Annual Financial Statements and Management Report 2021

of Aareal Bank AG

Aareal

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Management Report

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. Furthermore, 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

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

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)

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

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

- **Structured Property Financing segment**
  - » New business[1]
  - » 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[2]

The preservation of capital and the ability to distribute dividends are additional financial performance indicators applicable to Aareal Bank AG.

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[3].

Report on the Economic Position

Aareal Bank AG is the parent company of Aareal Bank Group. Aareal Bank AG has entered into profit and loss transfer agreements, or control and profit transfer agreements, with numerous Group entities. The economic situation of these entities is thus reflected in Aareal Bank AG. Moreover, the funding of Aareal Bank Group is managed centrally by Aareal Bank AG. Against this background, sector-specific and business developments are reported at Group and segment level. The sections on financial position and financial performance describe Aareal Bank AG as an individual entity.

[1] New business = newly-originated loans plus renewals
[2] Earnings before interest, taxes, depreciation and amortisation before new products, Value Creation Programme (VCP), ventures, M&A activities and non-recurring effects
[3] Earnings before interest, taxes, depreciation and amortisation before new products, Value Creation Programme (VCP), ventures, M&A activities and non-recurring effects

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, 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.

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.

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
UK	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
US	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

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.

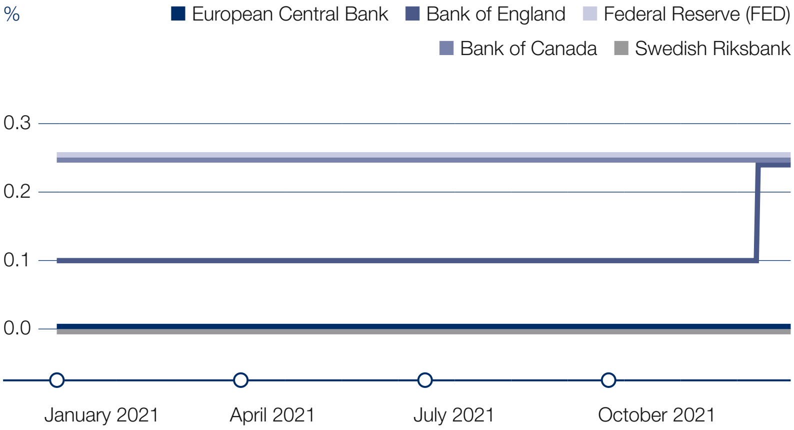
Expectations of inflation developments and future monetary policy in the individual currency areas also shaped the currency markets. The euro lost value vis-a-vis the US dollar in the course of the year, with significant volatility observed at times. At the end of the year, the exchange rate was USD 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 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,

[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.

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.

Key rate developments in 2021 [1)]



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

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.

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/EBAB 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

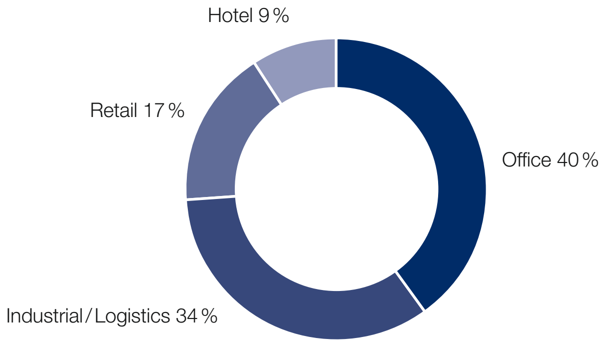
Economic development in 2021 was also reflected in the commercial property markets. The gradual normalisation of the business environment was impacted regionally and in particular at the start of the year by restrictions imposed in the course of the Covid-19 pandemic. However, it supported transaction 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, food stores, 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. 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.

Share of transaction volume observed worldwide in 2021

%

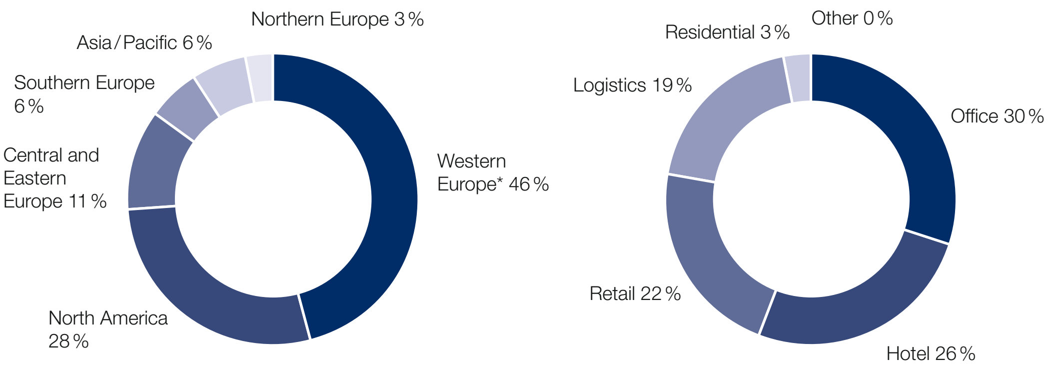


In an environment that is shaped by the economic recovery but remains defined by uncertainties, Aareal Bank generated new business[1] of € 8.5 billion (2020: € 7.2 billion), which is slightly above the communicated target corridor of € 7 billion to € 8 billion. The share of newly-originated loans was 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]

New business[1)] 2021

by regions | by type of property (%)



* Incl. Germany

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

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 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.

[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.

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 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.

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

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

Aareal Bank AG closed the 2021 financial year – which continued to be impacted by the Covid-19 pandemic and characterised by a demanding and challenging market environment – with an operating profit (excluding loan loss provisions) of € 205.9 million (2020: € 151.4 million).

The aggregate of net interest income and net commission income amounted to € 536.9 million, a significant increase of € 114.6 million compared to the previous year. Interest income from lending and money-market transactions rose by € 55.6 million year-on-year, whilst interest income from securities declined by € 37.5 million. Interest expenses saw a downturn of € 87.7 million. Current income of € 27.5 million generated during the year under review (2020: € 20.7 million) was attributable to interests in affiliated companies. Net commission income amounted to € 17.2 million, up € 2.0 million year-on-year.

Administrative expenses (including depreciation and amortisation of intangible assets and tangible fixed assets) of € 317.8 million were € 17.5 million higher than in the previous year. This was due to, among other things, higher expenses for pension schemes as a result of an adjustment to the discount rate for pension obligations as well as a decline in cost savings compared to the previous year in connection with the Covid-19 pandemic.

Net other operating income and expenses showed a marked decline of € 42.6 million year-on-year, to a negative € -13.2 million. Among other things, net gains from currency translation declined, and income from the reversal of provisions was lower, while expenses for interest on back tax payments rose.

The balance of provisions for loan losses and the result from securities held as liquidity reserve amounts to € -272.5 million (2020: € -340.4 million). This figure includes expenditure for specific and general loan loss provisions, provisions, amortisation and depreciation, as well as allocations to general risk provisions in accordance with section 340f of the HGB. Securities held as liquidity reserve were revalued strictly at the lower of cost or market; the item also includes capital gains and losses realised on this portfolio.

Net other income and expenses of € 87.6 million (2020: € 243.0 million) include the transferred results and revaluation of subsidiaries as well as income from the launch of the Management Equity Programme (MEP) for Aareon. It also comprises the results from securities held as fixed assets and non-income taxes.

Taking into account a net income tax claim of € 9.0 million (2020: claim of € 35.8 million), the Bank reported net income of € 30.0 million (2020: € 89.8 million). Including the profit carried forward from the previous year of € 65.8 million (2020: –), net retained profit amounts to € 95.8 million (2020: € 89.8 million).

Based on this net retained profit, Aareal Bank AG achieved its target of being able to distribute dividends. Likewise, the Bank achieved its target of preserving capital.

The Bank largely fulfilled or exceeded its Group targets for the 2021 financial year. Our key financial indicators in accordance with IFRSs are as follows: consolidated operating profit 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. Net interest income of € 597 million significantly exceeded the previous year’s level (€ 512 million) and expectations, which had been raised once more during the third quarter, mainly due to a year-on-year increase in the lending volume, higher margins in the lending business and improved refinancing costs. 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.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. 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. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, 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.

Financial position – assets and liabilities

Aareal Bank AG’s total assets rose to € 48.7 billion as at 31 December 2021 due to an expansion of the property financing portfolio, after € 44.2 billion as at 31 December 2020. In terms of liabilities, the volume of bonds issued increased which also led to an increase in cash funds. Deposits from the housing industry also rose.

Net assets are dominated by the property financing business and securities investments.

The book value of debt and other fixed-income securities amounted to € 8.0 billion as at 31 December 2021 (31 December 2020: € 7.9 billion). They comprise three asset classes: public-sector borrowers, covered bonds and Pfandbriefe, as well as bank bonds.

Structure of the property financing portfolio

The volume of Aareal Bank AG's property financing portfolio stood at € 26.6 billion as at 31 December 2021, an increase of approximately 12.2% compared to the year-end 2020 figure of € 23.7 billion.

As at 31 December 2021, the volume of Aareal Bank Group's property financing portfolio[1] stood at € 29.5 billion (2020: € 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.

Aareal Bank AG's property financing portfolio comprises financings of office, residential and retail properties, as well as logistics properties, hotel properties and other financings; the portfolio is distributed across the regions of Europe, North America and Asia/Pacific.

[1] Excluding the 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.

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 Ag's funding structure is characterised by a high share in long-term funding. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinated capital. The latter include subordinated liabilities and regulatory Additional Tier 1 instruments.

The long-term refinancing portfolio totalled € 21.8 billion as at 31 December 2021 (31 December 2020: € 20.7 billion), comprising € 13.5 billion (2020: € 12.7 billion) in mortgage Pfandbriefe and public-sector Pfandbriefe, € 7.6 billion (2020: € 7.4 billion) in unsecured funding, € 0.4 billion (2020: € 0.4 billion) in subordinated funding, and € 0.3 billion (2020: € 0.3 billion) in Additional Tier 1 capital.

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 AG's total equity as disclosed in the statement of financial position amounted to € 1,847.6 million as at 31 December 2021 (31 December 2020: € 1,841.6 million).

The Common Equity Tier 1 ratio (CET 1 ratio) – Basel IV (estimated) – continued to lie above the target value of around 12.5% in the year under review.

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

Aareal Bank AG is the parent company of Aareal Bank Group. The following section gives an overview of employee-related developments from the perspective of Aareal Bank Group.

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.

Employee data as at 31 December 2021

	31 Dec 2021	31 Dec 2020	Change
Number of employees of Aareal Bank AG	932	935	-0.3%
Years of service	12.8 years	13.2 years	-0.4 years
Staff turnover rate	3.3%	2.4%	0.9%

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

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 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 of consequence, 50 per cent 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 co-operation 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 AG is the parent company of Aareal Bank Group. Aareal Bank AG has entered into profit and loss transfer agreements, or control and profit transfer agreements, with numerous Group entities. The economic risks of these entities are thus reflected in Aareal Bank AG's risk profile. Moreover, the funding of Aareal Bank Group is managed centrally by Aareal Bank AG. The parent company therefore monitors and manages the Group's risks, based on uniform, Group-wide policies. Against this background, the risk report provided below outlines the risk management system at Group level.

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 customer 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.

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.

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		

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 1 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.

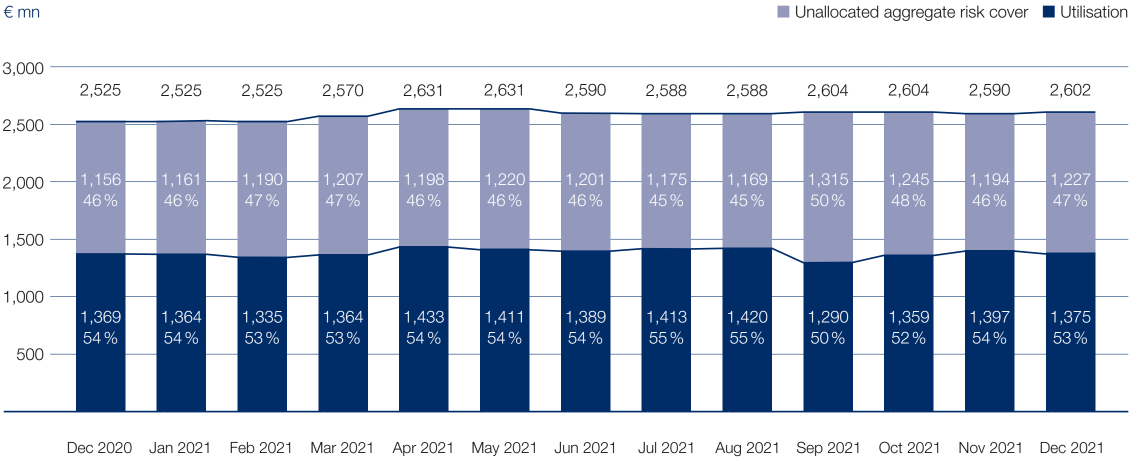
A detailed monthly report provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. These are being monitored as part of daily reporting. No limit breaches were detected during the period under review.

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 developed as follows during the period under review:

Utilisation of aggregate risk cover during the course of 2021



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.

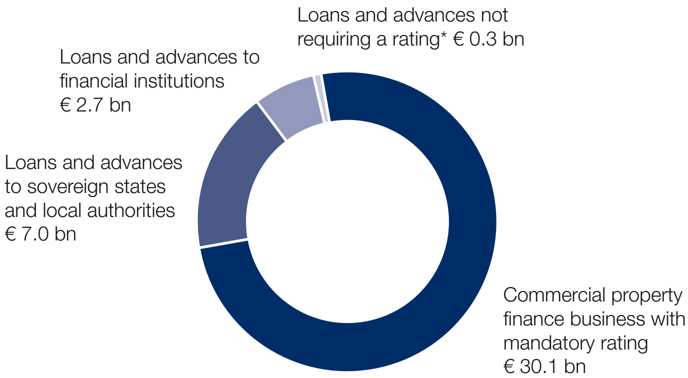
Processes in the credit and trading businesses are designed to consistently respect the clear functional division of Sales units ("Markt") and Credit Management ("Marktfolge"), up to and including senior management level. The independent Risk Controlling division is responsible for identifying, quantifying 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 macroeconomic 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

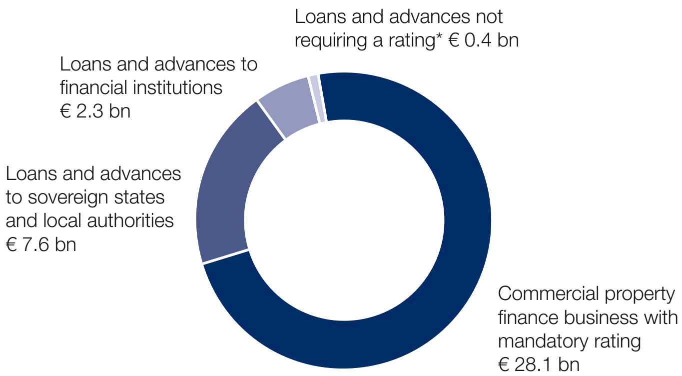


* Including the private client business of former WestImmo

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				
	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
€ mn										
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

€ mn	31 Dec 2021 Stage 1	Stage 2	Stage 3	fvpl[1)]	Total	31 Dec 2020 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

€ mn	31 Dec 2021 Stage 1	Stage 2	Stage 3	fvpl[1)]	Total	31 Dec 2020 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

[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”).

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.

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.

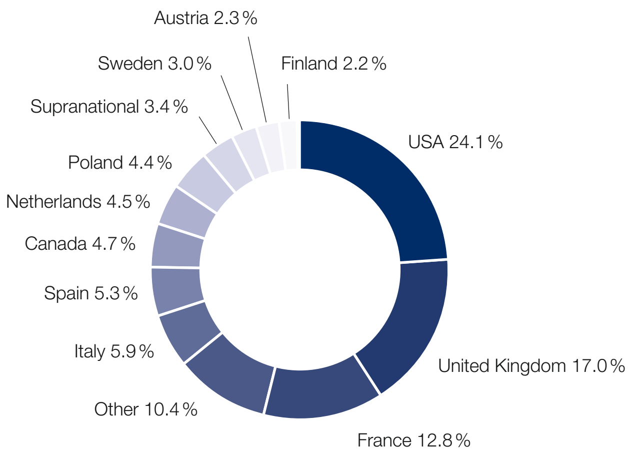
Country risks

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 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.

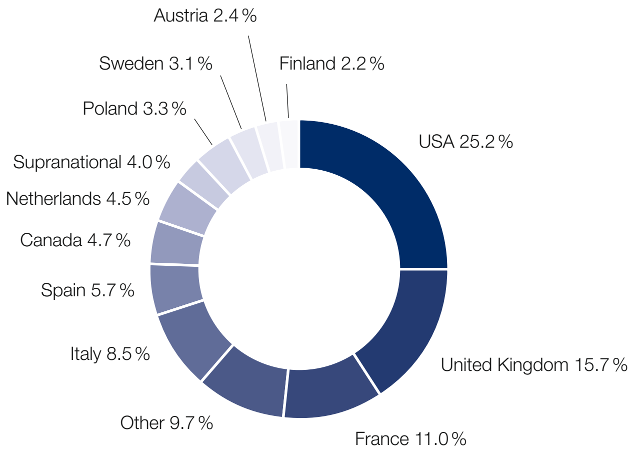
Breakdown of country exposure in the international business

% 31 Dec 2021



Breakdown of country exposure in the international business

% 31 Dec 2020



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%.

	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**

Furthermore, present value changes are determined (and their ratio to Tier 1 capital shown) for six early-warning indicators, applying the prescribed scenarios. The ratio of the aggregate result to Aareal Bank Group's Tier 1 capital is clearly below the prescribed threshold of 15%.

€ 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**

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.

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.

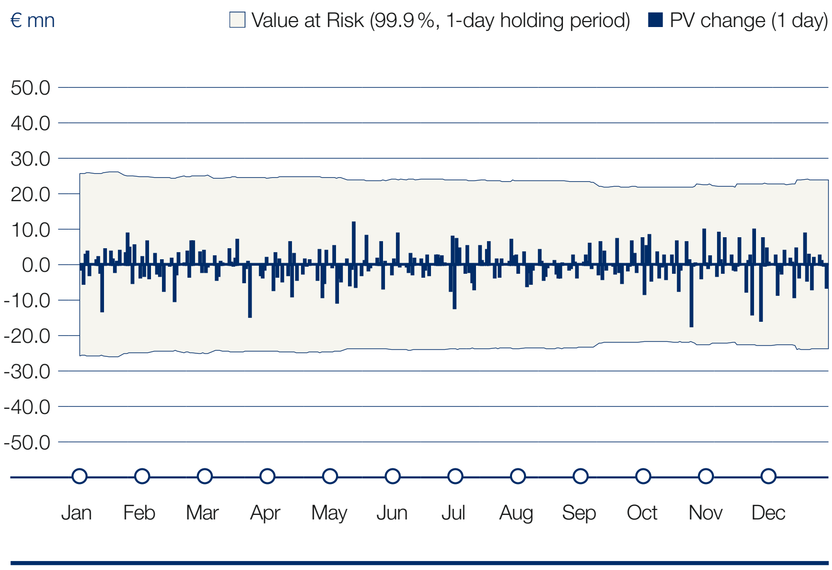
Backtesting

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



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

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.
- 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.

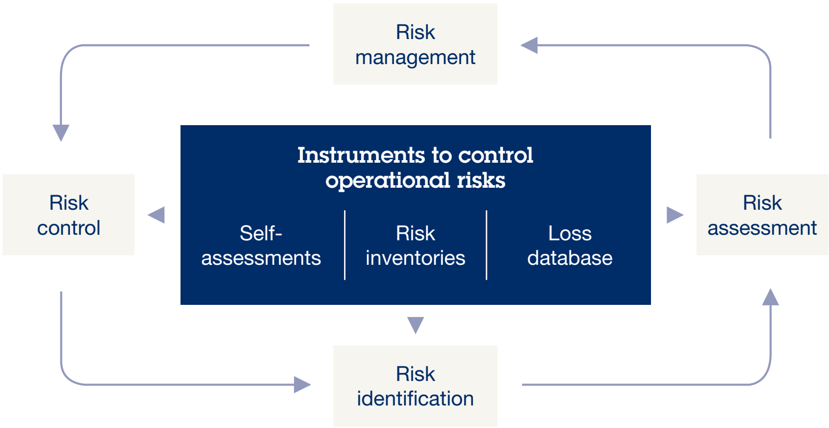
Aareal Bank's legal department monitors any litigation the Bank is involved in (whether in court or out-of-court), and deals with any legal issues of fundamental importance, where necessary, using the support of external lawyers.

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 events 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.

Management of 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 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 strategic 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.

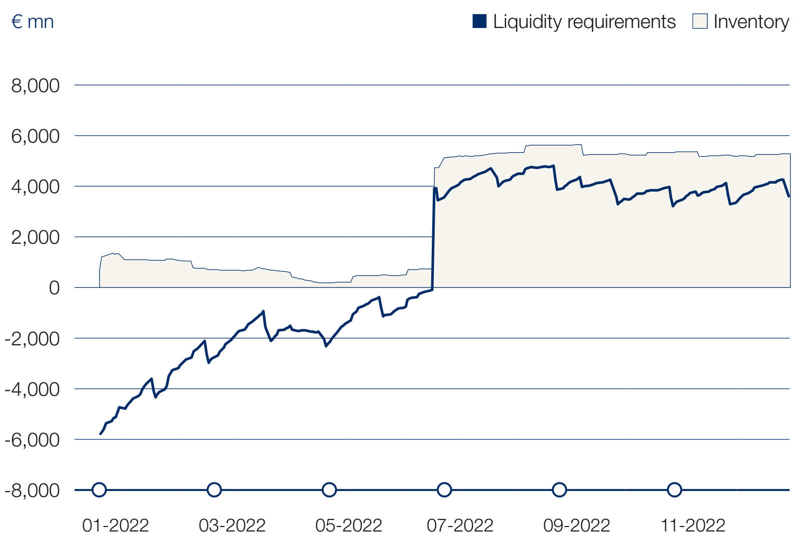
We generally consider the withdrawal of deposits from the housing industry as the most significant scenario. Even in this stress scenario, liquidity is sufficient to cover the expected liquidity needs under stress conditions.

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. The functional separation 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. Authorisations are allocated to 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

Aareal Bank AG is the parent company of Aareal Bank Group. Aareal Bank AG has entered into profit and loss transfer agreements, or control and profit transfer agreements, with numerous Group entities. The expected developments of these entities are thus reflected in Aareal Bank AG. Moreover, the funding of Aareal Bank Group is managed centrally by Aareal Bank AG. Against this background, both the forecast for sector-specific and business developments, and the outline of opportunities, are made at Group and segment level.

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 re-introduction 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 or 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%
”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).

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

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 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 acquisition credit line for the planning period ending 2024 to a total of € 350 million.

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 our 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.

Company and Group targets

Key targets of Aareal Bank AG are the preservation of capital and the ability to distribute dividends. These are being taken into account for Group planning purposes, and are also set to be achieved in 2022. No single-entity planning is prepared for Aareal Bank AG. Accordingly, the following statements refer to Group planning in accordance with IFRSs.

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. Aareal Bank Group continues to expect a "swoosh"-shaped economic development and 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 due to Covid-19 effects compared to normalised risk costs, 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 permitting and subject to exchange rate fluctuations. Aareal Bank plans new business volume of € 7 billion to € 8 billion on this basis.

[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.

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 and € 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 289a 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.

Annual Financial Statements

Income Statement of Aareal Bank AG for the period from 1 January to 31 December 2021

€ mn				2021	2020
Expenses					
Interest expenses				**387.3**	**475.0**
including positive interest from deposit-taking and money-market transactions	*-58.3*				*[-35.1]*
Commission expenses				**17.6**	**18.0**
General administrative expenses					
a) Staff expenses					
aa) Wages and salaries		114.0			102.7
ab) Social security contributions, pensions and other employee benefits		51.4			43.5
			165.4		146.2
including for pensions	*37.8*				*[30.5]*
b) Other administrative expenses			146.8		148.7
				312.2	**294.9**
Amortisation, depreciation and write-downs of intangible and tangible fixed assets				**5.6**	**5.4**
Other operating expenses				**25.7**	**9.6**
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions				**272.5**	**340.4**
Expenses for assumption of losses				**10.7**	**32.4**
Income taxes				**-9.0**	**-35.8**
Other taxes not reported under other operating expenses				**-0.1**	**0.4**
Net income				**30.0**	**89.8**
Total expenses				**1,052.5**	**1,230.1**
Net income				**30.0**	**89.8**
Profit carried forward from the previous year				**65.8**	**-**
Net retained profit				**95.8**	**89.8**

€ mn			2021	2020
Income				
Interest income from				
a) Lending and money-market transactions		785.5		729.9
including negative interest from lending and money-market transactions	*-31.4*			*[-18.1]*
b) Fixed-income securities and debt register claims		94.0		131.5
			879.5	**861.4**
Current income from				
a) Participating interests		-		0.2
b) Interests in affiliated companies		27.5		20.5
			27.5	**20.7**
Income from profit pools, profit transfer agreements or partial profit transfer agreements			**0.6**	**3.1**
Commission income			**34.8**	**33.2**
Income from write-ups on equity investments, interests in affiliated companies, and securities held as fixed assets			**97.6**	**272.7**
Other operating income			**12.5**	**39.0**
Total income			**1,052.5**	**1,230.1**

Balance Sheet of Aareal Bank AG as at 31 December 2021

€ mn				2021	2020
Assets					
Cash funds					
a) Cash on hand			0.0		0.0
b) Balances with central banks			6,941.6		4,743.7
including: with Deutsche Bundesbank	*6,941.6*				*[4,743.7]*
				6,941.6	**4,743.7**
Loans and advances to banks					
Other receivables			1,188.7		1,076.7
				1,188.7	**1,076.7**
including: payable on demand	*1,022.0*				*[887.5]*
Loans and advances to customers					
a) Loans secured by charges on real property			25,476.7		22,620.3
b) Loans to local authorities			1,568.0		1,621.4
c) Other loans and advances			3,078.2		3,278.9
				30,122.9	**27,520.6**
Debt and other fixed-income securities					
a) Bonds and notes					
aa) Public-sector issuers		4,986.6			5,436.7
including: securities eligible as collateral with Deutsche Bundesbank	*4,795.9*				*[5,253.8]*
ab) Other issuers		1,191.5			617.1
including: securities eligible as collateral with Deutsche Bundesbank	*1,191.5*				*[617.1]*
			6,178.1		6,053.8
b) Own bonds			1,780.7		1,842.7
Nominal amount:	*1,753.7*				*[1,812.0]*
				7,958.8	**7,896.5**
Equities and other non-fixed income securities				**99.4**	**100.2**
Participating interests				**11.0**	**7.1**
Interests in affiliated companies				**1,650.9**	**1,518.2**
including: interests in banks	*9.8*				*[9.2]*
Trust assets				**18.5**	**19.1**
including: trustee loans	*18.5*				*[17.5]*
Intangible assets					
a) Internally generated industrial property rights and similar rights and assets			14.1		8.8
b) Purchased concessions, industrial property rights and similar rights and assets, as well as licences in such rights and assets			4.8		6.3
				18.9	**15.1**
Tangible fixed assets				**7.1**	**8.6**
Other assets				**73.5**	**810.8**
Prepaid expenses					
a) From new issues and lending			161.3		172.1
b) Other			53.2		34.6
				214.5	**206.7**
Deferred tax assets				**364.5**	**305.2**
Total assets				**48,670.3**	**44,228.5**

€ mn				2021	2020
Equity and liabilities					
Liabilities to banks					
a) Outstanding registered mortgage Pfandbriefe			232.2		432.2
b) Outstanding registered public-sector Pfandbriefe			153.7		105.6
c) Other liabilities			6,263.0		6,074.6
				6,648.9	**6,612.4**
including: payable on demand	*382.2*				*[1,358.6]*
Liabilities to customers					
a) Outstanding registered mortgage Pfandbriefe			2,407.4		2,756.0
b) Outstanding registered public-sector Pfandbriefe			1,253.6		1,444.7
c) Other liabilities			19,368.0		17,866.2
				23,029.0	**22,066.9**
including: payable on demand	*10,922.2*				*[9,237.7]*
Certificated liabilities					
Bonds issued					
a) Mortgage Pfandbriefe		9,472.8			7,922.5
b) Public-sector Pfandbriefe		15.0			15.0
c) Other debt securities		5,562.2			3,733.9
				15,050.0	**11,671.4**
Trust liabilities				**18.5**	**19.1**
including: trustee loans	*18.5*				*[17.5]*
Other liabilities				**459.2**	**164.6**
Deferred income					
a) From new issues and lending			149.2		118.3
b) Other			38.0		41.0
				187.2	**159.3**
Provisions					
a) Provisions for pensions and similar obligations			258.9		235.7
b) Tax provisions			8.4		8.0
c) Other provisions			101.4		75.7
				368.7	**319.4**
Subordinated liabilities				**580.2**	**892.3**
including: maturing within two years	*211.0*				*[106.0]*
Additional Tier 1 capital instruments				**313.4**	**313.9**
Fund for general banking risks				**167.6**	**167.6**
Equity					
a) Subscribed capital			179.6		179.6
b) Capital reserve			727.8		727.8
c) Retained earnings					
ca) Legal reserve		4.5			4.5
cb) Other retained earnings		839.9			839.9
			844.4		844.4
d) Net retained profit			95.8		89.8
				1,847.6	**1,841.6**
Total equity and liabilities				**48,670.3**	**44,228.5**

€ mn		2021	2020
Contingent liabilities			
Liabilities from guarantees and indemnity agreements	36.9		54.7
		36.9	**54.7**
Other commitments			
Irrevocable loan commitments	1,363.4		888.6
		1,363.4	**888.6**

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. It is the parent company of an international property finance and services group, and registered under no. HRB 13 184 in the Commercial Register at the Wiesbaden local court (Germany).

The financial statements of Aareal Bank AG for the financial year ended on 31 December 2021 were prepared in accordance with the provisions – as applicable at the reporting date – of the German Commercial Code (Handelsgesetzbuch – "HGB"), the supplementary regulations of the German Public Limited Companies Act (Aktiengesetz – "AktG"), the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – "RechKredV") and the German Pfandbrief Act (Pfandbriefgesetz – "PfandBG"). The reporting currency is the euro (€). In addition, the annual 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).

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

Accounting and Valuation Principles

(1) Cash funds

Cash funds include cash on hand and balances with central banks. Cash funds are accounted for at the notional amount.

(2) Loans and advances

Loans and advances to banks and customers are carried at amortised cost, including deferred interest. Premiums and discounts are shown under deferred items, in accordance with section 340e (2) of the HGB. Credit risks are accounted for by setting aside provisions in the amount of the expected loss, using prudent estimates. The proceeds from realisation are determined on the basis of the expected value of various possible scenarios. The portfolio-based valuation allowances are calculated using a formula-based procedure based on the following Basel III parameters used in the Advanced IRB Approach: expected loss given default (LGD) and probability of default (PD). With regard to exposures that were subject to a significant increase in default risk since the grant date, lifetime expected losses are recorded rather than the 12-month expected loss.

(3) Securities

Bonds and other fixed-income securities, as well as equities and other non-fixed income securities held as current assets, are measured strictly at the lower of cost or market value, as prescribed for current assets (strenges Niederstwertprinzip). Aareal Bank AG’s current assets presently are composed exclusively of securities of the liquidity reserve. Bonds and other fixed-income securities that are intended to be held permanently, are carried at the lower of cost or market value; the carrying amount needs to be written down to the lower market value only if the impairment is permanent (gemildertes Niederstwertprinzip). Where the reasons for the write-down no longer apply, write-ups are made in accordance with section 253 (5) of the HGB.

(4) Trading portfolio

The Bank held no financial instruments for trading as at the balance sheet date. The Bank-internal criteria for the inclusion of financial instruments into the trading portfolio were not changed during the reporting year.

(5) Hedging relationships

The Bank establishes hedging relationships within the meaning of section 254 of the HGB. Accordingly, fixed-income securities of the liquidity reserve in the amount of € 3,812.7 million (2020: € 3,625.9 million) are hedged against changes in value attributable to interest rate risk by means of interest rate hedges with a nominal amount of € 3,799.1 million (2020: € 3,593.7 million), on the basis of so-called “micro hedges”. In this context, the underlying transaction and the hedge generally are acquired within the framework of so-called “asset swap packages”, i.e. they are so-called “perfect hedges” where all value-affecting factors between the hedged portion of the underlying transaction substantially correspond to the hedging portion of the hedge. The prospective effectiveness of the hedging relationship, which refers to the period until the security's final maturity, is proven, based on a sensitivity analysis in conjunction with the so-called “Critical Terms Match Method”.

The Bank continues to establish hedging relationships between repurchased own bonds in a nominal amount of € 1,780.7 million (2020: € 1,842.7 million) and the corresponding securitised liabilities.

This is presented in the financial statements using the so-called “Net Hedge Presentation Method” (Einfrierungsmethode). Under this method, the cumulative change in the value of the underlying transaction is determined on the basis of the hedged risk, and compared to the changes in the value of the hedge. The hedged risk amounts to € 82.4 million (2020: € 128.7 million) and corresponds to the cumulative increase of the fair value of assets since inception of the hedging relationship. This net increase is not shown in the income statement on a net basis, after including hedge transactions. Any previously existing ineffectiveness based on the hedged risk is reflected in a provision for hedging relationships. The changes in value attributable to the hedged risk are reflected on a portfolio basis, in the form of a write-down on the security concerned.

(6) Fair value measurement of interest rate instruments of the banking book

In addition, the Bank uses derivative financial instruments of the banking book (non-trading book), above all interest rate swaps, for the purpose of controlling interest rate risk (interest spread risk) as part of the overall management of the Bank. In accordance with the HGB, these instruments represent “pending transactions” which are not recognised on the balance sheet. They form a “hedging relationship”, together with the recognised interest-bearing assets and liabilities of the banking book. In accordance with IDW RS BFA 3, this hedging relationship has to be reviewed as to whether losses are anticipated, taking into account expected expenses required for funding, risk management and administration in relation to managing the banking book. Currently, the Bank has two equally suitable methods available to determine provisions for anticipated losses: the P&L based approach referring to certain time periods, and the (static) present value method. The Bank uses the present value method. Under this method, a provision has to be recognised when the book value of the banking book exceeds the present value of the banking book, i.e. if there are net unrealised losses in the banking book. The present value is derived from the cash flows of the financial instruments included in the banking book, discounted to the balance sheet date. Potential future risk costs are considered by adjusting the applicable interest rate used for the discounting of cash flows. The administrative expenses relating to the banking book are derived from cost accounting and deducted on a lump-sum basis. No provision for anticipated losses had been recognised as at the balance sheet date, since the present value of the banking book is higher than the book value as at 31 December 2021.

(7) Derivatives

Derivative financial instruments are considered pending transactions, and are therefore generally not recorded in the balance sheet.

Exchange-traded derivatives are measured at their quoted market price. The market price of over-the-counter (OTC) derivatives is determined using standard valuation models commonly accepted in the financial industry, such as the present value technique and option pricing models.

Acquired as well as issued structured products are generally accounted for as groups of uniform assets and liabilities in accordance with IDW RS HFA 22.

(8) Participating interests, interests in affiliated companies, intangible assets and tangible assets

Participating interests and interests in affiliated companies are stated at cost or, in case of a presumably permanent impairment, at the lower fair value in accordance with section 253 (3) sentence 5 of the HGB (gemildertes Niederstwertprinzip).

Tangible assets and purchased intangible assets are stated at cost less depreciation/amortisation. Write-downs are required in the event of impairments in value deemed to be other than temporary.

Office furniture and equipment items are depreciated using the straight-line method, applying the following depreciation periods:

Office furniture and equipment	Depreciation period
IT equipment	3 to 5 years
Other office furniture and equipment	5 to 13 years
Vehicle fleet	6 years
Tenant’s improvements	10 years

Intangible assets comprise purchased as well as self-developed software, which is amortised over a useful life of three to five years.

The option to capitalise internally generated intangible assets pursuant to section 248 (2) of the HGB was exercised. Pursuant to section 255 (2) sentence 3 of the HGB, the calculation of manufacturing costs incorporates general administrative costs as well as expenses for social facilities provided by the Company, voluntary social benefits, and company retirement provisions. Internally generated intangible assets are amortised on a straight-line basis over a period of five years from the date they are ready for operation.

Where the reasons for the write-down no longer apply, write-ups are recognised for participating interests, interests in affiliated companies, intangible assets and tangible assets in accordance with section 253 (5) of the HGB. To the extent that land and buildings were acquired to salvage loans, and have been in the possession of the Bank for more than five years, these are reported under tangible fixed assets. Additions of low-value commercial goods (“geringwertige Wirtschaftsgüter”) of not more than € 250 are recognised through profit or loss.

The option to disclose a net amount, pursuant to section 340c (2) of the HGB, has been exercised.

(9) Trust assets and trust liabilities

These balance sheet items include assets and liabilities that the Bank holds on its own behalf, but for the account of third parties. These items are measured at amortised cost.

(10) Prepaid expenses and deferred income

Prepaid expenses and deferred income represent expenditures and proceeds prior to the reporting date in accordance with section 250 (1) and (2) of the HGB to the extent that they constitute expenses or income, respectively, for a particular period after the reporting date.

Furthermore, prepaid expenses pursuant to section 250 (3) of the HGB comprise differences where the settlement amount of a liability exceeds its issue amount. Such differences will be amortised by way of scheduled annual depreciation or amortisation.

Pursuant to section 340e (2) of the HGB; the Bank recognises in prepaid expenses upfront payments from derivatives as well as any premiums and discounts on registered bonds, claims under promissory note loans, issued bonds and other loans as well as fee portions with interest-paying characteristics, which have been amortised over the relevant terms.

(11) Other assets

Other assets are reported at nominal amount. In case of reduced recoverability, impairment losses down to the lower of the exchange or market price, or the expected value, are recorded pursuant to section 253 (4) of the HGB.

(12) Deferred taxes

If there are differences between the book value of assets, liabilities, deferred income and prepaid expenses and their related tax bases which are expected to be reversed in later financial years, any resulting net tax burden is recognised as a deferred tax liability and any resulting net tax benefit is recognised as a deferred tax asset, in accordance with section 274 of the HGB. Tax loss carryforwards are taken into account in the calculation of deferred tax assets, based on the level of the potential losses to be offset within the next five years. Deferred taxes are measured using the company- and country-specific tax rates expected to apply at the time of the realisation of temporary differences and the offsetting of loss carryforwards. The Bank reports deferred taxes on a net basis.

(13) Liabilities

Liabilities are shown on the balance sheet at the settlement amount. The difference between the settlement amount and the lower initial book value of liabilities is recognised under deferred items, and amortised over the term of the liability.

(14) Provisions

Provisions are recognised in the amount of the required settlement amount, as determined based on prudent commercial judgement. Pursuant to section 253 (2) sentence 1 of the HGB, provisions with a remaining term of more than one year have to be discounted using the average market interest rate applicable for their remaining term; the average market interest rate for provisions for retirement benefit obligations is based on the rates of the past ten years, while that for other provisions is based on the rates of the past seven years.

Provisions for pensions and similar obligations are determined based on actuarial principles. Provisions for pensions are recognised at the settlement amount taking into account future wage, salary and pension trends and applying the average market interest rate applicable for an assumed remaining term of 15 years as disclosed by Deutsche Bundesbank, except where the applicable remaining term of the respective pension plan is shorter. In accordance with section 240 (2) of the HGB, pension obligations are generally determined based on inventory records established as at the balance sheet date. Pursuant to section 241 (3) of the HGB, the relevant group of eligible persons may also be recorded as at a date within the last three months prior to, or within the first two months after, the balance sheet date, provided that the pension obligations may be measured properly as at the balance sheet date. This is ensured by using forecast interest rates. Reference is made to the Notes to the balance sheet. Provisions for taxes and other provisions have been set aside for existing legal or constructive obligations in the settlement amount, as required by prudent commercial judgement.

(15) Additional Tier 1 capital instruments

The instruments issued are classified as liabilities and are recognised at their settlement amount. The interest expense is accrued in the amount of the expected payments.

(16) Fund for general banking risks

The fund for general banking risks was recognised in accordance with section 340g of the HGB and is intended as a protection against general banking risks to the extent that this is necessary based on prudent business judgement given the specific risks of the business activities of banks.

Expenses for additions to this special item or income from the reversal of the special item were not incurred in the year under review.

(17) Currency translation

Currency translation complies with the principles set out in sections 256a and 340h of the HGB.

Assets and liabilities denominated in foreign currency as well as pending spot transactions are translated using the middle spot rate (ECB reference middle rate) applicable on the recognition date.

Assets and liabilities denominated in foreign currency or forward foreign exchange transactions are classified as specific cover and are measured at the middle spot rate (ECB reference middle rate) on the balance sheet date. Income and expenses from currency translations are recognised through profit or loss under other operating income and expenses.

The Bank decomposes foreign exchange forward transactions which are used to hedge interest-bearing balance sheet items into an agreed spot base and the swap rate, recognising a deferred asset or liability equivalent to the net aggregate difference between the spot base and the same currency's exchange rates prevailing on the reporting date. Forward premiums or discounts are amortised in net interest income over the term of the transaction.

Notes to the Income Statement

(18) Interest income and expense

Negative interest from financial assets and positive interest from financial liabilities are disclosed separately under interest income and expenses as a 'thereof' position. These assets and liabilities are deposits and borrowings, as well as money market and securities repurchase transactions.

(19) Income by geographical segment

The aggregate of (i) interest income, (ii) current income on equities and other non-fixed income securities, and on participating interests and interests in affiliated companies, (iii) commission income and (iv) other operating income is broken down by the following regions, in accordance with section 34 of the RechKredV.

€ mn	2021	2020
Germany	144.9	193.6
Rest of Europe	544.2	515.5
North America	224.8	208.5
Asia/Pacific	40.4	36.7
Total	**954.3**	**954.3**

(20) Administration and intermediation services rendered to third parties

The following administration and intermediation services were rendered to third parties: Administration and intermediation of loans and trust assets.

(21) Other operating income and expenses

Other operating income of € 12.5 million (2020: € 39.0 million) includes income from the reversal of provisions in the amount of € 4.8 million (2020: € 16.3 million) as well as € 2.9 million (2020: € 0.3 million) in income from tax refunds (including interest). The figure also includes € 1.2 million (2020: € 1.4 million) in income under agency contracts for subsidiaries.

Other operating expenses total € 25.7 million (2020: € 9.6 million) include expenses for subsidiaries in the amount of € 1.3 million (2020: € 1.1 million), losses from currency translation in the amount of € 6.6 million (2020: € 6.0 million) as well as expenses for interest on back tax payments in the amount of € 10.8 million (2020: € 1.1 million). In addition, the item includes expenses in the amount of € 4.3 million (2020: € 6.6 million) from unwinding of discounts, after offsetting with income from plan assets used for pension obligations pursuant to section 246 (2) sentence 2 of the HGB.

(22) Income taxes

The net income tax position amounts to an income of € 9.0 million (2020: income of € 35.8 million), of which expenses of € 56.7 million (2020: expenses of € 22.3 million) included in current taxes was due in Germany: this figure comprises € 18.2 million (2020: € 1.7 million) in corporation tax and solidarity surcharge and € 16.8 million (2020: € 1.9 million) in trade tax payable for the current year, as well as € 21.7 million (2020: € 25.9 million) in tax expense for previous years. The net income tax position also includes € 59.4 million in income (2020: income of € 5.2 million) from the recognition of German deferred tax assets as well as € 6.3 million (2020: € 18.7 million) in income for the Bank's foreign branch offices.

The tax reconciliation is used to determine why the tax expense (current taxes and deferred taxes) reported in the income statement differs from the expense calculated using the expected tax rate. The expected tax rate of 31.7% (2020: 31.7%), including a weighted trade tax rate of assessment of 453%, comprises trade taxes (15.9%), corporation taxes (15.0%) and the solidarity surcharge (0.825%; 5.5% of corporation tax).

€ mn	2021	2020
Income before income taxes	20.9	54.0
Expected income tax expenses; tax rate: 31.7% (2020: 31.7%)	6.6	17.1
Reconciliation		
Different foreign tax burden	-1.4	-1.0
Tax attributable to tax-exempt income	-32.0	-63.4
Tax attributable to non-deductible expenses	4.9	19.6
Remeasurement of deferred taxes	-	-7.4
Prior-period actual taxes	12.9	-1.0
Effect of changes in tax rates	-	-
Other tax effects	-	0.3
Reported income tax expenses	-9.0	-35.8
Effective tax rate (%)	-43.0	-66.2

(23) Prohibition of distribution

A total amount of € 385.5 million (2020: € 320.3 million) in profits is subject to a prohibition of distribution, pursuant to section 268 (8) of the HGB, of which € 364.5 million (2020: € 305.2 million) is attributable to the balance resulting from recognised deferred tax assets and recognised deferred tax liabilities. A prohibition of distribution applies to a net amount of € 6.9 million (2020: € 6.3 million) (after fair-value netting of assets), pursuant to section 246 (2) sentence 2 of the HGB. Moreover, a prohibition of distribution pursuant to section 248 (2) sentence 1 of the HGB is included for internally generated intangible assets in the amount of € 14.1 million (2020: € 8.8 million).

In addition, a prohibition of distribution applies to an amount of € 35.5 million (2020: € 43.0 million) pursuant to section 253 (6) sentence 1 of the HGB regarding the difference between (a) the amount to be recognised for provisions for pensions according to the average market interest rate of the previous ten business years and (b) the amount to be recognised for provisions for pensions according to the average market interest rate of the previous seven business years.

The prohibition of distribution therefore totals € 421.0 million (2020: € 363.3 million) during the year under review pursuant to HGB regulations.

Notes to the Balance Sheet

(24) Securities negotiable at a stock exchange

The following table is a breakdown of securities negotiable at a stock exchange included in the balance sheet line items, including accrued interest.

€ mn	Listed 31 Dec 2021	Unlisted 31 Dec 2021	Listed 31 Dec 2020	Unlisted 31 Dec 2020
Debt and other fixed-income securities	7,958.8	0.0	7,896.5	0.0
Equities and other non-fixed income securities	0.0	0.0	0.0	0.0
Participating interests	-	-	-	-
Interests in affiliated companies	-	240.2	-	260.2

Hedging relationships as defined by section 254 of the HGB have been created with respect to negotiable securities in an aggregate amount of € 5,593.4 million (2020: € 5,468.6 million).

Bonds and notes, including own bonds, of € 7,958.8 million (2020: € 7,896.5 million) (including accrued interest) reported under debt and other fixed-income securities comprise € 190.7 million (2020: € 182.9 million) in securities which are not eligible as collateral with Deutsche Bundesbank. Of that amount, € 119.4 million (2020: € 111.6 million) relate to sovereign foreign-currency bonds, which are eligible for securities lending.

The total amount of securities negotiable at a stock exchange reported in the balance sheet item „Interests in affiliated companies“ consists of interests in Aareon AG, Aareal Beteiligungen AG, Aareal First Financial Solutions AG, Westdeutsche Immobilien Servicing AG, Deutsche Bau- und Grundstücks-Aktiengesellschaft, and DHB Verwaltungs AG.

(25) Investment fund units

The following table is an analysis of investment fund assets, where more than 10% of the fund units are held.

€ mn	Book value 31 Dec 2021	Market value 31 Dec 2021	Book value 31 Dec 2020	Market value 31 Dec 2020
DBB INKA	99.4	99.4	100.2	100.2
Aareal Altersvorsorge BV 97	74.5	74.5	66.1	66.1
Total	**173.9**	**173.9**	**166.3**	**166.3**

DBB INKA is an investment fund as defined under German law (Sondervermögen) which invests in assets permitted under the German Investment Act (Investmentgesetz – “InvG”), observing the principle of risk diversification. The right to redeem fund units on a daily basis is unrestricted.

Aareal Altersvorsorge BV 97 is an investment fund as defined under German law (Sondervermögen), which invests in assets permitted under the fund's investment policy, observing the principle of risk diversification. This investment fund is protected from access by all creditors, and is only intended to settle liabilities from retirement benefit obligations vis-à-vis employees.

The value of investment fund units as defined by sections 168 and 278 of the German Capital Investment Act (Kapitalanlagegesetzbuch – "KAGB") was € 173.9 million (2020: € 166.3 million). During the financial year under review, no distributions were made under the fund.

(26) Movements in fixed assets

The changes in fixed assets are presented in the fixed assets development schedule shown below.

The values shown for debt and other fixed-income securities include additions and disposals, as well as changes in inventory due to the amortisation of premiums and discounts (excluding accrued interest).

					Tangible fixed assets	
€ mn	Debt and other fixed-income securities	Participating interests	Interests in affiliated companies	Intangible assets	Office furniture and equipment	Land and buildings
Cost						
As at 1 Jan 2021	**2,081.4**	**12.4**	**1,580.7**	**34.3**	**36.4**	**0.1**
Additions	180.1	6.4	179.5	7.4	0.9	-
Disposals	241.0	2.5	44.9	-	3.4	-
Changes in inventory/transfers	-	0.0	0.0	0.0	-	-
As at 31 Dec 2021	2,020.5	16.3	1,715.3	41.7	33.9	0.1
Depreciation and amortisation						
As at 1 Jan 2021	**0.0**	**5.3**	**62.5**	**19.2**	**27.9**	**0.0**
Additions	-	-	-	-	-	-
Depreciation and amortisation	-	-	-	3.6	2.0	-
Write-downs	-	-	1.9	-	-	-
Disposals	-	-	-	-	3.0	-
Transfers	-	-	-	-	-	-
Write-ups	-	-	-	-	-	-
As at 31 Dec 2021	0.0	5.3	64.4	22.8	26.9	0.0
Book value as at 31 Dec 2021	**2,020.5**	**11.0**	**1,650.9**	**18.9**	**7.0**	**0.1**
Book value as at 31 Dec 2020	2,081.4	7.1	1,518.2	15.1	8.5	0.1

As at 31 December 2021, the securities held as fixed assets largely included securities issued by South and West European debtors. The following performance was recognised:

€ mn	Book value 31 Dec 2021	Market value 31 Dec 2021	Book value 31 Dec 2020	Market value 31 Dec 2020
Bank bonds	30.8	31.5	51.4	53.9
Covered bonds	22.5	22.5	-	-
Public-sector issuers	1,967.2	2,275.8	2,030.0	2,479.9
Total	2,020.5	2,329.8	2,081.4	2,533.8

Securities with a nominal amount of € 1,960.9 million (2020: € 2,012.6 million) were not measured at the lower of cost or market. For several securities, the book value in the amount of € 750.9 million (2020: € – million) is higher than the market value of € 740.6 million (2020: € – million).

An examination of cost vs. market values as at 31 December 2021 did not indicate any permanent impairment.

The option to aggregate non-trading assets, pursuant to section 34 (3) of the RechKredV, has been exercised.

The Bank has rented the majority of business land and buildings used for its business operations from one of its subsidiaries.

(27) Subordinated assets

The following items comprise subordinated assets in the amount shown:

€ mn	31 Dec 2021	31 Dec 2020
Loans and advances to banks	-	-
Loans and advances to customers	124.0	124.0
Bonds and other fixed-income securities	-	-
Equities and other non-fixed-income securities	-	-
Other assets	-	-

(28) Notes on affiliated companies and enterprises with a participatory interest

	Affiliated companies 2021		Enterprises with a participatory interest 2021		Affiliated companies 2020		Enterprises with a participatory interest 2020	
€ mn	Certi-ficated	Not certi-ficated	Certi-ficated	Not certi-ficated	Certi-ficated	Not certi-ficated	Certi-ficated	Not certi-ficated
Loans and advances to banks	-	-	-	-	-	-	-	-
Loans and advances to customers	-	3,276.7	-	16.4	-	3,218.5	-	16.5
Debt and other fixed-income securities	-	0.1	-	-	-	-	-	-
Liabilities to banks	-	-	-	-	-	-	-	-
Liabilities to customers	-	1,058.2	-	0.0	-	773.8	-	0.0
Certificated liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-	-

Transactions with related parties are carried out on an arm's length basis. No loans were extended to members of executive bodies of Aareal Bank.

(29) Trust business

€ mn	31 Dec 2021	31 Dec 2020
Trust assets		
Loans and advances to customers	18.5	17.6
Equities and other non-fixed-income securities	-	1.5
Total trust assets	**18.5**	**19.1**
Trust liabilities		
Liabilities to banks	0.5	0.9
Liabilities to customers	18.0	18.2
Total trust liabilities	**18.5**	**19.1**

(30) Other assets

Other assets mainly include tax receivables of € 36.2 million and receivables from withdrawals of capital or profit distributions in the amount of € 0.6 million. In addition, other assets include receivables from the collateralisation of irrevocable payment obligations to the FMSA resulting from the bank levy, and to the deposit guarantee scheme of German banks in an aggregate amount of € 35.0 million.

In the previous year, other assets included, in particular, the asset item recognised from currency translation, in the amount of € 686.5 million. Furthermore, the previous year's figure comprised tax receivables of € 87.1 million and receivables from profit distributions or profit assumptions in the amount of € 3.1 million. In addition, other assets included receivables from the collateralisation of irrevocable payment obligations to the FMSA resulting from the bank levy, and to the deposit guarantee scheme of German banks in an aggregate amount of € 29.6 million.

(31) Prepaid expenses and deferred income

Prepaid expenses in the amount of € 214.5 million (2020 € 206.7 million) primarily include € 8.6 million (2020 € 11.6 million) in premiums on originated loans, in accordance with section 340e (2) sentence 3 of the HGB and € 152.7 million (2020: € 160.5 million) in discounts on bonds issued and borrowings pursuant to section 250 (3) of the HGB. The item also includes € 46.1 million (2020: € 28.3 million) from upfront payments/option premiums in connection with derivatives.

€ 187.2 million (2020: € 159.3 million) of deferred income refers to upfront payments/option premiums in connection with derivatives (€ 38.0 million; 2020: € 40.9 million), while € 64.9 million (2020: € 41.2 million) relates to issuing discounts of Pfandbriefe, € 3.6 million (2020: € 1.4 million) to discounts on originated loans, in accordance with section 340e (2) sentence 2 of the HGB, and to fee portions with interest-paying characteristics in the amount of € 78.5 million (2020: € 74.5 million).

(32) Deferred taxes

As at 31 December 2021, the Bank's deferred tax assets exceeded its deferred tax liabilities by € 364.5 million (2020: € 305.2 million). Deferred taxes are recorded in the amount of the assumed tax burden or relief in coming financial years, and are measured using the company- and country-specific tax rates expected to apply at the time of the realisation of temporary differences and the offsetting of loss carryforwards.

For Germany, we used a corporate income tax rate (including solidarity surcharge) of 15.8% and a municipal trade tax rate, depending on the multiplier set by the relevant local authorities. This results in an overall tax rate of 31.7% for Germany (2020: 31.7%).

Deferred tax assets were largely recognised for valuation differences for loans and advances to customers compared to their tax base, provisions for impending losses from executory contracts, as required under German commercial law, prepaid expenses for collected loan fees as well as on provisions for pensions. Deferred tax assets in the amount of € 7.5 million (2020: € 1.6 million) were recognised for loss carryforwards, relating exclusively to foreign permanent establishments of Aareal Bank AG.

Deferred tax liabilities were mainly attributable to the split-off portfolios of former WestImmo (€ 30.1 million; 2020: € 31.9 million), former Düsseldorfer Hypothekenbank AG (€ 18.9 million after netting; 2020: € 18.3 million) and former Corealcredit Bank AG (€ 6.7 million; 2020: € 10.0 million). As in the previous year, they were offset against deferred tax assets.

€ mn	31 Dec 2021	31 Dec 2020	Change in the year under review
Net deferred tax assets	364.5	305.2	59.3

(33) Other liabilities

Other liabilities mainly comprise € 10.6 million in trade payables, € 371.7 million in liabilities recognised from currency translation, as well as € 56.6 million in liabilities from the adjustment item reflecting the split-off of Düsselhyp's banking operations. In addition, € 10.7 million in liabilities from profit and loss transfer agreements and tax liabilities of € 3.3 million have been recognised.

In the previous year, other liabilities mainly comprised € 9.1 million in trade payables, € 46.6 million in liabilities recognised from currency translation, as well as € 64.6 million in liabilities from the adjustment item due to the split-off of the banking operations of Düsselhyp. In addition, € 32.5 million in liabilities from profit and loss transfer agreements and tax liabilities of € 4.8 million have been recognised.

(34) Provisions for pensions

The values determined in the actuarial pension report are based on the following methods and assumptions. In this context, the collection of personnel data and the determination of the forecast interest rate were made as at 1 October 2021 (cut-off date), not as at the balance sheet date:

	31 Dec 2021	31 Dec 2020
Actuarial method applied:	Projected unit credit method	Projected unit credit method
Fundamental assumptions for calculation:		
Discount rate in %	1.87	2.30
Reference period for discount rate	10 years	10 years
Fluctuation (%)	3.00	3.00
Expected wage and salary increases in %	2.00	2.00
Adjustments of current pension payments (%)	1.00 or 1.75	1.00 or 1.75
Mortality tables used	"Richttafeln 2018G" mortality tables by K. Heubeck	"Richttafeln 2018G" mortality tables by K. Heubeck

The effect from the changes in the discount rate as at the end of the financial year compared to the discount rate as at the beginning of the financial year is recognised in staff expenses.

The fair value changes of the plan assets are shown together with the current income from plan assets under other operating income and expenses.

Assets which are held exclusively for the purpose of fulfilling pension obligations are netted against provisions for pensions, within the framework of a Contractual Trust Agreement (CTA) where the trustee is acting on behalf of both parties (in the capacity of an administrative trustee and security trustee).

€ mn	31 Dec 2021	31 Dec 2020
Pension obligation	360.6	333.9
Fair value of plan assets	101.7	98.2
Cost of plan assets	94.8	91.8
Provisions for pensions and similar obligations	**258.9**	**235.7**

The plan assets comprise the following items, all of which are exclusively reserved to meet Aareal Bank AG's pension obligations vis-à-vis its active and retired employees in Germany.

Fund units are recognised at fair value, resulting from the exchange prices and market values of the assets.

€ mn	31 Dec 2021	31 Dec 2020
Fund units	74.5	66.1
Reinsurance cover	27.2	32.1
Fair value of plan assets	**101.7**	**98.2**

The following table shows the income and expenses in relation to pension obligations and the associated plan assets that were offset and recognised in the income statement of the reporting year.

€ mn	31 Dec 2021	31 Dec 2020
Interest cost on pension obligations	7.3	7.9
Income from plan assets	0.3	1.7
Net interest expense	**7.0**	**6.2**

(35) Subordinated liabilities

Outstanding subordinated liabilities of Tier 2 capital are not subject to any prerequisites for the conversion into equity capital or into another type of debt.

Subordinated funds raised do not provide for any early repayment obligation for Aareal Bank AG. In the event of liquidation or insolvency, claims on interest and principal from these liabilities are subordinated to the claims of all other creditors of Aareal Bank AG, which are not themselves subordinated. This also applies to those subordinated funds raised that are not specified in detail.

On the reporting date, there was one (2020: one) subordinated liability of € 80.0 million (2020: € 300.0 million) with a fixed rate of 4.25% p.a., maturing on 19 February 2024.

Interest expenses for all subordinated liabilities totalled € 27.8 million (2020: € 37.6 million), including an amount of € 13.0 million (2020: € 23.1 million) for accrued interest payments not yet due.

(36) Additional Tier 1 capital instruments

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% p.a., 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 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.

Interest expenses for debt securities totalled € 20.1 million (2020: € 21.3 million), including an amount of € 13.4 million (2020: € 13.9 million) for accrued interest payments not yet due.

(37) Equity

Equity changed as follows:

€ mn	Subscribed capital	Capital reserves	Retained earnings: Legal reserve	Retained earnings: Other retained earnings	Net retained profit	Equity
As at 1 Jan 2021	**179.6**	**727.8**	**4.5**	**839.9**	**89.8**	**1,841.6**
Dividends distributed in 2021	-	-	-	-	-24.0	-24.0
Transfer from net income 2021	-	-	-	-	30.0	30.0
As at 31 Dec 2021	**179.6**	**727.8**	**4.5**	**839.9**	**95.8**	**1,847.6**

The Bank 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 can only be determined at Group level. As a result, regulatory details no longer need to be disclosed at a single-entity level in this context.

Subscribed capital

Subscribed capital amounts to € 179.6 million (2020: € 179.6 million) and is divided into 59,857,221 (2020: 59,857,221) bearer shares with a proportionate share in the nominal share capital of € 3.00 per share.

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 direct or indirect subsidiaries of Aareal Bank AG – in full or in part, on one or more occasions.

Subject to the approval of the Supervisory Board, the shares acquired under this or an earlier authorisation may be sold outside stock exchanges and without an offer to all shareholders, thereby excluding shareholders’ pre-emptive rights, provided that the shares sold do not exceed the threshold value of 10% of the Company’s share capital and that the issue price is not significantly lower than the stock exchange price, or if the sale of such shares is made against contribution in kind, or if the shares are given to the holders of conversion or option rights, even if they had been 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.

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-per-cent 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 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 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.

(38) Contingent liabilities and other commitments

The Bank has off-balance contingent liabilities and irrevocable loan commitments. During the term of these obligations, the Bank regularly reviews whether any losses can be expected from the utilisation of such contingent liabilities. This assessment is primarily made due to the credit risk analysis. Any losses that can be expected according to this analysis are recognised in the balance sheet as provisions, and are no longer disclosed as contingent liabilities or other liabilities.

Contingent liabilities result from guarantees and indemnity agreements, of which € 11.5 million (2020: € 29.4 million) are granted to domestic borrowers and € 25.4 million (2020: € 25.3 million) to foreign borrowers.

Liabilities did not have to be recognised for obligations from indemnity agreements vis-à-vis third parties and other obligations, which were entered into in favour of affiliated companies, as the underlying liabilities are likely to be fulfilled by the affiliated companies. Therefore, we do not expect any utilisation in this regard.

Irrevocable loan commitments are made up of credit and loan commitments, of which € 214.9 million (2020: € 147.8 million) are granted to domestic borrowers and € 1,148.5 million (2020: € 740.8 million) to foreign borrowers. Loan commitments to affiliated companies amount to € 786.5 million (2020: € 180.6 million).

(39) Unrecognised transactions and other obligations

Aareal Bank AG is the lessee mainly of operating leases. Rental and lease contracts relate to the buildings of the Bank's head office in Wiesbaden used for the Bank's operations, and of the foreign branch offices and representative offices as well as to the vehicle fleet and certain operating and office equipment. In all cases, the contracts are so-called operating leases which are not recognised in the financial statements of the Bank. The key benefit of such contracts is a lower amount of capital lock-up compared to an acquisition, and the elimination of realisation risk. At the moment, there are no indications that risks may result from the lease term.

Disclosures on repurchase agreements and derivatives are presented below in the Notes.

The probability-weighted amount of legal disputes is € 27.1 million (2020: € 92.0 million). Based on a legal analysis, successful outcome of these disputes is more likely than not, and therefore, no liabilities are recognised in the financial statements.

Tax risks resulting from diverging assessments of tax matters and potential legal changes amount to € 25.8 million (2020: € 31.2 million) on a probability-weighted basis.

There are fully cash-collateralised and irrevocable payment obligations from the bank levy and the deposit guarantee scheme of German banks. Cash collateral is reported under other assets.

(40) Maturity groupings

€ mn	31 Dec 2021	31 Dec 2020
Loans and advances to banks	**1,188.7**	**1,076.7**
With a residual term of		
Payable on demand	1,022.0	887.5
Up to 3 months	-	-
Between 3 months and 1 year	-	-
Between 1 year and 5 years	26.5	15.0
More than five years	-	11.0
Pro rata interest	140.2	163.2
Loans and advances to customers	**30,122.9**	**27,520.6**
With a residual term of		
Payable on demand	493.4	489.3
Up to 3 months	819.2	177.3
Between 3 months and 1 year	4,275.7	3,859.0
Between 1 year and 5 years	20,739.4	17,184.0
More than five years	3,630.4	5,699.9
Pro rata interest	164.8	111.1
Debt and other fixed-income securities maturing in the following year (nominal amount)	**992.5**	**1,012.0**
Liabilities to banks	**6,648.9**	**6,612.4**
With a residual term of		
Payable on demand	382.2	1,358.6
Up to 3 months	179.8	21.2
Between 3 months and 1 year	4,142.0	3,223.9
Between 1 year and 5 years	1,553.4	1,600.9
More than five years	303.0	282.1
Pro rata interest	88.5	125.7
Liabilities to customers	**-**	**-**
Other liabilities to customers	**23,029.0**	**22,066.9**
With a residual term of		
Payable on demand	10,922.2	9,237.7
Up to 3 months	3,703.8	3,473.5
Between 3 months and 1 year	2,884.9	2,565.1
Between 1 year and 5 years	1,965.0	2,765.9
More than five years	3,441.8	3,892.3
Pro rata interest	111.3	132.4
Bonds issued maturing in the following year (nominal amount)	**2,358.5**	**1,074.0**
Other certificated liabilities	**-**	**-**

(41) Shareholdings

The following disclosures are made pursuant to section 285 (11) of the HGB:

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank Asia Limited	Singapore	100.0	34.5 mn SGD	7.4 mn SGD [1)]
2	Aareal Beteiligungen AG	Frankfurt	100.0	167.0	– [3)]
3	Aareal Capital Corporation	Wilmington	100.0	995.5 mn USD	57.5 mn USD [4)]
4	Aareal Estate AG	Wiesbaden	100.0	2.9	– [3)]
5	Aareal First Financial Solutions AG	Mainz	100.0	7.2	0.3 [3)]
6	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.9	0.1 [1.]
7	Aareal Holding Realty LP	Wilmington	100.0	239.9 mn USD	-0.3 mn USD [4)]
8	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	416.7	– [3)]
9	Aareon AG	Mainz	58.7	151.1	-21.2 [1)]
10	Aareon Deutschland GmbH	Mainz	100.0	34.7	– [3)]
11	Aareon Finland Oy	Helsinki	100.0	0.2	-1.0 [2)]
12	Aareon France S.A.S.	Meudon-la-Forêt	100.0	11.7	4.6 [2)]
13	Aareon Holding France SAS	Meudon-la Forêt	100.0	0.0	0.0 [1)]
14	Aareon Nederland B.V.	Emmen	100.0	28.9	0.5 [2)]
15	Aareon Norge AS	Oslo	100.0	10.5 mn NOK	9.9 mn NOK [2)]
16	Aareon Planungs- und Bestandsentwicklungs GmbH	Mainz	100.0	-0.6	-0.3 [1)]
17	Aareon RELion GmbH	Augsburg	100.0	1.3	-0.8 [1)]
18	Aareon SMB HUB UK Limited	Kenilworth	100.0	0.0	0.0 [1)]
19	Aareon Sverige AB	Mölndal	100.0	48.2 mn SEK	-9.7 mn SEK [2)]
20	Aareon UK Ltd.	Coventry	100.0	7.0 mn GBP	0.0 mn GBP [2)]
21	Alexander Quien Nova GmbH	Bremen	100.0	0.1	0.0 [1)]
22	Arthur Online Ltd.	London	100.0	2.0	-1.4 [1)]
23	AV Management GmbH	Mainz	100.0	0.4	– [3)]
24	BauContact Immobilien GmbH	Wiesbaden	100.0	16.1	0.5 [1)]
25	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	- [3)]
26	BauGrund Solida Immobilien GmbH	Frankfurt	100.0	0.2	0.0 [1)]
27	BauGrund TVG GmbH	Munich	100.0	0.1	0.0 [1)]
28	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	4.5	4.4 [1)]
29	blackprint Booster Fonds International GmbH & Co. KG	Frankfurt	49.9	0.7	-0.1 [2)]
30	BriqVest B.V.	London	100.0	6.3	0.1 [1)]
31	BVG – Grundstücks- und Verwertungs-gesellschaft mit beschränkter Haftung	Frankfurt	100.0	152.3	– [3)]
32	CalCon Austria GmbH	Vienna	100.0	0.4	0.0 [1)]
33	CalCon Deutschland GmbH	Munich	100.0	1.6	-0.3 [1)]
34	CalCrom S.R.L.	Iasi	83.3	0.1	0.0 [4)]

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
35	Cave Nuove S.p.A.	Rome	100.0	-37.7	-1.0 [4]
36	CredaRate Solutions GmbH	Cologne	12.9	4.1	0.6 [2]
37	Curo Software Ltd.	Warrenpoint	100.0	0.0	0.0 [1]
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	– [3]
41	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Bremen	48.4	0.3	0.0 [2]
42	DHB Verwaltungs AG	Wiesbaden	100.0	5.1	- [3]
43	Ecaria GmbH	Berlin	35.9	0.6	-0.3 [1]
44	FIRE B.V.	Utrecht	60.0	0.0	0.0 [2]
45	GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH	Bremen	100.0	1.7	0.5 [1]
46	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	3.0	– [3]
47	GEV Beteiligungsgesellschaft mbH	Wiesbaden	100.0	0.1	0.0 [1]
48	GVN-Grundstücks- und Vermögensverwaltungs-gesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.2	– [3]
49	Houses Nominee Ltd.	London	70.0	0.0	0.0 [1]
50	Houses2021 MEP Beteiligungs GmbH	Frankfurt	65.6	137.9	-0.7 [1]
51	Houses2021 Management Beteiligungs GmbH & Co. KG	Frankfurt	41.7	8.6	0.0 [1]
52	Houses2021 MEP Verwaltungs GmbH	Frankfurt	70.0	0.2	0.0 [1]
53	ImmoProConsult GmbH	Leverkusen	50.0	0.0	0.0 [1]
54	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	2.5	0.0 [1]
55	Izalco Spain S.L.	Madrid	100.0	10.6	0.3 [1]
56	Konsortium BauGrund/TREUREAL	Bonn	50.0	0.0	0.0 [1]
57	La Sessola Holding GmbH	Wiesbaden	100.0	92.6	0.0 [1]
58	La Sessola S.r.l.	Rome	100.0	68.4	-6.6 [1]
59	La Sessola Service S.r.l.	Rome	100.0	2.9	-3.2 [1]
60	Manager Realty LLC	Wilmington	100.0	0.0 mn USD	– [4]
61	Mercadea S.r.l.	Rome	100.0	15.1	-1.0 [1]
62	Mirante S.r.l.	Rome	100.0	3.8	-0.3 [1]
63	Mount Street Group Limited	London	20.0	-8.7 mn GBP	-4.5 mn GBP [1]
64	Northpark Realty LP	Wilmington	100.0	97.3 mn USD	9.0 mn USD [4]
65	OFI GROUP GmbH	Frankfurt	100.0	-1.6	-0.2 [1]
66	objego GmbH	Essen	40.0	3.7	-3.6 [1]
67	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	3.5	– [3]
68	Participation Elfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	– [3]
69	Participation Zehnte Beteiligungs GmbH	Wiesbaden	100.0	0.0	– [3]
70	phi-Consulting GmbH	Bochum	100.0	0.2	– [3]
71	Pisana S.p.A.	Rome	100.0	-4.7	1.3 [4]
72	plusForta GmbH	Dusseldorf	100.0	0.2	– [3]
73	PropTech1 Fund I GmbH & Co. KG	Berlin	9.6	50.2	-2.3 [1]
74	Refurbio GmbH	Berlin	33.4	0.2	-0.6 [1]
75	RentPro Ltd.	Warrenpoint	100.0	0.2	0.1 [1]
76	Tactile Limited	London	100.0	1.0	0.6 [1]

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
77	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	100.0	4.7	– [3]
78	Terrain Beteiligungen GmbH	Wiesbaden	94.0	60.5	1.4 [1]
79	Tintoretto Rome S.r.l.	Rome	100.0	2.3	-0.2 [1]
80	Twinq Facilitair B.V.	Oosterhout	100.0	1.9	0.1 [1]
81	Twinq Holding B.V.	Oosterhout	100.0	2.5	0.3 [1]
82	Twinq Uitwijk en Escrow B.V.	Oosterhout	100.0	0.2	0.0 [1]
83	Twinq Verkoop en Service B.V.	Oosterhout	100.0	0.4	0.1 [1]
84	Westdeutsche Immobilien Servicing AG	Mainz	100.0	50.0	– [3]
85	Westhafen Haus GmbH & Co.Projektentwicklungs KG	Frankfurt	25.0	0.0	0.0 [2]
86	wohnungshelden GmbH	Munich	100.0	0.2	0.1 [1]
87	WP Galleria Realty LP	Wilmington	100.0	137.2 mn USD	-4.3 mn USD [4]

[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

(42) Assets pledged as collateral

Assets in the amount stated were pledged for the following liabilities:

€ mn	31 Dec 2021	31 Dec 2020
Liabilities to banks	6,541.4	5,157.9
Liabilities to customers	40.5	48.9
Total	**6,581.9**	**5,206.8**

Other assets include the cash-collateralised and irrevocable payment obligation to the FMSA resulting from the bank levy and the deposit protection fund, for which € 35.0 million (2020: € 29.6 million) in cash collateral has been pledged.

Assets with a carrying amount of € 5.507,4 million (2020: € 4,033.0 million) were pledged as collateral for targeted longer-term refinancing operations (TLTROs).

(43) Repurchase agreements

As at 31 December 2021, no bonds were used as part of repurchase agreements (2020: € –).

(44) Assets and liabilities in foreign currencies

The aggregate equivalent amount of assets denominated in foreign currencies was € 17,174.7 million (2020: € 15,003.4 million) at the balance sheet date, whilst liabilities totalled € 3,228.0 million (2020: € 674.0 million). Foreign currency balances are partly offset by equivalent foreign exchange forwards and currency swaps.

(45) Forward transactions

The following forward transactions had been entered into as at 31 December 2021:

- Transactions based on interest rates: Caps, floors, swaptions, interest rate swaps
- Transactions based on exchange rates: forward foreign exchange transactions, cross-currency swaps
- Other transactions: other forward transactions

Interest-rate based transactions and cross-currency swaps are primarily used to hedge against interest rate and exchange rate fluctuations. Forward foreign exchange transactions are almost exclusively used for the purposes of funding hedges.

Remaining terms and future cash flows of derivatives are broken down in the following table:

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 instruments					
Interest rate swaps					
Cash inflows	93.9	271.5	650.3	152.4	1,168.1
Cash outflows	113.7	205.2	585.5	166.2	1,070.6
Caps, floors					
Cash inflows	0.0	0.2	10.6	0.2	11.0
Cash outflows	0.0	0.2	10.6	0.2	11.0
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	1,406.9	173.9	-	-	1,580.8
Cash outflows	1,416.3	173.8	-	-	1,590.1
Cross-currency swaps					
Cash inflows	527.9	1,928.8	10,812.9	0.0	13,269.6
Cash outflows	582.6	2,116.0	11,394.8	9.0	14,102.4
Total cash inflows	**2,028.7**	**2,374.4**	**11,473.8**	**152.6**	**16,029.5**
Total cash outflows	**2,112.6**	**2,495.2**	**11,990.9**	**175.4**	**16,774.1**

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 instruments					
Interest rate swaps					
Cash inflows	109.2	293.5	766.3	167.0	1,336.0
Cash outflows	119.6	224.4	680.6	127.4	1,152.0
Caps, floors					
Cash inflows	0.0	0.0	0.9	0.0	0.9
Cash outflows	0.0	0.0	0.9	0.0	0.9
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	1,807.7	131.8	-	-	1,939.5
Cash outflows	1,808.2	131.7	-	-	1,939.9
Cross-currency swaps					
Cash inflows	200.2	2,100.8	9,298.1	54.5	11,653.6
Cash outflows	211.9	2,032.5	9,117.5	0.0	11,361.9
Total cash inflows	**2,117.1**	**2,526.1**	**10,065.3**	**221.5**	**14,930.0**
Total cash outflows	**2,139.7**	**2,388.6**	**9,799.0**	**127.4**	**14,454.7**

The following overview shows positive and negative market values, aggregated by product level (without taking collateral or netting agreements into account): Unless a quoted market price is available, derivatives are measured using generally accepted methods on the basis of current market parameters (yield curves, volatility factors etc.). Methods used include standard methods and models such as discounted cash flow analyses and option pricing models. Structured products are measured after they have been split into their individual components. Fair values, including accrued interest, are given for derivative financial instruments not recognised at fair value as at 31 December 2021.

€ mn	Nominal amount 31 Dec 2021	Market value as at 31 Dec 2021		Market value as at 31 Dec 2020	
		Positive	Negative	Positive	Negative
Interest rate instruments					
OTC products					
Interest rate swaps	41,880.6	1,015.3	1,293.1	1,577.6	1,768.9
Swaptions	0.0	-	-	-	-
Caps, floors	8,016.1	11.0	10.9	0.9	0.9
Total interest rate instruments	**49,896.7**	**1,026.3**	**1,304.0**	**1,578.5**	**1,769.8**
Currency-related products					
OTC products					
Spot and forward foreign exchange transactions	1,537.8	2.3	11.1	7.4	6.7
Cross-currency swaps	13,423.0	114.7	568.7	658.5	129.5
Total currency-related instruments	**14,960.8**	**117.0**	**579.8**	**665.9**	**136.2**
Total	**64,857.5**	**1,143.3**	**1,883.8**	**2,244.4**	**1,906.0**

The year-on-year net increase in market values is attributable to exchange rate developments, in addition to the changes in interest rates. Currency hedges are largely used to hedge foreign exchange risk in the lending business.

Derivatives have been entered into with the following counterparties:

€ mn	Market value as at 31 Dec 2021		Market value as at 31 Dec 2020	
	Positive	Negative	Positive	Negative
OECD public-sector authorities	-	-	-	-
OECD banks	1,072.6	-1,763.1	2,132.3	1,822.4
Non-OECD banks	-	-	-	-
Companies and private individuals	70.7	-120.7	112.1	83.6
Total	**1,143.3**	**-1,883.8**	**2,244.4**	**1,906.0**

Other Disclosures

(46) Declaration pursuant to section 28 of the German Pfandbrief Act (Pfandbriefgesetz – "PfandBG")

Public-sector lending

Total volume of outstanding public-sector Pfandbriefe and of the related cover assets in terms of nominal value and present value (section 28 (1) nos. 1 and 3 of the PfandBG):

€ mn	31 Dec 2021			31 Dec 2020		
	Cover assets pool	Pfandbriefe outstanding[1]	Excess cover	Cover assets pool	Pfandbriefe outstanding[1]	Excess cover
Nominal value	1,478.4	1,393.7	84.7	1,788.9	1,533.0	255.9
of which: derivatives	-	-	-	-	-	-
Present value	2,017.7	1,761.5	256.2	2,564.8	2,003.5	561.3
of which: derivatives	58.7	-	-	58.6	-	-
Risk-adjusted net present value[2]	1,871.6	1,675.4	196.2	2,360.0	1,894.9	465.1

[1] Of which transferred to own holdings: € – million (2020: € – million)
[2] Dynamic method pursuant to section 5 PfandBarwertV/static method pursuant to section 6 PfandBarwertV

Maturity structure of outstanding public-sector Pfandbriefe and fixed-interest periods of the related cover assets (section 28 (1) no. 2 of the PfandBG):

	31 Dec 2021		31 Dec 2020	
€ mn	Cover assets pool	Pfandbriefe outstanding[1)]	Cover assets pool	Pfandbriefe outstanding
Up to 6 months	34.7	27.3	51.0	45.5
Between 6 months and 12 months	122.4	114.4	96.4	94.0
Between 12 months and 18 months	157.5	94.4	28.6	27.1
Between 18 months and 2 years	15.2	89.1	116.5	114.4
Between 2 years and 3 years	154.9	95.1	187.7	183.4
Between 3 years and 4 years	25.5	253.3	129.9	95.1
Between 4 years and 5 years	79.7	114.5	40.5	253.3
Between 5 years and 10 years	197.3	318.8	265.9	423.9
More than 10 years	691.2	286.8	872.4	296.3
Total	**1,478.4**	**1,393.7**	**1,788.9**	**1,533.0**

[1)] Of which transferred to own holdings: € – million (2020: € – million)

Breakdown of assets used as cover for public-sector Pfandbriefe (based on their nominal value) by their amount (section 28 (3) no. 1 of the PfandBG):

Amount classes	2021	2020
Up to €10 million	156.3	187.5
More than €10 million and up to €100 million	414.7	459.7
More than €100 million	907.4	1,126.7
Total	**1,478.4**	**1,773.9**

Breakdown of assets used as cover assets for public-sector Pfandbriefe (based on their nominal value), by borrower's/guarantor's country of domicile, in line with section 28 (3) no. 2 of the PfandBG:

31 December 2021

			of which owed by				of which guaranteed by			
			Public-sector entities				Public-sector entities			
€ mn	Total	Guarantees due to promotion of export activities	Sovereigns	Regional	Municipal	Other	Sovereigns	Regional	Municipal	Other
Germany	1,152.4	-	-	854.9	256.3	17.9	0.1	1.0	22.2	-
Japan	20.0	-	-	-	20.0	-	-	-	-	-
Austria	275.0	-	200.0	25.0	-	-	50.0	-	-	-
Spain	31.0	-	-	31.0	-	-	-	-	-	-
Total	**1,478.4**	**-**	**200.0**	**910.9**	**276.3**	**17.9**	**50.1**	**1.0**	**22.2**	**-**

31 December 2020

€ mn	Total	Guarantees due to promotion of export activities	of which owed by					of which guaranteed by				
				Public-sector entities					Public-sector entities			
			Sover-eigns	Regional	Municipal	Other		Sover-eigns	Regional	Municipal	Other	
Germany	1,400.9	-	-	1,067.1	279.7	27.9		0.1	1.4	24.6	0.1	
EU institutions	40.0	-	-	-	-	-		40.0	-	-	-	
Italy	5.0	-	5.0	-	-	-		-	-	-	-	
Japan	20.0	-	-	-	20.0	-		-	-	-	-	
Austria	225.0	-	200.0	25.0	-	-		-	-	-	-	
Spain	83.0	-	15.0	50.0	-	18.0		-	-	-	-	
Total	**1,773.9**	**-**	**220.0**	**1,142.1**	**299.7**	**45.9**		**40.1**	**1.4**	**24.6**	**0.1**	

Additional cover assets (section 28 (1) nos. 4 and 5 of the PfandBG)

€ mn	2021 Equalisation claims pursuant to section 20 (2) no. 1 of the PfandBG	2021 Money claims pursuant to section 20 (2) no. 2 of the PfandBG: Total	2021 Money claims pursuant to section 20 (2) no. 2 of the PfandBG: of which: covered bonds within the meaning of Art. 129 of EU Regulation No. 575/2013	2021 Total	2020 Equalisation claims pursuant to section 20 (2) no. 1 of the PfandBG	2020 Money claims pursuant to section 20 (2) no. 2 of the PfandBG: Total	2020 Money claims pursuant to section 20 (2) no. 2 of the PfandBG: of which: covered bonds within the meaning of Art. 129 of EU Regulation No. 575/2013	2020 Total
Countries								
Austria	-	-	-	**-**	-	15.0	-	**15.0**
Total	**-**	**-**	**-**	**-**	**-**	**15.0**	**-**	**15.0**

Additional key figures for outstanding Pfandbriefe and related cover assets:

	2021		2020	
Outstanding Pfandbriefe[1)]	**1,393.7**	**€ mn**	**1,533.0**	**€ mn**
of which: share of fixed-income Pfandbriefe	84.0	%	84.9	%
Cover assets pool	**1,478.4**	**€ mn**	**1,788.9**	**€ mn**
of which: total volume of receivables above the percentage limits set out in section 20 (2) of the PfandBG	-	€ mn	-	€ mn
of which: share of fixed-income cover assets	91.6	%	90.0	%

[1)] Of which transferred to own holdings: € – million (2020: € – million)

Net present value pursuant to section 6 of the German Regulation of the Net Present Value of Pfandbriefe (Pfandbrief-Barwertverordnung) per foreign currency:

€ mn	Balance of assets and liabilities 2021	Balance of assets and liabilities 2020
Currency		
EUR	196.2	465.1
GBP	-	0.0

There were no such payment arrears of 90 days or more in the reporting period, nor in the comparable period of the previous year.

No registered public-sector Pfandbriefe were surrendered to lenders as collateral for borrowings (2020: none).

Mortgage lending

Total volume of outstanding public-sector Pfandbriefe and of the related cover assets in terms of nominal value and present value (section 28 (1) nos. 1 and 3 of the PfandBG):

	31 Dec 2021			31 Dec 2020		
€ mn	Cover assets pool	Pfandbriefe outstanding[1)]	Excess cover	Cover assets pool	Pfandbriefe outstanding[1)]	Excess cover
Nominal value	13,873.0	11,579.5	2,293.5	12,390.8	10,590.6	1,800.2
of which: derivatives	-60.3	-	-	204.1	-	-
Present value	14,741.6	12,041.6	2,700.0	13,335.9	11,282.6	2,053.3
of which: derivatives	-	47.3	-	261.5	-	-
Risk-adjusted net present value[2)]	14,588.6	12,395.3	2,193.3	13,294.7	11,663.7	1,631.0

[1)] Of which transferred to own holdings: € 1,239.0 million (2020: € 1,359.5 million)
[2)] Dynamic method pursuant to section 5 PfandBarwertV/static method pursuant to section 6 PfandBarwertV

Maturity structure of outstanding mortgage Pfandbriefe and fixed-interest periods of the related cover assets (section 28 (1) no. 2 of the PfandBG):

	31 Dec 2021		31 Dec 2020	
€ mn	Cover assets pool	Pfandbriefe outstanding[1)]	Cover assets pool	Pfandbriefe outstanding[1)]
Up to 6 months	1,209.4	995.6	728.9	318.5
Between 6 months and 12 months	1,238.9	881.8	1,050.0	1,026.5
Between 12 months and 18 months	1,246.1	1,065.0	961.0	976.2
Between 18 months and 2 years	1,706.8	733.1	1,148.5	881.8
Between 2 years and 3 years	2,220.0	1,444.4	2,548.9	1,810.3
Between 3 years and 4 years	2,607.3	2,090.5	2,281.5	1,484.5
Between 4 years and 5 years	1,974.4	979.7	1,881.3	833.4
Between 5 years and 10 years	1,661.1	3,283.4	1,780.2	3,038.3
More than 10 years	9.0	106.0	10.5	221.1
Total	**13,873.0**	**11,579.5**	**12,390.8**	**10,590.6**

[1)] Of which transferred to own holdings: € 1,239.0 million (2020: € 1,359.5 million)

Breakdown of assets used as cover (based on their nominal value) by tranches (section 28 (2) sentence 1 no. 1a of the PfandBG)

€ mn	Cover assets pool 2021	Cover assets pool 2020
Breakdown of assets used as cover (based on their nominal value) by tranches		
Up to € 300 thousand	181.6	241.1
Between € 300 thousand and € 1 million	44.9	50.8
Between € 1 million and € 10 million	386.4	426.4
More than € 10 million	12,170.4	10,768.4
Total	**12,783.3**	**11,486.7**

Additional cover assets pursuant to section 28 (1) nos. 4, 5 and 6 of the PfandBG:

31 December 2021

€ mn	Equalisation claims pursuant to section 20 (2) no. 1 of the PfandBG	Money claims pursuant to section 19 (2) no. 2 of the PfandBG: Total	of which: covered bonds within the meaning of Art. 129 of EU Regulation No. 575/2013	Debt securities pursuant to section 19 (1) no. 3 of the PfandBG	Total
Countries					
Germany	-	-	-	778.0	**778.0**
EU institutions	-	-	-	297.0	**297.0**
Spain	-	-	-	75.0	**75.0**
Total	-	-	-	**1,150.0**	**1,150.0**

31 December 2020

€ mn	Equalisation claims pursuant to section 20 (2) no. 1 of the PfandBG	Money claims pursuant to section 19 (2) no. 2 of the PfandBG: Total	of which: covered bonds within the meaning of Art. 129 of EU Regulation No. 575/2013	Debt securities pursuant to section 19 (1) no. 3 of the PfandBG	Total
Countries					
Germany	-	-	-	419.0	**419.0**
EU institutions	-	-	-	281.0	**281.0**
Total	-	-	-	**700.0**	**700.0**

Additional key figures for outstanding Pfandbriefe and related cover assets:

		2021	2020
Outstanding Pfandbriefe[1]	**€ mn**	**11,579.5**	**10,590.6**
of which: share of fixed-income Pfandbriefe	%	78.3	67.7
Cover assets pool	**€ mn**	**13,873.0**	**12,390.8**
of which: total volume of receivables above the limits set out in section 13 (1) of the PfandBG	€ mn	-	-
of which: total volume of receivables above the percentages set out in section 19 (1) no. 2 of the PfandBG	€ mn	-	-
of which: total volume of receivables above the percentages set out in section 19 (1) no. 3 of the PfandBG	€ mn	-	-
of which: share of fixed-income cover assets	%	52.8	52.1
Volume-weighted average age of receivables (seasoning)	**years**	**4.7**	**4.7**
Weighted average mortgage lending value ratio, based on mortgage lending value	**%**	**55.5**	**55.5**
Weighted average mortgage lending value ratio, based on market value	**%**	**33.4**	**33.9**

[1] Of which transferred to own holdings: € 1,239.0 million (2020: € 1,359.5 million)

Net present value pursuant to section 6 of the German Regulation of the Net Present Value of Pfandbriefe (Pfandbrief-Barwertverordnung) per foreign currency:

€ mn	Balance of assets and liabilities 2021	Balance of assets and liabilities 2020
Currency		
AUD	130.2	64.0
CAD	183.2	110.0
CHF	68.5	19.3
DKK	37.7	17.1
EUR	823.1	518.7
GBP	142.2	513.2
SEK	84.1	36.2
USD	1,076.8	571.4

Distribution of the amounts measured at nominal value and used to cover mortgage Pfandbriefe by countries in which the real property collateral is located (section 28 (2) sentence 1 no. 1b,c of the PfandBG):

31 December 2021

	Commercial property							Residential property						
€ mn	Building plots only	New buildings not yet yielding returns	Office buildings	Retail	Industrial	Other	**Total**	Building plots only	New buildings not yet yielding returns	Condominiums	One- and two-family homes	Multi-family homes	**Total**	Total cover assets pool
Australia	-	-	-	-	14.8	64.5	**79.3**	-	-	-	-	145.2	**145.2**	224.5
Belgium	-	-	96.5	66.6	10.0	58.1	**231.2**	-	-	-	-	-	**-**	231.2
Denmark	-	-	-	-	21.9	13.9	**35.8**	-	-	-	-	-	**-**	35.8
Germany	-	-	196.7	417.9	254.6	278.6	**1,147.8**	-	-	0.1	129.7	459.1	**588.9**	1,736.7
Estonia	-	-	-	18.7	-	-	**18.7**	-	-	-	-	-	**-**	18.7
Finland	-	-	58.4	189.7	35.3	-	**283.4**	-	-	-	-	-	**-**	283.4
France	-	36.2	1,008.1	117.0	85.2	154.3	**1,400.8**	-	-	-	-	-	**-**	1,400.8
UK	-	-	266.1	412.7	265.6	711.5	**1,655.9**	-	-	-	-	164.9	**164.9**	1,820.8
Italy	-	-	80.3	325.5	8.2	41.4	**455.4**	-	-	-	-	-	**-**	455.4
Canada	-	-	-	-	-	345.4	**345.4**	-	-	-	-	-	**-**	345.4
Luxembourg	-	-	47.0	-	-	4.5	**51.5**	-	-	-	-	-	**-**	51.5
Netherlands	-	-	35.2	-	80.4	413.9	**529.5**	-	-	-	-	-	**-**	529.5
Austria	-	-	-	122.0	8.0	14.7	**144.7**	-	-	-	-	-	**-**	144.7
Poland	-	-	273.5	103.2	281.6	-	**658.3**	-	-	-	-	-	**-**	658.3
Sweden	-	-	161.5	148.8	143.0	-	**453.3**	-	-	-	-	-	**-**	453.3
Switzerland	-	-	-	-	-	213.5	**213.5**	-	-	-	-	-	**-**	213.5
Spain	-	-	98.6	638.4	80.2	51.6	**868.8**	-	-	-	-	-	**-**	868.8
Czech Republic	-	-	-	-	67.7	10.2	**77.9**	-	-	-	-	-	**-**	77.9
USA	-	-	2,363.7	290.7	47.2	517.0	**3,218.6**	-	-	-	-	14.5	**14.5**	3,233.1
Total	**-**	**36.2**	**4,685.6**	**2,851.2**	**1,403.7**	**2,893.1**	**11,869.8**	**-**	**-**	**0.1**	**129.7**	**783.7**	**913.5**	**12,783.3**

31 December 2020

€ mn	Commercial property							Residential property						
	Building plots only	New buildings not yet yielding returns	Office buildings	Retail property	Industrial	Other	**Total**	Building plots only	New buildings not yet yielding returns	Condominiums	One- and two-family homes	Multi-family homes	**Total**	Total cover assets pool
Australia	-	-	-	-	14.7	-	**14.7**	-	-	-	-	47.6	**47.6**	62.3
Belgium	-	-	58.9	66.6	-	58.1	**183.6**	-	-	-	-	-	**-**	183.6
Denmark	-	-	-	0.7	21.9	13.9	**36.5**	-	-	-	-	-	**-**	36.5
Germany	-	-	287.3	437.6	225.4	250.2	**1,200.5**	-	-	0.1	169.6	455.5	**625.2**	1,825.7
Estonia	-	-	-	18.7	-	-	**18.7**	-	-	-	-	-	**-**	18.7
Finland	-	-	58.4	194.1	54.5	-	**307.0**	-	-	-	-	-	**-**	307.0
France	-	36.2	886.8	116.1	76.5	124.7	**1,240.3**	-	-	-	-	-	**-**	1,240.3
UK	-	-	168.7	495.2	325.2	575.7	**1,564.8**	-	-	-	-	154.1	**154.1**	1,718.9
Italy	-	-	87.7	322.0	39.0	54.7	**503.4**	-	-	-	-	-	**-**	503.4
Canada	-	-	-	-	-	335.8	**335.8**	-	-	-	-	-	**-**	335.8
Luxembourg	-	-	-	-	-	4.5	**4.5**	-	-	-	-	-	**-**	4.5
Netherlands	-	-	35.8	10.6	36.6	487.8	**570.8**	-	-	-	-	-	**-**	570.8
Austria	-	-	-	122.0	8.0	14.7	**144.7**	-	-	-	-	-	**-**	144.7
Poland	-	-	73.8	107.6	137.0	-	**318.4**	-	-	-	-	-	**-**	318.4
Sweden	-	-	165.0	140.5	109.4	-	**414.9**	-	-	-	-	-	**-**	414.9
Switzerland	-	-	-	-	-	204.2	**204.2**	-	-	-	-	-	**-**	204.2
Spain	-	7.1	89.1	513.4	77.4	52.9	**739.9**	-	-	-	-	-	**-**	739.9
Czech Republic	-	-	-	-	-	10.2	**10.2**	-	-	-	-	-	**-**	10.2
US	-	-	1,803.5	420.7	-	609.3	**2,833.5**	-	-	-	-	13.4	**13.4**	2,846.9
Total	**-**	**43.3**	**3,715.0**	**2,965.8**	**1,125.6**	**2,796.7**	**10,646.4**	**-**	**-**	**0.1**	**169.6**	**670.6**	**840.3**	**11,486.7**

Arrears from mortgage loans used to cover mortgage Pfandbriefe (section 28 (2) no. 2 of the PfandBG)

€ mn	Aggregate payments which are at least 90 days overdue 2021	Total volume of these receivables, to the extent that the relevant amount overdue is not less than 5% of the receivable 2021	Aggregate payments which are at least 90 days overdue 2020	Total volume of these receivables, to the extent that the relevant amount overdue is not less than 5% of the receivable 2020
Germany	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.0**

No registered mortgage Pfandbriefe were surrendered to lenders as collateral for borrowings (2020: none).

Additional disclosures on mortgage receivables (section 28 (2) no. 4 of the PfandBG):

		Commercial properties 2021	Residential properties 2021	Commercial properties 2020	Residential properties 2020
Forced sales pending	Number	-	23	-	15
of which forced administrations pending	Number	-	2	-	2
Forced administrations pending	Number	-	-	-	2
Forced sales executed	Number	-	13	-	-
Purchases of properties to prevent losses (foreclosed assets)	Number	-	-	-	-
Total amount of arrears on interest payable	€ mn	1.5	0.4	1.5	0.0

(47) 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.

(48) 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 material matters subsequent to the end of the reporting period that need to be disclosed at this point.

(49) Remuneration disclosures

Management and Supervisory Board

In the financial year 2021, the Management Board's total remuneration, excluding benefits from pension commitments, amounted to € 9.2 million (2020: € 9.9 million), of which € 4.4 million (2020: € 3.7 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 € 8.4 million in 2021 (2020: € 1.7 million).

The amount of pension obligations to active and former members of the Management Board was € 58.1 million as at 31 December 2021 (2020: € 53.4 million). Of that amount, € 8.7 million (2020: € 23.9 million) related to members of the Management Board active at the end of the financial year and € 49.4 million to former members of the Management Board, including those retired from the Board during the year under review, and their surviving dependants (2020: € 29.5 million).

The total remuneration of members of the Supervisory Board for the financial year 2021 amounted to € 1.9 million (2020: € 1.7 million). The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

(50) Employees

The average staffing level is shown below:

Yearly average	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Salaried employees	897	882
Executives	33	36
Total	**930**	**918**
of which: part-time employees	179	179

(51) Auditors' fees

Regarding the fees paid to external auditors of Aareal Bank AG, please refer to the Notes to the consolidated financial statements, where individual services provided to Aareal Bank AG and its subsidiaries are outlined as follows:

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.

(52) 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%	03 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.

(53) 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.

(54) Proposal on the appropriation of profits

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 acquisition 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.

(55) Executive bodies of Aareal Bank AG Offices held in accordance with section 285 no. 10 of the German Commercial Code (HGB) in conjunction with section 125 (1) sentence 5 of the German Public Limited Companies Act (AktG)

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 (subsidiary of 1&1 Drillisch AG)	Chairman of the Supervisory Board	since 12 December 2021

Holger Giese since 14 January 2022
Lawyer, former General Counsel Private Bank Germany at 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

* Employee representative member of the Supervisory Board of Aareal Bank AG

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 of the 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 06 May 2021

(Membership on comparable German and foreign supervisory bodies)		
Asian Infrastructure Investment Bank	Member of the Board of Directors	since 01 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 – Development Bank

(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 09 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 09 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

Christof von Dryander until 09 December 2021
Senior Counsel (retired Partner), Cleary Gottlieb Steen & Hamilton LLP

(Membership in other statutory supervisory boards)		
DWS Investment GmbH	Deputy Chairman of the Supervisory Board	

Hans-Dietrich Voigtländer until 09 December 2021
Associate Partner at BDG Innovation + Transformation GmbH & Co. KG

Composition of Supervisory Board committees

Executive and Nomination Committee	
Prof. Dr Hermann Wagner	Chairman
Richard Peters	Deputy Chairman
Klaus Novatius	
Sylvia Seignette	
Elisabeth Stheeman	

Remuneration Control Committee	
Prof. Dr Hermann Wagner	Chairman
Friedrich Munsberg	Deputy Chairman
Petra Heinemann-Specht	
Klaus Novatius	
Richard Peters	

Audit Committee	
Prof. Dr Hermann Wagner	Chairman
Sylvia Seignette	Deputy Chairman
Holger Giese	
Petra Heinemann-Specht	
Friedrich Munsberg	
Dr Ulrich Theileis	

Technology and Innovation Committee	
Jana Brendel	Chairman
Dr Ulrich Theileis	Deputy Chairman
Holger Giese	
Thomas Hawel	
Jan Lehmann	
Elisabeth Stheeman	

Risk Committee	
Sylvia Seignette	Chairman
Elisabeth Stheeman	Deputy Chairman
Jana Brendel	
Petra Heinemann-Specht	
Friedrich Munsberg	
Prof. Dr Hermann Wagner	

Management Board

Jochen Klösges,
Chairman of the Management Board (CEO) — since 15 September 2021
Banking & Digital Solutions, Corporate Affairs, Group Audit, Group Communications & Governmental Affairs, Group Human Resources & Infrastructure, Group Strategy, Group Technology

(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)		
Aareon 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 02 June 2021
	Member of the Supervisory Board	until 02 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)	
Aareon 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 Annual Financial Statements and the Management Report

Opinions

We have audited the annual financial statements of Aareal Bank AG, Wiesbaden, which comprise the balance sheet as at 31 December 2021, and the income statement for the financial year from 1 January to 31 December 2021, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Aareal Bank AG for the financial year from 1 January to 31 December 2021.

In accordance with German legal requirements we did not audit the content of the components of the management report referred to in the notes to the audit opinion.

The management report contains references not required by law. In accordance with German legal requirements, we did not audit 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 annual financial statements comply, in all material aspects, with the requirements of German commercial law applicable to institutes and in compliance with German Legally Required Accounting Principles give a true and fair view of the assets, liabilities and financial position of the Company as of 31 December 2021 and its financial performance for the financial year from 1 January to 31 December 2021 and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the components of the management report named in the notes to the audit opinion.
  The 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 annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and the 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 Statement Audits promulgated by the German Institute of Public Auditors (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company 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) EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are such matters that, in our professional judgement, were the most significant in our audit of the annual financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in connection with our audit of the annual financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Recoverability of the bail-out purchases

For information on the accounting policies the Bank applies, please refer to the Recognition and measurement policies – (8) Investments, shares in affiliated companies section in the notes to the financial statements.

THE FINANCIAL STATEMENT RISK
In the annual financial statements of Aareal Bank AG as at 31 December 2021 indirectly property and land from previous loan exposures – so-called "bail-out purchases" – were recognised under "Shares in associates".

The bail-out purchases are held in property companies and, with one exception, are intended for sale in the ordinary course of business. With the support of a third-party, a hotel property is being used by the Bank itself for rental. The properties are either hotel, residential office or retail properties.

At each reporting date, Investment Management at the Bank examines the recoverability of the properties and land held in the property companies and thus the recoverability of the shares held. In doing so, the Bank mandates external property experts and considers their work. 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 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 market value and thus also on the assessment of the recoverability of the carrying amounts of the property companies held.

There is also the risk for the annual financial statements that the calculation 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 or not identified at an appropriate level.

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 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 measurement methods used in the appraisals which are subject to assessment uncertainty are appropriate and proper.

Loans – specific valuation allowances

For information on the accounting policies the Bank applies, please refer to the Recognition and measurement policies – (2) Receivables section in the notes to the financial statements.

THE FINANCIAL STATEMENT RISK
The Aareal Bank recognised material specific valuation allowances on credit receivables. In general, the risk provision is measured on the basis of probability-weighted scenarios. This also relates to credit-impaired receivables. 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.

The risk for our audit is that the number of scenarios observed was not 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 by Aareal Bank, 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 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
In determining the specific valuation allowances for credit-impaired receivables ,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 management report, the content of which has not been 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 annual financial statements, the disclosures in the management report audited for content or our auditor's report thereon.

Our opinions on the annual financial statements and on the 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 annual financial statements, with the 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 Annual Financial Statements and the Management Report

The Management Board is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutes, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the Management Board is responsible for such internal control as it, in accordance with German Legally Required Accounting Principles, has determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Management Board is responsible for assessing the Company'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, provided no actual or legal circumstances conflict therewith.

Furthermore, the Management Board is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual 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 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 management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual 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 annual financial statements and on the 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 and 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 annual financial statements and this 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 annual financial statements and of the 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 annual financial statements and of arrangements and measures (systems) relevant to the audit of the 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 the 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 Company'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 annual financial statements and in the 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 Company to cease to be able to continue as a going concern.

Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

Perform audit procedures on the prospective information presented by the Management Board in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the 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 during the audit of the annual 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 Annual Financial Statements and the 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 annual financial statements and the management report (hereinafter the "ESEF documents") contained in the electronic file "Aareal Bank_AG_JA+LB_ESEF-2021-12-31.zip" (SHA hash value 78eb8908f372ce92a3bae6183f0e6e39e8e1c49b1872e5717f076f516 10b06d6)]" 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 annual financial statements and the 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 annual financial statements and the 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 annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2021 contained in the "Report on the Audit of the Annual Financial Statements and the 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 annual financial statements and the management report 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 Company's Management Board is responsible for the preparation of the ESEF documents including the electronic rendering of the annual financial statements and the management report in accordance with Section 328 (1) sentence 4 item 1 HGB.

In addition, the Company's Management Board is responsible for such internal control that it has 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 audit. 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 annual financial statements and the audited management report.

Other disclosures in accordance with Article 10 EU Audit Regulation

We were elected by the Annual General Meeting on 17 May 2021 as auditor of the annual financial statements. We were engaged by the Supervisory Board on 30 May 2021. We have been the statutory auditor of Aareal Bank AG since the 2021 financial year.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Audit Committee according to Article 11 EU Audit Regulation (audit report).

Other matter – Use of the Auditor's Report

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the examined ESEF documents. The annual financial statements and 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 annual financial statements and the audited 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 German Public Auditor responsible for the engagement is Markus Winner.

Frankfurt/Main, 4 March 2022

KPMG AG
Wirtschaftprüfungsgesellschaft
(Original German version signed by:)

Wiechens Wirtschaftsprüfer (German Public Auditor)	Winner Wirtschaftsprüfer (German Public Auditor)

Appendix to the Independent Auditor's Report: the components and references of the management report were not audited for content

We did not audit the following components of the management report:

- The corporate government statement referred to in the management report and
- the separate combined non-financial report referred to in the management report.

We did not audit the content of the references in the 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 management report)

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Wiesbaden, 1 March 2022

The Management Board

Jochen Klösges **Marc Hess**

Christiane Kunisch-Wolff **Christof Winkelmann**

Report on Remuneration Transparency

In accordance with section 21 of the German Act to Encourage Transparency of Remuneration Structures (Entgelttransparenzgesetz – "EntgTranspG"), Aareal Bank AG has been required to prepare a report on equal treatment and equal remuneration. For the purpose of ensuring maximum transparency, Aareal Bank AG prepares the report on an annual basis and thus exceeds the legal requirements set out in section 22 of the EntgTranspG.

1. Measures to promote the equal treatment of women and men, and the impact of such measures

Gender equality has been Aareal Bank AG’s declared goal for many years. The Bank attaches great importance to the equal treatment of women and men, whether in the context of filling vacant positions, with regard to professional development within the Company, or in terms of remuneration.

Skills and experience are the only relevant criteria when filling vacant positions. Within the scope of staffing procedures, all vacancies below executive staff level – both managerial and expert functions – are advertised internally so that all employees are given equal opportunities in the application procedure.

All employees are offered a wide array of training measures for developing their skills. The decisive factor is that all employees – both men and women – are able to fulfil their tasks and have the know-how required. No distinction is made between female and male employees when it comes to participating in such training measures. Employees, regardless of their gender, take part in all necessary seminars to the same extent. To support all employees in striking a better work-life balance, the Bank offers all employees a broad range of family-friendly support services. These include, for example, the support of childcare, parent-child workrooms, helping to find service providers for private childcare, childcare during holidays offered by the city of Wiesbaden, and also the option of working remotely or flexible working hours.

2. Measures to ensure equal pay for women and men

The Bank also deliberately tries to ensure that men and women are treated equally in terms of remuneration. The decisive criteria in this context are that they have the same areas of activity with the same scope of responsibility in the respective positions, and also provide the same performance in the sense of achieving the target agreed upon in advance on an annual basis. The determination of the fixed remuneration of female and male employees is based on the collective agreement applicable for the private banking sector for non-exempt employees. For exempt employees, the determination is based on the provisions of a works agreement in relation to fixed remuneration and positions, pursuant to which fixed remuneration ranges are allocated to the individual expert or managerial positions. Similarly, the variable remuneration components are defined on the basis of a corresponding works agreement. Within the scope of their co-determination rights, the employee representative bodies review whether these provisions are complied with for both men and women. The application of these rules thus provides a structure that results in equal remuneration of women and men as well as to a corresponding transparency. In order to have this structure reviewed externally, the Bank once again participated in the Logib-D study in 2020 which analysed the remuneration structures of banks in Germany. The results of the study showed that, as in previous years, Aareal Bank had a very minor adjusted remuneration difference. In fact, the Bank showed another marginal improvement on the results of the preceding analysis, which were already very good: the adjusted remuneration difference for 2020 was down to 1.9%. No need for action was identified: Aareal Bank AG was once again awarded the “Logib-D tested” certificate.

3. Details on staff numbers, in accordance with section 21 (2) of the EntgTranspG

	Men			Women			Total
	Part-time employees	Full-time employees	Total	Part-time employees	Full-time employees	Total	
Ø 2017	32.40	460.40	492.80	164.10	245.10	409.20	**902.00**
Ø 2018	31.40	445.00	476.40	158.10	239.00	397.10	**873.50**
Ø 2019	32.80	456.50	489.30	147.30	221.00	368.30	**857.60**
Ø 2020	36.80	464.90	501.70	142.40	223.50	365.90	**867.60**
Ø 2021	31.80	478.30	510.10	147.00	221.90	368.90	**879.00**

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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

● Structured Property Financing ● **Banking & Digital Solutions** ● Aareon

Aareal Bank, Real Estate Structured Finance: Dublin, Istanbul, London, Madrid, Moscow, New York, Paris, Rome, Singapore, Stockholm, Warsaw, Wiesbaden | **Aareal Estate AG:** Wiesbaden

Aareal Bank, Banking & Digital Solutions: Berlin, Essen, Wiesbaden | **Aareal First Financial Solutions AG:** Mainz | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Düsseldorf, Frankfurt/Main, Freiburg, Hamburg, Hanover, Leipzig, Moscow, Munich | **plusForta GmbH:** Berlin, Düsseldorf

Aareon: Amsterdam, Augsburg, Berlin, Bochum, Coventry, Dortmund, Emmen, Enschede, Gorinchem, Grathem, Hamburg, Hattingen, Helsinki, Hückelhoven, Karlskrona, Kiel, Lund, Mainz, Meudon-la-Forêt, Mölndal, Munich, Nantes, Norrtälje, Orléans, Oslo, Paris, Piteå, Southampton, Stockholm, Stuttgart, Swansea, Toulouse, Utrecht, Vienna

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YOUR COMPETITIVE ADVANTAGE.

03/2022