Annual Report 2023
Aareal Bank Group

Aareal
YOUR COMPETITIVE ADVANTAGE.

Key Indicators

	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Results		
Operating profit (€ mn)	149	239
Consolidated net income (€ mn)	48	153
Consolidated net income allocated to ordinary shareholders (€ mn) [1]	42	138
Cost/income Ratio (%) [2]	31.7	40.3
Dividend per share (€) [3]	–	–
Earnings per ordinary share (€) [1]	0.69	2.32
RoE before taxes (%) [1]	5.0	7.9
RoE after taxes (%) [1]	1.4	5.0

	31 Dec 2023	31 Dec 2022
Statement of financial position		
Property finance (€ mn)	32,876	30,901
Equity (€ mn)	3,300	3,258
Total assets (€ mn)	46,833	47,331
Regulatory indicators [4]		
Basel IV (phase-in)		
Risk-weighted assets (€ mn)	13,720	12,782
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.4	19.3
Tier 1 ratio (T1 ratio) (%)	21.6	21.7
Total capital ratio (TC ratio) (%)	23.5	24.0
Basel III		
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.4	19.3
Employees	3,463	3,316

	31 Dec 2023	31 Dec 2022
Moody's		
Issuer rating	A3	A3
Senior Preferred	A3	–
Bank deposit rating	A3	A3
Outlook	negative	negative
Mortgage Pfandbrief Rating	Aaa	Aaa
Fitch Ratings [5]		
Issuer default rating	BBB	BBB+
Senior Preferred	BBB+	A-
Senior Non Preferred	BBB	BBB+
Deposit ratings	BBB+	A-
Outlook	stable	negative
ESG Ratings [6]		
MSCI	AA	AA
ISS-ESG	prime (C)	prime (C+)
CDP	Management Level B	Awareness Level B

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

[2] Structured Property Financing and Banking & Digital Solutions segments: in line with common practice in the banking sector, bank levy and contributions to the deposit guarantee scheme are not included.

[3] There are no plans to pay out any profits for 2023 in 2024, in line with the strategy for 2024. On 10 August 2023, the Annual General Meeting had resolved not to distribute any dividends for the 2022 financial year.

[4] 31 December 2022: including originally proposed dividend of € 1.60 per share in 2022 and pro rata temporis accrual of interest on the AT1 bond, excluding profits for 2022 under commercial law.
31 December 2023: including profits for 2023 and pro rata temporis accrual of interest on the AT1 bond, given that there are no plans to pay out profits for 2023 in 2024.
The appropriation of profits is subject to approval by the Annual General Meeting. The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of new NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.
Adjusted total risk exposure amount (in accordance with Article 3 CRR – RWAs), in accordance with currently applicable law (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 (CRR III). 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).

[5] The ratings as at 31 December 2023 incorporate the most recent rating action on 14 February 2024

[6] Please refer to our website (www.aareal-bank.com/en/responsibility/reporting-on-our-progress/) for more details.

Contents

To our Shareholders

Group Management Report

Consolidated Financial Statements

Independent Auditor's Report

Responsibility Statement

Transparency

To our Shareholders

Letter from the Chairman of the Management Board

from left:

Marc Hess
Member of the Management Board

Nina Babic
Member of the Management Board

Jochen Klösges
Chairman of the Management Board

Christof Winkelmann
Member of the Management Board

Dear shareholders,
business associates and staff members,

In this Annual Report 2023 we look back on a truly challenging year that was shaped by multiple political crises, combined with economic uncertainty. Yet at the same time, the year under review – during which our Company celebrated its centenary – saw key decisions to ensure a sustainably successful future. The majority takeover by Atlantic BidCo GmbH, which was closed in May last year, has opened up a new chapter in our corporate history.

With the support of our investors, implementation of our strategy will continue, realising further potential across all segments of Aareal Bank Group. A stable investor base holds considerable advantages in times of economic turbulence. During a year that was sometimes extremely challenging in commercial property finance, we focused on risk management, on actively managing our credit portfolios, and on investing in our future viability – in order to further strengthen the Group's substance. To this end, we consciously accepted considerable extra charges on our annual results.

The downturn in the US office property market turned out to be especially demanding during the year under review: this was due in particular to a combination of working from home, soaring interest rates as well as an overhang in capacity which was already present. Including valuation adjustments in the net result from financial instruments (fvpl), the Bank booked aggregate loss allowance of € 510 million for the year as a whole, of which € 360 million was attributable to US office properties. Besides expenses for the reduction of legacy exposures, the total sum also includes loss allowance booked in the fourth quarter of 2023, which we set aside as a basis for restructuring non-performing loans in 2024. In this way, we want to reduce our NPL portfolio related to US office properties by around half a billion euros by the end of the first quarter.

Aareal Bank was able to compensate for the substantial loss allowance through its very dynamic income performance. Income rose by 31 per cent in 2023, to a record level of just under € 1.3 billion, with € 350 million (up 32 per cent) generated in the fourth quarter.

We also continue to have costs fully under control: our cost/income ratio stands at 32 per cent, which is excellent by comparison with our peers. Despite the considerable headwinds in the US market and the conscious investment in the reduction of non-performing loans, the Bank generated operating profit of € 221 million – only marginally below the previous year's level and original projections. This is evidence of the Bank's strong operating profitability and resilience. On top of this, our Common Equity Tier 1 ratio continued to rise slightly to 19.4 per cent, despite portfolio growth.

The full assessment of 2023 also includes substantial investments into Aareon totalling around € 100 million, a good € 60 million more than originally planned. We have deployed these funds to optimise our software subsidiary's product range, to invest in sales and processes, and also to conduct efficiency enhancements.

Aareon has continued to perform very well indeed in its operating business, with sales revenues up 12 per cent to € 344 million. Adjusted EBITDA, the key earnings indicator for high-growth IT companies, increased by 33 per cent to € 100 million last year; accordingly, its EBITDA margin climbed from 25 to 29 per cent. This has enabled us to evolve Aareon into a "Rule of 40" company, faster than originally planned. This key performance indicator for software companies means that the percentage sum of Aareon's EBITDA margin and revenue growth exceeds 40. Aareon has now passed this threshold.

Moreover, we succeeded in refinancing our subsidiary through external finance providers: the facility provided by Aareal Bank to Aareon was replaced with external long-term debt, and we strengthened Aareon's capitalisation via a capital increase. These facts tell us that Aareon is ready for the capital markets – sooner than planned.

One of the things we want to do in future is to exploit further growth potential by strengthening the partnership between the Bank and Aareon over the long term. We have placed cooperation between both these parts of the Company on a new footing via First Financial, which is at the heart of a new joint venture between Aareon and Aareal Bank. Together, the Bank and Aareon will offer even better solutions for the housing and commercial property industries in Germany and Europe, and realise significant efficiency potential for our clients.

To summarise: we made substantial investments in the substance of the Group during the financial year under review and absorbed significant charges in the US. Nonetheless, thanks to our strong operating performance, we achieved a respectable consolidated operating profit of € 149 million – proving our ability to actively and successfully manage the current challenges.

We are pursuing long-term goals and are continuously working on improving our business models. We are convinced that the investments of recent years will indeed pay off.

What does that mean for the 2024 financial year? The environment is likely to remain challenging for the time being, with no respite envisaged for the US office property market over the short term. Nonetheless, we are determined to exploit the opportunities which arise on many of the markets we cover, even in the current environment. In the Bank, we want to expand our credit portfolio to between € 33 billion and € 34 billion. To achieve this target, we envisage new business in a range between € 8 billion and € 9 billion, slightly below the previous year's figure. We continue to expect a stable volume of deposits from the housing industry of around € 13 billion.

All in all, the Bank is set to increase operating profit to between €250 million and €300 million, despite loss allowance projected to remain at above-average levels. As a key factor, our markedly increased profitability will continue to compensate for the temporary charges that keep arising from the cyclical property financing business.

Aareon is also expected to continue growing. We anticipate a marked increase in sales revenues to between € 440 million and € 460 million, with a significant rise in adjusted EBITDA to between € 160 million and € 170 million. Following the previous year's negative contribution to results reflecting high levels of investment, we anticipate a contribution to consolidated operating profit of around € 50 million in 2024.

For Aareal Bank Group's consolidated operating profit this means an overall increase to between €300 million and € 350 million for the current financial year, more than double the previous year's figure.

We will continue to keep you informed about our business development with the usual frequency, despite the fact that our shares were delisted from the Regulated Market of the Frankfurt Stock Exchange on 21 November 2023. Transparency remains a high priority for us, especially in these turbulent times! We will remain a reliable partner for all our stakeholders in the future, and we should be delighted if you continue to accompany us on this journey.

Yours sincerely,

Jochen Klösges,
Chairman of the Management Board

Group Management Report

Group Management Report

Fundamental Information about the Group

Business model

Aareal Bank AG, headquartered in Wiesbaden, Germany, is the parent company of the Group. 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 structured 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.

The Bank combines its local market expertise with sector-specific expertise provided by sector experts in Wiesbaden. The sector expert teams cover hotel, retail, and logistics property financing, and cater to the specific needs of investment fund clients. A new "Alternative Living" expert team that was established in 2023 deals with modern housing concepts such as co-living or student housing.

In addition to the sector specialists in Wiesbaden, our network continues to comprise branch offices in Paris, Rome, London, Stockholm and Warsaw. Aareal Bank also has a branch office in Dublin, where it exclusively conducts Treasury business and holds securities. Besides a representative office in Istanbul, representative offices were located in Madrid (until 31 July 2023) and Moscow (until 30 November 2023).

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" Pfandbrief rating confirms the quality of the cover assets pools. To cater to a broad investor base, Aareal Bank uses a wide range of other funding instruments, including senior preferred and senior non-preferred bonds, as well as other promissory notes and debt securities. Depending on market conditions and investor demand, the Bank places large-sized public issues or private placements. In the Banking & Digital Solutions segment, the Bank also generates deposits from the housing industry, which represent a strategically important additional source of funding. Furthermore, it has recourse to institutional money market 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 industry, solutions for the integrated processing of payment flows, especially for housing properties, thus contributing to a more efficient and sustainable structure of its clients' fundamental business processes. Aareal Bank Group's BK01 software provides a procedure for the automated settlement of mass payments in the German property industry. The procedure is integrated in licenced ERP systems. In conjunction with payment transactions processed via Aareal Bank's account systems (BK@1), deposits are generated that contribute significantly to Aareal Bank Group's funding base. Besides the

German property industry, the German energy sector forms a second major client group of the segment for the services mentioned above. The segment offers further services to these industries, such as digital tenant deposit solutions, and end-customer communications, andalongside AI-supported invoicingsolutions for invoices and dunning solutions round off Aareal Bank's offering in the processes. The Banking & Digital Solutions segment which comprises the subsidiaries CollectAIincludes the collect.AI and plusForta subsidiaries.

Aareon

In the Aareon segment, the property management system supplied by the Aareon sub-group offers European property industry clients software as a service (SaaS) solutions for automated and connected end-to-end processes. Aareon commands a strong position in the countries where it is active (Germany, Sweden, France, the UK, the Netherlands and Spain). Its ERP systems and other software solutions assist clients along their way to progressive digitalisation. Furthermore, the open "Aareon Connect" ecosystem provides clients with easy access to a wide range of specialised third-party solutions, helping them to build their own enterprise-specific digital ecosystem. Aareon places great importance on the continuous user-oriented and forward-looking development of the property management system. That is why the company deploys significant investment in research and development in order to improve its solutions. In this way, Aareon is a continuous driver of digitisation and value creation in the industry.

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

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

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

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

---

[1] RoE after taxes = consolidated net income excluding consolidated net income attributable to non-controlling interests and AT1 coupon / average equity (IFRS) excluding non-controlling interests, AT1 bond and dividends
[2] EpS = consolidated net income excluding consolidated net income attributable to non-controlling interests and AT1 coupon / number of ordinary shares
[3] New business = newly-originated loans plus renewals
[4] Earnings before interest, taxes, depreciation and amortisation before new products, Value Creation Programme (VCP), ventures, M&A activities and non-recurring effects

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.

The Structured Property Financing segment 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 identify – and to respond to – market changes at an early stage. Active portfolio management allows 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 volume of housing industry deposits 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

Macro-economic environment

Driven by a challenging market environment, the global economy put in a mixed performance during 2023. Whilst the euro zone and the United Kingdom recorded only marginal growth (despite a palpable easing in energy prices), the United States economy once again performed significantly better, achieving even stronger growth than in the previous year, not least due to private consumption. In many economies, inflation continued to recede from high levels thanks to monetary policy tightening introduced by major central banks. However, price pressures remained high especially in the services sector where salary trends are a strong cost driver. Tension gripped the international financial markets following market turbulence in the US banking sector. The collapse of several US regional banks, together with the troubles at the large Swiss bank Credit Suisse, triggered concerns regarding the stability of the financial system from mid-March onwards. However, these concerns proved to be short-lived. On the other hand, geopolitical tensions and risks – caused by the war in Ukraine, reciprocal sanctions imposed by Western countries and Russia, and October's attack by Hamas on Israel – remained present or were even exacerbated.

Economy

Real gross domestic product in the euro zone climbed by a meagre 0.5 % compared to 2022 – the slight expansion seen in the first half of the year was followed by a significantly softer economic performance between July and December. Various stress factors, including low external demand due to a weak economy in many regions outside of Europe, contributed to persistently weak growth, and the effects of monetary policy tightening increased due to the delayed impact of interest rate hikes. Whilst it was mainly the industrial and construction sectors that were hit by this development, sentiment in the services sector also cooled notably. The result: a highly diverse growth pattern in the euro zone due to different economic structures and associated varying importance of the manufacturing sector and foreign trade. GDP growth in the largest euro zone countries was positive in Spain, France, and Italy (at +2.4 %, +0.8 % and +0.7 %, respectively), whereas Germany's economy contracted 0.3% year-on-year, reflecting structural deficits which have constantly become more evident.

Economic developments in non-euro zone EU member states also varied. For example, real GDP in the Czech Republic and Sweden fell by 0.5 % and 0.3 %, respectively, compared to the previous year, whilst increasing by 0.6 % in Poland.

Economic momentum in the United Kingdom also slowed down, leading to real GDP growth of only 0.3 % compared to 2022. Large-scale industrial action in the public sector and the healthcare industry led to muted economic activity in the first half-year, especially in the services sector. This was followed by stagnating economic output across large parts of the economy in the third and fourth quarter. Manufacturing and construction in particular were weak, impacted by the consistently restrictive financing conditions associated with monetary policy tightening.

US GDP, on the other hand, improved by 2.5 % in 2023 compared to the previous year. Whilst private consumption and increased government-driven demand were two of the growth drivers at the beginning of the year, a solid domestic economy and further significant growth in private consumption drove a surprisingly high GDP increase in the third quarter. Economic momentum slowed down in the final quarter, one of the reasons being that the end of the student loan moratorium affected many households, reducing private consumption levels. The restrictive financing conditions acted as an additional burden. Across the border in Canada, 2023 GDP growth was 1.0 % higher than in the previous year.

Australia recorded a more dynamic growth rate than many other advanced economies in 2023 (real GDP growth of 2.0 % year-on-year), benefiting from stable export demand that offset weaker consumption. The industrial sector was hit by various factors, especially around the half-year mark, whereas the services sector showed a more stable performance.

Many labour markets recorded low unemployment rates and high demand, defying the challenging environment and temporary concerns about a recession. Companies hesitated to lay off employees, due to the persistently tight labour market that led to fierce competition for labour. At 6.4 %, unemployment levels in the euro zone reached a record low at the end of the year; job creation in the United States slowed marginally, leading to a year-end unemployment rate of 3.7 %.

Annual rate of change in real gross domestic product

%	2023[1]	2022[2]
Europe		
Euro zone	0.5	3.4
Belgium	1.4	3.0
Germany	-0.3	1.8
Finland	-0.4	1.6
France	0.8	2.5
Italy	0.7	3.7
Luxembourg	-1.1	1.4
Netherlands	0.0	4.3
Austria	-0.7	4.8
Spain	2.4	5.8
Other European countries		
Denmark	0.7	2.7
UK	0.3	4.3
Poland	0.6	5.3
Sweden	-0.3	2.9
Switzerland	0.7	2.6
Czech Republic	-0.5	2.4
North America		
Canada	1.0	3.4
USA	2.5	1.9
Asia/Pacific		
Australia	2.0	3.8
Maldives	7.6	13.9

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

Financial and capital markets, monetary policy and inflation

The international financial markets were affected by high (albeit decreasing) inflation rates and diverging economic prospects in 2023. Continued monetary policy tightening, temporary tensions in the US regional banking system, and the forced takeover of Credit Suisse were factors dominating the first half of the year. Leading central banks adhered to their path of monetary policy tightening up until the third quarter; however, they were renouncing further interest rate hikes thereafter because inflation rates fell off and the dampening effect of the restrictive financing conditions increasingly took its toll on demand. Following soaring nominal and real interest rate levels in the first nine months of the year, the fourth quarter recorded a palpable decline in yields, especially in the United States, and a depreciation of the US dollar, with market participants pricing in higher economic downside risks and expected key interest rate decreases by the US Federal Reserve (Fed) into their mid-term outlooks.

As inflationary pressures remained elevated, the European Central Bank (ECB) continued its course set in the previous year of raising key interest rates to ensure that inflation will return to the mid-term target of 2 % in due course. Key interest rates were increased in six steps, reaching 4.50 % on main refinancing operations, 4.75 % on the marginal lending facility and 4.00 % on the deposit facility. From October to December 2023, the ECB held off raising interest rates, and the ECB's Governing Council indicated that key interest rates would remain at restrictive levels for as long as necessary, depending on data. Holdings of securities under the asset purchase programme (APP) were reduced from March onwards, and principal payments from maturing securities purchased under the APP were no longer reinvested as of July. In addition, the ECB decided to reduce principal payments for maturing assets bought under the pandemic emergency purchase programme (PEPP) over the course of 2024, and to terminate them by year-end 2024. In order to mitigate risks for the monetary policy transmission mechanism, the Governing Council reserves the right to flexibly adjust reinvestments of redemptions across time, asset classes and jurisdictions at any time. Remuneration of minimum reserves was also lowered to zero per cent in September. Last but not least, the Transmission Protection Instrument allows the ECB to counter market dynamics that it deems to be unwarranted and disorderly.

Addressing a persistently strong labour market and inflation rates that – while abating – were still above 2 %, the Fed revised its federal funds rate upwards four times over the course of 2023, to a corridor between 5.25 % and 5.50 %. Taking account of the progress made in combating inflation and following the review of economic data, the last interest rate hike was made in July; interest rate levels have since remained unchanged. The central bank announced potential prompt adjustments to its monetary policy, depending on economic data and the effects of the interest rates hikes made so far. In particular, it said that interest rates would be increased if provoked by persistently high core inflation or other risks. The Fed also reduced its holdings of bonds and mortgage-backed securities it had taken on during the pandemic.

Meanwhile, on the other side of the Atlantic, the Bank of England (BoE) increased interest rates in five steps by a total of 175 basis points to 5.25 % in the year under review, leaving key interest rates unchanged as of September thanks to progress made in combating inflation, worse than expected economic data, and increasing employment rates. However, the central bank did not rule out further interest rate hikes, should the economy, the state of the labour market or inflation rates require them. The BoE also resolved to reduce its portfolio of sovereign bonds by £ 100 billion until September 2024.

Other major central banks lifted their key rates, too: the Bank of Canada raised its key interest rate to 5.00 % in 2023, Sweden's Riksbank to 4.00 %, and the Reserve Bank of Australia to 4.35 %.

Short-term interest rates[1)] in the euro zone at year-end 2023 were above those for year-end 2022. The same applied to the pound sterling, the US dollar, the Swedish krona, and the Australian dollar. While short-term interest rates also rose for the Canadian dollar, the increase was less pronounced. Long-term interest rates[2)] overall went up during the year, reaching peak levels in October 2023. This was followed by a strong and swift decrease in the fourth quarter due to changed interest rate expectations. Interest rate levels in the euro zone, for the pound sterling, Swedish krona, Canadian dollar, and Australian dollar ended the year below the levels seen at the beginning of the year, and remained nearly unchanged for the US dollar. Ten-year government bonds painted a uniform picture, with yield declines observed for most of them. Only the yields for US bonds remained unchanged compared to the beginning of the

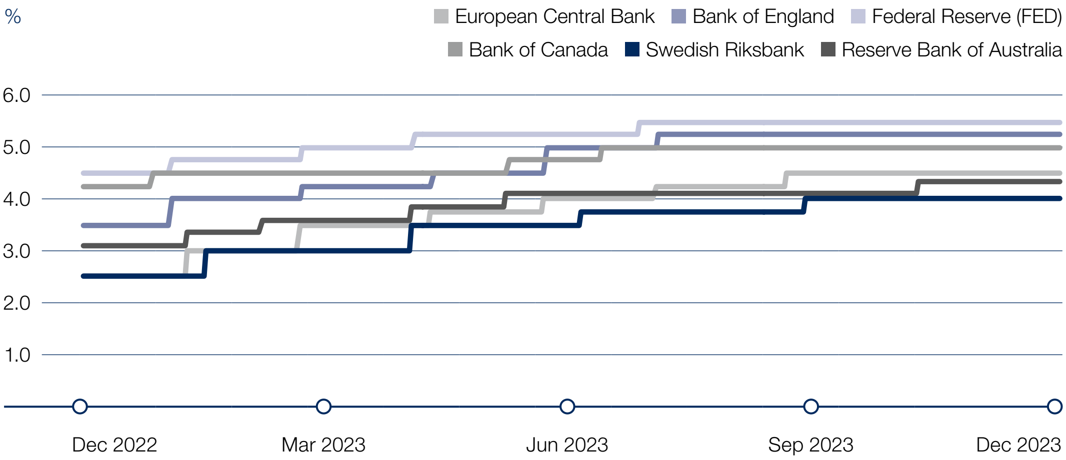
[1)] Calculated on the basis of 3-month Euribor, LIBOR or other comparable rates for other currencies
[2)] Calculated on the basis of swaps in the respective currencies

year, albeit with significant fluctuations over the course of the year. The rapid increase in short-term interest rates caused one of the sharpest yield curve inversions to be witnessed in the euro zone as well as the US. This development was driven by a comparatively stronger increase of short-term than long-term interest rates, and also reflected decreased growth expectations. The inversion levelled off in the fourth quarter due to anticipated interest rate cuts and the higher probability of a soft landing in the US when compared to mid-year expectations.

Monetary policy in the individual currency areas, differing economic outlooks and inflation expectations also shaped the currency markets in 2023. Changing market expectations regarding monetary policy perspectives led to strong EUR/USD exchange rate movements over the course of the year. Especially phases with stronger than expected US economic data were accompanied by a depreciation of the euro, followed by an appreciation in the fourth quarter due to increasing expectations concerning potential earlier interest rate cuts in the US in 2024. At the end of the year, the exchange rate was USD 1.11 per euro, i.e. above the rate prevailing on 30 December 2022 (USD 1.07 per euro). The EUR/CAD exchange rate followed an unspecific trend over the same period, with the euro recovering slightly – from CAD 1.44 per euro at the beginning of the year to a year-end rate of CAD 1.46 per euro. Against pound sterling, the euro fell slightly over the course of the year, from GBP 0.89 to the euro at the beginning of the year to GBP 0.87 at year-end. The depreciation occurred in the first six months, followed by a stable exchange rate during the second half of the year. Similarly, the euro depreciated marginally vis-a-vis the Swedish krona, from SEK 11.12 to the euro at the beginning of the year to SEK 11.10 to the euro at the end of the year, following a volatile intra-year performance. The euro appreciated against the Australian dollar, from AUD 1.57 at the beginning of the year to AUD 1.63 per euro at the end of 2023.

Even though inflation rates in many economies continued their downhill trajectory in 2023, core inflation as at year-end remained clearly above the target levels set by the respective central banks. Lower energy and food prices were a driving force behind the general inflation decrease. Base effects, lower freight costs and raw material prices, along with the removal of supply chain disruptions, resulted in lower costs especially for corporates. However, core inflation decreased more slowly than inflation, which was mainly attributable to consistently tight labour markets and catch-up effects regarding wages in the services sector. In areas that had been particularly hit by the Covid-19 crisis, such as the hospitality industry, high demand from consumers continued to meet limited supply and labour shortage strains. In the euro zone, inflation reached 2.9 % at the end of the year compared with the same month of the previous year: in the US it was 3.4 % and 4.0 % in the UK.

Key rate developments in 2023[1)]



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

Turbulence in the banking sector and the central banks' restrictive monetary policy increased the uncertainty felt by market participants, leading to highly volatile capital markets in 2023. As a result, risk premiums for uncovered bonds were more volatile, and credit spreads for covered bonds rose due to oversupply which in turn was due, amongst other things, to the ECB withdrawing from the market as a large purchaser of covered bonds. The escalating conflict in the Middle East increased market unrest 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, the EU Banking Package which stipulates implementation of the final draft of the Basel III framework into EU law (known as “Basel IV”), as resolved by the Basel Committee (BCBS). Following lengthy negotiations, the parties involved in the legislative process eventually reached an agreement at the end of 2023, meaning that final regulations and directives are expected to be published in the EU’s Official Journal, and thus enter into force, during the first six months of 2024. Meanwhile, the European Banking Authority (EBA), following its roadmap, will work on implementing its mandates to prepare technical standards, which serve to specify the rules and provisions, in 2024. The scheduled first-time application of the new regulations most relevant for the Bank is 1 January 2025 – two years later than initially planned by the BCBS.

New reporting on interest rate risk in the banking book will complement existing CoRep reporting. The first reference date for the application of these reporting requirements is 30 September 2024.

BaFin published the final version of the seventh MaRisk amendment on 29 June 2023. This final version focuses on implementing the EBA guidelines on loan origination and monitoring, new requirements for banks‘ proprietary property business, and the management of sustainability risks. The transition period for implementing the changes resulting from the new requirements has ended on 1 January 2024.

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 are deeming it necessary to establish sustainability more strongly within 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 requirements for financial and non-financial entities. Disclosure requirements for the 2024 financial year will also increase due to the first-time application of the Corporate Sustainability Reporting Directive (CSRD). In addition, the number of data points to be published in 2024 will increase due to the requirement for large listed institutions to include qualitative and quantitative information on ESG risks in the regulatory disclosure report on a half-yearly basis, as stipulated by the CRR II.

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. Results from 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

High financing costs associated with increased interest rate levels and stricter lending standards influenced the commercial property market in 2023, leading to a significant downturn in transaction activity and lower property valuations, along with a related increase in financing defaults. Uncertainty due to the macro-economic deterioration and strongly diverging pricing expectations between buyers and sellers were an additional burden for the market. It came as no surprise that the swift transition from a low to a high interest rate environment impacted a property market that had become accustomed to easily accessible capital over the past ten years.

Global transaction volumes in 2023 decreased by 44 % year-on-year. Regional differences were less pronounced than in past reporting periods, with North America, Europe and Asia/Pacific recording declines of 47 %, 50 % and 33 %, respectively. Broken down by property type[1)], transaction volumes plunged in all three regions compared to the previous year.

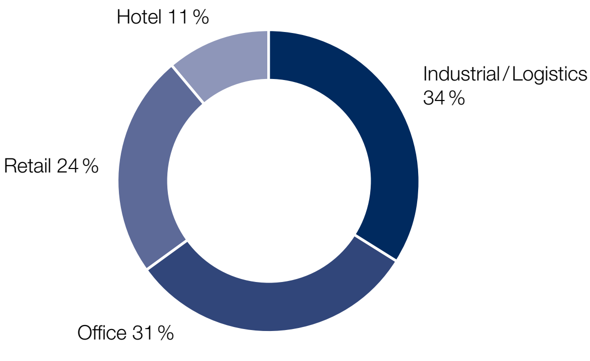
[1)] Property types are office, logistics, retail and hotel properties.

The general picture was one of reticence on the part of investors, more complicated pricing, and predominantly falling property valuations. Office property was especially affected, with the transition towards hybrid working models leading to uncertainty among potential buyers. Lenders focused their interest on residential and logistics properties, food stores, as well as on high-quality office properties in preferred locations. Properties with good re-lettability and sustainable characteristics continued to enjoy demand. Financing costs for newly-financed commercial property have been on the rise for several quarters in a row as a result of higher interest rates and more restrictive lending standards. Construction costs have increased, as has uncertainty surrounding property valuations at the time of disposal. In this context, the number of new project developments has fallen off. Due to lack of relevance for Aareal Bank's portfolio, this report will not go into detail about the related problems arising for project development companies and their financings. Transaction yields increased across all markets and property types in 2023, whilst loan-to-value ratios on the financing markets tended to decrease.

Soaring interest rates not only affected transaction markets and transaction yields demanded by investors, but also the ability to service debt. Financings not hedged via a fixed-rate period or adequate hedging instruments, or financings for which these fixed-date periods or instruments expired, were challenged by higher borrowing costs. The impact on the viability of debt service varied, depending on property type and country, with the strongest effect being observed on the US office market: not only did US interest rate levels rise more than in the euro zone, the US market was also more affected by the working-from-home trend (and the related increase in vacancy rates) which burdened income in addition to the interest rate increases. Logistics properties benefited from higher rents, and hotels from higher occupancy rates and an increase in average room rates, thus offsetting the interest rate pressure on debt service. Even though inflation and the tight labour market challenged hotels with increased operating and personnel costs, and in part with a shortage of skilled labour, this property type generated higher income and thus recorded an overall positive development in 2023. The not-so-new topic of e-commerce had led to lower retail property valuations even before 2023, taking away some of the weight in the year under review.

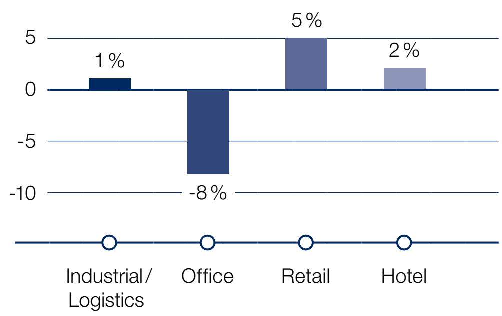
Share of transaction volume observed worldwide in 2023

in %



Change in the relative share of observed global transaction volumes vs. 2022

percentage points



Aareal Bank generated new business[1)] of € 10.0 billion (2022: € 8.9 billion) in the full year 2023, reaching the upper limit of the communicated target range of € 9 billion to € 10 billion. The share of newly-originated loans was 62 % (2022: 67 %) or € 6.2 billion (2022: € 6.0 billion). Renewals amounted to € 3.8 billion (2022: € 2.9 billion). Aareal Bank concluded new green financing business of around € 3.0 billion in the full year 2023; the portfolio volume of green financings rose by a total of € 2.6 billion to approximately € 4.8 billion. In this context, it should be noted that changes to the portfolio volume can also result from existing clients issuing the required undertaking and related certificates for the first time, or from other financings losing their status as green instruments.

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

Green loans meet the minimum energy efficiency requirements of the "Aareal Green Finance Framework" and the client undertakes to meet these requirements throughout the term of the loan. Properties are classified as green if they adhere to the EU taxonomy criteria, have an above-average sustainability rating by recognised rating agencies or comply with energy efficiency criteria.

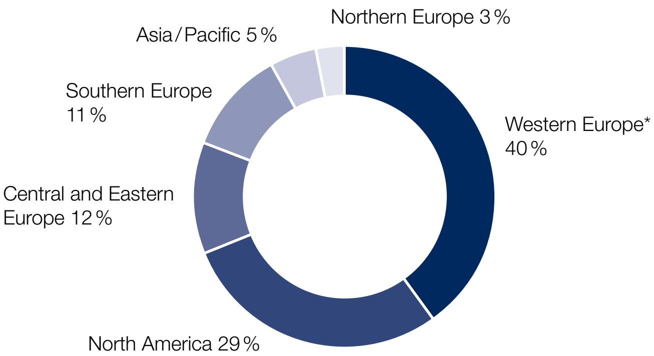
All in all, Aareal Bank Group's property financing portfolio expanded to € 32.9 billion as at the end of 2023.

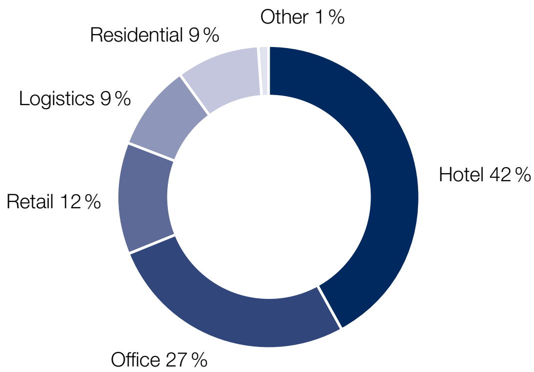
At approximately 66 % (2022: 65 %), Europe accounted for the largest share of new business, followed by North America with 29 % (2022: 28 %) and the Asia/Pacific region with 5 % (2022: 7 %).[1)]

With a share of 42 %, hotel properties accounted for the largest share in new business in terms of property type (2022: 32 %), followed by office property with 27 % (2022: 20 %), ahead of retail property with 12 % (2022: 18 %), logistics property with 9 % (2022: 18 %), and residential property with 9 % (2022: 10 %). Other property and financings accounted for less than 1 % (2022: 2 %) of new business.

New business[2)] 2023

by regions | by type of property (%)





* Incl. Germany

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

Europe

Transaction volumes declined by around 50 % in Europe. The decrease was seen in all European countries. Even so, Poland, the Netherlands, Italy and Germany recorded the strongest downturns. France, Sweden and the UK, on the other hand, registered the smallest declines. Looking at property types, the strongest decline was in office properties, followed by logistics and retail properties. Whilst hotel properties saw the lowest decline, they were nonetheless down by approximately 17 % year-on-year. The majority of cross-border and private investors were on the buy side, whilst REIT structures tended to be sellers. Institutional investors assumed a balanced position overall.

Average rents in the prime office property segment rose slightly during 2023, with more significant increases compared to year-end 2022 seen in some sub-markets (e.g. Copenhagen and selected major UK cities). Whilst vacancy rates increased on average, overall performance showed a mixed picture. For example, vacancy rates rose in London and all relevant major German metropolitan areas, but decreased in Warsaw and Rome. Retail property rents remained stable in most European markets, whereas shopping centre rents in numerous major UK cities rose markedly, as did high-street rents in Rome. Rents for logistics properties benefited from per-

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.

sistently strong demand and low, if increasing, vacancy rates in the entire segment, thereby continuing the positive development of the last few years.

In line with the increased interest rate levels seen since 2022, prime yields for office properties climbed further in all major European cities during 2023. Particularly French, German and British cities recorded larger increases, some of them of more than 100 basis points. Yield increases in secondary locations developed similarly. With the trend of falling yields for logistics properties having reversed in 2022, yields continued to rise almost across the board during 2023 – exceptfor several UK sub-markets, where yields remained stable over the course of the year. Stronger increases were observed in Belgium and Poland. 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. Some German and French sub-markets saw more pronounced increases.

Despite broad-based economic uncertainty, global travel continued to recover in 2023. This development was no longer driven only by leisure travel, but also by a distinct recovery in business travel. Major travel destinations in Europe continued to benefit from the return of international travel and overnight visits in some countries, e.g. in Spain and the Netherlands, saw robust recoveries, even exceeding the 2019 pre-pandemic levels. Whilst this meant that occupancy rates and revenues per available room in European hotel properties increased versus the previous year, actual growth was weaker than in 2022, something that was to be expected in light of the elevated growth rates that followed pandemic-related lockdowns.

Aareal Bank originated new business of around € 6.6 billion (2022: € 5.8 billion) in Europe during the year under review. As in previous years, at around € 4.0 billion (2022: € 3.7 billion), Western Europe accounted for the largest share, followed by Central and Eastern Europe, where new business of € 1.2 billion (2022: € 0.8 billion) was generated mainly in Poland. Southern Europe contributed € 1.1 billion (2022: € 0.7 billion) and Northern Europe € 0.3 billion (2022: € 0.6 billion). Aareal Bank Group was no longer active in property finance in Russia as at 31 December 2023.

North America

Transaction volumes in North America decreased by around 47 % in 2023 compared to the previous year. A negative year-on-year development was recorded as early as in the first quarter, with this weak performance continuing throughout all the quarters of the year. Total full-year volume was at the lowest level recorded since 2012, even though the number of transferred properties was still well above the lows seen during the pandemic. Cross-border and private investors were on the buy side for the most part, while institutional investors and REIT structures were mostly sellers.

Rents offered for prime and secondary office properties in major US cities remained stable in 2023, which was also true for relevant sub-markets such as New York or Chicago. In San Francisco, rents fell slightly compared to the previous year, whilst the number of incentives for new tenants (e.g. rent-free periods or tenant's improvements) increased. The working-from-home trend was stronger in the US than in Europe, one of the reasons being long commutes. As a result, vacancy rates for US office properties went up during the year, from 12.4 % to 13.5 % on a national average. Hence, the debt servicing ability was not only impacted by the high interest rate environment but also by the increase in vacancies.

Average shopping mall rents in the US were up on a national average. The rise was most pronounced in Dallas and New York, whilst rent levels in Chicago remained stable and fell in San Francisco. Rents for logistics properties again rose significantly, growth averaging more than 7 % nationwide. An increase was reported in all the important individual markets.

Yields for office properties in prime and secondary markets were up since the beginning of the year under review, both on a national average and in relevant sub-markets. Increases were similar in prime and secondary markets, but different across sub-markets, with Washington D.C. and – once again – San Francisco registering the strongest growth rates. To a major extent, the general rise in yields was driven by the fast, very abrupt US interest rate hikes, which commenced in 2022 and have been more pronounced than in the euro zone. This exerted increasing pressure on office property valuations in the year under review. Yields for retail properties remained largely stable, with only minor changes vis-a-vis the previous year. With interest rates generally increasing, the long-standing trend of falling yields for logistics properties has also reversed in the United States. Yields for this property type increased both on a national average and in all relevant sub-markets compared to the previous year.

Hotels in North America saw an increase in occupancy and revenues over the course of the year. In the US, occupancy rates and revenues per available room increased compared to 2022, both in the luxury and upper upscale category, and on the overall market. This positive development was driven not only by strong national tourism, but also by international visitors. In Canada, key hotel indicators developed even better in 2023.

New business of € 2.9 billion (2022: € 2.5 billion) was originated across North America in 2023, most of which was attributable to the US.

Asia/Pacific region

2023 transaction volumes for commercial properties in the Asia/Pacific region decreased by approximately 33 % year-on-year. The slump in Australia was particularly marked, with a decline of 57 %. Within the Australian market, the office market was particularly affected, while hotels showed some resilience. Across the region, cross-border and institutional investors were on the buy side for the most part, whilst REIT structures were predominantly sellers. Private investors assumed a balanced position overall.

Prime rents for Australian logistics properties continued their year-on-year upward trajectory in 2023; Melbourne and Sydney recorded a particularly marked increase. Yields for logistics properties also went up once again, with yields for properties in the relevant major cities increasing by up to 125 basis points during 2023.

Hotels in the Asia/Pacific region registered a positive performance vis-à-vis 2022: both occupancy rates and revenues improved in most markets, reflecting the ongoing recovery in international tourism. The main driver for success, however, remained short-haul visits and domestic travellers. Even though international travel remains below the levels of 2019, hotel revenues are reaching, or approaching, new highs in some locations. In this context, the Maldives again recorded a significant increase in visitors. A total of 1.9 million tourists visited the island nation in 2023 compared with 1.7 million in the previous year. All in all, 2023 occupancy rates and revenues per available room in Maldivian hotel properties were slightly below the previous year's figure. Hotels in key Australian markets on the other hand were able to improve their indicators significantly compared to the previous year; this was due, amongst other things, to business travel increasingly returning to normal levels.

The Bank originated new business of € 0.5 billion in the Asia/Pacific region in 2023 (2022: € 0.6 billion), most of which was attributable to Australia. Aareal Bank Group no longer held property financing exposures to China as at 31 December 2023.

Banking & Digital Solutions segment

The housing and property management sector once again proved its overall resilience in 2023, defying the changes and challenges in the sector. For example, the housing price index showed a 10.2 % decline in the third quarter of 2023 compared to the third quarter of 2022, whereas the consumer price index for net rent (excluding VAT and operating costs) reached a record high of 105.7 points in November 2023 (November 2022: 103.6). Whilst the recent supply chain issues and high energy costs have normalised and the year-on-year consumer price index change rate sank to 3.2 % in November 2023 (November 2022: 8.8 %), the third-quarter construction price index increased by 6.4 % compared to the previous year's figure, albeit trending downwards. Combined with the interest rate increases during the year under review, this led to fewer new construction projects. A total of 179,800 apartments were approved between January and October 2023 – a decrease of 29.8 %, or 76,300 apartments, vis-à-vis the same period of 2022.

At present, more than 4,000 corporate clients throughout Germany are using Aareal Bank Group's process-optimising products and banking services, most of them via the ERP-integrated BK01 functionality. The segment's volume of deposits from the housing industry averaged € 13.6 billion in the financial year 2023 (2022: € 13.4 billion), exceeding original expectations. All in all, this reflects the strong trust our clients continue to place in Aareal Bank. Net commission income increased as planned, from € 31 million in 2022 to € 33 million in 2023. Higher interest rate levels, combined with the persistently high volume of deposits, made a notable contribution to stronger operating profit in the BDS segment.

The scope of BK01 functionality was extended during the year under review, to account for our clients' special needs in terms of receivables management – also incorporating functionality from our platform offers as well as the expertise of collect.AI, the payment solutions provider acquired in 2022 whose product range also includes AI-supported end-customer communications. Furthermore, favourable interest rate developments meant that the Bank was still able to offer clients attractive interest rates, and attract new deposit volumes (including from new clients) for various deposit categories. To strengthen client growth and cross-selling, Aareal Bank, First Financial and Aareon have entered into a long-term strategic partnership which is geared towards securing the three partners' strategic and operative interests on a long-term basis. Within the scope of this strategic partnership, Aareon acquired a majority stake in First Financial, which focuses on software solutions for the technical integration of financial services into ERP systems. Aareal Bank will thus remain a reliable partner to the housing industry for payments and deposits. Together with Aareon, it will continue to ascertain and develop integrated financial services for its clients in the future.

Aareon segment

Aareon's strategic focus in the 2023 financial year was on accelerating organic growth of recurring revenues (from maintenance contracts, SaaS solutions, and fees), on optimising its operating business, and on executing M&A transactions.

In addition, Aareon launched its open "Aareon Connect" ecosystem in the first quarter of 2023, to facilitate the integration of third-party solutions: "Aareon Connect" was developed using the low-code technology by Locoia GmbH, which was fully acquired by Aareon in December 2022. This approach enables a far simpler and faster technical integration of third-party solutions into the open digital ecosystem. At the end of the year, "Aareon Connect" was also rolled out in the UK and Dutch markets and already has its first domestic partners on board.

Up- and cross-selling to existing clients, additional new clients, and SaaS migrations drove strong organic recurring revenue growth in the year under review. The transformation process towards SaaS and subscription solutions continued to be on track, thus increasing the share of recurring revenue compared to total sales to 81 % (2022: 74 %). We have also further limited our dependence on license models, focusing on generating recurring revenue instead. The implementation of standardised SaaS platforms has allowed Aareon to optimise its clients' advisory needs, which has led to lower consulting revenues. The focus on the SaaS core business, and the related disposal of phi-Consulting GmbH, also impacted consulting revenues.

Aareon has optimised its operating processes and their management by introducing a new internal customer relationship management software and an HR management software. Further measures to future-proof Aareon included the acquisition of new talent, including employees for product portfolio optimisation, in particular in the UK. These activities have also improved the cost structure.

Aareon acquired German UTS innovative Softwaresysteme GmbH in February 2023, a provider of software solutions specialising in the administrative needs of residential owners' associations and external property management companies. In March 2023, Aareon added Embrace – The Human Cloud, the Dutch market leader for SaaS solutions in the areas of digital workspace and customer engagement, to its portfolio. Last but not least, Aareon entered the Spanish market in December 2023, acquiring the software provider Informatización de Empresas SLU (IESA). IESA develops software for the digital property management of residential owners' associations in Spain.

As expected, Aareon Group's sales revenues increased to € 344 million (2022: € 308 million). Adjusted EBITDA[1] amounted to € 100 million (2022: € 75 million) and was therefore at the upper end of the target corridor.

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

Financial Position and Financial Performance

Financial performance

Group

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Net interest income	978	702
Loss allowance	441	192
Net commission income	307	277
Net derecognition gain or loss	23	1
Net gain or loss from financial instruments (fvpl)	-71	26
Net gain or loss from hedge accounting	1	-2
Net gain or loss from investments accounted for using the equity method	3	-2
Administrative expenses	645	571
Net other operating income/expenses	-6	0
Operating profit	**149**	**239**
Income taxes	101	86
Consolidated net income	**48**	**153**
Consolidated net income attributable to non-controlling interests	-23	0
Consolidated net income attributable to shareholders of Aareal Bank AG	71	153

At € 149 million, consolidated operating profit for the 2023 financial year was lower than in the previous year (€ 239 million) and below the original target, reflecting the additional, substantial efficiency-enhancing measures at Aareon and the exploitation of additional opportunities in the swift NPL reduction. The Bank's operating profit amounted to € 221 million. The dynamic income growth compensated for the significantly increased loss allowance for US office properties. Aareon's operating profit amounted to € -72 million, reflecting the extensive measures to enhance efficiency.

Mainly due to a year-on-year increase in the credit portfolio, solid margins, and the impact of rising interest rates on the continued high volume of deposits, net interest income of € 978 million was significantly higher than in the previous year (€ 702 million), and above expectations.

Loss allowance totalled € 441 million (2022: € 192 million), exceeding expectations. It was largely attributable to new loan defaults of US office properties. The figure also includes additions to loss allowance for a swift NPL reduction, as well as approximately € 35 million for our run-down Russian exposure. In addition, model-based Stage 1 and Stage 2 loss allowance was recognised in an aggregate amount of € 25 million, as a result of a post-model adjustment which reflects necessary adjustments to loss allowance due to effects at the reporting date.

Net commission income also increased to € 307 million (2022: € 277 million) on the back of sales growth at Aareon and in the Banking & Digital Solutions segment, only slightly missing the Bank's ambitious expectations.

Net derecognition gain of € 23 million (2022: € 1 million) reflected income from the Treasury portfolio as well as positive market-driven effects from early loan repayments.

Net gain or loss from financial instruments (fvpl) and from hedge accounting in the aggregate amount of € -70 million (2022: € 24 million) was largely due to credit risk-induced valuation losses on defaulted US office property loans – in contrast to positive valuation effects resulting from market developments for currency and interest rate hedging derivatives due to strong market dynamics in the previous year.

Administrative expenses increased to € 645 million (2022: € 571 million), reflecting Aareon's strong growth and efficiency-enhancing measures of around € 90 million, exceeding original expectations. Costs at the Bank remained largely stable: at 32% (excluding the bank levy and contributions to the deposit guarantee scheme, as is customary in the banking sector), the cost/income ratio in the banking business was at a very low – i.e. very good – level during the period under review, even in an international comparison.

Net other operating income/expenses amounted to € -6 million (2022: € 0 million); the figure was burdened by a property transaction tax effect.

All in all, consolidated operating profit for the 2023 financial year totalled € 149 million, after € 239 million in 2022. Taking into consideration income taxes of € 101 million (2022: € 86 million) and non-controlling interest income of € -23 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 71 million (2022: € 153 million). The income taxes item was burdened by the write-off of Aareon's loss carryforwards in the context of Aareal Bank AG's takeover by Atlantic BidCo GmbH. Assuming the pro rata temporis accrual of interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 42 million (2022: € 138 million). Earnings per ordinary share (EpS) of € 0.69 (2022: € 2.32) and RoE after taxes of 1.4% (2022: 5.0%) were below the forecast.

Structured Property Financing segment

Segment result

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Net interest income	776	627
Loss allowance	441	192
Net commission income	6	6
Net derecognition gain or loss	23	1
Net gain or loss from financial instruments (fvpl)	-71	26
Net gain or loss from hedge accounting	1	-2
Net gain or loss from investments accounted for using the equity method	1	0
Administrative expenses	231	260
Net other operating income/expenses	-4	-6
Operating profit	**60**	**200**
Income taxes	44	70
Segment result	**16**	**130**

Net interest income of € 776 million in the segment was significantly higher than in the previous year (€ 627 million), mainly due to a year-on-year increase in the credit portfolio and good margins.

Loss allowance totalled € 441 million (2022: € 192 million), and was largely attributable to new loan defaults of US office properties. The figure also includes additions to loss allowance for a swift NPL reduction, as well as approximately € 35 million for our run-down Russian exposure. An additional € 25 million was recognised for Stages 1 and 2 through a post-model adjustment.

Net derecognition gain amounted to € 23 million (2022: € 1 million), reflecting income from the Treasury portfolio as well as positive market-driven effects from early loan repayments.

Net gain or loss from financial instruments (fvpl) and from hedge accounting in the aggregate amount of € -70 million (2022: € 24 million) was largely due to credit risk-induced valuation losses on defaulted US office property loans – in contrast to positive valuation effects resulting from market developments for currency and interest rate hedging derivatives due to strong market dynamics in the previous year.

Administrative expenses in the segment remained largely stable; the decrease to € 231 million (2022: € 260 million) resulted from the regular review and revision of intra-Group cost allocation between the SPF and BDS segments in 2023.

Net other operating income/expenses amounted to € -4 million (2022: € -6 million); the figure was burdened by other taxes.

Overall, operating profit for the Structured Property Financing segment was € 60 million (2022: € 200 million). After income taxes of € 44 million (2022: € 70 million), the segment result amounted to € 16 million (2022: € 130 million). Income taxes are comparatively high, in particular due to the non-deductibility of the bank levy.

Banking & Digital Solutions segment

Segment result

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Net interest income	238	92
Loss allowance	0	0
Net commission income	33	31
Administrative expenses	110	79
Net other operating income/expenses	-2	-1
Operating profit	**161**	**42**
Income taxes	50	14
Segment result	**111**	**28**

Net interest income in the Banking & Digital Solutions segment of € 238 million was significantly higher than in the previous year (€ 92 million), because of positive effects from increased market interest rates on the deposit-taking business.

On the back of sales growth, net commission income of € 33 million increased as planned (2022: € 31 million).

Administrative expenses in the segment remained largely stable; the increase to € 110 million (2022: € 79 million) resulted from the regular review and revision of intra-Group cost allocation between the SPF and BDS segments in 2023.

Overall, segment operating profit was € 161 million (2022: € 42 million). After income taxes, the segment result amounted to € 111 million (2022: € 28 million).

Aareon segment

Segment result

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Net interest income	-36	-17
Loss allowance	0	0
Net commission income	284	252
Net gain or loss from financial instruments (fvpl)	0	0
Net gain or loss from investments accounted for using the equity method	-	-1
Administrative expenses	320	244
Net other operating income/expenses	0	7
Operating profit	**-72**	**-3**
Income taxes	7	2
Segment result	**-79**	**-5**

Net interest income in the Aareon segment amounted to € -36 million, reflecting partially debt-financed M&A activities and funding raised outside the Group (2022: € -17 million).

Thanks to strong organic and inorganic growth, net commission income increased to € 284 million (2022: € 252 million).

Administrative expenses increased to € 320 million (2022: € 244 million), reflecting strong growth and realised significant efficiency-enhancing measures of around € 90 million which will lead to lower running costs in the future.

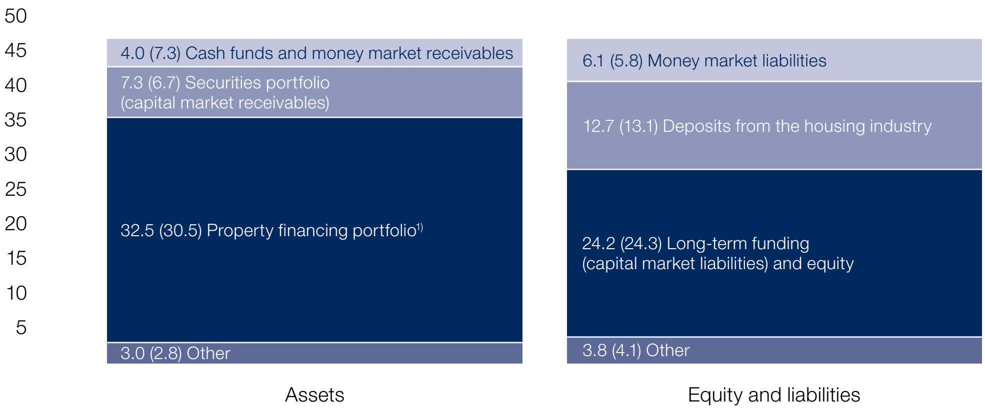
Overall, segment operating profit was € -72 million (2022: € -3 million). After income taxes, the segment result amounted to € -79 million (2022: € -5 million). The income taxes item was burdened by the write-off of Aareon's loss carryforwards in the context of Aareal Bank AG's takeover by Atlantic BidCo GmbH.

Financial position – assets and liabilities

Consolidated total assets as at 31 December 2023 amounted to € 46.8 billion, thus remaining largely stable compared to the amount of € 47.3 billion as at 31 December 2022.

Statement of financial position – structure as at 31 December 2023 (31 December 2022)

€ bn



[1] Excluding € 0.2 billion in private client business (31 December 2022: € 0.2 billion) and € 0.2 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2022: € 0.2 billion), and excluding loss allowance

Cash funds and money market receivables

The cash funds and money market receivables item contains excess liquidity invested at short maturities. As at 31 December 2023, this comprised predominantly cash funds and deposits with central banks and money-market receivables from banks.

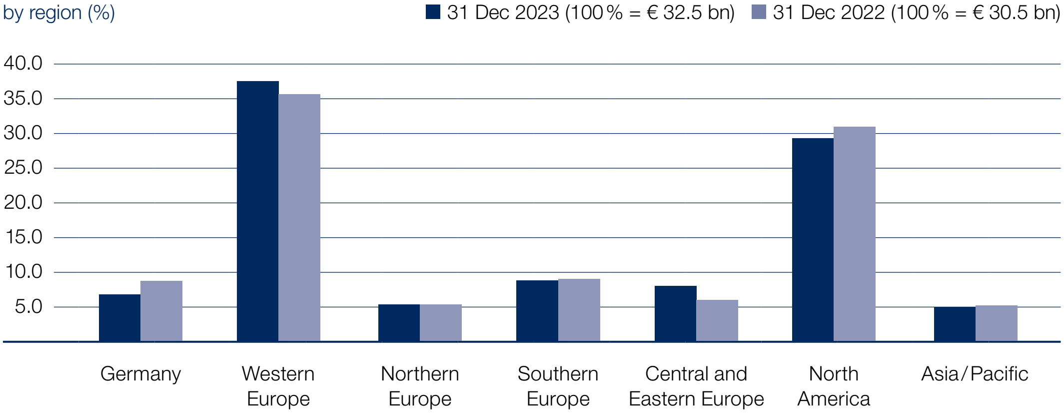
Property financing portfolio

As at 31 December 2023, the volume of Aareal Bank Group's property financing portfolio[1] stood at € 32.5 billion (2022: € 30.5 billion). Including the former WestImmo's private client business and local authority lending, it amounted to € 32.9 billion (2022: € 30.9 billion) and is thus within the target range for portfolio size.

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

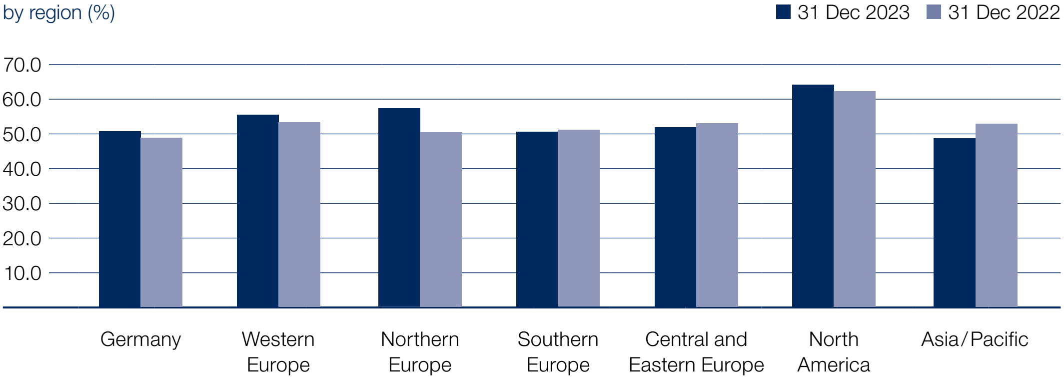
At the reporting date (31 December 2023), Aareal Bank Group's property financing portfolio was composed as shown in the charts below, compared with year-end 2022.

Property financing volume[1] (amounts drawn)
by region (%)



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

Average LTV of property financing[1]
by region (%)

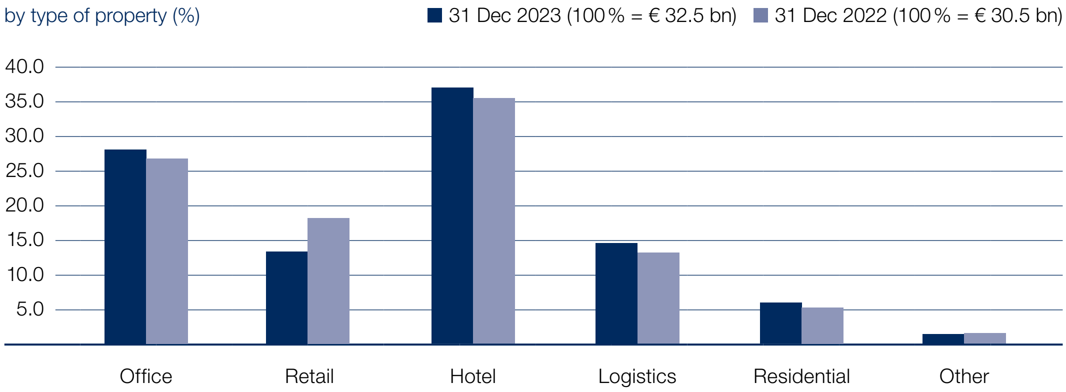


[1] Excluding former WestImmo's private client business and local authority lending business

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

Property financing volume[1] (amounts drawn)

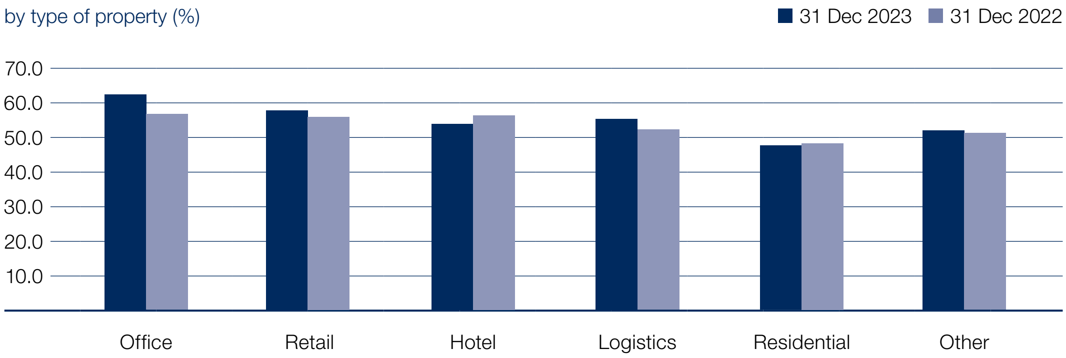
by type of property (%)



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

Average LTV of property financing[1]

by type of property (%)



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

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

Portfolio allocation by region and continent did not change significantly during the period under review. Whilst the portfolio share of exposures rose by around 2.0 percentage points in Central and Eastern Europe and by around 1.9 percentage point in Western Europe, it was down by around 1.6 percentage points for Northern America and by around 1.9 percentage points for Germany whilst remaining relatively stable for all other regions.

The share of hotel properties increased by 1.5 percentage points and the share of logistics properties by 1.4 percentage points compared to year-end. The share of retail properties decreased by 4.8 percentage points, whereas the share of other property types in the overall portfolio remained relatively stable compared to the year-end 2022.

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

Treasury portfolio

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

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

As at 31 December 2023, the total nominal volume of the Treasury portfolio[1] was € 7.1 billion (31 December 2022: € 6.7 billion), with the year-on-year increase being due to securities purchases.

The portfolio comprises the asset classes public-sector borrowers, covered bonds and bank bonds (financials), with the public-sector asset class accounting for the largest share of the portfolio (currently at around 74 %). The share of covered bonds was 25 %, while bank bonds account for a small share of 1 %.

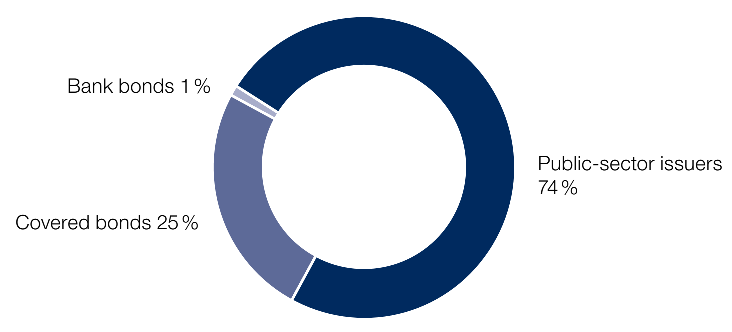
The high credit quality requirements are also reflected in the portfolio's rating breakdown. 99.8 % of the portfolio has an investment grade rating[2], and 89.3 % of the positions have an AAA to AA- rating (2022: 84.2 %).

The portfolio currently comprises almost exclusively (96 %) securities denominated in euros, and its average remaining term as at the reporting date was 5.9 years.

Given the high requirements as regards liquidity of the positions as part of their use for the liquidity portfolio, 91 % of the portfolio can be pledged as collateral with the ECB and 84 % fulfils the requirements for "High Quality Liquid Assets" (as defined in the Liquidity Coverage Ratio (LCR)).

Treasury portfolio as at 31 December 2023

% Total volume (nominal): € 7.1 bn



[1] As at 31 December 2023, the securities portfolio was carried at € 7.3 billion (31 December 2022: € 6.7 billion).
[2] The rating details are based on the composite ratings.

Financial position – liquidity

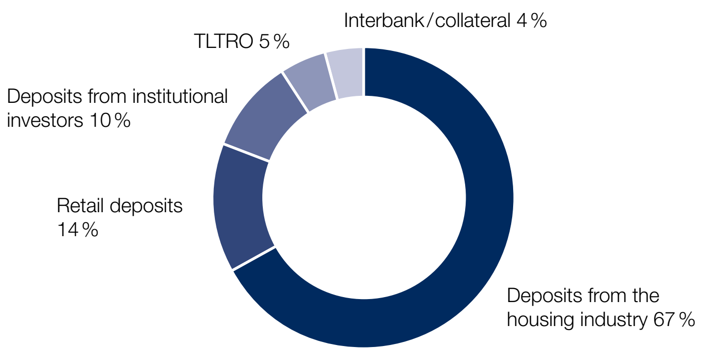
Money-market liabilities and deposits from the housing industry

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 2022 by way of a trust model – via Raisin and Deutsche Bank, for example. It also uses interbank and repo transactions to manage liquidity and cash positions.

As at 31 December 2023, Aareal Bank had € 12.7 billion at its disposal in deposits generated from the business with the housing industry (31 December 2022: € 13.1 billion). Money market liabilities, including targeted longer-term refinancing operations (TLTROs) of Deutsche Bundesbank, amounted to € 6.1 billion (31 December 2022: € 5.8 billion), including € 1.9 billion in deposits from institutional investors and € 2.6 billion in retail deposits.

Money market funding mix as at 31 December 2023

% Total volume: € 18.8 bn



Long-term funding and equity

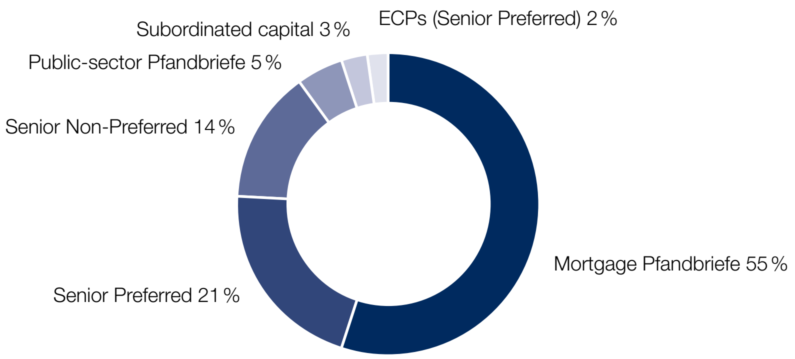
Funding structure

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

As at 31 December 2023, the notional volume of the long-term funding portfolio was € 22.0 billion. The long-term funding portfolio was carried at an aggregate € 20.5 billion.

Capital market funding mix as at 31 December 2023

% Total volume (nominal): € 22.0 bn



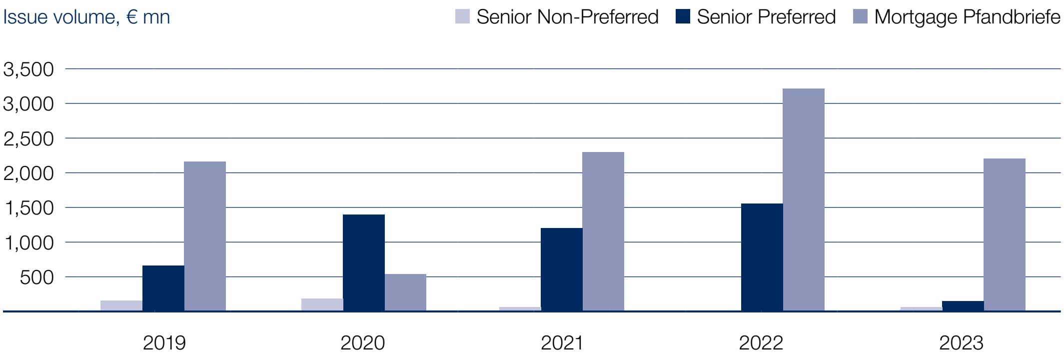
Funding activities

During the 2023 financial year, Aareal Bank Group was able to place € 2.4 billion on the capital markets. This included two benchmark Pfandbrief transactions of € 750 million each, plus another € 500 million issue. Fitch Rating's downgrade on 14 February 2024 (from "BBB+", outlook negative to "BBB", outlook stable) hardly had any impact on our funding situation. Thanks to our broadly diversified funding activities, the downgrade did not lead to any structural changes in our funding strategy.

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.

Issuing activities – 2019 to 2023

Issue volume, € mn



Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 3,300 million as at 31 December 2023 (31 December 2022: € 3,258 million). The increase was due, in particular, to the consolidated net income for 2023. € 300 million was attributable to the Additional Tier 1 (AT 1) bond. Please also refer to the statement of changes in equity, and to our explanations in Note 60 of the consolidated financial statements.

At 19.4 %, the Common Equity Tier 1 ratio (CET 1 ratio) – Basel IV (phase-in) – was markedly above the standardised capital requirement of 15 % in the year under review, as expected.

Regulatory indicators[1)]

€ mn	31 Dec 2023	31 Dec 2022
Basel IV (phase-in)		
Common Equity Tier 1 (CET1) capital	2,661	2,468
Tier 1 (T1) capital	2,961	2,768
Total capital (TC)	3,218	3,065
%		
Common Equity Tier 1 ratio (CET1 ratio)	19.4	19.3
Tier 1 ratio (T1 ratio)	21.6	21.7
Total capital ratio (TC ratio)	23.5	24.0
Basel III		
Common Equity Tier 1 ratio (CET1 ratio)	19.4	19.3

[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 2022: including the originally proposed dividend of € 1.60 per share in 2022 and pro rata temporis accrual of the interest on the AT1 bond, excluding profits for 2022 under commercial law.
31 December 2023: including profits for 2023 and pro rata temporis accrual of interest on the AT1 bond, given that there are no plans to pay out profits for 2023 in 2024. The appropriation of profits is subject to approval by the Annual General Meeting. The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of new NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.
Adjusted total risk exposure amount (in accordance with Article 3 CRR – RWAs), in accordance with currently applicable law (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 (CRR III). 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).

Regulatory capital[2)]

€ mn	31 Dec 2023	31 Dec 2022
Common Equity Tier 1 (CET1) capital		
Subscribed capital and capital reserves	900	900
Eligible retained earnings	2,088	1,985
Accumulated other comprehensive income	-118	-71
Amounts to be deducted from CET1 capital	-209	-346
Total Common Equity Tier 1 (CET1) capital	**2,661**	**2,468**
AT1 bond	300	300
Sum total of Additional Tier 1 (AT1) capital	**300**	**300**
Sum total of Tier 1 capital (T1)	**2,961**	**2,768**
Tier 2 (T2) capital		
Subordinated liabilities	193	248
Other	64	49
Sum total of Tier 2 capital (T2)	**257**	**297**
Total capital (TC)	**3,218**	**3,065**

[2)] 31 December 2022: including originally proposed dividend of € 1.60 per share in 2022 and pro rata temporis accrual of interest on the AT1 bond, excluding profits for 2022 under commercial law.
31 December 2023: including profits for 2023 and pro rata temporis accrual of interest on the AT1 bond, given that there are no plans to pay out profits for 2023 in 2024.
The appropriation of profits is subject to approval by the Annual General Meeting. The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of new NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

Analysis of risk-weighted assets (RWA)[1)]

€ mn	Risk-weighted assets (RWA) 31 Dec 2023	Minimum capital requirements Total 31 Dec 2023	Risk-weighted assets (RWA) 31 Dec 2022	Minimum capital requirements Total 31 Dec 2022
Credit risk (excluding counterparty credit risk)	11,454	916	10,063	805
Counterparty credit risk	520	42	384	31
Market risk[2)]	–	–	136	11
Operational risk	1,283	103	1,142	91
Additional RWA pursuant to Article 3 of the CRR	463	37	1,057	85
Total	**13,720**	**1,098**	**12,782**	**1,023**

[1)] Adjusted total risk exposure amount (as defined in Article 3 CRR – RWAs), in accordance with currently applicable law (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 (CRR III). 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 2023: there was no requirement to cover market risk with regulatory capital since, under Article 351 of the CRR, the sum total of the net foreign currency position in aggregate did not exceed 2 % of regulatory capital.

Our Employees

Our employees play a key role in the future development of Aareal Bank Group: their motivation, entrepreneurial thinking and action, sense of responsibility and the development of forward-looking solutions are decisive for the Group's performance and competitiveness. This is all the more relevant in our complex business, which in many cases is based on long-standing client relationships built on trust. It is therefore of the utmost importance for us to broaden our employees' general knowledge base through our junior staff programme and the targeted promotion of internal transfers and further development, and to allow this to have an impact on our client relationships.

Employee data as at 31 December 2023[1)]

	31 Dec 2023	31 Dec 2022	Change
Number of employees at Aareal Bank Group	3,463	3,316	4.4 %
Years of service	11.2 years	11.1 years	0.1 years
Staff turnover rate	7.5 %	10.0 %	-2.5 percentage points

[1)] 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 % 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 continue the cross-mentoring programme, whereby mentees and mentors from different companies exchange ideas in a professional tandem relationship. This is another way in which we promote targeted, cross-divisional exchange and knowledge transfer.

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. We continued to expedite talent recruitment and training during the year under review.

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. 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 (facilitated by the City of Wiesbaden), 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. 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, and business yoga in a digital format.

Risk Report

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 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-related 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 material mid- to long-term risk factors of climate transition risk related to technology, the risk of regulatory breaches as well as governance factors such as fraud, sustainability management and data protection. In addition, there is client behaviour as an overarching factor. Management and monitoring of ESG risks are further refined on an ongoing basis, suitable risk indicators and limits for climate and environmental risks are being developed for this purpose.

Risk management – scope of application and areas of responsibility

Aareal Bank AG 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 individual entities. In addition, risk monitoring for these entities is carried out at Group level via the relevant control bodies of the respective entity, and equity investment risk controlling.

Overall responsibility for Aareal Bank Group's 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 Management Credit Portfolio Management Capital Markets Management Workout	Risk Controlling Second Line of Defence (NPL)
Treasury business	Treasury	Risk Controlling
Country risks	Treasury Credit Management Capital Markets 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 Chief Risk Officer (CRO).

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 the respective control activities being outlined in the Written Set of Procedural Rules for the 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 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). Following a plausibility check carried out by a centralised ICS Coordination Unit, results are 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 I (CET1) capital forms the basis for determining economic aggregate risk cover. Additional Tier I (AT1) capital is not added to internal capital. Tier 2 capital, as well as projected results to be incurred during the risk analysis horizon, are not taken into account.

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

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 %.

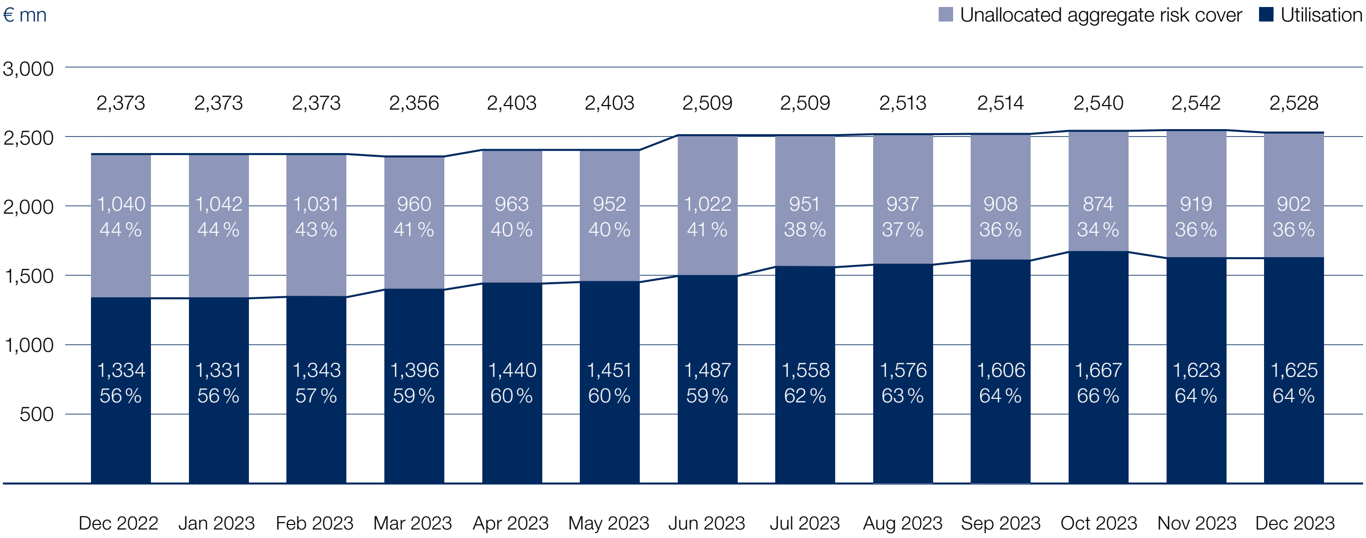
Limits for specific risk types are determined in such a manner that aggregate limits do not exceed economic aggregate risk cover, less a risk buffer designed to cover risks not explicitly covered by limits, and to also absorb other fluctuations of internal capital over time. Individual limits are set 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.

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

€ mn	31 Dec 2023	31 Dec 2022
Common Equity Tier 1 capital (CET1 in accordance with Basel III)	2,661	2,468
Economic adjustments	-133	-95
Aggregate risk cover	**2,528**	**2,373**
Utilisation of aggregate risk cover		
Loan loss risks	680	467
Interest rate risk in the banking book (IRRBB)	99	86
Pension risks	118	72
Market risks	385	406
Operational risks	103	91
Investment risks	43	75
Property risks	100	71
Business and strategic risks	97	66
Total utilisation	**1,625**	**1,334**
Utilisation (% of aggregate risk cover)	**64 %**	**56 %**

Utilisation of aggregate risk cover during the course of 2023



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.

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 are integrated into the stress testing methodology; ESG-related stress test calculations comprise scenarios depicting climate change, 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, Capital Markets 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 Capital Markets 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.

Capital Markets 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.

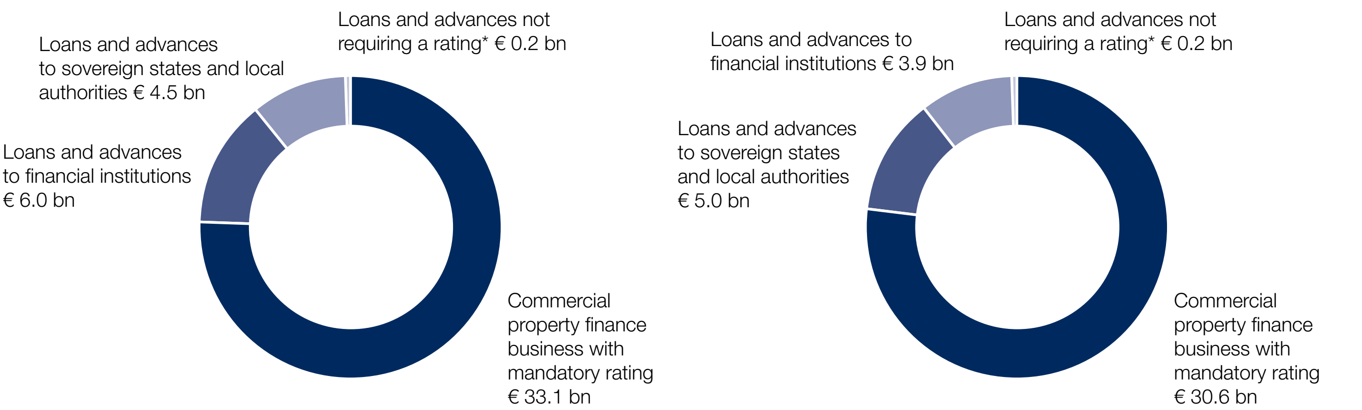
In light of geopolitical and macro-economic uncertainty, special attention is currently paid to economic forecasts. In the context of this ongoing review, we also rely on projections published by the ECB, apart from those issued by our usual data providers. Yet estimation uncertainties are currently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

We use a credit portfolio risk model to measure, control and monitor concentration and diversification effects on a portfolio level. This is 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 2023 | 31 Dec 2022



* 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.

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 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 2023					31 Dec 2022				
	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
€ mn										
Class 1	–	–	–	–	**–**	–	–	–	–	**–**
Class 2	50	–	–	–	**50**	158	–	–	–	**158**
Class 3	48	–	–	–	**48**	258	–	–	–	**258**
Class 4	734	–	–	–	**734**	775	24	–	–	**799**
Class 5	3,359	19	–	18	**3,396**	4,367	19	–	18	**4,404**
Class 6	4,249	–	–	68	**4,317**	4,296	52	–	112	**4,460**
Class 7	6,268	79	–	5	**6,352**	4,534	772	–	37	**5,343**
Class 8	4,393	912	–	32	**5,337**	2,610	1,352	–	52	**4,014**
Class 9	4,254	2,551	–	0	**6,805**	3,649	2,623	–	33	**6,305**
Class 10	1,378	794	–	23	**2,195**	962	1,519	–	42	**2,523**
Class 11	234	372	–	–	**606**	157	116	–	–	**273**
Class 12	–	188	–	–	**188**	–	97	–	–	**97**
Classes 13-15	–	426	–	–	**426**	–	–	–	–	**–**
Defaulted	–	–	1,468	109	**1,577**	–	–	983	133	**1,116**
Total	**24,967**	**5,341**	**1,468**	**255**	**32,031**	**21,766**	**6,574**	**983**	**427**	**29,750**

[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 2023					31 Dec 2022				
	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
€ mn										
Classes 1-3	1	–	–	–	**1**	–	–	–	–	**–**
Class 4	7	–	–	–	**7**	5	–	–	–	**5**
Class 5	13	–	–	–	**13**	52	–	–	–	**52**
Class 6	134	–	–	–	**134**	72	–	–	0	**72**
Class 7	151	–	–	–	**151**	62	19	–	–	**81**
Class 8	167	21	–	–	**188**	211	33	–	–	**244**
Class 9	205	102	–	–	**307**	84	18	–	–	**102**
Class 10	122	–	–	3	**125**	211	20	–	–	**231**
Class 11	100	49	–	–	**149**	19	–	–	–	**19**
Classes 12-15	–	3	–	–	**3**	–	–	–	–	**–**
Defaulted	–	–	10	–	**10**	–	–	2	–	**2**
Total	**900**	**175**	**10**	**3**	**1,088**	**716**	**90**	**2**	**0**	**808**

[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 2023					31 Dec 2022				
€ mn	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
Class 1	478	–	–	–	**478**	322	–	–	–	**322**
Class 2	418	–	–	–	**418**	157	–	–	–	**157**
Class 3	281	–	–	–	**281**	476	–	–	–	**476**
Class 4	2,579	–	–	–	**2,579**	1,102	–	–	–	**1,102**
Class 5	55	–	–	–	**55**	302	–	–	–	**302**
Class 6	281	–	–	–	**281**	7	–	–	–	**7**
Class 7	1,141	–	–	–	**1,141**	655	–	–	–	**655**
Class 8	593	–	–	–	**593**	422	–	–	–	**422**
Class 9	87	–	–	–	**87**	396	–	–	–	**396**
Class 10	30	8	–	–	**38**	18	–	–	–	**18**
Classes 11-18	–	–	–	–	**–**	–	–	–	–	**–**
Defaulted	–	–	–	–	**–**	–	–	–	–	**–**
Total	**5,943**	**8**	**–**	**–**	**5,951**	**3,857**	**–**	**–**	**–**	**3,857**

[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 2023					31 Dec 2022				
€ mn	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
Class 1	1,887	–	–	–	**1,887**	1,687	–	–	–	**1,687**
Class 2	1,317	–	–	–	**1,317**	1,802	–	–	–	**1,802**
Class 3	451	146	–	–	**597**	495	–	–	–	**495**
Class 4	40	–	–	–	**40**	30	–	–	–	**30**
Class 5	12	–	–	–	**12**	21	–	–	–	**21**
Class 6	112	–	–	–	**112**	273	–	–	–	**273**
Class 7	24	–	–	–	**24**	120	–	–	–	**120**
Class 8	550	–	–	–	**550**	526	–	–	–	**526**
Class 9	–	–	–	–	**–**	–	–	–	–	**–**
Classes 10-20	–	–	–	–	**–**	–	–	–	–	**–**
Defaulted	–	–	–	–	**–**	–	–	–	–	**–**
Total	**4,393**	**146**	**–**	**–**	**4,539**	**4,954**	**–**	**–**	**–**	**4,954**

[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[1)] and master agreements for securities repurchase transactions (repos)[2)] used by the Bank provide for credit risk mitigation techniques, via mutual netting framework agreements ("contractual netting agreements").

The master agreements for financial derivatives used by the Bank contain netting 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").

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

[2)] Any comments below referring to master agreements for securities repurchase agreements (repos) also pertain to the master agreement issued by the International Capital Markets Association Inc. (ICMA) (the "Global Repurchase Agreement"). Both agreements are standardised agreements recommended by leading associations – among others, by the Association of German Banks (Bundesverband deutscher Banken – "BdB").

In general, all master agreements for financial derivatives are based on the principle of a common agreement. This means that, in the case of a termination or counterparty default, 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 contractual netting 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. Hence, the Bank decides for each individual transaction whether close-out netting is viable, thus allowing set-off against other individual transactions covered by the relevant framework agreement. The Bank uses eligible contractual netting agreements within the meaning of Article 296 of the CRR for all transactions with financial institutions; in many cases there are additional collateral agreements which further reduce the relevant credit risk.

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

The Bank also 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 on a single transaction level. For this purpose, the Bank applies the Financial Collateral Comprehensive Method in accordance with chapter 4 (Articles 223 et seqq.) of the CRR.

In principle, framework agreements for securities repurchase transactions (repos) provide for close-out netting of all individual transactions covered by a contractual netting agreement. However, as far as repos are concerned, the Bank has not yet made use of the regulatory option to reduce the capital backing for all individual transactions covered by a contractual netting agreement.

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

Collateral for financial derivatives is usually provided in cash. Securities repurchase agreements (repos) are usually collateralised through the exchange of securities.

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

Country risks

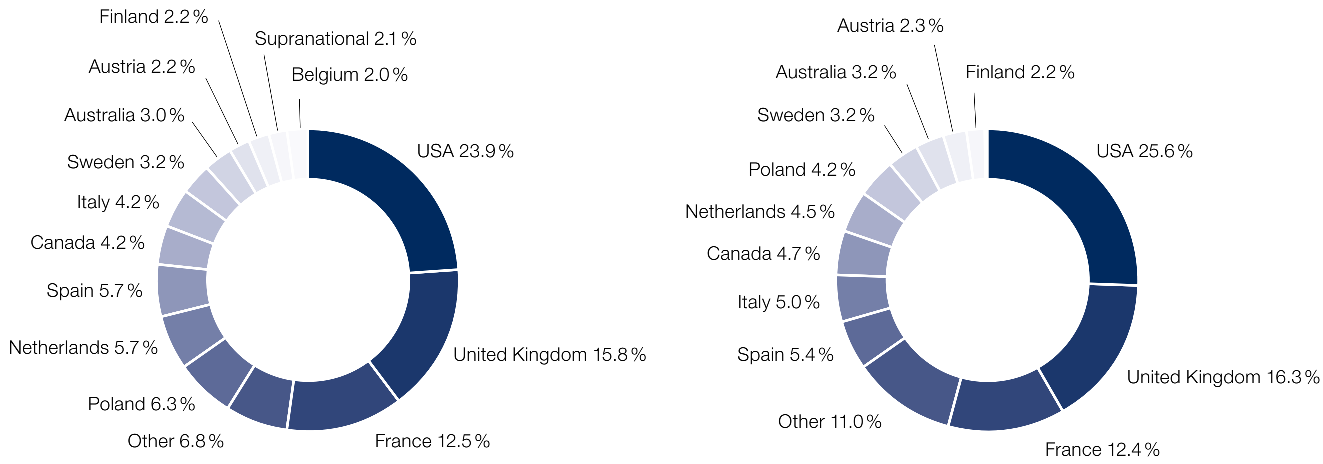
Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment 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 2023 | 31 Dec 2022



Interest rate risk in the banking book

Definition

IInterest 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);
- 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); and
- risks from changes in Aareal Bank's specific funding spreads (funding risk).

Risks arising from fluctuations in the value of fund assets (funds risk) have been reclassified to other market risk. Work in the context of the benchmark reform has been completed: for all currencies affected, the so-called risk-free rate of the respective currency is the reference for measuring interest rate 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 scenarios 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 (1.88 years on average), using the average residual amount of deposits observed in the past. Modelling does not include deposits by large clients from the financial sector, in line with EBA Guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2022/14).

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, which tends to overstate VaR. The new EBA guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2022/14), which were applicable as at 30 June 2023 for the first time, did not lead to any further material adjustment of present values.

In addition to this and in line with EBA/GL/2022/14 (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 the present value approach, net interest income includes not only the earnings contributions of the modelled existing business as at the planning or forecast date, but also the income and expenses from planned new business and prolongations. 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; to this end, EBA guidelines EBA/GL/2018/02 on the management of interest rate risk arising from non-trading book activities are still applied.

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 2023		31 Dec 2022	
	-200 bp	+200 bp	-200 bp	+200 bp
€ mn				
EUR	-43	40	-40	23
GBP	12	-18	15	-25
USD	36	-45	18	-14
Other	8	-8	6	-6
Total	**13**	**-31**	**-1**	**-22**
Ratio to regulatory capital requirements in accordance with Basel III (%)	**0.4**	**1.0**	**0.0**	**0.7**

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 %.

€ mn	31 Dec 2023	31 Dec 2022
Parallel shock up	-35	-28
Interest rate coefficient for parallel shock up (%)	1.2	1.0
Parallel shock down	18	4
Interest rate coefficient for parallel shock down (%)	0.6	0.1
Steepener shock	-2	7
Interest rate coefficient for steepener shock (%)	0.1	0.3
Flattener shock	-13	-24
Interest rate coefficient for flattener shock (%)	0.4	0.9
Short-term rates shock – up	-32	-29
Interest rate coefficient for short rates shock up (%)	1.1	1.0
Short-term rates shock – down	1	22
Interest rate coefficient for short rates shock down (%)	0.0	0.8
Tier 1 capital in accordance with Basel III	**2,961**	**2,768**

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 stochastical 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 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);
- risks from fluctuations in the value of fund assets (fund risk); and
- risks from adjustments to the credit valuation of OTC – derivatives (CVA risk).

This means that credit spread risk in the banking book (CSRBB) is assigned to market risk. The requirements of new EBA Guidelines on the management of interest rate risk and credit spread risk arising from non-trading book activities (EBA/GL/2022/14) have been applicable for the first time as at 31 December 2023. The calculation of credit spread risks was reviewed and adjusted during the course of implementation of these new guidelines. A material adjustment in this context involved incorporating sensitivities associated with the Bank's own benchmark issues to suitable Pfandbrief and senior unsecured spreads in the risk indicators.

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 days[1]. The loss potential is determined applying a 99.9 % confidence interval.

Backtesting

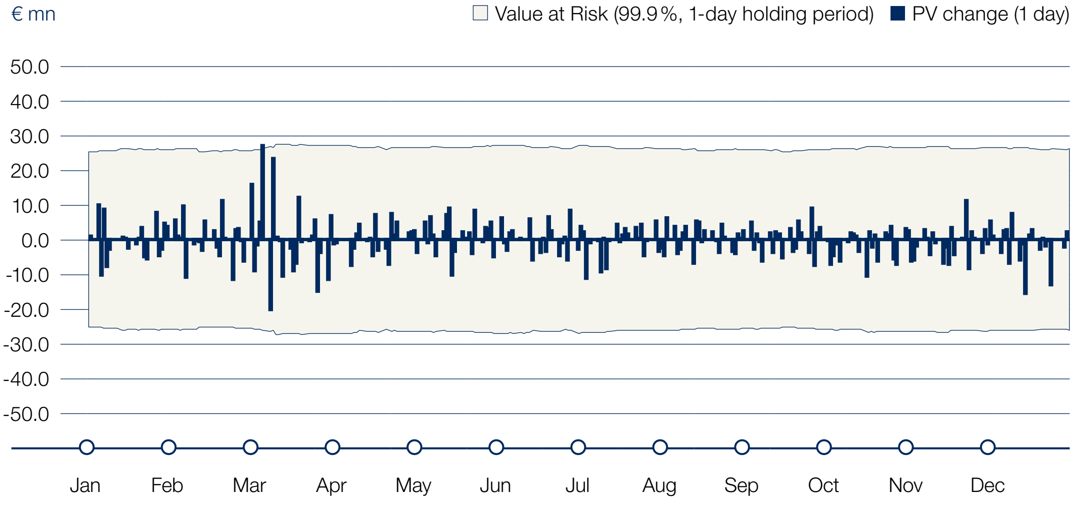
The quality of forecasts made using statistical models is checked through a monthly backtesting process. The quality of the statistical procedure used to measure risk is checked using a method referred to as binomial test, whereby daily profits and losses from market fluctuations are compared with the 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.

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

Present values and 1-day VaR during the course of 2023



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 the Group-wide 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'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 at Group level, whether in or out of court. The Bank's decentralised operating legal entities, as well as the legal departments of individual Group entities 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 and testing 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.

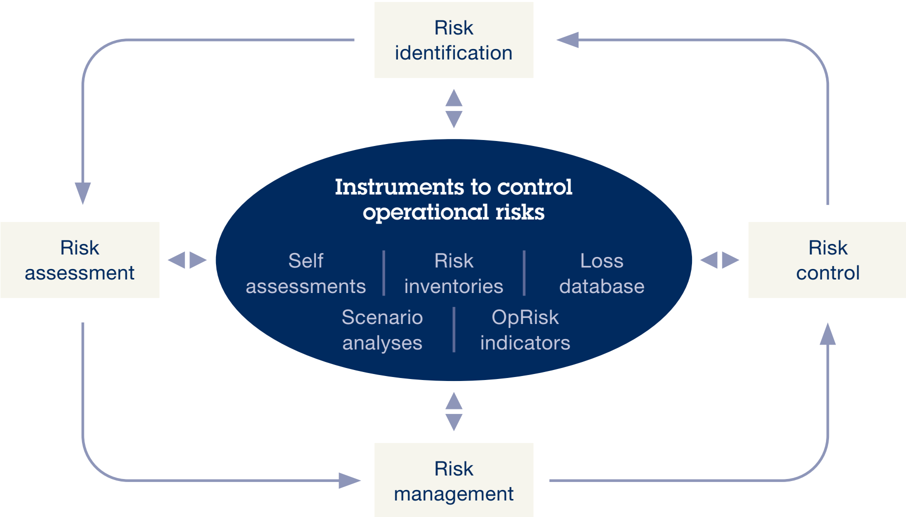
The Bank currently uses the following risk control tools to manage operational risks:

- 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 I.

Management of operational risks



No material risk concentrations were evident in the 2023 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 10 % 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 investment risk 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. This was supplemented by a concentration risk component, to account for cases where individual investments constitute a significant concentration risk for the Bank as a whole. 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.

Group Strategy, 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. Over and above this, the model takes into account idiosyncratic shock events for individual properties which may occur independently of general market developments.

Property holdings as at the reporting date increased as a result of the acquisition of two property SPVs from US lending exposures.

Business and strategic risks

Definition

Business and strategic risks are defined as risks 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

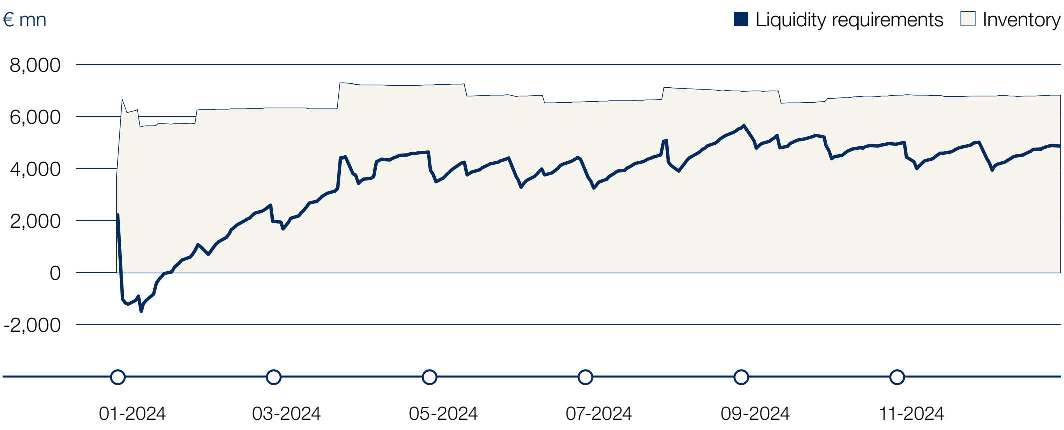
Moreover, we employ stress tests and scenario analyses to assess the impact of sudden stress events onto the Bank's liquidity situation. The various standardised scenarios used, which include historic, idiosyncratic, market-wide and combined scenarios, are evaluated on the basis of the liquidity run-off 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 the Company 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 2024. 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 effec-tiveness 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 2023.

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

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

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

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

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

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

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

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

Aareal Bank has to comply with legal requirements. If these requirements change, for example in the form of new laws or changes in accounting standards, the processes or IT systems will be adjusted as required in separate projects across divisions – based on a clearly-defined allocation of functions, and the accounting-related Risk Management System will be adjusted to take the amended rules into account. Current developments of statutory and legal provisions applicable for Aareal Bank are constantly monitored and communicated to the relevant 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

Macro-economic environment

Economic activity, the financial and the commercial property markets are all exposed to numerous risks. Some downside risks weakened during 2023, for example through declining inflation rates and the elimination of supply chain disruptions. Some risks also proved to be temporary. Nonetheless, the subject of risks still dominates the overall view. The Russian invasion of Ukraine, which has caused enormous humanitarian and economic distress, remains an extraordinary concern. Other risks that could have a negative impact are geopolitical risks, the repercussions of declining (but persistently high) inflation, an excessive monetary tightening by central banks, increased public and private debt, doubts about the cohesion of the European project as well as the consequences of the transformation of the economy towards more climate neutrality.

The consequences of the Russian invasion of Ukraine and mutual sanctions between the West and Russia continue to have a serious negative impact on many economies, which may persist or be exacerbated if the conflict continues. Since Russia is a major exporter of oil, gas, nickel and palladium, while Ukraine is a major exporter of grain, this war continues to create the potential for considerable volatility on the commodity markets. This, together with an increased risk of cyberattacks, heightened investor reluctance, and the risk of critical infrastructure sabotage, puts economic growth at serious risk. In this context, it is fair to expect that the economic relationship between Russia and the West will not normalise completely in the near term, even if the war should end.

In addition, Russia and China are apparently forming an alliance against the Western world. Since China has a major role in global supply chains, escalating trade conflicts could significantly damage the global economy and would certainly be exacerbated if China attacked Taiwan. Meanwhile, after the Covid-19 pandemic had demonstrated the vulnerability of global supply chains, decoupling processes and general efforts towards de-globalisation can already be observed. Other geopolitical risks, such as terrorism and military conflicts, could also have enormous effects on the markets and their participants: following Hamas's attack on Israel and Israel's invasion of the Gaza Strip, the threat of terrorism has increased not only in the Middle East, but also in Western countries. This conflict also harbours the risk of increased volatility in energy prices. In particular, there is a risk of the conflict spreading to the Middle East, which in turn might disrupt global oil supplies.

While energy and commodity prices were the main drivers of inflation in the first half of 2022, price pressures subsequently became increasingly broad-based, pushing inflation in many economies to its highest level in several decades. Although energy-related price pressures subsided in 2023, persistently high core inflation suggests that companies are passing higher input costs (including catch-up effects on the wage front) directly through to consumers in the form of higher prices for goods and services – with the express intention of protecting their profit margins. To the extent that demand could meet supply shortages in the future, prices of some goods and services may continue to rise, contributing to high inflation rates and (potentially) to persistently higher inflation expectations. Another possibility is that structurally higher energy prices, for example due to supply shortages, may become a permanent concern, especially for major developed countries – and particularly for Germany, which is also phasing out nuclear energy.

Central banks continue to face the difficult task of bringing inflation rates back in line with target values without jeopardising financial stability. Persistently high inflation along with a sustained elevated level of interest rates present a major risk to the financial and property markets, making it imperative to the central banks to strike the right balance when it comes to tightening their monetary policy. Such monetary tightening could have serious consequences and may trigger a substantial rise in bond yields and negative corrections on the equity and property markets. In addition, limited liquidity on the funding markets may place financial institutions under enormous pressure and, combined with uncertainties about economic momentum, could inhibit lending activity. Another source of stress for banks' profitability is the ECB's decision to cut the interest rate on minimum reserves to 0%, and the further tightening of regulatory requirements. Lifting the level of required minimum reserves – an option that is currently being discussed by some Eurosystem central banks – would make life for banks even more difficult.

Another risk is rising government indebtedness as a consequence of massive fiscal stimulus alongside the slowdown in economic growth and a lack of willingness to reform. With bond purchase programmes expiring and ongoing monetary tightening by central banks, risk premiums for highly indebted countries – and also developing and emerging countries – have already risen. Non-financial corporate debt has also climbed to a high level in many advanced economies, mainly reflecting bond issuance. Reduced macro-economic activity or other risks could be a reason for downgrading the rating of these bonds.

Political anti-EU sentiment is a major long-term threat – not only to the member states but European cohesion as a whole, although Poland has recently been sending encouraging signals. Insufficient coordination and cooperation in the refugee crisis, slowing economic growth, and recessionary fears have all fuelled the risk of rising populism and resulting electoral success for populist parties in several countries. The reform backlog and structural economic problems in some euro zone countries present further uncertainty, risk and stress factors. Whilst 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 address structural problems. Finally, for the US, political confrontation between the two main parties – particularly in light of the upcoming presidential election on 5 November 2024 – bears the risk that profound uncertainty amongst consumers and investors alike will weigh upon economic activity.

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 of the economy, for instance, not only involves energy supply, but also requires significant changes in industry, transport, construction and agriculture. However, this also offers opportunities for investment in related technologies or the decarbonisation of properties. 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 increase over time. The extent of this increase will depend on how well the global community succeeds in reducing greenhouse gas emissions.

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

Opportunities lie in a faster decline in inflation combined with faster than expected monetary easing and a further reduction in the excess savings accumulated during the Covid-19 pandemic, which could boost private consumption. Productivity increases, for example through the adoption of digital technology or progress with AI, should also be mentioned here.

Economy

A variety of stress factors support the assumption that global economic activity will continue to be hampered in 2024. Specifically, we expect that monetary tightening will only take its full effect in 2024 and that insufficient fiscal support will be a drag on growth in many countries. A recession, however, will likely be avoided in most countries. Both overall and core inflation will continue to subside, allowing the major central banks to start cutting interest rates during the course of 2024, which will favour growth in the second half of the year. While lower inflation should support consumer spending, this may be countered by a slight increase in unemployment which could slow down the growth of real disposable household incomes and thus have a dampening effect on consumer spending.

The euro zone's real gross domestic product should see slightly stronger growth in 2024 than in the previous year, albeit at a low level given the multiple burdening factors. The economy should gain momentum throughout the year, as the purchasing power of private households will grow, whilst financial conditions will ease. Diverging economic trends between European regions should persist for the time being: in particular those economies with a large industrial sector (such as Germany) should see slower growth than the euro zone as a whole.

Positive real economic growth is also expected for the UK in the full year 2024, reaching a similarly low level as in the euro zone. Despite the ongoing decline in inflation, the full impact of monetary tightening should become palpable and prevent the upturn from gaining momentum. This will be aggravated by the expiry of economic and energy-related aids introduced during the pandemic and the implementation of announced tax increases, which would mean fiscal tightening and a reduction in government spending.

The US should see growth levels significantly ahead of the euro zone and the UK in 2024 due to labour market strength, a continued decline in inflation and the expected easing of financing conditions.

We expect positive real growth for Australia in 2024, albeit at a lower rate than in the previous year. Growth should be driven by strong private consumption and positive momentum for imports and exports. A decline in corporate investments and a rise in unemployment, on the other hand, should act as a drag on economic activity.

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. Steeper funding costs in 2023 were a reflection of monetary policy tightening induced by rising inflation, along with higher levels of uncertainty. They should decline slightly in the course of 2024, whilst remaining at a high level. Major central banks recently confirmed their intention to keep key interest rates at restrictive levels for as long as necessary, depending on available data.

We expect the funding markets relevant for Aareal Bank to remain accessible during 2024. Nevertheless, the developments seen in 2023 and the apparent reservations about commercial property financing suggest that higher liquidity premiums for all products and property finance providers can be expected compared to medium-term history.

We expect an ongoing decline in inflation throughout 2024, albeit at a slower pace than in the previous year. However, the speed and exact development of the decline will vary from country to country, depending on how relevant individual supply and demand factors were for the rise in inflation and when monetary tightening measures were initiated. Specifically, we are expecting a quicker return to the inflation target in the euro zone and deeper interest rate cuts than in the US and the UK.

The key priority for central banks during 2024 will be once more to steer inflation rates back towards the target level. Once inflation approaches its target value, central banks should shift their attention to future economic conditions and adjust their monetary policy accordingly. But having lived through a period of overshooting inflation, central banks will presumably act with caution and focus on slowly lowering interest rates to less restrictive levels. On top of the ongoing reduction of the securities holdings created under the APP since 2023, the ECB will also begin to reduce assets acquired under the PEPP in 2024. In addition, it will also stop reinvesting principal payments from the second half of the year onwards. The BoE and the Fed will further reduce their securities holdings, too.

We expect interest rates in advanced economies to decline in 2024 compared to the previous year and anticipate that interest rates will go down more quickly and more sharply in the eurozone than in the US and the UK. In addition, we expect that the inversion of the yield curves will be reversed earlier in the eurozone than in the US and the UK.

Regulatory environment

It is fair to expect the trend towards a tighter regulatory framework to persist in the years ahead.

This includes, in particular, the final steps to fully implement the EU Banking Package which stipulates implementation of the final draft of the Basel III framework into EU law (known as “Basel IV”), as resolved by the Basel Committee (BCBS). Following lengthy negotiations, the parties involved in the legislative process eventually reached an agreement at the end of 2023, meaning that final regulations and directives are expected to be published in the EU’s Official Journal, and thus enter into force, during the first six months of 2024. Meanwhile, the European Banking Authority (EBA), following its roadmap, will work on implementing its mandates to prepare technical standards, which serve to specify the rules and provisions, in 2024. The scheduled first-time application of the new regulations most relevant for the Bank is 1 January 2025 – two years later than initially planned by the BCBS.

Quarterly reporting requirements regarding interest rate risk in the banking book will have to be met regularly from the reporting date of 30 September 2024 onwards. The supervisory authorities accelerated these requirements through ad-hoc reports for the reporting dates of 31 December 2023, 31 March 2024 and 30 June 2024.

In addition, the EU intends to adopt a package of measures to overhaul its anti-money laundering and countering of terrorist financing frameworks. Aside from a new EU regulation and a revision of the applicable EU directives, it stipulates the creation of a new anti-money laundering and terrorist financing authority, which is to be fully established by 2025. Final resolutions about the foundation of this authority and its general responsibilities were already passed in December 2023; a trilogue on the remaining elements of the package is still under way.

To improve the sector's resilience vis-à-vis information and communication technology risks, the EU Commission and the European Council adopted the Regulation on digital operational resilience for the financial sector (known as the Digital Operational Resilience Act – "DORA") at the end of 2022; implementation is scheduled at the latest by 17 January 2025.

In addition, requirements for sustainable business and ESG risk management will increasingly define the regulatory landscape in the years to come. One of the main foundations in this context is the introduction and further expansion of the EU taxonomy for the classification of economic activities. Disclosure requirements for the 2024 financial year will also increase due to the first-time application of the Corporate Sustainability Reporting Directive (CSRD). In addition, the number of data points to be published in 2024 will increase due to the requirement for large listed institutions to include qualitative and quantitative information on ESG risks in the regulatory disclosure report on a half-yearly basis, as stipulated by the CRR II.

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

Moreover, 2023 saw a trend towards the (re)introduction of capital buffer requirements, with regulatory authorities in many countries defining or increasing countercyclical buffers and/or capital buffers for systemic risks. Should it continue, this trend will lead to further increases in capital buffer requirements.

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 2024, depending on the region and property type. Given the high financing costs, we believe that the general conditions for the property markets will remain challenging. Other uncertainty factors and risks in the macro-economic environment also remain relevant; increasing political and geopolitical uncertainty, a dragging economic recovery or investor reticence all might negatively affect property values. In fact, restrictive lending standards, persistently low investor confidence, high borrowing costs, and the gradual transmission of interest rate increases to the market are making a timely recovery difficult. The fact that the major central banks are likely to cut interest rates is positive for the commercial property industry; however, the gradual refinancing of fixed-rate loans means that the average effective interest rate paid by the market will continue to rise in the near term. Especially when fixed-rate periods or hedging instruments expire, this may have a negative impact on the viability of debt service or on the investors' free cash flow after having serviced their debt. A loss of tenants due to negative economic developments and the resulting lower demand may even exacerbate the situation.

For the financing markets, the Bank anticipates that strong competitive pressure will persist, especially in regions and for property types that have already experienced high demand in recent years, even though lending conditions have generally become more restrictive. Higher financing costs and more restrictive lending policies should counteract an increase in loan-to-value ratios (LTVs); we thus assume stable LTV ratios for new business. However, improvements in the market environment could put direct pressure on margins or result in higher LTV ratios. While we assume that transaction activity will remain reduced, especially in the first half of 2024, the substantial accumulation of uninvested capital from investors around the world and an increasingly attractive yield level should mitigate another significant downward pressure on demand as the one seen in 2023. Low transaction volumes as such limit the opportunities for new business. But since the sale of a property may indicate the repayment of a loan that is due or even early repayment, a decrease in sales suggests that renewal rates remain elevated and early repayments occur less frequently.

Despite the expected interest rate cuts in 2024, the monetary policy environment will remain tight, causing considerable uncertainty for commercial properties. The elevated cost of capital associated with higher interest rates, for example, will result in a lower valuation of commercial properties if these costs are not offset by rent increases. This risk will grow if higher interest rates go along with more restrictive lending standards, which can limit the financing options for potential property buyers.

Should the trend towards increased remote working continue or even intensify, more and more 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 varies depending on the market, the country, and a property's quality. On the other hand, communal and flexible working space 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. There is also the possibility that office properties that do not meet the changed tenant requirements may permanently leave the market, which could lead to a shortage of office supply and could counteract a decline in rent levels.

All in all, Aareal Bank expects that the rise in interest rates and financing costs compared with recent years will continue to weigh on the market values of commercial properties in 2024 and may lead to further downward pressure depending on property type and location. This pressure on property values is expected to last until 2025, followed by a period of stabilisation or growth. 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. The current year is exposed to cyclical risks, i.e. higher interest rate levels and slightly weaker labour markets could mean that private consumption might not recover as expected, which, in turn, could have a negative impact on rental growth. Sustained low unemployment rates on the other hand should continue to mitigate negative effects on the retail segment. Apart from that, it should be noted that the retail market had already seen valuations decline in recent years.

Hotels saw a significant recovery in both occupancy and income over the last two years, depending on location and segment. However, the recovery seems now largely achieved even if international tourism has not yet returned to pre-pandemic levels. The sector's fundamental data and income should remain sound in the near term, despite the pressure on real income and the uncertain economic outlook. Unemployment continues to be low; however, hotel income should not grow very much given that room rates have already seen substantial raises and that households are feeling inflation-related real effects upon incomes. While higher operating and personnel costs are having a negative impact on free cash flows, this should not be a fundamental threat to the hotel segment. The high interest rate levels should continue to weigh on average market values in the short term.

We have a positive outlook for co-living, i.e. shared housing for a limited period of time, and student housing, where demand from international students has already recovered 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 anticipate investor interest remaining high in this segment.

We expect for the current year that the market values of office properties will again see the strongest average price pressure of all property types and that rental growth will likely slow, driven by potential changes in space requirements and the increasing influence of sustainability standards. We expect underperformance from properties that fail to comply with corporate environmental and sustainability goals along with government climate targets. A significant downside risk for this forecast lies in a sharper than expected decline in the market values of office properties. The market is undergoing a period of price discovery; the small number of transactions is complicating this process, though. If the number of office properties in serious distress increased strongly, yields would rise due to higher risk premiums, while market values would plummet.

Our assessment of logistics properties remains positive overall, 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. The low level of availability is supported by additional demand from retail companies and logistics service providers. However, rising yields should also generally weigh on market values for this property type in 2024.

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, we are simulating further potential macro-economic scenarios in addition to our "baseline" scenario.

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

in %	2023	2024	2025	2026
“Baseline” scenario				
Gross domestic product (year-on-year change in %)				
Euro zone	0.5	0.6	1.8	2.0
USA	2.4	1.2	1.3	2.2
UK	0.6	0.5	1.5	1.9
Unemployment (%)				
Euro zone	6.6	6.7	6.6	6.4
USA	3.7	4.4	4.3	4.2
UK	4.0	4.5	4.4	4.1
Long-term interest rates (10-year government bonds) (%)				
Euro zone	3.2	2.9	2.8	2.7
USA	4.0	4.1	3.7	3.4
UK	4.0	4.0	3.9	3.5
Portfolio-weighted property price development (2023 basis = 100 %)	100 %	96 %	96 %	96 %

In the Structured Property Financing segment, we aim to originate new business of between € 8 billion and € 9 billion for the 2024 financial year, so that Aareal Bank Group’s property financing portfolio will amount to approximately € 33 billion to € 34 billion, subject to exchange rate fluctuations. To manage our portfolio and risk exposure, we also use syndications.

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

Banking & Digital Solutions segment

Germany’s housing and commercial property industries are expected to continue to show solid development in 2024, despite the geopolitical and macro-economic uncertainties. The expected ongoing population growth in conjunction with a decline in new construction projects and the trend towards smaller households will not relieve pressure on the housing market; further rent increases should especially hit economic centres. It also remains to be seen how the interest rate cuts expected by the market will affect house and apartment prices as well as the affordability of new construction projects.

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 further course of 2024. 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. The intensification of joint activities agreed between Aareal Bank, First Financial and Aareon at the end of the 2023 financial year should also contribute to this in 2024.

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. Leveraging the AI-supported intelligent invoicing and dunning system of our subsidiary collect.AI (acquired in 2022), we see opportunities to further establish a standard for digital receivables management for our clients in the housing and energy industries in the context of integrating various payment routes.

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 backdrop and based on the expected positive effects from the agreed intensification of joint activities between Aareal Bank, First Financial and Aareon, we aim to achieve further net commission income growth in 2024 (2023: € 33 million). We further anticipate an average deposit volume from the housing industry of around € 13 billion, which will contribute to significant net interest income.

Aareon segment

Aareon will continue to implement its growth strategy in the 2024 financial year.

Aareon's consolidated sales revenues for the 2024 financial year are expected to increase significantly, to between € 440 million and € 460 million (2023: € 344 million). with revenue growth of the companies acquired in 2023 being the main revenue driver, aside from recurring business with SaaS contracts.

Organic revenue growth in recurring business will be driven by the ongoing expansion of new client business and further up-/cross-selling to existing clients. We do not expect significant client churn for 2024 since Aareon's software is highly relevant for the business processes of its clients. The licence business will continue to decline as a direct consequence of the shifted focus to SaaS contracts. Professional Services revenue is expected to reach about the same level in 2024 as in the year under review.

Organic growth will be complemented by inorganic growth through mergers & acquisitions in line with the corporate strategy. The full consolidation of the companies acquired during 2023 (especially IESA, which was recognised in the Consolidated Financial Statements only for one month in 2023) will thus be growth driver in 2024. In addition, integrated payments solutions specialist Aareal First Financial Solutions AG (which markets BK01 solutions, etc.), of which Aareon acquired a majority stake from Aareal Bank AG as at 31 December 2023, will help Aareon to significantly accelerate revenue growth. Through Aareal First Financial Solutions, Aareal Bank and Aareon have pooled their expertise regarding payments solutions software for the housing industry.

Despite likely inflation-related salary increases and the companies acquired in 2023, total expenses are expected to increase only slightly in 2024, in particular as a result of the strategic measures taken in 2023 to optimise expenses. Especially personnel expenses are expected to remain stable, whilst cost of materials and other expenses are expected to rise, driven by higher hosting expenses in connection with the SaaS contracts and higher travel and marketing expenses.

Adjusted EBITDA[1)] is expected to be significantly higher than in the previous year, coming in at between € 160 million and € 170 million (2023: € 100 million). Aareon will continue its acquisition strategy, which may lead to M&A-related expenses in 2024 as well. No other significant adjustments are planned for 2024.

Strategic focus

Aareal Bank Group's strategy focuses on sustainable business success. Environmental, social and governance aspects are therefore key elements of its business strategy. All of these aspects are covered by short- and medium-term targets. The medium-term strategic development is therefore 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, as well as banking and consulting services and digital solutions for the institutional housing sector in Europe and related industries on the other.

Based on the "Aareal Next Level" strategy, individual business activities will be developed further, in a targeted manner, in order to sharpen their own independent profiles, accelerate the Group's growth overall, and create value for shareholders and other stakeholders.

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

[1)] Earnings before interest, taxes, depreciation and amortisation before new products, Value Creation Programme (VCP), ventures, M&A activities and non-recurring effects 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 (NPLs) and sustainably lower the non-performing exposure ratio (NPE 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 its 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 the leading supplier of SaaS solutions for the European property sector is set to be expanded. The pace of Aareon's growth is set to be maintained, with profitability rising further through organic growth initiatives 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 external debt taken out in August 2023 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 further measures are being implemented to enhance the efficiency of the organisational structure, processes and infrastructure.

Atlantic BidCo GmbH's ("Atlantic BidCo") voluntary public takeover offer for Aareal Bank AG was closed in May 2023. In October 2023, Atlantic BidCo published a public delisting offer to acquire all outstanding Aareal Bank shares for an offer price of € 33.20 per share. Following Aareal Bank's delisting at the end of November 2023, Aareal Bank shares are no longer traded in the Regulated Market segment of the Frankfurt Stock Exchange. After completion of the delisting offer in December 2023, Atlantic BidCo GmbH, holding a stake in Aareal Bank AG in excess of 95 %, submitted a demand pursuant to Section 327a (1) of the AktG that the General Meeting adopt a resolution to transfer shares held by minority shareholders to Atlantic BidCo against payment of an appropriate cash compensation (squeeze-out under company law). Atlantic BidCo has indicated that it will inform Aareal Bank of the amount of cash compensation in a further letter (a so-called 'specified demand') once this has been determined.

In addition, Aareal Bank's General Meeting in August 2023 resolved that Aareal Bank shares be converted from bearer to registered shares, which was implemented in October 2023.

Atlantic BidCo is indirectly held by funds controlled, managed or advised by Advent International Corporation ("Advent") and Centerbridge Partners ("Centerbridge") as well as CPP Investment Board Europe S.à r.l., a wholly-owned subsidiary of Canada Pension Plan Investment Board ("CPP Investments"), and other minority shareholders.

Cooperation is based on the Investment Agreement concluded between Aareal Bank Group and Atlantic BidCo in 2022. In this agreement, Atlantic BidCo commits to supporting Aareal Bank AG's strategic ambitions to strengthen its position as a leading international provider of property financings, as well as software, digital solutions and payments services. Risk-conscious growth across all three segments will be facilitated through investments and through combining extensive joint experience in the financial services, software and payments sectors.

Group targets

We expect the environment in the US office property market to remain challenging in 2024, thus anticipating elevated loss allowance levels in the current financial year. The effects of geopolitical and macro-economic uncertainty remain difficult to estimate. Thanks to our strong earnings power, we nonetheless anticipate consolidated operating profit between € 300 million and € 350 million, with marked increases in both earnings per share (EpS) and RoE after taxes compared to the year under review.

In the Structured Property Financing segment, Aareal Bank plans to achieve a portfolio size of around € 33 billion to € 34 billion by the end of the year, market conditions permitting and subject to exchange rate fluctuations. Aareal Bank is planning for new business volume of € 8 billion to € 9 billion on this basis.

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

It is expected that Aareon will see increased sales revenue in the region of € 440 million to € 460 million for the current year. Adjusted EBITDA[1] is likely to see a marked increase to between € 160 million and € 170 million.

With regard to capitalisation, Aareal Bank continues to expect a solid CET1 ratio (Basel IV phase-in) of significantly more than the standardised capital requirement of 15 %, despite the planned portfolio growth and subject to further regulatory changes.

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, at www.aareal-bank.com/en/responsibility/reporting-on-our-progress/.

Corporate Governance Statement

The Corporate Governance Statement 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.

Statement pursuant to Section 312 of the AktG

The Management Board has prepared a report on the relationships with affiliated companies (Subordinate Status Report) for the financial year 2023 pursuant to Section 312 of the AktG, issuing the following statement: "Based on the circumstances of which the Management Board was aware at the point in time the legal transactions were entered into, Aareal Bank AG received appropriate consideration for all legal transactions listed in the report on the relationships with Atlantic BidCo GmbH and affiliated companies."

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

Consolidated Financial Statements

Contents II

Consolidated Financial Statements

Statement of Comprehensive Income

Income Statement

€ mn	Note	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Interest income from financial instruments (ac and fvoci)		2,441	1,168
Interest income from financial instruments (fvpl)		37	30
Market-driven modification gains		0	2
Interest expenses for financial instruments (ac and fvoci)		1,214	196
Interest expenses for financial instruments (fvpl)		286	283
Market-driven modification losses		0	19
Net interest income	31	**978**	**702**
Loss allowance excluding credit-driven net modification gain or loss		436	189
Credit-driven net modification gain or loss		5	3
Loss allowance	32	**441**	**192**
Commission income		376	337
Commission expenses		69	60
Net commission income	33	**307**	**277**
Net gain or loss on the derecognition of financial assets (ac)		13	13
Net gain or loss on the derecognition of financial liabilities (ac)		5	-21
Net gain or loss on the derecognition of financial assets (fvoci)		5	9
Net derecognition gain or loss	34	**23**	**1**
Net gain or loss from financial instruments (fvpl)	35	-71	26
Net gain or loss from hedge accounting	36	1	-2
Net gain or loss from investments accounted for using the equity method	37	3	-2
Administrative expenses	38	645	571
Net other operating income/expenses	39	-6	0
Operating profit		**149**	**239**
Income taxes	40	101	86
Consolidated net income		**48**	**153**
Consolidated net income attributable to non-controlling interests		-23	0
Consolidated net income attributable to shareholders of Aareal Bank AG		71	153
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG[1]		71	153
of which: allocated to ordinary shareholders		42	138
of which: allocated to AT1 investors		29	15
Earnings per ordinary share (€)	41	0.69	2.32
Earnings per AT1 unit (€)	41	0.29	0.15

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

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Consolidated net income	48	153
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	**-13**	**61**
Remeasurements of defined benefit plans	-19	89
Taxes on remeasurements of defined benefit plans	6	-28
Changes in the reserve from the measurement of equity instruments (fvoci)	**0**	**-1**
Gains and losses from equity instruments (fvoci)	0	-1
Reclassifications to retained earnings from equity instruments (fvoci)	–	–
Taxes on gains and losses from equity instruments (fvoci)	0	0
Items that are reclassified subsequently to profit or loss		
Changes in the reserve from the measurement of debt instruments (fvoci)	**-22**	**-12**
Gains and losses from debt instruments (fvoci)	-27	-8
Reclassifications to the income statement from debt instruments (fvoci)	-5	-9
Taxes on gains and losses from debt instruments (fvoci)	10	5
Changes in the reserve from foreign currency basis spreads	**-14**	**15**
Gains and losses from foreign currency basis spreads	-21	22
Reclassifications to the income statement from foreign currency basis spreads	–	–
Taxes on gains and losses from foreign currency basis spreads	7	-7
Changes in currency translation reserves	**3**	**-10**
Gains and losses from translating foreign operations' financial statements	4	-7
Reclassifications to the income statement from translating foreign operations' financial statements	–	-5
Taxes on gains and losses arising from translating foreign operations' financial statements	-1	2
Other comprehensive income	**-46**	**53**
Total comprehensive income	**2**	**206**
Total comprehensive income attributable to non-controlling interests	-23	-2
Total comprehensive income attributable to shareholders of Aareal Bank AG	25	208

Statement of Financial Position

€ mn	Note	31 Dec 2023	31 Dec 2022
Assets			
Financial assets (ac)	42	**39,181**	**40,490**
Cash funds (ac)	10	977	5,424
Loan receivables (ac)	11	32,219	29,948
Money market and capital market receivables (ac)	12	5,868	5,017
Receivables from other transactions (ac)	14	117	101
Loss allowance (ac)	43	-428	-490
Financial assets (fvoci)	44	**4,403**	**3,552**
Money market and capital market receivables (fvoci)	12	4,401	3,550
Equity instruments (fvoci)	13	2	2
Financial assets (fvpl)	45	**1,799**	**2,258**
Loan receivables (fvpl)	11	255	427
Money market and capital market receivables (fvpl)	12	6	5
Positive market value of designated hedging derivatives (fvpl)	15	831	1,104
Positive market value of other derivatives (fvpl)	16	707	722
Non-current assets held for sale	46	215	7
Investments accounted for using the equity method	17, 47	8	14
Intangible assets	18, 48	720	566
Property and equipment	19, 49	119	235
Income tax assets	20, 50	52	46
Deferred tax assets	21, 51	222	179
Other assets	22, 52	542	474
Total		**46,833**	**47,331**
Equity and liabilities			
Financial liabilities (ac)	53	**40,350**	**40,022**
Money market and capital market liabilities (ac)	23	26,675	26,425
Deposits from the housing industry (ac)	24	12,669	13,115
Liabilities from other transactions (ac)	25	649	96
Subordinated liabilities (ac)	26	357	386
Financial liabilities (fvpl)	54	**2,683**	**3,514**
Negative market value of designated hedging derivatives (fvpl)	15	1,321	2,183
Negative market value of other derivatives (fvpl)	16	1,362	1,331
Non-current liabilities held for sale	55	7	1
Provisions	27, 56	215	292
Income tax liabilities	57	126	76
Deferred tax liabilities	21, 58	46	57
Other liabilities	28, 59	106	111
Equity	29, 60	**3,300**	**3,258**
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		2,128	2,076
AT1 bond		300	300
Other reserves		-134	-88
Non-controlling interests		105	69
Total		**46,833**	**47,331**

Statement of Changes in Equity

€ mn	Sub-scribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasure-ments of defined benefit plans	Other reserves: Reserve from the measure-ment of equity instru-ments (fvoci)	Other reserves: Reserve from the measure-ment of debt instru-ments (fvoci)	Other reserves: Reserve from changes in the value of foreign currency basis spreads	Other reserves: Currency translation reserve	Total	Non-con-trolling interests	Equity
Equity as at 1 January 2023	**180**	**721**	**2,076**	**300**	**-73**	**-4**	**4**	**-8**	**-7**	**3,189**	**69**	**3,258**
Total comprehensive income for the period	–	–	71	–	-13	0	-22	-14	3	**25**	-23	**2**
Consolidated net income	–	–	71	–	–	–	–	–	–	**71**	-23	**48**
Other comprehensive income	–	–	–	–	-13	0	-22	-14	3	**-46**	0	**-46**
Payments to non-controlling interests	–	–	–	–	–	–	–	–	–	**–**	-2	**-2**
Dividends	–	–	–	–	–	–	–	–	–	**–**	–	**–**
AT1 coupon	–	–	-17	–	–	–	–	–	–	**-17**	–	**-17**
Changes in ownership interests in subsidiaries	–	–	-2	–	–	–	–	–	–	**-2**	61	**59**
Equity as at 31 December 2023	180	721	2,128	300	-86	-4	-18	-22	-4	3,195	105	3,300

€ mn	Sub-scribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasure-ments of defined benefit plans	Other reserves: Reserve from the measure-ment of equity instru-ments (fvoci)	Other reserves: Reserve from the measure-ment of debt instru-ments (fvoci)	Other reserves: Reserve from changes in the value of foreign currency basis spreads	Other reserves: Currency translation reserve	Total	Non-con-trolling interests	Equity
Equity as at 1 January 2022	**180**	**721**	**1,937**	**300**	**-133**	**-3**	**16**	**-23**	**–**	**2,995**	**66**	**3,061**
Total comprehensive income for the period	–	–	153	–	60	-1	-12	15	-7	**208**	-2	**206**
Consolidated net income	–	–	153	–	–	–	–	–	–	**153**	0	**153**
Other comprehensive income	–	–	–	–	60	-1	-12	15	-7	**55**	-2	**53**
Payments to non-controlling interests	–	–	–	–	–	–	–	–	–	**–**	-2	**-2**
Dividends	–	–	–	–	–	–	–	–	–	**–**	–	**–**
AT1 coupon	–	–	-14	–	–	–	–	–	–	**-14**	–	**-14**
Changes in ownership interests in subsidiaries	–	–	–	–	–	–	–	–	–	**–**	7	**7**
Equity as at 31 December 2022	180	721	2,076	300	-73	-4	4	-8	-7	3,189	69	3,258

Statement of Cash Flows

€ mn	Cash flow 1 Jan - 31 Dec 2023	Cash flow 1 Jan - 31 Dec 2022
Consolidated net income	**48**	**153**
Additions to and reversals of loss allowances	445	193
Amortisation, depreciation, impairment and write-ups of non-current assets	74	59
Other non-cash changes	-175	132
Gains/losses on the disposal of non-current assets	2	1
Other adjustments	-947	-743
Adjusted consolidated net income	**-553**	**-205**
Changes in financial assets (ac) (excluding cash funds)	-2,940	416
Changes in financial assets (fvoci)	-681	-212
Changes in financial assets (fvpl)	88	-950
Changes in other assets	-39	-24
Changes in financial liabilities (ac) (excluding subordinated capital)	-1,068	-1,814
Changes in financial liabilities (fvpl)	48	1,083
Changes in provisions	-166	-249
Changes in other liabilities	4	-43
Income taxes paid/income tax refunds	-145	-132
Interest received	2,082	1,279
Interest paid	-956	-409
Cash flow from operating activities	**-4,326**	**-1,260**
Proceeds from the disposal of equity instruments and investments accounted for using the equity method	17	4
Payments for the acquisition of equity instruments and investments accounted for using the equity method	–	0
Proceeds from the disposal of property and equipment and intangible assets	2	1
Payments for the acquisition of property and equipment and intangible assets	-28	-34
Effect of changes in reporting entity structure	0	-5
Cash flow from investing activities	**-9**	**-34**
Dividends paid and AT1 coupon payments	-17	-14
Changes in subordinated liabilities	-92	-215
Changes due to other financing activities	-3	5
Cash flow from financing activities	**-112**	**-224**
Cash and cash equivalents as at 1 January	**5,424**	**6,942**
Cash flow from operating activities	-4,326	-1,260
Cash flow from investing activities	-9	-34
Cash flow from financing activities	-112	-224
Cash and cash equivalents as at 31 December	**977**	**5,424**

Notes

Basis of Accounting

Aareal Bank AG is a public limited company incorporated under German law, with its registered office in Paulinenstrasse 15, 65189 Wiesbaden, Germany. Aareal Bank AG is the parent company of an international property finance and services group, and registered under no. HRB 13184 in the Commercial Register at the Wiesbaden local court (Amtsgericht Wiesbaden, Germany). It is majority-owned by Atlantic BidCo GmbH, which is in turn is a subsidiary of Lux HoldCo S.à r.l.

As a public limited company, Aareal Bank AG has prepared its consolidated financial statements for the financial year ended on 31 December 2023 in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to Section 315e of the German Commercial Code (Handelsgesetzbuch – HGB). The reporting currency is the euro (€). In addition, the consolidated financial statements were prepared using the European Single Electronic Format pursuant to Commission Delegated Regulation (EU) No. 2019/815 as amended (i.e. in the XHTML format) and were complemented with tags based on Inline XBRL technology.

The Management Board approved the consolidated financial statements for publication on 4 March 2024; they will be published in the German Federal Gazette.

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

Accounting Policies

(1) Accounting standards

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

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

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

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

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

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

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

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

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

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

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

(2) Changes in accounting policies

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

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

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

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

- **IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction**
  The amendment to IAS 12 narrows the scope of the initial recognition exemption pursuant to which no deferred tax assets or liabilities are recognised upon initial recognition of an asset or a liability. If the transaction gives rise simultaneously to equal

taxable and deductible temporary differences, such differences no longer fall under the scope of the exemption; accordingly, deferred tax assets and liabilities have to be recognised.

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

Until 31 December 2023, the following financial reporting standards (IASs/IFRSs) and interpretations (IFRICs), which are required to be applied in future financial years, had been published by the International Accounting Standards Board (IASB) and endorsed by the EU Commission:

Revised International Financial Reporting Standards		Issued	Endorsed	Effective date
IAS 1	Classification of Liabilities as Current or Non-current	January 2020	December 2023	Financial years beginning on or after 1 January 2024
IFRS 16	Lease Liability in a Sale and Leaseback	September 2022	November 2023	Financial years beginning on or after 1 January 2024
IAS 1	Non-Current Liabilities with Covenants	October 2022	December 2023	Financial years beginning on or after 1 January 2024
IAS 7 IFRS 7	Supplier Finance Arrangements	May 2023		Financial years beginning on or after 1 January 2024
IAS 12	Lack of Exchangebility	August 2023		Financial years beginning on or after 1 January 2025

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

- **IFRS 16 Lease Liability in a Sale and Leaseback**
  The amendment includes guidance on subsequent measurement of leases in a sale and leaseback transaction for seller-lessees. The objective of the amendment is primarily to harmonise subsequent measurement of lease liabilities to avoid any inappropriate recognition of gains. In general, the amendment has the effect that the lease payments expected at the commencement date are to be taken into account as part of subsequent measurement of lease liabilities in a sale and leaseback transaction. In each period, the carrying amount of the lease liability is reduced by the expected payments; the difference to the actual payments is recognised through profit or loss.

- **IAS 1 Non-Current Liabilities with Covenants**
  The amendments to IAS 1 clarify that only those covenants which an entity must fulfil on or before the reporting date influence classification as current or non-current liabilities. However, entities are required to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period.

- **IAS 7 and IFRS 7 Supplier Finance Arrangements**
  The purpose of the amendments is to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments supplement existing disclosure requirements to the effect that entities are required to disclose qualitative and quantitative information on financing arrangements with suppliers.

- **IAS 21 Lack of Exchangeability**
  The amendments to IAS 21 require an entity to apply a consistent approach in assessing whether a currency can be exchanged into another currency and, when it cannot, in determining the exchange rate to use and the disclosures to provide.

Aareal Bank Group did not opt for early application of these standards in the 2023 financial year, which are required to be applied in future financial years.

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

(3) Consolidation

Consolidation principles

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

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

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

Initial consolidation of an entity in the event of an acquisition is based on the purchase method, in accordance with IFRS 3, whereby remeasured amounts must be used when recognising assets and liabilities (including any hidden reserves and hidden encumbrances) of an entity to be consolidated. This may lead to the recognition of new assets and liabilities (including contingent liabilities) that were previously not reported in the statement of financial position of the company to be consolidated. Any excess of acquisition cost over the Group's interest in the fair value of net assets is recognised as (positive) goodwill. Any negative goodwill determined during this comparison is charged against income.

Intragroup transactions, balances and results of transactions between Group entities are eliminated. Accounting policies applied by subsidiaries were amended for the purpose of preparing consolidated financial statements to the extent required to ensure consistent accounting throughout the Group.

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

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

In accordance with the equity method, the Group's share in the profit or loss of associates and joint ventures is recognised in the consolidated income statement from the date of acquisition and is included in the carrying amount of the equity investment, taking into account interim distributions. Further information on investments accounted for using the equity method is included in Note (47).

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

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

Reporting entity structure

As at 31 December 2023, the reporting entity structure comprised 94 companies (2022: 89), including Aareal Bank AG as well as 88 (2022: 79) subsidiaries, one joint arrangement (2022: two) as well as four associates (2022: seven).

Five companies constituted the material additions to the reporting entity structure during the period under review.

In February 2023, Aareon acquired 100 % of shares in UTS innovative Softwaresysteme GmbH. The purchase price amounted to approximately € 8 million. The preliminary fair value of assets amounts to approximately € 11 million, largely comprising € 4 million in software and € 3 million related to client relationships. Prior to the date of acquisition, the company generated overall balanced profits on pro rate 2023 sales revenues of € 1 million. From the date of acquisition until the year-end, the company generated € 1 million in profits on sales revenues of € 3 million. The acquisition results in a preliminary goodwill of approximately €2 million, including potential market value effects and synergies. With the acquisition, Aareon has gained access to the property management software segment in Europe's biggest market.

Furthermore, in March 2023, Aareon acquired 100 % of shares in Embrace the Human Cloud B.V., via its Dutch subsidiary Aareon Nederland B.V. The purchase price amounted to approximately € 40 million, with € 31 million as a fixed price and € 9 million as a contingent purchase price which depends upon performance indicators (EBITDA and the level of recurring revenues), to be reached by 2024. The preliminary fair value of assets amounts to approximately € 23 million, largely comprising € 9 million in software, € 7 million related to client relationships; and € 1 million in brand rights. Prior to the date of acquisition, the company generated overall balanced profits on pro rata 2023 sales revenues of € 3 million. From the date of acquisition until year-end, the company generated € 3 million in profits on sales revenues of € 11 million. The associated transaction costs amounted to € 1 million. The acquisition results in a preliminary goodwill of € 31 million, including potential market value effects and synergies. With Embrace, Aareon has acquired the Dutch market leader for SaaS solutions in the areas of digital workspace and customer engagement. Embrace's CRM solutions enlarge the product portfolio for Dutch clients.

Aareal Bank acquired two US properties in August and October 2023. Upon acquisition, the properties of 220 Post CA LLC and 146 Geary CA LLC were recognised at a value of € 45 million and € 18 million, respectively.

Having received the approval of the Spanish foreign trade authority on 1 December 2023, by way of a purchase agreement dated 9 August 2023, Aareon AG acquired 100 % of the shares in Informatización de Empresas SLU (Madrid, Spain) and its subsidiary Centre de Recursos, Administración i Manteniment S.L. (Madrid, Spain) via the shell company Perseus Europe, S.L. (Madrid, Spain) which it had acquired. The purchase price amounted to approximately € 106 million. The preliminary fair value of assets amounts to approximately € 63 million, largely comprising € 15 million in software, € 23 million related to client relationships, € 2 million in brand rights and € 10 million in trade receivables. Prior to the date of acquisition, the company generated profits of € 6 million on pro rata 2023 sales revenues of € 26 million. From the date of acquisition until year-end, the company generated losses of € 1 million on sales revenues of € 2 million. The associated transaction costs amounted to € 1 million. The acquisition results in a preliminary goodwill of € 72 million, including potential market value effects and synergies. Aareon has thus expanded its business activities to Spain. The Spanish business activities are managed and reported in a separate cash-generating unit.

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

Note (92) "List of shareholdings" includes an overview of the Group companies.

(4) Currency translation

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

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

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

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

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

(5) Revenue recognition

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

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

In the Aareon segment, Aareal Bank Group generates revenue mainly from:

- licence agreements,
- maintenance, subscription and SaaS contracts,
- consultancy contracts, and
- services and commission agreements.

The contracts may be offered individually, but also in combination. For example, a licence contract generally is complemented by a maintenance contract. These contracts are considered in combination from a commercial point of view. The transaction price is allocated to the performance obligation based on the price observable in the market.

Revenue from licence agreements mainly relates to the granting of rights to use software products that are operated by clients under an in-house model. In-house model means that clients use Aareon’s software products on their own servers and are responsible for the software’s operability. The solutions developed by Aareon are based on databases of third-party providers such as SAP®, Oracle® or Microsoft®. In most cases, Aareon acts for its own account in the distribution of such third-party licences and is subject to the implementation risk. Aareon act as an agent, receiving a commission for the brokerage of third-party licences, in cases of minor importance only. The right of use is granted for an unlimited period in most of the cases. The right of use of the Tobias AX product is limited in time; clients therefore have to purchase licence renewals in regular intervals. The software products are technical solutions that clients in the property industry use to organise their operational processes and, for example, to manage and control their housing portfolios. Aareon's performance obligation toward the client is the granting of the right to use the software products. Revenue from licence contracts is deemed to be realised when there is an agreement signed by both parties without a right of rescission, the product has been delivered in its entirety (e.g. via licence keys), and the licence fee is fixed. Thus, the client obtains control over the right of use granted.

Maintenance contracts are entered into when the client enters into a licence contract under the in-house model described above (i.e. the client operates the software on its own servers and is therefore also responsible for their operability). Services provided as part of maintenance work comprise the regular provision of updates as well as support services for ongoing operation of the software. Aareon also offers subscription agreements (for rental software), whereby Aareon undertakes to deliver new essential functionality to clients in short intervals. On the other hand, the client is required to install new functionality and releases in a timely manner since Aareon provides its maintenance and support services only for these new functionalities and releases. In contrast to the licence contract, Aareon is also obliged to ensure the functionality of the rented software at all times. The client, in turn, is obliged to surrender the software after the termination of the rental contract without any damages.

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

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

Aareon's business model also includes the provision of third-party services supported by Aareon software, such as brokerage of insurance services, printing services, or the creation of certificates. Revenue is recognised as a commission or on a gross basis, depending upon whether Aareon acts as agent or principal, at the time the service is provided.

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

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

Aareon recognises operating expenses as well as interest income and expenses in profit or loss at the time the service is used or at the time the expense is incurred.

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

(6) Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

(7) Consolidated statement of cash flows

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

The definition of the term "operating activities" is consistent with the composition of the operating profit in the statement of comprehensive income, using the indirect method where operating profit is adjusted for non-cash earnings components as well as for income taxes and interest received and paid (other adjustments).

Cash flows from investing activities include proceeds from and payments for property and equipment, intangible assets, equity instruments and investments. Cash flows from financing activities include cash flows from transactions with providers of equity and subordinated capital.

(8) Determination of fair value

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

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

Fair value hierarchy

In accordance with IFRS 13.72 et seqq., the fair value determination is based on the fair value hierarchy pursuant to which the inputs used are classified into various hierarchy levels on the basis of their respective market proximity and objectivity. The fair value of assets and liabilities is allocated to Level 1 of the fair value hierarchy if it is determined on the basis of unadjusted qualifying prices in active markets for identical assets or liabilities. Fair values determined using inputs other than qualifying prices included within Level 1 that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of the fair value hierarchy. Fair values determined using valuation techniques where one or more material inputs are not based on observable market data are assigned to Level 3 of the fair value hierarchy. The estimation uncertainties as regards fair value measurement increase the higher the level is. The procedure is set out in a corresponding working instruction ("Fair Value Measurement in accordance with IFRS 13").

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

Measurement methods

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

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

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

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

(9) Recognition and measurement of financial instruments

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

Recognition

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

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

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

Modification

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

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

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

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

In the case of a substantial modification, the old asset has to be derecognised, and a new asset has to be recognised. The difference of the gross carrying amounts before and after the modification is reported as net derecognition gain or loss after utilisation of the existing loss allowance in the case of market-driven modifications. The basis for the assessment initially are qualitative criteria such as obligor change or the extension of terms of loans that are not subject to an impaired credit quality. If these criteria do not apply, it is reviewed whether the present value of the newly agreed cash flows discounted with the original effective interest rate deviate by at least 10% from the present value that results from discounting the original cash flows with the original effective interest rate. If this is the case, the matter also qualifies as a substantial modification. The derecognition and new recognition of the loan results in a new significance level being determined for a later migration in Stage 2. Credit-driven modifications in Stage 3 do not lead to derecognition; a loss allowance is recorded in an amount that covers the entire difference between the carrying amount and the fair value.

Measurement

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

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

Financial liabilities are measured at amortised cost.

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

Classification

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

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

Subsequent measurement at fair value, with changes in fair value being recognised initially directly in equity and subsequently reclassified to profit or loss (so-called recycling) (fair value through other comprehensive income (fvoci)) has to be made when financial instruments are SPPI compliant and are held either to collect contractual cash flows or to be sold (business model "Hold & Sell").

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

Loss allowance

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

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

Stage 2: All financial instruments where credit risk has increased significantly since initial recognition are allocated to this stage. Any disposal and addition involving a substantial modification does not result in a change of allocation. Loss allowances are recognised in the amount of the losses expected for the entire remaining term of the instrument and interest income is calculated on the basis of the gross carrying amount, applying the effective interest method. Loss allowances have to be recognised on a present value basis. The significant increase in credit risk for the allocation to Stage 2 is determined using the so-called expected downgrade bank-internal staging model and taking into consideration quantitative and qualitative criteria. These criteria are the client's credit rating, the intensity of client handling (intensified handling), the existence of forbearance measures and/or payment defaults for more than 30 days. If the significant increase in credit risk no longer applies, the financial instrument is re-transferred to Stage 1. A description of the credit risk methods and systems in place at Aareal Bank AG is presented in the Risk Report as part of the Group Management Report.

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

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

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

Intensified handling triggers recognition of loss allowance, in the amount of lifetime expected credit loss for the financial instrument concerned (Stage 2). The same applies for financings for which a forbearance measure has been granted.

Model-based calculations of loss allowance may involve specific aspects related to the reporting date which require adjustments to the calculation (post-model adjustments). These may be related to known model weaknesses, technical processing issues or data deficiencies, as well as expert estimates of risks designed to remedy possible gaps in the model. Post-model adjustments – to the extent there were required as at the reporting date – are described in Note (32) Loss allowance.

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

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

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

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

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

Hedging relationships

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

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

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

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

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

Please also refer to our explanations in Notes (36) and (72).

(10) Cash funds

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

(11) Loan receivables

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

(12) Money market and capital market receivables

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

(13) Equity instruments

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

(14) Receivables from other transactions

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

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

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

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

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

(17) Investments accounted for using the equity method

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

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

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

(18) Intangible assets

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

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

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

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

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

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

(19) Property and equipment

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

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

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

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

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

Gains and losses upon disposal of property and equipment are recognised in income (in net other operating income/expenses). The costs to purchase property and equipment in the amount of up to € 250.00 (low-value assets) are expensed as they are incurred.

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

(20) Income tax assets / income tax liabilities

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

In 2021, the OECD adopted regulations aimed at ensuring effective global minimum taxation levels, and at counteracting aggressive tax arrangements (the so-called Pillar Two rules); these regulations were adopted by the EU in 2022. Germany adopted the Minimum Taxation Directive Implementation Act (Mindestbesteuerungsrichtlinie-Umsetzungsgesetz – "MinStG") on 27 December 2023, transposing these international regulations into German law. The rules are applicable for the first time for financial years beginning after 30 December 2023 (Section 101 of the MinStG). As a multinational group of companies, Aareal Bank Group has consolidated revenue in excess of € 750 million, which means that minimum taxation rules are applicable to the Group. Based on current information, this will involve business units in 18 countries, bearing in mind that the rules have also been adopted (or will be adopted over the coming months) in these countries (with the exception of the US).

Even though since the takeover, Aareal Bank AG is no longer the ultimate parent pursuant to Section 4 (3) of the MinStG, it assumes the function of an intermediate parent entity pursuant to Section 4 (3) et seqq. of the MinStG and might be liable for minimum tax in the capacity of Group responsible entity (Gruppenträger). The relevant regulations in the respective participating jurisdictions (domestic and abroad) will only become applicable to Aareal Bank AG from the 2024 financial year onwards; as a result, the actual tax expense for the year under review was not affected. Looking at the substance of these regulations, aside from significant implementation costs due to additional tax reporting, no material tax effects or top-up taxes are anticipated since the effective tax rate is expected to be above 15 % in all countries in which the Group is active. Aareal Bank AG will use the transitional provisions and simplification rules provided by Sections 79-81, 84-87 and 89 of the MinStG. Aareal Bank AG has determined that global minimum tax is an income tax. Pursuant to IAS 12.4a, any differences arising from application of the MinStG (or comparable foreign tax regulations) need not be taken into account when determining deferred taxes. Aareal Bank AG is currently preparing its processes for future use of simplification rules, examining potentially advantageous options; the Bank is monitoring the legislative process and is working on further implementation requirements (such as tax compliance).

(21) Deferred tax assets / deferred tax liabilities

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

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

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

(22) Other assets

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

(23) Money market and capital market liabilities

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

(24) Deposits from the housing industry

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

(25) Liabilities from other transactions

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

(26) Subordinated liabilities

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

(27) Provisions

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

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

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

Provisions for pensions and similar obligations

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

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

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

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

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

Share-based payment

Aareal Bank Group maintains share-based payment plans subject to cash settlement in accordance with IFRS 2. We refer to our comments in Note (82) to the consolidated financial statements, which include a detailed description of the plans and their scope as well as information on the valuation model applied and the effects of share-based payments on the Group's financial position and performance.

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

(28) Other liabilities

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

(29) Equity

The item "Equity" comprises subscribed capital, capital reserves, retained earnings and other reserves. Other reserves include the reserve from remeasurements of defined benefit plans, the reserves from the measurement of equity and debt instrument at fair value through other comprehensive income, the reserve from changes in the value of foreign currency basis spreads and currency translation reserve. In addition, the item "Equity" includes non-controlling interests as well as the so-called Additional Tier 1 bond (AT1 bond). The AT1 bond is classified as equity since there is neither an obligation to repay the bond nor is there an obligation for ongoing debt service (payment of a dividend). The transaction costs directly attributable to the issue of the AT1 bond as well as dividends paid are deducted directly from equity, net of taxes.

(30) Financial guarantee contracts

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

Notes to the Statement of Comprehensive Income

(31) Net interest income

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Interest income from financial assets (ac and fvoci)	2,441	1,108
Loan receivables	2,184	1,086
Money market and capital market receivables	257	22
Interest income from financial liabilities (ac)	0	60
Money market and capital market liabilities	0	46
Deposits from the housing industry	0	14
Interest income from financial instruments (fvpl)	37	30
Loan receivables	19	16
Other derivatives	18	14
Market-driven modification gains	0	2
Total interest and similar income	**2,478**	**1,200**
Interest expenses from financial liabilities (ac)	1,214	172
Money market and capital market liabilities	1,104	157
Deposits from the housing industry	87	2
Liabilities from other transactions	3	0
Subordinated liabilities	20	13
Interest expenses for financial assets (ac and fvoci)	–	24
Cash funds	–	20
Money market and capital market receivables	–	4
Interest expenses for financial instruments (fvpl)	286	283
Other derivatives	286	283
Market-driven modification losses	0	19
Total interest and similar expenses	**1,500**	**498**
Total	**978**	**702**

Net interest income of € 978 million was significantly higher than in the previous year (€ 702 million), largely due to a year-on-year increase in the credit portfolio, good margins as well as the impact of higher interest rates in connection with the continued high volume of deposits.

(32) Loss allowance

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Additions	518	282
Reversals	78	92
Recoveries on loans and advances previously written off	4	1
Loss allowance – other items	–	0
Credit-driven net modification gain or loss	5	3
Total	**441**	**192**

Loss allowance totalled € 441 million (2022: € 192 million) and was largely attributable to new loan defaults of US office properties. The figure also includes additional loss allowance for a swift NPL reduction, as well as approximately € 35 million for our run-down Russian exposure.

In addition, model-based Stage 1 and Stage 2 loss allowance was recognised in an aggregate amount of € 25 million, as a result of a post-model adjustment comprising multiple components. On the one hand, based on experience gained in 2023, the previous model for incorporating forward-looking information into default estimates for commercial property financings was extended to include inflation as an additional macroeconomic variable. Moreover, the stage transfer methodology was enhance to systematically incorporate funding risks for bullet loans in the last year of their term. Not all components required for full technical mapping of these aspects were implemented in the production environment until the time of preparing the financial statements. This required recognition of a technical overlay. As an additional measure, anticipating calibration effects in the rating procedure due to the unusually high number of defaults which occurred in 2023, probabilities of default were raised by 10%. Since validation and calibration analyses will only be concluded during the course of 2024 (on schedule), the Bank decided to reflect this aspect by way of an overlay. Overall, approximately 25 % of overlays are attributable to US office properties.

The methodology for determining loss allowance is outlined in the chapter "Accounting policies"; Note (9) Recognition and measurement of financial instruments.

The recognition of loss allowance and the collateral values used are based on the evaluation of five different macro-economic scenarios which are given different weightings. The most probable scenario is called the "Baseline" scenario and is described in detail in the chapter "Macro-economic environment". Adverse scenarios designed to reflect persistent periods of high interest rates and the escalation of geopolitical conflicts such as the crisis in the Middle East or the conflict between China and Taiwan, together have an aggregate weight of 45 %. In the following, three major macro-economic factors are compared in order to classify the evaluated scenarios:

%	2023	2024	2025	2026
"Positive" scenario (15 % weighting)				
Gross domestic product (in real terms, year-on-year change in %)				
Euro zone	0.5	1.3	3.0	1.4
USA	2.4	1.5	1.9	1.9
UK	0.6	1.3	2.7	1.1
Unemployment (%)				
Euro zone	6.6	6.5	5.9	5.9
USA	3.7	4.3	4.2	4.1
UK	4.0	4.4	4.3	4.0
Long-term interest rates (10-year government bonds) (%)				
Euro zone	3.2	2.8	2.8	2.8
USA	4.0	4.0	3.9	3.6
UK	4.0	4.0	4.0	3.5
Portfolio-weighted property price development (2023 basis = 100 %)	100 %	97 %	98 %	98 %

%	2023	2024	2025	2026
“Baseline” scenario (45 % weighting)				
Gross domestic product (in real terms, year-on-year change in %)				
Euro zone	0.5	0.6	1.8	2.0
USA	2.4	1.2	1.3	2.2
UK	0.6	0.5	1.5	1.9
Unemployment (%)				
Euro zone	6.6	6.7	6.6	6.4
USA	3.7	4.4	4.3	4.2
UK	4.0	4.5	4.4	4.1
Long-term interest rates (10-year government bonds) (%)				
Euro zone	3.2	2.9	2.8	2.7
USA	4.0	4.1	3.7	3.4
UK	4.0	4.0	3.9	3.5
Portfolio-weighted property price development (2023 basis = 100 %)	100 %	96 %	96 %	96 %

%	2023	2024	2025	2026
“Adverse 1” scenario (20 % weighting)				
Gross domestic product (in real terms, year-on-year change in %)				
Euro zone	0.5	-0.2	0.3	1.9
USA	2.4	0.3	-0.4	2.2
UK	0.6	-0.3	0.0	1.6
Unemployment (%)				
Euro zone	6.6	7.0	7.4	7.4
USA	3.7	4.6	5.0	4.9
UK	4.0	4.6	5.1	5.0
Long-term interest rates (10-year government bonds) (%)				
Euro zone	3.2	3.7	3.8	3.6
USA	4.0	4.8	4.3	4.2
UK	4.0	4.6	4.5	4.1
Portfolio-weighted property price development (2023 basis = 100 %)	100 %	94 %	89 %	89 %

%	2023	2024	2025	2026
“Adverse 2” scenario (10 % weighting)				
Gross domestic product (in real terms, year-on-year change in %)				
Euro zone	0.5	-0.3	1.3	2.4
USA	2.4	0.0	1.1	2.6
UK	0.6	-0.2	0.9	1.9
Unemployment (%)				
Euro zone	6.6	7.0	7.1	6.7
USA	3.7	4.7	4.8	4.5
UK	4.0	4.6	4.8	4.5
Long-term interest rates (10-year government bonds) (%)				
Euro zone	3.2	3.3	3.2	2.9
USA	4.0	4.6	4.3	3.9
UK	4.0	4.3	4.3	3.8
Portfolio-weighted property price development (2023 basis = 100 %)	100 %	94 %	91 %	92 %

%	2023	2024	2025	2026
“Adverse 3” scenario (10 % weighting)				
Gross domestic product (in real terms, year-on-year change in %)				
Euro zone	0.5	-0.3	2.1	2.4
USA	2.4	0.4	1.9	2.3
UK	0.5	-0.3	1.8	2.1
Unemployment (%)				
Euro zone	6.6	7.0	6.8	6.5
USA	3.7	4.6	4.4	4.2
UK	4.0	4.7	4.6	4.1
Long-term interest rates (10-year government bonds) (%)				
Euro zone	3.3	3.2	2.8	2.7
USA	4.0	4.4	3.7	3.4
UK	4.0	4.3	3.9	3.5
Portfolio-weighted property price development (2023 basis = 100 %)	100 %	94 %	94 %	95 %

The Stage 1 and Stage 2 loss allowances in the property finance business are calculated using the probability of default (PD) and the loss given default (LGD) based on models, and materially depend upon the market value of the properties. In this context, the scenarios presented above are taken into account in the LGD calculation using the respective weightings. Moreover, economic and inflationary developments in the scenarios are reflected in estimating the probability of default (PD). As part of the assessment of sensitivity, we present the loss allowance for each scenario with a 100 % weighting in each case. This calculation includes the so-called quantitative stage transfer to Stage 2 applying the expected downgrade model on the basis of the background factors included in the management overlay, but does not include qualitative criteria for a significant increase in credit risk.

Stage 1 and Stage 2 model-based loss allowance for the property finance business

%	31 Dec 2023	1 Jan - 31 Dec 2022
Scenario-weighted (recognised amount)	**122**	**98**
"Positive" scenario (100 %)	111	89
"Baseline" scenario (100 %)	115	94
"Adverse 1" scenario (100 %)	121	99
"Adverse 2" scenario (100 %)	133	103
"Adverse 3" scenario (100 %)	139	116

Assuming a flat increase/decrease in market values by 5 % at year-end and the probabilities of default as at the reporting date, loss allowance would have decreased or increased by around € 12 million, respectively.

Please also refer to our explanations in Note (65).

(33) Net commission income

€ mn	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Commission income from[1]		
Recurring services	276	221
Non-recurring services	67	80
Banking business and other activities	33	36
Total commission income	**376**	**337**
Commission expenses for		
Purchased services	60	56
Banking business and other activities	9	4
Total commission expenses	**69**	**60**
Total	**307**	**277**

[1] The breakdown of the previous year's figure was adjusted. Aareon's net commission income from ERP products (€ 207 million) and from digital solutions (€ 85 million) comprises € 212 million from recurring services and € 80 million from non-recurring services. Furthermore, commission income in the BDS segment was reclassified from other activities to recurring services.

Net commission income increased to € 307 million (2022: € 277 million) on the back of higher sales revenue at Aareon and the performance of the Banking & Digital Solutions segment.

In the reporting period, revenue of € 2 million (2022: € 2 million) was recorded, attributable to performance obligations of earlier periods.

The net amount of commission income and commission expenses from financial assets and financial liabilities not measured at fair value amounts to € 7 million (2022: € 8 million).

(34) Net derecognition gain or loss

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Net gain or loss on the derecognition of financial assets (ac)		
Loan receivables	11	16
Money market and capital market receivables	2	-3
Net gain or loss on the derecognition of financial liabilities (ac)		
Money market and capital market liabilities	5	-21
Net gain or loss on the derecognition of financial assets (fvoci)		
Money market and capital market receivables	5	9
Total	**23**	**1**

The net derecognition gain or loss amounted to € 23 million (2022: € 1 million), reflecting income from the Treasury portfolio as well as positive market-driven effects from early loan repayments.

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

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Net gain or loss from loan receivables	-62	-28
Net gain or loss from money market and capital market receivables	0	0
Net gain or loss from other derivatives	-7	53
Currency translation	-2	1
Total	**-71**	**26**

Net gain or loss from financial instruments (fvpl) in the amount of € -71 million (2022: € 26 million) was largely due to credit risk-induced valuation losses on defaulted US office properties – in contrast to positive valuation effects in the previous year resulting from market developments for currency and interest rate hedging derivatives due to strong market dynamics.

(36) Net gain or loss from hedge accounting

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Ineffective portion of fair value hedges	1	-2
Ineffective portion of net investment hedges	0	0
Total	**1**	**-2**

Please also refer to our explanations in the Notes (9) and (72).

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

In the past financial year, there was a net gain from investments accounted for using the equity method of € 3 million (2022: net loss of € 2 million); this was also in line with the pro-rata results from joint ventures and associates.

(38) Administrative expenses

€ mn	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Staff expenses	372	341
Wages and salaries	314	277
Social security contributions	44	42
Pensions	14	22
Other administrative expenses	199	173
Depreciation, amortisation and impairment of property and equipment and intangible assets	74	57
Total	**645**	**571**

Administrative expenses increased to € 645 million (2022: € 571 million), reflecting both strong growth at Aareon and efficiency-enhancing measures in the subsidiary of approximately € 90 million. Costs at the Bank remained largely stable.

Staff expenses include contributions to defined contribution plans in the amount of € 18 million (2022: € 16 million).

Other administrative expenses include administrative costs for research and development in relation to existing and new functions and products not eligible for capitalisation in the amount of € 47 million (2022: € 48 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the 2023 financial year, which consists of the following sub-items:

€ 000's	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Auditing fees	4,604	3,801
Other assurance services	143	213
Tax advisory services	–	–
Other services	60	7
Total	**4,807**	**4,021**

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 were provided in connection with regulatory matters in particular.

(39) Net other operating income / expenses

€ mn	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Income from properties	38	36
Income from the reversal of provisions	12	1
Income from goods and services	0	0
Other operating income	25	22
Total other operating income	**75**	**59**
Expenses for properties	55	48
Expenses for other taxes	15	6
Other operating expenses	11	5
Total other operating expenses	**81**	**59**
Total	**-6**	**0**

Net other operating income/expenses was burdened by other taxes.

(40) Income taxes

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Current income taxes	145	132
Deferred taxes	-44	-46
Total	**101**	**86**

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

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Operating profit (before income taxes)	149	239
Expected tax rate	31.3 %	31.3 %
Calculated income taxes	**47**	**75**
Reconciliation to reported income taxes		
Different foreign tax burden	4	-6
Tax attributable to tax-exempt income	-12	-2
Tax attributable to non-deductible expenses	13	24
Remeasurement of deferred taxes	45	-2
Taxes for previous years	2	-5
Effect of changes in tax rates	1	2
Non-controlling interest income	–	0
Other tax effects	1	–
Reported income taxes	**101**	**86**
Effective tax rate	68 %	36 %

The income taxes item was burdened by valuation allowance on deferred tax assets in respect of loss carryforwards for Aareon and Aareal Capital Corporation in the context of Aareal Bank AG's takeover by Atlantic BidCo GmbH.

(41) Earnings per share

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

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

Notes to the Statement of Financial Position

(42) Financial assets (ac)

€ mn	31 Dec 2023	31 Dec 2022
Cash funds (ac)	**977**	**5,424**
Cash on hand	0	0
Balances with central banks	977	5,424
Loan receivables (ac)	**32,219**	**29,948**
Property loans	31,973	29,662
Public-sector loans	232	268
Other loan receivables	14	18
Money market and capital market receivables (ac)	**5,868**	**5,017**
Money market receivables	2,977	1,914
Promissory note loans	1,224	1,345
Bonds	1,667	1,758
Receivables from other transactions (ac)	**117**	**101**
Trade receivables	50	44
Other financial receivables	67	57
Total	**39,181**	**40,490**

(43) Loss allowance (ac)

31 December 2023

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Balance as at 1 January	**42**	**59**	**386**	**3**	**490**
Additions	19	73	419	2	**513**
Utilisation	–	–	487	1	**488**
Reversals	23	35	16	1	**75**
Transfer to Stage 1	12	-12	–	–	**–**
Transfer to Stage 2	-12	12	–	–	**–**
Transfer to Stage 3	–	-12	12	–	**–**
Interest rate effect	–	–	21	–	**21**
Currency adjustments	0	-2	-6	0	**-8**
Changes in the basis of consolidation	–	–	–	–	**–**
Transfers	–	–	-25	–	**-25**
Balance as at 31 December	**38**	**83**	**304**	**3**	**428**

The loss allowance for financial assets measured at amortised cost refers to loan receivables, money and capital market receivables as well as receivables from other transactions (largely trade receivables) that are measured at amortised cost.

The methodology for calculating loss allowance is outlined in the chapter “Accounting policies”, Note (9). A detailed breakdown of loss allowance by classes of financial assets is disclosed in Note (65) in the chapter “Notes related to financial instruments”.

31 December 2022

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Balance as at 1 January	**9**	**77**	**403**	**3**	**492**
Additions	33	38	206	1	**278**
Utilisation	0	–	198	1	**199**
Reversals	5	56	27	0	**88**
Transfer to Stage 1	10	-10	–	–	**–**
Transfer to Stage 2	-5	12	-7	–	**–**
Transfer to Stage 3	0	-3	3	–	**–**
Interest rate effect	–	–	15	–	**15**
Currency adjustments	0	1	-9	0	**-8**
Changes in the basis of consolidation	–	–	–	0	**0**
Transfers	–	–	–	–	**–**
Balance as at 31 December	**42**	**59**	**386**	**3**	**490**

(44) Financial assets (fvoci)

€ mn	31 Dec 2023	31 Dec 2022
Money market and capital market receivables (fvoci)	**4,401**	**3,550**
Bonds	4,401	3,550
Equity instruments (fvoci)	**2**	**2**
Equities and other non-fixed income securities	0	0
Other investments	2	2
Total	**4,403**	**3,552**

(45) Financial assets (fvpl)

€ mn	31 Dec 2023	31 Dec 2022
Loan receivables (fvpl)	**255**	**427**
Property loans	255	427
Money market and capital market receivables (fvpl)	**6**	**5**
Fund units	6	5
Positive market value of designated hedging derivatives (fvpl)	**831**	**1,104**
Positive market value of fair value hedges	826	1,102
Positive market value of net investment hedges	5	2
Positive market value of other derivatives (fvpl)	**707**	**722**
Positive market value of economic hedging derivatives	271	251
Positive market value of miscellaneous derivatives	436	471
Total	**1,799**	**2,258**

(46) Non-current assets held for sale

€ 118 million of non-current assets held for sale were attributable to the sale of our hotel operations in Italy, agreed with an investor, and a total of € 97 million to the planned disposals of two property loans in Italy and the US. We have intended to dispose of our hotel business for quite some time; the sales are expected to be completed in the first half of the year.

(47) Investments accounted for using the equity method

Aareal Bank holds interests in four associates (2022: seven) and one joint venture (2022: two) that are accounted for using the equity method. The sum total of carrying amounts of the equity investments amounted to € 8 million (2022: € 14 million).

(48) Intangible assets

€ mn	31 Dec 2023	31 Dec 2022
Goodwill	486	378
Proprietary software	107	84
Other intangible assets	127	104
Total	**720**	**566**

Goodwill is entirely attributable to the Banking & Digital Solutions and Aareon segments and can be allocated as follows.

€ mn	31 Dec 2023 Goodwill	31 Dec 2022 Goodwill
Banking & Digital Solutions		
Germany	9	9
Aareon		
DACH	109	106
International Business		
Aareon Netherlands	87	55
Aareon France	11	11
Aareon Nordics	147	141
Aareon Spain	72	–
Aareon UK	51	56
Total	**486**	**378**

The increase in goodwill is attributable to the acquisitions conducted by Aareon.

Goodwill is generally tested for impairment as at 31 December each year within the context of an impairment test for each cash-generating unit ("CGU"). Apart from the CGU Banking & Digital Solutions, Aareon has defined the following six CGUs: Aareon DACH, Aareon Netherlands, Aareon France, Aareon Nordics, Aareon UK, and Aareon Spain. The basis for the valuation is the present value of future cash flows (value in use), which are determined using medium-term projections. There is an individual planning of revenue and cost items within the first three to a maximum of six years. The parameters underlying the major assumptions are based on internal and external factors as well as on past experience. The major basis is the previous year's planning. Revenue projections are largely subject to assumptions in relation to new business, as well as renewals of contracts and follow-up business with existing customers. At the same time, these represent the key sources for estimation uncertainty. Regular sales revenues, such as maintenance and fees from transactions with existing customers, are normally not subject to major estimation uncertainty. The projections for cost of materials are derived from revenue projections. The projections for staff expenses predominantly take into account the number of employees, as well as wage and salary trends. Other costs are projected based on the previous year's figures, taking into account known one-off effects. Estimation uncertainties in relation to costs arise as a result of unplanned price increases or unforeseeable one-off effects. In principle, estimation uncertainty increases if assumptions are made further into the future. Cash flows beyond the individual planning horizon are usually determined by way of a perpetual annuity.

The present values of future cash flows were determined on the basis of a risk-adequate discount factor of 9.65 % – 12.21 % after taxes for the Aareon segment and of 9.75 % after taxes for the Banking & Digital Solutions segment. The discount factor for the Aareon segment is calculated based on an underlying risk-free interest rate (including country-specific risk) of 2.72 % – 4.55 % plus a market risk premium of 7.00 % – 7.72 %, multiplied with a beta factor of 1.0. The discount factor for the Banking & Digital Solutions segment is calculated based on an underlying risk-free interest rate of 2.75 % plus a market risk premium of 7.0 %, multiplied with a beta factor of approximately 1.0. In view of the uncertainty surrounding planning beyond the detailed planning phase, the growth rate in both segments is assumed to be 2 % based on a cautious view of the market environment. The recoverable amounts for all CGUs show an excess compared to the carrying amounts. No impairment is incurred for all CGUs even if, ceteris paribus, the above-mentioned material assumptions were to change significantly (such as a 1 % increase in the risk-adequate discount factor, a 5 % decline in the EBITDA included in the cash-flow projections, or a decrease in the growth rate to 1 %).

Other intangible assets, and property and equipment, are tested for impairment if certain events (triggering events) or changed circumstances suggest that an impairment may have been incurred. Largely based on its different ERP solutions, Aareon distinguishes between 13 asset CGUs that are tested for potential impairments. Each ERP solution generates cash flows independent from those of other assets. Country-specific digital solutions, the data centre in Germany, and other non-current assets are classified as joint assets pursuant to IAS 36, if required, and allocated to those asset CGUs that fall back on such assets using a revenue-based key. If a potential impairment is identified (triggering event), an impairment test is conducted on the concerned asset CGU in accordance with IAS 36 and in line with the principles applicable for intangible assets. In the event that an asset is impaired, the remaining useful life must be adapted accordingly. If the reasons for a previously recognised impairment no longer apply, the concerned assets are written up through profit or loss; the write-back, however, may not exceed the carrying amount which would have been recognised if no impairment had been incurred in earlier periods.

Intangible assets developed as follows:

	2023				2022			
€ mn	Goodwill	Proprietary software	Other intangible assets	Total	Goodwill	Proprietary software	Other intangible assets	Total
Cost								
Balance as at 1 January	**419**	**171**	**193**	**783**	**276**	**145**	**160**	**581**
Additions	5	25	5	**35**	0	30	3	**33**
Transfers	–	1	-1	**–**	-4	-1	0	**-5**
Disposals	0	6	7	**13**	0	1	2	**3**
Changes in the basis of consolidation	106	28	34	**168**	158	0	34	**192**
Currency translation differences	2	0	0	**2**	-11	-2	-2	**-15**
Balance as at 31 December	**532**	**219**	**224**	**975**	**419**	**171**	**193**	**783**

>

€ mn	2023 Goodwill	2023 Proprietary software	2023 Other intangible assets	2023 Total	2022 Goodwill	2022 Proprietary software	2022 Other intangible assets	2022 Total
Amortisation and impairment losses								
Balance as at 1 January	**41**	**87**	**89**	**217**	**41**	**70**	**76**	**187**
Amortisation and impairment losses	5	31	15	**51**	–	18	15	**33**
of which: impairment losses	5	–	–	**5**	–	–	–	**–**
Write-ups	–	–	–	**–**	–	–	–	**–**
Transfers	–	–	0	**0**	–	0	0	**0**
Disposals	–	6	6	**12**	0	1	3	**4**
Changes in the basis of consolidation	–	–	-1	**-1**	–	–	2	**2**
Currency translation differences	0	0	0	**0**	0	0	-1	**-1**
Balance as at 31 December	**46**	**112**	**97**	**255**	**41**	**87**	**89**	**217**
Carrying amount as at 1 January	**378**	**84**	**104**	**566**	**235**	**75**	**84**	**394**
Carrying amount as at 31 December	**486**	**107**	**127**	**720**	**378**	**84**	**104**	**566**

(49) Property and equipment

€ mn	31 Dec 2023	31 Dec 2022
Land and buildings and construction in progress	96	210
Office furniture and equipment	23	25
Total	**119**	**235**

The decline was largely due to the reclassification of our hotel operations in Italy to non-current assets held for sale. The construction in progress item comprises capitalised expenses totalling € 5 million (2022: € 1 million).

Property and equipment developed as follows:

€ mn	2023 Land and buildings and construction in progress	2023 Office furniture and equipment	2023 Total	2022 Land and buildings and construction in progress	2022 Office furniture and equipment	2022 Total
Cost						
Balance as at 1 January	**331**	**91**	**422**	**368**	**90**	**458**
Additions	22	14	**36**	13	15	**28**
Transfers	-141	-13	**-154**	0	0	**0**
Disposals	29	14	**43**	51	15	**66**
Changes in the basis of consolidation	2	2	**4**	0	1	**1**
Currency translation differences	0	0	**0**	1	0	**1**
Other	–	–	**–**	–	–	**–**
Balance as at 31 December	**185**	**80**	**265**	**331**	**91**	**422**
Depreciation and impairment losses						
Balance as at 1 January	**121**	**66**	**187**	**115**	**65**	**180**
Depreciation and impairment losses	18	10	**28**	18	11	**29**
of which: impairment losses	–	–	**–**	–	–	**–**
Write-ups	2	1	**3**	–	–	**–**
Transfers	-38	-10	**-48**	–	–	**–**
Disposals	10	9	**19**	13	11	**24**
Changes in the basis of consolidation	0	1	**1**	–	1	**1**
Currency translation differences	0	0	**0**	1	0	**1**
Other	–	–	**–**	–	–	**–**
Balance as at 31 December	**89**	**57**	**146**	**121**	**66**	**187**
Carrying amount as at 1 January	**210**	**25**	**235**	**253**	**25**	**278**
Carrying amount as at 31 December	**96**	**23**	**119**	**210**	**25**	**235**

(50) Income tax assets

Income tax assets in a total amount of € 52 million as at 31 December 2023 (2022: € 46 million) include € 15 million (2022: € 19 million) expected to be realised after a period of more than twelve months.

(51) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 455 million (2022: € 661 million).

Deferred tax assets were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2023	31 Dec 2022
Financial assets (ac)	122	162
Financial assets (fvoci)	57	110
Financial assets (fvpl)	23	28
Property and equipment	5	0
Other assets	3	2
Financial liabilities (ac)	3	1
Financial liabilities (fvpl)	311	400
Provisions	71	61
Other liabilities	1	2
Tax loss carryforwards	81	74
Deferred tax assets	**677**	**840**

The Group reported deferred taxes on loss carryforwards of € 81 million as at 31 December 2023 (31 December 2022: € 74 million) for operations or entities that incurred losses in the current or the previous period. € 19 million of these deferred taxes were attributable to foreign permanent establishments (2022: € 47 million). Deferred taxes are recognised based on senior management's assessment that the respective entities are likely to generate taxable income over the next five years against which unused tax losses, tax credits, interest carryforwards and deductible temporary differences can be offset. As a rule, senior management uses information on historical profitability and, where applicable, information on forecast business results based on approved business plans, including an overview of the carryforward periods of unused tax losses and tax credits, tax planning opportunities and other relevant considerations to determine the amounts of deferred tax assets to be recognised.

The deferred tax assets not recognised or not subject to valuation adjustments amount to € 90 million (2022: € 68 million). No deferred tax assets were recognised on unlimited tax loss carryforwards of € 354 million (2022: € 309 million) since it is not probable that future taxable profit will be available against which the unused tax loss carryforwards can be utilised.

Deferred tax assets in the amount of € 61 million (2022: € 38 million) were recognised directly in equity, under Other reserves.

(52) Other assets

€ mn	31 Dec 2023	31 Dec 2022
Properties	417	360
Contract assets	23	19
Miscellaneous	102	95
Total	**542**	**474**

Property holdings increased as a result of the acquisition of two property SPVs from US lending exposures.

During the period under review, an impairment of € 6 million was recognised for a property with a carrying amount of € 76 million.

Costs for value-enhancing measures were capitalised in the reporting year.

The portion of the unsatisfied performance obligation from IT consulting projects in the amount of € 6 million (2022: € 6 million) is expected to be realised in the amount of € 6 million (2022: € 6 million) in the subsequent year, and in the amount of € 0 million (2022: € 0 million) thereafter. We do not disclose the portion of unsatisfied performance obligations from other contracts since the consideration from the client equals the services provided.

(53) Financial liabilities (ac)

€ mn	31 Dec 2023	31 Dec 2022
Money market and capital market liabilities (ac)	**26,675**	**26,425**
Money market liabilities	6,134	5,761
Promissory note loans	2,662	2,573
Mortgage Pfandbriefe	11,759	10,823
Public-sector Pfandbriefe	1,119	1,296
Other debt securities	5,001	5,972
Other financial liabilities	–	0
Deposits from the housing industry (ac)	**12,669**	**13,115**
Payable on demand	8,816	10,180
Term deposits	3,853	2,935
Liabilities from other transactions (ac)	**649**	**96**
Trade payables	22	20
Other liabilities	627	76
Subordinated liabilities (ac)	**357**	**386**
Total	**40,350**	**40,022**

The changes in subordinated liabilities in the amount of € -30 million (2022: € -223 million) consist of € -37 million (2022: € -177 million) related to cash payments of principal as well as an amount of € 7 million (2022: € -46 million) related to non-cash changes in fair value and changes of accrued interest.

(54) Financial liabilities (fvpl)

€ mn	31 Dec 2023	31 Dec 2022
Negative market value of designated hedging derivatives (fvpl)	**1,321**	**2,183**
Negative market value of fair value hedges	1,305	2,141
Negative market value of net investment hedges	16	42
Negative market value of other derivatives (fvpl)	**1,362**	**1,331**
Negative market value of economic hedging derivatives	298	639
Negative market value of other derivatives	1,064	692
Total	**2,683**	**3,514**

(55) Non-current liabilities held for sale

Liabilities of € 7 million are attributable to the agreed sale of our hotel operations in Italy.

(56) Provisions

€ mn	31 Dec 2023	31 Dec 2022
Provisions for pensions and similar obligations	76	158
Provisions for unrecognised lending business	5	4
Other provisions	134	130
Total	**215**	**292**

Changes in the discount rate applicable to pensions require a revaluation of the amount of obligations. This is recognised directly in other comprehensive income, under changes in the reserve from defined benefit plans. Provisions for pensions further declined, reflecting higher funding levels.

A detailed breakdown of the provisions for unrecognised lending business by classes of financial assets is disclosed in Note (65) in the chapter "Notes related to financial instruments".

Provisions for pensions and similar obligations

The pension obligations result mainly from retirement benefit plans maintained at Aareal Bank, Aareon, BauGrund and Westdeutsche Immobilien Servicing (former WestImmo), which are classified as defined contribution plans or defined benefit plans in accordance with IAS 19.

Aareal Bank contributed assets held to cover existing pension obligations into a Contractual Trust Arrangement (CTA). This is to ensure improved insolvency protection of the pension claims as a result of the limited protection provided by the German Pension Guarantee Association (Pensionssicherungsverein; PSVaG). For this purpose, a bilateral trust was agreed between Aareal Bank AG (trustor) and Aareal Pensionsverein e.V. as legally independent third party (trustee). The trustee is registered in the Register of Associations at the Wiesbaden District Court.

The trustee holds in trust the special fund for the trustor (administrative trust). Simultaneously, but senior to the administrative trust, the trustee holds the special fund for all beneficiaries on trust to secure the recorded entitlements (security trust).

The security trust is established in the interest of the beneficiaries by way of a genuine agreement for the benefit of third parties (Section 328 (1) of the German Civil Code (Bürgerliches Gesetzbuch – "BGB")). On the basis of this security trust, the beneficiaries may request from the trustee that the trustee holds and manages this special fund pursuant to the regulations of this trust agreement for the purpose of securing the recorded entitlements. Upon the occurrence of an insured event, the beneficiaries may, based on the security trust, request from the trustee that the trustee satisfies their recorded entitlements pursuant to the regulations of this trust agreement out of the special fund.

The Bank is the economic beneficiary of the assets. The assets are managed by HSBC INKA in a special fund under German investment law ("Spezialfonds"). Based on an investment guideline, HSBC INKA takes investment decisions for staff pensions. A joint investment committee was established, comprising staff from HSBC INKA and Aareal Bank. The Bank transfers new assets to be invested to Aareal Pensionsverein e.V. on an annual basis, which in turn acquires additional units in the special fund. The fund manager invests interest income during the course of the year.

The Bank has taken out reinsurance policies for a portion of the benefit entitlements of active members of the Management Board and former Management Board members. These policies were also transferred to Aareal Pensionsverein e.V. on a trust basis. The Bank provides corresponding funds for contribution paid to these policies.

Transferring assets to Aareal Pensionsverein e.V. on the one hand secures benefit entitlements and claims under occupational pension schemes, and on the other hand creates plan assets within the meaning of IAS 19 which may be offset with benefit obligations of the trustor.

Brief description of the material pension plans

DePfa Bank Betriebsvereinbarung dated 14 December 1999 (BV 97)

BV 97 applies for new joiners since 1 January 1997. The following benefits are granted after a waiting period of five pensionable service years: old-age pension after completing the 65th year of age (also after any previous disability), early old-age pension, disability pension until completing the 65th year of age, as well as widow(er)'s pension.

The Bank shall grant its employees a basic pension from own contributions and additional benefits in the form of corresponding individual agreements on deferred compensation. The basic pension for the pensionable service period is calculated based on an annual benefit expense of 3.5 % for portions of the pensionable income below the contribution ceiling and 10 % for portions of pensionable income above the contribution ceiling. The employer contributions thus calculated as well as the contributions from deferred compensation are contributed into a CTA at the end of each financial year. The benefit assets, including any allocated surpluses, bear interest at a rate of at least 4 %. The annual benefit payments are calculated based on an annuitisation of the benefit assets upon occurrence of the insured event, using a fixed annuitisation table.

The pensionable service period is deemed to be the period from completing the 20th year of age to completing the 65th year of age. Pensionable income is the gross remuneration received within one year.

Any actuarial deductions upon claiming old-age pensions before completing the 65th year of age are taken into account through an annuitisation of the benefit assets. The widow(er)'s pension amounts to 60 % of the employee pension. The Bank increases the current benefit payments annually by 1 %; there is no obligation to provide for an inflation adjustment.

Management Board

The four active Management Board members receive their benefits based on individual commitments.

Two individual benefit commitments are aligned to the fixed annual employer contributions and the amounts from deferred compensation, which are paid to the relevant benefit account and bear interest at a rate of 4 %. In the case of disability or death, the existing benefit assets from the employer contributions are increased by the sum total of the amounts that would have been credited in future (up to a maximum contribution period of ten years) for each full calendar year prior to turning 62 or 63. The benefit assets and the assets from deferred compensation are translated into a lifelong old-age or disability pension upon the occurrence of an insured event, using actuarial principles. Annuitisation is based on biometric principles and a notional interest rate of 4 % p. a. and takes into account a guaranteed pension increase of 1 % p.a. The widow pension amounts to 60 % of the beneficiary's pension entitlement. The current benefit payments are increased annually by 1 %; there is no obligation to provide for an inflation adjustment. The old-age pension benefits based on one of these individual commitments were secured through reinsurance policies. These reinsurance policies include benefits in the case of disability or death.

The two other individual commitments involve the provision of an annual fixed employer's contribution which is credited to the personal benefit account. The benefit assets bear interest that corresponds to the capital gains generated in the form of a real or virtual financial investment. The investment is made in form of a real investment as part of the Contractual Trust Agreement (CTA) to the extent that the benefit contribution is paid into the CTA established for the Bank as trust assets. To the extent that the benefit contribution is not paid into the CTA's trust assets, the investment is made and the capital gains are determined on a virtual basis so that the result of the virtual investment corresponds to the result of the investment as if the investment had been made entirely in form of a real investment. In the case of disability or death, the existing benefit assets are increased by the sum total of the amounts that would have been credited in future (up to a maximum contribution period of five years) for each full calendar year prior to turning 62. The benefit assets are generally disbursed in form of a one-off payment. The pension for the surviving dependants amounts to 60 % of the beneficiary's pension entitlement. To the extent that the benefits are paid in form of an annuity, the benefits are increased by 1 % each year.

DePfa Bank Dienstvereinbarung dated 30 December 1955 (DePfa 55)

DePfa 55 is a pay-related benefit commitment for new entrants before 31 December 1988. It provides for benefit payments after completing the 65th year of age after a waiting period of five service years and benefits paid in case of occupational incapacity (disability) as well as benefits for surviving dependants, each in form of a monthly annuity.

The amount of the entitlement is based on the following increases: 5 % of the last annual salary for the first five service years each, 2% of the last annual salary for the next 20 service years each, and 1 % of the last annual salary for any following service year, up to a maximum percentage of 75 % of the last annual salary after 35 service years. The widow(er)'s pension amounts to 60 % of the old-age or disability pension. Benefits paid by social security insurance and VBL/Gerling are charged to the benefit entitlements. DePfa 55 does not include any provision allowing for an early payout of old-age pensions or for an adjustment of current benefit payments.

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to Section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

BauBoden agreement dated 1 July 1968 (BauBoden 68)

This agreement applies to employees after completing their 18th year of age who were employed by the Bank on 1 January 1967 or joined the Bank not later than on 31 December 1983. The following benefits are granted after a waiting period of ten service years: old-age pension after completing the 65th year of age, early old-age pension, (total) occupational incapacity pension as well as widow(er)'s pension.

Benefits consist of an overall pension, comprising the statutory pension insurance scheme, the additional pension insurance scheme at VBL or BVV (which is taken into account), or the group insurance contracts and the bank subsidy. The overall pension amounts to 55 % of the pensionable salary after ten years of service. The overall pension is increased by 1 % of the pensionable salary for any further service year, up to the maximum rate of 75 %. The pensionable salary is the last monthly gross salary received during service.

No actuarial deductions are made upon claiming old-age pensions before completing the 65th year of age. The widow(er)'s pension amounts to 60 % of the bank subsidy. The current pension payments are adjusted pursuant to Section 16 of the German Occupational Pensions Act (Betriebsrentengesetz; "BetrAVG").

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to Section 16 of the German Occupational Pensions Act (BetrAVG). Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

BauBoden agreement dated 12 December 1984 (BauBoden 84) and DePfa Bank Versorgungsordnung dated 28 November 1990 (DePfa 90)

BauBoden 84 applies to employees who joined the Company after 31 December 1983 and have completed their 20th year of age. DePfa 90 applies to employees who joined the Company after 31 December 1988. The following benefits are granted after a waiting period of ten service years: old-age pension and early old-age pension, (total) occupational incapacity pension as well as widow(er)'s pension.

The benefit entitlements of the employees vest after completing their 65th year of age. The amount of the monthly pension entitlement is calculated for each pensionable service year (up to a maximum of 40 service years) as follows: 0.6 % of pensionable salary up to the contribution ceiling, 2 % of the portion of pensionable salary exceeding the contribution ceiling, with pensionable salary and contribution ceiling being calculated using the average for the last twelve months. Benefits paid by BVV are charged to the benefit entitlements under BauBoden 84.

The Bank does not make any actuarial deductions upon claiming early old-age pensions. The widow(er)'s pension amounts to 60% of the entitlements to benefit payments. The current pension payments are adjusted pursuant to Section 16 of the BetrAVG.

These commitments are based on final salary. The obligation resulting from the respective benefit commitment is therefore very sensitive to unexpected salary changes.

Current benefits are not subject to a fixed adjustment rate; therefore, the adjustment is made pursuant to Section 16 of the BetrAVG. Accordingly, an inflation adjustment has to be made every three years given an appropriate economic situation of the Bank. Changes in inflation and, hence, pension increases have an impact on the benefit volume as regards these commitments.

AHB – General works agreement on additional pension benefits (company pension scheme) of former Corealcredit
The pension benefits to former employees of Allgemeine Hypothekenbank AG, whose employment relationship began prior to 1 January 1994, are governed by the additional benefit arrangement dated 29 August 1995 on the basis of the complementing general works agreement dated 7 March 1995.

This benefit commitment is based on aggregate benefits derived from pension benefits for civil servants. After a waiting period of five years of service, the aggregate benefit rate is 50% of pensionable income. For each year after completing the 37th year of age, the aggregate benefit rate increases by 1% of pensionable income, up to a maximum 75% of pensionable income. The entitlement amounts to at least 65% of pensionable income in the case of (total) occupational incapacity and 75% of pensionable income in the case of workplace accidents. Pensionable income is the annual income (calculated on the basis of 14 monthly salaries), divided by 12.

The pension benefits of the statutory pension insurance and the BVV, which are based on mandatory contributions, are taken into account in the pension determined as described. To that extent, the benefit obligation directly depends on the development of the level of pensions from the statutory pension insurance on the one hand and from the BVV on the other.

As a result of the German Pension Reform Act of 1992 and the associated cuts in statutory pension insurance, the pension scheme was restructured in 1995. The main pillar of the new structure is the limitation of the Bank's deficiency guarantee for the declining level of statutory pensions due to deduction factors applied at early retirement (Rentenzugangsfaktor) and the lower adjustment of the pension value. Accordingly, the Bank continues to assume the deficiency guarantee on a pro-rata basis for the periods of service until the restructuring on 31 December 1995 in relation to the deduction factors applied at early retirement and for the reduced level of the current pension value (net adjustment factor). The reduction in the level of statutory pensions that occurred during the service periods from the restructuring date until retirement is taken into account at the expense of the beneficiary.

From the start of retirement, the AHB pension is decoupled from the development of the statutory pension and the BVV pension already prior to the restructuring since only the AHB pension is adjusted for inflation on an annual basis.

Accordingly, the obligation for the pension commitment during the qualification period is, on the one hand, directly dependent upon the development of the statutory pension and the BVV pension. On the other hand, it is fully dependent upon salary development for all years of service, even including past service. The volume of the obligation also depends upon the fluctuation of inflation and hence pension increases.

Rheinboden Hypothekenbank AG – pension scheme in the version dated 1 December 1991 of former Corealcredit
The former employees of Rheinboden Hypothekenbank AG are entitled to old-age and disability pensions as well as surviving dependant's benefits in accordance with the pension schemes in the version dated 1 December 1991.

The monthly benefits for employees who commenced service prior to 1 October 1978 amount to 5% of pensionable remuneration (most recent monthly salary based on collective or individual agreements) after ten service years and increase by 0.5% of pensionable remuneration for each service year, up to 14% of pensionable remuneration after 15 service years. The monthly benefit entitlement increases by 0.3% of pensionable remuneration for any additional service years, up to a maximum of 20%. The BVV benefits are taken into account in such entitlement to the extent that these are based on employer contributions.

The benefits for employees who commenced service after 30 September 1978 amount to 0.15 % of pensionable remuneration up to the contribution ceiling as well as 1.5 % of pensionable remuneration above the contribution ceiling for each year of service between the 25th and 65th year of age. The maximum number of recognisable service years is 35.

The old-age pension under the Rheinboden pension schemes is paid after completing the 65th year of age or upon commencement of old-age pension under the statutory pension insurance scheme (full pension). In case of early retirement, the benefits are subject to deductions of 0.3 % per month of early retirement prior to the age of 65 as a partial compensation for the additional costs associated with early retirement. The surviving dependant's benefits amount to 60 % of the employee's pension entitlement for widow(er)s as well as 15 % for half-orphans and 20% for orphans, however, in aggregate not exceeding the amount of the employee's pension entitlement.

Supplementary individual contractual arrangements were agreed with individual pensioners and leavers with vested benefits for the purpose of the transition from the old to the new Rheinboden pension scheme and the application of the BVV benefits.

In addition, individual contractual commitments apply to former management board members and general managers – currently pensioners and one leaver with vested benefits.

The adjustment of current pensions on the basis of the Rheinboden commitments is performed on the basis of the inflation allowance set out in Section 16 of the German Occupational Pensions Act (BetrAVG), with the exception of a small group of approximately ten pensioners where adjustment is made pursuant to the collective agreement for banks.

WestImmo – Pension fund rules dated 1 October 1995

The pension fund rules dated 1 October 1995 represent a defined contribution scheme. The following benefits are paid after a waiting period of five year of service: old-age pension, early old-age pension, (total) occupational incapacity pension as well as widow(er)'s and orphan's pension.

The amount of the old-age pension, the early old-age pension and the (total) occupational incapacity pension is calculated based on the sum of the pension components earned during the pensionable service period. If the pensionable service period exceeds 40 years, the monthly pension is calculated based on the sum of the highest 40 pension components earned during the pensionable service period. The amount of one pension component is derived from multiplying the reference contribution (since 2021: € 311), the personal earnings relation (relation between pensionable income and contribution ceiling of the German statutory pension insurance; earnings components above the contribution ceiling are weighted with a factor of 3.75) and the annuitisation factor in the relevant age pursuant to the annuitisation table. The amount of the early old-age pension is reduced by 0.5 % for each month in which annuity is paid prior to completing the 65th year of age. The widow(er)'s pension entitlement amounts to 60 %.

If necessary, the determination of the amount of pension obligations is based on the following actuarial assumptions applied consistently throughout the Group:

	31 Dec 2023	31 Dec 2022
Calculation method	Projected unit credit method	Projected unit credit method
Calculation basis	Actuarial tables issued by K. Heubeck in 2018	Actuarial tables issued by K. Heubeck in 2018
Actuarial assumptions (in %)		
Interest rate used for valuation	3.15	3.68
Development of salaries	2.25	2.25
Pension increase	1.75	1.79
Rate of inflation	2.25	2.25
Staff turnover rate	3.00	3.00

Development of net pension liabilities:

€ mn	Present value of pension obligations	Fair value of plan assets	Net pension liability
Balance as at 1 January 2023	**371**	**-213**	**158**
Pension expense	**18**	**-10**	**8**
Current service cost	5	–	5
Net interest cost	13	-10	3
Payments	**-11**	**-101**	**-112**
Pension benefits paid	-16	3	-13
Employer's contributions	–	-99	-99
Contributions made by beneficiaries of defined benefit plans	5	-5	0
Remeasurements	**38**	**-16**	**22**
due to experience adjustments	6	–	6
due to changes in financial assumptions	32	–	32
due to changes in demographic assumptions	–	–	–
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-16	-16
Changes in the basis of consolidation	**–**	**–**	**-**
Balance as at 31 December 2023	**416**	**-340**	**76**

€ mn	Present value of pension obligations	Fair value of plan assets	Net pension liability
Balance as at 1 January 2022	**539**	**-114**	**425**
Pension expense	**19**	**-3**	**16**
Current service cost	13	–	13
Net interest cost	6	-3	3
Payments	**-11**	**-184**	**-195**
Pension benefits paid	-15	2	-13
Employer's contributions	–	-182	-182
Contributions made by beneficiaries of defined benefit plans	4	-4	0
Remeasurements	**-176**	**88**	**-88**
due to experience adjustments	-1	–	-1
due to changes in financial assumptions	-175	–	-175
due to changes in demographic assumptions	–	–	–
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	88	88
Changes in the basis of consolidation	**–**	**–**	**–**
Balance as at 31 December 2022	**371**	**-213**	**158**

The weighted duration of pension liabilities is 15.9 years as at 31 December 2023 (2022: 15.5 years).

Expected maturities of the defined benefit obligation (DBO):

€ mn	31 Dec 2023	31 Dec 2022
Up to 1 year	17	16
Between 1 year and 5 years	71	67
Between 5 years and 10 years	99	93
Total	**187**	**176**

Plan contributions in the amount of € 5 million (2022: € 5 million) are expected to be paid in the financial year 2024.

Sensitivity of the defined benefit obligation (DBO) compared to the central actuarial assumptions

Based on the qualitative plan description, the valuation parameters significant for calculating the amount of the obligation were derived and corresponding calculations were made as regards sensitivity:

		Defined benefit obligation 2023	Change	Defined benefit obligation 2022	Change
		€ mn	%	€ mn	%
Present value of obligations		**416**		**371**	
Interest rate used for valuation	Increase by 1.0 percentage points	359	-14	322	-13
	Decrease by 1.0 percentage points	489	18	434	17
Development of salaries	Increase by 0.5 percentage points	423	2	377	2
	Decrease by 0.5 percentage points	412	-1	365	-2
Pension increase	Increase by 0.25 percentage points	421	1	376	1
	Decrease by 0.25 percentage points	412	-1	367	-1
Life expectancy	Increase by 1 year	435	5	387	4
	Decrease by 1 year	397	-5	355	-4

The sensitivity analysis takes into account, in each case, the change of an assumption, while the other assumptions remain unchanged compared to the original calculation, i.e. any potential correlation effects between the individual assumptions are not taken into consideration.

Plan assets can be broken down as follows:

€ mn	31 Dec 2023	31 Dec 2022
Cash	0	0
Investment funds including derivatives	313	191
Reinsurance	27	23
Total	**340**	**214**

Apart from the usual actuarial risks, the risks associated with defined benefit obligations primarily relate to financial risks in connection with plan assets. Amongst others, these may include counterparty credit risks and market price risks. These risks are taken into account in the risk management of Aareal Bank Group. The measurement of investment funds (including derivatives) has to be allocated to Level 2 of the fair value hierarchy.

Other provisions

Other provisions developed as follows:

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions for legal and tax risks	Other provisions	Total
Carrying amount as at 1 January 2023	**104**	**3**	**23**	**130**
Additions	52	0	15	**67**
Utilisation	53	0	0	**53**
Reversals	4	0	8	**12**
Interest	1	–	0	**1**
Reclassifications	0	–	0	**0**
Changes in the basis of consolidation	2	–	0	**2**
Exchange rate fluctuations	-1	–	0	**-1**
Carrying amount as at 31 December 2023	**101**	**3**	**30**	**134**

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions for legal and tax risks	Other provisions	Total
Carrying amount as at 1 January 2022	**103**	**3**	**24**	**130**
Additions	61	0	1	**62**
Utilisation	53	0	0	**53**
Reversals	5	–	3	**8**
Interest	-3	–	0	**-3**
Reclassifications	0	–	0	**0**
Changes in the basis of consolidation	0	–	1	**1**
Exchange rate fluctuations	1	–	0	**1**
Carrying amount as at 31 December 2022	**104**	**3**	**23**	**130**

Other provisions of € 134 million include € 30 million expected to be realised after a period exceeding twelve months (2022: € 31 million).

Provisions for staff expenses and non-staff operating costs refer to personnel provisions in the amount of € 76 million (2022: € 75 million) and provisions for non-staff operating costs in the amount of € 26 million (2022: € 29 million). Provisions for staff expenses consist of, among other things, provisions for bonuses (cash and share-based), partial retirement, severance payments and existing working hours accounts. Provisions for staff expenses include € 1 million in provisions for severance payments and for partial retirement (2022: € 3 million). Provisions for non-staff operating expenses mainly include provisions for professional and legal advice.

(57) Income tax liabilities

Income tax liabilities in a total amount of € 126 million as at 31 December 2023 (2022: € 76 million) include € 3 million (2022: € 7 million) expected to be realised after a period of more than twelve months.

(58) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of €455 million (2022: €661 million).

Share price gains of approximately €47 million may arise in connection with a special investment fund which would be taxable upon disposal of that special fund. However, since there are no plans to dispose of this special fund, no deferred tax liabilities need to be recognised.

Deferred tax liabilities were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2023	31 Dec 2022
Financial assets (ac)	82	67
Financial assets (fvoci)	7	7
Financial assets (fvpl)	0	–
Intangible assets	42	24
Property and equipment	14	16
Other assets	24	15
Financial liabilities (ac)	323	576
Provisions	9	13
Other liabilities	0	0
Deferred tax liabilities	**501**	**718**

(59) Other liabilities

€ mn	31 Dec 2023	31 Dec 2022
Lease liabilities	37	44
Deferred income	0	1
Liabilities from other taxes	34	23
Contract liabilities	31	25
Miscellaneous	4	18
Total	**106**	**111**

An amount of € 23 million (2022: € 20 million) of the contract liabilities was recorded in profit or loss in the current reporting period.

(60) Equity

€ mn	31 Dec 2023	31 Dec 2022
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	2,128	2,076
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-86	-73
Reserve from the measurement of equity instruments (fvoci)	-4	-4
Reserve from the measurement of debt instruments (fvoci)	-18	4
Reserve from foreign currency basis spreads	-22	-8
Currency translation reserves	-4	-7
Non-controlling interests	105	69
Total	**3,300**	**3,258**

Equity increased due to consolidated net income for 2023. In addition, a decline in the negative amount of the reserve from remeasurements of defined benefit plans was seen due to a further increase in funding.

The item "Reserve from the measurement of debt instruments (fvoci)" includes loss allowance of € 1 million (2022: € 1 million).

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (2022: € 180 million). It is divided into 59,857,221 notional fully-paid no-par value shares ("unit shares") with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

Treasury shares

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

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

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

The Management Board was also authorised to effect the acquisition of treasury shares by using put or call options. Any acquisition of shares using derivatives is limited to 5 % of share capital. In addition, any acquisition of shares shall count towards the 10 % threshold for the authorisation for the acquisition of treasury shares. Where treasury shares are acquired using equity derivatives, the shareholders' right to enter into 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 10 August 2023. Accordingly, the Management Board is authorised to increase, on one or more occasions, the Company's registered share capital by up to a maximum total amount of € 89,785,830 via the issuance of new no-par value bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board (Authorised Capital 2022); this authorisation will expire on 9 August 2028. 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 ten per cent (10 %) of the registered 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 ten per cent (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; or

b) for fractional amounts arising from the determination of the applicable subscription ratio; or

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; or

d) for an amount of up to € 4,000,000, to offer employees (of the Company or its affiliated companies) shares for subscription; or

e) in the event of a capital increase against contributions in kind for the purpose of acquiring companies, parts thereof or participating interests or any 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 ten-per-cent 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 by the Annual General Meeting after the lowering and said new authorisation comes into effect, the upper limit lowered in accordance with the specifications above shall be increased again to the amount permitted by the new authorisation, with a maximum total of 10 per cent of the registered share capital in accordance with the above specifications.

The authorised capital has not yet been utilised.

Conditional capital

Based on a resolution passed by the General Meeting on 10 August 2023, the Management Board was authorised to issue, on one or more occasions until 9 August 2028, profit-participation certificates with a limited or unlimited term for contribution in cash or in kind of up to a total of € 1,000,000,000. The profit-participation certificates must be constructed in such a way that the funds paid for them after issuance can be recognised as banking regulatory capital pursuant to the legal regulations applicable as at the time of issuance. Profit-participation certificates and other hybrid promissory note loans to be issued according to this authorisation shall be connected with conversion rights, entitling or compelling, in accordance with their respective conditions, the holder to purchase Company shares. Conversion rights or obligations may be attached exclusively to bearer no-par value shares 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 € 89,785,830 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 € 89,785,830 (which equals approx. 50 % 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 share capital is subject to a conditional capital increase not exceeding € 89,785,830 by issuance of up to 29,928,610 new no-par value bearer shares ("Conditional Capital 2023"). The conditional capital increase shall be implemented only to the extent that (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 9 August 2028 on the basis of the Annual General Meeting's authorisation resolution of 10 August 2023 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 9 August 2028 on the basis of the Annual General Meeting's authorisation resolution of 10 August 2023, with such holders being obliged to exercise those rights, fulfil their obligation or (iii) the Company exercises its right of substitution, except where treasury shares are used to service the rights or, in the aforementioned cases (i) and (ii), 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 shall be authorised to determine the further details of the conditional capital increase. To date, the Conditional Capital has not yet been utilised.

Capital reserves

The capital reserves contain premiums received upon the issuance of shares. Costs incurred within the framework of a capital increase reduce capital reserves.

Retained earnings

Retained earnings are comprised of statutory reserves (pursuant to Section 150 of the AktG) of € 5 million (2022: € 5 million) and of other retained earnings of € 2,123 million (2022: € 2,072 million).

Additional Tier 1 bond (AT1 bond)

On 13 November 2014, the Management Board issued notes in an aggregate nominal amount of € 300 million with a denomination of € 200,000 and an initial interest rate of 7.625 % 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 I 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 I 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.

Distributions

Aareal Bank does not plan to distribute net income for 2023 in 2024. At the Annual General Meeting held on 10 August 2023, it already had been resolved not to pay dividends in 2023.

The Management Board proposes to the Annual General Meeting that the net retained profit of € 452,310,000.00 for the 2023 financial year, as reported under the German Commercial Code (HGB), be carried forward.

In addition, on 30 April 2024, the Management Board will resolve on a distribution in relation to the AT1 instruments, pursuant to the terms and conditions of the notes.

Notes to Financial Instruments

A detailed description of the system in place at Aareal Bank Group to measure, limit, and manage risks throughout Aareal Bank Group is presented in the Risk Report as part of the Group Management Report. The disclosures on the description and the extent of the risks arising from financial instruments in accordance with IFRS 7 are included (in part) in the Risk Report.

(61) Net gains/losses of financial instruments by category

The following overview shows the net gains or net losses from financial instruments in accordance with the classification and measurement categories of financial assets and liabilities (from which the results are generated):

€ mn	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Net gain or loss from financial assets (ac)	-425	-195
Net gain or loss from financial liabilities (ac)	5	-21
Net gain or loss from financial assets (fvoci) recognised in other comprehensive income	-27	-8
Net gain or loss from financial assets (fvoci) transferred to the income statement	5	9
Net gain or loss from equity instruments (fvoci)	0	-1
Net gain or loss from financial instruments (fvpl)	-71	26
Net gain or loss from financial guarantee contracts and loan commitments	-1	-1

The net results include measurement gains and losses, realised gains/losses on disposal, subsequent recoveries on loans and advances previously written off in relation to all financial instruments of the respective measurement category. The net gain or loss from financial instruments (fvpl) also comprises the net gain or loss from currency translation.

The hedge result from hedged items is aggregated with the hedge result from derivative hedging instruments in one line item, and amounted to € 1 million (2022: € -2 million) in the year under review. Moreover, the change in the reserve from foreign-currency basis spreads amounted to € -21 million (2022: € 22 million).

(62) Fair value hierarchy in accordance with IFRS 13

The carrying amounts of financial instruments held by Aareal Bank Group which are reported at fair value in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument.

31 December 2023

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**4,403**	**4,160**	**241**	**2**
Money market and capital market receivables (fvoci)	4,401	4,160	241	–
Equity instruments (fvoci)	2	–	0	2
Financial assets (fvpl)	**1,799**	**0**	**1,539**	**260**
Loan receivables (fvpl)	255	–	–	255
Money market and capital market receivables (fvpl)	6	0	1	5
Positive market value of designated hedging derivatives (fvpl)	831	–	831	–
Positive market value of other derivatives (fvpl)	707	–	707	–
Financial liabilities (fvpl)	**2,683**	**–**	**2,683**	**–**
Negative market value of designated hedging derivatives (fvpl)	1,321	–	1,321	–
Negative market value of other derivatives (fvpl)	1,362	–	1,362	–

As at year-end, no financial assets (fvoci) were transferred from Level 1 to Level 2 (2022: € 1,185 million) and € 885 million (2022: € 29 million) was transferred from Level 2 to Level 1.

31 December 2022

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**3,552**	**2,162**	**1,388**	**2**
Money market and capital market receivables (fvoci)	3,550	2,162	1,388	–
Equity instruments (fvoci)	2	–	0	2
Financial assets (fvpl)	**2,258**	**0**	**1,826**	**432**
Loan receivables (fvpl)	427	–	–	427
Money market and capital market receivables (fvpl)	5	0	–	5
Positive market value of designated hedging derivatives (fvpl)	1,104	–	1,104	–
Positive market value of other derivatives (fvpl)	722	–	722	–
Financial liabilities (fvpl)	**3,514**	**–**	**3,514**	**–**
Negative market value of designated hedging derivatives (fvpl)	2,183	–	2,183	–
Negative market value of other derivatives (fvpl)	1,331	–	1,331	–

The fair values of loan receivables recognised at fair value in the statement of financial position that are assigned to Level 3 of the fair value hierarchy developed as follows during the period under review:

Loan receivables (fvpl)

€ mn	2023	2022
Fair value as at 1 January	**421**	**598**
Change in measurement	**-30**	**-24**
Portfolio changes		
Additions	30	84
Derecognition	165	231
Deferred interest	-1	0
Fair value as at 31 December	**255**	**427**

Receivables held in the Bank's portfolio contributed € -59 million to the net gain or loss from loan receivables (fvpl) (2022: € -29 million). The net gain or loss from loan receivables (fvpl) is reported in the net gain or loss from financial instruments (fvpl).

Regarding loan receivables (fvpl), the add-ons for risks specific to the counterparty represent the material input parameter not observable in the market. In addition, transaction-specific parameters such as liquidity spread and equity and processing costs are taken into account in measurement. Regarding the non-defaulted loans, an increase/decrease by 1 % would lead to a decrease/increase of the fair value by € 4 million (2022: € 5 million).

The fair values of financial instruments held by Aareal Bank Group which are reported at amortised cost in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument:

31 December 2023

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (ac)	**38,635**	**1,195**	**5,528**	**31,912**
Cash funds (ac)	977	–	977	–
Loan receivables (ac)	31,847	–	0	31,847
Money market and capital market receivables (ac)	5,708	1,195	4,513	–
Receivables from other transactions (ac)	103	–	38	65
Financial liabilities (ac)	**40,062**	**8,999**	**30,398**	**665**
Money market and capital market liabilities (ac)	26,381	8,999	17,356	26
Deposits from the housing industry (ac)	12,669	–	12,669	–
Liabilities from other transactions (ac)	649	–	10	639
Subordinated liabilities (ac)	363	–	363	–

31 December 2022

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (ac)	**39,302**	**353**	**9,931**	**29,018**
Cash funds (ac)	5,424	–	5,424	–
Loan receivables (ac)	28,959	–	1	28,958
Money market and capital market receivables (ac)	4,822	353	4,469	–
Receivables from other transactions (ac)	97	–	37	60
Financial liabilities (ac)	**39,746**	**6,277**	**33,376**	**93**
Money market and capital market liabilities (ac)	26,138	6,277	19,840	21
Deposits from the housing industry (ac)	13,115	–	13,115	–
Liabilities from other transactions (ac)	96	–	24	72
Subordinated liabilities (ac)	397	–	397	–

(63) Comparison of carrying amounts and fair values of financial instruments

The fair values of financial instruments are compared with their carrying amounts (including loss allowance) in the following table. The presentation is made for each class of financial instrument:

€ mn	31 Dec 2023 Carrying amount	31 Dec 2023 Fair Value	31 Dec 2022 Carrying amount	31 Dec 2022 Fair Value
Financial assets (ac)	**38,753**	**38,635**	**40,000**	**39,302**
Cash funds (ac)	977	977	5,424	5,424
Loan receivables (ac)	31,795	31,847	29,463	28,959
Money market and capital market receivables (ac)	5,867	5,708	5,016	4,822
Receivables from other transactions (ac)	114	103	97	97
Financial assets (fvoci)	**4,402**	**4,403**	**3,552**	**3,552**
Money market and capital market receivables (fvoci)	4,400	4,401	3,550	3,550
Equity instruments (fvoci)	2	2	2	2
Financial assets (fvpl)	**1,799**	**1,799**	**2,258**	**2,258**
Loan receivables (fvpl)	255	255	427	427
Money market and capital market receivables (fvpl)	6	6	5	5
Positive market value of designated hedging derivatives (fvpl)	831	831	1,104	1,104
Positive market value of other derivatives (fvpl)	707	707	722	722
Financial liabilities (ac)	**40,350**	**40,062**	**40,022**	**39,746**
Money market and capital market liabilities (ac)	26,675	26,381	26,425	26,138
Deposits from the housing industry (ac)	12,669	12,669	13,115	13,115
Liabilities from other transactions (ac)	649	649	96	96
Subordinated liabilities (ac)	357	363	386	397
Financial liabilities (fvpl)	**2,683**	**2,683**	**3,514**	**3,514**
Negative market value of designated hedging derivatives (fvpl)	1,321	1,321	2,183	2,183
Negative market value of other derivatives (fvpl)	1,362	1,362	1,331	1,331

(64) Financial instruments that have not yet been switched to an alternative benchmark rate

The following table presents the nominal amounts for derivative and non-derivative financial instruments for which no official cessation effective date has been communicated and/or for which no contractual arrangements for transition have been made. Aareal Bank has become an adhering party to the ISDA protocol and is gradually concluding so-called IBOR Supplemental Agreements to the German Master Agreement for Financial Derivatives Transactions (Deutscher Rahmenvertrag für Finanztermingeschäfte) on a bilateral basis with the counterparties. In the case of derivatives, the presentation is made per cash flow leg:

2023

€ mn	Non-derivative financial assets	Non-derivative financial liabilities[2)]	Derivative financial assets	Derivative financial liabilities
EURIBOR[1)]	6,712	454	28,924	32,002
CAD CDOR	184	–	881	888
SEK STIBOR[1)]	319	23	911	1,249
DKK CIBOR[1)]	263	–	259	414
NZD BKBM	8	–	24	–
Total	**7,486**	**477**	**30,999**	**34,553**

[1)] cessation effective date not yet announced
[3)] including AT1 bond

2022

€ mn	Non-derivative financial assets	Non-derivative financial liabilities[3)]	Derivative financial assets	Derivative financial liabilities
EURIBOR[1)]	6,106	549	26,343	35,959
USD LIBOR	3,795	–	–	–
CAD CDOR	177	–	1,207	1,336
SEK STIBOR	245	42	843	1,109
DKK CIBOR	168	–	353	407
GBP LIBOR[2)]	2	–	–	–
Total	**10,493**	**591**	**28,746**	**38,811**

[1)] cessation effective date not announced as at year-end closing 2022
[2)] one defaulted loan
[3)] including AT1 bond

The effects of the IBOR reform were analysed and monitored, and any resulting new requirements implemented, as part of a separate project. The transition of collateral agreements and of discounting OTC derivatives was implemented on a case-by-case basis until 2021 in accordance with the bilateral agreements between the counterparties. Any existing hedging relationships did not have to be discontinued.

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

The existing transactions will be changed on a currency-by-currency basis. Transactions based on EONIA interest and on CHF, GBP or USD LIBOR, respectively, were modified, except for one defaulted loan. This was partly implemented using the practical relief applicable to the accounting treatment for modifications. The modification was made using prevailing market conditions; there were no material effects from transition. Such effects are neither expected from further transition.

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

(65) Disclosures on credit risk

For information on risk management practice and input factors, please refer to the chapter “Credit default risk” in the Risk Report included in the Management Report. The chapter also provides a breakdown of gross carrying amounts of on-balance sheet as well as off-balance sheet credit business, money-market business, and capital markets business, by rating class and loss allowance stages. The definition of the individual stages as well as the methodology for determining loss allowance are outlined in the chapter “Accounting policies”; Note (9) Recognition and measurement of financial instruments.

The following overviews present the loss allowance and the provisions for credit risks per stage and separately by product groups.

Loss allowance (ac)

2023

€ mn	Balance as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Transfers	Balance as at 31 December
Stage 1	**42**	**19**	**–**	**23**	**12**	**-12**	**–**	**–**	**0**	**–**	**38**
Loan receivables (ac)	41	19	–	23	12	-12	–	–	0	–	37
Money market and capital market receivables (ac)	1	0	–	0	–	0	–	–	0	–	1
Stage 2	**59**	**73**	**–**	**35**	**-12**	**12**	**-12**	**–**	**-2**	**–**	**83**
Loan receivables (ac)	59	73	–	35	-12	12	-12	–	-2	–	83
Money market and capital market receivables (ac)	0	0	–	0	–	0	–	–	–	–	0
Stage 3	**386**	**419**	**487**	**16**	**–**	**–**	**12**	**21**	**-6**	**-25**	**304**
Loan receivables (ac)	386	419	487	16	–	–	12	21	-6	-25	304
Receivables from other transactions (ac)	**3**	**2**	**1**	**1**	**–**	**–**	**–**	**–**	**0**	**–**	**3**
Total	490	513	488	75	–	–	–	21	-8	-25	428

2022

€ mn	Balance as at 1 January	Addi-tions	Utili-sation	Rever-sals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 2	Interest effect	Currency adjustment	Transfers	Balance as at 31 December
Stage 1	**9**	**33**	**–**	**5**	**10**	**-5**	**0**	**–**	**0**	**–**	**42**
Loan receivables (ac)	8	32	–	4	10	-5	0	–	0	–	41
Money market and capital market receivables (ac)	1	1	–	1	0	0	–	–	0	–	1
Stage 2	**77**	**38**	**–**	**56**	**-10**	**12**	**-3**	**–**	**1**	**–**	**59**
Loan receivables (ac)	75	38	–	54	-10	12	-3	–	1	–	59
Money market and capital market receivables (ac)	2	0	–	2	0	0	–	–	–	–	0
Stage 3	**403**	**206**	**198**	**27**	**–**	**-7**	**3**	**15**	**-9**	**–**	**386**
Loan receivables (ac)	403	206	198	27	–	-7	3	15	-9	–	386
Receivables from other transactions (ac)	**3**	**1**	**1**	**0**	**–**	**–**	**–**	**–**	**0**	**–**	**3**
Total	**492**	**278**	**199**	**88**	**–**	**0**	**–**	**15**	**-8**	**–**	**490**

The loss allowance for financial assets (ac) is reported in the item "Loss allowance (ac)" on the assets side of the statement of financial position.

Loss allowance in the reserve from the measurement of debt instruments (fvoci)

The loss allowance for debt instruments (fvoci) amounts to € 1 million (2022: € 1 million) and is reported on the equity and liabilities side of the statement of financial position under other reserves.

Provisions for unrecognised lending business

2023

€ mn	Provisions as at 1 Jan	Addi-tions	Utili-sation	Rever-sals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Provisions as at 31 Dec
Stage 1	2	2	–	1	0	-1	–	–	0	2
Stage 2	2	2	–	2	0	1	–	–	0	3
Stage 3	0	–	–	–	–	–	–	–	–	0
Total	**4**	**4**	**–**	**3**	**–**	**–**	**–**	**–**	**0**	**5**

2022

€ mn	Provisions as at 1 Jan	Addi-tions	Utili-sation	Rever-sals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 2	Interest effect	Currency adjustment	Provisions as at 31 Dec
Stage 1	1	3	–	1	1	0	–	–	0	2
Stage 2	2	1	–	2	-1	0	0	–	0	2
Stage 3	0	–	–	–	–	–	–	–	–	0
Total	**3**	**4**	**–**	**3**	**–**	**–**	**–**	**–**	**0**	**4**

The provisions for unrecognised lending business refer to loan commitments and contingent liabilities and are reported on the equity and liabilities side of the statement of financial position under provisions.

No impaired financial assets were recognised for the first time in the financial year 2023, nor were assets acquired within the context of the realisation of collateral (2022: € – million).

Credit quality of financial receivables from other transactions

Financial receivables from other transactions are subject to credit risk. Of the receivables from other transactions in the amount of € 117 million (2022: € 101 million), € 112 million (2022: € 98 million) were neither overdue nor impaired, € 0 million (2022: € 0 million) were overdue but not impaired and € 5 million (2022: € 3 million) were impaired.

(66) Reconciliation of gross carrying amounts of financial assets

The following tables show the development of the gross carrying amounts of financial assets that are subject to the impairment rules and to which the loss allowance mentioned above can be attributed.

Financial assets (ac)

2023

€ mn	Gross carrying amount as at 1 Jan	Additions	Disposals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 Dec
Loan receivables (ac)[1]	**29,948**	**5,860**	**2,874**	**–**	**–**	**–**	**-574**	**-5**	**-37**	**32,318**
Stage 1	22,186	5,775	1,875	2,072	-2,643	-287	0	–	124	25,352
Stage 2	6,777	83	865	-2,072	2,643	-906	-58	0	-106	5,496
Stage 3	985	2	134	–	–	1,193	-516	-5	-55	1,470
POCI	-	–	–	–	–	–	–	–	–	–
Money market and capital market receivables (ac)[1]	**5,017**	**864**	**54**	**–**	**–**	**–**	**–**	**–**	**51**	**5,878**
Stage 1	5,016	864	54	–	-8	–	–	–	51	5,869
Stage 2	1	–	–	–	8	–	–	–	0	9
Receivables from other transactions (ac)	**101**	**65**	**51**	**–**	**–**	**–**	**–**	**–**	**2**	**117**
Total	**35,066**	**6,789**	**2,979**	**–**	**–**	**–**	**-574**	**-5**	**16**	**38,313**

[1] Including non-current assets held for sale

2022

€ mn	Gross carrying amount as at 1 Jan	Addi-tions	Dis-posals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modi-fication gain or loss	Currency and other changes	Gross carrying amount as at 31 Dec
Loan receivables (ac)	**29,434**	**13,884**	**12,793**	**–**	**–**	**0**	**-192**	**-5**	**-380**	**29,948**
Stage 1	19,141	11,944	9,157	3,746	-3,314	0	–	-2	-172	22,186
Stage 2	8,788	1,974	3,451	-3,746	3,585	-270	–	0	-103	6,777
Stage 3	1,505	-34	185	-	-271	270	-192	-3	-105	985
POCI	–	–	–	–	–	–	–	–	–	–
Money market and capital market receivables (ac)	**5,884**	**1,862**	**2,087**	**–**	**–**	**–**	**–**	**–**	**-642**	**5,017**
Stage 1	5,695	1,860	2,007	120	–	–	–	–	-600	5,068
Stage 2	189	2	80	-120	–	–	–	–	-42	-51
Receivables from other transactions (ac)	**85**	**108**	**92**	**–**	**–**	**–**	**–**	**–**	**0**	**101**
Total	35,403	15,854	14,972	–	–	0	-192	-5	-1,022	35,066

Financial assets (fvoci)

2023

€ mn	Gross carrying amount as at 1 Jan	Addi-tions	Dis-posals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modi-fication gain or loss	Currency and other changes	Gross carrying amount as at 31 Dec
Money market and capital market receivables (fvoci)	**3,550**	**700**	**–**	**–**	**–**	**–**	**–**	**–**	**151**	**4,401**
Stage 1	3,550	700	–	–	-140	–	–	–	145	4,255
Stage 2	-	-	–	–	140	–	–	–	6	146
Equity instruments (fvoci)	**2**	**-**	**–**	**–**	**–**	**–**	**–**	**–**	**0**	**2**
Stage 1	2	-	–	–	–	–	–	–	0	2
Total	3,552	700	–	–	–	–	–	–	151	4,403

2022

€ mn	Gross carrying amount as at 1 Jan	Addi-tions	Dis-posals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modi-fication gain or loss	Currency and other changes	Gross carrying amount as at 31 Dec
Money market and capital market receivables (fvoci)	**3,749**	**1,178**	**946**	**–**	**–**	**–**	**–**	**–**	**-431**	**3,550**
Stage 1	3,749	1,178	946	–	–	–	–	–	-431	3,550
Equity instruments (fvoci)	**4**	**–**	**2**	**–**	**–**	**–**	**–**	**–**	**0**	**2**
Stage 1	4	–	2	–	–	–	–	–	0	2
Total	3,753	1,178	948	–	–	–	–	–	-431	3,552

Please refer to the presentation of the items of the statement of financial position in the section "Notes to the statement of financial position" for information on maximum credit risk exposure since the carrying amount corresponds to the maximum credit risk exposure of Aareal Bank as at the balance sheet date, for both items that are subject to the impairment rules and for financial assets that are not subject to the impairment rules. The collateral received is described in the Report on the Economic Position and in the Risk Report as part of the Group Management Report.

As at the current reporting date, no receivables from the lending business that were written off during the reporting year were still the subject matter of foreclosure proceedings (2022: none).

(67) Modification effects

If modifications are made to financial assets during the contract term leading to changes in the contractual cash flows and if these changes are not that extensive that the financial asset is derecognised and a new asset is recognised, such modifications are non-substantial modifications. Following a non-substantial modification, the carrying amount of a financial asset is remeasured and a net modification gain or loss is recorded in net interest income or in the loss allowance.

The following table shows the amortised cost before modification of financial assets that were subject to non-substantial modifications in the reporting period as well as the related modification gain or loss.

	2023			2022		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
€ mn						
Amortised cost before modification	31	109	109	211	128	46
Net gain or loss on modification	0	0	-5	-2	0	-3
Amortised cost after modification	**31**	**109**	**104**	**209**	**128**	**43**

During the financial year 2023, no receivables from the lending business were reclassified from Stage 2 or Stage 3 to Stage I, which had been modified since they were first classified as Stage 2 or Stage 3 receivables (2022: € 20 million).

(68) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when currently there is a legally enforceable right to set off the recognised amounts, and when the Bank intends either to settle on a net basis – or to realise the asset and settle the liability simultaneously. The following overviews show whether and to what extent financial instruments were actually offset as at the current reporting date. The tables also include disclosures on financial instruments that are part of an enforceable master netting or similar arrangement that do not meet the criteria for offsetting in the statement of financial position.

Financial assets

31 December 2023

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	1,539	–	1,539	1,314	209	16
Reverse repos	1,525	–	1,525	–	1,525	–
Total	**3,064**	**–**	**3,064**	**1,314**	**1,734**	**16**

31 December 2022

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	1,825	–	1,825	1,674	147	4
Reverse repos	–	–	–	–	–	–
Total	**1,825**	**–**	**1,825**	**1,674**	**147**	**4**

Financial liabilities

31 December 2023

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
Derivatives	2,684	–	2,684	1,314	1,169	201
Repos	–	–	–	–	–	–
Total	**2,684**	**–**	**2,684**	**1,314**	**1,169**	**201**

31 December 2022

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
Derivatives	3,514	–	3,514	1,674	1,555	285
Repos	97	–	97	–	97	–
Total	**3,611**	**–**	**3,611**	**1,674**	**1,652**	**285**

To reduce counterparty risk, Aareal Bank Group concludes standardised master agreements for financial derivatives and securities repurchase agreements, such as the ISDA Master Agreement, the German Master Agreement on Financial Derivatives or the Master Agreement for Securities Repurchase Transactions. In addition, Aareal Bank enters into collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives) in which a mutual collateralisation of all claims between the contracting parties is agreed and which include netting arrangements.

The master agreements for financial derivatives used by Aareal Bank include netting arrangements at a single transaction level (so-called “payment netting”), which provide for a netting of payments when both parties need to make payments in the same currency on the same date, as set out in the contract. Aareal Bank does not offset financial derivatives according to the rules related to payment netting, as the transactions are not settled on a net basis. Aareal Bank Group has not entered into arrangements providing for netting of derivatives across several transactions.

For securities repurchase transactions (repo), depending on the counterparty, payment or delivery netting is made. In line with the rules set out in the master agreement for repo transactions, payments or deliveries of securities may be offset when both counterparties have to make payments in the same currency on the same date, or have to deliver securities of the same type. Transactions effected on the basis of the master agreement for repo transactions generally meet the offsetting requirements of IAS 32.

(69) Assets provided or accepted as collateral

Assets provided as collateral

Aareal Bank Group has provided financial assets as collateral for its liabilities, including TLTRO, or contingent liabilities. The following overview shows the carrying amount of the collateral provided and the items of the statement of financial position in which they are reported.

€ mn	31 Dec 2023	31 Dec 2022
Money market and capital market receivables (ac, fvoci and fvpl)	1,792	3,590
Receivables from other transactions (ac)	49	41
Total	**1,841**	**3,631**

The protection buyer has no right to sell or re-pledge any of the financial assets pledged as collateral (2022: € – million). There is a fully cash-collateralised and irrevocable payment obligation in the amount of € 49 million (2022: € 41 million) from the bank levy and also for the deposit guarantee scheme of German banks. This obligation is reported under receivables from other transactions (ac).

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. No fixed-income securities were accepted as collateral for repo transactions as at the reporting date (2022: € – million).

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions and on the collateralisation of forward transactions.

(70) Transfer of financial assets without derecognition

Aareal Bank Group sells securities subject to a take-back requirement as borrower within the framework of genuine repurchase agreements. Within the scope of such agreements, securities were transferred to lenders without resulting in the securities being derecognised since Aareal Bank Group retains the substantial risks and rewards from the securities. The risks to which Aareal Bank Group is still exposed comprise the default risk, the interest rate risk and other price risks. The equivalent values received as collateral during the transfer of securities are accounted as money-market receivables or liabilities. Within the context of securities repurchase transactions, the unrestricted title and the unrestricted power of disposition is transferred to the lender upon delivery of the securities. The lender has the right to sell or pledge these securities, however, he is required to retransfer securities of the same type and in the same amount as at the repurchase date.

No securities were part of repurchase agreements as at the reporting date (2022: € 96 million).

(71) Derivative financial instruments

The following table shows positive and negative market values (including pro-rata interest) of all derivative financial instruments by hedge and risk types:

	Fair value as at 31 Dec 2023		Fair value as at 31 Dec 2022	
€ mn	positive	negative	positive	negative
Fair value hedge derivatives	**826**	**1,305**	**1,102**	**2,141**
Interest rate risk	823	1,305	1,093	2,141
Interest rate swaps	823	1,305	1,093	2,141
Interest rate and currency risk	3	–	9	–
Cross-currency swaps	3	–	9	–
Hedge of net investments	**5**	**16**	**1**	**42**
Currency risk	5	16	1	42
Cross-currency swaps	5	16	1	42
Other derivatives	**707**	**1,362**	**722**	**1,331**
Interest rate risk	446	1,064	486	692
Interest rate swaps	349	967	347	554
Caps, floors	96	96	139	138
Interest rate and currency risk	261	298	236	639
Spot and forward foreign exchange transactions	9	4	15	4
Cross-currency swaps	252	294	221	635
Total	**1,538**	**2,683**	**1,825**	**3,514**

Derivatives have been entered into with the following counterparties:

	Fair value as at 31 Dec 2023		Fair value as at 31 Dec 2022	
€ mn	positive	negative	positive	negative
OECD banks and central governments	1,498	2,564	1,823	3,343
Companies and private individuals	40	119	2	171
Total	**1,538**	**2,683**	**1,825**	**3,514**

The following overview shows the cash flows of derivative financial instruments by risk types, based on the contractual maturity. The amounts shown in the table represent the contractually agreed future undiscounted cash flows.

31 December 2023

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Interest rate risk					
Interest rate swaps					
Cash inflows	540	1,197	2,826	1,663	**6,226**
Cash outflows	620	1,296	3,236	1,821	**6,973**
Caps, floors					
Cash inflows	25	50	29	–	**104**
Cash outflows	25	50	29	–	**104**
Interest rate and currency risk					
Spot and forward foreign exchange transactions					
Cash inflows	1,733	–	–	–	**1,733**
Cash outflows	1,729	–	–	–	**1,729**
Cross-currency swaps					
Cash inflows	788	3,554	11,558	1	**15,901**
Cash outflows	869	3,679	11,826	–	**16,374**
Total cash inflows	**3,086**	**4,801**	**14,413**	**1,664**	**23,964**
Total cash outflows	**3,243**	**5,025**	**15,091**	**1,821**	**25,180**

31 December 2022

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Interest rate risk					
Interest rate swaps					
Cash inflows	256	970	2,293	546	**4,065**
Cash outflows	298	1,056	2,787	724	**4,865**
Caps, floors					
Cash inflows	6	51	85	0	**142**
Cash outflows	6	50	85	0	**141**
Interest rate and currency risk					
Spot and forward foreign exchange transactions					
Cash inflows	1,606	163	–	–	**1,769**
Cash outflows	1,594	163	–	–	**1,757**
Cross-currency swaps					
Cash inflows	964	3,714	11,039	-7	**15,710**
Cash outflows	1,102	4,025	11,419	–	**16,546**
Total cash inflows	**2,832**	**4,898**	**13,417**	**539**	**21,686**
Total cash outflows	**3,000**	**5,294**	**14,291**	**724**	**23,309**

The procedure for measuring and monitoring liquidity risk is described in the Risk Report, part of the Group Management Report.

(72) Disclosures on hedging relationships

Disclosures on hedging derivatives

The following tables show designated hedging derivatives separately for each type of hedging relationship, risk category and product type:

Positive market value of designated hedging derivatives

€ mn	Carrying amount 31 Dec 2023	Nominal amount 31 Dec 2023	Fair value change 1 Jan - 31 Dec 2023	Carrying amount 31 Dec 2022	Nominal amount 31 Dec 2022	Fair value change 1 Jan - 31 Dec 2022
Fair value hedges						
Interest rate risk						
Interest rate swaps	823	16,753	182	1,093	13,204	752
Interest rate and currency risk						
Cross-currency swaps	3	115	-4	9	113	31
Hedge of net investments						
Currency risk						
Cross-currency swaps	5	219	0	1	90	0
Spot and forward foreign exchange transactions	0	–	0	0	24	0
Total	**831**	**17,087**	**178**	**1,103**	**13,431**	**783**

Negative market value of designated hedging derivatives

€ mn	Carrying amount 31 Dec 2023	Nominal amount 31 Dec 2023	Fair value change 1 Jan - 31 Dec 2023	Carrying amount 31 Dec 2022	Nominal amount 31 Dec 2022	Fair value change 1 Jan - 31 Dec 2022
Fair value hedges						
Interest rate risk						
Interest rate swaps	1,305	19,590	-467	2,141	21,934	1,790
Hedge of net investments						
Currency risk						
Currency swaps	16	585	0	42	760	0
Total	**1,321**	**20,175**	**-467**	**2,183**	**22,694**	**1,790**

The following overview presents the nominal amounts of the hedging derivatives by maturities:

31 December 2023

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Fair value hedges					
Interest rate risk					
Interest rate swaps	2,012	4,072	23,665	6,601	**36,350**
Interest rate and currency risks					
Cross-currency swaps	–	–	115	–	**115**
Hedge of net investments					
Currency risk					
Cross-currency swaps	–	509	295	–	**804**
Total nominal amounts	**2,012**	**4,581**	**24,075**	**6,601**	**37,269**

Aareal Bank applies the standard amendments from the first part of the effects of the interest rate benchmark reform (IBOR reform) on financial reporting in the period prior to the replacement of an existing interest rate benchmark. The uncertainties refer to the hedging of changes in fair value from interest rate risk. This applies to variable reference rates with terms of one to six months for the currencies CAD, DKK, EUR, SEK and NZD. An amount of € 22.5 billion of the total of € 37.3 billion is attributable to benchmark interest rates for which no official cessation effective date has been announced and/or for which no contractual arrangements for transition have been made. Aareal Bank still does not expect the changes from the IBOR reform to require the discontinuation of hedging relationships.

31 December 2022

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Fair value hedges					
Interest rate risk					
Interest rate swaps	1,672	5,058	20,140	8,269	**35,139**
Interest rate and currency risks					
Cross-currency swaps	–	113	–	–	**113**
Hedge of net investments					
Currency risk					
Cross-currency swaps	219	396	234		**849**
Currency swaps	24	–	–	–	**24**
Total nominal amounts	**1,915**	**5,567**	**20,374**	**8,269**	**36,101**

Disclosures on hedged items

Hedged items of fair value hedges

The following tables show hedged items and hedge adjustments from discontinued hedging relationships separately for each type of hedging relationship and risk category:

	Active hedging relationships			Discontinued hedging relationships
€ mn	Carrying amount 31 Dec 2023	Accumulated hedge adjustment 31 Dec 2023	Change in hedged fair values 1 Jan-31 Dec 2023	Balance of hedge adjustments 31 Dec 2023
Interest rate risk				
Loan receivables (ac)	8,553	-231	306	-5
Money market and capital market receivables (ac)	1,840	70	38	110
Money market and capital market receivables (fvoci)	4,276	-152	179	-1
Money market and capital market liabilities (ac)	20,559	-745	795	-348
Subordinated liabilities (ac)	268	-5	9	1
Interest rate and currency risk				
Money market and capital market receivables (ac)	125	9	3	–

	Active hedging relationships			Discontinued hedging relationships
€ mn	Carrying amount 31 Dec 2022	Accumulated hedge adjustment 31 Dec 2022	Change inhedged fair values 1 Jan-31 Dec 2022	Balance of hedge adjustments 31 Dec 2022
Interest rate risk				
Loan receivables (ac)	6,991	-509	-736	1
Money market and capital market receivables (ac)	1,965	-31	-287	125
Money market and capital market receivables (fvoci)	3,362	-353	-407	1
Money market and capital market liabilities (ac)	19,841	-1,961	-2,400	18
Subordinated liabilities (ac)	295	-14	-39	2
Interest rate and currency risk				
Money market and capital market receivables (ac)	119	6	-31	–

Hedge of net investments

The change in value of currency-hedged net investments in foreign operations amounted to € -30 million (2022: € 51 million) in the financial year under review. The balance of the hedging reserve (net) stood at € -31 million (2022: € -62 million) at year-end.

Net gain or loss from hedge accounting

Fair value hedges

The net gain or loss from hedge accounting includes the following ineffective portions of fair value hedges by risk categories:

€ mn	1 Jan-31 Dec 2023	1 Jan-31 Dec 2022
Interest rate risks	1	-2
Interest rate and currency risks	0	0
Total	**1**	**-2**

Hedge of net investments

The ineffective portion of currency-hedged net investments in foreign operations amounted to € 0 million (2022: € 0 million), reported in the item "Net gain or loss from hedge accounting". There were no reclassifications from the reserve for currency-hedged net investments to the income statement (2022: € -5 million).

Please also refer to our explanations in Notes (9) and (36).

(73) Maturities of financial liabilities

The following overview shows the future undiscounted cash flows of non-derivative financial liabilities and of loan commitments.

Maturities as at 31 December 2023

€ mn	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Money market and capital market liabilities (ac)	822	3,659	2,959	14,890	7,986	**30,316**
Deposits from the housing industry (ac)	8,846	3,606	194	24	–	**12,670**
Subordinated liabilities (ac)	–	85	47	169	105	**406**
Financial liabilities from other transactions (ac)	643	–	6	–	–	**649**
Lease liabilities	–	3	10	23	1	**37**
Financial guarantees	139	–	–	–	2	**141**
Loan commitments	1,430	–	–	–	–	**1,430**

Maturities as at 31 December 2022

€ mn	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Money market and capital market liabilities (ac)	819	3,292	4,135	12,832	9,637	**30,715**
Deposits from the housing industry (ac)	10,181	2,653	272	9	–	**13,115**
Subordinated liabilities (ac)	–	4	50	245	156	**455**
Financial liabilities from other transactions (ac)	94	–	1	–	–	**95**
Lease liabilities	–	3	9	27	5	**44**
Financial guarantees	129	–	–	–	2	**131**
Loan commitments	1,230	–	–	–	–	**1,230**

The Risk Report, part of the Group Management Report, includes a detailed description of the liquidity risk associated with financial liabilities.

Segment Reporting

(74) Operating segments of Aareal Bank

Aareal Bank prepares its segment reporting in accordance with IFRS 8 Operating Segments.

In accordance with the “management approach” set out in IFRS 8, the segment report discloses, on a segment-specific basis, financial information which is relevant for internal control of an entity and which is also used by such entity’s management to make decisions on the allocation of resources as well as to measure the financial performance of segments.

Three operating segments were defined within Aareal Bank in line with internal management reporting, based on the organisational structure established according to the various products and services offered.

The **Structured Property Financing segment** comprises the property financing and refinancing activities. In this segment, Aareal Bank facilitates property investments for its domestic and international clients, and is active in Europe, North America and Asia-Pacific. It offers commercial property financing solutions, especially for office buildings, hotels, retail, logistics and residential properties. Its particular strength lies in its success in combining local market expertise and sector-specific know-how. In addition to local experts, the Bank also has industry specialists at its disposal, to create financing packages for logistics, retail and alternative living properties as well as hotels. This enables Aareal Bank to offer tailor-made financing concepts that meet the special requirements of its national and international clients. What makes Aareal Bank special are its direct client relationships, which – in very many cases – it has maintained for many years.

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

In the **Banking & Digital Solutions segment**, Aareal Bank Group offers services, products and solutions to the housing and commercial property industries to optimise digital payment, electronic banking and cash management processes. With its BK01 software, it offers a procedure for the automated settlement of mass payments, in the German property industry. The procedure is integrated in licenced ERP systems. Therefore, customers in Germany may process their payment transactions and account management from the administration software employed. Apart from the German residential and commercial property sector, the German energy and waste disposal industry is a second important customer group of the segment. This enables the offer of further products, facilitating the cross-sector cooperation of target groups and realising synergy effects via end-to-end digital processes. The use of the payment transaction products of Aareal Bank generates deposits that contribute significantly to Aareal Bank Group’s refinancing base.

In the **Aareon segment**, the Aareon sub-group provides software as a service for automated and networked end-to-end processes to clients in the European property industry through its Property Management System. Aareon commands a strong position in the countries where it is active (Germany, Sweden, France, the UK, the Netherlands and Spain). Its ERP systems and other software solutions assist clients along their way to progressive digitalisation. The open “Aareon Connect” ecosystem provides clients with easy access to a wide range of specialised third-party solutions, helping them to build their own enterprise-specific digital ecosystem. Constant user-oriented and forward-looking development of the Property Management System plays a crucial role for Aareon. Hence, the company invests significant amounts in research and development in order to improve its solutions.

Income and expenses within Aareal Bank are predominantly attributable to transactions with third parties, and are directly allocated to the responsible business segment. Revenue from transactions between Aareal Bank’s segments was not generated in a significant amount. Therefore, we elected not to distinguish between internal and external revenue in the following disclosures. Administrative expenses not directly attributable to any of the business segments are segmented in line with the internal cost allocation, based on the principle of causation.

The results of the business segments are measured by the operating profit and the return on equity (RoE). RoE, which expresses the Bank's segment profitability, is calculated as the ratio of the segment's operating result (after non-controlling interests and after AT1 interest) to the portion of equity allocated to that segment on average. Allocated equity is calculated on the basis of standardised capital requirements pursuant to Basel IV (phase-in) of 15%.

(75) Segment results

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
€ mn										
Net interest income	776	627	238	92	-36	-17	0	0	978	702
Loss allowance	441	192	0	0	0	0			441	192
Net commission income	6	6	33	31	284	252	-16	-12	307	277
Net derecognition gain or loss	23	1							23	1
Net gain or loss from financial instruments (fvpl)	-71	26	0	0	0	0			-71	26
Net gain or loss from hedge accounting	1	-2							1	-2
Net gain or loss from investments accounted for using the equity method	1	0	2	-1		-1			3	-2
Administrative expenses[1]	231	260	110	79	320	244	-16	-12	645	571
Net other operating income/expenses	-4	-6	-2	-1	0	7	0	0	-6	0
Operating profit	**60**	**200**	**161**	**42**	**-72**	**-3**	**0**	**0**	**149**	**239**
Income taxes	44	70	50	14	7	2			101	86
Consolidated net income	**16**	**130**	**111**	**28**	**-79**	**-5**	**0**	**0**	**48**	**153**
Consolidated net income attributable to non-controlling interests	-1	0	0	0	-22	0			-23	0
Consolidated net income attributable to shareholders of Aareal Bank AG	17	130	111	28	-57	-5	0	0	71	153
Allocated equity[2]	1,506	1,501	406	404	79	49	879	824	2,870	2,778
RoE after taxes (%)[3]	-0.8	7.7	27.3	6.9	-71.6	-10.1			1.4	5.0
Employees (average)	**767**	**802**	**459**	**404**	**2,120**	**2,030**			**3,346**	**3,236**
Segment assets	**31,963**	**33,139**	**13,686**	**13,497**	**1,184**	**694**			**46,833**	**47,330**

[1] During the course of a regular review, intra-Group cost allocation between the SPF and BDS segments was adjusted in 2023, aligning it to the size of the respective segment.
[2] For management purposes, the allocated equity is calculated for all segments on the basis of a standardised capital requirement pursuant to Basel IV (phase-in) of 15%. Reported equity on the statement of financial position differs from this. Aareon's reported equity as disclosed in the statement of financial position amounts to € 252 million.
[3] The allocation of earnings is based on the assumption that interest payable on the AT1 bond is recognised on an accrual basis.

Commission income[1] from contracts with clients (revenue within the meaning of IFRS 15) is allocated to the segments as follows:

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
€ mn	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Recurring services			15	10	277	228	-16	-17	276	221
Non-recurring services					67	80			67	80
Banking business and other activities	14	9	24	27			-5		33	36
Total	**14**	**9**	**39**	**37**	**344**	**308**	**-21**	**-17**	**376**	**337**

(76) Breakdown of income and non-current assets by geographical market

The following table provides a breakdown of income by geographical market:

€ mn	2023	2022
Germany	908	691
Rest of Europe	237	155
North America	79	134
Asia/Pacific	13	12
Total	**1,237**	**992**

Income shown includes net interest income (excluding loss allowance), net commission income, net gain or loss on derecognition and net gain or loss from financial instruments (fvpl). The majority of non-current assets is attributable to Germany. Allocation to geographical markets is based on the registered office or domicile of the Group company or branch office.

[1] The breakdown of the previous year's figure was adjusted. Net commission income from ERP products (€ 223 million) and from digital solutions (€85 million) comprise € 228 million from recurring services and € 80 million from non-recurring services. Furthermore, commission income in the BDS segment was reclassified from other activities to recurring services.

Other Notes

(77) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2023	31 Dec 2022
USD	12,622	12,546
GBP	5,507	4,984
CAD	1,267	1,402
SEK	940	1,019
CHF	356	338
DKK	328	331
Other	1,255	1,294
Total	**22,275**	**21,914**

Foreign currency liabilities

€ mn	31 Dec 2023	31 Dec 2022
USD	12,660	12,487
GBP	5,461	4,947
CAD	1,265	1,382
SEK	935	1,005
CHF	354	336
DKK	328	334
Other	1,252	1,284
Total	**22,255**	**21,775**

(78) Subordinated assets

In the event of insolvency or liquidation of the issuer, subordinated assets are those subordinate to the claims of all other creditors. Subordinated assets amounted to € 181 million in the financial year 2023 (2022: € 338 million).

(79) Leases

Leases where the Bank acts as the lessee

The following overview shows the movements in the right-of-use assets from leases where Aareal Bank Group acts as the lessee.

	2023			2022		
€ mn	Right-of-use assets in land and buildings	Right-of-use assets in office furniture and equipment	Total	Right-of-use assets in land and buildings	Right-of-use assets in office furniture and equipment	Total
Cost						
Balance as at 1 January	**32**	**4**	**36**	**68**	**5**	**73**
Additions	17	8	**25**	12	7	**19**
Transfers	0	0	**0**	-1	–	**-1**
Depreciation, amortisation and write-downs	7	3	**10**	11	4	**15**
Disposals	19	4	**23**	37	4	**41**
Changes in the basis of consolidation	2	0	**2**	0	0	**0**
Currency translation differences	0	0	**0**	1	0	**1**
Balance as at 31 December	**25**	**5**	**30**	**32**	**4**	**36**

Right-of-use assets are recognised under property and equipment.

Aareal Bank Group primarily rents properties which are, in some cases, subject to longer-term rental agreements with extension options of up to ten years where the exercise is reasonably certain. The leases are not subject to material residual value guarantees.

The entire cash outflows from leases where Aareal Bank Group is the lessee in the current period amount to € 15 million (2022: € 15 million) as at the reporting date.

Expenses and income from Aareal Bank Group include the following amounts from leases with Aareal Bank Group as the lessee:

€ mn	31 Dec 2023	31 Dec 2022
Interest expenses for lease liabilities	1	1
Expenses for short-term leases	1	2
Expenses for low-value leases	0	0
Income from the sublease of right-of-use assets	–	0

In the financial year 2023, no material variable lease payments were agreed upon (2022: € – million).

The future undiscounted cash flows from lease liabilities based on their maturities are disclosed in the Note “Maturities of financial liabilities”.

Leases where the Bank acts as the lessor

Aareal Bank Group acts as lessor as regards the lease of property. The material rental contracts are classified as operating leases. Properties leased by the Group are reported under the item “Other assets”. Not all properties reported under the item “Other assets” are currently let. The risks of these properties are included in property risk management.

Income from operating leases amounted to € 6 million (2022: € 8 million) in the year under review. It is recognised in the income statement on a straight-line basis over the lease term.

The following overview shows the future undiscounted payments under operating leases based on their maturities where Aareal Bank Group acts as the lessor.

€ mn	31 Dec 2023	31 Dec 2022
Up to 1 year	7	8
Longer than 1 year, and up to 5 years	29	27
Longer than 5 years	7	7
Total minimum lease payments	**43**	**42**

(80) Contingent liabilities and loan commitments

€ mn	31 Dec 2023	31 Dec 2022
Contingent liabilities	141	131
Loan commitments	1,430	1,230
of which: irrevocable	1,185	905

Contingent liabilities include € 33 million in irrevocable payment obligations regarding the bank levy, € 9 million to the compensation scheme of German banks (statutory deposit protection scheme) and € 6 million to the deposit protection fund. During the reporting year, irrevocable payment obligations regarding the bank levy increased by € 5 million, and by € 2 million to the compensation scheme of German banks. These and the values reported under loan commitments given represent the maximum default risk to which Aareal Bank Group is exposed at the end of the reporting period.

Furthermore, the Bank is involved in legal disputes. Based on a legal analysis, successful outcome of these disputes is more likely than not. Essentially, these are legal disputes with borrowers (or former borrowers) who claim damages against the Bank. These are included in the table above, with a probability-weighted amount of € 29 million (2022: € 28 million), but have not been recognised as liabilities. The maximum non-probability-weighted default risk – assuming the Bank were to lose all such legal disputes – is estimated in the high double-digit million range. The respective duration of proceedings depends on the complexity of each individual litigation and the legal remedies available in each case. Likewise, the final amount in the event of defeat may vary considerably, depending upon the duration of proceedings and the legal remedies. Refunds of litigation costs are possible.

Tax risks were also included in contingent liabilities in the year under review, at a probability-weighted amount of € 53 million (2022: € 49 million). They result from the diverging assessment of tax matters and potential legal changes. This is offset by opportunities, albeit to a lesser extent. We estimate the maximum tax risk to be in the low triple-digit million range.

Accordingly, the recognition of contingent liabilities is also subject to estimation uncertainties.

(81) Regulatory capital and capital management

As regards meeting minimum capital ratios, Aareal Bank Group has to comply with the capital adequacy requirements set out in the Capital Requirements Regulation (CRR), the Capital Requirements Directive IV (CRD IV), the German Banking Act (Kreditwesengesetz – KWG) and the German Solvency Regulation (Solvabilitätsverordnung, SolvV). At the level of Atlantic Lux HoldCo S.à r.l. (on a consolidated basis), Atlantic BidCo GmbH (on a partially consolidated basis) and Aareal Bank AG, Aareal Bank is required to fulfil a Total SREP Capital Requirement (TSCR) of 11.00 % in 2024 (2023: 11.00 %, only at the level of Aareal Bank Group). This includes the requirement to maintain additional own funds (capital buffer) for risks other than the risk of excessive leverage (Pillar 2 requirements – P2R) of 3.00 %, which must be maintained in the form of at least 56.25 % Common Equity Tier 1 (CET 1) capital and 75 % Tier 1 (T 1) capital, respectively. The Overall Capital Requirement (OCR) of Aareal Bank in 2024 amounts to 14.04 % (2023: 13.90 – 14.04 %), resulting from the TSCR plus the capital conservation buffer of 2.5 %, the currently applicable countercyclical capital buffer of 0.52 % (2023: 0.38 – 0.52 %), and the sector-specific systemic risk buffer of 0.02 % (2023: 0.02 %). Each of these buffers has to be maintained in the form of Common Equity Tier 1 capital. Compliance with the capital requirements has to be reported to the competent supervisory authorities on a quarterly basis. The Bank complied with regulatory capital as well as liquidity requirements at all times during the reporting period.

The objectives of capital management are optimising the capital base as well as an efficient capital allocation to the individual business areas in terms of risk and income. Aareal Bank has defined the CET 1 ratio (Basel IV (phase-in)) as a key management indicator, subject to further regulatory changes.

Within the context of capital management, projections are made on a regular basis showing the changes of the individual capital components and risk-weighted assets, as well as the resulting capital ratios. This is reported regularly to the Management Board within the framework of management reporting. The strategic allocation of capital to the individual business segments is incorporated in the Group's annual overall planning process.

(82) Disclosures on remuneration

Management and Supervisory Board

In the financial year 2023, the Management Board's total remuneration, excluding benefits from pension commitments, amounted to € 8 million (2022: € 8 million), of which € 4 million (2022: € 4 million) referred to variable components.

Payments to former Management Board members and their surviving dependants totalled € 2 million in 2023 (2022: € 2 million).

The amount of pension obligations to active and former Management Board members was € 52 million as at 31 December 2023 (2022: € 47 million). Of that amount, € 8 million (2022: € 5 million) related to Management Board members active at the end of the financial year and € 45 million to former Management Board members and their surviving dependants (2022: € 42 million).

The total remuneration of members of the Supervisory Board for the financial year 2023 amounted to € 2 million (2022: € 2 million). The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG.

Total remuneration of executives in key positions is analysed below:

€ 000's	31 Dec 2023	31 Dec 2022
Short-term benefits	6,388	6,889
Post-employment benefits	1,512	2,701
Other long-term benefits	981	1,050
Termination benefits	–	–
Share-based remuneration	2,158	2,309
Total	**11,039**	**12,949**

Post-employment benefits reported comprise service cost resulting from pension provisions for Management Board members who were in active service during the financial year as well as past service cost.

Provisions for pension obligations concerning key executives totalled € 8 million as at 31 December 2023 (2022: € 7 million).

Disclosures on share-based remuneration

Share-based remuneration for risk takers

In the case of risk takers whose variable remuneration exceeds an exemption threshold, a portion of the variable remuneration is granted in form of a share-based payment, with the amount of such remuneration upon disbursement depending on the development of the price of Aareal Bank AG's shares. In this context, a distinction is made between a share bonus that is immediately due and subject to a holding period (20 % to 30 % of the variable remuneration) and a deferred share-based payment (also 20 % to 30 % of the variable remuneration). The deferral period of the deferred share-based payment amounts to four or five years, with disbursement being made pro rata temporis, also after a holding period. The disbursement is normally made via cash settlement. Until the disbursement of the share-based remuneration components, these components are also subject to defined penalty conditions that enable a subsequent reduction up to a full elimination. In addition, share-based payment elements that were granted after 2017, may be reclaimed in certain situations ("clawback").

These rules also apply to the members of the Management Board, with the deferral period amounting to at least five years since the financial year 2018 and the deferred share-based payment amounting to at least 35 %. The deferral period is also increased for newly appointed Management Board members for the first year of service to seven years and for the second year of service to six years. The deferral period is five years from the third year of service.

Valuation model and valuation assumptions

The obligations resulting from share-based payment arrangements as at the balance sheet date correspond to the remuneration granted, discounted to the balance sheet date. The discount period corresponds to the period from the balance sheet date to the earliest exercise or payout date, per plan and per tranche. The discount is based on the Euribor swap rate applicable as at the relevant balance sheet date, depending on the term.

Amount of cash-settled share-based payment transactions

The total amount of outstanding virtual shares in relation to existing share-based payment arrangements changed as follows:

Quantity (number)	2023	2022
Balance (outstanding) as at 1 January	**658,783**	**654,065**
Granted during the reporting period	215,590	272,673
Expired during the reporting period	–	–
Exercised during the reporting period	249,638	267,955
Balance (outstanding) as at 31 December	**624,735**	**658,783**
of which: exercisable	–	–

As at the reporting date, the total amount of virtual shares granted during the reporting period amounted to € 7 million (2022: € 7 million).

The virtual shares exercised during the reporting period were converted at a weighted average price of the Aareal Bank AG share of € 32.99 (2022: € 27.23).

Impact on financial performance

The total amount expensed for share-based payment transactions was € 0.1 million during the financial year 2023 (2022: total expenses of € 3 million). The obligation from share-based payment transactions as at 31 December 2023 amounted to € 27 million (2022: € 29 million). It is reported in the statement of financial position in the line item "Provisions".

Management Equity Program

Together with Advent International, Aareal Bank set up a Management Equity Program (MEP) for Aareon in 2021 and, in line with its shareholding, contributed Aareon shares with a market value of € 6 million into a management equity company, in which individual members of Aareon's management as well as independent members of the Advisory Board may also acquire an interest at market value.

In the event of a divestment of Aareon, depending on Aareon's performance, the MEP leads to either a gain or loss for the participants in form of Aareon shares (equity-settled). The entitlements generally vest on a quarterly basis over a period of five years. The break-even point is at an appreciation of approximately 60 % and is increased by a minimum interest of 12 % p. a. If the break-even point is exceeded, the management participates in potential disposal gains in a leveraged manner.

The MEP is measured based on an option pricing model with an assumed term of five years and an historic volatility of approximately 30 %.

(83) Related party disclosures in accordance with IAS 24

The group of related parties of Aareal Bank Group comprises the members of Aareal Bank AG's management or supervisory bodies (cf. the preceding Note), the Managing Directors of Atlantic BidCo GmbH and Atlantic Lux HoldCo S.à r.l., as well as close family members and related companies of these persons. Intra-group receivables and liabilities, as well as consolidated income and expenses, are not shown here.

The following list provides an overview of the balances of existing transactions with related parties:

Aareal Bank AG

€ mn	31 Dec 2023	31 Dec 2022
Management Board	0.4	–
Supervisory Board	0.2	–
Other related parties	2.2	0.1
Total	**2.8**	**0.1**

Atlantic BidCo GmbH

€ mn	31 Dec 2023	31 Dec 2022
Managing Director	0.2	–
Other related parties	1.0	–
Total	**1.2**	**–**

Atlantic Lux HoldCo S.à r.l.

€ mn	31 Dec 2023	31 Dec 2022
Managing Director	–	–
Other related parties	1.2	–
Total	**1.2**	**–**

Transactions with related parties occurred during the reporting period. In the context of the acquisition of Aareal Bank by Atlantic BidCo GmbH, one related party of a Supervisory Board member of Aareal Bank AG sold shares in the amount of € 38,000. Moreover, one member of the Management Board, one member of the Supervisory Board and one related company of a Supervisory Board member of Aareal Bank AG made a regular way purchase of debt securities totalling € 1.6 million. This related company of a Supervisory Board member of Aareal Bank AG is also a related company of a Managing Director of Atlantic BidCo GmbH. Furthermore, this Supervisory Board member of Aareal Bank AG is also a Managing Director of Atlantic BidCo GmbH.

Atlantic Lux HoldCo S.à r.l. refunds costs incurred prior to and after the takeover to Aareal Bank AG, in particular regarding the preparation of Atlantic Group's opening balance sheet as well as preparation of further consolidated financial statements. Costs incurred in the 2023 financial year totalled € 1.2 million.

There were no further significant transactions within the meaning of IAS 24.

(84) Events after the reporting date

There were no other material matters subsequent to the end of the reporting period that need to be disclosed at this point.

(85) 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.

(86) Disclosures pursuant to Section 160 (1) no. 8 of the AktG

In accordance with the notification pursuant to Section 20 (6) of the German Public Limited Companies Act (Aktiengesetz – AktG), Atlantic BidCo GmbH directly holds more than 50 %, and Atlantic Lux HoldCo S.à r.l. indirectly holds more than 50 % of shares in Aareal Bank AG. Atlantic BidCo GmbH's holding is attributable to Atlantic Lux HoldCo S.à r.l.

(87) Statement pursuant to Section 312 of the AktG

Aareal Bank AG has prepared a subordinate status report (Abhängigkeitsbericht) in accordance with Section 312 of the AktG for the 2023 financial year.

(88) Employees

The number of Aareal Bank Group employees is shown below:

	31 Dec 2023[1]	Average 1 Jan – 31 Dec 2023[2]	31 Dec 2022[1]	Average 1 Jan – 31 Dec 2022[2]
Salaried employees	3,281	3,168	3,143	3,067
Executives	182	178	173	169
Total	**3,463**	**3,346**	**3,316**	**3,236**
of which: part-time employees	728	700	609	597

[1] This number does not include 37 employees of the hotel business (31 December 2022: 28 employees).
[2] This number does not include 186 employees of the hotel business (1 January to 31 December 2022: 154 employees).

(89) Nature and extent of interests in unconsolidated structured entities

In accordance with IFRS 12.24, the nature and extent of interests in unconsolidated structured entities as well as the nature of, and changes in, the risks associated with such interests have to be disclosed in the consolidated financial statements. An interest in a structured entity arises from a contractual and/or non-contractual involvement which entitles the Group to receive variable returns from the relevant activities of the structured entity. Examples for this are equity or debt instruments of structured entities or the provision of financing, collateral and guarantees to structured entities.

Structured entities are companies where voting rights or similar rights are not the dominant factor to assess control of the company. The relevant activities of structured entities are directed by means of contractual arrangements; any voting rights relate to administrative tasks only. Structured entities are characterised by features or attributes such as restricted activities, a narrow and well-defined objective and/or insufficient equity. In addition, structured entities may relate to financings in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks. Examples of structured entities are securitisation vehicles, asset-backed financings and some investment funds.

Aareal Bank Group mainly interacts with structured entities such as open-ended property funds and leased property companies. In this context, the Group provides financing to structured entities in the form of loans or guarantees. In the following table, strategic investments made by the Group are shown under "Other". The leased property companies were established by third parties for the financing of particular transactions and have the legal form of a German private limited company with a limited liability company as general partner (GmbH & Co KG). In the year under review and the previous year, Aareal Bank Group did not provide any non-contractual support for unconsolidated structured entities.

To the extent that this is relevant, the following table shows the carrying amounts of assets and liabilities recognised by Aareal Bank Group as at the reporting date as well as the existing off-balance sheet risk exposures that relate to unconsolidated structured entities. The carrying amounts of the assets and off-balance sheet items correspond to the Group's maximum loss exposure from interests in unconsolidated structured entities (without taking into account collateral). The size of the structured entities was determined on the basis of the net fund assets for open-ended property funds and other vehicles and on the basis of total assets for leased property companies.

31 December 2023

€ mn	Open-ended property funds	Leased property companies	Other	Total
Assets		**15**	**5**	
Loan receivables	–	15	5	**20**
Off-balance sheet exposures			**1**	
Loan commitments and guarantees (nominal value)	–	–	1	**1**
Size range of structured units	**–**	**€ 47 million**	**€ 0.8 million – € 45.5 million**	

31 December 2022

€ mn	Open-ended property funds	Leased property companies	Other	Total
Assets				
Loan receivables	10	15	5	**30**
Off-balance sheet exposures				
Loan commitments and guarantees (nominal value)	–	–	1	**1**
Size range of structured units	**€ 1,285 million**	**€ 47 million**	**€ 1 million – € 41 million**	

(90) Disclosures on material non-controlling interests

Advent International holds around 30% of the shares in Aareon AG. Voting rights are attached to the shares. Consolidated net income attributable to the non-controlling interest amounted to € -22 million (2022: € -2 million). Aareon's segment assets (before consolidation) amount to € 1,184 million (2022: € 694 million), comprising € 981 million (2022: € 523 million) in intangible assets, € 117 million (2022: € 79 million) in financial assets, and € 38 million (2022: € 40 million) in property and equipment. Assets are backed by equity of € 350 million (2022: € 195 million). In addition, there are lease liabilities of € 24 million (2022: € 28 million) and € 56 million (2022: € 48 million) in provisions. For further details, please refer to the explanations in relation to the Aareon segment.

(91) Country-by-Country Reporting

The disclosure requirements refer to information on registered office, revenue, profit or loss, taxes on profit or loss, received government assistance as well as wage and salary earners of Aareal Bank AG, together with its foreign branches and domestic and foreign subsidiaries included in the reporting entity-structure, prior to consolidation.

For this purpose, the Bank's entities – subsidiaries as well as Aareal Bank AG's foreign branches – are allocated to our three business segments, Structured Property Financing, Banking & Digital Solutions and Aareon.

Aareal Bank defines the branch offices' operating profit, which is used as a proxy for revenue, as the sum of the following consolidated income statement items (in accordance with IFRSs):

- Net interest income before loss allowance
- Net commission income
- Net derecognition gain or loss
- Net gain or loss from financial instruments (fvpl)
- Net gain or loss from hedge accounting
- Net gain or loss from investments accounted for using the equity method;
- Net other operating income/expenses

Taxes disclosed are tax expenses in accordance with IFRSs.

The number of wage and salary earners relates to average full-time equivalent staff employed during the financial year.

The following overview shows all countries where Aareal Bank AG has offices, including foreign branches and subsidiaries. Please refer to the list of shareholdings as regards the allocation of individual subsidiaries to the relevant country of domicile. Aareal Bank AG's foreign branches are located in France, Ireland, Italy, Poland, Sweden and the UK.

2023

	Revenues	Profit/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**729**	**60**	**44**	**840**
Belgium	–	–	–	–
Germany	510	201	68	738
France	21	17	9	9
United Kingdom	12	8	1	8
Ireland	1	0	0	1
Italy	84	-3	6	27
Poland	10	7	1	9
Sweden	6	4	1	3
Singapore	13	8	2	8
USA	75	-182	-44	37
Consolidation	-3	–	–	–
Banking & Digital Solutions segment	**258**	**161**	**50**	**264**
Germany	271	161	50	264
Consolidation	-13	–	–	–
Aareon segment	**248**	**-72**	**7**	**1,916**
Germany	114	-62	5	918
Finland	–	–	–	–
France	34	8	2	212
United Kingdom	20	-23	-2	195
Netherlands	61	11	3	422
Norway	–	–	–	–
Sweden	18	-3	-1	121
Spain	1	-3	–	48
Consolidation	–	–	–	–
Total	**1,235**	**149**	**101**	**3,020**

Government assistance was not received in the financial year 2023 (2022: none).

Aareal Bank Group’s return on assets, calculated as the ratio of net profit to total assets, was 0.09 % as at the record date.

2022

	Revenues	Profit/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**650**	**200**	**70**	**777**
Belgium	0	0	–	–
Germany	480	68	48	682
France	14	10	3	9
United Kingdom	8	5	1	7
Ireland	1	2	0	1
Italy	19	-2	-5	27
Poland	6	4	1	6
Sweden	1	–	0	3
Singapore	12	10	1	7
US	111	103	21	35
Consolidation	-2	–	–	–
Banking & Digital Solutions segment	**111**	**42**	**14**	**294**
Germany	121	42	14	294
Consolidation	-10	–	–	–
Aareon segment	**241**	**-3**	**2**	**1,901**
Germany	138	-1	-2	1,007
Finland	–	0	–	–
France	30	7	3	226
United Kingdom	20	-3	0	246
Netherlands	41	6	1	310
Norway	–	0	0	2
Sweden	12	-12	0	110
Consolidation	–	–	–	–
Total	**1,002**	**239**	**86**	**2,972**

(92) List of shareholdings

The list of shareholdings is prepared pursuant to Section 313 (2) of the HGB. The disclosures in relation to the companies' equity and earnings are retrieved from the financial statements in accordance with IFRSs.

31 December 2023

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated subsidiaries				
2	Aareal Bank Asia Ltd.	Singapore	100.0	SGD 57 mn	SGD 9.8 mn [1]
3	Aareal Beteiligungen AG	Frankfurt	100.0	167.0	0.0 [3]
4	Aareal Capital Corporation	Wilmington	100.0	USD 552.3 mn	USD -150.5 mn [1]
5	Aareal Estate AG	Wiesbaden	100.0	2.9	0.0 [3]
6	Aareal First Financial Solutions AG	Mainz	100.0	5.7	0.0 [3]
7	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.9	0.0 [1]
8	Aareal Holding Realty LP	Wilmington	100.0	USD 289.1 mn	USD -0.6 mn [1]
9	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	453.8	0.0 [3]
10	Aareon Accelerate Limited	London	100.0	GBP 38.6 mn	GBP -1.7 mn [1]
11	Aareon AG	Mainz	59.9	265.3	-71.2 [1]
12	Aareon Deutschland GmbH	Mainz	100.0	63.4	0.0 [3]
13	Aareon Finland Oy	Helsinki	100.0	0.0	0.0 [1]
14	Aareon France S.A.S.	Meudon-la Forêt	100.0	14.6	5.7 [1]
15	Aareon GAP Beteiligungsgesellschaft mbH	Mainz	100.0	-4.0	-1.2 [1]
16	Aareon Holding France SAS	Meudon-la Forêt	100.0	0.0	0.0 [1]
17	Aareon Holding GmbH	Frankfurt/Main	100.0	367.0	0.0 [1]
18	Aareon Management Spain, S.L. (formerly: Perseus Europe S.L.)	Madrid	100.0	46.8	-3.2 [1]
19	Aareon Nederland B.V.	Emmen	100.0	36.6	6.6 [1]
20	Aareon Norge AS	Oslo	100.0	NOK 4.9 mn	NOK 0.0 [1]
21	Aareon Österreich GmbH	Vienna	100.0	0.2	-0.2 [1]
22	Aareon Sverige AB	Gothenburg	100.0	SEK 36.6 mn	SEK 13.8 mn [1]
23	Aareon UK Ltd.	Coventry	100.0	GBP 3.4 mn	GBP -13.8 mn [1]
24	Arthur Online Ltd.	London	100.0	GBP -0.6 mn	GBP -4.5 mn [1]
25	AV Management GmbH	Mainz	100.0	0.4	0.0 [3]
26	BauContact Immobilien GmbH	Wiesbaden	100.0	19.1	1.5 [1]
27	BauGrund Immobilien-Management GmbH (in liquidation)	Bonn	100.0	0.5	0.0 [3]
28	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	5.1	5.0 [1]
29	BVG – Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	5.3	0.0 [3]
30	CalCon Deutschland GmbH	Munich	100.0	6.9	-0.1 [1]
31	CalCrom S.R.L.	Iasi	83.3	0.2	0.0 [1]
32	Cave Nuove S.p.A.	Rome	100.0	3.6	-16.2 [1]
33	Centre de Recursos, Administración i Manteniment S.L.	Madrid	100.0	0.5	0.0 [1]
34	collect Artificial Intelligence GmbH	Hamburg	100.0	2.7	0.0 [3]
35	CubicEyes B.V.	Maarssen	100.0	-0.3	-0.2 [1]

[1] Preliminary figures as at 31 December 2023; [2] Equity and results as at 31 December 2022;
[3] Profit and loss transfer agreement/controlling and profit transfer agreement; [4] Joint operation

>

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
36	DBB Inka	Dusseldorf	100.0	101.0	2.6 [1]
37	Deutsche Bau- und Grundstücks-Aktiengesellschaft (in liquidation)	Berlin	95.0	1.2	-3.0 [1]
38	Deutsche Structured Finance GmbH	Wiesbaden	100.0	1.3	-0.1 [1]
39	DHB Verwaltungs AG	Wiesbaden	100.0	5.1	0.0 [3]
40	Embrace Customers B.V.	Groningen	100.0	2.2	0.0 [1]
41	Embrace Facilities B.V.	Groningen	100.0	4.7	0.7 [1]
42	Embrace Housing B.V.	Groningen	100.0	1.6	0.0 [1]
43	Embrace Social B.V.	Groningen	100.0	0.2	0.9 [1]
44	Embrace the Human Cloud B.V	Groningen	100.0	1.1	0.4 [1]
45	FIRE B.V.	Utrecht	60.0	0.3	0.1 [1]
46	Galleria City Holding Company LLC	Wilmington	95.0	USD 147.8 mn	USD -7.2 mn [1]
47	Galleria City Holding Company Member 2 LLC	Wilmington	95.0	USD 0.0 mn	USD 0.0 mn [1]
48	Galleria City Partners LP	Wilmington	95.0	USD 158.1 mn	USD 0.0 mn [1]
49	Galleria Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn [1]
50	GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH	Bremen	100.0	3.5	-0.6 [1]
51	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	3.0	0.0 [3]
52	Houses2021 MEP Beteiligungs GmbH	Frankfurt/Main	65.6	137.9	0.0 [1]
53	Houses2021 MEP Verwaltungs GmbH	Frankfurt/Main	70.0	0.2	0.0 [1]
54	Informatización de Empresas SLU	Madrid	100.0	7.7	0.2 [1]
55	Izalco Spain S.L.	Madrid	100.0	9.9	-0.5 [1]
56	La Sessola Holding GmbH	Wiesbaden	100.0	70.0	0.0 [1]
57	La Sessola S.r.l.	Rome	100.0	48.1	-2.2 [1]
58	La Sessola Service S.r.l.	Rome	100.0	0.5	-2.2 [1]
59	Locoia GmbH	Hamburg	100.0	0.0	-0.5 [1]
60	Luce San Giovanni S.r.l.	Rome	100.0	6.0	0.0 [1]
61	Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn [1]
62	Mary BidCo AB	Stockholm	100.0	SEK 179 mn	SEK -60.5 mn [1]
63	Mercadea S.r.l.	Rome	100.0	15.5	0.3 [1]
64	Met Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn [1]
65	Met Tower Venture LP	Wilmington	98.0	USD 0.9 mn	USD -1.1 mn [1]
66	Momentum Software AB	Stockholm	100.0	SEK 48.9 mn	SEK 7.4 mn [1]
67	Momentum Software Group AB	Stockholm	100.0	SEK 113.5 mn	SEK 9.5 mn [1]
68	Northpark Realty LP	Wilmington	100.0	USD 91.7 mn	USD 2.3 mn [1]
69	OSRE B.V.	Amsterdam	100.0	1.1	-0.5 [1]
70	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	4.2	0.0 [3]
71	Participation Elfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3]
72	Participation Zehnte Beteiligungs GmbH	Wiesbaden	100.0	10.6	0.0 [3]
73	Participation Zwölfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3]
74	plusForta GmbH	Dusseldorf	100.0	0.2	0.0 [3]
75	Realmark Group B.V.	Amsterdam	100.0	-0.6	-0.1 [1]
76	RentPro Ltd.	Warrenpoint	100.0	0.0	0.0 [1]
77	Scale Layer GmbH	Wiesbaden	100.0	0.1	-0.8 [1]
78	Sole Sopra Cinquina S.r.l.	Rome	100.0	7.8	-0.1 [1]

[1] Preliminary figures as at 31 December 2023; [2] Equity and results as at 31 December 2022;
[3] Profit and loss transfer agreement/controlling and profit transfer agreement; [4] Joint operation

>

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
79	Tactile Limited	London	100.0	GBP 1.4 mn	GBP 0.1 mn [1]
80	Terrain Beteiligungen GmbH	Wiesbaden	94.0	62.9	0.3 [1]
81	Terrain Herzogpark GmbH & Co. KG	Wiesbaden	100.0	22.6	-1.2 [1]
82	Terrain Management GmbH	Wiesbaden	100.0	2.6	0.0 [1]
83	Tintoretto Rome S.r.l.	Rome	100.0	30.5	-0.6 [1]
84	UTS innovative Softwaresysteme GmbH	Cologne	100.0	1.9	0.5 [1]
85	Vind je Plek B.V.	Amsterdam	100.0	0.0	0.0 [1]
86	Westdeutsche Immobilien Servicing AG	Mainz	100.0	50.1	0.0 [3]
87	wohnungshelden GmbH	Munich	100.0	0.7	-0.2 [1]
88	146 Geary CA LLC	Wilmington	100.0	USD 19.1 mn	USD 4.6 mn [1]
89	220 Post CA LLC	Wilmington	100.0	USD 49.2 mn	USD 28.5 mn [1]
	II. Joint arrangements				
90	Konsortium BauGrund/TREUREAL[4]	Bonn	50.0	0.0	0.0 [2]
	III. Associates				
91	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Bremen	48.4	0.2	0.0 [2]
92	Houses2021 Management Beteiligungs GmbH & Co. KG	Wiesbaden	0.5	8.5	0.0 [1]
93	Mount Street Group Limited	London	20.0	GBP -4.3 mn	GBP -8.9 mn [2]
94	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	0.0	0.0 [2]
	IV. Other enterprises				
95	blackprint Booster Fonds International GmbH & Co. KG	Frankfurt	49.9	0.7	0.0 [2]
96	Houses Nominee Ltd.	London	70.0	0.0	0.0 [1]
97	Houses Stanwich GmbH & Co KG	Wiesbaden	35.7	0.0	0.0 [1]
98	PropTech1 Fund I GmbH & Co. KG	Berlin	9.6	50.2	-0.7 [1]

[1] Preliminary figures as at 31 December 2023; [2] Equity and results as at 31 December 2022;
[3] Profit and loss transfer agreement/controlling and profit transfer agreement; [4] Joint operation

(93) Executive Bodies of Aareal Bank AG

Composition of Supervisory Board's committees

Executive and Nomination Committee	
Jean Pierre Mustier	Chairman
Barbara Knoflach	Deputy Chairwoman
Hans-Hermann Lotter	
Marika Lulay	
Klaus Novatius	
José Sevilla Álvarez	

Remuneration Control Committee	
Jean Pierre Mustier	Chairman
Hans-Hermann Lotter	Deputy Chairman
Henning Giesecke	
Petra Heinemann-Specht	
Klaus Novatius	
Prof. Dr Hermann Wagner	

Audit Committee	
Prof. Dr Hermann Wagner	Chairman
José Sevilla Álvarez	Deputy Chairman
Henning Giesecke	
Denis Hall	
Petra Heinemann-Specht	
Hans-Hermann Lotter	

Technology and Innovation Committee	
Marika Lulay	Chairwoman
Barbara Knoflach	Deputy Chairwoman
Sylwia Bach	
Denis Hall	
Jan Lehmann	
José Sevilla Álvarez	

Risk Committee	
Henning Giesecke	Chairman
Denis Hall	Deputy Chairman
Petra Heinemann-Specht	
Barbara Knoflach	
José Sevilla Álvarez	

Supervisory Board

Jean Pierre Mustier, Chairman of the Supervisory Board (since 15 January 2024) **Former Chief Executive Officer of UniCredit S.p.A. and former President of the European Banking Federation**	since 10 August 2023
Sylwia Bach* **Aareon Deutschland GmbH**	since 16 March 2023
Henning Giesecke, Chairman of the Risk Committee **Former Chief Risk Officer of UniCredit S.p.A. and UniCredit Bank AG**	
Denis Hall **Former Chief Risk Officer Global Consumer Banking of GE Capital EMEA**	
Petra Heinemann-Specht* **Aareal Bank AG**	
Barbara Knoflach, Deputy Chairwoman of the Supervisory Board **Former Global Head der BNP Paribas Real Estate Investment Management and Deputy Chief Executive Officer of BNP Paribas Real Estate S.A.**	
Jan Lehmann* **Aareon Deutschland GmbH**	
Hans-Hermann Lotter, Deputy Chairman of the Supervisory Board **Self-employed consultant for private equity investments, mergers, takeovers and restructurings, and Managing Director of Atlantic BidCo GmbH**	
Marika Lulay, Chairwoman of the Technology and Innovation Committee **Chief Executive Officer and Managing Director of GFT Technologies SE**	
Klaus Novatius*, Deputy Chairman of the Supervisory Board **Aareal Bank AG**	
José Sevilla Álvarez **Former Chief Executive Officer of Bankia S.A.**	
Prof. Dr Hermann Wagner[1], Chairman of the Audit Committee **German Chartered Accountant, tax consultant**	

[1] Prof. Dr Wagner was Chairman of the Supervisory Board until 14 January 2024

Retired members

Thomas Hawel* **Aareon Deutschland GmbH**	until 15 March 2023
Sylvia Seignette **Former CEO Germany/Austria Crédit Agricole CIB (formerly Calyon)**	until 10 August 2023

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

Management Board

Jochen Klösges, Chairman of the Management Board (CEO)
Aareon, Banking & Digital Solutions, Corporate Affairs, Information Technology, Enterprise Transformation, Group Audit, Group Communications & Governmental Affairs, Group Human Resources & Infrastructure, Group Strategy

Nina Babic, Member of the Management Board (CRO)
Capital Markets Management, Credit Management, Information Security & Data Protection, Non-Financial Risks incl. Compl., Regulatory Affairs, Risk Controlling, USA – Credit Management, USA – Distressed Loans, Valuation & Research, Workout/Non Core Assets

(Membership of statutory supervisory bodies or similar bodies of corporations within the meaning of Section 267 (3) of the HGB)	
Aareal Capital Corporation (Aareal Bank Group)	Member of the Board of Directors

Marc Hess, Member of the Management Board (CFO)
Finance & Controlling, Investor Relations, Treasury

Christof Winkelmann, Member of the Management Board (CMO)
Aareal Asia/Pacific, Credit Legal, Euro Hub, Loan Markets & Syndication, Special Property Finance I, Special Property Finance II, Strategy & Business Management, USA – Origination

(Membership of statutory supervisory bodies or similar bodies of corporations within the meaning of Section 267 (3) of the HGB)	
Aareal Capital Corporation (Aareal Bank Group)	Chairman of the Board of Directors

Wiesbaden, 4 March 2024

The Management Board

Jochen Klösges

Nina Babic

Marc Hess

Christof Winkelmann

Independent Auditor's Report

Independent Auditor's Report

To Aareal Bank AG, Wiesbaden, Germany

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Aareal Bank AG, Wiesbaden and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2023, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Aareal Bank AG for the financial year from 1 January to 31 December 2023.

In accordance with the German statutory requirements we have not audited the contents of the elements of the group management report referred to in the notes to the audit opinion.

The group management report contains references not required by law. In accordance with the requirements of German law, we have not audited 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 consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code [Handelsgesetzbuch – HGB] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2023, and of its financial performance for the financial year from 1 January to 31 December 2023, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the contents of the elements of the group management report named in the notes to the audit opinion. The group management report contains references not required by law. Our audit opinion does not cover the references named in the notes to the audit opinion and information relating to the references.

Pursuant to Section 322 (3) sentence 1 of the HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter the "EU-AR"), taking into account the German generally accepted standards for the audit of financial statements 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 consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. Furthermore, pursuant to Article 10 (2)(f) EU-AR we declare that we have not provided any prohibited non-audit services referred to in Article 5 (1) EU AR. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are such matters that, in our professional judgement, were the most significant in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2023. These matters were taken into account in connection with our audit of the consolidated financial statements as a whole and in forming our audit opinion; we do not provide a separate audit opinion on these matters.

Measurement of the bail-out purchases

For information on the accounting polices applied, please refer to Note 46 – Non-Current assets held for sale (section Notes to the Statement of Financial Position) and 22 – Other assets (section Accounting Policies).

RISK FOR THE FINANCIAL STATEMENTS

Property and land from previous loan exposures – known as bail-out purchases – are recognised under "Non-current assets held for sale" and "Other assets" as at 31 December 2023 in the consolidated financial statements of Aareal Bank AG.

Depending on the development status of the bail-out purchases and property strategy, in line with IFRS there are different classifications of the bail-out purchases which have significant influence on the subsequent measurement of the bail-out purchase.

The bail-out purchases are held in property companies and, with one exception, are intended for sale in the ordinary course of business. The subsequent measurement takes place in line with IAS 2 at the lower of cost and net realisable value. For a hotel property, the Bank has entered into an agreement over its sale. The subsequent measurement is performed in line with IFRS 5 at the lower of its carrying amount and fair value. The properties are either hotel, residential office or retail properties as well as land for project developments of these property types. In the financial year, the Bank acquired two further salvage acquisitions from US loan commitments, which were recognized at a value of EUR 45 million and EUR 18 million respectively at the time of acquisition.

In the context of subsequent measurement, the Bank examined the recoverability of the properties and land at each reporting date. In doing so, the Bank mandates independent experts and considers their methodology and results. The market values of the properties are derived as the present value of future cash flows (DCF method or residual value method for project developments), or on the basis of space-related comparable values.

The projections thus integrate various assumptions that are subject to uncertainty, e.g. property completion, leasing and marketing. These assumptions which are subject to estimating uncertainty have a substantial impact on the net realisable value and the fair value of the bail-out purchases and thus also on the assessment of the recoverability of the carrying amounts of the bail-out purchases.

For the consolidated financial statements there is the risk that inappropriate subsequent measurement is implemented on the basis of an incorrect classification of the bail-out purchases. There is also the risk that the calculating methods underlying the appraisals are inappropriate or that as a result of the inappropriate exercise of judgement resulting from the assumptions subject to uncertainty impairment of the bail-out purchases is not identified.

OUR AUDIT APPROACH

Based on our risk assessment and the assessment of the error risks, we based our audit opinion on both control-based audit procedures and substantive audit procedures.

Based on our audit we initially examined the classification of the bail-out purchases in line with IFRS and thus the accuracy of the subsequent measurement.

We also examined the Bank's controls and processes to make a plausibility check on the appraisals obtained in terms of appropriateness and effectiveness.

Furthermore, with the involvement of KPMG real estate 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 CONCLUSIONS

The classification of the bail-out purchases is appropriate. The measurement methods used in the appraisals which are subject to assessment uncertainty are appropriate and proper.

Recoverability of goodwill from the Aareon subgroup

For information on the accounting polices applied, please refer to Note 18 – Intangible assets (section Accounting Policies). Information on the impairment test is described in Note 48 – Intangible assets (section Notes to the Statement of Financial Position).

RISK FOR THE FINANCIAL STATEMENTS

As at 31 December 2023, goodwill from the Aareon subgroup amounted to EUR 476 million (prior year: EUR 369 million).

In the financial year 2023, as a result of various new acquisitions goodwill at the level of Aareon subgroup increased by EUR 107 million to EUR 476 million. The increase is primarily due to the acquisitions of Embrace the Human Cloud B.V. as well as Informatización de Empresas SLU. Furthermore, a major part of the goodwill resulted from GGUs which include start-ups.

The recoverability of the goodwill of the Aareon subgroup is tested annually at the level of six cash-generating units (CGUs) separated into the regions of the Aareon subgroup. To this end, the carrying amount is compared with the recoverable amount of the CGU group. If the carrying amount is higher than the recoverable amount, there is a need for impairment. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the CGU group. The reporting date for the impairment test is 31 December 2023.

The goodwill impairment test is complex and based on a number of discretionary assumptions. In particular these include the expected business and earnings performance of the individual CGUs broken down by region for the next five years, the assumed long-term growth rates and the discount rate applied.

For the consolidated financial statements there is the risk that the underlying calculation methods are not appropriate or not in line with the measurement principles to be applied. There is also the risk that a goodwill impairment as at the reporting date is not identified as a result of an inappropriate exercise of the judgement described.

OUR AUDIT APPROACH

Based on our risk assessment and the assessment of the error risks, we planned to base our audit opinion on both control-based audit procedures and substantive audit procedures.

Based on our audit we assessed the processes and the Internal Control System (ICS) relating to the corporate planning for identifying impairment requirements. Alongside the substantive audit procedures described below, we included the evidence obtained in our audit opinion.

We examined the appropriate transfer of corporate planning into the goodwill impairment tests.

In addition, with the involvement of our measurement specialists we assessed, among other matters, the appropriateness of the material assumptions and the calculation methodology of the goodwill impairment tests. To do this we discussed with those responsible for planning in particular the anticipated business and earnings development and the long-term growth rates assumed. In addition, we assessed the consistency of the assumptions against external market estimates.

Furthermore, we satisfied ourselves of the previous forecast quality of the companies by comparing planning of previous financial years with the results actually realised and analysed deviations. As slight changes to the discount rate can have a material impact on the results of the impairment tests, we compared the assumptions and data underlying the discount rate, in particular the risk-free interest rate, the market risk premiums and the beta factor with our own assumptions and publicly available data.

We verified the mathematical accuracy of the measurement model used by the Company.

In order to take account of the existing forecast uncertainty, we examined the impact of possible changes in the discount rate, the earnings trend and the long-term growth rate on the recoverable amount by calculating alternative scenarios and comparing them with the values obtained by the Company (sensitivity analysis).

OUR CONCLUSIONS

The calculation method used for the goodwill impairment test is appropriate and is consistent with the measurement principles to be applied. The assumptions of the Company underlying the measurement are reasonable overall.

Appropriateness of the Stage 3 loan allowance

For information on the accounting polices applied, please refer to Note 9 – Recognition and measurement of financial instruments (section Accounting Policies) and Note 43 – Loss allowance (ac) (section Notes to the Statement of Financial Position) and Note 65 – Disclosures on credit risk (section Notes to Financial Instruments).

RISK FOR THE FINANCIAL STATEMENTS

The credit business at Aareal Bank preponderately comprises large-volume commercial property financing for which the Aareal Bank Group individually calculates the risk provisions. As at 31 December 2023, the Aareal Bank Group recognises impairment on credit receivables of EUR 424 million. EUR 304 million of these relate to Stage 3 provisions.

One of the material requirements of IFRS 9 – Financial Instruments is that the measurement of the risk provision generally takes place on the basis of probability-weighted scenarios and thus consequently also for credit-impaired debt instruments (the State 3 provision). In this context account is also to be taken of macroeconomic factors on the default risks.

In determining scenarios by number and content, the derivation of expected cash flows in the respective scenario and assessment of the probability judgement is to be exercised to a material extent.

For this reason, it was particularly important for our audit that the number of scenarios observed was consistent with the complexity of situations determining the individual default risks including the dependency on macroeconomic factors. We regarded it as equally important that the selection of the specific scenarios, the assessment of probabilities and the assessment of the expected cash flows in the respective scenarios was verifiable, appropriately substantiated and incontrovertibly implemented.

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, we included the measurement of collateral. In auditing the recoverability of the underlying collateral, in our assessment we deployed appraisals of independent experts and on the basis of publicly available data assessed whether the assumptions in the appraisals were appropriately derived.

With the selective involvement of KPMG property experts, we examined selected appraisals, in particular for the following key matters:

- Assessment of the expertise, ability and objectivity the external experts
- Assessment of the general appropriateness of the measurement methods used
- Reasonableness of material assumptions subject to assessment uncertainty used by the experts.

We concluded our audit by verifying the correct calculation of the expected credit loss.

OUR CONCLUSIONS
With the receivables assigned to Level 3 provisions, we come to the conclusion that the selection of the specific scenarios, the assessment of probabilities and the assessment of the expected cash flows in the respective scenarios, including the dependency on macroeconomic factors, was verifiable, adequately substantiated and incontrovertibly implemented.

Other Information

The Management Board and/or the Supervisory Board are responsible for the other information. The other information comprises:

- the elements and references of the group management report, the content and references of which have not been audited, referenced in the notes to the auditor's opinion.

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 consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information identified above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

If, based on work we have performed before on the basis of the other information obtained before the date of this auditor's report work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated 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 consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU-AR in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than 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 consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.

- Conclude on the appropriateness of Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

- Perform audit procedures on the prospective information presented by the Management Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence and if relevant, the actions taken to eliminate dangers to independence or safeguards put in place to protect against this.

From the matters that we have discussed with those charged with governance, we determine which matters were most important during the audit of the consolidated financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the independent auditor's report, unless laws or other legal provisions preclude their public disclosure.

Other Legal and Regulatory Requirements

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

We have performed an audit in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file Aareal Bank_AG_KA+KLB_ESEF__2023-12-31.zip (SHA256 hash value: 708f3473fac6b20e0ab769a0c09af837ddec-6bca3d6ce77895477b95f36e8489) 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 audit extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this audit opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2023 contained in the "Report on the audit of the consolidated financial statements and the group management report" above, we do not express any audit opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our audit on the rendering of the consolidated financial statements and the group management report contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Auditing Standard: Audit of the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AuS 410 (06.2022)). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management: Requirements for Quality Management in Audit Firms (IDW QMS 1 (09.2022)).

The Management Board of the Company is responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Management Board of the Company is responsible for such internal control that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the 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 audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- Obtain an understanding of internal control relevant to the audit on the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, on the technical specification for this electronic file.

- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Other Disclosures in Accordance with Article 10 EU-AR

We were elected by the Annual General Meeting on 10 August 2023 as auditor of the consolidated financial statements We were engaged by the Chairman of the Supervisory Board on September 20, 2023. We have been the Group 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-AR (audit report).

Other Matter – Use of the Auditor's Report

Our auditor´s report must always be read together with the audited consolidated financial statements and the audited group management report as well as the examined ESEF documents. The consolidated financial statements and group management report converted to the ESEF format – including the versions to be published in company register – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our audit 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, 7 March 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

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

Appendix to the Independent Auditor's Report: the Components and References of the Group Management Report were not Audited for Content

We did not audit the following components of the 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

Responsibility Statement

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

Wiesbaden, 4 March 2024

The Management Board

Jochen Klösges **Nina Babic**

Marc Hess **Christof Winkelmann**

Transparency

Transparency

Corporate Governance Statement / Corporate Governance Report

Declaration of Compliance / Voluntary Declaration regarding German Corporate Governance Code

As a non-listed company Aareal Bank AG is not required to provide a declaration of compliance in accordance with Section 161 of the German Public Limited Companies Act (Aktiengesetz – AktG). The Management Board and Supervisory Board have however decided to provide a declaration of compliance on a voluntary basis and therefore declare as follows:

Since the last declaration of compliance issued in December 2022, Aareal Bank AG has complied and is complying with the recommendations of the "Government Commission German Corporate Governance Code" as amended and published in the German Federal Gazette on 27 June 2022 – except for the restrictions set out below:

1. Pursuant to recommendation G. 10 sentence 2, Management Board members shall have access to granted long-term variable remuneration components only after a period of four years. In contrast to the draft version dated 22 May 2019, the Government Commission refrained from defining the term 'long-term variable remuneration' in its final version.

   According to the definition in the version dated 22 May 2019, typical performance indicators for long-term variable remuneration were, inter alia, "long-term financial success (profitability and growth with multiple-year measurement basis), non-financial success as prerequisite for subsequent financial success [...], implementation of the corporate strategy [etc.]".

   Within Aareal Bank's remuneration system, all targets are derived from the strategy. Target achievement is determined over a three-year period. In line with the above definition provided in the draft version dated 22 May 2019, Aareal Bank's entire variable remuneration would classify as long-term. On the basis of the three-year target determination the variable remuneration is calculated, of which only 20 % is paid out directly in the year following target achievement. The remaining 80 % is paid out in several tranches and over a total period of six years.

   This means that long-term variable remuneration is, for the most part, paid out at the earliest after four years and is paid out fully only after nine years, thus complying with the Code's draft version. However, in the absence of the definition having been adopted – and the associated imprecise recommendation – it is not clear whether Aareal Bank's remuneration structure meets the Code expectations. As a result, and as a precautionary measure, we declare a deviation from recommendation G. 10 sentence 2.

2. According to recommendation D. 3 sentence 5, the Chairman of the Supervisory Board shall not chair the Audit Committee. Prof. Dr Hermann Wagner has been the Chairman of the Supervisory Board since 23 November 2021. On account of his many years as an auditor and tax advisor, as well as his extensive experience as Chairman of Aareal Bank's Audit Committee, he continues to serve as Chairman of the Audit Committee, thereby complying with the statutory provision of Section 25d (9) sentence 2 of the KWG, according to which the Chairman of the Audit Committee must be an accounting/financial reporting and auditing expert. The Supervisory Board decided on 10 August 2023 to elect Mr Jean Pierre Mustier as Chairman of the Supervisory Board as soon as the ECB has adopted its decision regarding Mr Mustier's "fit & proper" assessment and as soon as Prof. Wagner has resigned from his office as Chairman of the Supervisory Board. As soon this has occurred, recommendation D. 3 sentence 5 will be followed.

Wiesbaden, December 2023

The Management Board

Jochen Klösges

Nina Babic

Marc Hess

Christof Winkelmann

For the Supervisory Board

Prof. Dr Hermann Wagner
(Chairman)

Corporate Governance at Aareal Bank Group

Aareal Bank AG is a bank, which by virtue of being classified as 'significant', is supervised directly by the European Central Bank. Even after the acquisition of a majority of more than 95% of the shares by Atlantic BidCo GmbH, Aareal Bank AG remains the parent company of a group of affiliated companies, including Atlantic BidCo GmbH and Atlantic Lux HoldCo S.à r.l., from a regulatory perspective. Although the Management Board and the Supervisory Board of Aareal Bank AG observe a large number of specific corporate governance rules even after Aareal Bank AG was delisted on 21 November 2023, their common understanding does not end at compliance with these rules. They also discuss, on a regular basis, the application of voluntary standards that are recommended by the German Corporate Governance Code, the banking supervisory authorities, Aareal Bank shareholders or due to international best practice, or those that arise in the Supervisory Board's and the Management Board's day-to-day work.

It is the Management Board's and the Supervisory Board's top priority to act in the interests of the Company and hence to meet their responsibility vis-à-vis employees, clients, shareholders and the public alike.

Disclosures regarding Corporate Governance standards

Senior management aligns corporate governance with legal and regulatory rules, as well as a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the Bank's business, which is also rooted in the Code of Conduct of the Bank. These rules and regulations comprise the Memorandum and Articles of Association, the Internal Rules of Procedure for the Supervisory Board and the Management Board, the strategies, the Risk Appetite Framework, the Internal Governance Policy, the Code of Conduct, and the Conflicts of Interest Policy; all members of staff have access to the documents, via common internal communication channels such as the Bank's intranet. Memorandum and Articles of Association, Code of Conduct, Conflicts of Interest Policy, and Internal Rules of Procedure for the Supervisory Board are also accessible via Aareal Bank's website.

Aligning with the German Corporate Governance Code's guiding principle

The Management Board and the Supervisory Board follow their own value structure and that of Aareal Bank, as well as the "reputable businessperson" concept and the German Corporate Governance Code's principles of good corporate governance. The voluntary Declaration of Compliance lays out to what extent the recommendations of the Code were complied with, or shall be complied with.

According to Code recommendation F. 4, companies shall specify, in the Corporate Governance Statement, which Code recommendations were not applicable due to overriding legal stipulations.

- This applies to Code recommendation D. 4, according to which the Nomination Committee shall be composed exclusively of shareholder representatives. The Nomination Committee of a bank is subject to special provisions of the German Banking Act (Kreditwesengesetz – KWG). Pursuant to Section 25d (11) of the KWG, the Supervisory Board's Nomination Committee is required to assume additional tasks which are not supposed to be prepared by shareholder representatives on the Supervisory Board alone. Hence, the Executive and Nomination Committee of Aareal Bank AG also includes employee representatives. However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

Sustainability mission statement

Contributing to sustainable economic development is a priority for Aareal Bank Group. As a partner to the property industry, Aareal Bank Group thus aligns its business conduct with the requirements of the sector and the stakeholders. The Group is aware of the responsibility associated with its sustainability mission statement and the necessity to focus on the needs of society, and aims to preserve the foundations on which future generations can base and shape their lives.

The sustainability mission statement underpins Aareal Bank Group's corporate sustainability strategy and is achieved through an integrated sustainability management. It provides a summary of the corporate responsibility principles that are aligned with our objective of doing business sustainably:

- We think in an integrated and future-oriented manner, taking ethical, social and ecological topics into account.
- We analyse trends holistically, evaluate the resulting opportunities and risks, and align our forward-looking sustainability performance accordingly.
- We focus on all relevant stakeholder groups, seek to engage in active dialogue with them in a variety of ways and show how we make use of the insights we have gained.
- We make sure that business decisions take account of environmental, social and governance factors, and communicate our progress – and the challenges we face – transparently and credibly.
- We set priorities and implement our decisions, thereby reinforcing corporate sustainability values such as reliability, innovative ability, integrity, transparency and risk management, our appeal as an employer, and building and maintaining high-trust client relationships.

In doing so, we are guided by national and international frameworks, are committed to initiatives, or have joined organisations that represent generally accepted ethical standards and whose values we share. Relevant organisations include:

- United Nations Global Compact,
- International Labour Organization,
- German Corporate Governance Code,
- Diversity Charter,
- Work-Care Balance Charter.

The ESG Expert Group established in fiscal year 2023 focuses on the continued development and long-term expansion of Aareal Bank's value contribution in ESG-relevant areas of action, the assessment of the relevance of climate and environmental risks specific to the Bank-wide strategy, and early responses to regulatory requirements. The ESG Expert Group serves as a platform of the Management Board for developing the Group's sustainability performance. At the same time, it serves as discussion and advisory body to the Group Sustainability Officer, who communicates relevant topics to the Management Board. The ESG Expert Group is interdisciplinary, which ensures that stakeholder-specific requirements in the ESG environment are always given broad consideration. In addition, Aareal Bank Group continuously works to improve its ESG governance, considering not only regulatory and supervisory requirements, but also the needs of different stakeholder groups and the unique features of its business model.

For further details please refer to the latest Sustainability Report under www.aareal-bank.com/en/investors-portal/finance-information/sustainability-reports/archive/.

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by members of the Management Board and the Supervisory Board, and by all our employees across the Company, regardless of their functions and duties. Our Code of Conduct therefore contains binding rules governing the legal and ethical conduct of all employees vis-à-vis clients, business partners, and colleagues. Aareal Bank Group's efforts in this context are also motivated by the desire to affirm and strengthen the confidence which stakeholders – our clients, business partners, investors, and staff – place in us (www.aareal-bank.com/en/footermenu/code-of-conduct).

Conflict of Interest Policy

Aareal Bank's processes are – and will be – set up in a manner to prevent conflicts of interest from occurring in the first place. Where they occur nonetheless, dealing with them in the right way is decisive. A Group-wide policy is in place that sets out the correct way of handling conflicts of interest, to prevent any adverse consequences for clients, the Bank and its employees, as well as any doubts regarding the integrity of Aareal Bank Group. These rules provide orientation as to how conflicts of interest are identified, documented, and appropriately resolved. All employees are required to establish transparency regarding any conflicts of interest arising within their area of work, and to ensure that such conflicts are dealt with in accordance with the Policy and any specific requirements for particular transactions.

Principles of diversity

The Management Board and the Supervisory Board are openly committed to diversity across the entire Aareal Bank Group.

Aareal Bank defines diversity as:

- The appreciation that every individual is unique, and the respect for this uniqueness
- Equal opportunities at all levels
- The prevention of discrimination of any kind
- The belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals

The Bank thus aims to promote Aareal Bank Group's image as a modern employer, to strengthen employee commitment, to increase employee motivation, to ensure skills and competencies are fostered individually in a way that promotes employee performance, to react to demographic change and an ageing workforce, and to take into account individual circumstances and stages of life.

In order to highlight the significance of diversity, and to document the fact that the concept of diversity is very important to Aareal Bank AG, the Bank has signed the Charter of Diversity, an initiative launched by German industry, and introduced a diversity directive.

Aareal Bank employs people from 40 different countries. At Aareal Bank's foreign locations, we take care to ensure that positions are primarily filled by local staff if possible. Aareal Bank Group attaches great importance to the equal treatment of women and men, whether in the context of filling vacant positions, with regard to continuous professional development, or in terms of remuneration. Specifically, any vacancies below senior executive level are generally published throughout the Company, in the form of job advertisements that all members of staff – male or female – may apply for. When setting the remuneration of employees, we do not differentiate by gender but rely exclusively on aspects such as qualification, professional experience or training.

In accordance with applicable laws, the Management Board sets specific targets – including implementation deadlines – for the share of women holding executive positions on the first two management levels below the Management Board of Aareal Bank AG. On the first management level below the Management Board, by 30 June 2027 at least 20 % of executive positions are to be held by women; on 31 December 2023, the share of women 16.1 % was (2022: 16.1 %). On the second management level below the Management Board, by 30 June 2027 at least 23.0 % of executive positions are to be held by women. On 31 December 2023, the share of women was 22.3 % (2022: 22.2 %).

Across Aareal Bank Group, the share of women in executive positions stood at 24.4 % (2022: 22.5 %). At Aareal Bank AG, the share was 22.1 % (2022: 21.6 %), and at Aareon, it was 25.5 % (2022: 22.8 %). On 31 December 2023, the share of female employees at Aareal Bank Group, overall, was 36.9 % (2022: 36.4%), at Aareal Bank AG 41.9% (2022: 42.1%) and at Aareon 34.4% (2022: 33.7%).

In Germany, Aareal Bank and Aareon have appointed nondiscrimination officers in accordance with the German General Non-discrimination Act (Allgemeines Gleichbehandlungsgesetz – "AGG"). In addition, all employees attend AGG training. In the US, the employee manual contains rules designed to avoid harassment at the workplace ("Anti-Harassment Rules").

Inclusion

Severely disabled persons made up 4.1 % of Aareal Bank AG's staff base in 2023 (2022: 4.4 %). This employee group is represented in the Group's German entities by a disability representative.

Working practices of the Management Board and the Supervisory Board

The Management Board is responsible for managing the Company and for its strategic orientation, material transactions and proper organisation. This also includes the implementation of effective monitoring systems. It focuses its business activities upon the Company's long-term and sustainable development. Its decisions incorporate the long-term consequences of its actions and are guided by the ethical principles of Aareal Bank Group (see relevant corporate governance principles).

Supervisory Board

The Supervisory Board exercises its control using different instruments. On the one hand, it sets out the reporting requirements of the Management Board in its Rules of Procedure, to ensure comprehensive and prompt reporting. These reports include the financial reports prior to publication, the reports of Internal Audit, Risk Controlling and Compliance, as well as the external auditor's reports. Said Rules of Procedure also determine the transactions of the Management Board for which Supervisory Board approval is required.

Furthermore, the Supervisory Board contributes to Aareal Bank Group's sustainable success – in the interest of investors, clients, business partners, staff, and the general public – by selecting suitable Management Board members (as set out in the Guidelines for the selection of members of the Management Board and the Supervisory Board), a Management Board remuneration system which is aligned with the Company's long-term and sustainable interests, and by the effective supervision of said remuneration system.

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Remuneration Control Committee, the Risk Committee, the Audit Committee, and the Technology and Innovation Committee. An overview of the respective committee members can be found in the Notes to the 2023 Annual Report: www.aareal-bank.com/en/investors-portal/finance-information/financial-reports/archiv/2023/.

Executive and Nomination Committee

The Executive and Nomination Committee prepares resolutions to be taken by the Supervisory Board concerning fundamental issues, personnel matters and capital measures. The Committee's areas of responsibility also include assessing corporate governance and preparing the Supervisory Board's personnel decisions – in particular concerning the appointment and removal of Management Board members, and the drafting of individual contracts with Management Board members. The Executive and Nomination Committee compiles profiles defining the requirements for members of the Management Board and the Supervisory Board, considering personal and professional requirements along with its targets for the composition of both bodies, including the diversity concept. In addition, the Committee conducts an evaluation of the Management Board and Supervisory Board at least annually, and determines any further training requirements. Furthermore, the Executive and Nomination Committee resolves decision proposals regarding loans to senior managers and approves the assumption of any sideline activities by Management Board members. It is also responsible for the assessment and handling of conflicts of interest arising within the sphere of influence of the Management Board or the Supervisory Board, in line with the Management Board's and Supervisory Board's Conflicts of Interest Policy.

The Executive and Nomination Committee, excluding the employee representatives, votes on the nomination of shareholder representatives for election by the Annual General Meeting.

Remuneration Control Committee

The Remuneration Control Committee monitors whether the structure of the remuneration systems for Management Board members and employees is appropriate, taking into account the impact of remuneration systems on Aareal Bank's overall risk profile. The Committee also prepares corresponding proposals concerning the material performance criteria and targets for determining the Management Board's variable remuneration. The Remuneration Control Committee takes delivery of the reports prepared by the units specified in the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung), in particular, those submitted by Aareal Bank's Remuneration Officer.

Risk Committee

The Risk Committee monitors Aareal Bank's material risks, comprising financial and non-financial types of risk alike. The Committee is also responsible for reviewing the contents of the risk strategies in accordance with the MaRisk, for checking conformity with the business strategy, and preparing the corresponding resolutions of the Supervisory Board. It furthermore advises the Management Board on how to design an appropriate and effective risk management system, making sure that the Bank's risk-bearing capacity is adequate. To that end, the Committee monitors the Management Board, especially as regards determining risk appetite and the corresponding limits.

Audit Committee

The Audit Committee is responsible for accounting matters, and for auditing the Group and Aareal Bank AG, including risk management. The Committee is responsible for the preparation and conduct of the audit of the financial statements and the consolidated financial statements; it prepares the decisions to be taken by the Supervisory Board on the basis of the Committee's analysis of the external auditors' reports. For this purpose, the Committee reports to the plenary meeting of the Supervisory Board on the results of its analysis and the assessments derived. Preparing the audit of the financial statements also comprises the preparations for instructing the external auditors (by virtue of the corresponding resolution passed by the Annual General Meeting), verifying the independence of the external auditors, including the approval of permissible non-audit services, negotiating the auditors' fees, determining focal points of the audit, and regularly selecting new external auditors. The Audit Committee also discusses quarterly and half-yearly financial reports with the Management Board, and obtains the external auditors' report on their review of the half-yearly report. Furthermore, the Audit Committee is responsible for examining the projections submitted by the Management Board. In addition, Compliance and Internal Audit address their reports to the Committee. Last but not least the Committee is responsible for monitoring the effectiveness of the internal control and monitoring system.

The Audit Committee comprises at least two financial experts; the Chairperson must be an accounting/financial reporting and auditing expert, whilst another member must be an accounting/financial reporting or an auditing expert.

Technology and Innovation Committee

It is the Technology and Innovation Committee's responsibility to both support Aareal Bank's activities regarding its own technological and IT-related development and identify and discuss new technological trends on the market, advising Aareal Bank accordingly. The Committee also deals with issues concerning information technology used within Aareal Bank, and with issues related to IT products created and distributed by Aareal Bank Group. This comprises the Bank's as well as Aareon's products. As part of these duties, the Committee monitors the implementation of Aareal Bank Group's digitalisation strategy which calls not only for a technical transformation, but also for modern and agile working practices and project methods.

Working relationship between the Management Board and Supervisory Board

The Supervisory Board and the Management Board work together in a trusting and constructively critical manner, for the benefit of Aareal Bank as a whole. Discussions during meetings are held in an adequate and target-oriented working atmosphere. Members of the Management Board are especially not permitted to attend Supervisory Board meetings at which their remuneration, their suitability, their succession, any behaviour that breaches their duties, or conflicts of interest are discussed or decided upon.

Outside meetings, it is mainly the Chairman of the Supervisory Board and committee chairpersons that communicate with the competent Management Board members. The Chairman of the Supervisory Board regularly discusses questions regarding the strategy, business development, risk situation, risk management, compliance, as well as personnel- and remuneration-related matters with the Chairman of the Management Board. The Chairman of the Risk Committee goes into detail – especially with the Chief Risk Officer – on topics such as the risk situation, risk management, and risk strategies. The Chairman of the Audit Committee regularly exchanges views with the Chief Financial Officer and the external auditors; finally, the Chairwoman of the Technology and Innovation Committee keeps in touch with the Chairman of the Management Board outside meetings. The chairpersons inform the other Supervisory Board members about the key points of these discussions at the next ordinary Supervisory Board or committee meeting.

Communications

Aareal Bank assigns great importance to comprehensive communication with its stakeholders and has accordingly set itself the objective of maintaining active, transparent and open communication with all stakeholders, taking into account their interests equally. Likewise, Aareal Bank is committed to providing sound professional expertise as a contribution to political decision-making processes. The Bank is therefore registered as a legal entity in the Lobby Register covering political lobbying vis-à-vis the German parliament (the Bundestag) and in the EU transparency register.

In connection with the delisting offer by Atlantic BidCo GmbH, the Management Board announced that Aareal Bank will continue to communicate transparently and maintain high disclosure standards, despite its withdrawal from the regulated stock market.

All press releases, ad-hoc disclosures, corporate presentations, along with annual, sustainability and quarterly reports of Aareal Bank are published on the Bank's website, where they may be viewed and downloaded by anyone at the same time. In addition, the financial calendar is updated regularly, and provides information about upcoming events.

Aareal Bank publishes details on its financial position and performance four times a year. On these occasions, the Management Board gives an account of results, within the scope of press and analysts' conferences, and issues press releases.

All information can be found on Aareal Bank's website: www.aareal-bank.com/en/investors-portal/.

Relationship with shareholders

To facilitate direct communication, Aareal Bank has set up a separate Investor Relations division within its organisation, which serves as a first point of contact for shareholders, other investors and analysts. The contact persons in Investor Relations can be found on the Aareal Bank website www.aareal-bank.com/en/investors-portal/equity-investors/contact/.

The Bank holds an Annual General Meeting once a year. The Act on the Introduction of Virtual Annual General Meetings of German Stock Corporations dated 26 July 2022 provides for the opportunity of general meetings to be held in virtual form. The Act also permits to exclude the physical presence of shareholders or their representatives and to restrict certain shareholder rights. By resolution of the Annual General Meeting on 10 August 2023, the Memorandum and Articles of Association were amended to the effect that the Management Board was authorized to provide for the Annual General Meeting to be held without the physical presence of shareholders or their proxies at the location of the Annual General Meeting.

At the Annual General Meeting, the shareholders decide, in particular, on the formal approval of the Supervisory Board and Management Board members for the financial year under review, on the appropriation of any net retained profit, amendments to the Memorandum and Articles of Association, and authorisations on capital adjustments. The Annual General Meeting elects the external auditors for the Company, decides who joins the Supervisory Board as shareholder representative, and adopts other resolutions submitted to the Annual General Meeting.

Aareal Bank shareholders may submit statements or recommendations to the Company, using various means of communication, at Annual General Meetings. They may also request to speak at the Annual General Meeting. The shareholders may also submit counter or supplemental motions to the agenda items at the Annual General Meeting, thereby participating in structuring and influencing the meeting.

On 22 November 2023, Atlantic BidCo GmbH announced that it held more than 95 % of the shares of Aareal Bank after expiry of the acceptance period of the delisting tender offer and intended to initiate a squeeze-out of the remaining minority shareholders.

Guidelines regarding the Selection of Members of the Management Board and the Supervisory Board

The Supervisory Board of Aareal Bank AG is satisfied that the Management Board and the Supervisory Board are adequately staffed, if all members are in a position to perform their duties (professional qualification), commit the time necessary to perform these and possess the integrity to be guided by the ethical principles of Aareal Bank when performing their duties (with respect to personal reliability, including potential conflicts of interest and independence aspects). The composition of the Supervisory Board and the Management Board, respectively, shall facilitate, in its entirety, cooperation and the widest possible diversity of opinions and knowledge (the concept of diversity).

The Supervisory Board has defined concrete requirements and processes to incorporate these criteria when evaluating Management Board and Supervisory Board members, as well as when selecting candidates for appointment to the Management Board, or shareholder representatives to the Supervisory Board. When establishing these processes, it took into account the requirements of the German Public Limited Companies Act (Aktiengesetz – AktG) and the German Banking Act (Kreditwesengesetz – KWG), as well as the recommendations of the German Corporate Governance Code. In addition, the regulatory guidelines of the European Central Bank and the European Banking Authority on adequacy and internal governance are also incorporated. Besides the Supervisory Board, the European Central Bank also reviews the suitability of the respective candidates, using the so-called 'fit & proper' assessment.

Personal reliability

The principles of personal reliability apply equally for all members of the Management Board and the Supervisory Board. The members of the Management Board and the Supervisory Board shall demonstrate honesty, integrity and independence of mind. They should live by the ethical principles of Aareal Bank, as set out in the Code of Conduct, and commit sufficient time to perform their duties. The Supervisory Board has calculated the time commitment of every member of the Management Board and the Supervisory Board, and reviews on an annual basis whether they are also dedicating sufficient time to exercising the mandate. In this context, the Supervisory Board takes care to ensure compliance with the requirements for the maximum number of additional offices, pursuant to Sections 25c (2) and 25d (3) of the KWG.

Conflicts of interest and independence of Supervisory Board members

Special rules apply to the Supervisory Board, over and above the Group-wide Conflicts of Interest Policy. Acting in the interests of the Company means making judgements unbiased by extraneous influences. The Supervisory Board therefore attaches particular importance to the handling and disclosure of actual, potential, temporary or permanent conflicts of interest that could, for example, impair the independence of the Supervisory Board.

In the Management Board's and Supervisory Board's Conflicts of Interest Policy, which has been specifically designed for these two corporate bodies, the Supervisory Board has laid down procedures on how to handle conflicts of interest affecting members of the Management Board or the Supervisory Board. In accordance with this Policy, individual Management Board and Supervisory Board members must establish transparency in the event of any potential conflicts of interest.

The Supervisory Board has also determined when the independence of shareholder representatives is no longer ensured. At least once a year, it carries out a review of whether the independence of individual members is no longer ensured, or may be compromised. In the event of the following circumstances, the Supervisory Board generally assumes that independence is not ensured:

- presence of a material, and not just temporary, conflict of interest materialises within the meaning of the Management Board's and Supervisory Board's Conflicts of Interest Policy.

- if the member of the Supervisory Board has served on the Supervisory Board or Management Board of Aareal Bank AG for twelve consecutive years or longer.

- if less than five years have elapsed between their service on the management board of an institution included in the scope of prudential consolidation and their membership of Aareal Bank AG's Supervisory Board.

- if less than three years have elapsed between their serving as a senior manager at the top management level below the Management Board at Aareal Bank AG or another entity included in the scope of prudential consolidation and their membership of the Supervisory Board of Aareal Bank AG.

- if the member of the Supervisory Board is a controlling shareholder of Aareal Bank AG as defined in Article 22 (1) of Directive 2013/34/EU, or if they represent the interests of a controlling shareholder.

- if the member of the Supervisory Board has a material financial or business relationship with the relevant institution.

- if the Supervisory Board member is an employee of, or otherwise affiliated with, a controlling shareholder of Aareal Bank AG.

- if the member of the Supervisory Board has been the owner of a significant professional advisor or external auditor or have themselves been a significant advisor to Aareal Bank AG or any other entities included in the scope of prudential consolidation within a three-year period.

- if the member of the Supervisory Board is, or was in the previous year, a significant supplier or client of Aareal Bank AG or any other entity included in the scope of prudential consolidation, or had any other significant business relationship with, or is a senior executive (leitende(r) Angestellte(r)) of, a significant supplier, client or commercial enterprise that has a significant business relationship, or is otherwise directly or indirectly related to such significant supplier, client or commercial enterprise.

- if the member of the Supervisory Board member receives significant remuneration or other benefits from Aareal Bank AG or another entity included in the scope of prudential consolidation over and above the remuneration for their activities as a member of the Supervisory Board or any remuneration for activities performed in connection with any significant financial or business relationship with Aareal Bank AG.

- if the Supervisory Board member is a close relative of a member of the Management Board of Aareal Bank AG or of a member of the management board or a managing director of another entity included in the scope of prudential consolidation.

The Supervisory Board may deviate from this principle if it is determined in a specific case that the Supervisory Board member's ability to make objective and balanced judgments and independent decisions is not impaired due to the circumstance jeopardizing independence.

Furthermore, all Supervisory Board members are subject to the statutory limitations of Section 100 (2) nos. 2 to 4 of the German Stock Corporation Act (AktG) and Section 25d (3) sent. 1 of the German Banking Act (KWG). Unlike the criteria listed above, the statutory limitations are mandatory, which means that they prevent the nomination of a potential candidate, or require the resignation of the affected board member.

Effective as of 31 December 2023, the Supervisory Board believes, taking the above definition into account, that seven of eight shareholder representatives – specifically, Prof. Dr Wagner, Mr Giesecke, Mr Hall, Ms Knoflach, Ms Lulay, Mr Mustier, and Mr Sevilla Álvarez – are independent. According to the above definition, Mr Lotter and is not considered independent. With respect to Ms Lulay, there is a business relationship between Aareal Bank AG and GFT Technologies SE. While this business relationship generally qualifies as material within the meaning of the Conflict of Interest Policy of the Management Board and Supervisory Board, the resulting conflict of interest does not, in the view of the Supervisory Board, taking into consideration the specific circumstances involved, result in a loss of Ms Lulay's independence. While she is also the CEO and Managing Director of GFT Technologies SE, the business relationship is not relevant to the practical work of the Supervisory Board of Aareal Bank.

Professional qualification

Every member of an executive body must possess the knowledge, ability and experience to properly perform their duties. This means that they must at least be able to understand and assess the Company's material business activities and the associated material risks, the control and monitoring system established in this regard, as well as the corresponding accounting and financial reporting systems. This also requires being familiar with the underlying material legal requirements. Each member of the Supervisory Board must be in a position to perform the duties incumbent on the Supervisory Board in its entirety.

When chairing a committee, Supervisory Board members should possess extensive expertise in the topics covered by that committee. The Chairperson of the Audit Committee, for example, must be an expert on accounting/financial reporting issues and internal control and risk management systems, while the Chairperson of the Risk Committee must be an expert in assessing the efficacy of risk management systems in credit institutions.

Overall, with regard to its collective composition, the Supervisory Board further decided that the following additional expertise be adequately represented:

- Experience in sectors and financial markets which are material to Aareal Bank Group,
- Digitalisation and transformation,
- Strategic planning,
- Design and assessment of risk management systems, internal control systems and corporate governance frameworks,
- Accounting/financial reporting and audit matters,
- ESG, and
- M&A.

The skills matrix below provides an overview of the implementation status of the collective profile of required skills and expertise:

Member of the Supervisory Board	Material sector and financial markets expertise	Digitalisation and transformation	Strategic planning	Design and assessment of RMS, ICS and CG frameworks	Accounting/financial reporting and auditing	ESG	M&A
Jean Pierre Mustier	X	X	X	X	X	X	X
Sylwia Bach*	X	X					
Henning Giesecke	X		X	X	X		
Denis Hall	X	X		X	X	X	X
Petra Heinemann-Specht*	X			X			
Barbara Knoflach	X	X	X			X	X
Jan Lehmann*	X	X			X		
Hans-Hermann Lotter	X		X	X	X		X
Marika Lulay	X	X	X			X	X
Klaus Novatius*	X			X			
José Sevilla Álvarez	X		X	X	X		X
Prof. Dr Hermann Wagner	X			X	X		

* Employee representative

The following Audit Committee members are experts in the areas of accounting/financial reporting and auditing:
Prof. Dr Wagner, Mr Giesecke, Mr Hall and Mr Sevilla Álvarez. Mr Lotter is an auditing expert and Mr Mustier is an accounting/financial reporting expert.

Please refer to Aareal Bank's website for the curricula vitae of the members of the Management Board (www.aareal-bank.com/en/about-us/company-profile/the-management-board)
and of the Supervisory Board (www.aareal-bank.com/en/about-us/company-profile/supervisory-board).

Concept of diversity

In principle, the Management Board and the Supervisory Board pursue the objective in their bodies of ensuring maximum variety with regard to gender, age, internationality and professional diversity. Where there are several equally suitable candidates, further selection takes these aspects into account, to avoid "herd mentality" and to draw together the broadest possible spectrum of different perceptions to make the best possible decision for Aareal Bank. The Management Board ensures that these aspects of diversity are also taken into consideration at the management levels it controls, to facilitate succession oriented around this concept of diversity. The Supervisory Board has set objectives for the aforementioned diversity aspects, for both itself and the Management Board, the implementation of which it presents annually. It understands these objectives as being minimum objectives; there is no reason why they cannot be exceeded.

Gender diversity

The Supervisory Board sets specific targets – including concrete implementation deadlines – for the share of female members on the Supervisory Board and the Management Board. Likewise, the Management Board defines such targets for the first two management levels below the Management Board. On the Supervisory Board, by 30 June 2027 at least 33 % of positions are to be held by women. The status quo is 33.3 % (2022: 41.7 %). On the Management Board, by 30 June 2027 at least 25 % of positions are to be held by women. The status quo is 25 % (2022: 25 %). Therefore, the minimum objectives set by the Supervisory Board have been achieved.

Age diversity

The Supervisory Board has set out targets for the age structure of the Management Board and the Supervisory Board, in order to safeguard the continuous development of both executive bodies. At the time of (re)election to the Supervisory Board, candidates should be less than 70 years old. Furthermore, half of the Supervisory Board members should be younger than 60 years. Members of the Management Board should not exceed the upper age limit of 65 years while serving on the Management Board. These objectives are currently met.

International profile

In addition, given Aareal Bank's international business activities, the Supervisory Board has set itself and the Management Board the goal of having the broadest possible international experience, which can be proven by foreign nationality or at least three years of relevant professional experience gained in another country. For the Management Board, the figure is currently at 50 % (2022: 50 %), for the Supervisory Board it is at 58.3 % (2022: 58.3 %).

Diversity of professional skills

The Supervisory Board pursues the objective of maximum professional diversity when selecting the members of the Management Board and the Supervisory Board. However, the demanding professional requirements for members of the management board and the supervisory board of so-called 'significant credit institutions' limit the opportunities for achieving this objective: for instance, regulatory rules require in principle that members of the Management Board have extensive experience in the lending business and in risk management. In accordance with Section 100 (5) of the AktG, the Management Board members in their entirety shall be familiar with the sector in which the Company operates. The Supervisory Board's aim of ensuring that not all members have gained most of their professional experience at a credit institution is currently met.

Election periods and dates ('staggered board')

To avoid the simultaneous outflow of considerable know-how, the Supervisory Board has set different election dates at which, barring unforeseeable developments, decisions are made about different groups of Supervisory Board members. The terms of office of Mr Hall, Mr Lotter and Prof. Dr Wagner will end at the Annual General Meeting in 2024. The terms of office of Mr Giesecke, Ms Knoflach, Ms Lulay, Mr Mustier and Mr Sevilla Álvarez will end at the Annual General Meeting in 2026. To establish appropriate groups of Supervisory Board members, the Supervisory Board intends to make proposals for the succession or re-election of shareholder representatives for four-year terms of office. This means that a new resolution on some of the shareholder representatives must be passed at least every two years.

The terms of office for employee representatives continue to run for five years: the current representatives are therefore in office until the ordinary Annual General Meeting in 2025.

Regular evaluation of suitability and performance

The Executive and Nomination Committee evaluates the Management Board and Supervisory Board at least once a year. The evaluation consists of two components: the suitability test and the efficiency test. Within the scope of the evaluation, the Committee checks whether the Management Board and Supervisory Board members possess the necessary personal and professional requirements on the one hand, and the requirements for the collective composition, including collective profile of required skills and expertise, and diversity concept, on the other.

Furthermore, the Executive and Nomination Committee takes the structure, size, composition, and performance of both bodies into consideration, including the results of a benchmark comparison conducted precisely for this reason. The assessment of structure, size, and composition is not restricted to the bodies as such. The assessment also includes the Supervisory Board committees and investigates the efficiency and effectiveness of the cooperation within the Supervisory Board, between the committees and the plenary Supervisory Board, as well as between the Supervisory Board and the Management Board.

In addition to the regular annual evaluation, event-driven assessments may be conducted should, for example, suspicions arise regarding insufficient individual or collective suitability, or should the adequate composition of the Management Board and/or the Supervisory Board need to be reviewed due to a change in strategy.

Succession planning

The Executive and Nomination Committee is responsible for the succession planning of the Management Board and the shareholder representatives on the Supervisory Board. The Committee performs an annual review of the established profile of required skills and expertise, and examines whether it is compatible with Aareal Bank's business and risk strategies, proposing any necessary adjustments. Furthermore, the Committee reviews, as part of the annual evaluation, whether the current members of the Management Board and the Supervisory Board fulfil the presently applicable criteria, taking the latest amendments into account. If this is not the case, the Committee suggests measures to the Supervisory Board to ensure that all criteria are fulfilled going forward. Such measures may include continuing education courses for individual or multiple Management Board or Supervisory Board members, as well as changes in the composition of the Management Board or the Supervisory Board.

Furthermore, the Executive and Nomination Committee advises on upcoming personnel decisions well ahead of time, such as planned retirements and potential re-appointments. If the re-appointment of a Management or Supervisory Board member is not an option, the Executive and Nomination Committee will generally concern itself with a suitable successor more than one year in advance.

In the event of upcoming changes to the composition of the Management Board or Supervisory Board, the Executive and Nomination Committee aims to find a successor who fulfils the personal criteria, while at the same time promoting the fulfilment of the goals established in terms of board composition. Succession planning for the Management Board is made in close cooperation with the Chairman of the Management Board. The Executive and Nomination Committee considers both internal and external candidates.

Aareal Bank has taken various measures to be able to respond to short-term personnel fluctuations on the Management Board (for example, due to resignation for personal reasons), and to identify suitable internal successors. For instance, the Bank can provide tailor-made development measures to senior managers in order to ensure they have the fundamental skills and abilities to become a member of the Management Board. This includes, in particular, business development, risk management and accounting/financial reporting know-how as well as leadership skills.

The Supervisory Board aims to double the competencies required for Supervisory Board or committee work at Aareal Bank; in terms of the Audit Committee, this applies through compliance with the recommendations of the German Corporate Governance Code. In addition, in order to make sure there is a quorum even in the event of short-term changes in the composition of the respective committee, every committee comprises more than three members.

Composition of the Management Board and Supervisory Board

The members of the Supervisory Board and its committees, the respective chairpersons and members of the Management Board and their relevant areas of responsibility, are presented below (cf. "Executive Bodies of Aareal Bank AG"). The Management Board is currently comprised of four members. The Supervisory Board appoints one of the members as Chairperson of the Management Board. In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairperson and and least one Deputy Chairperson from amongst them, for the duration of their term of office. At its constitutive meeting on 10 August 2023 the Supervisory Board decided to elect Mr Mustier as Chairman of the Supervisory Board as soon as the ECB had made a decision in the fit & proper assessment of Mr Mustier and as soon as Prof. Dr Wagner had resigned from his office as Chairman of the Supervisory Board. Following fulfilment of both conditions, Mr Mustier was elected by the Supervisory Board as Chairman of the Supervisory Board effective 25 January 2024. Furthermore, Mr Lotter was elected as an additional Deputy Chairman of the Supervisory Board. Eight members are elected by shareholders at the Annual General Meeting; four members are elected by employees, through the Group Works Council.

The committees generally have six members, subject to temporary exceptions. According to recommendation C. 10 of the German Corporate Governance Code as well as Aareal Bank's Guidelines for the selection of members of the Management Board and the Supervisory Board, the Audit Committee, the Remuneration Control Committee, the Executive and Nomination Committee and the Risk Committee are chaired by independent experts. Additionally, care is also taken to avoid any interlinking of the committee members' positions, to ensure mutual exchange of information.

Managers transactions

In 2023, there were transactions of members of governing bodies of Aareal Bank or of parties associated with members of governing bodies of Aareal Bank which required publication in accordance with the requirements of Article 19 of the EU Market Abuse Regulation (596/2014/EU), in conjunction with Section 26 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"). A person associated with the Supervisory Board sold shares in the amount of € 38,000 in connection with the purchase of Aareal Bank by Atlantic BidCo GmbH. Furthermore, a member of the Management Board, member of the Supervisory Board, and company associated with the Supervisory Board purchased debentures in an approximate amount of € 1.6 million on arm's-length terms.

Please refer to Aareal Bank's website under www.aareal-bank.com/en/about-us/corporate-governance/managers-transactions/ for the notifications.

Accounting policies

Aareal Bank AG prepares the Group's accounts in line with the International Financial Reporting Standards (IFRSs) as applicable in the European Union. The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The Management Board prepares the financial statements and management reports of Aareal Bank AG and Aareal Bank Group. The external auditors submit their report on the audit of the financial statements and the consolidated financial statements to the Supervisory Board, which also monitors their independence. The fees paid to the external auditors are shown in Note (38) to the financial statements. Permissible non-audit services provided by the external auditors must be approved beforehand by the Audit Committee of the Supervisory Board.

KPMG AG Wirtschaftsprüfungsgesellschaft, the auditors of the 2023 financial statements – as elected by the Annual General Meeting 2023 and instructed accordingly by the Supervisory Board – have exercised their audit activities under the management of Messrs Gero Wiechens and Markus Winner.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

The financial year under review was a remarkable one, both for Aareal Bank and for its shareholders. Specifically, the financial year was not only shaped by the impact of geopolitical uncertainty as well as uncertainty affecting property markets on Aareal Bank's business, but also by the implementation of the takeover offer, leading to Aareal Bank's delisting on 21 November 2023. Unfazed by these events, Aareal Bank successfully continued to pursue its growth strategy across all segments whilst making permanent improvements to its management of risks.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of the Company. The Management Board informed the Supervisory Board regularly, without delay and comprehensively about all the issues important to the Bank. The Management Board reported on the Group's situation, business development, key financial indicators and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and on risk control and risk management measures taken within the Group. The Supervisory Board was also informed about compliance within the Company on a regular basis, and it received the reports prepared by Internal Audit. Furthermore, the Supervisory Board received comprehensive reports on the development of the business segments, and on operative and strategic planning. The Supervisory Board also discussed the steps taken by the majority shareholder. Within the framework of Atlantic BidCo's delisting offer, the Supervisory Board issued a further reasoned statement, jointly with the Management Board, advocating acceptance of the offer.

The Supervisory Board was involved in all material decisions of Aareal Bank Group. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board in due time, and informed decisions were taken. In cases where resolutions needed to be passed in periods between scheduled Supervisory Board meetings, such resolutions were passed by way of circulation or via conference calls or video calls. In 2023, meetings of the Supervisory Board and its committees were offered in hybrid format. Excluding 13 meetings (three plenary meetings, three meetings of the Remuneration Control Committee, four meetings of the Executive and Nomination Committee and three meetings of the Audit Committee), which were held as video conferences, all meetings were held as hybrid meetings.

Furthermore, between the individual meetings, the Chairman of the Management Board kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, with regard to all material developments concerning the Company. The Chairman of the Management Board maintained close and regular contact with the Chairman of the Supervisory Board, in order to personally discuss key issues and important decisions. The Chairman of the Supervisory Board then proceeded to inform the other Supervisory Board members of these discussions at the following Supervisory Board meetings. In addition, regular discussions were held between members of the Management Board and committee Chairpersons, especially between the CRO and the Chairpersons of the Risk Committee. The Chairpersons reported on the discussions to their respective committees.

Activities of the Plenary Meeting of the Supervisory Board

Eight plenary meetings of the Supervisory Board were held in the year under review. During these meetings, the members of the Supervisory Board received the submitted reports and documents, as well as oral explanations, which were discussed in detail. Economic and market developments, in view of and particularly bearing in mind the ongoing Russia-Ukraine war as well as the conflict in Israel and the Gaza Strip which broke out in October 2023, were focal points of the work and reporting at all scheduled meetings. This also included the risk management measures taken by the Bank to counter this environment. Supervisory Board discussions also focused on preparations for the completion of Atlantic BidCo's takeover offer for Aareal Bank AG shares, leading to the delisting offer submitted by Atlantic BidCo.

During the plenary meetings of the Supervisory Board, the Management Board regularly reported to the Supervisory Board in detail; these reports also covered the development of the Structured Property Financing, the Banking and Digital Solutions and Aareon segments, focusing in particular on current developments. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group. At regular intervals, the Supervisory Board was informed of the Bank's liquidity status and the related steps taken by the Bank's Treasury division. The Management Board also regularly reported on the quality of the property financing portfolio against the background of market trends in the various property markets, with a particular emphasis on the current situation of the US portfolio and the exposure in Russia. Furthermore, within the scope of reporting, the regular reports prepared by the control functions – including Risk Controlling, Compliance, Internal Audit, the CISO and the Remuneration Officer – were presented and discussed. Finally, the Supervisory Board concerned itself with Management Board service contracts – without the members of the Management Board being present.

The focal points of the individual meetings are outlined below.

At the **March 2023** meeting, as scheduled, the Supervisory Board dealt with the financial statements and consolidated financial statements presented for the 2022 financial year, and with the external auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. Furthermore, the Supervisory Board discussed the 2022 non-financial report and the results of the associated audit to obtain limited assurance. At the same meeting in March, the Management Board also provided a detailed presentation of the Group's business strategy, the status of the ownership control procedure, and the preparations for closing the takeover. Furthermore, the Supervisory Board discussed the SREP Notice for 2022.

At the **June 2023** meeting, the Supervisory Board concerned itself with the ordinary Annual General Meeting and the associated nomination of a new Supervisory Board member. A report was provided regarding Atlantic BidCo's takeover of Aareal Bank; the meeting also focused on the regular quarterly report as well as an in-depth discussion of Aareal Bank Group's strategy and its further development. The Supervisory Board also dealt with prevailing business developments and discussed focal points of the audit. An ESG briefing was also provided to the Supervisory Board.

At the **August 2023** meetings, reports were provided concerning Aareal Bank AG's Annual General Meeting. A constituting meeting of the Supervisory Board in its new composition was held following the Annual General Meeting. A report on an acquisition by Aareon was given at a further meeting.

At the **September 2023** meeting, strategic issues were discussed with the Management Board in addition to the regular reports. Reports submitted by the BDS and Aareon segments were a focal point of this meeting; in addition, the Supervisory Board concerned itself with the delisting sought for Aareal Bank's shares by the investors.

At the meetings in **October** and **November 2023**, the Supervisory Board discussed the delisting as well as strategic projects.

An overview of planning, as well as on risk parameters in the planning context, was provided at the **December 2023** meeting, in addition to the regular reports. The Supervisory Board also received the report regarding the adjustment of the business strategy and on strategic initiatives. Besides the review of the governance documents and of the Declaration of Compliance in accordance with the German Corporate Governance Code ("GCGC"), the annual review of the individual and collective suitability of the Management Board and Supervisory Board members (annual evaluation) was carried out. The Supervisory Board also concerned itself with considerations regarding adjustments to the remuneration system for the Management Board, and with the Management Board targets for 2024.

The Chairpersons of Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions submitted by the members of the plenary meeting in detail.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. Potential conflicts of interest were taken into consideration when taking decisions during the financial year under review. Please refer to the "Personnel Matters" section in this report regarding the specific handling of conflicts of interest.

Activities of Supervisory Board Committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Audit Committee, the Remuneration Control Committee, and the Technology and Innovation Committee.

Executive and Nomination Committee:

The Executive and Nomination Committee of the Supervisory Board convened for ten meetings in the financial year under review. The focus of its meetings was to prepare the plenary meetings of the Supervisory Board. Regarding the agenda items within its exclusive responsibility, the Committee convened without the Management Board. Such items include, in particular, discussions regarding suitability requirements for Management Board and Supervisory Board members, the processes for reviewing this suitability, the targets for the composition of both executive bodies, and the annual evaluation of both the Management Board and the Supervisory Board. During the financial year under review, the Committee also deliberated on the succession of Prof. Dr Wagner and for Ms Seignette, whose term of office ended as scheduled. The Committee also prepared the issue of the reasoned statement required in connection with the delisting offer. Furthermore, the Executive and Nomination Committee addressed personnel matters of the Management Board and the preparation of the Annual General Meeting 2023. The corporate governance reports, including the Corporate Governance Statement and the report of the Supervisory Board, were also addressed. The Committee also addressed the training concept for the Supervisory Board and its committees.

Risk Committee:

The Risk Committee held four meetings during the financial year under review. It regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted by the members of the Committee. The Committee concerned itself with the Bank's strategies and risks, including credit and country risks, market risks, liquidity risks and operational risks, as well as reputational and IT risks. The Committee was also engaged with the analysis of Aareal Bank's risk-bearing capacity and its capital ratios. Also, detailed reports were provided regarding the Bank's liquidity status and management as well as its funding. Risks from existing investments, as well as all additional material risks were also presented. Moreover, the Risk Committee concerned itself with the results of the risk management system review performed by the external auditors, the focal points of ECB's supervisory activities during the 2023 financial year and other regulatory publications and amendments. The Management Board also submitted detailed reports to the Risk Committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The Committee members discussed these reports and market views in detail. Within the scope of risk reporting, significant exposures were discussed in detail, and measures for the reduction of high-risk exposures presented and consulted within the Committee. The Risk Committee received reports on recovery planning and other risk management measures. The Management Board also informed the Risk Committee about all completed, ongoing and scheduled audits by the supervisory authorities at each Risk Committee meeting. The Risk Committee then concerned itself with the regular review of terms and conditions in the client business. The risk inventory and work on recovery planning were also presented.

The Committee also concerned itself in all meetings with the banking and regulatory environment. Individual meetings focused on current topics such as individual risk types, the development of all of the Bank's portfolios, concentrating on current critical developments in individual markets. This also included dealing with the US office portfolio in great detail, and the reduction of the residual Russian exposure, which took place during the course of the year, as well as with the measures required in this context. Furthermore, in all of the meetings the Risk Committee dealt with the audits performed by the supervisory authorities, the findings these audits yielded and the supervisory authorities' recommendations on risk-related topics. In addition, joint meetings were held with the Technology and Innovation Committee concerning information risk and information security issues.

Ms Seignette retired from the Supervisory Board at the close of the ordinary Annual General Meeting 2023, at the end of her term of office. Mr Giesecke succeeded her as Chairperson of the Risk Committee.

Audit Committee:

The Audit Committee held eight meetings during the year under review.

In accordance with the requirements of the GCGC, during its meetings in May, August and November 2023, the Audit Committee discussed the quarterly results to be published with the Management Board. At its meeting in March 2023, the Committee discussed the preliminary figures for the 2022 financial year as well as the presentation of the results of the external auditors' audit of the financial statements and the audit planning of Internal Audit. Furthermore, Audit Committee meetings regularly included the submission of reports on the current status and planning of key management indicators in the financial year, on current projects at Aareal Bank, Internal Audit reports and its audit planning as well as the report by the Bank's Compliance Officer. The Committee also received the external auditors' report on the audit of the financial statements and consolidated financial statements for the 2022 financial year, and discussed the results with the auditors in detail. The Committee members discussed the contents of the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of meetings held with the external auditors. The Committee dealt with the measures the Management Board had taken to address the findings identified by external auditors, Internal Audit and supervisory authorities, and had the Management Board report on the status and progress of their rectification. External auditor representatives, too, attended all meetings, with the exception of the discussion of those agenda items that relate to the assessment of the financial statements audit and the proposal for the appointment of the external auditors. A regular update on the status of already approved and anticipated non-audit services provided by the external auditors was presented at all meetings. At all meetings, the Committee also concerned itself with the current status of implementation regarding the CSRD. Finally, the Audit Committee dealt with and adopted the concept for preparing non-financial reporting for 2023 and the related audit.

Remuneration Control Committee:

The Remuneration Control Committee held nine meetings during the year under review. The Remuneration Officer, who attended every meeting, supported the Supervisory Board and the Remuneration Control Committee throughout the entire financial year.

Pursuant to the requirement set out in Section 25d (12) of the KWG, which is reflected in the Rules of Procedure of Aareal Bank's Supervisory Board, the Management Board does not attend Remuneration Control Committee meetings which deal with Management Board remuneration. During the 2023 financial year the Remuneration Control Committee convened eight times without any member of the Management Board being present, and held one meeting at which some Management Board members were present for selected agenda items.

During its meetings, the Remuneration Control Committee discussed issues concerning the Bank's remuneration systems and all related matters, fulfilling its original assignment. For this purpose, and to the extent considered necessary, external legal and remuneration advisors were retained to provide support. The Committee supported the plenary meeting of the Supervisory Board in monitoring the inclusion of internal control units and of all other material divisions in designing the remuneration systems, and assessed the effects of the remuneration systems on the Bank's risk, capital and liquidity situation. Moreover, the Remuneration Control Committee supported the Supervisory Board in all matters related to the remuneration system for the Management Board, determining Group targets for 2023 and Management Board targets for 2023 and 2024, as well as the degree of target achievement for the previous year. As a rule, support was provided to the Supervisory Board by preparing the corresponding recommendations for resolution. The Remuneration Control Committee also concerned itself with the remuneration system for the Supervisory Board resolved at the Annual General Meeting on 10 August 2023. Furthermore, the Committee dealt with the adjustment of Management Board service contracts to implement the remuneration system for the Management Board resolved by the Annual General Meeting 2022, and with the Remuneration Report 2022.

Technology and Innovation Committee:

The Technology and Innovation Committee convened for four meetings during the financial year under review. During 2023, the Committee focused on the Bank's IT strategy and IT security (in some cases jointly with the Risk Committee) as well as on further development of the digitalisation strategy, on market trends and technological developments. The Technology and Innovation Committee also concerned itself with the Aareon segment in detail.

Attendance of Supervisory Board members at plenary and committee meetings:

Where members of the Supervisory Board were unable to attend a meeting, they announced their absence in advance, giving reasons. One employee representative was on sick leave until he resigned from office. Attendance of Supervisory Board members at meetings is shown in the table below.

Member of the Supervisory Board	Participation in plenary meetings	Quota	Participation in committee meetings	Quota	Number of meetings attended / number of meetings*
Prof. Dr Hermann Wagner	8 / 8	100 %	29 / 29	100 %	37 / 37
Jean Pierre Mustier	5 / 5	100 %	11 / 11	100 %	16 / 16
Sylwia Bach**	8 / 8	100 %	5 / 5	100 %	13 / 13
Henning Giesecke	8 / 8	100 %	21 / 21	100 %	29 / 29
Denis Hall	8 / 8	100 %	15 / 15	100 %	23 / 23
Thomas Hawel**	0 / 0	100 %	0 / 0	100 %	00 / 00
Petra Heinemann-Specht**	8 / 8	100 %	21 / 21	100 %	29 / 29
Barbara Knoflach	8 / 8	100 %	16 / 18	89 %	24 / 26
Jan Lehmann**	8 / 8	100 %	6 / 6	100 %	14 / 14
Hans-Hermann Lotter	7 / 8	88 %	26 / 28	93 %	33 / 36
Marika Lulay	7 / 8	88 %	13 / 14	93 %	20 / 22
Klaus Novatius**	8 / 8	100 %	17 / 19	89 %	25 / 27
Sylvia Seignette	3 / 3	100 %	7 / 7	100 %	10 / 10
José Sevilla Álvarez	7 / 8	88 %	24 / 24	100 %	31 / 32

* plenary and committee meetings; ** Employee representative

Financial Statements and Consolidated Financial Statements

The Supervisory Board instructed KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, who were elected as external auditors by the 2023 Annual General Meeting, with the audit of the financial statements and the consolidated financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, KPMG AG Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code ("HGB") and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements. This also applies to the report prepared by the Management Board on the relationships with affiliated companies (Subordinate Status Report) pursuant to Section 312 of the AktG, which the external auditors also audited and issues an unqualified audit opinion in accordance with Section 313 of the AktG.

All members of the Supervisory Board received the audit reports, including all annexes thereto, in good time before the meeting during which the financial statements and the consolidated financial statements were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of the audit results. The external auditor representatives attended the meeting of the Supervisory Board, during which the financial statements and consolidated financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of KPMG AG Wirtschaftsprüfungsgesellschaft were then available to the Supervisory Board to answer further questions and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB, the consolidated financial statements as well as the Group Management Report prepared in accordance with IFRSs, the proposal of the Management Board regarding the appropriation of profit, and the audit reports, were all examined in detail. No objections were raised to the audit results.

At its meeting on 19 March 2024, the Supervisory Board approved the audit results. The Supervisory Board thus confirmed the financial statements of Aareal Bank AG (in accordance with the HGB), and approved the consolidated financial statements (in accordance with IFRSs). The Supervisory Board examined and discussed with the Management Board its proposal regarding the appropriation of profit.

Non-financial Report

The Audit Committee and the Supervisory Board concerned themselves with sustainability issues and related reporting during their meetings on 21 and 22 March 2023; the Audit Committee dealt with this at its meeting on 11 December 2023.

Moreover, during its meeting on 21 March 2023, the Audit Committee of the Supervisory Board discussed the separate combined non-financial report for 2022 and the result of KPMG's audit of that report. Representatives of the external auditors attended this Audit Committee meeting and reported on material results of their commercial review in accordance with ISAE 3000 (revised), undertaken to obtain limited assurance for this report. They answered supplementary questions from Committee members. The Audit Committee conducted a plausibility check of the audit results submitted by KPMG and presented its assessment of the non-financial report (and its analysis of KPMG's audit results) to the Supervisory Board. The Audit Committee also issued a recommendation to the Supervisory Board to concur with the results of the audit conducted by KPMG. The Supervisory Board followed this recommendation; on 27 March 2023, it summarised its examination by stating no objections concerning the non-financial report and the results of the audit conducted by KPMG.

Atlantic BidCo GmbH offer

After Atlantic BidCo GmbH had secured 84 per cent of Aareal Bank shares within the framework of its public takeover offer in 2022, it gave notice on 22 May 2023 that all offer conditions had been met after the European Central Bank approved the majority takeover, allowing the offer to be completed. After completion of the takeover bid on 7 June 2023, Atlantic BidCo held just under 90 per cent of the shares.

Aareal Bank AG and Atlantic BidCo GmbH entered into a delisting agreement on 20 September 2023; Atlantic BidCo subsequently published a delisting offer which expired on 21 November 2023. In this context, Atlantic BidCo has stated that it holds a stake of more than 95 per cent in Aareal Bank upon completion of the delisting offer.

Annual General Meeting

In view of the aforementioned description of how the Atlantic BidCo GmbH takeover offer proceeded, the ordinary Annual General Meeting that was originally planned for May 2023 was postponed to 10 August 2023. Management's proposals for resolution were accepted by the Annual General Meeting with a large majority. Besides approval of the Remuneration Report, resolutions on Supervisory Board remuneration and on the election of a new Supervisory Board member were adopted with a very high approval rate.

Personnel matters

The following personnel changes were made to the Supervisory Board during the year under review:

Mr Hawel resigned from his office on Aareal Bank AG's Supervisory Board in mid-March 2023, and was succeeded by Ms Bach as a replacement candidate, with effect from 16 March 2023.

Ms Seignette retired from the Supervisory Board at the close of the Annual General Meeting on 10 August 2023, at the end of her regular term of office. Mr Mustier was elected to the Supervisory Board, to succeed Ms Seignette.

The Supervisory Board would like to thank Ms Seignette for her many years of constructive work on the Board, and wishes her all the best for the future. The members of the Supervisory Board are now looking forward to working with Mr Mustier.

Mr Lotter and Ms Lulay are subject to a conflict of interest within the meaning of E.1 GCGC: Mr Lotter is a managing director of Atlantic BidCo GmbH, which has acquired a majority stake in Aareal Bank within the scope of a public takeover offer. For this reason, Mr Lotter has abstained from voting on any and all discussions and resolutions in connection with Atlantic BidCo. As regards Ms Lulay, Managing Director of GFT Technologies SE, Aareal Bank AG has a business relationship with GFT Technologies SE. Whilst in principle, this must be considered material as defined by the Conflicts of Interest Policy for the Management Board and Supervisory Board, the business relationship is not relevant for the practical work of Aareal Bank's Supervisory Board. Ms Knoflach and Mr Giesecke are only subject to a potential conflict of interest. In the event of a resolution in Aareal Bank's Supervisory Board that concerns an actual conflict of interest, the Supervisory Board members in question will abstain from any related discussions, and from voting on the resolution.

Training and Continuous Professional Development

In September 2023, the Supervisory Board and its committees addressed the determination of the respective training requirements for the following year, according to the Supervisory Board's training concept. The training requirements determined were prepared by the Executive and Nomination Committee and presented to the Supervisory Board in December 2023 together with a proposal for resolution for a specific training concept for the following year.

Furthermore, professional development measures on current topics (or on those considered relevant by the Supervisory Board) took place during Supervisory Board meetings on a regular basis, whether as part of deep dives or on the occasion of additional information meetings. Likewise, the Supervisory Board was kept informed on relevant developments in the business and regulatory framework during training and information events organised by the external auditors elected by the Annual General Meeting.

The Supervisory Board would like to thank the Management Board and all of the Group's employees for the dedication and their tremendous continued commitment and flexibility shown during the past 2023 financial year. With their sustained commitment, strong motivation and perseverance, all Group employees have not only contributed to the Company's ability to successfully handle the ever-changing challenges on international markets, but have also continued their work on numerous projects which can set the course for key future developments, under dynamically changing circumstances. This once again emphatically demonstrated the great team spirit that defines Aareal Bank.

Frankfurt / Main, March 2024

For the Supervisory Board

Jean Pierre Mustier
(Chairman)

Offices

Wiesbaden Head Office

Aareal Bank AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3480
Fax: +49 611 3482549

Structured Property Financing

Dublin
Office 14
Fitzwilliam House
3/4 Pembroke Street
Upper Dublin
Dublin 2, D02 VN24, Ireland
Phone: +353 1 6369220
Fax: +353 1 6702785

Istanbul
Ebulula Mardin Caddesi
Maya Meridyen Iş Merkezi
D:2 Blok · Kat. 11
34335 Akatlar-Istanbul, Turkey
Phone: +90 212 3490200
Fax: +90 212 3490299

London
6th Floor, 6,7,8 Tokenhouse Yard
London EC2R 7AS, UK
Phone: +44 20 74569200
Fax: +44 20 79295055

New York
Aareal Capital Corporation
360 Madison Avenue, 18th Floor
New York, NY 10017, USA
Phone: +1 212 5084080
Fax: +1 917 3220285

Paris
29 bis, rue d'Astorg
75008 Paris, France
Phone: +33 1 44516630
Fax: +33 1 42662498

Rome
Via Mercadante, 12/14
00198 Rome, Italy
Phone: +39 06 83004200
Fax: +39 06 83004250

Singapore
Aareal Bank Asia Limited
3 Church Street
17-03 Samsung Hub
Singapore 049483, Singapore
Phone: +65 6372 9750
Fax: +65 6536 8162

Stockholm
Norrmalmstorg 14
11146 Stockholm, Sweden
Phone: +46 8 54642000
Fax: +46 8 54642001

Warsaw
RONDO 1 · Rondo ONZ 1
00-124 Warsaw, Poland
Phone: +48 22 5380060
Fax: +48 22 5380069

Wiesbaden
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482950
Fax: +49 611 3482020

Aareal Estate AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482446
Fax: +49 611 3483587

Banking & Digital Solutions

Aareal Bank AG Banking & Digital Solutions
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482967
Fax: +49 611 3482499

Banking & Digital Solutions Berlin Branch
SpreePalais
Anna-Louisa-Karsch-Strasse 2
10178 Berlin, Germany
Phone: +49 30 88099444
Fax: +49 30 88099470

Banking & Digital Solutions Essen Branch
Alfredstrasse 220
45131 Essen, Germany
Phone: +49 201 81008100
Fax: +49 201 81008200

Banking & Digital Solutions Rhine-Main Branch
Paulinenstrasse 15
65189 Wiesbaden, Germany
Hotline: +49 611 3482000
Fax: +49 611 3483002

Aareal First Financial Solutions AG
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 4864500
Fax: +49 6131 486471500

Deutsche Bau- und Grundstücks-Aktiengesellschaft
Lievelingsweg 125
53119 Bonn, Germany
Phone: +49 228 5180
Fax: +49 228 518298

plusForta GmbH
Talstrasse 24
40217 Düsseldorf, Germany
Phone: +49 211 5426830
Fax: +49 211 54268330

Aareon

Aareon AG
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 3010
Fax: +49 6131 301419

Financial Calendar

15 May 2024	Publication of results as at 31 March 2024
8 August 2024	Publication of results as at 30 June 2024
7 November 2024	Publication of results as at 30 September 2024

Imprint

Contents:
Aareal Bank AG, Group Communications

Layout:
S/COMPANY · Die Markenagentur GmbH, Fulda

Photographs:
© Andrew_Deer, iStock (cover)
© Pavel Becker / ismagilov, iStock (p.5)

Aareal Bank AG
Investor Relations
Paulinenstrasse 15 · 65189 Wiesbaden, Germany
Phone: +49 611 348 3009
Fax: +49 611 348 2637

www.aareal-bank.com

Aareal Bank Group

03/2024

YOUR COMPETITIVE ADVANTAGE.