks and the internal control system in relation to the identification, management, monitoring and recognition of the counterparty default risks in the credit portfolio.

Our audit included structural and functional examinations of the internal control system, in which respect we focussed on the assessment of the internal accounting methodology with reference to the measurement of credit-impaired receivables. For the IT and data processing systems deployed, using our IT specialists we examined the effectiveness of the regulations and procedures relating to a large number of IT applications and which support the effectiveness of the application controls.

On the basis of these findings, in the context of our selection of loan exposures defined on the basis of materiality and risk aspects, we also assessed the appropriateness of the number and content of the scenarios used and the probabilities assigned to these scenarios. In our audit we took the complexity of the respective financing and the probable determined factors for the development of the exposure and verified if the assumptions underlying the scenarios were consistent with the forecasts on the general macroeconomic situation used by Aareal Bank.

Then we assessed the cash flows derived for the scenarios. In our assessment, depending on the exposure strategy pursued, we included the measurement of collateral. In auditing the recoverability of the underlying collateral, in our assessment we deployed appraisals of independent experts and on the basis of publicly available data assessed whether the assumptions in the appraisals were appropriately derived. With the selective involvement of KPMG property experts we examined selected appraisals, in particular for the following key matters:

- Assessment of the expertise, ability and objectivity the external experts
- Assessment of the general appropriateness of the measurement methods used
- Reasonableness of material assumptions subject to assessment uncertainty used by the experts, especially in light of the corona pandemic

We concluded our audit by verifying the correct calculation of the expected credit loss.

OUR OBSERVATIONS

With the receivables assigned to Level 3 provisions , we come to the conclusion that the selection of the specific scenarios, the assessment of probabilities and the assessment of the expected cash flows in the respective scenarios, including the dependency on macroeconomic factors, was verifiable, adequately substantiated and incontrovertibly implemented and documented.

Other Information

The Management Board and/or the Supervisory Board are responsible for the other information. The other information comprises:

- the components of the group management report, whose content was not audited, referred to in the notes to the auditor's opinion.

The other information additionally includes the other parts of the annual report. The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information identified above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is responsible for such internal control as it has determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.

- Conclude on the appropriateness of Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with (German) law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the Management Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that can reasonably be thought to bear on our independence and, where applicable, the related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation preclude public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file Aareal Bank_AG_KA+KLB_ESEF_2021-12-31.zip (SHA256 hash value: ae067777139a5f53245107b39609ed502ca1f994a31c 29305cb7 bd22221a569e) made available and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (10.2021)). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Management Board of the Company is responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Management Board of the Company is responsible for such internal control that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, on the technical specification for this electronic file.

- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 EU Audit Regulation

We were elected by the Annual General Meeting on 17 May 2021 as auditor of the consolidated financial statements We were engaged by the Supervisory Board on 30 May 2021. We have been the Group auditor of Aareal Bank AG since the 2021 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee according to Article 11 of the EU Audit Regulation (long-form audit report).

Other Matter – Use of the Auditor's Report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the examined ESEF documents. The consolidated financial statements and group management report converted to the ESEF format – including the versions to be published in the German Federal Gazette [Bundesanzeiger] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents made available in electronic form.

German Public Auditor Responsible for the Engagement

The audit partner with responsibility for the engagement is Markus Winner.

Frankfur/Main, 4 March 2022

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

Wiechens	**Winner**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
German Public Auditor	**German Public Auditor**

Appendix to the Independent Auditor's Report: the components and references of the group management report were not audited for content

We did not audit the following components of the group management report:

- the corporate governance statement referred to in the group management report and
- the separate non-financial report referred to in the group management report.

We did not audit the content of the references in the group management report not required by law and the information related to the references:

- Details on key employee indicators (in the "Our employees" section, table of HR data in the group management report)

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Wiesbaden, 1 March 2022

The Management Board

Jochen Klösges **Marc Hess**

Christiane Kunisch-Wolff **Christof Winkelmann**

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and is considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board.

Transparency

Outlook: growth

Corporate Governance Statement pursuant to Sections 289f and 315d of the German Commercial Code (HGB) / Corporate Governance Report

Declaration of Compliance in accordance with Section 161 of the AktG

The Management Board and Supervisory Board of Aareal Bank AG declare, in accordance with section 161 of the AktG, that:

Aareal Bank AG has complied with the recommendations of the Government Commission "German Corporate Governance Code" (as amended and published in the German Federal Gazette on 20 March 2020) – except for the restrictions set out below – since the last Declaration of Compliance was issued in June 2021:

1. According to recommendation B. 3, the first-time appointment of Management Board members shall be for a period of not more than three years. The Supervisory Board of Aareal Bank AG generally considers this provision to reflect good corporate governance. However, when appointing the new Chairman of the Management Board, Jochen Klösges, the Bank's Supervisory Board deviated from this recommendation as an exception. Mr Klösges was appointed Chairman of the Management Board for a period of five years, by way of a Supervisory Board resolution dated 15 June 2021. Owing to Mr Klösges' considerable professional experience, both in the property financing business and in banking operations, shortening the first term of office was deemed unnecessary. By appointing him for five years, Aareal Bank ensures continuity and stability with respect to this position.

2. Pursuant to recommendation G. 10 sentence 2, Management Board members shall have access to granted long-term variable remuneration components only after a period of four years. In contrast to the draft version dated 22 May 2019, the Government Commission refrained from defining the term "long-term variable remuneration" in its final version.

   According to the definition in the version dated 22 May 2019, typical performance indicators for long-term variable remuneration were, inter alia, "long-term financial success (profitability and growth with multiple-year measurement basis), non-financial success as prerequisite for subsequent financial success […], implementation of the corporate strategy [etc.]."

   Within Aareal Bank's remuneration system, all targets are derived from the strategy and measured over a period of three years. In line with the definition provided in the draft version dated 22 May 2019, Aareal Bank's entire variable remuneration would classify as long-term. The three-year target determination yields an imputed amount of which only 20 % is paid out directly, whereas the remaining 80 % is paid out in several tranches and over a total period of six years.

   This means that most of the long-term variable remuneration is accessible at the earliest after four years and at the latest after nine years, thus complying with the Code's draft version. However, in the absence of the definition having been adopted – and the associated imprecise recommendation – it is not clear whether Aareal Bank's remuneration structure meets the Code expectations. As a result, and as a precautionary measure, we declare a deviation from recommendation G. 10 sentence 2.

3. According to recommendation D. 4 sentence 2, the Chairman of the Supervisory Board shall not chair the Audit Committee. On 23 November 2021, Prof. Dr Hermann Wagner, who had headed the Audit Committee since his appointment to the Supervisory Board in 2015, was elected as Chairman of the Supervisory Board by Aareal Bank's Supervisory Board, after the previous Chairman of the Supervisory Board, Marija Korsch, had resigned from her office with immediate effect. On account of his many years as an auditor and tax advisor, as well as his extensive experience as Chairman of the Audit Committee, Prof. Dr Wagner will continue to exercise this position. Therefore, Aareal Bank deviates from this recommendation.

Wiesbaden, December 2021

The Management Board

Jochen Klösges | **Marc Hess**

Christiane Kunisch-Wolff | **Christof Winkelmann**

For the Supervisory Board

Prof. Dr Hermann Wagner (Chairman)

Corporate Governance at Aareal Bank Group

Aareal Bank Group is managed by the parent company Aareal Bank AG. Aareal Bank is a listed bank, which by virtue of being classified as "significant", is supervised directly by the European Central Bank. Although the Management Board and the Supervisory Board of Aareal Bank AG are required to observe a large number of specific corporate governance rules, their common understanding does not end at compliance with these rules. They also discuss, on a regular basis, the application of voluntary standards that are recommended by the German Corporate Governance Code, the banking supervisory authorities, Aareal Bank shareholders or due to international best practice, or those that arise in the Supervisory Board's and the Management Board's day-to-day work.

It is the Management Board's and the Supervisory Board's top priority to act in the interests of the Company and hence to meet their responsibility vis-à-vis employees, clients, shareholders and the public alike.

Disclosures regarding Corporate Governance standards

Senior management aligns corporate governance with legal and regulatory rules, as well as a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the Bank's business, in line with our ethical responsibility. These rules and regulations comprise the Memorandum and Articles of Association, the Rules of Procedure for the Supervisory Board and the Management Board, the strategies, the Risk Appetite Framework, the Internal Governance Policy, the Code of Conduct, and the Conflicts of Interest Policy; all members of staff have access to the documents, via common internal communication channels such as the Bank's intranet. Memorandum and Articles of Association, Code of Conduct, Conflicts of Interest Policy, and Rules of Procedure for the Supervisory Board are also accessible via Aareal Bank's website.

Aligning with the German Corporate Governance Code's guiding principle

The Management Board and the Supervisory Board follow their own value structure and that of Aareal Bank, as well as the "reputable businessperson" concept and the German Corporate Governance Code's principles of good corporate governance. The Declaration of Compliance pursuant to section 161 of the AktG lays out annually to what extent the Code's recommendations were complied with, or shall be complied with.

According to Code recommendation F. 4, companies shall specify, in the Corporate Governance Statement, which Code recommendations were not applicable due to overriding legal stipulations.

- This applies to Code recommendation D. 5, according to which the Nomination Committee shall be composed exclusively of shareholder representatives. The Nomination Committee of a credit institution is regulated separately in the German Banking Act (Kreditwesengesetz – "KWG"). Pursuant to section 25d (11) of the KWG, the Supervisory Board's Nomination Committee is required to assume additional tasks which are not supposed to be prepared by shareholder representatives on the Supervisory Board alone. Hence, the Executive and Nomination Committee of Aareal Bank AG also includes employee representatives. However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

Sustainability approach

Contributing to sustainable economic development is a priority for Aareal Bank Group. As a partner to the property industry, Aareal Bank Group is thus pursuing a business strategy appropriate to the requirements of the sector and the stakeholders. The Group is aware of the responsibility associated with its sustainability mission statement and the need to focus on the needs of society, and aims to preserve the foundations on which future generations can base and shape their lives.

The sustainability mission statement, which is supported by an integrated sustainability management system, is an essential part of the corporate strategy, providing a summary of Aareal Bank Group's corporate responsibility principles that are aligned with our objective of doing business sustainably:

- We think in an integrated and future-oriented manner, taking ethical, social and ecological topics into account.

- We analyse trends holistically, evaluate the resulting opportunities and risks, and align our forward-looking sustainability performance accordingly.

- We focus on all relevant stakeholder groups, seek to engage in active dialogue with them in a variety of ways and show how we make use of the insights we have gained.

- We make sure that business decisions take account of environmental, social and governance factors, and communicate our progress – and the challenges we face – transparently and credibly.

- We set priorities and implement our decisions, thereby reinforcing corporate sustainability values such as reliability, innovative ability, integrity, transparency and risk management, our appeal as an employer, and building and maintaining high-trust client relationships.

In doing so, we are guided by national and international frameworks, are committed to initiatives, or have joined organisations that represent generally accepted ethical standards and whose values we share. Relevant organisations include:

- United Nations Global Compact,
- International Labour Organization,
- German Corporate Governance Code,
- Diversity Charter,
- Work-Care Balance Charter.

Established already in 2012, the Sustainability Committee supports the Management Board in developing the Group's sustainability performance and reporting activities. At the same time, it serves as discussion and advisory body to the Group Sustainability Officer, who communicates relevant topics to the Management Board. The Committee includes representatives from all key divisions.

For further details please refer to the latest Sustainability Report: www.aareal-bank.com/en/investors-portal/finance-information/sustainability-reports/archive

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by members of the Management Board and the Supervisory Board, and by all our employees across the Company, regardless of their functions and duties. Our internal Code of Conduct therefore contains binding rules governing the legal and ethical conduct of employees vis-à-vis clients, business partners, and colleagues. Aareal Bank Group's efforts in this context are also motivated by the desire to affirm and strengthen the confidence which stakeholders – our clients, business partners, investors, and staff – place in us (www.aareal-bank.com/en/footermenu/code-of-conduct).

Conflict of Interest Policy

Aareal Bank's processes are – and will be – set up in a manner to prevent conflicts of interest from occurring in the first place. Where they occur nonetheless, dealing with them in the right way is decisive. A Group-wide policy is in place that sets out the correct way of handling conflicts of interest, to prevent any adverse consequences for clients, the Bank and its employees, as well as any doubts regarding the integrity of Aareal Bank Group. These rules provide orientation as to how conflicts of interest are identified, documented, and appropriately resolved. All employees are required to establish transparency regarding any conflicts of interest arising within their area of work, and to ensure that such conflicts are dealt with in accordance with the Policy.

Principles of diversity

The Management Board and the Supervisory Board are openly committed to diversity across the entire Aareal Bank Group.

Aareal Bank defines diversity as:

- The appreciation that every individual is unique, and the respect for this uniqueness
- Equal opportunities at all levels
- The prevention of discrimination of any kind
- The belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals.

The Bank thus aims to promote Aareal Bank Group's image as a modern employer, to strengthen employee commitment and increase employee motivation, to ensure skills and competencies are fostered individually in a way that promotes employee performance, to react to demographic change and an ageing workforce, and to take into account individual circumstances and stages of life.

In order to highlight the significance of diversity, and to document the fact that the concept of diversity is very important to Aareal Bank Group, the Bank signed the Charter of Diversity (an initiative launched by German industry in 2006) in 2013. Aareal Bank AG introduced a Diversity Policy in December 2021.

Aareal Bank employs people from 40 different countries. At Aareal Bank's foreign locations, we take care to ensure that positions are primarily filled by local staff if possible. Aareal Bank Group attaches great importance to the equal treatment of women and men, whether in the context of filling vacant positions, with regard to continuous professional development, or in terms of remuneration. Specifically, any vacancies below senior executive level are generally published throughout the Company, in the form of job advertisements that all members of staff – male or female – may apply for. When setting the remuneration of employees, we do not differentiate by gender but rely exclusively on aspects such as qualification, professional experience or training.

In accordance with the German Act on Equal Participation of Men and Women in Executive Positions in the Private and Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst), the Management Board sets specific targets – including concrete implementation deadlines – for the share of women holding executive positions on the first two management levels below the Management Board of Aareal Bank AG. On the first management level below the Management Board, by 30 June 2022 at least 13.5 % of executive positions are to be held by women; on 31 December 2021, the share of female managers on this level was 18.2 % (2020: 14.7 %). On the second management level below the Management Board, by 30 June 2022 at least 21.1 % of executive positions are to be held by women; on 31 December 2021, the share of female managers on this level was 21.2 % (2020: 23.1 %).

Across Aareal Bank Group, the share of women in executive positions stood at 24.3 % (2020: 24.6 %); at Aareal Bank AG, it was 21.4% (2020: 21.6 %), and at Aareon, it was 25.5 % (2020: 25.5 %), with women accounting for 36.6 % of Aareal Bank Group's entire workforce as at 31 December 2021 (2020: 37.6 %); Aareal Bank AG: 41.4 % (2020: 42.5 %); Aareon: 33.9 % (2020: 34.4 %).

In Germany, Aareal Bank and Aareon apply the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – "AGG"), with specially-appointed Anti-Discrimination Officers overseeing compliance. In addition, all employees attend AGG training. In the US, the employee manual contains rules designed to avoid harassment at the workplace ("Anti-Harassment Rules").

Inclusion

Severely disabled persons made up 4.4 % of Aareal Bank's staff base in 2021 (2020: 5 %). This employee group is represented in the Group's German entities by a disability representative.

Working practices of the Management Board and the Supervisory Board

The Management Board is responsible for managing the Company and for its strategic orientation, material transactions and proper organisation. This also includes the implementation of effective monitoring systems. It focuses its business activities upon the Company's long-term and sustainable development. Its decisions incorporate the long-term consequences of its actions and are guided by the ethical principles of Aareal Bank Group (see relevant corporate governance principles).

Supervisory Board

The Supervisory Board exercises its control using different instruments. On the one hand, it sets out the reporting requirements of the Management Board in its internal Rules of Procedure, to ensure comprehensive and prompt reporting. These reports include the financial reports prior to publication, the reports of Internal Audit, Risk Controlling and Compliance, as well as the external auditors' reports. Said Internal Rules of Procedure also determine the transactions of the Management Board for which Supervisory Board approval is required.

Furthermore, the Supervisory Board contributes to Aareal Bank Group's sustainable success – in the interest of investors, clients, business partners, staff, and the general public – by selecting suitable Management Board members (as set out in the Guidelines for the selection of members of the Management Board and the Supervisory Board), a Management Board remuneration system which is aligned with the Company's long-term and sustainable interests, and by the effective supervision of said remuneration system.

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Remuneration Control Committee, the Risk Committee, the Audit Committee, and the Technology and Innovation Committee. An overview of the respective committee members can be found in the Notes to the Annual Report 2021: www.aareal-bank.com/en/investors-portal/finance-information/financial-reports/archiv/2021.

Executive and Nomination Committee

The Executive and Nomination Committee prepares resolutions to be taken by the Supervisory Board concerning fundamental issues, personnel matters and capital measures. In particular, it supports the Supervisory Board in advising and monitoring the strategy via a regular strategy dialogue. The Committee's area of responsibility also includes assessing the internal condition of Aareal Bank, corporate governance, issues concerning personnel planning for the Management Board as well as regarding the contracts with individual Management Board members. The Executive and Nomination Committee compiles profiles defining the requirements for members of the Management Board and the Supervisory Board and supports the Supervisory Board in selecting suitable candidates, considering personal and professional requirements as well as its targets for the composition of both bodies, including the diversity concept. Based on an at least annual evaluation, it determines the extent to which the members of the Management Board or Supervisory Board have a need for further training, or whether other adjustments are required. Furthermore, the Executive and Nomination Committee monitors, and resolves if necessary, decision proposals regarding loans to senior managers and other related party transactions. The Executive and Nomination Committee is also responsible for the assessment and handling of conflicts of interest arising within the sphere of influence of the Management Board or the Supervisory Board, in line with the Management Board's and Supervisory Board's Conflicts of Interest Policy.

The Executive and Nomination Committee, excluding the employee representatives, discusses the nomination of shareholder representatives for election by the Annual General Meeting.

Remuneration Control Committee

The Remuneration Control Committee monitors whether the structure of the remuneration systems for Management Board members and employees is appropriate, taking into account the impact of remuneration systems on Aareal Bank's overall risk profile. The Remuneration Control Committee prepares corresponding proposals concerning remuneration (including for members of the Management Board) for the plenary meeting of the Supervisory Board. The Remuneration Control Committee receives the information provided by Aareal Bank's Remuneration Officer, as well as the information on the remuneration system intended for disclosure.

Risk Committee

The Risk Committee deals with all material types of risk Aareal Bank is exposed to in its business activities. Along with the Supervisory Board in its entirety, it is also the recipient of the risk reports (please refer to the Risk Report). The material risk types comprise financial and non-financial types of risk alike, including IT-related risks. The Committee is also responsible for reviewing the contents of the risk strategies in accordance with the MaRisk, for checking conformity with the business strategy, and preparing the corresponding resolutions of the Supervisory Board. It furthermore advises the Management Board on how to design an appropriate and effective risk management system, making sure that the Bank's risk-bearing capacity is adequate. To achieve this, the Committee monitors the Management Board, especially as regards determining risk appetite and the corresponding limits.

Audit Committee

The Audit Committee is concerned with all accounting issues, as well as regarding the audit of Aareal Bank AG and Aareal Bank Group. The Committee is responsible for the preparation and conduct of the audit of the financial statements and the consolidated financial statements; it prepares the decisions to be taken by the Supervisory Board on the basis of the Committee's analysis of the external auditors' reports. For this purpose, the Committee reports to the plenary meeting of the Supervisory Board on the results of its analysis and the assessments derived. Preparing the audit of the financial statements also comprises the preparations for instructing the external auditors (by virtue of the corresponding resolution passed by the Annual General Meeting), verifying the independence of the external auditors, including the approval of permissible non-audit services, negotiating the auditors' fees, determining focal points of the audit, and regularly selecting new external auditors. The Audit Committee also discusses quarterly and half-yearly financial reports with the Management Board, and obtains the external auditors' report on their review of the half-yearly report. Furthermore, the Audit Committee is responsible for examining the projections submitted by the Management Board. In addition, Compliance and Internal Audit address their reports to the Committee. Last but not least the Committee is responsible for monitoring the effectiveness of the internal control and monitoring system.

The Audit Committee comprises at least two financial experts, one of whom must have expertise in accounting and financial reporting, and another one of whom must have expertise in the audit of financial statements.

Technology and Innovation Committee

The Committee deals with issues concerning information technology used within the Company, and with issues related to IT products created and distributed by Aareal Bank Group entities. This comprises the Bank's as well as Aareon's products. As part of these duties, the Committee monitors the implementation of Aareal Bank Group's digitalisation strategy which calls not only for a technical transformation, but also for modern and agile working practices and project methods.

Working relationship between the Management Board and Supervisory Board

The working relationship between Management Board and Supervisory Board is characterised by trust and a constructive, yet critical dialogue – during Supervisory Board meetings and outside of them. Discussions during meetings are held in an adequate and target-oriented working atmosphere. The members of the Management Board do not attend meetings or agenda items during which personnel matters, Management Board remuneration, evaluation results, and individual business-related or strategic aspects are the main topics of discussion.

Outside meetings, it is mainly the Chairman of the Supervisory Board and committee chairmen that communicate with the competent Management Board members. The Chairman of the Supervisory Board regularly discusses questions regarding the strategy, business development, risk situation, risk management, compliance, as well as personnel- and remuneration-related matters with the Chairman of the Management Board. The Chairman of the Risk Committee goes into detail – especially with the Chief Risk Officer – on topics such as the risk situation, risk management, and risk strategies. The Chairman of the Audit Committee also regularly exchanges views with the Chief Risk Officer, but with the Chief Financial Officer and the external auditors, too; finally, the Chairman of the Technology and Innovation Committee keeps in touch with the Chairman of the Management Board outside meetings. The chairmen inform the other Supervisory Board members about the key points of these discussions at the next ordinary committee meeting.

Communications

Aareal Bank assigns great importance to comprehensive communication with its stakeholders and has accordingly set itself the objective of maintaining active, transparent and open communication with all stakeholders, taking into account their interests equally. Likewise, Aareal Bank is committed to providing sound professional expertise as a contribution to political decision-making processes. The Bank has therefore registered as a legal entity in the newly-established Lobby Register covering political lobbying vis-à-vis the German parliament (the Bundestag) and the German government.

All press releases, ad-hoc disclosures, corporate presentations, as well as annual, sustainability and quarterly reports published by Aareal Bank are available on the Bank's website to any interested person, and may be downloaded from there. In addition, the financial calendar is updated regularly, and provides information about upcoming events.

Aareal Bank publishes details on its financial position and performance four times a year. On these occasions, the Management Board gives a personal account of results, within the scope of press and analysts' conferences, and issues press releases.

All information can be found on Aareal Bank's website: www.aareal-bank.com/en/investors-portal/.

Relationship with shareholders

To facilitate direct communication, Aareal Bank has set up a separate Investor Relations division within its organisation, which serves as a first point of contact for shareholders, other investors and analysts. The contact persons in Investor Relations can be found on the Aareal Bank website www.aareal-bank.com/en/investors-portal/equity-investors/contact/.

Aareal Bank addresses shareholders and other stakeholders in a targeted manner via roadshow activities, actively seeking their opinions. The Chairman of the Supervisory Board is also available for talks with shareholders and other stakeholders, using his own roadshow activities to gather external opinions on the Bank's governance.

The Bank also holds an ordinary Annual General Meeting once a year. Shareholders are thus given the opportunity to actively participate in the development of Aareal Bank. The Act on Measures Affecting the Law on Corporations, Cooperatives, Associations, Foundations and Residential Property to Combat the Effects of the Covid-19 pandemic (Gesetz über Maßnahmen im Gesellschafts-, Genossenschafts-, Vereins-, Stiftungs- und Wohnungseigentumsrecht zur Bekämpfung der Auswirkungen der Covid-19-Pandemie – "Covid-19 Act") dated 27 March 2020 provides for the opportunity of general meetings to be held in virtual form; the Act also permits to exclude the physical presence of shareholders or their representatives, and to restrict certain shareholder rights.

At the Annual General Meeting, the shareholders decide, in particular, on the formal approval of the Supervisory Board and Management Board members for the financial year under review, on the appropriation of any net retained profit, amendments to the Memorandum and Articles of Association, and authorisations on capital adjustments. The Annual General Meeting elects the external auditors for the Company, decides who joins the Supervisory Board as shareholder representatives, and adopts other resolutions submitted to the Annual General Meeting.

At Annual General Meetings with personal attendance, the Company's shareholders may submit statements or proposals in writing, by fax or e-mail, to the Company. They may also request to speak at the Annual General Meeting. The shareholders may also submit counter or supplemental motions to the agenda items at the Annual General Meeting, so that they participate in structuring and influencing the meeting.

Guidelines regarding the Selection of Members of the Management Board and the Supervisory Board

The Supervisory Board of Aareal Bank AG is satisfied that the Management Board and the Supervisory Board are adequately staffed, if all members are in a position to perform their duties (professional qualification), commit the time necessary to perform these and possess the integrity to be guided by the ethical principles of Aareal Bank when performing their duties (with respect to personal reliability, including conflicts of interest and independence aspects). The composition of the Supervisory Board and the Management Board, respectively, shall facilitate, in its entirety, cooperation and the widest possible diversity of opinions and knowledge (the concept of diversity).

The Supervisory Board has defined concrete requirements and processes to incorporate these criteria when evaluating Management Board and Supervisory Board members, as well as when selecting candidates for appointment to the Management Board, or shareholder representatives to the Supervisory Board. When establishing these processes, it took into account the requirements of the German Public Limited Companies Act (Aktiengesetz – "AktG") and the German Banking Act (Kreditwesengesetz – "KWG"), as well as the recommendations of the German Corporate Governance Code. In addition, the regulatory guidelines of the European Central Bank and the European Banking Authority on adequacy and internal governance are also incorporated, as are corporate governance guidelines of consultants on share voting rights and major shareholders that are relevant to Aareal Bank. Besides the Supervisory Board, the European Central Bank also reviews the suitability of the respective candidates before they take up their duties, using the so-called 'fit & proper' approach.

Personal reliability

The principles of personal reliability apply equally for all members of the Management Board and the Supervisory Board. All members of the Management Board and the Supervisory Board should demonstrate honesty, integrity and independence of mind. They should live by the ethical principles of Aareal Bank, as set out in the Code of Conduct, and commit sufficient time to perform their duties. The Supervisory Board calculates the time commitment of every member of the Management Board and the Supervisory Board, and reviews on an annual basis whether they are also dedicating sufficient time to exercising the mandate. In this connection, the Supervisory Board takes care to ensure compliance with the requirements for the maximum number of additional offices, pursuant to sections 25c (2) and 25d (3) of the KWG.

Conflicts of interest and independence of Supervisory Board members

Special rules apply to the Supervisory Board, over and above the Group-wide Conflict of Interest Policy. Acting in the interests of the Company means making judgements unbiased by extraneous influences. The Supervisory Board therefore attaches particular importance to the handling and disclosure of actual, potential, temporary or permanent conflicts of interest that could, for example, call into question the independence of the Supervisory Board.

In the Management Board's and Supervisory Board's Conflicts of Interest Policy, which has been specifically designed for these two corporate bodies, the Supervisory Board has laid down procedures on how to handle conflicts of interest affecting members of the Management Board or the Supervisory Board. In accordance with this Policy, individual Management Board and Supervisory Board members must establish transparency in the event of any potential conflicts of interest. The members of the Supervisory Board and the Management Board have declared in writing that no conflicts of interest pursuant to recommendation E. 1 of the German Corporate Governance Code arose during the financial year under review. Any individual whose circumstances may give rise to a material conflict of interest that cannot be mitigated will be ineligible as a candidate.

The Supervisory Board also determines when the independence of one of its members is not ensured and carries out an annual review of whether the independence of individual members is no longer ensured, or may be compromised. In the event of the following circumstances, the Supervisory Board generally assumes that independence is not ensured:

- At the commencement of the fourth term of office as a member of the Supervisory Board of Aareal Bank AG ("general limitation to a member's maximum term of office"). The term of office begins with the election by the Annual General Meeting, excluding any judicial appointments.

- The period between membership in Aareal Bank AG's Management Board and membership in the Supervisory Board is less than five years.

- The period between being a senior manager at the first management level below the Management Board and membership in the Supervisory Board of Aareal Bank AG is less than three years.

- The period between working as or on behalf of a material consultant, external auditor, or other service provider or client of Aareal Bank and membership in the Supervisory Board of Aareal Bank AG is less than three years.

- A Supervisory Board member is simultaneously associated with a major competitor; this not only includes activity as a staff member, member of the Management or Supervisory Board, but may also be the case if said member acts as a consultant to a major competitor.

Furthermore, all Supervisory Board members are subject to the statutory limitations laid out in section 100 (2) nos. 2 to 4 of the AktG. Unlike the criteria listed above, the statutory limitations are mandatory, which means that they prevent the nomination of a potential candidate, or require the resignation of the affected board member.

Effective 31 December 2021, the Supervisory Board believes, taking the above criteria into account, that all shareholder representatives (Prof. Dr Hermann Wagner, Jana Brendel, Richard Peters, Sylvia Seignette and Elisabeth Stheeman) are independent.

Professional qualification

Every member of an executive body must possess the knowledge, ability and experience to properly perform their duties. This means that they must at least be able to understand and assess the Company's material business activities and the associated material risks, the control and monitoring system established in this regard, as well as the corresponding accounting and financial reporting systems. This also requires being familiar with the underlying material legal requirements. Each member of the Supervisory Board must be in a position to perform the duties incumbent on the Supervisory Board in its entirety.

When chairing a committee, Supervisory Board members should possess extensive expertise in the topics covered by that committee. The Chairman of the Audit Committee, for example, must be an expert on financial reporting issues and internal control and risk management systems, while the Chairman of the Risk Committee must be an expert in assessing the efficacy of risk management systems in credit institutions.

Overall, with regard to its collective composition, the Supervisory Board further decided that the following additional expertise be adequately represented:

- Experience in sectors and financial markets which are material to Aareal Bank Group,
- Digitalisation and transformation,
- Strategic planning,
- Design and assessment of risk management systems, internal control systems and corporate governance frameworks,
- Accounting and audit matters.

The curricula vitae of the members of the Management Board: www.aareal-bank.com/en/about-us/company-profile/the-management-board/ and the members of the Supervisory Board: www.aareal-bank.com/en/about-us/company-profile/supervisory-board/ can be found on the Bank's website.

Concept of diversity

In principle, the Management Board and the Supervisory Board pursue the objective in their bodies of ensuring maximum variety with regard to gender, age, internationality and professional diversity. Where there are several equally suitable candidates, further selection takes these aspects into account, to avoid "herd mentality" and to draw together the broadest possible spectrum of different perceptions to make the best possible decision for Aareal Bank. The Management Board ensures that these aspects of diversity are also taken into consideration at the management levels it controls, to facilitate succession oriented around this concept of diversity. The Supervisory Board has set individual objectives for the aforementioned diversity aspects, for both itself and the Management Board, the implementation of which it presents annually. It understands these objectives as being minimum objectives; there is no reason why they cannot be exceeded.

Gender diversity

In accordance with the German Act on Equal Participation of Men and Women in Executive Positions in the Private and Public Sector, the Supervisory Board sets specific targets – including concrete implementation deadlines – for the share of female members on the Supervisory Board and the Management Board. Likewise, the Management Board defines such targets for the first two management levels below the Management Board. On the Supervisory Board, by 30 June 2022 at least 25 % of positions are to be held by women. The status quo is 44.4 % (2020: 41.7 %). On the Management Board, by 30 June 2022 at least 20 % of positions are to be held by women. The status quo is 25 % (2020: 33.3 %). Therefore, the minimum objectives set by the Supervisory Board have been achieved.

Age diversity

The Supervisory Board has set out targets for the age structure of the Management Board and the Supervisory Board, in order to safeguard the continuous development of both executive bodies. At the time of (re)election to the Supervisory Board, candidates should be less than 70 years old. Furthermore, the Supervisory Board should not consist exclusively of members who are older than 60 years. Members of the Management Board should not exceed the upper age limit of 65 years while serving on the Management Board. These objectives are currently met.

International profile

In addition, given Aareal Bank's international business activities, the Supervisory Board has set itself and the Management Board the goal of having the broadest possible international experience, which can be proven by foreign nationality or considerable professional experience gained in another country. For the Management Board, the figure is currently at 25 % (2020: 33.3 %), for the Supervisory Board it is at 22.2 % (2020: 33.3 %).

Diversity of professional skills

The Supervisory Board pursues the objective of maximum professional diversity when selecting the members of the Management Board and the Supervisory Board. However, the demanding professional requirements for members of the management board and the supervisory board of so-called "significant credit institutions" limit the opportunities for achieving this objective: for instance, regulatory rules require in principle that members of the Management Board have extensive experience in the lending business and in risk management. In accordance with section 100 (5) of the AktG, the Management Board members in their entirety shall be familiar with the sector in which the Company operates. The Supervisory Board's aim of ensuring that not all members have gained most of their professional experience at a credit institution is currently met.

Election periods and dates ("staggered board")

To avoid a simultaneous outflow of considerable know-how, the Supervisory Board has set different election dates at which decisions are made about three groups of Supervisory Board members. The terms of office of Mr Peters and Ms Seignette run until the ordinary Annual General Meeting in 2023, the terms of office of all other shareholder representatives who held office at the end of the year do not expire before the ordinary Annual General Meeting in 2024. Shareholder representatives' terms of office are generally four years, as a result of which a new resolution concerning some of the shareholder representatives must be taken at the latest every three years, bringing with it a possibility of renewing the Supervisory Board. The staggered-board concept will be taken into consideration as regards further changes to the Supervisory Board.

The terms of office for employee representatives continue to run for five years: the current representatives are therefore in office until the ordinary Annual General Meeting in 2025.

Regular evaluation of suitability and performance

The Executive and Nomination Committee evaluates the Management Board and Supervisory Board at least once a year. The evaluation consists of two components: the suitability test and the efficiency test. The evaluation is supported by external partners.

Within the scope of the evaluation, the Committee checks whether the Management Board and Supervisory Board members possess the necessary personal and professional requirements on the one hand, and the requirements for the collective composition, including collective competence profile and diversity concept, on the other.

Furthermore, the Executive and Nomination Committee takes the structure, size, composition, and performance of both bodies into consideration, including the results of a benchmark comparison conducted precisely for this reason. The assessment of structure, size, and composition is not restricted to the bodies as such, but also includes the Supervisory Board committees; it comprises an efficiency and effectiveness review of the cooperation within the Supervisory Board, between the committees and the full Supervisory Board, as well as between the committees, the Supervisory Board and the Management Board.

In addition to the regular annual evaluation, event-driven assessments may be conducted should, for example, suspicions arise regarding insufficient individual or collective suitability, or should the adequate composition of the Management Board and/or the Supervisory Board need to be reviewed due to a change in strategy.

Succession planning

The Executive and Nomination Committee is responsible for the succession planning of the Management Board and the shareholder representatives on the Supervisory Board. On an annual basis, the Committee reviews the established competence profile, and whether it is compatible with Aareal Bank's business and risk strategies, proposing any necessary adjustments. Furthermore, the Committee reviews, as part of the annual evaluation, whether the current members of the Management Board and the Supervisory Board fulfil the presently applicable criteria, taking the latest amendments into account. If this is not the case, the Committee suggests measures to the Supervisory Board to ensure that all criteria are fulfilled going forward. Such measures may include continuing education courses for individual or multiple Management Board or Supervisory Board members, as well as changes in the composition of the Management Board or the Supervisory Board.

Furthermore, the Executive and Nomination Committee discusses upcoming personnel decisions, on an ongoing basis and in good time in advance, such as projected retirements, potential re-appointments, etc. Therefore, if the re-appointment of a Management Board or Supervisory Board member is not an option, the Executive and Nomination Committee already concerns itself with a suitable successor more than one year in advance.

In the event that changes in the composition of the Management Board or Supervisory Board have to be made, the Executive and Nomination Committee aims to find a successor who fulfils the personal criteria, while at the same time promoting the fulfilment of the goals established in terms of board composition (collective competence profile and diversity). Succession planning for the Management Board is made in close cooperation with the Chairman of the Management Board. The Executive and Nomination Committee considers both internal and external candidates.

Aareal Bank has taken various measures to be able to respond to short-term personnel fluctuations on the Management Board (for example, due to resignation for personal reasons), and to identify suitable internal successors. For instance, the Bank can provide tailor-made development measures to senior managers in order to ensure they have the fundamental skills and abilities to become a member of the Management Board. This includes, in particular, business development, risk management and accounting know-how as well as leadership skills.

As a general rule, every competence required for the activities of Aareal Bank's Supervisory Board and its committees is represented by at least two Supervisory Board members. In addition, in order to make sure there is a quorum even in the event of short-term changes in the composition of the respective committee, every committee comprises more than three members.

Composition of the Management Board and Supervisory Board

The members of the Supervisory Board and its committees, the respective chairmen and members of the Management Board and their relevant areas of responsibility, are presented below (cf. "Executive Bodies of Aareal Bank AG.") The Board of Management is currently comprised of four members. The Supervisory Board appoints one of the members as Chairman of the Management Board. In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairman and at least one Deputy Chairman from amongst them, for the duration of their term of office. Eight members are elected by shareholders at the Annual General Meeting; four members are elected by employees, through the Group Works Council.

The committees comprise at least four members, while the Audit Committee and the Risk Committee comprise six members. The Chairman of the Supervisory Board is a member of every statutory committee. According to recommendation D. 4 of the German Corporate Governance Code as well as Aareal Bank's Guidelines for the selection of members of the Management Board and the Supervisory Board, the Audit Committee and the Risk Committee are chaired by independent experts. Additionally, care is also taken to avoid any interlinking of the committee members' positions, to ensure mutual exchange of information.

Purchase or sale of the Company's shares

In 2021, members of the Company's executive bodies did not carry out any transactions involving the Company's shares which would have required publication in accordance with the requirements of Article 19 of the EU Market Abuse Regulation (596/2014/EU), in conjunction with section 26 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG").

Please refer to Aareal Bank's website under www.aareal-bank.com/en/about-us/corporate-governance/managers-transactions/ for the notifications.

Accounting policies

Aareal Bank AG prepares the Group's accounts in line with the International Financial Reporting Standards (IFRSs) as applicable in the European Union. The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – "HGB"). The Management Board prepares the financial statements and management reports of Aareal Bank AG and Aareal Bank Group. The external auditors submit their report on the audit of the financial statements and the consolidated financial statements to the Supervisory Board, which also monitors their independence. The fees paid to the external auditors are shown in Note (38) to the financial statements. Permissible non-audit services provided by the external auditors must be approved beforehand by the Audit Committee of the Supervisory Board.

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditors of the 2021 financial statements – as elected for the first time by the Annual General Meeting 2021 and instructed accordingly by the Supervisory Board – have exercised their audit activities under the management of Messrs Gero Wiechens, Markus Winner and Franz Haider.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

The past financial year was yet another remarkable year, in many ways. Apart from the ongoing challenges of the Covid-19 pandemic, which Aareal Bank mastered well over the course of the year, we look back on a year that saw far-reaching changes to Aareal Bank's corporate bodies. One of these changes is the fact that this Supervisory Board report is no longer being signed by our previous Supervisory Board Chairman, Marija Korsch.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of the Company. The Management Board informed the Supervisory Board regularly, without delay and comprehensively about all the issues important to the Bank. The Management Board reported on the Group's situation, business development, key financial indicators and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and on risk control and risk management measures taken within the Group. The Supervisory Board was also informed about compliance within the Company on a regular basis, and it received the reports prepared by Internal Audit. The Supervisory Board also received comprehensive reports on the development of the business segments, and on operative and strategic planning, Against the backdrop of the Covid-19 pandemic, the scope of reporting and the frequency with which we held meetings were intensified significantly. The search for a successor for CEO Hermann J. Merkens, who retired due to ill health, as well as the in-depth discussions surrounding the takeover offer for Aareal Bank by a bidder consortium also brought about a marked increase in the frequency of meetings.

The Supervisory Board was involved in all material decisions made by Aareal Bank Group, also – and in particular – in the monitoring of the Aareal Next Level strategic framework. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board in due time, and a decision taken. In cases where resolutions needed to be passed in periods between scheduled Supervisory Board meetings, such resolutions were passed by way of circulation or via conference calls or video calls.

Furthermore, between the individual meetings of the Supervisory Board, the Chairman of the Management Board, or his deputies, kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, regarding all material developments of the Company. The Chairman of the Management Board, or his deputies, maintained close contact with the Chairman of the Supervisory Board, in order to personally discuss key issues and important decisions. The Chairman of the Supervisory Board then proceeded to inform the other Supervisory Board members of these discussions at the following Supervisory Board meetings. During Hermann J. Merkens' absence due to illness, and before Jochen Klösges joined as the new CEO, such discussions were held with his deputies on the Management Board, Marc Hess and Thomas Ortmanns.

Discussions were also held on a monthly basis between Aareal Bank's management and the Chairmen of the Supervisory Board, the Risk Committee and the Audit Committee regarding the impact of the Covid-19 pandemic and how Aareal Bank was dealing with it. The Chairmen of the Supervisory Board, the Risk Committee and the Audit Committee also held various talks with the banking regulator's Joint Supervisory Team and presented the Supervisory Board's intensified corporate governance. The Chairmen reported on the aforementioned discussions to their respective committees in line with their respective areas of responsibility.

Activities of the Plenary Meeting of the Supervisory Board

Due to the above-mentioned factors, the Supervisory Board held 26 plenary meetings over the course of the previous financial year. During these meetings, the members of the Supervisory Board received the submitted reports and documents, as well as oral explanations, which were then discussed in detail. Economic and market developments, also in view of and particularly against the background of the Covid-19 pandemic, the ongoing large number of adjustments to regulatory requirements, and the ongoing progress made in implementing the Aareal Next Level strategic programme after its review against the background of the Covid-19 pandemic were focal points of the work and reporting at all scheduled meetings.

This also included the measures taken by the Bank to counter these market developments. During the plenary meetings of the Supervisory Board, the Management Board regularly and comprehensively reported to the Supervisory Board; these reports also covered the development of the Structured Property Financing, the Banking and Digital Solutions and Aareon segments, focusing in particular on current developments. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group. At regular intervals, the Supervisory Board was informed of the Bank's liquidity status and the related steps taken by the Bank's Treasury division. The Management Board also regularly reported on the quality of the property financing portfolio against the background of market trends in the various property markets, with an ongoing particular focus on the effects of the Covid-19 pandemic. Within the scope of reporting, the regular reports prepared by the control functions – including Risk Controlling, Compliance, Internal Audit, Information Security & Data Protection, the Remuneration Officer, and Human Resources – were presented and discussed. At each plenary meeting of the Supervisory Board, the committee chairmen reported on the committee meetings that had taken place in the meantime.

The focal points of the individual meetings are outlined below.

- At a meeting in **January 2021**, the Supervisory Board addressed strategic questions. A further meeting related to governance and remuneration issues.

- At two meetings in **February**, the Supervisory Board deliberated on remuneration issues and shareholder letters.

- At the **March 2021** meetings, the Supervisory Board addressed the further development, given the continued absence of the CEO due to ill health, and, in detail, the financial statements and consolidated financial statements presented for the 2020 financial year as well as the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. Furthermore, the Supervisory Board discussed the 2020 non-financial report and the results of the associated audit to obtain limited assurance. Another issue covered at a meeting in March was the preparations for the Annual General Meeting in May 2021. This comprised the decision proposals regarding the agenda of the Annual General Meeting, including the proposal for the appropriation of profit and the proposal regarding the selection of external auditors. At the same meeting in March, the Management Board also provided a detailed presentation of the strategies pursuant to the Minimum Requirements for Risk Management ("MaRisk") that are applicable to the Group. In line with their respective responsibilities, the strategies had previously been presented to the Executive and Nomination Committee and the Risk Committee, and finally to the Supervisory Board, to be subsequently discussed in depth with the Management Board. The annual report submitted by Internal Audit, and their audit planning for the upcoming financial year as well as their mid-term plans were also discussed during the meeting. The Supervisory Board also involved itself with the internal governance and the remuneration systems for both employees and Management Board members; it arrived at the conclusion that the Company's remuneration systems are appropriate.

- Several meetings in **April 2021** focused on the resignation of the CEO Hermann J. Merkens as a result of ill health and the finalisation of the search for a successor, which had already been launched as a precaution, as well as the holding of Aareal Bank's virtual Annual General Meeting and the request for an extension of the agenda, which had been received from a shareholder in this context.

- The Supervisory Board's meetings in **May 2021** addressed both the preparation for and the review of Aareal Bank AG's Annual General Meeting.

- Two Supervisory Board meetings took place in **June 2021**. At the first of these meetings, it was resolved that Jochen Klösges be appointed Aareal Bank's new CEO. The second meeting was devoted to the regular quarterly report as well as an in-depth discussion of Aareal Bank Group's strategy and its further development. The Supervisory Board talked about the presented strategic initiatives and options with the Management Board in considerable depth and detail. As a result of the appointment of a new CEO, a further discussion of strategic issues was scheduled for December to give Mr Klösges an opportunity to participate in this discussion on the basis of his observations during the first three months of his tenure at Aareal Bank.

- During the **September 2021** meeting, current questions concerning strategic initiatives, including a progress report on their implementation, were presented and discussed, in addition to the regular reports. In addition, the event-driven review of the business and risk strategies, including the Risk Appetite Framework, were also discussed with the Supervisory Board.

- At two meetings in **October 2021**, the Supervisory Board deliberated on the talks with a bidder consortium that had approached Aareal Bank with a view to opening discussions about tendering an offer for Aareal Bank's shares.

- This discussion continued during all five meetings in **November 2021**. One November meeting also dealt with Marija Korsch's resignation from her duties as the Supervisory Board Chairman.

- The Supervisory Board convened for a total of four meetings during **December 2021**. For the most part, these meetings related to discussions in connection with the enquiry submitted by investors. In addition, the Supervisory Board addressed the preparations for, and subsequently the proceedings of, the extraordinary General Meeting. As a consequence of three Supervisory Board members having been removed by shareholders at said General Meeting, the Supervisory Board also deliberated on the search for new members to fill these vacancies by way of judicial appointment. Furthermore, the Supervisory Board discussed pending issues at its regular meeting, such as the preparation of the corporate governance report presented by the Management Board, including the Corporate Governance Statement and the Declaration of Compliance. The latter was resolved and subsequently published on Aareal Bank AG's website. Furthermore, the annual review was carried out concerning Rules of Procedure for the Management Board and Supervisory Board, the individual and collective suitability and efficiency of the Management Board and Supervisory Board (annual evaluation), the review processes, and the Conflict of Interest Policy for members of the Company's executive bodies. The Supervisory Board discussed the results of the evaluation in detail and will incorporate the findings into the committee work. The Supervisory Board also concerned itself with the Management Board's preliminary target achievement 2021 and approved the targets for 2022.

The chairmen of the Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions submitted by the members of the plenary meeting in detail.

To the extent that any Supervisory Board decisions were taken by way of circulation, the Supervisory Board received a report by the Management Board on the implementation of such decisions taken previously, at the subsequent Supervisory Board meeting.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review.

Activities of Supervisory Board Committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Audit Committee, the Remuneration Control Committee, and the Technology and Innovation Committee.

Executive and Nomination Committee:

The Executive and Nomination Committee of the Supervisory Board convened for 20 meetings in the financial year under review. The Committee prepared, for the most part, the plenary meetings of the Supervisory Board during these meetings and discussed Aareal Bank Group's strategic development with the Management Board at regular intervals. Regarding the agenda items within the responsibility of the Supervisory Board, the Committee convened without the Management Board. These meetings particularly included discussions regarding suitability requirements for Management Board and Supervisory Board members, the processes for reviewing these requirements, the targets for the composition of both executive bodies, and the results of the annual evaluation of Management Board and Supervisory Board. Moreover, deliberations concerning the search for a successor for the ailing CEO Hermann J. Merkens also took place during the financial year under review, with the selection of Jochen Klösges as his successor being discussed and resolved upon towards the end of this process. In addition, deliberations took place regarding the discussions with investors about the tender offer for the acquisition of Aareal Bank's shares, and the delivery of the requisite reasoned statement was prepared.

- At its meetings in **January and February 2021**, the Executive and Nomination Committee addressed the measures relating to Hermann J. Merkens' ill health and the Company's dividend policy.

- These discussions continued at the meetings in **March 2021**, along with the deliberation of strategic issues. In addition, these meetings served for the deliberation of changes to the composition of the Management Board.

- The **April 2021** meeting served for the further discussion of the steps to be taken as a result of Hermann J. Merkens' retirement from the Management Board.

- At the **June 2021** meetings, preparations were made for the appointment of Jochen Klösges as Aareal Bank AG's CEO and the further deliberations of the Management Board's restructuring. The July meeting saw a comprehensive discussion of regulatory and supervisory issues.

- Four meetings of the Executive and Nomination Committee took place in **September 2021**. The periodic meeting served for the preparation of this year's evaluation and the selection of the external auditor for this purpose. In addition, the strategy dialogue for the second half of the year 2021 was discussed. Other topics discussed included the long-term succession planning for the Supervisory Board and a decision on the next steps to be taken. In addition, the work on the remuneration system for the Management Board was discussed in conjunction with the Remuneration Control Committee. The other meetings related to talks with investors. These deliberations continued over the five meetings in **October 2021** and the two meetings in **November 2021**.

- At the **December 2021** meeting, the Executive and Nomination Committee carried out the annual review of the Rules of Procedure for the Management Board and Supervisory Board, the individual and collective suitability and efficiency of the Management Board and Supervisory Board (annual evaluation), the respective review processes, and the Conflict of Interest Policy for members of the Company's executive bodies – also considering the results of the written survey directed at all Management Board and Supervisory Board members regarding potential conflicts of interest in the past financial year. The members of the Management Board and Supervisory Board have declared in writing that no conflicts of interest within the meaning of the GCGC arose during the financial year under review. Another topic discussed related to filling those Supervisory Board positions that remained vacant as a consequence of the resolutions adopted at the extraordinary General Meeting held on 9 December 2021. Moreover, the long-term succession planning was also discussed.

Risk Committee:

The Risk Committee held six meetings during the year under review. It regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. The risk reporting structure and frequency, which had been adjusted in view of the Covid-19 pandemic, was retained. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the Committee. Besides credit and country risks, the Committee concerned itself with market risks, liquidity risks, and operational risks, as well as reputational and IT risks. The Committee was also engaged with the analysis of Aareal Bank's risk-bearing capacity and its capital ratios. Also, detailed reports were provided regarding the Bank's liquidity status and management as well as its funding. Risks from existing investments, as well as all additional material risks were also presented.

The Risk Committee concerned itself with Aareal Bank's strategies and the derived sub-risk strategies, as well as with the risk management system. The Management Board also submitted detailed reports to the Risk Committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The Committee members discussed these reports and market views in detail. Within the scope of risk reporting, significant exposures were discussed in detail, and measures for the reduction of high-risk exposures presented and consulted within the Committee. The Risk Committee received reports on recovery planning and other risk management measures. The Management Board also informed the Risk Committee about all completed, ongoing and scheduled audits by the supervisory authorities at each Risk Committee meeting. In addition to regular reporting on the risk situation at each meeting, the following meetings had additional focal points on certain topics: The impact of current Covid-19 pandemic-related developments on the individual types of risk was examined at all meetings.

- The Risk Committee meeting held in **March 2021** dealt with the results of the risk management system review performed by the external auditors, the supervisory authorities' focus during the 2021 financial year and other regulatory publications and amendments.

- In **April 2021**, the Risk Committee focused on those exposures in Aareal Bank Group's credit portfolio that entail a particularly high risk as well as the requirements of this year's supervisory stress tests along with issues relating to the recovery planning required by supervisory and regulatory specifications. In addition, various supervisory and regulatory issues were also addressed.

- In **June 2021**, the Risk Committee dealt with the regular reporting as well as the yearly reports of the individual risk management functions.

- At the **September 2021** meeting, the Management Board informed the Risk Committee about the current recovery planning. The event-driven review of business and risk strategies as well as various issues centring on IT risks were other focal points.

- The **October 2021** meeting focused primarily on the specific risks of the property classes financed by Aareal Bank.

- At its meeting in **December 2021**, the Risk Committee discussed the results of the Bank's annual risk inventory. The Committee monitored the terms in the client business, based on the business model and risk structure of the Bank. The meeting in December also served to comprehensively review Aareal Bank's existing risks and the measures that are in place to manage these risks.

The Committee also concerned itself at all meetings with the banking and regulatory environment, focusing on current topics, such as individual risk types, during individual meetings. Furthermore, the Risk Committee dealt with the audits performed by the supervisory authorities, the findings these audits yielded and the authorities' recommendations on risk-related topics in all meetings.

Audit Committee:

The Audit Committee held eight meetings during the year under review.

In accordance with the requirements of the GCGC, during its meetings in May, August and November 2021, the Audit Committee discussed with the Management Board the quarterly results to be published. Furthermore, the current status and planning of key management indicators in the financial year, and current reviews and projects at Aareal Bank were reported upon at the Audit Committee meetings. In its meetings, the Committee received reports submitted by Internal Audit and the Bank's Compliance Officer, requesting and receiving detailed explanations, and duly noting both reports. The Committee was also informed about the work carried out by Internal Audit and of the audit planning. The Head of Internal Audit attended all meetings, unless these were exclusively for the purpose of presenting the preliminary quarterly figures. The Committee dealt with the measures the Management Board had taken to address the findings identified by the external auditor, Internal Audit and supervisory authorities, and had the Management Board regularly report on the status and progress of their rectification. External auditor representatives were also present at all meetings, with the exception of the discussion of those agenda items that relate to the assessment of the financial statements audit and the proposal for the appointment of the external auditors. A regular update on the status of already approved and anticipated non-audit services provided by the external auditors was presented at all meetings. The 70% limit of approved non-audit services in relation to planned audit services was neither reached nor exceeded at any time. The latest impact of the Covid-19 pandemic on Aareal Bank Group's figures as well as the underlying scenarios were discussed at all meetings. The external auditors' assessment of this was also sought on several occasions.

- At its **February 2021** meeting, the preliminary figures for the 2020 financial year were submitted to the Audit Committee, and the dividend policy was discussed, among other things. In addition, the Annual Report 2020 and the audit planning of Internal Audit were presented.

- In **March 2021**, the Committee received the external auditors' report on the audit of the financial and consolidated financial statements for the 2020 financial year, and discussed the results with the auditors in detail. The Committee members discussed the contents of the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of meetings held with the external auditors. Furthermore, the Chairman of the Audit Committee informed the meeting about his discussions with the external auditor outside the meetings. Without the external auditors being present, the Audit Committee discussed the agenda items regarding the assessment of financial statements auditing and the proposal for the external auditor for the 2020 financial year. As previously reported, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was proposed for the first time to carry out the audit of the 2021 financial statements and the consolidated financial statements. The Committee also concerned itself with Aareal Bank Group's Sustainability Report and the audit undertaken to obtain limited assurance for this report. The report on compliance-related issues was also discussed.

- At its **May 2021** meeting, the Audit Committee discussed the business figures for the first quarter 2021 and deliberated on the focal audit points determined by the Supervisory Board for the 2021 financial year.

- The compliance-related reporting, including the annual review of the Code of Conduct, was continued at the meeting of **June 2021**.

- In **August 2021**, the Audit Committee meeting focused on the interim financial report as at 30 June 2021, including the results of its review, and the approach for the audit of the financial statements and consolidated financial statements for 2021.

- In **September 2021**, the focus was, inter alia, on the implementation of major projects.

- At its **November 2021** meeting, the Audit Committee dealt with the quarterly figures as at 30 September 2021.

- At its meeting in **December 2021**, the Audit Committee discussed the medium-term Group planning in detail with the Management Board. Moreover, the Committee was informed about the status quo and the progress of the audit. In addition, the Audit Committee was informed about the structure of sustainability reporting for the 2021 financial year. Furthermore, the Committee was regularly informed about the risk management system and the review of the Internal Control System, in accordance with legal requirements; it duly acknowledged the reports, following discussion.

Remuneration Control Committee:

The Remuneration Control Committee held 12 meetings during the year under review. The Remuneration Officer, who attended every meeting, supported the Supervisory Board and the Remuneration Control Committee throughout the year under review.

Pursuant to the requirement set out in section 25d (12) of the KWG, which is reflected in the Rules of Procedure of Aareal Bank's Supervisory Board, the Management Board does not attend Remuneration Control Committee meetings which deal with Management Board remuneration. During the 2021 financial year, the Remuneration Control Committee convened eight times without any member of the Management Board being present and held four meetings, where not all Management Board members were present the entire time.

During its meetings, the Remuneration Control Committee discussed issues concerning the Bank's remuneration systems and all related matters, fulfilling its original assignment. For this purpose, and to the extent considered necessary, external legal and remuneration advisors were retained to provide support. The Committee supported the plenary meeting of the Supervisory Board in monitoring the inclusion of internal control units and of all other material divisions in designing the remuneration systems, and assessed the effects of the remuneration systems on the Bank's risk, capital and liquidity situation. Moreover, the Remuneration Control Committee supported the Supervisory

Board with all issues related to the remuneration of the Management Board. As a rule, support was provided to the Supervisory Board by preparing the corresponding recommendations.

- At the commencement of the year under review, the Committee deliberated on the Management Board's target achievement during the 2020 financial year, the measures taken in connection with the ill health of the CEO Hermann J. Merkens, the measures in connection with the departure of Management Board members due to retirement and the determination of target variable remuneration for the financial year under review.

- In **March 2021**, the Committee finalised its assessment of the appropriate structure of the remuneration systems for the Management Board and employees. The results of the penalty review for employees and the Management Board were also presented, as was the review of the overall amount of variable remuneration as to legal permissibility, pursuant, inter alia, to section 7 of the InstVergV. In addition, the so-called say-on-pay resolution was drafted with a view to presenting it at the Annual General Meeting in May 2021. In light of the results of voting on the say-on-pay resolution at the Annual General Meeting, a discussion regarding the restructuring of the remuneration system for the Management Board commenced in June 2021.

- At the first meeting of the Remuneration Committee in **June 2021**, the Committee deliberated on the remuneration of the new CEO. At the second meeting, the necessary steps in connection with any changes to the composition of the Management Board over the course of the year were discussed and the deliberations regarding adjustments to the remuneration system for the Management Board were continued.

- The Remuneration Control Committee continued its deliberations on the future Management Board remuneration system during **August, September and October 2021**.

- The meeting in **December 2021** discussed the Management Board's preliminary target achievement for 2021 as well as the determination of the Management Board targets for 2022 and continued the discussion concerning the restructuring of the Management Board remuneration system. Regulatory issues were also discussed.

Technology and Innovation Committee:

The Technology and Innovation Committee convened for four scheduled meetings in the year under review, during which the Committee discussed the implementation and further development of the digitalisation strategy, market trends, technological developments and innovation trends in detail, especially with a view to clients of the Banking and Digital Solutions and Aareon segments. Potential business opportunities arising from the growing digitalisation of business processes – and how these can be put to use by Aareal Bank Group, and especially for its clients – were explained by the employees of the Bank and respective subsidiaries responsible for the development, among others.

Further key aspects of regular discussions were issues related to the security and flexibility of the IT systems provided and used within the Bank, as well as the ongoing realignment of banking systems and the successes achieved in this regard so far, as well as the adjustments to the new requirements in the areas of reporting, regulation and cybersecurity. The IT strategy, budget planning and the monitoring and progress of major IT projects were also discussed.

External experts were invited to the meetings for selected topics, to present current developments from an independent perspective, and to discuss their potential impact on Aareal Bank, or how they can be taken on board by the Bank.

Attendance of Supervisory Board members at plenary and committee meetings:

Where members of the Supervisory Board were unable to attend a meeting, they announced their absence in advance, giving reasons. Attendance of Supervisory Board members at meetings is shown in the following table.

Member of the Supervisory Board	Participation in plenary meetings	Quote	Participation in committee meetings	Quote	Number of meetings attended / number of meetings*
Prof. Dr Hermann Wagner	26/26	100%	35/35	100%	61/61
Marija Korsch	23/23	100%	45/45	100%	68/68
Richard Peters	22/26	85%	35/40	88%	57/66
Klaus Novatius**	26/26	100%	31/32	97%	57/58
Jana Brendel	24/26	92%	11/11	100%	35/37
Thomas Hawel**	26/26	100%	4/4	100%	30/30
Petra Heinemann-Specht **	26/26	100%	15/15	100%	41/41
Jan Lehmann**	26/26	100%	5/5	100%	31/31
Sylvia Seignette	26/26	100%	8/8	100%	34/34
Elisabeth Stheeman	25/26	96%	12/12	100%	37/38
Hans-Dietrich Voigtländer	23/23	100%	21/21	100%	44/44
Christof von Dryander	23/23	100%	37/37	100%	60/60

* Plenary and committee meetings; ** Employee representative

Financial Statements and Consolidated Financial Statements

The Supervisory Board instructed KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, who were elected as auditors by the 2021 Annual General Meeting, with the audit of the financial statements and the consolidated financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, KPMG AG Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code ("HGB") and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports, including all annexes thereto, in good time before the meeting during which the financial statements and the consolidated financial statements were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of the audit results. The external auditor representatives attended the meeting of the Supervisory Board, during which the financial statements and consolidated financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of KPMG AG Wirtschaftsprüfungsgesellschaft were then available to the Supervisory Board to answer further questions and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB, the consolidated financial statements as well as the Group Management Report prepared in accordance with IFRSs, the proposal of the Management Board regarding the appropriation of profit, and the audit reports, were all examined in detail. No objections were raised to the audit results. At its meeting on 14 March 2021, the Supervisory Board approved the results of the audit. The Supervisory Board thus confirmed the financial statements of Aareal Bank AG (in accordance with the HGB), and approved the consolidated financial statements (in accordance with IFRSs). The Supervisory Board examined and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of this discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board, which dovetails the ECB's recommendations.

Non-financial Report

The Audit Committee and the Supervisory Board concerned themselves with sustainability issues and related reporting during their meetings on 23 and 25 March 2021, and on 10 and 15 December 2021.

Moreover, during its meeting on 11 March 2022, the Audit Committee of the Supervisory Board discussed the separate combined non-financial report for 2021 and the result of KPMG's audit of that report. Representatives of the external auditors attended this Audit Committee meeting and reported on material results of their commercial review in accordance with ISAE 3000 (revised), undertaken to obtain limited assurance for this report. They answered supplementary questions from Committee members. The Audit Committee conducted a plausibility check of the audit results submitted by KPMG and presented its assessment of the non-financial report (and its analysis of KPMG's audit results) to the Supervisory Board. The Audit Committee also issued a recommendation to the Supervisory Board to concur with the results of the audit conducted by KPMG. The Supervisory Board followed this recommendation; at its meeting on 14 March 2022, it summarised its examination by stating that it had no objections concerning the non-financial report and the results of the audit conducted by KPMG.

Communication with Shareholders

In their role as Chairman of the Supervisory Board, Marija Korsch and, from 23 November 2021 onwards, Professor Hermann Wagner held talks with shareholder representatives as regards corporate governance within Aareal Bank. Both presented the topics within the responsibility of the Supervisory Board, such as the composition of the Management Board and the Supervisory Board, the remuneration systems for Management Board and Supervisory Board members, the role of the Supervisory Board in the strategy development and implementation process as well as its involvement in environmental, social and governance (ESG) matters, the election of the external auditor and the succession planning.

Personnel matters

The following changes to the composition of the Management Board and the Supervisory Board arose during the year under review.

Management Board:

On 20 April 2021, Hermann J. Merkens informed the Supervisory Board that, contrary to initial expectations and from a medical perspective, he would not be able to resume his work as member and Chairman of the Management Board for the foreseeable future. In accordance with contractual agreements, Mr Merkens therefore resigned from the Management Board with effect from 30 April 2021. The Supervisory Board greatly regrets that Hermann J. Merkens was not able to resume his duties at Aareal Bank. He has made an enormous contribution to Aareal Bank over the course of two decades of service on the Management Board; thanks to his immense commitment, his outstanding expertise, his level-headed approach and his strategic far-sightedness, he has played a decisive role in shaping what Aareal Bank Group is today, with activities reaching far beyond purely banking business. On behalf of the entire Supervisory Board, I would like to thank Mr Merkens for his exceptional contribution. Both the Supervisory Board and the staff hope he has a swift and full recovery and wish him all the best for the future.

On 15 June 2021, i.e. after only two months, the Supervisory Board appointed Jochen Klösges as successor to fill the vacant position on the Management Board. Mr Klösges combines an entrepreneurial spirit, client orientation and strategic thinking with broad-based and vast experience across all major aspects of the property finance and banking business. The Supervisory Board believes that Aareal Bank Group will sustain its successful development under his leadership and continue to find the right strategic answers at a time of profound change.

Dagmar Knopek, who has been a member of the Management Board since 2013 and, in her capacity as Chief Lending Officer, was responsible for Credit Management, Operations and the Workout portfolio, opted not to renew her contract, which expired on 31 May 2021. Ms Knopek chose to retire. The Supervisory Board thanks Ms Knopek for her outstanding commitment and valuable contributions to the development of Aareal Bank over the past years. As a result of her strong expertise, she ensured the high quality of the Bank's credit portfolio for many years – a safeguard that also benefited Aareal Bank during the coronavirus pandemic. The Supervisory Board wishes Dagmar Knopek all the best for her future.

On 30 September 2021, Thomas Ortmanns resigned from the Management Board in accordance with his personal plans for the future. The Supervisory Board respects his wish to pursue a different direction. For over 15 years, Mr Ortmanns – in his role as Management Board member – was instrumental in shaping Aareal Bank Group and contributed significantly to Aareal Bank being able to consistently expand its position as a reliable banking partner to the institutional housing industry. The fact that Aareon has become the company it is today is largely due, to Mr Ortmanns' achievements. The Supervisory Board wishes Thomas Ortmanns all the best for his future.

Supervisory Board:

On 23 November 2021, the Supervisory Board Chairman, Marija Korsch, announced that she would resign with immediate effect from her office, which she had held since 2013, in light of the fundamental changes to the Company's future strategic course, which were realised over the preceding days and weeks. Marija Korsch stated that it was the right time to pass the Chair of the Supervisory Board on to a successor. Most recently, the successful appointment of Jochen Klösges as the new CEO and the conclusion of an Investment Agreement with a bidder company that pursued a long-term strategy for Aareal Bank took place under the aegis of Ms Korsch. As the Supervisory Board Chairman, Ms Korsch worked tirelessly for our Company. The Supervisory Board regrets that Marija Korsch has resigned from her office but respects her decision. At a plenary meeting of the Supervisory Board that took place the same day, Professor Dr Hermann Wagner was elected as the new Chairman of the Supervisory Board.

At the extraordinary General Meeting held on 9 December 2021, a shareholder majority supported Petrus Advisers Investments Fund L.P.'s request for an extension of the agenda and voted Supervisory Board members Marija Korsch, Christoph von Dryander and Dietrich Voigtländer out of office. The Supervisory Board regrets, but respects, this decision and sincerely thanks Marija Korsch, Christof von Dryander and Dietrich Voigtländer for their valuable contributions to Aareal Bank Group's success, which they achieved through their dedicated work on the Supervisory Board, and wishes them all the best for their respective futures.

The replacement candidates proposed by Petrus Advisers Investments Fund L.P. were rejected by a majority of the capital present. The Bank then applied for the appointment of Supervisory Board members by the court in order to restore the Supervisory Board's composition in line with the requirements set out in the Memorandum and Articles of Association. The Frankfurt/Main Higher Regional Court approved this application on 14 January 2022 and appointed Holger Giese, Friedrich Munsberg and Dr Ulrich Theileis as members of Aareal Bank's Supervisory Board with immediate effect. Previously, the Wiesbaden Local Court had rejected the Bank's application for judicial appointment of Supervisory Board members, stating that it did not recognise the need for urgency. Aareal Bank had lodged an appeal against this decision. The Bank's Supervisory Board welcomed the decision of the Higher Regional Court because, in the Supervisory Board's view, it is important to have a fully-staffed Supervisory Board. The Supervisory Board is looking forward to the future cooperation with its new colleagues, who will be a very good match for Aareal Bank's Supervisory Board, thanks to their expertise and experience.

Training and Continuous Professional Development

The Supervisory Board members made use of the training and continuous professional development measures offered and required for their task at their own account. Aareal Bank AG supported them in an appropriate manner. These measures included individual continuous professional development and information events organised by the external auditor elected by the Annual General Meeting.

Furthermore, continuous professional development measures take place on a regular basis within the course of Supervisory Board meetings. This is typically a two-stage process. At a first meeting, trends or legal or regulatory changes in particular are reported on in the abstract, and their impact on Aareal Bank Group outlined. The specific implementation is presented at a subsequent meeting. Adjustments made during the year are referred to in later reports. The committees also address relevant topics in more depth at their own meetings. In 2021, these included, for example, two meetings of the Risk Committee involving an in-depth analysis. The requirements for addressing non-financial risks and their treatment at Aareal Bank Group represented another focal point. One further focal point was the thorough analysis of the property types financed and the impact of the Covid-19 pandemic.

In addition to its regular meetings, the Supervisory Board convened for a separate informational meeting in January 2022 during which the auditor KPMG provided detailed information on current changes and considerations within the regulatory and legal framework as well as on the potential impact of such trends on Aareal Bank.

Atlantic BidCo GmbH offer

On 23 November 2021, the financial investors Advent International Corporation and Centerbridge Partners, L.P., along with other co-investors, announced their intention to make an offer for the takeover of the majority of shares in Aareal Bank AG. The offer document was published on 17 December 2021. On 27 December 2021, the Management Board and the Supervisory Board issued a reasoned statement. Essentially, the Investment Agreement concluded with Atlantic BidCo GmbH, on which the offer was based, aimed at further accelerating growth across Aareal Bank Group's three segments over the next few years, in line with the Aareal Next Level strategy.

Having examined the offer separately and independently of each other, the Management Board and the Supervisory Board recommended that shareholders accept the offer, which was, in the opinion of both Management Board and Supervisory Board, in the best interest of the Company and its stakeholders from a strategic perspective. On 18 January 2022, Atlantic BidCo released an amendment to its public offer.

On 4 February 2022, Atlantic BidCo GmbH ("BidCo" – the "Bidder") notified Aareal Bank that its voluntary public takeover offer for shares in Aareal Bank AG was not successful: according to information provided by the Bidder, the minimum acceptance level of 60% was not achieved by the end of the acceptance period on 2 February 2022, 24:00 CET. The offer therefore lapsed.

Aareal Bank sees this development as a decision by its shareholders to continue supporting the Bank on its path of sustainable value creation. Aareal Bank will continue along this path, driving its growth initiatives forward from its own strength. Therefore, Aareal Bank plans to continue the growth path already expedited in the past financial year, and to exploit available opportunities for attractive new property finance business to an even stronger extent than originally communicated in early 2021.

Growth initiatives are also set to be expedited in the Group's other segments:

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for the dedication, tremendous commitment and flexibility they have shown during the past 2021 financial year. With their continued commitment, strong motivation and perseverance, all Group employees have not only contributed to the Company's ability to successfully handle the ever-changing challenges brought about by the Covid-19 pandemic and the endeavours to overcome it, but have also continued their work on numerous projects under difficult circumstances, which have set the course for the future. This once again emphatically demonstrated the great team spirit that defines Aareal Bank.

Frankfurt/Main, March 2022

For the Supervisory Board

Prof. Dr Hermann Wagner (Chairman)

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Glossary

Ad-hoc disclosure

Pursuant to Article 17 of the MAR (Market Abuse Regulation), issuers of financial instruments are obliged to publish any information that may have an impact on the price of these instruments without delay. This obligation is discharged using so-called "ad-hoc" disclosures which may relate to the issuer's financial position and performance, or to its general business operations. The ad-hoc disclosure obligation applies in Germany as well as in other major financial centres; it is designed to prevent insider trading.

Advanced Internal Ratings-Based Approach (AIRBA)

Under the "Advanced Approach", banks are allowed to use their internal rating procedures to gain an assessment of the credit quality for the supervisory measurement of risk-weighted assets (RWAs).

Associated enterprise (associate)

An enterprise which is accounted for in the consolidated financial statements using the equity method (as opposed to full or partial consolidation), over whose business or financial policies an entity included in the consolidated financial statements exercises significant influence.

Basel III/IV

"Basel III" denotes the regulatory framework for banks, promulgated by the Basel Committee on Banking Supervision at the Bank for International Settlements (BIS) with the objective of stabilising the banking sector. The Basel III regulations, finalised in December 2017, are generally known as "Basel IV".

Bonds

Generic term for fixed-income securities or debt securities.

Capital ratios

Common Equity Tier 1 ratio (CET 1 ratio) =

$$\frac{\text{Common Equity Tier 1 (CET 1)}}{\text{Total risk exposure amount (RWAs)}} \times 100\,\%$$

Tier 1 ratio (T1 ratio) =

$$\frac{\text{Tier 1 capital (T1)}}{\text{Total risk exposure amount (RWAs)}} \times 100\,\%$$

Total capital ratio (TC ratio) =

$$\frac{\text{Total capital (TC)}}{\text{Total risk exposure amount (RWAs)}} \times 100\,\%$$

Commercial Mortgage Backed Securities (CMBS)

Bonds backed by loans collateralised by commercial and multi-family properties.

Consolidated statement of cash flows

Statement showing the cash flows an enterprise has generated and used during a financial year, from its operating, investment and financing activities, together with the cash and cash equivalents at the beginning and end of the financial year.

Corporate governance

Corporate governance denotes the legal and factual framework for the management and governance of enterprises. The recommendations of the German Corporate Governance Code safeguard transparency and are designed to strengthen confidence in good and responsible corporate governance. They predominantly serve to protect shareholders' interests.

Cost/Income ratio (CIR)

Financial indicator expressing the ratio of expenses to income within a given reporting period.

CIR =

$$\frac{\text{Administrative expenses}}{\begin{array}{c}\text{Net interest income + net commission income} \\ \text{+ net derecognition gain/loss + net gain/loss from financial} \\ \text{instruments fvpl + net gain/loss from hedge accounting} \\ \text{+ net gain/loss from investments accounted for using the} \\ \text{equity method + net other operating income/expenses}\end{array}}$$

In line with common practice in the banking sector, bank levy and contributions to the deposit guarantee scheme are not included in administrative expenses.

Covered bonds

"Covered" bonds is a generic term for debt securities covered by collateral. In Germany, covered bonds are mainly issued in the form of "Pfandbriefe" pursuant to the German Pfandbrief Act (PfandBG), which provides a legal framework for collateralisation (assets eligible for Pfandbrief cover include mortgages and public-sector loans).

Credit Risk Standard Approach (CRSA)

The CRSA is applied, provided no advanced approach (AIRBA) to assess the credit risk exposure exists, or has been approved.

Deferred taxes

Income taxes payable or receivable in the future, due to temporary differences between the carrying amounts of assets and liabilities in the IFRS statement of financial position and the tax accounts. At the time of recognition, deferred tax assets or liabilities do not yet constitute any actual claims on, or liabilities to the tax authorities.

Derivatives

Derivatives – which include all types of forwards, futures, options and swaps – are financial instruments whose value is derived from the price (and/or the price fluctuations) of an underlying instrument, such as equities, bonds or currencies.

Earnings per share (EpS)

Earnings per ordinary share: financial indicator expressing the ratio of net income after non-ontrolling interest income to the average number of common shares outstanding.

$$\text{Earnings per share} = \frac{\text{Operating profit ./. income taxes ./. consolidated net income attributable to non-controlling interests ./. AT1 coupon (net)}}{\text{Number of ordinary shares}}$$

EBIT margin

$$\text{BIT margin} = \frac{\text{EBIT (operating profit before interests)}}{\text{Sales revenues}}$$

Effective interest method

Method for amortising the mark-up/mark-down between cost and the nominal value (premium/discount), using the effective yield of a financial asset or liability.

Equity method

Method for measuring shareholdings in enterprises on whose business policy the reporting entity has significant influence ("associates"). When applying the equity method, the associate's pro-rata net income/loss is recognised in the carrying amount of the shareholding; any distributions are recognised via a corresponding pro-rata reduction in the carrying amount.

EURIBOR

European Interbank Offered Rate – the interest rate at which prime European banks offer euro deposits (with fixed terms of one week, and between one and twelve months) to one another.

Fair value

The fair value is the amount for which an asset can be exchanged (or a liability settled) between knowledgeable, willing parties in an arm's length transaction; this is often identical to the market price.

Fair value hedge

Using a swap to hedge the market risk of a balance sheet item with a fixed interest rate (e.g. a receivable or a security); this is measured at fair value.

Financial assets (fvoci)

Financial assets measured at fair value, whose change in value is recognised directly in equity via other reserves (fvoci = fair value through other comprehensive income).

Financial assets/liabilities (ac)

Financial instruments measured by applying the effective interest method at amortised cost (ac = amortised cost). The financial instrument is measured at the amount at which it was initially recognised, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any reduction for impairment or non-collectability. The effective interest method amortises the mark-up/mark-down between cost and nominal value (premium/discount) over a residual term.

Financial assets/liabilities (fvpl)
Financial instruments measured at fair value, whose change in value is recognised in income (fvpl = fair value through profit or loss).

Financial instruments
Generic term for loans extended and other receivables, fixed-income securities, equities, shareholdings, liabilities, and derivatives.

FX
Abbreviation for foreign exchange.

Goodwill
The amount which the buyer of an enterprise pays over the fair value of assets less liabilities (the net asset value), taking expected future income into account (the fully-capitalised earnings value).

Green Finance Framework
Defines the criteria for classification as a "green" building. Specifically, these comprise the EU taxonomy criteria, an above-average sustainability rating by recognised rating agencies or compliance with conservative energy efficiency criteria.

Hedge accounting
Concept describing the recognition (or other form of accounting) of two or more financial instruments, which together form a hedging relationship. In this context, the relationship between these contracts is based on the equal and opposite specification of contractual elements giving rise to risks (usually financial risks). Given these specifications, such agreements can be used to partially or fully offset and neutralise risks. In the context of hedge accounting, one of the contracts involved (specifically, the contract establishing the risk(s) concerned) is referred to as the "underlying transaction", and the other contract (the one entered into to hedge the risk(s) of the underlying transaction) as the "hedge transaction" or just "hedge".

Impairment
An impairment within the scope of determining loss allowance.

International Financial Reporting Standards (IASs/IFRSs)
IFRSs comprise International Accounting Standards (IASs) and interpretations issued by the Standing Interpretations Committee, as well as International Financial Reporting Standards (IFRSs) and related interpretations published by the International Accounting Standards Board (IASB).

LIBOR
London Interbank Offered Rate; the interest rate at which prime London banks offer deposits to one another.

Liquidity Coverage Ratio (LCR)
A Basel III indicator designed to assess liquidity risk.

Loan-to-value ratio (LTV)
The ratio of loan amount to property value, in the context of property loans.

Minimum Requirements for Risk Management (MaRisk)
The Minimum Requirements for Risk Management in Banks (MaRisk) are binding requirements for the structure of risk management in German banks, as promulgated by the German Federal Financial Supervisory Authority (BaFin).

Money and capital markets
Markets for short, medium- and long-term investments and borrowing in different forms, such as debt securities or promissory note loans.

Mortgage Pfandbriefe
Debt securities issued by Pfandbrief issuers (Pfandbrief banks), which are collateralised by mortgages with a maximum mortgage lending value ratio of 60 %.

Option
The right to buy or sell a specific asset.

Other Comprehensive Income (OCI)
Other reserves. Equity sub-item, in which the following effects are recognised directly: the reserve from remeasurements of defined benefit plans, the reserve from the measurement of equity and

debt instruments at fair value through other comprehensive income, the hedging reserve, the reserve from changes in the value of foreign currency basis spreads, and the currency translation reserve.

Over the counter (OTC)
Financial markets term for off-exchange trading between market participants.

Present value
The present value of a future cash flow, determined by discounting all future cash flows (inflows and outflows) to today's date.

Profit-participation rights
Profit-participation rights are a hybrid of equity and debt. Their creditors' rights are subordinated to those of other creditors, whilst their interest claim takes precedence over the profit entitlements of shareholders.

Public-Sector Pfandbriefe
Debt securities issued by Pfandbrief issuers (Pfandbrief banks), which are collateralised by claims against the public sector.

Purchased or originated credit impaired (POCI)
Financial assets which had already defaulted at the time of acquisition.

Repo or reverse repo transaction (repurchase transaction)
Short-term money-market transaction collateralised by securities.

Return on equity (RoE)
Financial indicator expressing the ratio of net income (or pre-tax profit, for example) to average equity over the period. RoE expresses the return on the capital employed by the company (and its owners/shareholders).

$$\text{RoE before taxes} = \frac{\text{Operating profit ./. consolidated net income attributable to non-controlling interests ./. AT1 coupon}}{\text{Average equity (IFRS) excluding non-controlling interests, AT1 bond and dividends}}$$

$$\text{RoE after taxes} = \frac{\text{Operating profit ./. income taxes ./. consolidated net income attributable to non-controlling interests ./. AT1 coupon (net)}}{\text{Average equity (IFRS) excluding non-controlling interests, AT1 bond and dividends}}$$

Risk-weighted assets (RWAs)
Risk-weighted assets are determined by multiplying the exposure value of a counterparty credit risk position with the risk weight assigned to the borrower.

Segment reporting
Shows financial information of segments which are material for management, and their contribution to the consolidated net income.

Swap
Generic term for contracts to exchange cash flows, such as the exchange of fixed-rate and variable-rate cash flows in the same currency (interest rate swap), or the exchange of cash flows and/or nominal amounts in different currencies (cross-currency swap).

Swaption
Option to enter into a swap agreement: the right to enter into a swap at a specific point in time, at interest rates and terms agreed upon at the outset.

Value-at-risk (VaR)
Method to quantify risks: it measures the maximum potential future loss which will not be exceeded within a defined period, and given a certain probability.

Financial Calendar

11 May 2022	Publication of results as at 31 March 2022
18 May 2022	Annual General Meeting
11 August 2022	Publication of results as at 30 June 2022
10 November 2022	Publication of results as at 30 September 2022

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