

**Annual Financial
Statements
and Management
Report 2022
of Aareal Bank AG**

Contents

3 Management Report

- 3 Fundamental Information about the Group
- 5 Report on the Economic Position
- 19 Our Employees
- 21 Risk Report
- 44 Accounting-related ICS and RMS
- 47 Report on Expected Developments and Opportunities
- 55 Takeover Disclosures
- 57 Separate Combined Non-Financial Report
- 57 Corporate Governance Statement

58 Annual Financial Statements

- 58 Income Statement
- 60 Balance Sheet
- 62 Notes
- 62 Basis of Accounting
- 62 Accounting and Valuation Policies
- 66 Notes to the Income Statement
- 68 Notes to the Balance Sheet
- 87 Other Disclosures

109 Independent Auditor's Report

117 Responsibility Statement

118 Report on Remuneration Transparency

120 Offices

121 Financial Calendar

122 Locations / Imprint

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 UK¹⁾ 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 Madrid (until 31 July 2023), Moscow, and Istanbul.

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, and to retail deposits via a trust model.

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, services for the management of properties for residential use and the integrated processing of payment flows, amongst other things, thus contributing to a more efficient and sustainable structuring of its clients' fundamental business processes. With its BK01 software, it operates a procedure for the automated settlement of mass payments, in the German property industry. The procedure is integrated in licenced ERP systems. In conjunction with payment trans-

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

actions 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 digital processes. Aareal Bank Group is further strengthening its market position with its 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 end-customer communication offers and AI-supported invoicing and dunning solutions. The Banking & Digital Solutions segment also includes the First Financial Solutions, plusForta, BauGrund and CollectAI 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, connects property companies and their employees with clients, business partners as well as technical equipment in apartments and buildings using 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, Aareon 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 taxes¹⁾
 - Earnings per ordinary share (EpS)²⁾
 - Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (phase-in)
- **Structured Property Financing segment**
 - New business³⁾
 - Credit portfolio of Aareal Bank Group

¹⁾ RoE after taxes = consolidated net income excluding consolidated net income attributable to non-controlling interests and AT1 coupon (net) / average equity (IFRS) excluding non-controlling interests, AT1 bond and dividends

²⁾ EpS = operating profit excluding income taxes, consolidated net income attributable to non-controlling interests, and AT1 coupon (net) / number of ordinary shares

³⁾ New business = newly-originated loans plus renewals

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- **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 EBITDA¹⁾

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 individual 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.

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.

Macro-economic environment

2022 proved to be a difficult year for the global economy as a whole. The war in Ukraine that broke out at the beginning of the year and the reciprocal sanctions imposed by Western states and Russia have hit the European economy especially hard, in the form of higher prices for food and energy, and a temporary intensification of the problems already besetting supply chains. The economic and business climate also deteriorated on a more global scale during the course of 2022, especially in the second half of the year. High inflation rates dampened private consumption in many economies and put the brakes on the catch-up effects from the Covid-19

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

pandemic. Monetary tightening in the wake of high inflation also slowed economic development. While many countries benefited from the easing of contact restrictions, China's zero-Covid policy continued to burden its economic growth. Rising inflationary pressure also shaped developments on the financial markets: bond yields markedly increased in the face of monetary policy tightening, while equity markets also suffered some hefty price losses.

Economy

In the euro zone, real gross domestic product in 2022 climbed by 3.3% compared with 2021 – meaning that economic momentum was rather subdued after the pandemic. In the spring, relaxations of Covid 19-related contact restrictions initially led to an increase in consumer spending, particularly on services. However, Russia's war of aggression against Ukraine, which began in February, led to sharp increases in energy prices and intensified existing supply chain problems, placing particular strain on the manufacturing industry. While the war had a dampening effect on demand and drove inflation worldwide, the euro zone was particularly affected by its impact due to its geographical proximity to and reliance on energy from Russia. Consequently, the euro zone's economic momentum progressively declined over the course of the year against a backdrop of elevated uncertainty, high energy price pressures, erosion of households' purchasing power, a weaker export environment and tighter financing conditions. Economic growth for the full year 2022 in the largest countries in the euro zone was 5.3% in Spain, 3.8% in Italy, 2.5% in France and 1.7% in Germany.

Countries in the European Union that do not belong to the euro zone also demonstrated different economic developments. Sweden, for example, achieved economic growth of 2.9% in 2022 and the Czech Republic 2.5% growth year-on-year. Poland's economy, on the other hand, expanded by a much stronger 5.7%.

At the start of the year, economic activity in the UK was dynamic across all sectors, with those services involving close contact benefiting most from the easing of contact restrictions. Economic momentum started to slow in the second quarter, with the industrial sector facing rising prices for intermediate products, supply bottlenecks, and labour shortages. In the second half of the year, consumption-related services suffered from depressed consumer sentiment as a result of high inflation rates and a decline in real wages. Sweeping tax cuts were announced in the autumn, but were largely not implemented following financial market turmoil, culminating in a change of government. All in all, economic output in 2022 rose by 4.1% compared with 2021.

In the US, economic output rose by a total of 2.1% in 2022 compared to the previous year, although the economy still contracted in the first half of the year. The economic slowdown was attributable to a decline in domestic demand as a result of high inflation rates, tightened monetary policy and persisting supply chain issues. However, private consumption, a key driver of the economy, continued to rise, but came under increasing pressure from high inflation rates and tighter financing terms. Buoyed by an increase in exports, the economy expanded again in the second half of the year, largely due to high global demand for fossil fuels. Meanwhile, the increasingly restrictive financing terms started to kick in, affecting and reducing rate-sensitive investments in particular. In Canada, economic performance at the end of 2022 was still 3.3% higher than in the previous year.

China's zero-Covid strategy – where just a few infections were enough to incite a drastic government response – continued to shape the course of the economy, causing the most severe economic and social distortions since 2020. Ongoing problems at some property conglomerates also had a braking effect, to which the government responded with a more expansive monetary policy, a prescribed easing of credit guidelines and infrastructure investments. All in all, economic output in 2022 rose by 3.0% relative to the previous year. At 3.6% over the previous year, Australia's growth rate in 2022 was more dynamic than for many other advanced economies. Exports and private consumption, which benefited from a strong labour market coupled with low unemployment, had a particularly positive effect.

Despite the generally challenging environment, labour markets in many economies performed well and continued to recover from the Covid-19 pandemic, and job creation proceeded apace especially in the services sector. It was, however, limited by a labour shortage, which was quite pronounced in some places. The unemployment rate in the euro zone stood at 6.6% at the end of the year, a historic low. The same applied to the US, where the strong job creation of the previous year continued, with employment reaching new record levels from August onwards. At year-end, the unemployment rate was 3.5%.

Annual rate of change in real gross domestic product

in %	2022 ¹⁾	2021 ²⁾
Europe		
Euro zone	3.5	5.3
Belgium	3.1	6.1
Germany	1.9	2.6
Finland	1.8	3.0
France	2.6	6.8
Italy	3.9	6.7
Luxembourg	2.1	5.1
Netherlands	4.2	4.9
Austria	4.8	4.7
Spain	5.5	5.5
Other European countries		
Denmark	3.1	4.9
United Kingdom	4.1	7.6
Poland	5.8	6.8
Russia	-2.3	4.8
Sweden	2.8	4.8
Switzerland	2.0	4.2
Czech Republic	2.5	3.5
North America		
Canada	3.4	5.0
USA	2.1	6.0
Asia/Pacific		
Australia	3.6	5.2
China	3.0	8.1
Maldives	13.7	41.8

¹⁾ Preliminary figures; ²⁾ Adjusted to final results

Financial and capital markets, monetary policy and inflation

On the financial markets, the focus was no longer on the Covid-19 pandemic, but rather on the higher inflation rates and expectations as well as the increasingly gloomy macro-economic environment. Major central banks started to tighten their monetary policy very significantly or announced their intention to do so. As a result, government bond yields rose sharply, not least because major central banks signalled that they would raise interest rates further in order to fulfil their mandate.

Whilst the European Central Bank (ECB) continued to follow a very accommodating path at the start of the year in order to promote favourable financing conditions for governments and the real economy, and to support economic recovery, it announced a monetary policy turnaround in June, giving in to broad inflationary pressure. The ECB raised key interest rates at each of its four meetings between July and December by a total of 250 basis points to 2.50% (main refinancing rate), 2.00% (deposit rate) and 2.75% (marginal lending rate). In December, the ECB Governing Council pledged to keep raising key interest rates, depending on data, also to prevent a permanent shift in inflation expectations. A decision was also taken to pare back the asset purchase programme (APP) portfolio from March 2023 onwards. Net asset purchases under the programme had been discontinued as of July 2022. Accordingly, principal payments for maturing assets bought under the pandemic emergency purchase programme (PEPP) will continue to be reinvested at maturity until at least the end of 2024. In the event of renewed market fragmentation, the Governing Council reserves the right to

apply flexibility in reinvesting redemptions across time, asset classes and jurisdictions at any time. Furthermore, in the second half of the year, the terms of targeted longer-term refinancing operations (TLTRO 3) were changed retroactively, and a transmission protection instrument (TPI) was adopted. The TPI is intended to ensure a seamless return to normal monetary policy in the euro zone and to prevent an excessive tightening of financial terms in individual member countries.

With inflation above 2% over the longer term and a tight labour market, the US Federal Reserve (Fed) already ended its government bond and mortgage-backed security purchase programme in the first quarter and started to reduce its securities holdings in June 2022. Furthermore, the Fed raised its key interest rate a total of seven times during the year, to a target range between 4.25% and 4.50%. It also indicated further interest rate hikes, as did the ECB.

Faced with a similarly tight labour market and high inflation, in 2022 the Bank of England increased its base rate at eight consecutive meetings, taking the key interest rate from 0.25% to 3.50%. A series of unfunded tax cuts by the UK government, initially announced and later abandoned, led to an abrupt rise in government bond yields in September. This prompted the Bank of England, despite its tightening of monetary policy, to make temporary purchases of government bonds and implement further short-term support measures.

Other major central banks lifted their key rates, too: the Bank of Canada raised its key interest rate to 4.25% in 2022, the Swedish Riksbank to 2.5%, and the Reserve Bank of Australia to 3.1%.

Short-term interest rates¹⁾ in the euro zone at year-end 2022 were above those for year-end 2021. The same applied to the pound sterling, the Swedish krona, and the Australian dollar. The increase was particularly pronounced in the US dollar and the Canadian dollar. Long-term interest rates²⁾ rose in all of the currency areas that are relevant to Aareal Bank. Nominal yields on ten-year government bonds also painted a uniform picture and rose year-on-year.

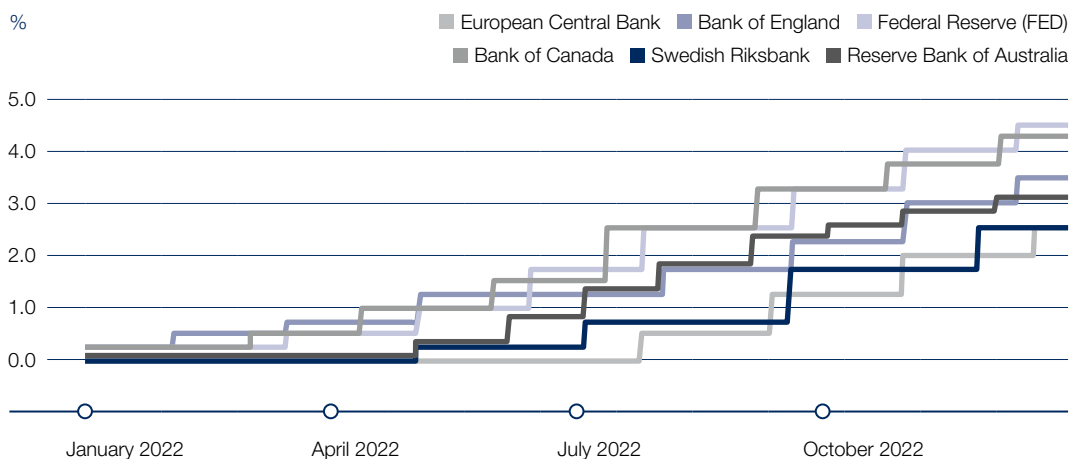
Monetary policy in the individual currency areas, differing economic outlooks and inflation expectations also shaped the currency markets in 2022. The euro lost value vis-a-vis the US dollar in the course of the year, with significant volatility observed at times. Russia's war of aggression against Ukraine, a worsening economic outlook and the energy crisis were among the factors that weighed on the European common currency. After temporarily falling below the EUR/USD parity, the euro strengthened in the fourth quarter against a backdrop of reduced energy risks. At the end of the year, the exchange rate was USD 1.07 to the euro and therefore below the rate of 31 December 2021 (USD 1.13 to the euro). The euro initially depreciated against the Canadian dollar in the first half of the year, but recovered in the second half, ending the year unchanged at CAD 1.44 to the euro. Against the British pound, the euro rose over the course of the year from GBP 0.84 to the euro at the beginning of the year to GBP 0.89 at the end of the year. The UK's economic outlook darkened in the second half of the year, allowing the euro to gradually appreciate against the pound – despite monetary tightening by the Bank of England. After an overall volatile performance, the euro appreciated vis-a-vis the Swedish krona, from SEK 10.25 to the euro at the beginning of the year to SEK 11.12 at the end of the year. The euro remained virtually unchanged relative to the Australian dollar, and appreciated from AUD 1.56 to AUD 1.57 to the euro.

Inflation increased sharply in many economies in 2022, and clearly exceeded the target inflation rates defined by the central banks for their respective currency area. Aside from markedly higher core inflation rates, inflation drivers were higher energy and commodity costs, along with food price pressure as a result of the war in Ukraine. While supply chains disrupted by the effects of the Covid-19 pandemic still contributed to price rises in the first half of the year, supply bottlenecks began to ease in the second half. In the US, this contributed to a decline in the rise in price levels from July onwards. In areas that had been particularly hit by the Covid-19 crisis, such as the hospitality industry, high demand met with limited supply and labour shortage strains. Especially in the US and the UK, the stressed labour market incited wage increases, which also contributed to the inflation development. In the euro zone, inflation reached 9.2% at the end of the year compared with the same month of the previous year: in the US it was 6.5% and 10.5% in the UK.

¹⁾ Calculated on the basis of 3-month Euribor, LIBOR or other comparable rates for other currencies

²⁾ Calculated on the basis of swaps in the respective currencies

Key rate developments in 2022¹⁾



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

The ongoing Covid-19 pandemic and the Russian war of aggression against Ukraine caused a turnaround in international monetary policy and increased uncertainty on the capital markets. This led to record levels of covered bond issues, underlining their importance as a crisis-proof instrument. After the first monetary policy adjustments in the course of the first three quarters of the year under review, covered bond yields rose sharply, remaining on a high level in the fourth quarter.

Regulatory environment

The environment in which banks are operating continues to be defined by highly dynamic regulatory requirements, as well as by changes in banking supervision. This includes, in particular, 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 are now to be finalised as part of the trilogue procedure. The proposed first-time application of the new regulation is 1 January 2025 – two years later than initially planned by the BCBS.

The first draft of the seventh MaRisk amendment was published in September 2022. It focuses on implementing the EBA guidelines on loan origination and monitoring, new requirements for banks’ proprietary property business, and the management of sustainability risks. It is expected that the seventh MaRisk amendment is to be implemented by the end of 2023.

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, politicians and banking supervisors 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 provides the basis for the classification of economic activities with regard to sustainability targets. The taxonomy forms the basis for a large number of disclosure obligations for financial and non-financial entities. Initial minor disclosure requirements for environmental, social and governance (“ESG”) matters were applicable as of 31 December 2021, with the scope increasing over time. Furthermore, the ECB conducted its first climate stress test in 2022. The requirement introduced for the first time under CRR II for large listed institutions to include qualitative and quantitative information on ESG risks in the regulatory disclosure report entered into effect on 31 December 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, an assessment of governance, as well as of the 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.

Sector-specific and business developments

Structured Property Financing segment

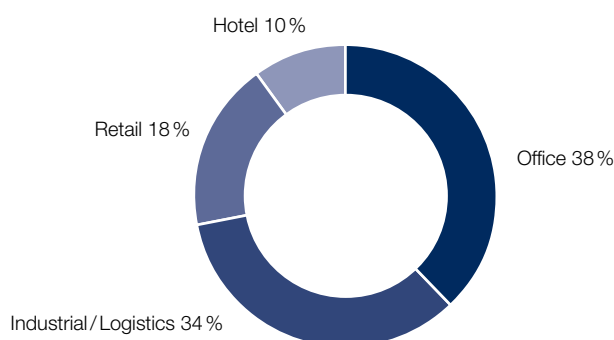
Economic and monetary developments are also being reflected in the commercial property markets. Rising interest rates increased financing costs for commercial property, sometimes considerably, and slowed down transaction activity relative to the previous year. Uncertainty among market participants due to the overall economic gloom and risk also depressed the transaction markets. Price expectations of sellers and buyers diverged and increasingly fewer properties were transferred, which resulted in a decline in global transaction volume compared to the previous year. In North America, volume was above the previous year's level up to and including the third quarter, followed by a weak fourth quarter, ending the year around 12% lower than for the full year 2021. In the other regions, momentum started to slow as early as in the third quarter. Transaction volumes in Europe and the Asia/Pacific region fell by around 17% and around 29% respectively year-on-year.

In all regions, almost every property type recorded a decline in transaction volume compared to 2021, except for retail property in North America, where higher volumes were seen. The downturn in office properties affected all regions by roughly the same amount, and logistics properties saw a global annual decline in volume for the first time since 2016.

Lenders focused their interest on housing and logistics properties, food stores, as well as on office properties in preferred locations. Properties which meet sustainability criteria, such as energy-efficient management, saw a rise in demand. During the first half of the year, commercial property continued to be supported by a recovery from the Covid 19 pandemic. The second half of the year, however, saw increasing economic and monetary uncertainty: For example, construction phases were delayed since energy and construction materials were subject to price hikes and supply bottlenecks. On the back of rising interest rates linked to inflation, financing costs for newly-financed commercial properties increased in many markets since the start of 2022. Similarly, transaction yields have also moved higher, depending on the market and type of property. At the same time, loan-to-value ratios on the financing markets fell moderately or remained stable. Strong investor interest in the logistics sector ensured that the margins for office and logistics properties not only converged, but that in some markets logistics financings were more competitively priced.

Share of transaction volume observed worldwide in 2022

%



In an environment defined by uncertainty, Aareal Bank generated new business¹⁾ of €8.9 billion (2021: €8.5 billion), which was above the communicated target corridor of €7 billion to €8 billion. This was mainly attributable to a higher than expected volume of renewals. The share of newly-originated loans was 67% (2021: 63%) or €6.0 billion (2021: €5.4 billion). Renewals amounted to €2.9 billion (2021: €3.1 billion). Green financings of approximately €1.0 billion were concluded for the full year. The volume of green financings therefore increased by around €1.8 billion to a total of €2.2 billion, as some existing clients also issued the required undertaking and related certificates for the first time. These green loans meet the high energy efficiency requirements of the

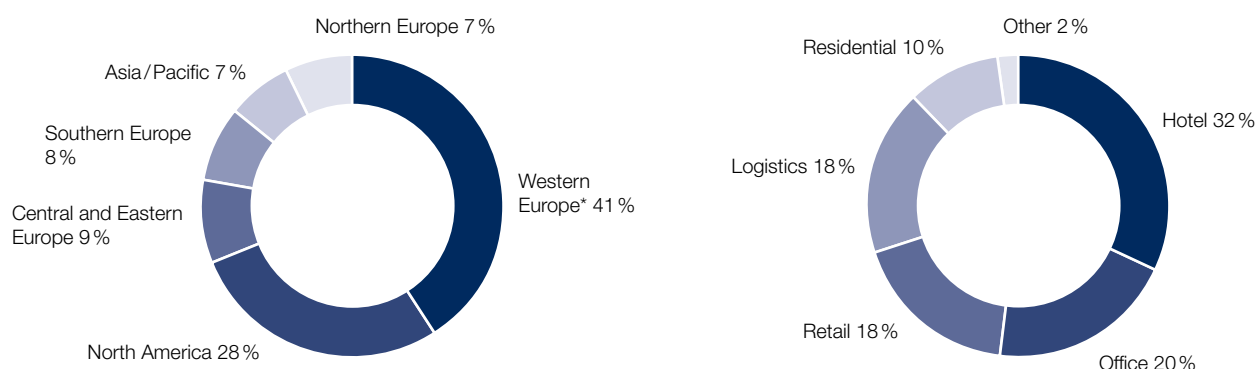
¹⁾ New business, excluding private client business and former WestImmo's local authority lending business

“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 had grown to €30.9 billion by the end of 2022.

At 65% (2021: 66%), Europe accounted for the largest share of new business, followed by North America with 28% (2021: 28%) and the Asia/Pacific region with 7% (2021: 6%).¹⁾

New business¹⁾ 2022

by regions | by type of property (%)



* Incl. Germany

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

With a share of 32%, hotel properties accounted for the largest share in new business in terms of property type (2021: 26%), followed by office property with 20% (2021: 30%), ahead of retail property with 18% (2021: 22%) and logistics property with 18% (2021: 19%). Residential property represented 10% of the portfolio (2021: 3%), while 2% was attributable to other property types (2021: 0%). “Other property types” exclusively referred to life science properties containing office space: these are heavily sought after by investors.

Europe

Transaction volumes declined by around 17% in Europe. Declining activity was observed in most European countries, and was particularly pronounced in Sweden, Germany and the UK. In France, however, volumes remained constant, while Italy and Spain even recorded a year-on-year increase. All property types were affected by the decline across Europe as a whole, with retail property posting the smallest volume decrease. In the case of hotel properties, transaction volumes have not yet returned to the levels seen before the Covid-19 pandemic, despite a significant increase in international and domestic travel. Investor positions changed marginally compared to the previous year. Cross-border and institutional investors accounted for the majority on the buy side in 2022, while private investors and REIT structures tended to be on the sell side.

As for office properties, both average rents in the prime segment, and average rents for the overall market, increased slightly over the course of 2022. While some sub-markets, e.g. central locations in Amsterdam, Milan and Paris, also saw higher rent increases, rents in Frankfurt and Helsinki virtually remained unchanged. Retail property rents remained stable in the vast majority of markets, except for London and Milan where high-street rents increased, and Barcelona and Madrid where shopping centre rents declined. Rents for

¹⁾ 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, allocation is based on the borrower’s country of domicile.

logistics properties benefited from persistent strong demand and historically low vacancy rates in the entire segment, continuing the positive development of the last few years.

While prime yields for office properties changed only slightly in the first half of the year, they rose in the second half of the year in line with the general increase in interest rates and financing costs on a European average. This picture was observed in almost all major European cities. The German and Dutch markets recorded the strongest rises, with yields in secondary locations generally increasing more strongly. As for logistics properties, the long-term trend of falling yields has reversed since the second quarter: this development was particularly pronounced on the British, French and Dutch markets. Looking at retail properties, prime yields for both shopping centres and high-street properties rose on a European average, which was essentially reflected in secondary locations as well. As with office and logistics properties, the yield increases only became more and more apparent during the second half of the year.

In 2022, the ongoing recovery of global travel from the Covid-19 pandemic was clearly felt in the hospitality and hotel sector. Domestic travel has seen the strongest recovery so far, whilst longer distance tourism recovered more slowly, probably due to travellers' greater familiarity with closer travel destinations and the higher sense of security that comes with it. In this environment, occupancy and revenue per available room in European hotels increased year-on-year on average, even though pre-crisis levels had not been reached for all markets by the end of the year.

The Bank originated new business of €5.8 billion (2021: €5.6 billion) in Europe during the year under review. As in previous years, at around €3.7 billion (2021: €3.9 billion), Western Europe accounted for the largest share of this. This was followed by Central and Eastern Europe, where new business of €0.8 billion (2021: €1.0 billion) was generated mainly in Poland, €0.7 billion (2021: €0.5 billion) in Southern Europe and €0.6 billion (2021: €0.2 billion) in Northern Europe.

North America

Transaction volumes in North America decreased by around 12% in 2022 compared with the previous year. Despite this decline, volumes were still above the long-term average and did not fall as much as in other regions. Except for the last quarter, the number of transactions was higher than the long-term average, following reduced activity at the peak of the Covid-19 pandemic. Cross-border and institutional investors were on the buy side for the most part, while REIT structures and private investors were predominantly sellers.

Average rents offered for prime and secondary office properties in US metropolitan areas remained stable in 2022, which was also true for relevant individual markets such as New York or Chicago. In San Francisco, rents declined slightly compared with the previous year. In contrast, the average shopping mall rents in the US were up on a national average. The rise was most pronounced in Atlanta, Chicago and Dallas, whilst rent levels in New York remained stable and fell in San Francisco. Rents for logistics properties again rose significantly, averaging around 12% nationwide. An increase was reported in all the important individual markets.

Yields on prime and secondary office properties remained at almost unchanged levels in 2022 and have fallen slightly on average in the main metropolitan areas, owing to the fundamental availability of market liquidity and readiness to provide financing. Yields on retail properties declined slightly on a national average, but differences were observed here between metropolitan areas. For example, yields fell in Dallas, but remained stable in the Chicago and New York markets. In San Francisco, however, there was a slight year-on-year increase in the yield level. Logistics properties continued to see falling yields on average nationwide.

Hotels in North America saw an increase in occupancy and revenues over the course of the year. Occupancy ratios and revenues per available room in the luxury & upper upscale category, and also in the market as a whole, increased significantly on average in the US between January and December, driven not only by strong domestic tourism, but also by an increasing number of visitors from abroad. A complete recovery of international tourism can still take several years. In Canada, key hotel indicators developed even better in 2022.

In North America, new business of €2.5 billion (2021: €2.4 billion) was originated in 2022, most of which was attributable to the US.

Asia/Pacific region

Transaction volumes for commercial property in the Asia/Pacific region were roughly 29% lower in 2022 than in the previous year, with sharp declines also seen in Australia (-24%) and China (-40%). The decline in momentum that began in the second quarter accelerated in the second half of the year, affecting all the key markets and sectors. Cross-border and institutional investors were on the buy side for the most part, whilst REIT structures and private investors were predominantly sellers.

Prime rents for logistics properties in the Australian metropolitan areas of Sydney, Perth and Melbourne continued to show a rising trend in 2022 compared to the previous year. Rents for retail properties developed differently across the Chinese metropolitan areas; they stagnated in Shanghai and Beijing and fell moderately in Tianjin.

Whilst the logistics property yields in Australia were still stable in the first half of the year compared to the previous year, yields started to rise in the second half of 2022. At year end, increases in the key Australian markets ranged between 40 and 60 basis points compared with the previous year. In contrast, yields for Chinese retail properties only saw a marginal increase.

Hotels in the Asia/Pacific region once again showed a recovery in 2022, sometimes remarkable, due to the easing of contact and travel restrictions in many countries. However, the pace of recovery across the region was mixed, and whilst domestic tourism recovered to pre-pandemic levels, international tourism continued to lag behind. Travel restrictions remained in place for some markets and for China this led to a decline in occupancy and revenues compared to the previous year. But overall, strong growth in occupancy rates across the entire region increased revenue per available room relative to 2021. The Maldives was among the destinations that recorded a significant increase in visitors. A total of 1.7 million tourists visited the island nation in 2022 compared with around 1.3 million in the previous year. In fact, visitor numbers were back to the pre-pandemic levels of 2019.

The Bank originated new business of €0.6 billion in the Asia/Pacific region in 2022 (2021: €0.5 billion), most of which was attributable to Australia.

Banking & Digital Solutions segment

The housing and commercial property sectors proved stable market segments, despite the fact that the year under review continued to be affected not only by the Covid-19 pandemic but also the war in Ukraine and the subsequent surge in energy costs and high inflation. These developments, combined with rising interest rates, have a direct impact on construction projects, making new construction measures and energy-efficient refurbishments more expensive. Moreover, conventional construction costs rose sharply.

Rising construction and purchase prices have the potential to increase demand pressure on rental stock, which is further driven by a significant influx of Ukrainian refugees. Furthermore, new residential building is lagging behind required numbers and policy expectations (400,000 new homes per year): even though around 380,000 new homes were approved for construction in 2021, the number of new builds fell for the first time, down 4.2% to just over 290,000 compared with the previous year. In 2022, the number of housing completions is expected again not to exceed 320,000.

In 2022, new-build rents rose by 1.9% in the municipal districts and by 1.2% in rural districts. Year-on-year (compared with the fourth quarter of 2021), the increase in Germany amounted to 6.3%. Rents for existing properties also rose by an average of 1.7% in the first half of 2022.

Although housing and energy industry customers are confronted with significantly rising ancillary costs, whilst having to cope with reduced purchasing power, there have been no major rental defaults to date.

Over the course of the year under review, we have expanded our property-related offerings to include functional enhancements to existing products, in cooperation with our subsidiary Aareal First Financial Solutions. Our acquisition of payment solutions provider Collect Artificial Intelligence GmbH (CollectAI) for AI-based intelligent invoicing and dunning has also enabled us to expand the range of services we offer in the Banking & Digital Solutions segment, to include end-customer communication and AI-based solutions for interactive invoicing and intelligent dunning.

Favourable interest rate developments mean that we can now offer clients fixed-term deposits and deposits at notice again.

At present, more than 4,000 corporate clients throughout Germany are using our process-optimising products and banking services. The segment's volume of deposits averaged €13.4 billion in the financial year 2022 (2021: €12.0 billion), exceeding our original expectations. Net commission income of €31 million increased as planned (2021: €28 million). The interest rate turnaround initiated by the European Central Bank already contributed to an increase in consolidated operating profit in our BDS segment. We benefit from the trust our clients place in us, which is reflected in the high volume of deposits we receive as a result.

Aareon segment

Aareon is a technology provider for the European property industry and its partners. The company digitalises property management 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 with the aim of transforming Aareon into a "Rule of 40" SaaS company, with its combined EBITDA margin and revenue growth set to exceed 40% by 2025.

Hartmut Thomsen was appointed as the new CEO of Aareon AG with effect from 1 April 2022. Dr Ernesto Marinelli joined the Management Board on 1 July 2022 to assume the newly created Management Board function of Chief People Officer (CPO), along with Romyana Trencheva, who succeeded Sabine Fischer as Chief Revenue Officer (CRO). The new members of the Management Board launched a number of important strategic initiatives during 2022, which will contribute to Aareon's growth strategy and increase profitability, as well as generating added value for clients. As part of its inorganic growth, Aareon acquired Momentum Software Group, a Swedish provider of SaaS property management and energy monitoring, in June 2022.

Aareon's revenue increased by 15% to €308 million in the 2022 financial year (2021: €269 million), in line with the forecast range of between €305 million and €325 million, in what is becoming an increasingly challenging environment. This was driven by the increase in sales of both digital solutions and ERP software. Adjusted EBITDA¹⁾ amounted to €75 million (2021: €67 million), in line with the forecast range between €73 million and €78 million.

Aareon is well on its way to becoming a "Rule of 40" SaaS company. In 2022, combined revenue growth and adjusted EBITDA margin totalled 39% (2021: 29%), which is already close to the target level. The transformation process towards SaaS and subscription solutions continued to be on track (25% growth). SaaS makes cloud-based software more easily accessible to clients, thus increasing the share of recurring revenue compared to total sales to 74% (2021: 71%).

Revenue from ERP software solutions was significantly above the previous year's level. As part of the process to transform Aareon to a SaaS company, the SaaS campaign for the new product generation Wodis Yuneo was continued in the Germany/Austria/Switzerland (DACH) region, while other process-oriented product packages were offered to meet clients' individual needs and simplify the offer structure for clients. As a result, sales of Wodis Yuneo/Wodis Sigma, RELion, the ERP system for the commercial property sector, and SAP® solutions, including Blue Eagle, markedly increased year-on-year. immotion®, the ERP solution from GAP Group, which was acquired during the year under review, made a significant contribution to revenue.

Tobias (Netherlands), Arthur (UK) and Twinq, the Dutch management software for residential owners' associations, were the main contributors to the success of the international ERP business. Momentum, the SaaS property management system, also made a contribution to revenue. Revenue from Xpand, the existing ERP solution in the Scandinavian market, PremHabitat, the French ERP system, REMS, the ERP system for the commercial property industry in the Netherlands, and QL, the UK ERP system featuring the new QL Yuneo product generation, was slightly down on the previous year, whilst revenue from the French ERP system Portalimmo was slightly up compared to 2021.

BauSecura's insurance business in the DACH region developed favourably. Revenue generated by Aareon Cloud Services in the DACH region and in the Netherlands remained roughly in line with the previous year.

In terms of digital solutions, demand for BRM (Building Relationship Management) solutions was stronger than in the previous year; AiBATROS®/epiqr®, which meets the requirements for sustainable portfolio management, was particularly popular in the DACH region. Abroad, notable sales contributions were made by British Tactile Ltd's ("Fixflo") BRM solution; Aareon acquired the company

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

in 2021. Facilitor, the facility management solution, and Trace & Treasury, the financial and asset management solution, both in the Netherlands, also increased sales. Momentum Software Group's energy monitoring solution also boosted revenue.

Demand for Customer Relationship Management (CRM) solutions exceeded the previous year's level in nearly all markets. wohnungshelden, acquired in 2021, made a particularly positive revenue contribution in the DACH region. Supplier Relationship Management (SRM) solutions also performed well. In the DACH region, Mareon's service portal that connects craftsmen, and particularly those for occupant change management, contributed to revenue. Since 2021, occupant change management has been successfully used in combination with the CRM portal and app as an EED (Energy Efficiency Directive)-compliant solution for the property industry's obligations to provide information to its tenants. Revenue from Workforce Relationship Management (WRM) solutions also increased overall. Mobile solutions made a significant contribution here. In the Digital Office product group, revenue from Archiv kompakt for digital archiving was also clearly above the previous year.

Financial Position and Financial Performance

Financial performance

Aareal Bank AG closed the 2022 financial year – which was characterised by a demanding and challenging market environment, as in the previous year – with an operating profit (excluding loan loss provisions) of €298.3 million (2021: €205.9 million).

The aggregate of net interest income and net commission income amounted to €685.8 million, and thus increased significantly by €148.9 million compared to the previous year, mainly due to a year-on-year increase in the credit portfolio, good margins as well as first positive effects from higher market interest rates on the deposit-taking business and an improved funding mix. Interest income from lending and money-market transactions rose by €267.1 million year-on-year, whilst interest income from securities declined by €14.4 million. Interest expenses increased by €137.9 million. Current income of €64.1 million generated during the year under review (2021: €27.5 million) was attributable to interests in affiliated companies. Net commission income of €14.7 million was down €2.5 million year-on-year.

Administrative expenses (including depreciation and amortisation of intangible assets and tangible fixed assets) of €310.8 million were €7.0 million lower than in the previous year. This was due, among other things, to lower expenses for pension schemes as a result of an adjustment to the discount rate for pension obligations.

Net other operating income and expenses showed a marked decline of €63.5 million year-on-year, to €-76.7 million, due, amongst other things, to a sharp decline in income from plan assets used for pension obligations.

The balance of provisions for loan losses and the result from securities held as liquidity reserve amounts to €-192.1 million (2021: €-272.5 million). This figure includes expenditure for specific and general loan loss provisions, provisions, amortisation and depreciation. Last year's figure also included 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 €-24.7 million (2021: €87.6 million) includes the transferred results and revaluations of subsidiaries. Last year's figure also included 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 liability of €20.5 million (2021: €-9.0 million), the Bank posted net income of €61.0 million (2021: €30.0 million). Net retained profit also amounted to €61.0 million (2021: €95.8 million, including profit carried forward from the previous year of €65.8 million).

Based on this net retained profit, Aareal Bank AG achieved its target to increase its own funds.

The Group targets for 2022 were achieved. The following section presents the key financial indicators in accordance with IFRSs. At €239 million, consolidated operating profit reached the upper end of the target range and was significantly higher than in the previous year (€155 million), reflecting strong operating performance. Net interest income of €702 million was significantly higher than in the previous year (€597 million), mainly due to a year-on-year increase in the credit portfolio, good margins as well as first positive effects from higher market interest rates on the deposit-taking business and an improved funding mix. Loss allowance amounted to €192 million and included an addition of €134 million for the Bank's exposure to Russia which is being run down. This brings coverage of the outstanding exposure (€213 million) to more than 60%. Net commission income also increased, as expected, to €277 million (2021: €245 million) on the back of higher sales revenue at Aareon and in the Banking & Digital Solutions segment. Administrative expenses increased to €571 million (2021: €528 million), reflecting Aareon's business expansion. They also included transaction costs incurred by the successful completion of the voluntary public offer made by Atlantic BidCo. Assuming the pro rata temporis accrual of net interest payments on the ATI bond, earnings per ordinary share (EpS) amounted to €2.32 (2021: €0.89), and RoE after taxes 5.0% (2021: 2.1%).

Financial position – assets and liabilities

Despite repayment of €4.3 billion in funds under Deutsche Bundesbank's Targeted Longer-Term Refinancing Operations (TLTRO), total assets of Aareal Bank AG declined only slightly, to €48.4 billion as at 31 December 2022 (31 December 2021: €48.7 billion). The increased property financing portfolio was funded, in particular, by the high volume of deposits from the housing industry.

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

The book value of debt and other fixed-income securities amounted to €7.4 billion as at 31 December 2022 (31 December 2021: €8.0 billion), slightly reduced by maturities and the sale of securities issued by public-sector entities. 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 €27.5 billion as at 31 December 2022, an increase of approximately 3.4% compared to the year-end 2021 figure of €26.6 billion.

As at 31 December 2022, the volume of Aareal Bank Group's property financing portfolio¹⁾ stood at €30.5 billion (2021: €29.5 billion). Including the former WestImmo's private client business and local authority lending, it amounted to €30.9 billion (2021: €30.0 billion). Accordingly, Aareal Bank has reached its original target portfolio size of around €31 billion.

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.

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, Aareal Bank also uses deposits from institutional investors including retail deposits for short-term refinancing. To raise funds from retail deposits, it launched several cooperations in the year under review by way of a trust model, for example, with Raisin and Deutsche Bank. It also uses interbank and repo transactions to manage liquidity and cash positions.

As at 31 December 2022, Aareal Bank had €13.1 billion at its disposal in deposits generated from the business with the housing industry (31 December 2021: €11.7 billion). Money market liabilities, including targeted longer-term refinancing operations (TLTROs) of Deutsche Bundesbank, amounted to €5.8 billion (31 December 2021: €9.5 billion), after repayment of €4.3 billion of the €5.3 billion TLTRO funds in November 2022.

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

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 issues. The latter include subordinated liabilities and regulatory Additional Tier 1 instruments.

The long-term refinancing portfolio totalled €23.8 billion as at 31 December 2022 (31 Dec 2021: €21.8 billion), comprising €14.7 billion (2021: €13.5 billion) in Mortgage Pfandbriefe and Public Sector Pfandbriefe, €8.6 billion (2021: €7.6 billion) in unsecured funding, €0.3 billion (2021: €0.4 billion) in subordinated funding, plus €0.3 billion (2021: €0.3 billion) in Additional Tier 1 capital.

Refinancing activities

During the 2022 financial year, Aareal Bank Group was able to place €4.7 billion on the capital markets. This included six benchmark transactions: two €750 million Pfandbrief issues, one €625 million Pfandbrief issue and one Pfandbrief issue in the amount of €500 million. Aareal Bank Group raised a total of €1.5 billion in senior unsecured funding, including two "green" senior preferred issues¹⁾ of €500 million each.

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 €1,908.6 million as at 31 December 2022 (31 December 2021: €1,847.6 million).

At 19.3%, the Common Equity Tier 1 ratio (CET1 ratio) – Basel IV (phase-in) – was markedly above the target value of 16% in the year under review, as expected.

¹⁾ The requirements for "green" issues are set out in the Aareal Green Finance Framework.

Regulatory indicators¹⁾

	31 Dec 2022	31 Dec 2021
€ mn		
Basel IV (phase-in)		
Common Equity Tier 1 (CET1) capital	2,468	2,327
Tier 1 (T1) capital	2,768	2,627
Total capital (TC)	3,065	3,021
%		
Common Equity Tier 1 ratio (CET1 ratio)	19.3	18.2
Tier 1 ratio (T1 ratio)	21.7	20.5
Total capital ratio (TC ratio)	24.0	23.6
Basel III		
Common Equity Tier 1 ratio (CET1 ratio)	19.3	22.2

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 2021: excluding originally proposed dividend of €1.60 per share in 2022 for the financial year 2021, including the dividend of €1.10 per share not distributed in 2021 as well as the pro rata temporis accrual of net interest on the AT1 bond.

31 December 2022: including originally proposed dividend of €1.60 per share in 2022 and pro rata temporis accrual of net interest on the AT1 bond, excluding profits for 2022 under commercial law. There are no plans to distribute any dividends, in line with the strategy for 2023. The appropriation of profits is subject to approval by the Annual General Meeting.

The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

Adjusted total risk exposure amount (as defined in Article 92 (3) CRR – RWAs), in accordance with applicable law as at 31 December 2022 (CRR II) and applying the partial regulation for the “output floor” in connection with commercial property lending and equity exposures, based on the European Commission's proposal dated 27 October 2021 for implementation of Basel IV. The adjusted risk-weighted exposure amount for commercial property lending and equity exposures is determined using the higher of (i) total RWAs calculated in accordance with CRR II currently in force, and (ii) the figure calculated in accordance with the revised CRSA (pursuant to CRR III), applying the transitional provisions for 2025 (50% output floor). This forms the basis for the development of Basel III ratios during the 2022 financial year, as shown; said “higher-of” comparison was not carried out in this respect as at 31 December 2021.

Regulatory capital¹⁾

	31 Dec 2022	31 Dec 2021
€ mn		
Tier 1 (T1) capital		
Subscribed capital and capital reserves	900	900
Eligible retained earnings	1,985	1,804
Accumulated other comprehensive income	-71	-127
Amounts to be deducted from CET1 capital	-346	-250
Total Common Equity Tier 1 (CET1) capital	2,468	2,327
AT1 bond	300	300
Sum total of Additional Tier 1 (AT1) capital	300	300
Sum total of Tier 1 capital (T1)	2,768	2,627
Tier 2 (T2) capital		
Subordinated liabilities	248	346
Other	49	48
Sum total of Tier 2 capital (T2)	297	394
Total capital (TC)	3,065	3,021

¹⁾ 31 December 2021: excluding originally proposed dividend of €1.60 per share in 2022 for the financial year 2021, including the dividend of €1.10 per share not distributed in 2021 as well as the pro rata temporis accrual of net interest on the AT1 bond.

31 December 2022: including originally proposed dividend of €1.60 per share in 2022 and pro rata temporis accrual of net interest on the AT1 bond, excluding profits for 2022 under commercial law. There are no plans to distribute any dividends in 2023, in line with the strategy. The appropriation of profits is subject to approval by the Annual General Meeting.

The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

Analysis of risk-weighted assets (RWA)¹⁾

	Risk-weighted assets (RWA) 31 Dec 2022	Minimum capital requirements Total 31 Dec 2022	Risk-weighted assets (RWA) 31 Dec 2021	Minimum capital requirements Total 31 Dec 2021
€ mn				
Credit risk (excluding counterparty credit risk)	10,063	805	11,305	904
Counterparty credit risk	384	31	381	31
Market risk ²⁾	136	11	n/a	n/a
Operational risk	1,142	91	1,131	91
Additional RWA pursuant to Article 3 of the CRR	1,057	85	n/a	n/a
Total	12,782	1,023	12,817	1,026

¹⁾ 31 December 2022: Adjusted total risk exposure amount (as defined in Article 92 (3) CRR – RWAs), in accordance with applicable law as at 31 December 2022 (CRR II) and applying the partial regulation for the “output floor” in connection with commercial property lending and equity exposures, based on the European Commission’s proposal dated 27 October 2021 for implementation of Basel IV. The adjusted risk-weighted exposure amount for commercial property lending and equity exposures is determined using the higher of (i) total RWAs calculated in accordance with CRR II currently in force, and (ii) the figure calculated in accordance with the revised CRSA (pursuant to CRR III), applying the transitional provisions for 2025 (50% output floor).

²⁾ 31 December 2021: there was no requirement to determine market risk under article 351 of the CRR, since the sum total of the net foreign currency position in aggregate did not exceed 2% of regulatory capital.

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.

In view of the ongoing pandemic, numerous restrictions and safety measures continued to apply during 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 during 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 2022

	31 Dec 2022	31 Dec 2021	Change
Number of employees of Aareal Bank AG	973	932	4.4%
Years of service	12.2 years	12.8 years	-0.6 years
Staff turnover rate	4.3%	3.3%	1.0%

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

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 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.

With the new training and continuing professional development approach Learning@Aareal, introduced in 2020, Aareal Bank supports employees through targeted offers that are focused on the Company and HR strategy, and Aareal Bank's Unique Selling Point (USP).

Learning@Aareal is integrated in Aareal Bank's strategic development approach, which uses a skills matrix as the basis for talent development at an organisational level. By linking the skills matrix, Learning@Aareal, clear selection procedures and management and expert career paths, we are facilitating the sustainable development of our employees, which is supplemented by the mandatory staff 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 the years ahead so that employees will develop competencies and invest their talent in a forward-looking way.

The staff development dialogue builds on the employee's current tasks and, in the Company's and the employee's interests, promotes and enhances both soft skills and hard (professional, methodological and digital) skills. 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 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.

In addition, a digital language learning portal helps to further build language and communications skills, 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. Since demand was again strong, two parallel groups embarked upon the programme in 2022, which is designed to promote knowledge transfer between companies by facilitating the targeted exchange of staff.

Promoting the next generation

Attracting and growing talented young employees is a core element of Human Resources work at Aareal Bank Group. The specialist knowledge required in our business segments means that we have 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 the year under review, we continued to expedite talent recruitment and training and were able to fill almost half of the vacancies with young professionals.

Aareal Bank's talent development programme comprises not only trainee programmes, but also two twin-track degree courses – business information systems and business administration – in cooperation with DHBW Mannheim and RheinMain University, plus an on-the-job Bachelor's degree in business administration offered in cooperation with the University of Applied Sciences in Mainz. In addition, Aareal Bank focuses on twin-track vocational training and offers apprenticeships as IT specialists, in cooperation with other companies in the region. It collaborates closely with universities in the region using a variety of initiatives that are constantly being expanded. 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.

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 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 a parent-child workroom, flexible working policies, part-time positions and the option of mobile working 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.

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.

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 Risk Appetite Framework was updated during the second quarter of 2022, with pension risks defined as a separate type of risk, in order to enhance transparency.

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 are a component of the regular risk inventory process. 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 technology and the regulatory environment as well as governance factors such as fraud, sustainability management and data protection. In addition, there is client behaviour as an overarching factor. The system for monitoring and managing ESG risks is being continuously refined, and suitable risk indicators and limits for climate and environmental risks are being developed.

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 Risks 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 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 by the respective divisions or subsidiaries on an event-driven basis; in any case, at least once a year (at Aareal Bank, every six months). The results are discussed with the corresponding units within the Second and Third Lines of Defence (Risk Controlling, Compliance and Internal Audit), validated by a central ICS coordination unit, 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 Common Equity Tier 1 (CET1) capital forms the basis for determining economic aggregate risk cover. The Bank ceased adding Additional Tier 1 (AT1) capital to internal capital in April 2022. 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. Starting in 2022, the management buffer has also included adjustments for potential climate risks as determined within the scope of our Group-wide ESG strategy.

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 interval 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.

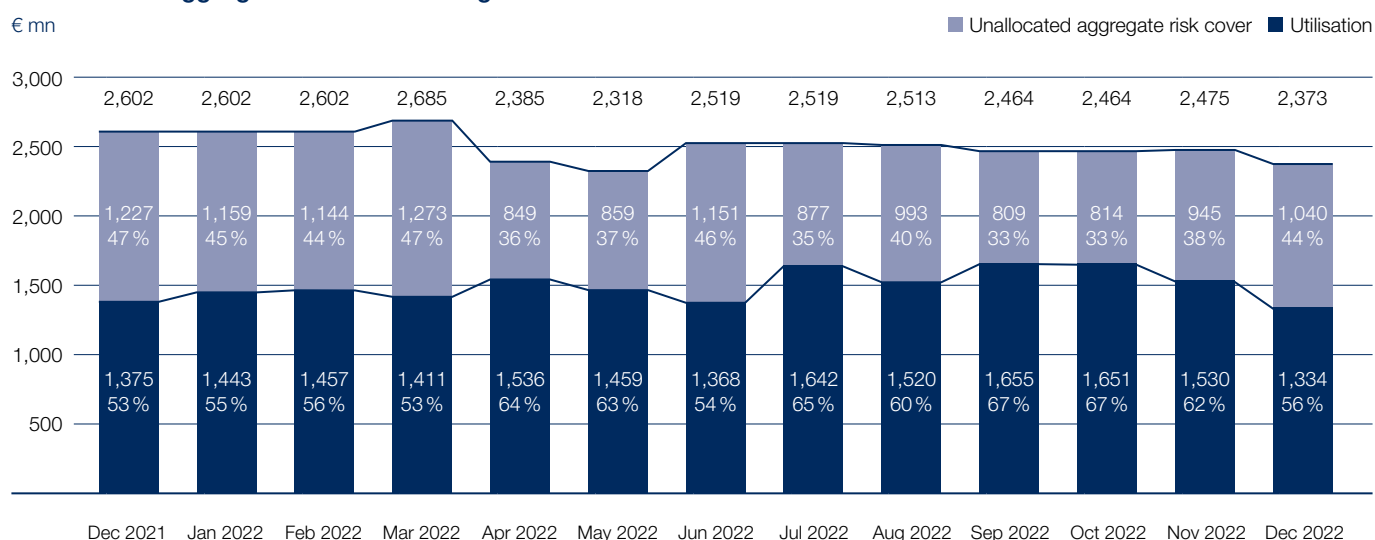
A detailed monthly report provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. These are being monitored as part of daily reporting. No limit breaches at the aggregate risk level were detected during the period under review. The observed increase in market volatility in connection with the war in Ukraine led to 'amber' thresholds (early warning triggers) for individual risk categories being exceeded. These could be resolved through risk-mitigating measures without undue delay.

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

	31 Dec 2022	31 Dec 2021
€ mn		
Common Equity Tier 1 capital in accordance with Basel III ¹⁾	2,468	2,622
Economic adjustments	-95	-20
Aggregate risk cover	2,373	2,602
Utilisation of aggregate risk cover		
Loan loss risks	467	574
Interest rate risk in the banking book (IRRBB)	86	136
Pension risks ²⁾	72	n/a
Market risks	406	373
Operational risks	91	93
Investment risks	75	62
Property risks	71	79
Business and strategic risks	66	58
Total utilisation	1,334	1,375
Utilisation (% of aggregate risk cover)	56%	53%

¹⁾ T1 was still used in 2021.

²⁾ In 2021, pension risks were included as part of interest rate risk in the banking book.

Utilisation of aggregate risk cover during the course of 2022

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. ESG risks were integrated into the stress testing methodology in 2022. ESG-related stress test calculations comprise a scenario depicting climate change, which is being supplemented by a scenario on change in society.

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 clearly 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 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.

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 uncertainty of future developments and supplements our baseline scenario through 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 CFO and CRO, and other members appointed by the Management Board, meets every two weeks.

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. Legal performs 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. 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.

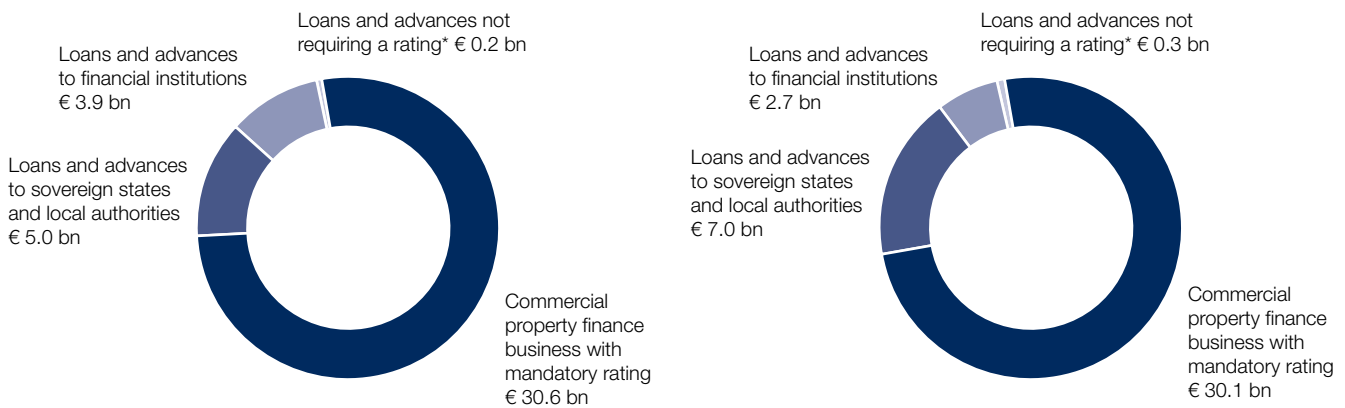
Against the background of the Covid-19 pandemic and the potential impact of the war in Ukraine, special attention is currently paid to macro-economic forecasts. In the context of this ongoing review, we also rely on projections published by the ECB, apart from those issued by our usual data providers.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

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.

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

by rating procedure, € bn

31 Dec 2022 | 31 Dec 2021



* Including the private client business of former WestImmo

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.

Some effects of the Covid-19 pandemic were still felt in the year under review, but the portfolio most susceptible to it rebounded as expected, especially in the hotel sector, and returned to pre-pandemic levels on average. In this light, all Covid-specific provisions or processes in the most vulnerable portfolio (retail, hotels, student housing) were abolished as at the reporting date.

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. The impact of the Covid-19 pandemic markedly decreased in the period under review, but the ongoing interest rate increases on the international markets burdened debt service requirements, resulting in continued high levels of Stage-2 loss allowance compared to historical levels. 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 2022					31 Dec 2021				
	Stage 1	Stage 2	Stage 3	fvpl ¹⁾	Total	Stage 1	Stage 2	Stage 3	fvpl ¹⁾	Total
€ mn										
Class 1	-	-	-	-	-	-	-	-	-	-
Class 2	158	-	-	-	158	116	-	-	-	116
Class 3	258	-	-	-	258	203	3	-	-	206
Class 4	775	24	-	-	799	694	-	-	-	694
Class 5	4,367	19	-	18	4,404	3,602	105	-	160	3,867
Class 6	4,296	52	-	112	4,460	4,800	185	-	138	5,123
Class 7	4,534	772	-	37	5,343	4,337	331	-	67	4,735
Class 8	2,610	1,352	-	52	4,014	3,034	1,158	-	82	4,274
Class 9	3,649	2,623	-	33	6,305	1,004	2,545	-	48	3,597
Class 10	962	1,519	-	42	2,523	908	3,366	-	39	4,313
Class 11	157	116	-	-	273	38	731	-	-	769
Class 12	-	97	-	-	97	-	77	-	-	77
Classes 13-15	-	-	-	-	-	-	74	-	-	74
Defaulted	-	-	983	133	1,116	-	-	1,503	64	1,567
Total	21,766	6,574	983	427	29,750	18,736	8,575	1,503	598	29,412

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 2022					31 Dec 2021				
	Stage 1	Stage 2	Stage 3	fvpl ¹⁾	Total	Stage 1	Stage 2	Stage 3	fvpl ¹⁾	Total
€ mn										
Classes 1-3	-	-	-	-	-	-	-	-	-	-
Class 4	5	-	-	-	5	8	-	-	-	8
Class 5	52	-	-	-	52	157	-	-	-	157
Class 6	72	-	-	-	72	70	-	-	-	70
Class 7	62	19	-	-	81	102	-	-	-	102
Class 8	211	33	-	-	244	15	9	-	-	24
Class 9	84	18	-	-	102	113	47	-	-	160
Class 10	211	20	-	-	231	65	66	-	-	131
Class 11	19	-	-	-	19	23	8	-	-	31
Classes 12-15	-	-	-	-	-	-	1	-	-	1
Defaulted	-	-	2	-	2	-	-	6	-	6
Total	716	90	2	-	808	553	131	6	-	690

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

On-balance sheet loans and advances to financial institutions

	31 Dec 2022					31 Dec 2021				
	Stage 1	Stage 2	Stage 3	fvpl ¹⁾	Total	Stage 1	Stage 2	Stage 3	fvpl ¹⁾	Total
€ mn										
Class 1	322	-	-	-	322	619	-	-	-	619
Class 2	157	-	-	-	157	160	-	-	-	160
Class 3	476	-	-	-	476	373	-	-	-	373
Class 4	1,102	-	-	-	1,102	212	-	-	-	212
Class 5	302	-	-	-	302	21	-	-	-	21
Class 6	7	-	-	-	7	93	-	-	-	93
Class 7	655	-	-	-	655	708	-	-	-	708
Class 8	422	-	-	-	422	424	3	-	-	427
Class 9	396	-	-	-	396	30	-	-	-	30
Class 10	18	-	-	-	18	27	-	-	-	27
Classes 11-18	-	-	-	-	-	-	-	-	-	-
Defaulted	-	-	-	-	-	-	-	-	-	-
Total	3,857	-	-	-	3,857	2,667	3	-	-	2,670

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

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

	31 Dec 2022					31 Dec 2021				
	Stage 1	Stage 2	Stage 3	fvpl ¹⁾	Total	Stage 1	Stage 2	Stage 3	fvpl ¹⁾	Total
€ mn										
Class 1	1,687	-	-	-	1,687	3,400	-	-	-	3,400
Class 2	1,802	-	-	-	1,802	1,777	-	-	-	1,777
Class 3	495	-	-	-	495	656	-	-	-	656
Class 4	30	-	-	-	30	69	-	-	-	69
Class 5	21	-	-	-	21	64	-	-	-	64
Class 6	273	-	-	-	273	1	-	-	-	1
Class 7	120	-	-	-	120	187	-	-	-	187
Class 8	526	-	-	-	526	-	-	-	-	-
Class 9	-	-	-	-	-	620	186	-	-	806
Classes 10-20	-	-	-	-	-	-	-	-	-	-
Defaulted	-	-	-	-	-	-	-	-	-	-
Total	4,954	-	-	-	4,954	6,774	186	-	-	6,960

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 credit 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 provide for various credit risk mitigation techniques, via mutual netting framework agreements.

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

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

Above all, the close-out netting is subject to (international) legal risks. The Bank reviews these legal risks by reference to legal opinions regarding the validity and enforceability of mutual netting framework agreements in the case of a counterparty's insolvency.

These legal opinions are evaluated based on various criteria such as product type, jurisdiction of the registered office and branch office of the counterparty, individual contract supplements and other criteria, and using a database developed for this purpose. In doing so, the Bank decides for each individual transaction whether or not netting is possible. The Bank uses eligible bilateral netting framework agreements within the meaning of the CRR for all transactions with financial institutions; in many cases there are additional collateral agreements which further reduce the relevant credit risk.

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 credit 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

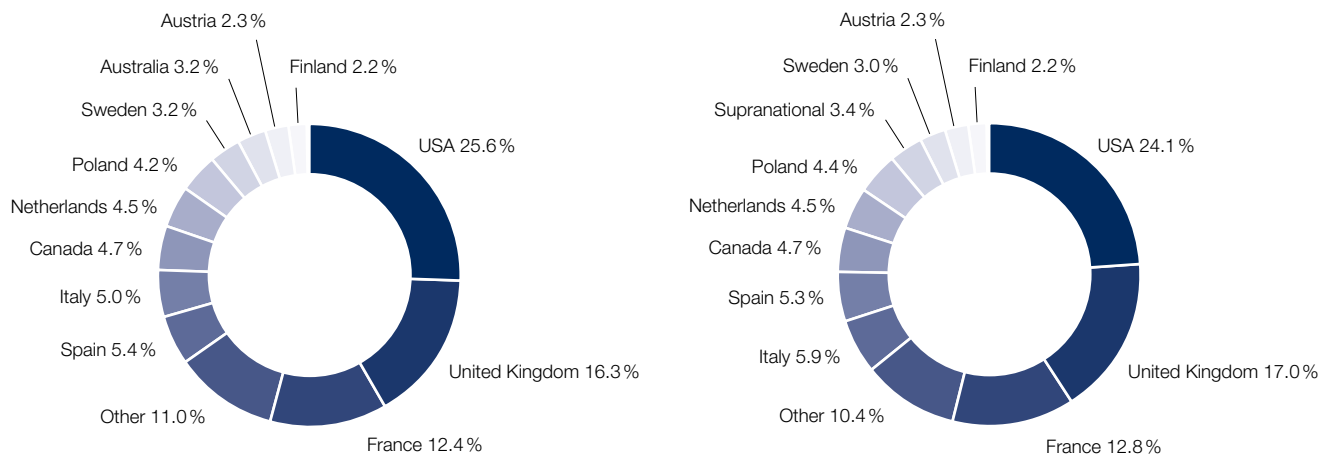
Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment 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 2022 | 31 Dec 2021



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 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 a presentation of potential plan deviations of income in case adverse interest rate sce-

narios occur (earnings perspective). The interest rate scenarios used for the measurement of potential plan deviations comprise interest rate shocks (both increases and reductions) as well as time-based increases or reductions of the interest rate projection used to determine planned interest income.

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 (2.24 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.

In addition to this and in line with EBA/GL/2018/02 (Guidelines on the management of interest rate risk arising from non-trading book activities), the change in net interest income is determined in the relevant interest rate shock scenarios. 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 2022		31 Dec 2021	
	-200 bp	+200 bp	-200 bp	+200 bp
€ mn				
EUR	-40	23	-23	101
GBP	15	-25	8	-16
USD	18	-14	84	-43
Other	6	-6	10	-9
Total	-1	-22	79	33
Ratio to regulatory capital requirements in accordance with Basel III (%)	0.0	0.7	2.6	1.1

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

	31 Dec 2022	31 Dec 2021
€ mn		
Parallel shock up	-28	29
Interest rate coefficient for parallel shock up (%)	1.0	1.1
Parallel shock down	4	80
Interest rate coefficient for parallel shock down (%)	0.1	3.1
Steeper shock	7	64
Interest rate coefficient for steeper shock (%)	0.3	2.4
Flattener shock	-24	-26
Interest rate coefficient for flattener shock (%)	0.9	1.0
Short rates shock up	-29	-22
Interest rate coefficient for short rates shock up (%)	1.0	0.8
Short rates shock down	22	81
Interest rate coefficient for short rates shock down (%)	0.8	3.1
Tier 1 capital in accordance with Basel III	2,768	2,622

Net interest income is a metric derived from the income statement. The earnings risk is measured based on the changes in net interest income of the next twelve months as a result of a parallel shift of the yield curve by 200 basis points. In this context, assumptions regarding client behaviour and the competitive environment in such a scenario are especially subject to idealised model parameters.

Pension risks

Pension risks arise from the measurement of pension obligations entered into, and of plan assets held under pension plans. Risk is mitigated by structuring plan assets – largely a special investment fund held in trust – accordingly.

VaR, which requires sensitivity data for risk factors (representing exposure) as well as a covariance matrix of such risk factors (volatility and correlation) to map market dynamics, is calculated as the simplest stochastic model in the delta-normal approach.

Pension risks are managed directly by the Asset-Liability Committee (ALCO); for this purpose, the ALCO has also assumed the function of Investment Committee for the plan assets. Pension obligations and plan assets are subject to regular risk reviews and assessments.

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).

Since Aareal Bank did not pursue any trading book activities (as defined by the CRR) during the period under review, trading book risks had no relevance.

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 to determine the aggregated VaR indicator for market risk. 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 days¹. The loss potential is determined applying a 99.9% confidence interval.

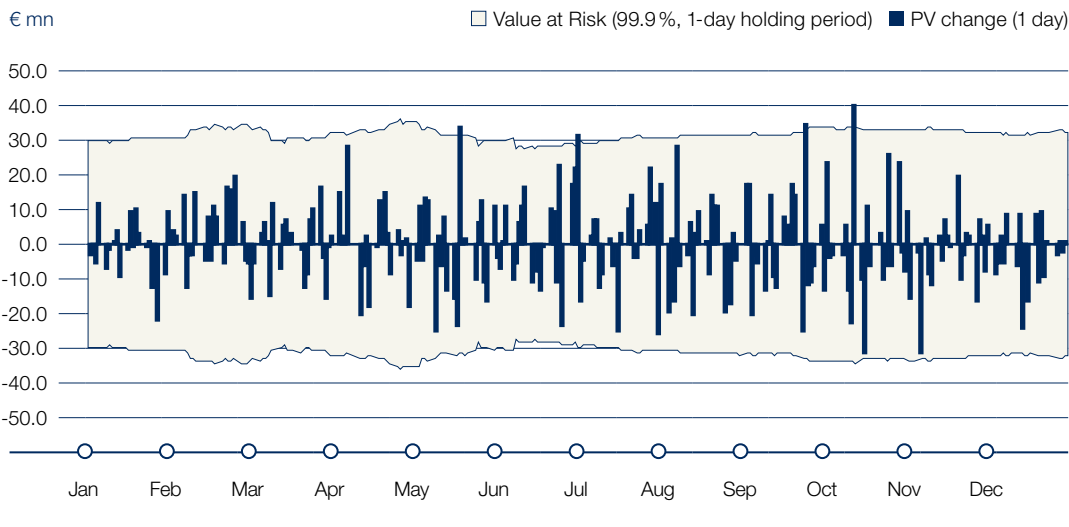
Backtesting

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 method referred to as 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 interval 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 2022



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, ESG risk factors as well as model and reputational risks are also taken into consideration within this type of risk.

Risk strategy

The primary purpose of the risk strategy is to provide strategic guidance on the conscious and professional handling of operational risk. The strategy covers the organisational framework as well as the fundamentals of reporting related to this topic, supplementing and specifying the existing central rules set out in the Risk Appetite Framework.

To facilitate a holistic risk management of operational risk, Aareal Bank has implemented a governance structure which puts the “three lines of defence” concept into operational practice. Given that, in principle, the management approach is organised in a decentralised manner, located in the various divisions or subsidiaries, there is a distinct emphasis on a strong first line of defence which is responsible for risks on a single-risk basis. The centralised OpRisk Controlling department, which is part of the Non-Financial Risks division, monitors the first-line activities as an independent second line of defence. In this context, the general second line of defence is supplemented by specialised monitoring functions known as ‘specialist second lines’.

Process risks are addressed through the internal control system (ICS). The design of Aareal Bank Group’s ICS emphasises mitigating material process-inherent risks through appropriate and effective key controls which are compiled for Aareal Bank in a dedicated inventory.

The Non-Financial Risks division is responsible for monitoring compliance risks, as well as risks related to financial crime. The Group-wide objective of the compliance management system is to mitigate liability risks in the form of potential fines and penalties for the Bank or its subsidiaries and their board members. In addition, Aareal Bank Group’s positive reputation as a group of companies with integrity vis-à-vis external stakeholders such as business partners, counterparties and investors is to be maintained and further strengthened. The Anti Financial Crime strategy serves to manage risks related to money laundering, terrorist financing, sanction breaches and fraud in a professional and conscious manner. It encompasses applicable qualitative standards (for example, listing

business areas and sectors not served) and quantitative key risk indicators (such as thresholds for high-risk clients and politically exposed persons) for the purpose of risk monitoring.

In order to mitigate legal risks, Aareal Bank's central Legal department and decentralised legal units monitor any litigation the Bank is involved in (whether in court or out-of-court), and deal with any legal issues of fundamental importance, and provide legal advice on day-to-day business. Legal compiles all information concerning any legal disputes involving Aareal Bank Group, whether in or out of court. 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. Tax risks including related legal risks are monitored and managed separately by Aareal Bank's tax department. The tax compliance management system actively reduces the risk related to tax law compliance and fraud cases, for example by setting standardised work instructions and controls, both within the tax department and in interfaces with other divisions.

Information Security & Data Protection has central responsibility for monitoring risks affecting operational resilience. The division defines Bank-wide requirements and initiates different measures to mitigate information security risk and to achieve the level of security targeted in the Information Security Framework Directive. This includes raising awareness amongst internal and external employees through corresponding training courses and the exchange of information on cyber threats via the communication channels with ECB, BaFin and BSI. To mitigate outsourcing risk, the responsible outsourcing organisational units regularly assess the performance of external service providers, using defined criteria. The results of this process, and control measures taken, are consolidated and communicated to the Bank's Management. Business Continuity Management (BCM) mitigates business continuity risks by defining the emergency organisation, setting out emergency and crisis plans for the Bank's business processes identified as time-critical. Business will be managed in accordance with these plans in the event of an emergency or crisis.

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.

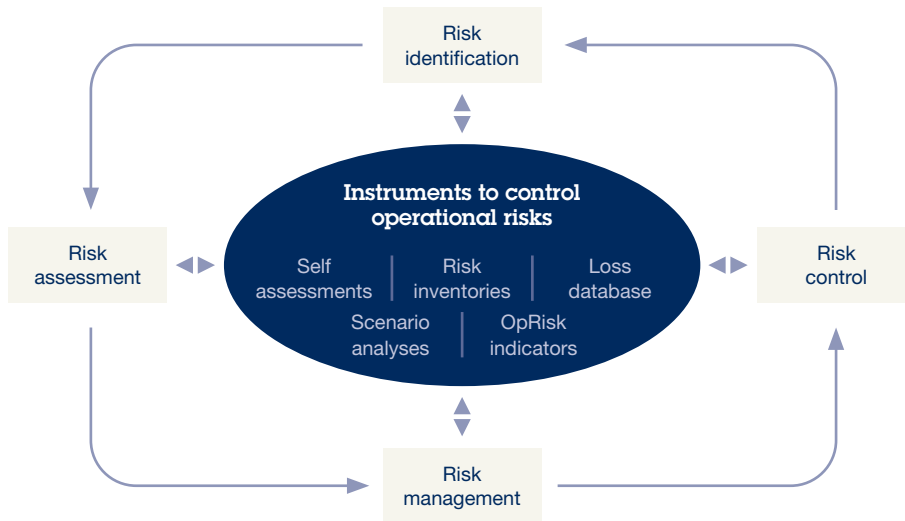
The Bank currently uses the following risk control tools to manage operational risks:

- Self-assessments: analysis thereof can provide management with an indication of any potential risks within the organisational structure;
- risk inventories and subsequent risk assessments that include a periodic systematic identification and compilation of all relevant risks and their qualitative and quantitative assessment;
- a loss database, in which relevant risk events incurred are reported, and in which they can be monitored until they are officially closed;
- operational risk indicators for all risk levels that show current threat potential using a defined 'traffic light' system;
- stress tests based on hypothetical as well as historical scenarios and sensitivity analyses of risk inventory data, carried out in order to gain indicators for developments which may potentially threaten the Bank's continued existence.

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

The tools described above are used to prepare the regular risk reporting to the Bank's senior management. 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. 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 – is determined using the regulatory standardised approach under Pillar 1.

Management of operational risks



No material risk concentrations were evident in the 2022 financial year. Risk events are recorded in a database on an ongoing basis; the aggregate impact of such risk events during the year under review amounted to less than 5% of the regulatory capital to be maintained for operational risks. Supplementary operational risk management tools – in particular, the monitoring of indicators, scenario analyses and the self-assessment – do not indicate potential elevated risk either.

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

The model for investment risk was thoroughly revised, with a new model implemented in 2022. The new model breaks down investments outside the regulatory scope of consolidation into two groups, whereby risk-equivalent exposures are determined for material investments using the regulatory IRB formula. For non-material investments, equity coverage is determined using the simple risk weight function for investments in accordance with the CRR. Risk exposure for investments within the regulatory scope of consolidation is measured using the look-through principle, based on the assets of the respective investment.

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 property types, and over the time horizons available: on this basis, potential yield increases for different regions and property types 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 risks are defined as potential risks of all kinds that may potentially threaten achievement of corporate objectives, and which may result (for example) from changes in the competitive environment, or from an unsuitable strategic positioning in the macro-economic environment. We distinguish between allocation risk and investment risk, whereby allocation risk is defined as a divergence of operating results due to lower-than-expected income from allocated capital that cannot be offset through reductions in costs or administrative expenses. Investment risk is defined as the risk that the Bank is unable to compensate for any divergence in operating results through activities or investments in alternative business segments that generate results to the same or similar extent.

Risk measurement and monitoring

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, the Bank considers not only ICAAP risk parameters, but also ILAAP risk parameters for a three-year horizon.

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

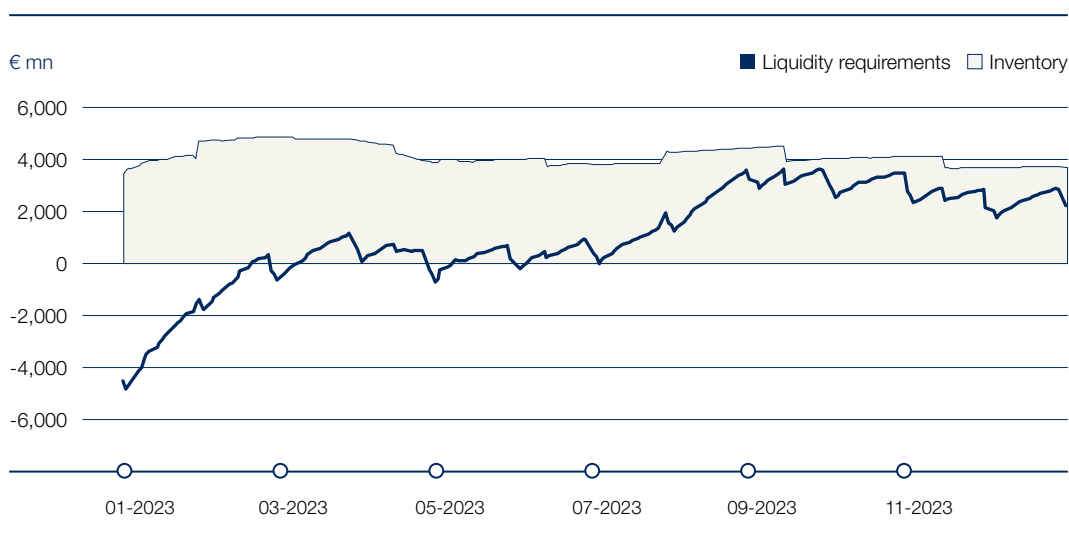
Moreover, we employ stress tests and scenario analyses to assess the impact of sudden stress events onto the Bank's liquidity situation. The various standardised scenarios used, which include historic, idiosyncratic, market-wide and combined scenarios, are evaluated on the basis of the liquidity run-off 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 2023. The chart demonstrates that the liquidity stock will always exceed liquidity requirements, even under adverse conditions.



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 ICS and RMS

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 Internal Control System, in particular with regard to the accounting process. 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 quarterly reports 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.

The Management Board regularly assesses the appropriateness and effectiveness of the ICS and RMS. This assessment is primarily based on the result of the semi-annual ICS report and the monthly risk reporting and provides the Management Board with an overview of the key elements of Aareal Bank Group’s ICS and RMS. As part of the reporting, the Management Board thus receives a summary of the assessment activities regarding the appropriateness and effectiveness of the ICS and RMS, as well as of any anomalies that were identified during these activities. The information contained in the ICS report and risk reporting are also presented to Aareal Bank AG’s Supervisory Board as a report on the effectiveness of the ICS and RMS. The assessment of the ICS is based on the evaluation of the decentralised ICS officers, which includes internal and external audit results in particular. On this basis, the Management Board has no evidence that the ICS or RMS in their entirety are not appropriate or effective as at 31 December 2022.

Irrespective of this, the effectiveness of any risk management and control system is subject to an inherent restriction. Therefore, no system – even if it was evaluated as appropriate and effective – can guarantee a 100% prevention of risks or process violations under any circumstances. In addition to the ICS and RMS, and especially for those processes and procedures that, due to high momentum and a large number of new regulations, are not yet at the same stage of maturity as established processes, Aareal Bank has established a Code of Conduct for its employees. This Code of Conduct makes ethical conduct a guideline and minimum requirement of corporate action in dealing with new or unregulated matters, thus largely minimising violations of internal and external regulations.

Components of the accounting-related ICS and RMS

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

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

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

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

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

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

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

In terms of organisational workflows, the accounting-related Internal Control and Risk Management System is based on a comprehensive standardisation of processes and software. Aareal Bank Group uses both standard and customised software. The consolidation software provides technical support to the reconciliation of Group-internal relationships, in a clearly-defined process. The data of the units included is reported using a uniform standardised chart of accounts. The Group's accounting-related IT systems were designed in such a way that both manual controls and automatic plausibility checks are performed for material technical and procedural

system steps of the applications used. The controls in relation to processing within the IT systems are also integrated in the processes, as well as being independently performed. Process-integrated controls comprise, for example, the review of error and exception reports or the regular analysis of internal service quality. In contrast, Internal Audit conducts IT reviews independently from processes.

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

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

Aareal Bank has to comply with legal requirements. If these requirements change, for example in the form of new laws or changes in accounting standards, the processes or IT systems will be adjusted as required in separate projects across divisions – based on a clearly-defined allocation of functions, and the accounting-related Risk Management System will be adjusted to take the amended rules into account. Current developments of statutory and legal provisions applicable for Aareal Bank are constantly monitored and reported to the responsible divisions. 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 and the financial and commercial property markets are exposed to a range of risks, with some downside risks intensifying or emerging over the course of 2022, while other risks have subsided. This was due, in particular, to Russia's invasion of Ukraine, which has resulted in tremendous humanitarian and economic problems. Other risks that could have a negative impact include a re-intensifying Covid-19 pandemic, despite a lessening in the severity of the disease, as well as persistently high inflation. Moreover, excessive or inadequate monetary tightening by central banks, increased public and private debt, supply chain disruptions, doubts about the cohesion of the European project, geopolitical risks as well as the consequences of the transformation of the economy towards more climate neutrality represent additional material risks.

The immediate consequences of the war in Ukraine and mutual sanctions between the West and Russia are already having a serious negative impact on many economies, which would likely be exacerbated if the conflict continues. Direct economic effects include supply chain disruptions and higher commodity prices, alongside increased uncertainty and heightening risk aversion amongst market participants, which pose a threat to growth. The war has also fuelled high inflation rates, lowering real incomes and – in conjunction with the increased cost of production and share price declines in the financial markets – burdening aggregate demand.

A re-intensification of the Covid-19 pandemic – due to high rates of new infection and virus mutations or due to vaccination programmes failing to show effect – could slow down or halt global economic activity. A reintroduction of infection control measures may have adverse consequences on demand and the services sector in particular. However, such Covid-related risks have weakened considerably.

While energy and commodity prices were the main drivers of inflation in the first half of 2022, price pressures have become increasingly broad-based, pushing inflation in many economies to its highest level in several decades. To the extent that demand in the

future continues to be met by supply shortages, prices of some goods and services may continue to rise, contributing to high inflation rates and possibly to persistently higher inflation expectations.

Another uncertainty stems from the potential for excessive tightening of monetary policy by central banks, accompanied by a further significant increase in key interest rates and faster than expected balance sheet contraction, incurring potentially grave consequences for financial and property markets. For instance, bond market yields could rise significantly, as already observed in 2022, accompanied by valuation declines in equity and property markets, resulting in a loss of wealth. The ultimate result for the real economy would be decreasing macro-economic demand and a loss of confidence amongst consumers and businesses. If borrowing conditions remain restrictive over the medium term, a phase of stagnation could ensue in some economies following a recession. At the same time, however, a reaction that is too weak also constitutes a serious macro-economic risk given the pronounced levels of inflation.

Another risk is rising government indebtedness as a consequence of massive fiscal stimulus alongside the slowdown in economic growth. With the phasing out of net purchases under bond purchase programmes and the increasing monetary tightening of central banks, risk premiums – especially for highly indebted sovereigns – could rise further. Non-financial corporate debt has expanded in many advanced economies, mainly reflecting bond issuance. A renewed escalation in the pandemic situation, reduced macro-economic activity or other risks could offer grounds for downgrading the ratings of these bonds.

Global value and supply chains continue to face disruptions, although an easing was observed over the second half of 2022. If existing supply bottlenecks persist or tighten further, this would constitute a significant risk factor that would slow down economic growth as a whole, with a particular impact on production output in the manufacturing sector.

The political shift away from European cohesion poses a significant threat not only to the EU, but also to Europe, in the longer term. This refers especially to governments in Central and Eastern Europe with nationalist attitudes/tendencies. The Covid-19 pandemic, the slowing of economic growth and concerns about a recession have 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. Although the EU's investment package is aimed at supporting these countries in particular, there is still a risk that the measures will not be quite enough to stem structural problems.

The risk of disruption to free trade is still present and could intensify again in the future. In addition, further geopolitical risks, such as cyberattacks, terrorism and sabotage of critical infrastructure, as well as political and military conflicts, could have a significant impact on markets and their participants. The effects of potential decoupling, e.g. between China and Western economies, could also dampen global growth prospects.

The efforts of many countries and companies to limit global warming require a radical transformation of the entire economy. The macro-economic impact of this transition is uncertain, and the actual effects depend on a number of factors. At the same time, this change entails costs, which will likely be borne by companies and end-consumers alike. Decarbonisation, for instance, not only involves energy supply, but also requires significant shifts in industry, transport, construction and agriculture. The transition, however, is also an opportunity – not only for climate action, but also for economic sectors and property markets if they manage to capitalise on the situation. In addition to the transition costs incurred in decarbonising the global economy, the costs directly attributable to climate change will also increase over the medium term. Extreme weather events, temperature fluctuations and more frequent extreme heat events are causing physical damage that will intensify over time. The extent of the increase in this physical damage will depend on how well the global community succeeds in reducing greenhouse gas emissions.

These factors in the context of overall economic development are also of relevance for the financial and capital markets, as well as property markets, as they could lead to renewed disruptions should they materialise to any significant degree.

Economy

Numerous stress factors support the view that global economic growth will be weaker in 2023 than in 2022. The path of economic development will depend on the extent to which disruptions in global supply chains continue to abate, providing supply-side relief for manufacturing and upward price pressures. Many advanced economies are expected to fall into recession, followed by a recovery from mid-2023 onwards that will be weak in historical comparison. At the beginning of the year in particular, continuing high inflation rates will reduce real household incomes and push up costs for companies, which will have a dampening effect on spending and

production. Higher interest rates are also likely to weigh on aggregate demand. Likewise, demand for services is also expected to weaken, following strong gains in 2022 driven by the removal of contact restrictions. As the economy cools off, unemployment rates will also begin to climb again, though they will remain at a low level.

Real gross domestic product in the euro zone is expected to decline overall in 2023, albeit only marginally. High inflation rates and the energy crisis account for the main reasons behind a mild recession over the winter and negative economic growth in the first quarter. Particularly economies with a large industrial sector, such as Germany, should grow more slowly than the euro zone as a whole. Fiscal policy will remain expansionary, but the extent and nature of the measures will vary greatly from country to country.

In the UK, real economic growth is expected to be significantly negative for the full year 2023, led downward by a continued decline in real household incomes and dwindling private consumption. Moreover, increased borrowing costs and a tightening of fiscal policy are putting the brakes on aggregate demand.

Looking to the US, we expect growth to slow in 2023 as a whole, but unlike in the euro zone and the UK, it is still likely to be modestly positive. The combination of high inflation, monetary tightening, the slowdown of the global economy, increased unemployment and falling corporate profits will weigh on investment and private consumption. Private consumption – a mainstay of the economy in the past – will be adversely affected by the removal of income support and the shrinkage of excess savings.

China's economic development in 2023 will be characterised by weak external demand and subdued property investment. However, targeted economic policy relief and infrastructure spending, together with a recalibration of Covid measures will help to deliver positive economic growth. Comparable to China, Australia is also expected to show positive real growth in 2023 – though private consumption is expected to weaken relative to the previous year, as household budgets are severely strained by strong inflation in basic consumer goods. Exports and imports look set to continue their positive momentum, supported by the recovery of the services sector.

Financial and capital markets, monetary policy and inflation

The risks and uncertainty factors referred to above are also significant for the financial and capital markets and could once again cause disruption. Elevated inflation rates, monetary policy tightening, and increased uncertainty were reflected over the course of 2022 in higher refinancing costs, a state of affairs likely to persist in the short term depending on macro-economic and political conditions. Major central banks most recently clearly confirmed their intentions to focus on price stability, and no longer on stimulating the economy and the labour market.

In 2023, we expect the funding markets relevant for Aareal Bank to remain open, and to exhibit greater stability.

In view of the high inflation rates, and despite increased recession risks, monetary policy is expected to become even more restrictive in the coming months. Although inflationary pressure is likely to subside, the major central banks will adhere to the path of monetary tightening for the near term. By mid-2023, key rates in most advanced economies are projected to have risen to restrictive levels, while inflation rates begin to moderate towards their target levels. Accordingly, there should be an easing of pressure to raise rates further. As another instrument of monetary policy, central banks' holdings of securities will be gradually reduced throughout 2023, but this in itself should have only a limited impact on the yields of affected government bonds.

Inflation is expected to fall sharply in most economies in 2023 as sinking commodity prices, slowing economic activity and an unwinding of supply chains feed through to price pressures.

Regulatory environment

While the Covid-19 pandemic had a temporary impact on the regulatory environment, as various regulatory initiatives were postponed and temporary relief for institutions was adopted as an immediate reaction to the outbreak of the pandemic, the trend towards stricter regulatory frameworks is nevertheless expected to continue in the coming years. 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 (a concept known as 'Basel IV'). The EU Com-

mission submitted a proposal on this in October 2021, which will now be finalised as part of the trilogue procedure which is expected to take place in the course of 2023 according to the EU timetable. Based on the current status of negotiations, the proposed date for first-time application of the new regulation is 1 January 2025 – two years later than initially 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 European authority to fight money laundering and terrorist financing 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 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 were applicable for the first time beginning 31 December 2021, with the scope increasing over time. Furthermore, the ECB conducted its first climate stress test in 2022. The requirement introduced for the first time under CRR II for large listed institutions to include qualitative and quantitative information on ESG risks in the regulatory disclosure report entered into effect on 31 December 2022.

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

In addition, several countries have already announced plans to (re-)introduce the countercyclical capital buffer previously suspended in almost all countries due to the Covid-19 pandemic. For instance, 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

The macro-economic risks and burdens described above are also of great relevance for the development of property markets.

Demand for commercial properties will vary in 2023, depending on the region and property type. Despite the current economic slowdown and the forecast recessions in many national economies, we continue to see a positive overall environment for property markets. Whilst higher interest rates are expected to influence investment decisions amongst buyers and sellers alike, as well as weighing on transaction volumes, the substantial accumulation of uninvested capital from investors around the world and an increasingly attractive yield level should counteract excessive downward pressure on demand. For the financing markets, the Bank anticipates that competition will persist, especially in regions and for property types that have already experienced high demand in recent years. Higher financing costs should counteract an increase in loan-to-value ratios; we thus assume stable to slightly declining LTV ratios for new business. However, improvements in the market environment could put direct pressure on margins, or result in higher loan-to-value ratios.

Particularly in light of monetary tightening, uncertainty remains for the commercial property sector. For example, the elevated cost of capital associated with rising interest rates will result in a lower valuation of commercial properties if these costs are not offset by rent increases. This is a particular risk for investors with variable interest payments or with a pending refinancing, and it intensifies as loan-to-value ratios rise. Moreover, further significant interest rate increases, for example due to excessive monetary tightening by central banks or very high inflation rates in the medium term, could put pressure on commercial property rents and cash flows through a decline in aggregate demand.

Other uncertainty factors and risks in the macro-economic environment are also relevant for commercial property markets, and various factors are expected to have an impact on how commercial property values develop in 2023. For example, increasing political uncertainty, economic downturns or investor restraint might all negatively affect property values. Despite an increasing tendency to view Covid-19 as an endemic rather than a pandemic disease, future new infections and hospitalisation rates continue to pose a risk

for commercial property markets. The 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 limitations, travel restrictions or temporary business closures could have a negative impact on cash flows in 2023, particularly for hotel and retail properties. This risk, however, is assessed to be significantly lower than in previous years. Should the trend towards increased remote working continue or even intensify, companies may decide to rent less office space. The transition to such a new way of working could exert pressure on rental prices for office properties and on the demand for office space. It can be assumed that the impact would vary depending on the market, country and property quality. On the other hand, co-working and communal working spaces will be increasingly sought after in a changing world of work, halting or even reversing the pre-pandemic trend of decreasing office space per employee.

For commercial property, we expect that the higher financing costs will likely impede an increase in value this year, and that market values will decline moderately on average.¹⁾ However, market value developments will be influenced not only by the quality and location of properties, but also increasingly by compliance with sustainability criteria (ESG).

With a view to retail properties, we expect that the structural change in shopping habits will have a weakening effect on the outlook for value-driving rental revenues, depending on location and segment. Negative real income growth and weakening consumption, for example, are likely to lead to only moderate growth in rents before macro-economic conditions improve again. However, historically low unemployment rates and ample household savings should mitigate the negative impact on retail, so that we anticipate stable market values on average in 2023. It should be noted here that the retail market had already seen valuations decline in recent years. For hotel properties, also depending on location and segment, we foresee a positive development of occupancy and revenues in the next few years driven by increasing travel activity. However, the increase in yields is initially expected to have a slightly negative impact on market values before a recovery follows in subsequent forecast years.

We have a positive outlook for student housing, where demand from international students is already recovering significantly as a result of the return to face-to-face teaching. In addition, this property type is considered to possess a certain resilience, especially in times of economic uncertainty, so we expect investor interest to remain high in this segment.

For office properties, we expect market values to decline somewhat more strongly on average in 2023, as office yields increase and rental growth is expected to slow down or remain stable. This is due to potential changes in the demand for space and the increasing impact of sustainability requirements. We expect underperformance from properties that fail to comply with corporate environmental and sustainability goals along with government climate targets.

Logistics properties continue to be assessed positively, as structural demand drivers remain in place, which should lead to rising rental income in the near future. Overall demand will continue to be supported by a shift from just-in-time to just-in-case production. Companies are undertaking this shift in an attempt to counter supply chain challenges and prevent delays, leading to greater demand for warehouse space. However, rising yields on average will likely lead to slightly declining market values in the logistics sector in 2023.

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. Therefore, in addition to our “baseline” scenario, we have simulated further potential macro-economic scenarios.

¹⁾ It should be noted in this context that commercial property is a highly diverse asset class that can differ significantly by market, location, amenities, degree of modernisation, and other factors. The information presented here is to be understood as an overview; individual markets, sub-markets and individual properties may very well deviate from the average.

In line with current Group planning, our baseline scenario assumes the following macro-economic parameters:

	2022	2023	2024	2025
%				
“Baseline” scenario				
Gross domestic product (year-on-year change in %)				
Euro zone	3.2	-0.1	2.0	2.1
US	2.0	0.1	0.9	2.1
UK	4.4	-0.9	1.5	2.7
Unemployment (%)				
Euro zone	6.7	7.2	7.1	7.0
US	3.7	4.2	4.6	4.0
UK	3.7	4.4	4.4	4.0
Long-term interest rates (10-year government bonds) (%)				
Euro zone	2.8	2.5	2.3	2.3
US	3.7	3.1	2.8	2.8
UK	3.3	3.2	2.9	2.3
Portfolio-weighted property price development (2022 basis = 100%)	100%	97%	97%	97%

In the Structured Property Financing segment, we aim to originate new business of between €9 billion and €10 billion for the 2023 financial year, so that Aareal Bank Group’s property financing portfolio will amount to approximately €32 billion to €33 billion at the end of 2023, 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 performance, for example, in terms of new business.

Banking & Digital Solutions segment

Despite the Covid-19 pandemic and the war in Ukraine, the German housing and commercial property industries are expected to continue to see solid development in 2023. The current demand pressure will see the housing market manifest itself as a landlord’s market for the foreseeable future: Even with completion figures for new housing units and approval figures for building applications at a high level, the completion targets set at 400,000 units per year by the federal government are routinely not being achieved. The construction backlog thus now stands at over 800,000 housing units and will not be reduced any time soon, due to cost increases in the construction sector, a lack of available building capacity and price increases for building plots. Additional cost increases are resulting from the goal of climate neutrality, which can only be achieved through new buildings and the renovation of existing properties.

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 2023 financial year. We plan to achieve this in particular by continuing to invest in the expansion of the “Housing Industry Ecosystem”, the cross-sector development of interface products, and the expansion into related ecosystems, such as companies from the utilities and waste disposal industries.

Our expectation is that, given the economy-wide rises in cost levels, companies in these sectors will have an increased interest in process optimisation measures to reduce costs. Here, we can support our clients with our solutions in automated payment transactions and with advanced digital processes.

In our view, the range of services that connect alternative digital payment solutions to existing systems – thus helping to overcome process gaps (even across industry sectors) – are particularly attractive. With the AI-supported intelligent invoicing and dunning system of our subsidiary CollectAI, acquired in 2022, we plan to support our clients in setting up digital receivables management for customers in the housing and energy industries.

Further growth is anticipated from the integrated tenant deposit guarantee 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 over the previous year (2022: €31 million) and expect the average deposit volume from the housing industry to remain around €13 billion, with significant net interest income as a result.

Aareon segment

Aareon will continue its growth strategy in the 2023 financial year, with the declared objective of becoming a “Rule of 40” SaaS company. This indicator is calculated as the sum of revenue growth and adjusted EBITDA margin, and is targeted to exceed 40% in order to strike a balance between growth and profitability.

Aareon’s consolidated sales revenues for the 2023 financial year are expected to increase to between €325 million and €345 million (2022: €308 million). The main revenue driver is recurring business with SaaS, subscription and maintenance contracts, which have been increasingly offered since 2021. Especially when using software as a service, clients benefit from the added value of a cloud solution. The continued expansion of new client business and further cross-selling of digital products to existing clients to help them grow their digital ecosystem is also contributing to revenue growth. As a result, licence business will continue to decline in 2023, as the trend towards SaaS solutions will continue. Organic growth will be complemented by inorganic growth through mergers & acquisitions in line with the corporate strategy. On the other hand, as part of our sharper focus on our core business, the subsidiary phi-Consulting GmbH, which specialises in consulting for the utilities industry, was sold in the first quarter of 2023, based on the contract signed in December, which is one reason why Professional Service revenues will increase only slightly compared to 2022. Due to strategic cost optimisation measures, costs are expected to increase only slightly in 2023. Adjusted EBITDA¹⁾ is expected to be significantly higher than in the previous year, coming in at between €90 million and €100 million (2022: €75 million). Adjustments will be around €40 million higher than in the previous year (2022: €23 million) and include M&A-related costs alongside an efficiency enhancement investment budget of around €35 million.

Significant revenue drivers in the ERP business are the products Wodis Yuneo in Germany, Austria and Switzerland (the ‘DACH’ region), Tobias 365 in the Netherlands, Arthur Online in the UK and Momentum in Sweden. The roll-out will continue for the new product generations Wodis Yuneo and Tobias 365. Additional new customer acquisitions and an expansion of the product range will contribute to the growth of Arthur Online. Swedish Momentum, acquired in June 2022, will be consolidated for the full twelve months in the 2023 financial statements. The trend towards SaaS solutions will also continue in the Digital Solutions segment and the licence business will consequently decline. Revenue from CRM (Customer Relationship Management) products will increase, due to demand for the solutions of the acquired companies Cubic Eyes B.V., OSRE B.V. and wohnungshelden GmbH, as well as further penetration within the client base. Significant increases are also expected in SRM (Supplier Relationship Management) products with existing clients. The revenues of the remaining digital solutions will be on par with the previous year.

Strategic focus

Aareal Bank Group’s strategy focuses on sustainable business success. Environmental, social and governance aspects are therefore key elements of the business strategy. In 2022, we substantiated these aspects with ESG targets, and the medium-term strategic development is being pursued under the guiding principle of “Aareal Next Level”. The general strategic orientation will continue – with 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.

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

Based on the “Aareal Next Level” strategy, individual business activities will be further developed in a targeted manner in order to sharpen their own independent profiles, accelerate the Group’s overall growth, and create value for shareholders and other stakeholders. Specifically, the Bank wants to continue exploiting opportunities for profitable growth,

The Structured Property Financing segment continues to focus on the controlled, risk-conscious expansion of its portfolio volume within its target range, considering ESG criteria 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. In addition, we intend to actively reduce non-performing loans (NPL) and sustainably lower the NPL ratio.

Within the Banking & Digital Solutions segment, Aareal Bank aims to expand its equity-light business in particular, and thus increase net commission income. This will be achieved principally by expanding the product offering, leveraging its USPs in payments and digital solutions, and through further strategic partnerships. The Bank aims to maintain a high average deposit volume from the housing industry.

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” company. Together with its partner Advent International, the Group aims to maintain the pace of Aareon’s growth and further increase its profitability, through organic growth initiatives as part of the Value Creation Programme, as well as initiatives to enhance the existing product portfolio’s efficiency and improve the cost/income mix for Aareon Group. An institutionalised M&A pipeline and a credit facility are in place to 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 efficiency of the organisational structure, processes and infrastructure.

Atlantic BidCo GmbH (the “Bidder”), a bidder company indirectly held by funds managed and advised by Advent International Corporation and Centerbridge Partners as well as CPP Investment Board Europe S.à.r.l., a wholly-owned subsidiary of the Canada Pension Plan Investment Board, and further minority shareholders, announced on 30 May 2022 that it had secured 74.62% of Aareal Bank shares after the end of the acceptance period, thus exceeding the minimum acceptance level of 60% set out in the course of the voluntary public takeover offer. On 16 June 2022, Atlantic BidCo GmbH announced that it had secured a total of 83.8% of Aareal Bank shares after the end of the statutory additional acceptance period. Closing of the takeover is subject to regulatory approvals and is expected to take place in spring 2023.

Future cooperation will be based on the Investment Agreement concluded between Aareal Bank and Atlantic BidCo GmbH in conjunction with the transaction. In the Investment Agreement, the Bidder commits to supporting Aareal Bank Group’s strategic ambitions to strengthen its position as a leading international provider of property financings, as well as software, digital solutions and payments services – based on the “Aareal Next Level” strategy – and to expedite growth in all of the Group’s segments. This would be facilitated by the Bidder’s extensive experience in the financial services, software and payments sectors, and by increasingly retaining profits in the next few years. Based on a business plan supported by the Bidder, this would generate significant additional funds for attractive growth opportunities in all three segments.

Company and Group targets

Key targets of Aareal Bank AG are to preserve and increase capital. These are being taken into account for Group planning purposes, and are also set to be achieved in 2023. No single-entity planning is prepared for Aareal Bank AG. Accordingly, the following statements refer to Group planning in accordance with IFRSs.

Group targets

Taking into account additional investments in the swift reduction of non-performing loans (NPLs) of around €60 million and in Aareon of around €35 million, Aareal Bank Group now expects consolidated operating profit for the 2023 financial year to be between €240 million and €280 million (2022: €239 million). On this basis, earnings per share (EpS) are expected to amount to between €2.40 and €2.80 (2022: €2.32), while RoE after taxes should range between 5% and 6.5% (2022: 5.0%). Excluding these

one-off effects of just under €100 million, operating profit is thus likely to be up to €350 million, which was originally targeted for 2024. Yet the environment remains challenging: The impact of the war in Ukraine and the associated geopolitical and macro-economic uncertainty remain very difficult to estimate.

Aareal Bank Group expects income to continue to rise significantly vis-à-vis the previous year. Net interest income should pick up further due to the targeted expansion of the credit portfolio, a better funding mix and positive effects of higher market interest rates on the deposit-taking business, reaching between €730 million and €770 million (2022: €702 million). Net commission income is also set to rise, thanks in particular to Aareon's growth, to between €315 million and €335 million (2022: €277 million).

Loss allowance, including additional planned allowance of around €60 million for a swift NPL reduction, is expected to be in the range of €170 to €210 million (2022: €192 million). This also includes credit risk induced measurement losses of defaulted property loans, which are reflected in the net gain or loss from financial instruments (fvpl). The impact of the war in Ukraine, both in relation to our limited exposure in Russia as well as to the economic consequences of the imposed sanctions and escalated geopolitical tensions, is currently very difficult to assess.

Administrative expenses are expected to be above the previous year's level, in a range between €590 million and €630 million (2022: €571 million), due to growth and Aareon's efficiency enhancement investment budget of around €35 million.

In the Structured Property Financing segment, we plan to achieve a portfolio size of around €32 billion to €33 billion by the end of the year, market conditions permitting and subject to exchange rate fluctuations. Aareal Bank plans new business volume of €9 billion to €10 billion on this basis.

For the Banking & Digital Solutions segment, Aareal Bank projects growth in net commission income and an average deposit volume from the housing industry of around €13 billion.

Aareon's sales revenues are expected to increase to between €325 million and €345 million in the current year (2022: €308 million). Adjusted EBITDA¹ is also likely to see a marked increase to between €90 million and €100 million (2022: €75 million).

With regard to capitalisation, Aareal Bank continues to expect a solid CET1 ratio (Basel IV phase-in) of markedly more than the standardised capital requirement of 15%, 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

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

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.

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

For details regarding authorised capital, please refer to the “Equity” section in the Notes.

Conditional capital

For details regarding conditional capital, please refer to the “Equity” section in the Notes.

Authorisation to purchase treasury shares

For details regarding the authorisation to purchase and sell treasury shares, please refer to the “Equity” section in the Notes.

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 Statement

Income Statement of Aareal Bank AG for the period from 1 January to 31 December 2022

€ mn	2022	2021
Expenses		
Interest expenses	525.2	387.3
<i>including positive interest from deposit-taking and money-market transactions</i>	<i>-91.2</i>	<i>[-58.3]</i>
Commission expenses	22.2	17.6
General administrative expenses		
a) Staff expenses		
aa) Wages and salaries	112.7	114.0
ab) Social security contributions, pensions and other employee benefits	39.4	51.4
	152.1	165.4
<i>including for pensions</i>	<i>25.3</i>	<i>[37.8]</i>
b) Other administrative expenses	153.3	146.8
	305.4	312.2
Amortisation/depreciation and write-downs of intangible and tangible fixed assets	5.4	5.6
Other operating expenses	88.2	25.7
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions	192.1	272.5
Amortisation and write-downs on participations, investments in affiliated companies, and investment securities	5.8	-
Expenses for assumption of losses	21.4	10.7
Income taxes	20.5	-9.0
Other taxes not reported under other operating expenses	0.2	-0.1
Net income	61.0	30.0
Total expenses	1,247.4	1,052.5
Net income	61.0	30.0
Profit carried forward from the previous year	-	65.8
Net retained profit (Bilanzgewinn)	61.0	95.8

		2022	2021
€ mn			
Income			
Interest income from			
a) Lending and money-market transactions	1,052.6		785.5
<i>including negative interest from lending and money-market transactions</i>	<i>-23.9</i>		<i>[-31.4]</i>
b) Fixed-income securities and debt register claims	79.6		94.0
		1,132.2	879.5
Current income from			
Interests in affiliated companies	64.1		27.5
		64.1	27.5
Income from profit pools, profit transfer agreements or partial profit transfer agreements		2.7	0.6
Commission income		36.9	34.8
Income from write-ups on equity investments, interests in affiliated companies, and securities held as fixed assets		-	97.6
Other operating income		11.5	12.5
Total income		1,247.4	1,052.5

Balance Sheet of Aareal Bank AG as at 31 December 2022

€ mn	2022	2021
Assets		
Cash funds		
a) Cash on hand	0.0	0.0
b) Balances with central banks	95.5	6,941.6
<i>including: with Deutsche Bundesbank</i>	95.5	[6,941.6]
	95.5	6,941.6
Loans and advances to banks		
Other receivables	7,560.3	1,188.7
	7,560.3	1,188.7
<i>including: payable on demand</i>	7,250.5	[1,022.0]
Loans and advances to customers		
a) Mortgage loans	26,237.1	25,476.7
b) Loans to local authorities	1,443.5	1,568.0
c) Other loans and advances	3,161.8	3,078.2
	30,842.4	30,122.9
Debt and other fixed-income securities		
a) Bonds and debt securities		
aa) Public-sector issuers	3,739.8	4,986.6
<i>including: securities eligible as collateral with Deutsche Bundesbank</i>	3,306.5	[4,795.9]
ab) Other issuers	1,829.7	1,191.5
<i>including: securities eligible as collateral with Deutsche Bundesbank</i>	1,673.0	[1,191.5]
	5,569.5	6,178.1
b) Own bonds	1,808.4	1,780.7
<i>Nominal amount:</i>	1,781.3	[1,753.7]
	7,377.9	7,958.8
Equities and other non-fixed income securities	97.8	99.4
Participating interests	7.7	11.0
Interests in affiliated companies	1,389.0	1,650.9
<i>including: interests in banks</i>	10.5	[9.8]
Trust assets	19.6	18.5
<i>including: trustee loans</i>	19.6	[18.5]
Intangible assets		
a) Internally generated industrial property rights and similar rights and assets	18.9	14.1
b) Purchased concessions, industrial property rights and similar rights and assets, as well as licences in such rights and assets	4.3	4.8
	23.2	18.9
Tangible fixed assets	6.5	7.1
Other assets	286.1	73.5
Prepaid expenses		
a) From new issues and lending	169.3	161.3
b) Other	75.6	53.2
	244.9	214.5
Deferred tax assets	446.6	364.5
Total assets	48,397.5	48,670.3

		2022	2021
€ mn			
Equity and liabilities			
Liabilities to banks			
a) Outstanding registered mortgage Pfandbriefe	173.5		232.2
b) Outstanding registered public-sector Pfandbriefe	113.1		153.7
c) Other liabilities	2,854.7		6,263.0
		3,141.3	6,648.9
<i>including: payable on demand</i>	442.4		[382.2]
Liabilities to customers			
a) Outstanding registered mortgage Pfandbriefe	1,819.1		2,407.4
b) Outstanding registered public-sector Pfandbriefe	1,118.2		1,253.6
c) Other liabilities	19,983.7		19,368.0
		22,921.0	23,029.0
<i>including: payable on demand</i>	11,057.6		[10,922.2]
Certificated liabilities			
Bonds issued			
a) Mortgage Pfandbriefe	11,449.9		9,472.8
b) Public-sector Pfandbriefe	-		15.0
c) Other debt securities	6,793.8		5,562.2
		18,243.7	15,050.0
Trust liabilities		19.6	18.5
<i>including: trustee loans</i>	19.6		[18.5]
Other liabilities		700.2	459.2
Deferred income			
a) From new issues and lending	136.6		149.2
b) Other	74.1		38.0
		210.7	187.2
Provisions			
A) Provisions for pensions and similar obligations	203.7		258.9
b) Tax provisions	67.1		8.4
c) Other provisions	100.5		101.4
		371.3	368.7
Subordinated liabilities		398.7	580.2
<i>including: maturing within two years</i>	150.0		[211.0]
Additional Tier 1 capital instruments		314.8	313.4
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	935.7		839.9
	940.2		844.4
d) Net retained profit	61.0		95.8
		1,908.6	1,847.6
Total equity and liabilities		48,397.5	48,670.3
€ mn		2022	2021
Contingent liabilities			
Liabilities from guarantees and indemnity agreements	10.8		36.9
		10.8	36.9
Other commitments			
Irrevocable loan commitments	891.7		1,363.4
		891.7	1,363.4

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 2022 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 6 March 2023; they will be published in the German Federal Gazette, alongside the consolidated financial statements.

Accounting and Valuation Policies

(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. In compliance with the requirements set out in Accounting Practice Statement IDW RS BFA 7, 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 €3,711.9 million (2021: €3,812.7 million) are hedged against changes in value attributable to interest rate risk by means of interest rate hedges with a nominal amount of €3,698.6 million (2021: €3,799.1 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 €1,808.4 million (2021: €1,780.7 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 €-342.4 million (2021: €82.4 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 2022.

(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:

	Depreciation period
Office furniture and equipment	
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 an 'including' 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.

	2022	2021
€ mn		
Germany	193.7	144.9
Rest of Europe	572.6	544.2
North America	401.0	224.8
Asia/Pacific	77.4	40.4
Total	1,244.7	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 €11.5 million (2021: €12.5 million) includes income from the reversal of provisions in the amount of €5.9 million (2021: €4.8 million) as well as €2.4 million (2021: €2.9 million) in income from tax refunds (including interest). The figure also includes €1.3 million (2021: €1.2 million) in income under agency contracts for subsidiaries.

Other operating expenses of €88.2 million (2021: €25.7 million) include expenses for subsidiaries in the amount of €5.1 million (2021: €1.3 million), losses from currency translation in the amount of €15.8 million (2021: €6.6 million) as well as expenses for interest on back tax payments in the amount of €2.4 million (2021: €10.8 million). In addition, the item includes expenses in the amount of €64.7 million (2021: €4.3 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 expenses of €-20.5 million (2021: income of €9.0 million), of which expenses of €96.3 million (2021: €56.7 million) included in current taxes were payable in Germany: this figure comprises €44.6 million (2021: €18.2 million) in corporation tax and solidarity surcharge and €39.7 million (2021: €16.8 million) in trade tax payable for the current year, as well as €12.0 million (2021: €21.7 million) in tax expense for previous years. The net income tax position also includes €80.5 million in income (2021: €59.4 million) from the recognition of German deferred tax assets as well as €4.7 million in expenses (2021: income of €6.3 million) 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 31.3% (2021: 31.7%), including a weighted

trade tax rate of assessment of 442%, comprises trade taxes (15.5%), corporation taxes (15.0%) and the solidarity surcharge (0.825%; 5.5% of corporation tax).

	2022	2021
€ mn		
Income before income taxes	81.5	20.9
Expected income tax expenses; tax rate: 31.3% (2021: 31.7%)	25.5	6.6
Reconciliation		
Different foreign tax burden	-1.7	-1.4
Tax attributable to tax-exempt income	-27.2	-32.0
Tax attributable to non-deductible expenses	15.9	4.9
Remeasurement of deferred taxes	-1.5	-
Prior-period actual taxes	5.0	12.9
Effect of changes in tax rates	4.5	-
Other tax effects	-	-
Reported income tax expenses	20.5	-9.0
Effective tax rate (%)	25.1	-43.0

(23) Prohibition of distribution

A total amount of €465.5 million (2021: €385.5 million) in profits is subject to a prohibition of distribution, pursuant to section 268 (8) of the HGB, of which €446.6 million (2021: €364.5 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 €0.0 million (2021: €6.9 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 €18.9 million (2021: €14.1 million).

In addition, a prohibition of distribution applies to an amount of €23.8 million (2021: €35.5 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 €489.3 million (2021: €421.0 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.

Hedging relationships as defined by section 254 of the HGB have been created with respect to negotiable securities in an aggregate amount of €5,520.3 million (2021: €5,593.4 million).

Bonds and notes, including own bonds, of €7,377.9 million (2021: €7,958.8 million) (including accrued interest) reported under debt and other fixed-income securities comprise €590.0 million (2021: €190.7 million) in securities which are not eligible as collateral with Deutsche Bundesbank. Of that amount, €113.1 million (2021: €119.4 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.

	31 Dec 2022		31 Dec 2021	
	Listed	Unlisted	Listed	Unlisted
€ mn				
Debt and other fixed-income securities	7,377.9	0.0	7,958.8	0.0
Equities and other non-fixed income securities	0.0	0.0	0.0	0.0
Participating interests	-	-	-	-
Interests in affiliated companies	-	240.7	-	240.2

(25) Investment fund units

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

	31 Dec 2022		31 Dec 2021	
	Book value	Market value	Book value	Market value
€ mn				
DBB INKA	97.8	97.8	99.4	99.4
Aareal Altersvorsorge BV 97	150.1	150.1	74.5	74.5
Total	247.9	247.9	173.9	173.9

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 €247.9 million (2021: €173.9 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).

	Debt and other fixed-income securities	Participating interests	Interests in affiliated companies	Intangible assets	Tangible fixed assets	
					Office furniture and equipment	Land and buildings
€ mn						
Cost						
As at 1 Jan 2022	2,020.5	16.3	1,715.3	41.7	33.9	0.1
Additions	-	-	56.7	8.7	1.0	-
Disposals	301.3	3.2	315.2	0.2	2.0	-
Changes in inventory/transfers	-	0.0	0.0	-0.5	-	-
As at 31 Dec 2022	1,719.2	13.1	1,456.8	49.7	32.9	0.1
Depreciation and amortisation						
As at 1 Jan 2022	0.0	5.3	64.4	22.8	26.9	0.0
Additions	-	-	-	-	-	-
Depreciation and amortisation	-	-	-	3.9	1.5	-
Write-downs	-	0.1	3.4	-	-	-
Disposals	-	-	-	0.2	1.9	-
Transfers	-	-	-	-	-	-
Write-ups	-	-	-	-	-	-
As at 31 Dec 2022	0.0	5.4	67.8	26.5	26.5	0.0
Book value as at 31 Dec 2022	1,719.2	7.7	1,389.0	23.2	6.4	0.1
Book value as at 31 Dec 2021	2,020.5	11.0	1,650.9	18.9	7.0	0.1

As at 31 December 2022, the securities held as fixed assets largely included securities issued by South- and West European debtors. The following performance was recognised:

	31 Dec 2022		31 Dec 2021	
	Book value	Market value	Book value	Market value
€ mn				
Bank bonds	-	-	30.8	31.5
Covered bonds	22.5	18.3	22.5	22.5
Public-sector issuers	1,696.7	1,588.1	1,967.2	2,275.8
Total	1,719.2	1,606.4	2,020.5	2,329.8

Securities with a nominal amount of €1,675.9 million (2021: €1,960.9 million) were not measured at the lower of cost or market. For several securities, the book value in the amount of €995.4 million (2021: €750.9 million) is higher than the market value of €851.9 million (2021: €740.6 million).

An examination of cost vs. market values as at 31 December 2022 did not indicate any permanent impairment (2021: no 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:

	31 Dec 2022	31 Dec 2021
€ mn		
Loans and advances to banks	-	-
Loans and advances to customers	96.5	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

	2022				2021			
	Affiliated companies		Enterprises with a participatory interest		Affiliated companies		Enterprises with a participatory interest	
	Certifi- cated	Not certifi- cated	Certifi- cated	Not certifi- cated	Certifi- cated	Not certifi- cated	Certifi- cated	Not certifi- cated
€ mn								
Loans and advances to banks	-	-	-	-	-	-	-	-
Loans and advances to customers	-	3,581.8	-	-	-	3,276.7	-	16.4
Debt and other fixed-income securities	-	0.1	-	-	-	0.1	-	-
Liabilities to banks	-	-	-	-	-	-	-	-
Liabilities to customers	-	717.1	-	-	-	1,058.2	-	0.0
Certificated liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-	-

Transactions with related parties are generally carried out on an arm's length basis. Due to the ongoing realignment of loan relationships to the subsidiaries Aareon AG and Terrain AG, the conditions of the working capital credit line of Aareon AG of €10 million and the current account overdraft facility of Terrain AG of €36 million deviate from the prevailing market terms as at the reporting date.

No loans were extended to members of executive bodies of Aareal Bank.

(29) Trust business

€ mn	31 Dec 2022	31 Dec 2021
Trust assets		
Loans and advances to customers	19.6	18.5
Equities and other non-fixed-income securities	-	-
Total trust assets	19.6	18.5
Trust liabilities		
Liabilities to banks	0.5	0.5
Liabilities to customers	19.1	18.0
Total trust liabilities	19.6	18.5

(30) Other assets

Other assets include, in particular, receivables from the asset item recognised from currency translation (€210.6 million), tax receivables (€27.3 million), and receivables from withdrawals of capital or profit distributions (€5.7 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 €40.8 million.

In the previous year, other assets mainly included 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 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 €35.0 million.

(31) Prepaid expenses and deferred income

Prepaid expenses in the amount of €244.9 million (2021: €214.5 million) primarily include €6.4 million (2021: €8.6 million) in premiums on originated loans, in accordance with section 340e (2) sentence 3 of the HGB and €162.9 million (2021: €152.7 million) in discounts on bonds issued and borrowings pursuant to section 250 (3) of the HGB. The item also includes €64.1 million (2021: €46.1 million) from upfront payments/option premiums in connection with derivatives.

€210.7 million (2021: €187.2 million) of deferred income refers to upfront payments/option premiums in connection with derivatives (€74.1 million; 2021: €38.0 million), while €52.6 million (2021: €64.9 million) relates to issuing discounts of Pfandbriefe, €1.7 million (2021: €3.6 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 €80.9 million (2021: €78.5 million).

(32) Deferred taxes

As at 31 December 2022, the Bank's deferred tax assets exceeded its deferred tax liabilities by €446.6 million (2021: €364.5 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 31.3% for Germany (2021: 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 €9.1 million (2021: €7.5 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 (€6.3 million; 2021: €30.1 million), former Düsseldorfer Hypothekenbank AG (€0.0 million; 2021: €18.9 million) and former Corealcredit Bank AG (€3.8 million; 2021: €6.7 million). As in the previous year, they were offset against deferred tax assets.

	31 Dec 2022	31 Dec 2021	Change in the year under review
€ mn			
Net deferred tax assets	446.6	364.5	82.1

(33) Other liabilities

Other liabilities mainly comprise €6.7 million in trade payables, €593.2 million in liabilities recognised from currency translation, as well as €52.4 million in liabilities from the adjustment item reflecting the split-off of Düsseldorf's banking operations. In addition, €20.1 million in liabilities from profit and loss transfer agreements and tax liabilities of €3.9 million have been recognised.

In the previous year, other liabilities mainly comprised €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 due to the split-off of the banking operations of Düsseldorf. In addition, €10.7 million in liabilities from profit and loss transfer agreements and tax liabilities of €3.3 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 2022 (cut-off date), not as at the balance sheet date:

	31 Dec 2022	31 Dec 2021
Actuarial method applied:	Projected unit credit method	Projected unit credit method
Fundamental assumptions for calculation:		
Discount rate in %	1.78	1.87
Reference period for discount rate	10 years	10 years
Fluctuation (%)	3.00	3.00
Expected wage and salary increases in %	2.25	2.00
Adjustments of current pension payments (%)	1.00 or 2.25	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).

	31 Dec 2022	31 Dec 2021
€ mn		
Pension obligation	383.4	360.6
Fair value of plan assets	179.7	101.7
Cost of plan assets	232.7	94.8
Provisions for pensions and other employee benefits	203.7	258.9

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.

	31 Dec 2022	31 Dec 2021
€ mn		
Fund units	150.1	74.5
Reinsurance cover	29.6	27.2
Fair value of plan assets	179.7	101.7

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

	31 Dec 2022	31 Dec 2021
€ mn		
Interest cost on pension obligations	6.6	7.3
Income from plan assets	-58.0	0.3
Net interest expense	64.6	7.0

(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 (2021: one) subordinated liability of €80.0 million (2021: €80.0 million) with a fixed rate of 4.25% p.a., maturing on 19 February 2024.

Interest expenses for all subordinated liabilities totalled €20.5 million (2021: €27.8 million), including an amount of €9.5 million (2021: €13.0 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 for the first time with effect as at 30 April 2020 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 €21.3 million (2021: €20.1 million), including an amount of €14.8 million (2021: €13.4 million) for accrued interest payments not yet due.

(37) Equity

Equity changed as follows:

	Subscribed capital	Capital reserves	Retained earnings		Net retained profit (<i>Bilanz-gewinn</i>)	Total equity
			Legal reserve	Other retained earnings		
€ mn						
As at 1 Jan 2022	179.6	727.8	4.5	839.9	95.8	1,847.6
Capital increase	-	-	-	-	-	-
Transfer from net retained profit 2021	-	-	-	95.8	-95.8	-
Dividends distributed in 2022	-	-	-	-	-	-
Transfer from net income 2022	-	-	-	-	61.0	61.0
As at 31 Dec 2022	179.6	727.8	4.5	935.7	61.0	1,908.6

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 (2021: €179.6 million) and is divided into 59,857,221 (2021: 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 German Public Limited Companies Act (Aktiengesetz - "AktG"), to purchase and sell treasury shares for the purposes of securities trading, at a price not falling below or exceeding the average closing price of the Company's share in Xetra trading (or a comparable successor system) during the three trading days on the Frankfurt Stock Exchange prior to the relevant purchase or prior to assuming a purchase obligation by more than 10%. This authorisation expires on 26 May 2025. The volume of shares acquired for this purpose must not exceed 5% of the share capital of Aareal Bank AG at the end of any given day.

Furthermore, the Management Board was authorised by means of a resolution of the General Meeting held on 27 May 2020, pursuant to section 71 (1) no. 8 of the AktG, to purchase treasury shares in a volume of up to 10% of the share capital for any permitted purposes. This authorisation expires on 26 May 2025. Shares may be acquired via the stock exchange or by means of a public offer to buy directed at all shareholders, and at purchase prices stipulated in the authorisation and based on the prevailing market price of the Company's shares. This authorisation may be exercised – also by the direct or indirect subsidiaries of Aareal Bank AG – in full or in part, on one or more occasions.

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

The Management Board was also authorised to effect the acquisition of treasury shares by using put or call options. Any acquisition of shares using derivatives is limited to 5% of share capital. In addition, any acquisition of shares shall count towards the 10% threshold for the authorisation for the acquisition of treasury shares. Where treasury shares are acquired using equity derivatives, the

shareholders' right to enter into such derivative 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 August 2022. 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 €35,914,329 (Authorised Capital 2022) 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 August 2027. 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 10% 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 10% 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 22 May 2019. 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 10% 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 of the Company following the reduction of the existing 2019 Conditional Capital resolved upon at the 2022 Annual General Meeting, and are limited to a maximum amount of €35,914,329 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 €35,914,329 by issuance of up to 11,971,443 new no-par value bearer shares ("Conditional Capital 2019"). The conditional capital increase shall be implemented only insofar as (i) the holders of convertible bonds issued by the Company (or by an enterprise in which the Company either directly or indirectly holds a majority interest) until 21 May 2024 on the basis of the Annual General Meeting's authorisation resolution of 22 May 2019 exercise their conversion rights from these convertible bonds or (ii) the holders of convertible bonds issued by the Company (or by an enterprise in which the Company either directly or indirectly holds a majority interest) until 21 May 2024 on the basis of the Annual General Meeting's authorisation resolution of 22 May 2019, with such holders being obliged to exercise those rights, fulfil their obligation or (iii) the Company makes use of alternative performance; insofar as treasury shares are not used to service the rights or, in the aforementioned cases (i) and (ii), no cash compensation is granted. 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.

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 €5.5 million (2021: €11.5 million) are granted to domestic borrowers and €5.3 million (2021: €25.4 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 €153.4 million (2021: €214.9 million) are granted to domestic borrowers and €738.3 million (2021: €1,148.5 million) to foreign borrowers. Loan commitments to affiliated companies amount to €142.1 million (2021: €786.5 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 €28.1 million (2021: €27.1 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 €40.1 million (2021: €25.8 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 2022	31 Dec 2021
Loans and advances to banks	7,560.3	1,188.7
With a residual term of		
Payable on demand	7,250.5	1,022.0
Up to 3 months	-	-
Between 3 months and 1 year	-	-
Between 1 year and 5 years	27.4	26.5
More than five years	-	-
Pro rata interest	282.4	140.2
Loans and advances to customers	30,842.4	30,122.9
With a residual term of		
Payable on demand	10.9	493.4
Up to 3 months	417.2	819.2
Between 3 months and 1 year	5,936.1	4,275.7
Between 1 year and 5 years	20,775.4	20,739.4
More than five years	3,537.1	3,630.4
Pro rata interest	165.7	164.8
Debt and other fixed-income securities maturing in the following year (nominal amount)	-	992.5
Liabilities to banks	3,141.3	6,648.9
With a residual term of		
Payable on demand	442.4	382.2
Up to 3 months	135.3	179.8
Between 3 months and 1 year	283.8	4,142.0
Between 1 year and 5 years	1,628.7	1,553.4
More than five years	387.6	303.0
Pro rata interest	263.5	88.5
Liabilities to customers	-	-
Other deposits from customers	22,921.0	23,029.0
With a residual term of		
Payable on demand	11,057.6	10,922.2
Up to 3 months	3,823.1	3,703.8
Between 3 months and 1 year	3,045.4	2,884.9
Between 1 year and 5 years	1,693.4	1,965.0
More than five years	3,197.2	3,441.8
Pro rata interest	104.3	111.3
Bonds issued maturing in the following year (nominal amount)	407.9	2,358.5
Other certificated liabilities	-	-

(41) Shareholdings

The following disclosures are made pursuant to section 285 (1 I) of the HGB:

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank Asia Limited	Singapore	100.0	47.2 mn SGD	13.8 mn SGD ¹⁾
2	Aareal Beteiligungen AG	Frankfurt	100.0	167.0	- ³⁾
3	Aareal Capital Corporation	Wilmington	100.0	672.4 mn USD	29.9 mn USD ⁴⁾
4	Aareal Estate AG	Wiesbaden	100.0	2.9	- ³⁾
5	Aareal First Financial Solutions AG	Mainz	100.0	7.3	0.2 ³⁾
6	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	3.0	0.1 ¹⁾
7	Aareal Holding Realty LP	Wilmington	100.0	243.4 mn USD	-3.1 mn USD ⁴⁾
8	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	416.7	- ³⁾
9	Aareon AG	Mainz	58.7	146.1	-12.7 ¹⁾
10	Aareon Deutschland GmbH	Mainz	100.0	35.9	- ³⁾
11	Aareon Finland Oy	Helsinki	100.0	0.0	-0.1 ²⁾
12	Aareon France S.A.S.	Meudon-la-Forêt	100.0	14.5	4.1 ¹⁾
13	Aareon GAP Beteiligungsgesellschaft mbH	Mainz	100.0	-1.6	-1.2 ¹⁾
14	Aareon Holding France SAS	Meudon-la Forêt	100.0	0.0	0.0 ¹⁾
15	Aareon Nederland B.V.	Emmen	100.0	30.1	4.8 ¹⁾
16	Aareon Norge AS	Oslo	100.0	4.9 mn NOK	-2.2 mn NOK ¹⁾
17	Aareon Österreich GmbH	Vienna	100.0	0.4	-0.1 ¹⁾
18	Aareon SMB HUB UK Limited	Kenilworth	100.0	39.3 mn GBP	-0.2 mn GBP ¹⁾
19	Aareon Sverige AB	Mölnådal	100.0	28 mn SEK	-66.7 mn SEK ¹⁾
20	Aareon UK Ltd.	Coventry	100.0	9.6 mn GBP	-0.9 mn GBP ¹⁾
21	Alexander Quien Nova GmbH	Bremen	100.0	0.1	0.0 ²⁾
22	Arthur Online Ltd.	London	100.0	4.2 mn GBP	-1.4 mn GBP ¹⁾
23	Arthur Southeast Asia Co., Ltd.	Bangkok	100.0	6.8 mn THB	2.7 mn THB ¹⁾
24	AV Management GmbH	Mainz	100.0	0.4	- ³⁾
25	BauContact Immobilien GmbH	Wiesbaden	100.0	15.6	0.7 ¹⁾
26	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	- ³⁾
27	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	4.4	4.3 ¹⁾
28	blackprint Booster Fonds International GmbH & Co. KG	Frankfurt	49.9	0.7	0.0 ²⁾
29	BVG – Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	5.3	- ³⁾
30	CalCon Deutschland GmbH	Munich	100.0	6.5	0.8 ¹⁾
31	CalCrom S.R.L.	Iasi	83.3	0.2	0.1 ⁴⁾

¹⁾ Preliminary figures as at 31 December 2022

²⁾ Equity and results as at 31 December 2021

³⁾ Profit and loss transfer agreement / control and profit transfer agreement

⁴⁾ Disclosures in accordance with IFRSs

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
32	Cave Nuove S.p.A.	Rome	100.0	-37.5	-2.0 ⁴⁾
33	collect Artificial Intelligence GmbH	Hamburg	100.0	2.7	- ³⁾
34	CredeRate Solutions GmbH	Cologne	12.9	4.1	0.0 ²⁾
35	Cubic Eyes B.V.	Maarsen	100.0	-0.1	-0.1 ¹⁾
36	Curo Software Ltd.	Warrenpoint	100.0	0.0	0.0 ¹⁾
37	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	0.9	-2.9 ¹⁾
38	Deutsche Structured Finance GmbH	Wiesbaden	100.0	1.5	-0.5 ¹⁾
39	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Bremen	48.4	0.2	0.0 ²⁾
40	DHB Verwaltungs AG	Wiesbaden	100.0	5.1	- ³⁾
41	Ecaria GmbH	Berlin	35.9	0.2	-0.3 ¹⁾
42	FIRE B.V.	Utrecht	60.0	0.2	0.1 ¹⁾
43	Galleria City Holding Company LLC	Wilmington	95.0	150.3 mn USD	-5.9 mn USD ⁴⁾
44	Galleria City Holding Company Member 2 LLC	Wilmington	95.0	USD 0.0	USD 0.0 ⁴⁾
45	Galleria City Partners LP	Wilmington	95.0	147.5 mn USD	USD 0.0 ⁴⁾
46	Galleria Manager Realty LLC	Wilmington	100.0	USD 0.0	USD 0.0 ⁴⁾
47	GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH	Bremen	100.0	4.0	2.3 ¹⁾
48	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	3.0	- ³⁾
49	GEV Beteiligungsgesellschaft mbH	Wiesbaden	100.0	0.1	0.0 ¹⁾
50	Houses Nominee Ltd.	London	70.0	0.0	0.0 ¹⁾
51	Houses2021 MEP Beteiligungs GmbH	Frankfurt	65.6	137.9	0.0 ¹⁾
52	Houses2021 Management Beteiligungs GmbH & Co. KG	Wiesbaden	7.4	8.6	0.0 ¹⁾
53	Houses2021 MEP Verwaltungs GmbH	Frankfurt	70.0	0.2	0.0 ¹⁾
54	ImmoProConsult GmbH	Leverkusen	50.0	0.0	0.0 ¹⁾
55	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	2.6	0.0 ¹⁾
56	Izalco Spain S.L.	Madrid	100.0	10.4	0.2 ¹⁾
57	Konsortium BauGrund/TREUREAL	Bonn	50.0	0.0	0.0 ¹⁾
58	La Sessola Holding GmbH	Wiesbaden	100.0	94.9	0.0 ¹⁾
59	La Sessola S.r.l.	Rome	100.0	69.4	-6.3 ¹⁾
60	La Sessola Service S.r.l.	Rome	100.0	1.0	2.0 ¹⁾
61	Locoia GmbH	Hamburg	100.0	-0.1	0.0 ¹⁾
62	Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	- ⁴⁾

¹⁾ Preliminary figures as at 31 December 2022

²⁾ Equity and results as at 31 December 2021

³⁾ Profit and loss transfer agreement / control and profit transfer agreement

⁴⁾ Disclosures in accordance with IFRSs

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
63	Mary BidCo AB	Stockholm	100.0	83.6 mn SEK	-70.5 mn SEK ¹⁾
64	Mercadea S.r.l.	Rome	100.0	15.1	0.1 ¹⁾
65	Mirante S.r.l.	Rome	100.0	0.1	0.0 ¹⁾
66	Momentum Software AB	Stockholm	100.0	41.4 mn SEK	7.3 mn SEK ¹⁾
67	Momentum Software Group AB	Stockholm	96.3	163.9 mn SEK	-0.3 mn SEK ¹⁾
68	Mount Street Group Limited	London	20.0	-5.8 mn GBP	-2.6 mn GBP ¹⁾
69	MS Investment Management Limited	London	20.0	1.49 mn GBP	-0.8 mn GBP ¹⁾
70	Northpark Realty LP	Wilmington	100.0	92.1 mn USD	-0.2 mn USD ⁴⁾
71	objego GmbH	Essen	40.0	3.4	-4.7 ¹⁾
72	OSRE B.V.	Amsterdam	51.2	1.9	0.9 ¹⁾
73	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	3.8	- ³⁾
74	Participation Elfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	- ³⁾
75	Participation Zehnte Beteiligungs GmbH	Wiesbaden	100.0	10.6	- ³⁾
76	Participation Zwölfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	- ³⁾
77	phi-Consulting GmbH	Bochum	100.0	0.2	- ³⁾
78	plusForta GmbH	Dusseldorf	100.0	0.2	- ³⁾
79	PropTech1 Fund I GmbH & Co. KG	Berlin	9.6	50.2	-1.8 ¹⁾
80	RentPro Ltd.	Warrenpoint	100.0	0.0	0.0 ¹⁾
81	Rumpf IT-Service GmbH	Ingolstadt	100.0	0.2	0.0 ¹⁾
82	Scale Layer GmbH	Wiesbaden	100.0	0.8	0.0 ¹⁾
83	Sole Sopra Cinquina S.r.l.	Rome	100.0	7.9	0.0 ¹⁾
84	Tactile Limited	London	100.0	1.3 mn GBP	0.5 mn GBP ¹⁾
85	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	100.0	4.7	- ³⁾
86	Terrain Beteiligungen GmbH	Wiesbaden	94.0	62.7	2.2 ¹⁾
87	Tintoretto Rome S.r.l.	Rome	100.0	40.2	-1.0 ¹⁾
88	Westdeutsche Immobilien Servicing AG	Mainz	100.0	50.0	- ³⁾
89	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	0.0	0.0 ²⁾
90	wohnungshelden GmbH	Munich	100.0	0.4	0.0 ¹⁾
91	WP Galleria Realty LP	Wilmington	100.0	USD 0.0 mn	0.0 mn USD ⁴⁾

¹⁾ Preliminary figures as at 31 December 2022

²⁾ Equity and results as at 31 December 2021

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 2022	31 Dec 2021
Liabilities to banks	5,097.6	6,541.4
Liabilities to customers	6.4	40.5
Total	5,104.0	6,581.9

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 €40.8 million (2021: €35.0 million) in cash collateral has been pledged.

Assets with a carrying amount of €2,757.8 million (2021: €5,507.4 million) were pledged as collateral for targeted longer-term refinancing operations (TLTROs).

(43) Repurchase agreements

As at 31 December 2022, no bonds were used as part of repurchase agreements (2021: € –).

(44) Assets and liabilities in foreign currencies

The aggregate equivalent amount of assets denominated in foreign currencies was €18,338.7 million (2021: €17,174.7 million) at the balance sheet date, whilst liabilities totalled €2,810.3 million (2021: €3,228.0 million). Foreign currency balances are partly off-set by equivalent foreign exchange forwards and currency swaps.

(45) Forward transactions

The following forward transactions had been entered into as at 31 December 2022:

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

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 Dec 2022

	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
€ mn					
Interest rate instruments					
Interest rate swaps					
Cash inflows	257.5	974.9	2,303.2	546.4	4,082.0
Cash outflows	301.9	1,065.8	2,800.9	724.2	4,892.8
Caps, floors					
Cash inflows	6.0	50.8	84.9	0.3	142.0
Cash outflows	5.9	50.4	84.9	0.3	141.5
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	1,605.6	162.8	-	-	1,768.4
Cash outflows	1,594.3	162.8	-	-	1,757.1
Cross-currency swaps					
Cash inflows	964.8	3,713.9	11,039.1	0.0	15,717.8
Cash outflows	1,101.4	4,024.9	11,419.2	7.8	16,553.3
Total cash inflows	2,833.9	4,902.4	13,427.2	546.7	21,710.2
Total cash outflows	3,003.5	5,303.9	14,305.0	732.3	23,344.7

31 Dec 2021

	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
€ mn					
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

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 2022.

	31 Dec 2022			31 Dec 2021	
	Nominal amount	Market value		Market value	
€ mn		Positive	Negative	Positive	Negative
Interest rate instruments					
OTC products					
Interest rate swaps	64,536.0	1,439.6	2,707.0	1,015.3	1,293.1
Swaptions	0.0	-	-	-	-
Caps, floors	7,977.3	138.7	138.0	11.0	10.9
Total interest rate instruments	72,513.3	1,578.3	2,845.0	1,026.3	1,304.0
Currency-related instruments					
OTC products					
Spot and forward foreign exchange transactions	1,764.0	15.7	3.7	2.3	11.1
Cross-currency swaps	14,915.0	231.5	676.7	114.7	568.7
Total currency-related instruments	16,679.0	247.2	680.4	117.0	579.8
Total	89,192.3	1,825.5	3,525.4	1,143.3	1,883.8

The year-on-year net decrease 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:

	31 Dec 2022		31 Dec 2021	
	Market value		Market value	
€ mn	Positive	Negative	Positive	Negative
OECD public-sector authorities	-	-	-	-
OECD banks	1,820.1	3,337.4	1,072.6	1,763.1
Non-OECD banks	-	-	-	-
Companies and private individuals	5.4	188.0	70.7	120.7
Total	1,825.5	3,525.4	1,143.3	1,883.8

Other Disclosures

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

As a result of the amendment of the German Pfandbrief Act to be applied as from 8 July 2022, some of the tables were expanded or newly inserted. Prior-year figures will be given for these disclosures in the 2023 Annual Report.

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) sentence 1 nos. 1 and 3 of the PfandBG):

31 Dec 2022

	Cover assets pool	Pfandbriefe outstanding ¹⁾	Excess cover	Statutory excess cover ²⁾	Contractual excess cover ²⁾	Voluntary excess cover ²⁾
€ mn						
Nominal value	1,349.0	1,204.4	144.6	48.3	-	96.3
of which: derivatives	-	-	-	-	-	-
Present value	1,483.0	1,301.6	181.4	26.0	-	155.4
of which: derivatives	-	-	-	-	-	-
Risk-adjusted net present value³⁾	1,322.3	1,206.9	115.4	-	-	-

31 Dec 2021

Previous year figures pursuant to section 28 (5) of the PfandBG

	Cover assets pool	Pfandbriefe outstanding ¹⁾	Excess cover
€ mn			
Nominal value	1,478.4	1,393.7	84.7
of which: derivatives	-	-	-
Present value	2,017.7	1,761.5	256.2
of which: derivatives	58.7	-	-
Risk-adjusted net present value³⁾	1,871.6	1,675.4	196.2

¹⁾ Of which transferred to own holdings: €- million (2021: €- million)

²⁾ Statutory excess cover based on

- nominal amount: aggregate of nominal value of excess cover in accordance with section 4 (2) of the PfandBG and the nominal value of present-value excess cover in accordance with section 4 (1) of the PfandBG
- present value: present value of excess cover in accordance with section 4 (1) of the PfandBG

Contractual excess cover: contractually-agreed excess cover

Voluntary excess cover: residual amount, depending upon statutory and contractual excess cover; present value includes present value of nominal-value cover in accordance with section 4 (2) of the PfandBG.

³⁾ Dynamic method pursuant to section 5 of the PfandBarwertV/static method pursuant to section 6 of the PfandBarwertV

Maturity structure of outstanding public-sector Pfandbriefe and fixed-interest periods of the related cover assets (section 28 (1) sentence 1 nos. 4 and 5 of the PfandBG):

	31 Dec 2022			31 Dec 2021		
	Cover assets pool	Pfandbriefe outstanding ¹⁾	Pfandbriefe outstanding, extension of maturity (12 months) ^{1) 2)}	Cover assets pool	Pfandbriefe outstanding ¹⁾	Pfandbriefe outstanding, extension of maturity (12 months) ^{1) 2) 3)}
€ mn						
Up to 6 months	112.3	96.8	-	34.7	27.3	-
Between 6 months and 12 months	15.4	89.1	-	122.4	114.4	-
Between 12 months and 18 months	115.5	19.0	96.8	157.5	94.4	-
Between 18 months and 2 years	18.2	78.5	89.1	15.2	89.1	-
Between 2 years and 3 years	26.2	255.7	97.5	154.9	95.1	-
Between 3 years and 4 years	80.2	114.5	255.8	25.5	253.3	-
Between 4 years and 5 years	29.7	196.8	114.5	79.7	114.5	-
Between 5 years and 10 years	180.9	146.4	318.8	197.3	318.8	-
More than 10 years	770.6	207.6	231.9	691.2	286.8	-
Total	1,349.0	1,204.4	1,204.4	1,478.4	1,393.7	-

¹⁾ Of which transferred to own holdings: €- million (2021: €- million)

²⁾ Effects of an extension of maturity on the maturity structure of the Pfandbriefe/extension scenario: 12 months. This represents a very unlikely scenario which could only materialise once a cover pool administrator is appointed.

³⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

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):

	2022	2021
Amount classes		
Up to €10 million	127.2	156.3
More than €10 million and up to €100 million	460.3	414.7
More than €100 million	761.5	907.4
Total	1,349.0	1,478.4

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 Dec 2022

	Total	Guarantees due to promotion of export activities	of which owed by				of which guaranteed by			
			Sover-eigns	Public-sector entities Regional	Municipal	Other	Sover-eigns	Public-sector entities Regional	Municipal	Other
€ mn										
Countries										
Germany	1,034.0	-	-	775.3	216.0	22.0	0.1	0.7	19.9	-
Japan	20.0	-	-	-	20.0	-	-	-	-	-
Austria	275.0	-	200.0	25.0	-	-	50.0	-	-	-
Spain	20.0	-	-	20.0	-	-	-	-	-	-
Total	1,349.0	-	200.0	820.3	236.0	22.0	50.1	0.7	19.9	-

31 Dec 2021

Previous year figures pursuant to section 28 (5) of the PfandBG

	Total	Guarantees due to promotion of export activities	of which owed by				of which owed by			
			Sover-eigns	Public-sector entities Regional	Municipal	Other	Sover-eigns	Public-sector entities Regional	Municipal	Other
€ mn										
Countries										
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	-

Additional cover assets pursuant to section 28 (1) sentence 1 nos. 1, 8 and 9 of the PfandBG:

31 December 2022

	Claims pursuant to section 20 (2) sentence 1 nos. 3 a) to c)		Claims pursuant to section 20 (2) sentence 1 no. 4		Claims pursuant to section 20 (2) sentence 1 no. 2		Total
	Total	of which: covered bonds pursuant to Art. 129 of EU Regulation No. 575/2013	Total	of which: covered bonds pursuant to Art. 129 of the EU Regulation No. 575/2013	Total	of which: covered bonds pursuant to Art. 129 of the EU Regulation No. 575/2013	
€ mn							
Countries							
Germany	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

31 December 2021

Previous year figures pursuant to section 28 (5) of the PfandBG

	Equalisation claims pursuant to section 20 (2) no. 1 of the PfandBG		Money claims pursuant to section 20 (2) no. 2 of the PfandBG		Total
	Total	of which: covered bonds pursuant to Art. 129 of EU Regulation No. 75/2013	Total	of which: covered bonds pursuant to Art. 129 of EU Regulation No. 75/2013	
€ mn					
Countries					
Germany	-	-	-	-	-
Austria	-	-	-	-	-
Total	-	-	-	-	-

Additional key figures for outstanding Pfandbriefe and related cover assets:

		2022	2021
Outstanding Pfandbriefe¹⁾	€ mn	1,204.4	1,393.7
of which: share of fixed-income Pfandbriefe	%	97.9	84.0
Cover assets pool	€ mn	1,349.0	1,478.4
of which: total volume of claims pursuant to section 20 (1) and (2) of the PfandBG that exceed the limits set out in section 20 (3) of the PfandBG ²⁾	€ mn	-	-
of which: total volume of receivables above the percentage limits set out in section 20 (2) of the PfandBG	€ mn	-	-
of which: total volume of receivables above the percentage limits set out in section 20 (2) no. 3 of the PfandBG ²⁾	€ mn	-	-
of which: share of fixed-income cover assets	%	93.1	91.6
of which: share attributable to obligors for which a default is considered to have occurred in accordance with Article 178 (1) of the CRR ²⁾	€ mn	-	-

¹⁾ Of which transferred to own holdings: €- million (2021: €- million)

²⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

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

	2022	2021
Balance of assets and liabilities in € mn		
Currency		
EUR	115.4	196.2

		2022
Liquidity ratios¹⁾		
Greatest calculated negative total in the next 180 days within the meaning of section 4 (1a) sentence 3 of the PfandBG (liquidity requirements)	€ mn	-0.3
Day on which the greatest negative total is calculated	Day	2.0
Total of cover assets that meet the requirements of section 4 (1a) sentence 3 of the PfandBG (liquidity coverage)	€ mn	102.7

¹⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

		2022
Derivative ratios¹⁾		
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 1 of the PfandBG (credit quality step 3)	%	-
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 2 of the PfandBG (credit quality step 2)	%	-
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 3c of the PfandBG (credit quality step 1)	%	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 1 of the PfandBG (credit quality step 3)	%	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 2 of the PfandBG (credit quality step 2)	%	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 3c of the PfandBG (credit quality step 1)	%	-

¹⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

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 (2021: none).

Information on the extension of the Pfandbriefe's maturity¹⁾

Requirements for extending the maturity of the Pfandbriefe

The extension of the maturity is necessary in order to avoid the imminent insolvency of the Pfandbrief bank with limited business activity (avoidance of insolvency), the Pfandbrief bank with limited business activity is not overindebted (no existing overindebtedness) and there is reason to believe that the Pfandbrief bank with limited business activity will be able to meet its liabilities then due

¹⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

after the expiry of the maximum possible extension date, taking into account further possibilities for extension (positive forecast in relation to meeting its liabilities). For further information, also see section 30 (2b) of the PfandBG.

Authorisations of the cover pool administrator as regards the extension of the Pfandbriefe's maturity

The cover pool administrator may extend the maturity date of principal payments when the relevant prerequisites in accordance with section 30 (2b) of the PfandBG are met. The period of extension, which may not exceed a period of twelve months, is determined by the cover pool administrator as required.

The cover pool administrator may extend the maturity dates of interest payments falling due within one month after the appointment of the cover pool administrator to the end of that monthly period. If the cover pool administrator decides to implement such an extension, the existence of the prerequisites set out in section 30 (2b) of the PfandBG shall be irrefutably presumed. Any such extension has to be taken into account in the maximum period of extension of twelve months.

The cover pool administrator may only exercise their authority uniformly for all Pfandbriefe of an issuance. In this case, maturity dates may be extended either in full or pro rata. The cover pool administrator has to extend the maturity date of a particular Pfandbrief issue such that the original order of servicing Pfandbriefe which could be bypassed as a result of such extension is not changed (prohibition of bypassing). This may lead to the requirement to extend the maturities of issues with later maturity dates in order to comply with the prohibition of bypassing. For further information, also see section 30 (2a) and (2b) of the PfandBG.

List of International Securities Identification Numbers (ISIN) of the International Organisation for Standardisation by types of Pfandbriefe pursuant to section 28 (1) sentence 1 no. 2 of the PfandBG

Public-sector Pfandbriefe

31 Dec 2022

ISIN¹⁾
DE0002023017
DE0003153037
DE0003153078
DE0003153201
DE0003153219
DE0003153268
DE0003153276
DE0003153292
DE0003153417
DE0003153458
DE0003153532
DE0003158887
DE0003159992

¹⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

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) sentence 1 nos. 1 and 3 of the PfandBG):

31 Dec 2022

	Cover assets pool	Pfandbriefe outstanding ¹⁾	Excess cover	Statutory excess cover ²⁾	Contractual excess cover ²⁾	Voluntary excess cover ²⁾
€ mn						
Nominal value	15,172.7	13,336.9	1,835.8	563.0	-	1,272.8
of which: derivatives	-	147.9	-	-	-	-
Present value	15,146.4	12,546.8	2,599.6	250.9	-	2,348.6
of which: derivatives	-	147.9	-	-	-	-
Risk-adjusted net present value³⁾	15,202.4	13,406.7	1,795.7	-	-	-

31 Dec 2021

Previous year figures pursuant to section 28 (5) of the PfandBG

	Cover assets pool	Pfandbriefe outstanding ¹⁾	Excess cover
€ mn			
Nominal value	13,873.0	11,579.5	2,293.5
of which: derivatives	-60.3	-	-
Present value	14,471.6	12,041.6	2,700.0
of which: derivatives	-	47.3	-
Risk-adjusted net present value³⁾	14,588.6	12,395.3	2,193.3

¹⁾ Of which transferred to own holdings: €1,543.0 million (2021: €1,239.0 million)

²⁾ Statutory excess cover based on

- nominal amount: aggregate of nominal value of excess cover in accordance with section 4 (2) of the PfandBG and the nominal value of present-value excess cover in accordance with section 4 (1) of the PfandBG
- present value: present value of excess cover in accordance with section 4 (1) of the PfandBG

Contractual excess cover: contractually-agreed excess cover

Voluntary excess cover: residual amount, depending upon statutory and contractual excess cover; present value includes present value of nominal-value cover in accordance with section 4 (2) of the PfandBG.

³⁾ Dynamic method pursuant to section 5 of the PfandBarwertV/static method pursuant to section 6 of the PfandBarwertV

Maturity structure of outstanding mortgage Pfandbriefe and fixed-interest periods of the related cover assets (Section 28 (1) sentence 1 nos. 4 and 5 of the PfandBG or previous year figures pursuant to section 28 (5) of the PfandBG):

	31 Dec 2022			31 Dec 2021		
	Cover assets pool	Pfandbriefe outstanding ¹⁾	Pfandbriefe outstanding, extension of maturity (12 months) ^{1) 2)}	Cover assets pool	Pfandbriefe outstanding ¹⁾	Pfandbriefe outstanding, extension of maturity (12 months) ^{1) 2) 3)}
€ mn						
Up to 6 months	1,181.6	1,212.9	-	1,209.4	995.6	-
Between 6 months and 12 months	1,690.7	735.1	-	1,238.9	881.8	-
Between 12 months and 18 months	1,410.3	873.2	1,212.9	1,246.1	1,065.0	-
Between 18 months and 2 years	1,158.6	736.0	735.1	1,706.8	733.1	-
Between 2 years and 3 years	3,239.1	2,188.0	1,609.2	2,220.0	1,444.4	-
Between 3 years and 4 years	3,170.7	1,021.8	2,188.0	2,607.3	2,090.5	-
Between 4 years and 5 years	1,639.1	1,576.8	1,021.8	1,974.4	979.7	-
Between 5 years and 10 years	1,518.0	4,823.1	6,313.9	1,661.1	3,283.4	-
More than 10 years	164.6	170.0	256.0	9.0	106.0	-
Total	15,172.7	13,336.9	13,336.9	13,873.0	11,579.5	-

¹⁾ Of which transferred to own holdings: €1,543.0 million (2021: €1,239.0 million)

²⁾ Effects of an extension of maturity on the maturity structure of the Pfandbriefe/extension scenario: 12 months. This represents a very unlikely scenario which could only materialise once a cover pool administrator is appointed.

³⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

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

	2022	2021
€ mn		
Amount classes		
Up to € 300 thousand €	145.6	181.6
Between € 300 thousand and € 1 million	37.6	44.9
Between € 1 million and € 10 million	340.6	386.4
More than € 10 million	13,534.2	12,170.4
Total	14,058.0	12,783.3

Additional cover assets pursuant to section 28 (1) sentence 1 nos. 8, 9 and 10 of the PfandBG:

31 Dec 2022

	Total	Claims pursuant to section 19 (1) sentence 1 nos. 2a) and b) of the PfandBG		Claims pursuant to section 19 (1) sentence 1 nos. 3 a) to c) of the PfandBG		Claims pursuant to section 19 (1) sentence 1 no. 4 of the PfandBG
		Total	of which: covered bonds pursuant to Art. 129 of EU Regulation No. 575/2013	Total	of which: covered bonds pursuant to Art. 129 of the EU Regulation No. 575/2013	
€ mn						
Countries						
Denmark	35.0	-	-	-	-	35.0
Germany	775.2	-	-	-	-	775.2
EU institutions	211.5	-	-	-	-	211.5
France	18.0	-	-	-	-	18.0
Spain	75.0	-	-	-	-	75.0
Total	1,114.7	-	-	-	-	1,114.7

31 Dec 2021

Previous year figures pursuant to section 28 (5) of the PfandBG

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

Additional key figures for outstanding Pfandbriefe and related cover assets:

		2022	2021
Outstanding Pfandbriefe¹⁾	€ mn	13,336.9	11,579.5
of which: share of fixed-income Pfandbriefe	%	74.1	78.3
Cover assets pool	€ mn	15,172.7	13,873.0
of which: total volume of receivables above the limits set out in section 13 (1) of the PfandBG	€ mn	-	-
of which: total volume of values above the limits set out in section 19 (1) sentence 7 of the PfandBG ²⁾	€ 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: total volume of receivables above ²⁾ the percentages set out in section 19 (1) no. 4 of the PfandBG	€ mn	-	-
of which: share of fixed-income cover assets	%	50.5	52.8
of which: share attributable to obligors for which a default is considered to have occurred in accordance with Article 178 (1) of the CRR ²⁾	%	0.0	-
Volume-weighted average age of receivables (seasoning)	Years	4.6	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	%	32.0	33.4

¹⁾ Of which transferred to own holdings: €1,543.0 million (2021: €1,239.0 million)

²⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

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

	2022	2021
Balance of assets and liabilities in € mn		
Currency		
AUD	61.9	130.2
CAD	66.8	183.2
CHF	67.0	68.5
DKK	50.3	37.7
EUR	202.3	823.1
GBP	492.1	142.2
SEK	87.8	84.1
USD	1,175.5	1,076.8

		2022
Liquidity ratios¹⁾		
Greatest calculated negative total in the next 180 days within the meaning of section 4 (1a) sentence 3 of the PfandBG (liquidity requirements)	€ mn	763.1
Day on which the greatest negative total is calculated	Day	51.0
Total of cover assets that meet the requirements of section 4 (1a) sentence 3 of the PfandBG (liquidity coverage)	€ mn	972.6

¹⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

		2022
Derivative ratios¹⁾		
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 1 of the PfandBG (credit quality step 3)	%	-
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 2 of the PfandBG (credit quality step 2)	%	-
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 3c of the PfandBG (credit quality step 1)	%	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 1 of the PfandBG (credit quality step 3)	%	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 2 of the PfandBG (credit quality step 2)	%	1.1
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 3c of the PfandBG (credit quality step 1)	%	0.0

¹⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

Information on the extension of the Pfandbriefe's maturity¹⁾

Requirements for extending the maturity of the Pfandbriefe

The extension of the maturity is necessary in order to avoid the imminent insolvency of the Pfandbrief bank with limited business activity (avoidance of insolvency), the Pfandbrief bank with limited business activity is not overindebted (no existing overindebtedness) and there is reason to believe that the Pfandbrief bank with limited business activity will be able to meet its liabilities then due after the expiry of the maximum possible extension date, taking into account further possibilities for extension (positive forecast in relation to meeting its liabilities). For further information, also see section 30 (2b) of the PfandBG.

Authorisations of the cover pool administrator as regards the extension of the Pfandbriefe's maturity

The cover pool administrator may extend the maturity date of principal payments when the relevant prerequisites in accordance with section 30 (2b) of the PfandBG are met. The period of extension, which may not exceed a period of twelve months, is determined by the cover pool administrator as required.

¹⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

The cover pool administrator may extend the maturity dates of interest payments falling due within one month after the appointment of the cover pool administrator to the end of that monthly period. If the cover pool administrator decides to implement such an extension, the existence of the prerequisites set out in section 30 (2b) of the PfandBG shall be irrefutably presumed. Any such extension has to be taken into account in the maximum period of extension of twelve months.

The cover pool administrator may only exercise their authority uniformly for all Pfandbriefe of an issuance. In this case, maturity dates may be extended either in full or pro rata. The cover pool administrator has to extend the maturity date of a particular Pfandbrief issue such that the original order of servicing Pfandbriefe which could be bypassed as a result of such extension is not changed (prohibition of bypassing). This may lead to the requirement to extend the maturities of issues with later maturity dates in order to comply with the prohibition of bypassing. For further information, also see section 30 (2a) and (2b) of the PfandBG.

List of International Securities Identification Numbers (ISIN) of the International Organisation for Standardisation by types of Pfandbriefe pursuant to section 28 (1) sentence 1 no. 2 of the PfandBG

Mortgage Pfandbriefe

ISIN ¹⁾			
DE0002020013	DE0003150496	DE000A1CR5Q6	DE000A2E4DC0
DE0002020021	DE0003150512	DE000A1E88F4	DE000AAR0207
DE0002020047	DE0003150520	DE000A1RE4S3	DE000AAR0215
DE0002020138	DE0003150538	DE000A1TND C9	DE000AAR0223
DE0002020211	DE0003150561	DE000A1TNDH8	DE000AAR0231
DE0003150074	DE0003150579	DE000A1TNDP1	DE000AAR0249
DE0003150165	DE0003150587	DE000A1TNDX5	DE000AAR0256
DE0003150173	DE0003150595	DE000A289L62	DE000AAR0272
DE0003150181	DE0003150611	DE000A289L70	DE000AAR0280
DE0003150199	DE0003150629	DE000A289L96	DE000AAR0306
DE0003150207	DE0003150645	DE000A289MA4	DE000AAR0314
DE0003150231	DE0003150652	DE000A289MB2	DE000AAR0330
DE0003150256	DE0003150678	DE000A289MC0	DE000AAR0348
DE0003150363	DE0003150686	DE000A289MD8	DE000AAR0363
DE0003150389	DE0003150694	DE000A289MG1	DE000DUS20G4
DE0003150405	DE0003150728	DE000A289MH9	XS0897426416
DE0003150421	DE0003150744	DE000A2E4C43	XS0996189659
DE0003150439	DE0003150850	DE000A2E4C76	XS1046548787
DE0003150447	DE0003150918	DE000A2E4CE8	XS1092160461
DE0003150462	DE0003151684	DE000A2E4CT6	XS1101800396
DE0003150470	DE000A12T7Q5	DE000A2E4CU4	XS2297684842
DE0003150488	DE000A12T7R3	DE000A2E4DA4	XS2337339977

¹⁾ The previous year's figures will be first disclosed as from Q3 2023 in accordance with section 55 of the PfandBG.

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 2022

	Commercial property						Residential property					Total cover assets pool		
	Building plots only	New buildings not yet yielding returns	Office buildings	Retail	Industrial	Other	Total	Building plots only	New buildings not yet yielding returns	Condo-miniums	One- and two-family homes		Multi-family homes	Total
€ mn														
Australia	-	-	-	-	43.6	64.2	107.8	-	-	-	-	75.9	75.9	183.7
Belgium	-	-	87.2	66.5	10.0	58.0	221.7	-	-	-	-	-	-	221.7
Denmark	-	-	-	-	-	47.1	47.1	-	-	-	-	-	-	47.1
Germany	-	-	209.9	321.1	320.8	251.3	1,103.1	-	-	-	102.1	397.1	499.2	1,602.3
Estonia	-	-	-	18.7	-	-	18.7	-	-	-	-	-	-	18.7
Finland	-	-	74.3	184.7	35.3	-	294.3	-	-	-	-	-	-	294.3
France	-	-	958.8	188.8	178.1	189.6	1,515.3	-	-	-	-	9.9	9.9	1,525.2
UK	-	-	371.5	334.1	388.4	770.2	1,864.2	-	-	-	-	245.7	245.7	2,109.9
Italy	-	-	67.8	383.4	30.6	61.5	543.3	-	-	-	-	-	-	543.3
Canada	-	-	-	-	-	344.0	344.0	-	-	-	-	-	-	344.0
Luxembourg	-	-	47.0	-	-	4.5	51.5	-	-	-	-	-	-	51.5
Netherlands	-	-	3.8	-	168.3	492.5	664.6	-	-	-	-	-	-	664.6
Austria	-	22.7	-	119.7	8.0	14.7	165.1	-	-	-	-	-	-	165.1
Poland	-	-	102.0	154.2	495.4	-	751.6	-	-	-	-	-	-	751.6
Sweden	-	-	188.1	137.2	165.5	-	490.8	-	-	-	-	-	-	490.8
Switzerland	-	-	-	-	-	223.8	223.8	-	-	-	-	-	-	223.8
Spain	-	-	61.8	702.6	132.2	48.5	945.1	-	-	-	-	-	-	945.1
Czech Republic	-	-	-	-	82.6	10.2	92.8	-	-	-	-	-	-	92.8
US	-	-	2,345.8	353.5	50.1	946.4	3,695.8	-	-	-	-	86.7	86.7	3,782.5
Total	-	22.7	4,518.0	2,964.5	2,108.9	3,526.5	13,140.6	-	-	-	102.1	815.3	917.4	14,058.0

31 Dec 2021

Previous year figures pursuant to section 28 (5) of the PfandBG

€ mn	Commercial property						Residential property					Total cover assets pool		
	Build- ing plots only	New build- ings not yet yielding returns	Office buildings	Retail	Industrial	Other	Total	Build- ing plots only	New build- ings not yet yielding returns	Con- do- min- iums	One- and two- family homes		Multi- family homes	Total
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
US	-	-	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

Arrears from mortgage loans used to cover mortgage Pfandbriefe (section 28 (2) sentence 1 no. 2 of the PfandBG)

€ mn	2022		2021	
	Aggregate payments which are at least 90 days overdue	Total volume of these receivables, to the extent that the relevant amount overdue is not less than 5% of the receivable	Aggregate payments which are at least 90 days overdue	Total volume of these receivables, to the extent that the relevant amount overdue is not less than 5% of the receivable
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 (2021: none).

Additional disclosures on mortgage receivables (section 28 (2), sentence 1 no. 5 of the PfandBG):

		2022		2021	
		Commercial property	Residential property	Commercial property	Residential property
Forced sales pending	Number	-	5	-	23
of which forced administrations pending	Number	-	-	-	2
Forced administrations pending	Number	-	-	-	-
Forced sales executed	Number	-	7	-	13
Purchases of properties to prevent losses (foreclosed assets)	Number	-	-	-	-
Total amount of arrears on interest payable	€ mn	1.6	0.1	1.5	0.4

(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

Aareon launched an early retirement programme in early February 2023; its financial effects are estimated at around €17 million and count towards the total efficiency enhancement investment budget of around €35 million.

There were no other 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 2022, the Management Board's total remuneration, excluding benefits from pension commitments, amounted to €8.3 million (2021: €9.2 million), of which €4.2 million (2021: €4.4 million) referred to variable components.

Benefit payments to former Management Board members, including those retired from the Board during the year under review and their respective surviving dependants, totalled €2.1 million in 2022 (2021: €8.4 million).

The amount of pension obligations to active and former members of the Management Board was €58.9 million as at 31 December 2022 (2021: €58.1 million). Of that amount, €8.3 million (2021: €8.7 million) related to members of the Management Board active at the end of the financial year and €50.6 million to former members of the Management Board, including those retired from the Board during the year under review, and their surviving dependants (2021: €49.4 million).

The total remuneration of members of the Supervisory Board for the financial year 2022 amounted to €1.9 million (2021: €1.9 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:

	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Yearly average		
Salaried employees	914	897
Executives	32	33
Total	946	930
of which: part-time employees	168	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 until the possible closing of the takeover offer by Atlantic BidCo GmbH.

As at 31 December 2022, we were aware of the following shareholders holding a share in the voting rights of at least 3% pursuant to section 33 (1) and section 34 of the WpHG:

	Location	Voting rights from shares	Threshold reached on (according to notification)
Responsible entity			
Deka Investment GmbH	Frankfurt	9.60%	22 May 2018
Daniel Křetínský (Vesa Equity Investment S.à r.l.)		7.80%	10 November 2021
Atlantic Lux HoldCo S.à r.l.	Luxembourg	7.46%	30 December 2022
VBL ¹⁾	Karlsruhe	6.50%	3 February 2015
Igor Kuzniar (Teleios Capital Partners LLC; Teleios Global Opportunities Master Fund, Ltd.)		5.06%	23 April 2020
JPMorgan Chase & Co.	Wilmington, Delaware	5.02%	12 August 2022
Morgan Stanley	Wilmington, Delaware	5.01%	19 December 2022
Dimensional Holdings Inc.	Austin, Texas	4.13%	19 January 2022
Talomon Capital Limited	London	3.25%	2 February 2022
Duke University	Durham, North Carolina	3.12%	9 May 2022

¹⁾ Shares are managed by Deka and are therefore included in Deka's holding.

(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

Consistent with its strategy, Aareal Bank does not plan to distribute dividends in 2023 for the 2022 financial year.

The Management Board proposes to the Annual General Meeting that the net retained profit of €61,054,365.42 for the 2022 financial year, as reported under the German Commercial Code (HGB), be carried forward.

(55) Executive Bodies of Aareal Bank AG

The members of the Management Board and the Supervisory Board disclose their offices held, in accordance with the requirements set out in section 285 no. 10 of the HGB in conjunction with section 125 (1) sentence 5 of the AktG.

Composition of Supervisory Board's committees

Executive and Nomination Committee

Prof. Dr Hermann Wagner	Chairman
Barbara Knoflach	Deputy Chairwoman
Hans-Hermann Lotter	
Marika Lulay	
Klaus Novatius	
José Sevilla Álvarez	

Audit Committee

Prof. Dr Hermann Wagner	Chairman
José Sevilla Álvarez	Deputy Chairman
Henning Giesecke	
Petra Heinemann-Specht	
Hans-Hermann Lotter	
Sylvia Seignette	

Risk Committee

Sylvia Seignette	Chairwoman
Denis Hall	Deputy Chairman
Henning Giesecke	
Petra Heinemann-Specht	
Barbara Knoflach	
Prof. Dr Hermann Wagner	

Remuneration Control Committee

Prof. Dr Hermann Wagner	Chairman
Hans-Hermann Lotter	Deputy Chairman
Henning Giesecke	
Denis Hall	
Petra Heinemann-Specht	
Klaus Novatius	

Technology and Innovation Committee

Marika Lulay	Chairwoman
Barbara Knoflach	Deputy Chairwoman
Denis Hall	
Thomas Hawel	
Jan Lehmann	
José Sevilla Álvarez	

Supervisory Board

Prof. Dr Hermann Wagner, Chairman of the Supervisory Board

German Chartered Accountant, tax consultant

(Membership in other statutory supervisory boards)

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

Henning Giesecke

since 31 August 2022

Former Chief Risk Officer of UniCredit S.p.A. and UniCredit Bank AG

(Membership in other statutory supervisory boards)

Linde+Wiemann Holding SE	Deputy Chairman of the Supervisory Board
The Social Chain AG	Deputy Chairman of the Supervisory Board
The Social Chain Group AG (subsidiary of The Social Chain AG)	Deputy Chairman of the Supervisory Board until 31 December 2022

(Membership on comparable German and foreign supervisory bodies)

Erste Abwicklungsanstalt AöR	Member of the Board of Directors
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Denis Hall

Former Chief Risk Officer Global Consumer Banking of GE Capital EMEA

(Membership on comparable German and foreign supervisory bodies)

Auxmoney Europe Holding Ltd.	Member of the Board of Directors
Moneta Money Bank A.S.	Member of the Supervisory Board
Skipton Building Society	Member of the Board of Directors

Thomas Hawel*

Aareon Deutschland GmbH

(Membership in other statutory supervisory boards)

Aareon Deutschland GmbH (Aareal Bank Group)	Deputy Chairman of the Supervisory Board
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Petra Heinemann-Specht*

Aareal Bank AG

Barbara Knoflach, Deputy Chairwoman of the Supervisory Board

since 31 August 2022

Former Global Head der BNP Paribas Real Estate Investment Management and Deputy Chief Executive Officer of BNP Paribas Real Estate S.A.

(Membership in other statutory supervisory boards)

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

(Membership on comparable German and foreign supervisory bodies)

CTP N.V.	Chairwoman of the Board of Directors
Swiss Prime Site AG	Member of the Board of Directors

Jan Lehmann*

Aareon Deutschland GmbH

(Membership in other statutory supervisory boards)

Aareon Deutschland GmbH (Aareal Bank Group)	Member of the Supervisory Board
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Hans-Hermann Lotter

since 31 August 2022

Self-employed consultant for private equity investments, mergers, takeovers and restructurings, and Managing Director of Atlantic BidCo GmbH

(Membership in other statutory supervisory boards)

Hermes Germany GmbH	Member of the Supervisory Board
TK Elevator GmbH	Chairman of the Supervisory Board

(Membership on comparable German and foreign supervisory bodies)

Vertical Topco S.à. r.l. (subsidiary of TK Elevator GmbH)	Member of the Board of Directors
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Marika Lulay, Chairwoman of the Technology and Innovation Committee

since 31 August 2022

Chief Executive Officer and Managing Director of GFT Technologies SE

(Membership in other statutory supervisory boards)

EnBW AG	Member of the Supervisory Board
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(Membership on comparable German and foreign supervisory bodies)

GFT Technologies SE	Member of the Board of Directors
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Klaus Novatius*, Deputy Chairman of the Supervisory Board

Aareal Bank AG

Sylvia Seignette, Chairwoman of the Risk Committee

Former CEO for Germany and Austria, Crédit Agricole CIB (formerly Calyon)

José Sevilla Álvarez

since 31 August 2022

Former Chief Executive Officer of Bankia S.A.

(Membership on comparable German and foreign supervisory bodies)

Renta 4 Banco S.A.	Member of the Board of Directors
Teide Ltd.	Member of the Board of Directors

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

Retired members

Richard Peters, Deputy Chairman of the Supervisory Board	until 31 August 2022
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder	

Jana Brendel	until 31 August 2022
Chief Information Officer Group Services of ING Groep N.V.	

(Membership in other statutory supervisory boards)

IQ-optimize Software AG (subsidiary of 1&1 Drillisch AG)	Chairwoman of the Supervisory Board
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Holger Giese	14 January 2022 to 31 August 2022
Lawyer, former General Counsel Private Bank Germany at Deutsche Bank AG	

(Membership in other statutory supervisory boards)

Bitcoin Group SE	Member of the Supervisory Board	since 1 July 2022
Futurum Bank AG (subsidiary of Bitcoin Group SE)	Member of the Supervisory Board	since 1 July 2022

Friedrich Munsberg	14 January 2022 to 31 August 2022
Former Managing Director of KOFIBA Kommunalfinanzierungsbank GmbH (formerly Dexia Kommunalbank Deutschland AG)	

Elisabeth Stheeman	until 31 August 2022
External Member of the Financial Policy Committee and of the Financial Market Infrastructure Board, Bank of England	

(Membership in other statutory supervisory boards)

alstria office REIT-AG	Member of the Supervisory Board
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(Membership on comparable German and foreign supervisory bodies)

Edinburgh Investment Trust Plc	Member of the Board of Directors
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Dr Ulrich Theileis	14 January 2022 to 31 August 2022
Partner and Chief Operating Officer, Audit & Assurance, Deloitte GmbH Wirtschaftsprüfungsgesellschaft	

(Membership on comparable German and foreign supervisory bodies)

Sächsische Aufbaubank	Member of the Board of Directors
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Management Board

Jochen Klösger, Chairman of the Management Board (CEO)

Banking & Digital Solutions, Corporate Affairs, Group Audit, Group Communications & Governmental Affairs, Group Human Resources & Infrastructure, Group Strategy, Group Technology

(Membership in other statutory supervisory boards)

Aareon AG (Aareal Bank Group)	Chairman of the Supervisory Board
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(Membership on comparable German and foreign supervisory bodies)

Oest-Stiftung (Oest Group)	Member of the foundation and administrative board
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Nina Babic, Member of the Management Board (CRO)

since 1 July 2022

Credit Risk, Credit & Transaction Management, Information Security & Data Protection, Non-Financial Risks including Compliance, Regulatory Affairs, Risk Controlling, USA-Credit Management, Valuation & Research, Workout / Non Core Assets

(Membership in other statutory supervisory boards)

Aareal Estate AG (Aareal Bank Group)	Deputy Chair of the Supervisory Board
HypZert GmbH	Deputy Chair of the Supervisory Board
Terrain-AG Herzogenpark (Aareal Bank Group)	Chairwoman of the Supervisory Board

(Membership on comparable German and foreign supervisory bodies)

Aareal Capital Corporation (Aareal Bank Group)	Member of the Board of Directors
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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)	Chairman of the Supervisory Board	since 23 March 2022
	Member of the Supervisory Board	until 23 March 2022
Aareon AG (Aareal Bank Group)	Member of the Supervisory Board	

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 I and II, Strategy & Business Development, USA Origination

(Membership in other statutory supervisory boards)

Aareal Estate AG (Aareal Bank Group)	Chairman of the Supervisory Board
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(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

Retired members

Christiane Kunisch-Wolff, Member of the Management Board (CRO)

until 30 June 2022

Wiesbaden, 6 March 2023

The Management Board



Jochen Klösges



Nina Babic



Marc Hess



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 2022, and the income statement for the financial year from 1 January to 31 December 2022, 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 2022.

In accordance with the German statutory requirements we did not audit the contents 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 the requirements of German law, we did not audit the contents 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 2022 and its financial performance for the financial year from 1 January to 31 December 2022 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 contents 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 2022. 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 2022 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 as well as land for project developments of these property types.

At each reporting date, 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.

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 check the plausibility of 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.

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

Aareal Bank AG 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 macro-economic 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. As at 31 December 2022, Aareal Bank AG recognized material specific valuation allowances for an exposure to finance two office properties in Moscow, Russia. We refer to our reporting in Section 5.1.

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 macro-economic 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 contents 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 macro-economic situation used by Aareal Bank AG.

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.

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 macro-economic 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 and the references not required by law named in the notes to the audit opinion and information relating to the references.

Other information also comprises the annual report which we expect to be provided after the date of this auditor's 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 work we have performed before on the basis of the other information obtained before the date of this auditor's report, 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 (i.e., fraudulent financial reporting and misappropriation of assets) 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 the risk of not detecting a material misstatement 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 actions taken to eliminate dangers to independence or safeguards put in place to protect against this. 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-2022-12-31.zip" (SHA hash value f9a1628290b8bbd61adaf4ceacc52837a71ae44c314c8349-a8ce7ffecb09d1a2) 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 2022 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 (06.2022)). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management I: 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 31 August 2022 as auditor of the annual financial statements. We were engaged by the Supervisory Board on 1 September 2022. 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 company register – 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, 8 March 2023

KPMG AG

Wirtschaftsprüfungsgesellschaft

(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,
- the separate combined non-financial report referred to in the management report and
- the information on regulatory indicators pursuant to Basel IV (phase-in).

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, 6 March 2023

The Management Board



Jochen Klösger



Nina Babic



Marc Hess



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 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 awarded the "Logib-D tested" certificate several times.

	Men			Women			Total
	Part time	Full time	Total	Part time	Full time	Total	
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
Ø 2022	32.40	479.60	512.00	135.30	239.90	375.20	887.20

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Financial Calendar

11 May 2023	Publication of results as at 31 March 2023
10 August 2023	Publication of results as at 30 June 2023
9 November 2023	Publication of results as at 30 September 2023



● **Structured Property Financing**

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

● **Banking & Digital Solutions**

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**

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

Imprint

Inhalt:

Aareal Bank AG, Group Communications

Layout/Design:

S/COMPANY · Die Markenagentur GmbH, Fulda

This report is also available in German language.



Aareal Bank

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