Consolidated Financial Statements

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Statement of Comprehensive Income

Income Statement

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

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

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

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

Statement of Financial Position

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

Statement of Changes in Equity

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

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

Statement of Cash Flows

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

Notes
Basis of Accounting

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

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

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

Accounting Policies

(1) Accounting standards

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

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

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

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

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

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

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

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

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

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

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

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

(2) Changes in accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) Consolidation

Consolidation principles

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

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

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

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

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

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

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

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

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

Reporting entity structure

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

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

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

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

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

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

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

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

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

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

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

(4) Currency translation

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

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

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

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

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

(5) Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

(6) Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

(7) Consolidated statement of cash flows

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

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

(8) Determination of fair value

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

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

Fair value hierarchy

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

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

Measurement methods

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

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

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

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

(9) Recognition and measurement of financial instruments

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

Recognition

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

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

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

Modification

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

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

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

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

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

Measurement

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

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

Financial liabilities are measured at amortised cost.

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

Classification

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

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

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

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

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

Loss allowance

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

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

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

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

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

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

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

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

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

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

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

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

Hedging relationships

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

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

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

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

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

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

(10) Cash funds

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

(11) Loan receivables

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

(12) Money market and capital market receivables

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

(13) Equity instruments

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

(14) Receivables from other transactions

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

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

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

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

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

(17) Investments accounted for using the equity method

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

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

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

(18) Intangible assets

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

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

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

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

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

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

(19) Property and equipment

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

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

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

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

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

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

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

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

(20) Income tax assets / income tax liabilities

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

(21) Deferred tax assets / deferred tax liabilities

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

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

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

(22) Other assets

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

(23) Money market and capital market liabilities

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

(24) Deposits from the housing industry

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

(25) Liabilities from other transactions

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

(26) Subordinated liabilities

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

(27) Provisions

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

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

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

Provisions for pensions and similar obligations

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

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

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

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

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

Share-based payment

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

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

(28) Other liabilities

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

(29) Equity

The item “Equity” comprises subscribed capital, capital reserves, retained earnings and other reserves. Other reserves include the reserve from remeasurements of defined benefit plans, the reserves from the measurement of equity and debt instrument at fair value through other comprehensive income, the reserve from changes in the value of foreign currency basis spreads and currency translation reserve. In addition, the item “Equity” includes non-controlling interests as well as the so-called Additional Tier I bond (AT I bond). The AT I 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 AT I bond as well as dividends paid are deducted directly from equity, net of taxes.

(30) Financial guarantee contracts

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

Notes to the Statement of Comprehensive Income

(31) Net interest income

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

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

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

(32) Loss allowance

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

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

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

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

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

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

(33) Net commission income

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

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

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

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

(34) Net derecognition gain or loss

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

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

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

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

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

(36) Net gain or loss from hedge accounting

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

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

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

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

(38) Administrative expenses

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

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

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

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

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

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

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

(39) Net other operating income/expenses

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

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

(40) Income taxes

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

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

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

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

(41) Earnings per share

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

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

Notes to the Statement of Financial Position

(42) Financial assets (ac)

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

The sale of a property loan in the amount of € 16 million, which temporarily had fulfilled the "held for sale" criteria in the fourth quarter of 2021, is no longer expected as a result of a change in strategy.

(43) Loss allowance (ac)

31 December 2021

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Balance as at 1 January	**19**	**77**	**492**	**4**	**592**
Additions	12	30	200	0	**242**
Utilisation	0	–	295	1	**296**
Reversals	9	43	57	0	**109**
Transfer to Stage 1	0	0	–	–	**–**
Transfer to Stage 2	-13	13	0	–	**–**
Transfer to Stage 3	0	-4	4	–	**–**
Interest rate effect	–	–	41	–	**41**
Currency adjustments	0	4	18	0	**22**
Changes in the basis of consolidation	–	–	–	–	**–**
Balance as at 31 December	**9**	**77**	**403**	**3**	**492**

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

A detailed breakdown of loss allowance by classes of financial assets is disclosed in Note (63) in the chapter "Notes related to financial instruments".

31 December 2020

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Balance as at 1 January	**22**	**16**	**345**	**3**	**386**
Additions	23	72	279	3	**377**
Utilisation	0	–	129	1	**130**
Reversals	12	9	11	0	**32**
Transfer to Stage 1	0	0	–	–	**–**
Transfer to Stage 2	-14	16	-2	–	**–**
Transfer to Stage 3	0	-17	17	–	**–**
Interest rate effect	–	–	5	–	**5**
Currency adjustments	0	-1	-7	-1	**-9**
Changes in the basis of consolidation	–	–	-5	–	**-5**
Balance as at 31 December	**19**	**77**	**492**	**4**	**592**

(44) Financial assets (fvoci)

€ mn	31 Dec 2021	31 Dec 2020
Money market and capital market receivables (fvoci)	**3,749**	**3,667**
Bonds	3,749	3,667
Equity instruments (fvoci)	**4**	**5**
Equities and other non-fixed income securities	0	0
Other investments	4	5
Total	**3,753**	**3,672**

(45) Financial assets (fvpl)

€ mn	31 Dec 2021	31 Dec 2020
Loan receivables (fvpl)	**598**	**856**
Property loans	598	852
Other loan receivables	–	4
Money market and capital market receivables (fvpl)	**4**	**93**
Promissory note loans	–	89
Bonds	–	–
Fund units	4	4
Positive market value of designated hedging derivatives (fvpl)	**900**	**1,431**
Positive market value of fair value hedges	892	1,343
Positive market value of net investment hedges	8	88
Positive market value of other derivatives (fvpl)	**232**	**787**
Positive market value of economic hedging derivatives	111	578
Positive market value of miscellaneous derivatives	121	209
Total	**1,734**	**3,167**

(46) Investments accounted for using the equity method

Aareal Bank holds interests in seven associates (2020: seven) and two joint ventures (2020: one) that are accounted for using the equity method. The sum total of the carrying amounts of the equity investments amounted to € 19 million (2020: € 13 million).

(47) Intangible assets

€ mn	31 Dec 2021	31 Dec 2020
Goodwill	235	102
Proprietary software	75	55
Other intangible assets	84	50
Total	**394**	**207**

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

€ mn	31 Dec 2021 Goodwill	31 Dec 2020 Goodwill
Banking & Digital Solutions		
Germany	4	4
Aareon		
DACH	106	48
International Business		
SMB UK	54	–
Aareon Netherlands	47	22
Aareon France	12	12
Aareon Nordics	8	11
Aareon UK	5	5
Total	**236**	**102**

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

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

The present values of future cash flows were determined on the basis of a risk-adequate discount factor of 7.5 % for the Aareon segment and of 6.13 % after taxes for the Banking & Digital Solutions segment. The discount factor is calculated based on a risk-free basic interest rate of 0.07 % plus a company-specific risk premium of 7.5 %, multiplied with a beta factor of 0.99 for the Aareon segment and of 0.81 for the Banking & Digital Solutions segment. In view of the uncertainty surrounding the planning beyond the three-year horizon, the growth rate is assumed to be 2 % based on a cautious view of the market environment. The recoverable amounts show an excess compared to the carrying amounts, with the exception of the CGU Nordics which is part of the International Business division covering the countries Sweden, Norway and Finland. The recoverable amount of the CGU Nordics resulted in impairment losses required to be recognised for goodwill in the amount of € 3 million. The reason for this is that the current software portfolio which requires intensive advisory services does not fully meet client requirements; therefore, it is planned to implement a transition to a software portfolio that requires less advisory services. This initially leads to investment costs and in future to slightly lower revenue. No impairment is incurred for all other CGUs even if, ceteris paribus, the above-mentioned material assumptions were to change significantly (such as a 1 % increase in the risk-adequate discount factor, a 5 % decline in the EBITDA included in the cash flow projections, or a decrease in the growth rate to 1 %).

Intangible assets developed as follows:

	2021				2020			
€ mn	Goodwill	Proprietary software	Other intangible assets	Total	Goodwill	Proprietary software	Other intangible assets	Total
Cost								
Balance as at 1 January	**140**	**134**	**133**	**407**	**142**	**111**	**119**	**372**
Additions	–	31	2	**33**	–	22	12	**34**
Transfers	–	0	0	**0**	–	2	-8	**-6**
Disposals	0	20	19	**39**	15	1	3	**19**
Changes in the basis of consolidation	134	–	44	**178**	13	–	13	**26**
Currency translation differences	2	0	0	**2**	0	0	0	**0**
Balance as at 31 December	**276**	**145**	**160**	**581**	**140**	**134**	**133**	**407**
Amortisation and impairment losses								
Balance as at 1 January	**38**	**79**	**83**	**200**	**53**	**74**	**70**	**197**
Amortisation and impairment losses	3	11	11	**25**	–	9	18	**27**
of which: impairment losses	–	–	–	**–**	–	–	–	**–**
Transfers	–	–	–	**–**	–	-3	-2	**-5**
Disposals	0	20	19	**39**	15	1	3	**19**
Currency translation differences	0	0	1	**1**	0	0	0	**0**
Balance as at 31 December	**41**	**70**	**76**	**187**	**38**	**79**	**83**	**200**
Carrying amount as at 1 January	**102**	**55**	**50**	**207**	**89**	**37**	**49**	**175**
Carrying amount as at 31 December	**235**	**75**	**84**	**394**	**102**	**55**	**50**	**207**

(48) Property and equipment

€ mn	31 Dec 2021	31 Dec 2020
Land and buildings and construction in progress	253	260
Office furniture and equipment	25	29
Total	**278**	**289**

Property and equipment developed as follows:

€ mn	2021 Land and buildings and construction in progress	2021 Office furniture and equipment	2021 Total	2020 Land and buildings and construction in progress	2020 Office furniture and equipment	2020 Total
Cost						
Balance as at 1 January	**360**	**90**	**450**	**371**	**87**	**458**
Additions	11	8	**19**	5	10	**15**
Transfers	0	0	**0**	-3	-1	**-4**
Disposals	7	9	**16**	15	6	**21**
Changes in the basis of consolidation	2	1	**3**	4	0	**4**
Currency translation differences	2	0	**2**	-2	0	**-2**
Balance as at 31 December	**368**	**90**	**458**	**360**	**90**	**450**
Amortisation and impairment losses						
Balance as at 1 January	**100**	**61**	**161**	**94**	**53**	**147**
Amortisation and impairment losses	18	12	**30**	17	13	**30**
of which: impairment losses	–	–	**–**	–	–	**–**
Write-ups	–	0	**0**	1	–	**1**
Transfers	0	0	**0**	-2	0	**-2**
Disposals	4	8	**12**	7	5	**12**
Changes in the basis of consolidation	–	–	**–**	–	–	**–**
Currency translation differences	1	0	**1**	-1	0	**-1**
Balance as at 31 December	**115**	**65**	**180**	**100**	**61**	**161**
Carrying amount as at 1 January	**260**	**29**	**289**	**276**	**34**	**310**
Carrying amount as at 31 December	**253**	**25**	**278**	**260**	**29**	**289**

(49) Income tax assets

Income tax assets in a total amount of € 66 million as at 31 December 2021 (2020: € 116 million) include € 21 million (2020: € 20 million) expected to be realised after a period of more than twelve months.

(50) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 340 million (2020: € 405 million).

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

€ mn	31 Dec 2021	31 Dec 2020
Financial assets (ac)	90	4
Financial assets (fvpl)	2	–
Property and equipment	0	0
Other assets	0	0
Financial liabilities (ac)	242	451
Financial liabilities (fvpl)	56	5
Provisions	100	113
Other liabilities	–	0
Tax loss carryforwards	17	8
Deferred tax assets	**508**	**581**

Of the deferred taxes on loss carryforwards, an amount of € 8 million (2020: € 2 million) is attributable to foreign permanent establishments. The existing loss carryforwards may be carried forward for an unlimited period. Deferred taxes on losses carried forward were recognised to the extent that they are expected to be realised within the next five years.

The deferred tax assets not recognised or not subject to valuation adjustments amount to € 77 million (2020: € 80 million). No deferred tax assets were recognised on unlimited tax loss carryforwards of € 352 million (2020: € 358 million) since it is not probable that future taxable profit will be available against which the unused tax loss carryforwards can be utilised.

Deferred tax assets in the amount of € 66 million (2020: € 76 million) were reported under other reserves.

(51) Other assets

€ mn	31 Dec 2021	31 Dec 2020
Properties	348	326
Contract assets	20	19
Miscellaneous	95	86
Total	**463**	**431**

A € 3 million mark-up on the value of a property held by the Bank was recognised in the year under review. In addition, costs for value-enhancing measures were capitalised.

The portion of the unsatisfied performance obligation from IT consulting projects in the amount of € 7 million (2020: € 7 million) is expected to be realised in the amount of € 7 million (2020: € 7 million) in the subsequent year, and in the amount of € 0 million (2020: € 0 million) thereafter. We do not disclose the portion of unsatisfied performance obligations from other contracts since the consideration from the client equals the services provided.

(52) Financial liabilities (ac)

€ mn	31 Dec 2021	31 Dec 2020
Money market and capital market liabilities (ac)	**30,597**	**28,206**
Money market liabilities	9,501	8,717
Promissory note loans	3,373	4,077
Mortgage Pfandbriefe	10,620	9,755
Public-sector Pfandbriefe	1,734	1,971
Other debt securities	5,369	3,686
Other financial liabilities	–	0
Deposits from the housing industry (ac)	**11,717**	**10,592**
Payable on demand	9,409	8,426
Term deposits	2,308	2,166
Liabilities from other transactions (ac)	**94**	**86**
Trade payables	19	13
Other liabilities	75	73
Subordinated liabilities (ac)	**609**	**939**
Total	**43,017**	**39,823**

The step-up of TLTRO 3 by € 1.0 billion led to an increase in money market liabilities.

The changes in subordinated liabilities in the amount of € -330 million (2020: € -29 million) consist of € -300 million (2020: € -23 million) related to cash payments of principal as well as an amount of € -30 million (2020: € -6 million) related to non-cash changes in fair value and changes of accrued interest.

(53) Financial liabilities (fvpl)

€ mn	31 Dec 2021	31 Dec 2020
Negative market value of designated hedging derivatives (fvpl)	**971**	**1,298**
Negative market value of fair value hedges	947	1,298
Negative market value of net investment hedges	24	–
Negative market value of other derivatives (fvpl)	**911**	**608**
Negative market value of economic hedging derivatives	526	128
Negative market value of other derivatives	385	480
Total	**1,882**	**1,906**

(54) Provisions

€ mn	31 Dec 2021	31 Dec 2020
Provisions for pensions and similar obligations	425	474
Provisions for unrecognised lending business	3	4
Other provisions and contingent liabilities	130	105
Total	**558**	**583**

A detailed breakdown of the provisions for unrecognised lending business by classes of financial assets is disclosed in Note (63) in the chapter "Notes related to financial instruments".

Provisions for pensions and similar obligations

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

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

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

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

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

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

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

Brief description of the material pension plans

DePfa Bank Betriebsvereinbarung dated 14 December 1999 (BV 97)

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

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

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

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

Management Board

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

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

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

DePfa Bank Dienstvereinbarung dated 30 December 1955 (DePfa 55)

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

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

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

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

BauBoden agreement dated 1 July 1968 (BauBoden 68)

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

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

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

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

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

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

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

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

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

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

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

AHB – General works agreement on additional pension benefits (company pension scheme) of former Corealcredit

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

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

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

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

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

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

Rheinboden Hypothekenbank AG – pension scheme in the version dated 1 December 1991 of former Corealcredit

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

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

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

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

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

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

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

WestImmo – Pension fund rules dated 1 October 1995

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

The amount of the old-age pension, the early old-age pension and the (total) occupational incapacity pension is calculated based on the sum of the pension components earned during the pensionable service period. If the pensionable service period exceeds 40 years, the monthly pension is calculated based on the sum of the highest 40 pension components earned during the pensionable service period. The amount of one pension component is derived from multiplying the reference contribution (since 2021: € 311), the personal earnings relation (relation between pensionable income and contribution ceiling of the German statutory pension insurance; earnings components above the contribution ceiling are weighted with a factor of 3.75) and the annuitisation factor in the relevant age pursuant to the annuitisation table.

The amount of the early old-age pension is reduced by 0.5 % for each month in which annuity is paid prior to completing the 65th year of age. The widow(er)'s pension entitlement amounts to 60 %.

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

	31 Dec 2021	31 Dec 2020
Calculation method	Projected unit credit method	Projected unit credit method
Calculation basis	Actuarial tables issued by K. Heubeck in 2018	Actuarial tables issued by K. Heubeck in 2018
Actuarial assumptions (in %)		
Interest rate used for valuation	1.17	0.74
Development of salaries	2.00	2.00
Pension increase	1.47	1.49
Rate of inflation	1.75	1.75
Staff turnover rate	3.00	3.00

Development of net pension liabilities:

€ mn	Present value of pension obligations	Fair value of plan assets	Net pension liability
Balance as at 1 January 2021	**580**	**-106**	**474**
Pension expense	**21**	**-1**	**20**
Current service cost	17	–	17
Net interest cost	4	-1	3
Payments	**-17**	**-3**	**-20**
Pension benefits paid	-21	8	-13
Employer's contributions	–	-7	-7
Contributions made by beneficiaries of defined benefit plans	4	-4	0
Remeasurements	**-46**	**-4**	**-50**
due to experience adjustments	2	–	2
due to changes in financial assumptions	-48	–	-48
due to changes in demographic assumptions	0	–	0
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-4	-4
Balance as at 31 December 2021	**539**	**-114**	**425**

€ mn	Present value of pension obligations	Fair value of plan assets	Net pension liability
Balance as at 1 January 2020	**526**	**-98**	**428**
Pension expense	**19**	**-1**	**18**
Current service cost	14	–	14
Net interest cost	5	-1	4
Payments	**-9**	**-6**	**-15**
Pension benefits paid	-13	1	-12
Employer's contributions	–	-3	-3
Contributions made by beneficiaries of defined benefit plans	4	-4	0
Remeasurements	**44**	**-1**	**43**
due to experience adjustments	4	–	4
due to changes in financial assumptions	40	–	40
due to changes in demographic assumptions	0	–	0
Difference between actual return and return calculated using an internal rate of interest (plan assets)	–	-1	-1
Balance as at 31 December 2020	**580**	**-106**	**474**

The weighted duration of pension liabilities is 19.2 years as at 31 December 2021 (2020: 20.1 years).

Expected maturities of the defined benefit obligation (DBO):

€ mn	31 Dec 2021	31 Dec 2020
Up to 1 year	15	14
Between 1 year and 5 years	65	60
Between 5 years and 10 years	88	86
Total	**168**	**160**

Contributions in the amount of € 13 million (2020: € 16 million) are expected to be paid in the financial year 2022.

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

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

		Defined benefit obligation 2021	Change	Defined benefit obligation 2020	Change
		€ mn	%	€ mn	%
Present value of obligations		**539**		**580**	
Interest rate used for valuation	Increase by 1.0 percentage points	449	-17	478	-17
	Decrease by 1.0 percentage points	656	22	714	23
Development of salaries	Increase by 0.5 percentage points	549	2	591	2
	Decrease by 0.5 percentage points	529	-2	569	-2
Pension increase	Increase by 0.25 percentage points	546	1	588	2
	Decrease by 0.25 percentage points	531	-1	571	-1
Life expectancy	Increase by 1 year	567	5	611	6
	Decrease by 1 year	510	-5	547	-6

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

Plan assets can be broken down as follows:

€ mn	31 Dec 2021	31 Dec 2020
Cash	0	0
Investment funds	82	73
Reinsurance	32	33
Total	**114**	**106**

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

Other provisions

Other provisions developed as follows:

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions for legal and tax risks	Other provisions	Total
Carrying amount as at 1 Jan 2021	**89**	**2**	**14**	**105**
Additions	57	1	13	**71**
Utilisation	39	0	2	**41**
Reversals	6	0	1	**7**
Interest	0	–	0	**0**
Reclassifications	0	–	–	**0**
Changes in the basis of consolidation	–	–	–	**–**
Exchange rate fluctuations	2	–	0	**2**
Carrying amount as at 31 Dec 2021	**103**	**3**	**24**	**130**

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions for legal and tax risks	Other provisions	Total
Carrying amount as at 1 Jan 2020	**118**	**9**	**24**	**151**
Additions	42	0	3	**45**
Utilisation	47	0	9	**56**
Reversals	21	6	4	**31**
Interest	0	–	0	**0**
Reclassifications	-1	-1	0	**-2**
Changes in the basis of consolidation	–	–	0	**0**
Exchange rate fluctuations	-2	–	0	**-2**
Carrying amount as at 31 Dec 2020	**89**	**2**	**14**	**105**

Other provisions of € 130 million include € 27 million expected to be realised after a period exceeding twelve months (2020: € 21 million).

Provisions for staff expenses and non-staff operating costs refer to personnel provisions in the amount of € 74 million (2020: € 65 million) and provisions for non-staff operating costs in the amount of € 29 million (2020: € 24 million). Personnel provisions consist of, among other things, provisions for bonuses (cash and share-based), partial retirement, severance pay and existing working hours accounts; Provisions for staff expenses include € 4 million in provisions for severance pay and for partial retirement (2020: € 8 million). Provisions for non-staff operating expenses mainly include provisions for professional and legal advice.

(55) Income tax liabilities

Income tax liabilities in a total amount of € 17 million as at 31 December 2021 (2020: € 20 million) include € 4 million (2020: € 7 million) expected to be realised after a period of more than twelve months.

(56) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 340 million (2020: € 405 million).

Due to a changed interpretation of the tax treatment of a special investment fund, share price gains may arise in the amount of approximately € 62 million which would be taxable upon disposal of that special fund. However, since there are no plans to dispose of this special fund, no deferred tax liabilities need to be recognised even in the event of changes in share price gains.

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

€ mn	31 Dec 2021	31 Dec 2020
Financial assets (ac)	325	368
Financial assets (fvoci)	30	43
Financial assets (fvpl)	1	7
Intangible assets	20	12
Property and equipment	10	8
Other assets	6	2
Other liabilities	2	0
Deferred tax liabilities	**396**	**441**

(57) Other liabilities

€ mn	31 Dec 2021	31 Dec 2020
Lease liabilities	81	82
Deferred income	3	1
Liabilities from other taxes	21	35
Contract liabilities	24	20
Miscellaneous	8	5
Total	**137**	**143**

An amount of € 17 million (2020: € 14 million) of the contract liabilities was recorded in profit or loss in the current reporting period.

(58) Equity

€ mn	31 Dec 2021	31 Dec 2020
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,937	1,902
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-133	-166
Reserve from the measurement of equity instruments (fvoci)	-3	-4
Reserve from the measurement of debt instruments (fvoci)	16	12
Reserve from foreign currency basis spreads	-23	-26
Currency translation reserves	0	-13
Non-controlling interests	66	61
Total	**3,061**	**2,967**

The item “Reserve from the measurement of debt instruments (fvoci)” includes loss allowance of € 0 million (2020: € 0 million).

Subscribed capital

Aareal Bank AG’s subscribed capital amounted to € 180 million as at the reporting date (2020: € 180 million). It is divided into 59,857,221 notional fully-paid no-par value shares (“unit shares”) with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

Treasury shares

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

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

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

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

Authorised capital

Aareal Bank has authorised capital pursuant to the resolution by the Annual General Meeting held on 31 May 2017. Accordingly, the Management Board is authorised to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 89,785,830 (Authorised Capital 2017) by issuance of new no-par value bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board; this authority will expire on 30 May 2022. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right, unless the Management Board exercises its authority to exclude shareholder's pre-emptive subscription rights. The Management Board may exclude shareholders' subscription rights, subject to approval by the Supervisory Board and the conditions set out below:

a) In the event of a capital increase against cash contributions, provided that the issue price of the new shares is not significantly below the prevailing stock exchange price of the Company's listed shares at the time of the final determination of the issue price. However, this authorisation shall be subject to the proviso that the aggregate value of shares sold to the exclusion of shareholders' subscription rights, in accordance with section 203 (1) and (2) and section 186 (3) sentence 4 of the AktG, shall not exceed 10 % of the issued share capital at the time said authorisation comes into effect or – if lower – at the time it is exercised. Any shares that were issued or sold during the term and prior to the exercising of said authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, shall count towards the above threshold of 10 % of the issued share capital. Said ten percent threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation;

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

c) where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by the Company or its affiliated companies, which subscription rights are required to entitle these holders to the same extent as they would have been entitled to upon exercising their conversion or option rights or upon performance of a conversion obligation, if any, thus protecting such holders against dilution;

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

e) in the event of a capital increase against contributions in kind for the purpose of acquiring companies, divisions of companies or interests in companies or other assets.

The above authorisation for the exclusion of shareholders' subscription rights in the case of capital increases against contributions in cash or in kind is limited to a total of 20 % of the share capital; this limit may be exceeded neither at the time said authorisation comes into effect, nor at the time it is exercised. The above-mentioned 20 % threshold shall furthermore include treasury shares which are sold to the exclusion of shareholders' subscription rights during the validity of this authorisation as well as such shares which are issued to service debt securities, provided that the debt securities were issued to the exclusion of shareholders' subscription rights during the validity of this authorisation due to the authorisation under agenda item 6 of the Annual General Meeting on 21 May 2014. When a new authorisation for the exclusion of shareholders' subscription rights is resolved after the reduction and said new authorisation comes into effect, the upper limit, reduced in accordance with the above-mentioned requirements, shall be increased again to the amount permitted by the new authorisation, with a maximum total of 20 % of the share capital in accordance with the above-mentioned requirements.

The authorised capital has not yet been utilised.

Conditional capital

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

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

To date, the Conditional Capital has not yet been utilised.

Capital reserves

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

Retained earnings

Retained earnings are comprised of statutory reserves (pursuant to section 150 of the AktG) of € 5 million (2020: € 5 million) and of other retained earnings of € 1,932 million (2020: € 1,897 million).

Additional Tier 1 bond (AT1 bond)

On 13 November 2014, the Management Board issued notes in an aggregate nominal amount of € 300 million with a denomination of € 200,000 and an initial interest rate of 7.625 %, based on the authorisation granted by the Annual General Meeting on 21 May 2014.

The notes bore interest of 7.625 % p.a. from the interest commencement date to 30 April 2020. The rate of interest for any interest period commencing on or after 30 April 2020 shall be equal to the reference rate (one-year EUR swap rate) determined on the relevant interest determination date plus a margin of 7.18 % p.a.

The notes constitute unsecured and subordinated obligations of the issuer.

Upon the occurrence of a trigger event, the redemption amount and the principal amount of each note shall be reduced by the amount of the relevant write-down. The write-down shall be effected pro rata with all other Additional Tier 1 instruments within the meaning of the CRR, the terms of which provide for a write-down upon the occurrence of the trigger event. A trigger event occurs if the Common Equity Tier 1 capital ratio, pursuant to Article 92 (1) (a) CRR or a successor provision, and determined on a consolidated basis, falls below 7.0 %. After a write-down has been effected, the principal amount and the redemption amount of each note, unless previously redeemed or repurchased and cancelled, may be written up in each of the financial years of the issuer subsequent to such write-down until the full initial principal amount has been reached.

The notes may be redeemed, in whole but not in part, at any time at the option of the issuer, subject to the prior consent of the competent supervisory authority, upon not less than 30 and not more than 60 days' prior notice of redemption at their redemption amount (taking into account a potential write-down) together with interest accrued until the redemption date (to the extent that interest payment is not cancelled or ruled out in accordance with the terms and conditions of the notes), when the tax or regulatory reasons set out in the terms and conditions of the notes apply. The issuer may also redeem the notes, in whole but not in part, at any time, subject to the prior consent of the competent supervisory authority, upon not less than 30 days' notice of redemption with effect as at 30 April 2020 for the first time and, thereafter, with effect as at each interest payment date at their redemption amount together with interest (if any) accrued to the redemption date.

Distributions

Aareal Bank intends to pay a dividend in a total amount of € 1.60 per share in 2022 for the financial year 2021, including the amount of € 1.10 per share not paid out in 2021. Against the backdrop of the originally planned takeover by Atlantic BidCo GmbH, only € 0.40 per share of the intended € 1.50 were distributed in 2021.

The Management Board proposes to the Annual General Meeting on 18 May 2022 that the net retained profit in a total amount of € 95,771,553.60 for the financial year 2021, including the profit carried forward from the financial year 2020 in the amount of € 65,842,943.10, be used to distribute a dividend of € 1.60 per share.

In addition, on 30 April 2022, the Management Board will resolve on a distribution in relation to the AT1 instruments, pursuant to the terms and conditions of the notes.

Notes to Financial Instruments

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

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

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

€ mn	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Net gain or loss from financial assets (ac)	-115	-322
Net gain or loss from financial liabilities (ac)	3	7
Net gain or loss from financial assets (fvoci) recognised in other comprehensive income	6	9
Net gain or loss from financial assets (fvoci) transferred to the income statement	0	2
Net gain or loss from equity instruments (fvoci)	1	0
Net gain or loss from financial instruments (fvpl)	-30	-32
Net gain or loss from financial guarantee contracts and loan commitments	1	-2

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

The hedge result from hedged items is aggregated with the hedge result from derivative hedging instruments in one line item and amounted to € -5 million (2020: € 6 million) in the year under review. Moreover, the change in the reserve from foreign-currency basis spreads amounted to € 4 million (2020: € -16 million).

(60) Fair value hierarchy in accordance with IFRS 13

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

31 December 2021

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**3,753**	**3,365**	**386**	**2**
Money market and capital market receivables (fvoci)	3,749	3,365	384	–
Equity instruments (fvoci)	4	–	2	2
Financial assets (fvpl)	**1,734**	**0**	**1,132**	**602**
Loan receivables (fvpl)	598	–	–	598
Money market and capital market receivables (fvpl)	4	0	–	4
Positive market value of designated hedging derivatives (fvpl)	900	–	900	–
Positive market value of other derivatives (fvpl)	232	–	232	–
Financial liabilities (fvpl)	**1,882**	**–**	**1,882**	**–**
Negative market value of designated hedging derivatives (fvpl)	971	–	971	–
Negative market value of other derivatives (fvpl)	911	–	911	–

At year-end, € 353 million in financial assets (fvoci) were transferred from Level 1 to Level 2.

31 December 2020

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**3,672**	**3,667**	**3**	**2**
Money market and capital market receivables (fvoci)	3,667	3,667	–	–
Equity instruments (fvoci)	5	–	3	2
Financial assets (fvpl)	**3,167**	**0**	**2,307**	**860**
Loan receivables (fvpl)	856	–	–	856
Money market and capital market receivables (fvpl)	93	0	89	4
Positive market value of designated hedging derivatives (fvpl)	1,431	–	1,431	–
Positive market value of other derivatives (fvpl)	787	–	787	–
Financial liabilities (fvpl)	**1,906**	**–**	**1,906**	**–**
Negative market value of designated hedging derivatives (fvpl)	1,298	–	1,298	–
Negative market value of other derivatives (fvpl)	608	–	608	–

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

Loan receivables (fvpl)

€ mn	2021	2020
Fair value as at 1 January	**856**	**1.050**
Change in measurement	**-29**	**-36**
Portfolio changes		
Additions	85	175
Derecognition	314	333
Deferred interest	0	0
Fair value as at 31 December	**598**	**856**

Receivables held in the Bank's portfolio contributed € -32 million to the net gain or loss from loan receivables (fvpl) (2020: € -21 million). The net gain or loss from loan receivables (fvpl) is reported in the net gain or loss from financial instruments (fvpl).

Regarding loan receivables (fvpl), the add-ons for risks specific to the counterparty represent the material input parameter not observable in the market. In addition, transactions-specific parameters such as liquidity spread and equity and processing costs are taken into account in measurement. Regarding the non-defaulted loans, an increase/decrease by 1 % would lead to a decrease/increase of the fair value by approximately € 10 million (2020: approximately € 22 million).

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

31 December 2021

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (ac)	**41,960**	**1,879**	**10,829**	**29,252**
Cash funds (ac)	6,942	–	6,942	–
Loan receivables (ac)	29,100	–	0	29,100
Money market and capital market receivables (ac)	5,836	1,879	3,852	105
Receivables from other transactions (ac)	82	–	35	47
Financial liabilities (ac)	**43,242**	**7,692**	**35,431**	**119**
Money market and capital market liabilities (ac)	30,782	7,692	23,062	28
Deposits from the housing industry (ac)	11,717	–	11,717	–
Liabilities from other transactions (ac)	94	–	3	91
Subordinated liabilities (ac)	649	–	649	–

At the end of the year, € 6,170 million of financial liabilities (ac) were transferred from Level 2 to Level 1 and € 807 million of financial assets (ac) were transferred from Level 1 to Level 2.

31 December 2020

€ mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (ac)	**37,655**	**2,827**	**7,813**	**27,015**
Cash funds (ac)	4,744	–	4,744	–
Loan receivables (ac)	26,952	–	1	26,951
Money market and capital market receivables (ac)	5,869	2,827	3,041	1
Receivables from other transactions (ac)	90	–	27	63
Financial liabilities (ac)	**40,033**	**1,855**	**38,064**	**114**
Money market and capital market liabilities (ac)	28,371	1,545	26,798	28
Deposits from the housing industry (ac)	10,592	–	10,592	–
Liabilities from other transactions (ac)	86	–	0	86
Subordinated liabilities (ac)	984	310	674	–

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

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

€ mn	31 Dec 2021 Carrying amount	31 Dec 2021 Fair Value	31 Dec 2020 Carrying amount	31 Dec 2020 Fair Value
Financial assets (ac)	**41,853**	**41,960**	**37,407**	**37,655**
Cash funds (ac)	6,942	6,942	4,744	4,744
Loan receivables (ac)	28,948	29,100	26,695	26,952
Money market and capital market receivables (ac)	5,881	5,836	5,879	5,869
Receivables from other transactions (ac)	82	82	89	90
Financial assets (fvoci)	**3,753**	**3,753**	**3,672**	**3,672**
Money market and capital market receivables (fvoci)	3,749	3,749	3,667	3,667
Equity instruments (fvoci)	4	4	5	5
Financial assets (fvpl)	**1,734**	**1,734**	**3,167**	**3,167**
Loan receivables (fvpl)	598	598	856	856
Money market and capital market receivables (fvpl)	4	4	93	93
Positive market value of designated hedging derivatives (fvpl)	900	900	1,431	1,431
Positive market value of other derivatives (fvpl)	232	232	787	787

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€ mn	31 Dec 2021 Carrying amount	31 Dec 2021 Fair Value	31 Dec 2020 Carrying amount	31 Dec 2020 Fair Value
Financial liabilities (ac)	**43,017**	**43,242**	**39,823**	**40,033**
Money market and capital market liabilities (ac)	30,597	30,782	28,206	28,371
Deposits from the housing industry (ac)	11,717	11,717	10,592	10,592
Liabilities from other transactions (ac)	94	94	86	86
Subordinated liabilities (ac)	609	649	939	984
Financial liabilities (fvpl)	**1,882**	**1,882**	**1,906**	**1,906**
Negative market value of designated hedging derivatives (fvpl)	971	971	1,298	1,298
Negative market value of other derivatives (fvpl)	911	911	608	608

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

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

€ mn	Non-derivative financial assets	Non-derivative financial liabilities[3]	Derivative financial assets	Derivative financial liabilities
EURIBOR[1]	6,558	764	29,371	23,429
USD LIBOR	6,830	–	–	–
CAD CDOR	197	–	1,217	1,352
SEK STIBOR	264	3	787	1,016
DKK CIBOR	78	–	99	130
AUD BBSW[1]	461	–	139	404
GBP LIBOR[2]	171	–	–	–
Total	**14,559**	**767**	**31,613**	**26,331**

[1] changeover currently not yet resolved upon
[2] one syndicated financing (changeover in January 2022) and two defaulted loans
[3] including AT1 bond

(63) Disclosures on credit risk

For information on risk management practice and input factors, please refer to the chapter "Credit default risk" in the Risk Report included in the Management Report. The chapter also provides a breakdown of gross carrying amounts of on-balance sheet as well as off-balance sheet credit business, money-market business, and capital markets business, by rating class and loss allowance stages.

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

Loss allowance (ac)

2021

€ mn	Balance as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Changes in the basis of consolidation	Balance as at 31 December
Stage 1	**19**	**12**	**–**	**9**	**0**	**-13**	**0**	**–**	**0**	**–**	**9**
Loan receivables (ac)	18	11	–	8	0	-13	0	–	0	–	8
Money market and capital market receivables (ac)	1	1	–	1	0	0	–	–	0	–	1
Stage 2	**77**	**30**	**–**	**43**	**0**	**13**	**-4**	**–**	**4**	**–**	**77**
Loan receivables (ac)	71	30	–	39	0	13	-4	–	4	–	75
Money market and capital market receivables (ac)	6	0	–	4	0	0	–	–	–	–	2
Stage 3	**492**	**200**	**295**	**57**	**–**	**0**	**4**	**41**	**18**	**–**	**403**
Loan receivables (ac)	492	200	295	57	–	0	4	41	18	–	403
Receivables from other transactions (ac)	**4**	**0**	**1**	**0**	**–**	**–**	**–**	**–**	**0**	**–**	**3**
Total	592	242	296	109	–	–	–	41	22	–	492

2020

€ mn	Balance as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 2	Interest effect	Currency adjustment	Changes in the basis of consolidation	Balance as at 31 December
Stage 1	**22**	**23**	**0**	**12**	**0**	**-14**	**0**	**–**	**0**	**–**	**19**
Loan receivables (ac)	21	23	0	12	0	-14	0	–	0	–	18
Money market and capital market receivables (ac)	1	0	–	0	0	0	–	–	0	–	1
Stage 2	**16**	**72**	**–**	**9**	**0**	**16**	**-17**	**–**	**-1**	**–**	**77**
Loan receivables (ac)	14	69	–	9	0	15	-17	–	-1	–	71
Money market and capital market receivables (ac)	2	3	–	0	0	1	–	–	–	–	6
Stage 3	**345**	**279**	**129**	**11**	**–**	**-2**	**17**	**5**	**-7**	**-5**	**492**
Loan receivables (ac)	345	279	129	11	–	-2	17	5	-7	-5	492
Receivables from other transactions (ac)	**3**	**3**	**1**	**0**	**–**	**–**	**–**	**–**	**-1**	**–**	**4**
Total	386	377	130	32	–	0	–	5	-9	-5	592

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

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

The loss allowance for debt instrument (fvoci) amounts to € 0 million (2020: € 0 million) and is reported on the equity and liabilities side of the statement of financial position under other reserves.

Provisions for unrecognised lending business

2021

€ mn	Provisions as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Interest effect	Currency adjustment	Provisions as at 31 December
Stage 1	2	1	–	2	0	0	–	–	0	1
Stage 2	2	1	–	1	0	0	–	–	0	2
Stage 3	0	–	–	–	–	–	–	–	–	0
Total	**4**	**2**	**–**	**3**	**–**	**–**	**–**	**–**	**0**	**3**

2020

€ mn	Provisions as at 1 January	Additions	Utilisation	Reversals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 2	Interest effect	Currency adjustment	Provisions as at 31 December
Stage 1	2	1	–	1	0	0	–	–	0	2
Stage 2	0	2	–	0	0	0	–	–	0	2
Stage 3	0	–	0	0	–	–	–	–	–	0
Total	**2**	**3**	**0**	**1**	**–**	**–**	**–**	**–**	**0**	**4**

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

No impaired financial assets were recognised for the first time in the financial year 2021, nor were assets acquired within the context of the realisation of collateral (2020: € – million).

Credit quality of financial receivables from other transactions

Financial receivables from other transactions are subject to credit risk. Of the receivables from other transactions in the amount of € 85 million (2020: € 94 million), € 79 million (2020: € 86 million) were neither overdue nor impaired, € 3 million (2020: € 2 million) were overdue but not impaired and € 3 million (2020: € 6 million) were impaired.

(64) Reconciliation of gross carrying amounts of financial assets

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

Financial assets (ac)

2021

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Loan receivables (ac)	**27,277**	**10,151**	**8,554**	**–**	**–**	**–**	**-283**	**-4**	**847**	**29,434**
Stage 1	19,318	9,603	6,084	544	-4,667	-129	–	-2	558	19,141
Stage 2	6,410	546	2,110	-500	4,682	-487	–	0	247	8,788
Stage 3	1,549	2	360	-44	-15	616	-283	-2	42	1,505
POCI	–	–	–	–	–	–	–	–	–	–
Money market and capital market receivables (ac)	**5,884**	**1,593**	**1,395**	**–**	**–**	**–**	**–**	**–**	**-198**	**5,884**
Stage 1	5,328	1,593	1,300	249	-14	–	–	–	-161	5,695
Stage 2	556	0	95	-249	14	–	–	–	-37	189
Receivables from other transactions (ac)	**94**	**39**	**50**	**–**	**–**	**–**	**–**	**–**	**2**	**85**
Total	33,255	11,783	9,999	–	–	–	-283	-4	651	35,403

2020

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer in Stage 1	Transfer in Stage 2	Transfer in Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Loan receivables (ac)	**25,783**	**9,881**	**7,745**	**–**	**–**	**–**	**-118**	**-1**	**-523**	**27,277**
Stage 1	23,923	9,709	7,071	163	-6,704	-90	-	0	-612	19,318
Stage 2	916	172	459	-163	6,704	-750	-	0	-10	6,410
Stage 3	944	0	215	–	0	840	-118	-1	99	1,549
POCI	–	–	–	–	–	–	–	–	–	–
Money market and capital market receivables (ac)	**6,618**	**633**	**1,347**	**–**	**–**	**–**	**–**	**–**	**-20**	**5,884**
Stage 1	6,493	633	1,278	–	-494	–	–	–	-26	5,328
Stage 2	125	–	69	–	494	–	–	–	6	556
Receivables from other transactions (ac)	**77**	**57**	**40**	**–**	**–**	**–**	**–**	**–**	**0**	**94**
Total	32,478	10,571	9,132	–	–	–	-118	-1	-543	33,255

Financial assets (fvoci)

2021

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Money market and capital market receivables (fvoci)	**3,667**	**947**	**752**	**–**	**–**	**–**	**–**	**–**	**-113**	**3,749**
Stage 1	3,667	947	752	–	–	–	–	–	-113	3,749
Equity instruments (fvoci)	**5**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**0**	**4**
Stage 1	5	–	1	–	–	–	–	–	0	4
Total	**3,672**	**947**	**753**	**–**	**–**	**–**	**–**	**–**	**-113**	**3,753**

2020

€ mn	Gross carrying amount as at 1 January	Additions	Disposals	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Impairment and reversals of impairment	Net modification gain or loss	Currency and other changes	Gross carrying amount as at 31 December
Money market and capital market receivables (fvoci)	**3,415**	**869**	**620**	**–**	**–**	**–**	**–**	**–**	**3**	**3,667**
Stage 1	3,415	869	620	–	–	–	–	–	3	3,667
Equity instruments (fvoci)	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0**	**5**
Stage 1	5	–	–	–	–	–	–	–	0	5
Total	**3,420**	**869**	**620**	**–**	**–**	**–**	**–**	**–**	**3**	**3,672**

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

As at the current reporting date, receivables from the lending business in the amount of € 1 million that were written off during the reporting year were still part of foreclosure proceedings (2020: € – million).

(65) Modification effects

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

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

	2021			2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
€ mn						
Amortised cost before modification	45	836	283	283	1,689	264
Net gain or loss on modification	-2	0	-2	0	0	-1
Amortised cost after modification	**43**	**836**	**281**	**283**	**1,689**	**263**

During the financial year 2021, receivables from the lending business in the amount of € 99 million were reclassified from Stage 2 or Stage 3 to Stage 1, which had been modified since they were first classified as Stage 2 or Stage 3 receivables (2020: € – million).

(66) Offsetting financial instruments

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

Financial assets

31 December 2021

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	1,143	–	1,143	877	251	15
Reverse repos	–	–	–	–	–	–
Total	**1,143**	**–**	**1,143**	**877**	**251**	**15**

31 December 2020

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
Derivatives	2,245	–	2,245	1,058	1280	-93
Reverse repos	–	–	–	–	–	–
Total	**2,245**	**–**	**2,245**	**1,058**	**1,280**	**-93**

Financial liabilities

31 December 2021

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
Derivatives	1,884	–	1,884	877	900	107
Repos	–	–	–	–	–	–
Total	**1,884**	**–**	**1,884**	**877**	**900**	**107**

31 December 2020

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
Derivatives	1,906	–	1,906	1,058	852	-4
Repos	–	–	–	–	–	–
Total	**1,906**	**–**	**1,906**	**1,058**	**852**	**-4**

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

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

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

(67) Assets provided or accepted as collateral

Assets provided as collateral

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

€ mn	31 Dec 2021	31 Dec 2020
Money market and capital market receivables (ac, fvoci and fvpl)	5,695	5,729
Receivables from other transactions (ac)	35	30
Total	**5,730**	**5,759**

In addition, € 1.2 billion of the Bank’s own Pfandbriefe were provided as collateral for TLTRO.

The protection buyer has no right to sell or re-pledge any of the financial assets pledged as collateral (2020: € – million). There is a fully cash-collateralised and irrevocable payment obligation in the amount of € 35 million (2020: € 30 million) from the bank levy and also for the deposit guarantee scheme of German banks. This obligation is reported under receivables from other transactions (ac).

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. No fixed-income securities were accepted as collateral for repo transactions as at the reporting date (2020: € – million).

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

(68) Transfer of financial assets without derecognition

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

As in the previous year, no securities were part of repurchase agreements as at the balance sheet date.

(69) Derivative financial instruments

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

	Fair value as at 31 Dec 2021		Fair value as at 31 Dec 2020	
	positive	negative	positive	negative
€ mn				
Fair value hedge derivatives	**892**	**947**	**1,343**	**1,298**
Interest rate risk	892	919	1,343	1,267
Interest rate swaps	892	919	1,343	1,267
Interest rate and currency risk	–	28	–	31
Cross-currency swaps	–	28	–	31
Hedge of net investments	**8**	**24**	**88**	**–**
Currency risk	8	24	88	–
Cross-currency swaps	8	24	88	–
Other derivatives	**232**	**911**	**787**	**608**
Interest rate risk	123	384	209	503
Interest rate swaps	112	373	208	502
Swaptions	–	–	–	–
Caps, floors	11	11	1	1
Interest rate and currency risk	109	527	578	105
Spot and forward foreign exchange transactions	2	10	7	7
Cross-currency swaps	107	517	571	98
Total	**1,132**	**1,882**	**2,218**	**1,906**

Derivatives have been entered into with the following counterparties:

€ mn	Fair value as at 31 Dec 2021 positive	Fair value as at 31 Dec 2021 negative	Fair value as at 31 Dec 2020 positive	Fair value as at 31 Dec 2020 negative
OECD banks and central governments	1,073	1,785	2,132	1,853
Companies and private individuals	59	97	86	53
Total	**1,132**	**1,882**	**2,218**	**1,906**

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

31 December 2021

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Interest rate risk					
Interest rate swaps					
Cash inflows	92	265	641	152	**1,150**
Cash outflows	114	204	579	166	**1,063**
Caps, floors					
Cash inflows	0	0	11	0	**11**
Cash outflows	0	0	11	0	**11**
Interest rate and currency risk					
Spot and forward foreign exchange transactions					
Cash inflows	1,407	174	–	–	**1,581**
Cash outflows	1,416	174	–	–	**1,590**
Cross-currency swaps					
Cash inflows	528	1,929	10,813	-9	**13,261**
Cash outflows	583	2,116	11,395	–	**14,094**
Total cash inflows	**2,027**	**2,368**	**11,465**	**143**	**16,003**
Total cash outflows	**2,113**	**2,494**	**11,985**	**166**	**16,758**

31 December 2020

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Interest rate risk					
Interest rate swaps					
Cash inflows	107	286	745	166	**1,304**
Cash outflows	119	224	676	127	**1,146**
Caps, floors					
Cash inflows	0	0	1	0	**1**
Cash outflows	0	0	1	0	**1**
Interest rate and currency risk					
Spot and forward foreign exchange transactions					
Cash inflows	1,808	132	–	–	**1,940**
Cash outflows	1,808	132	–	–	**1,940**
Cross-currency swaps					
Cash inflows	200	2,101	9,298	54	**11,653**
Cash outflows	212	2,033	9,118	–	**11,363**
Total cash inflows	**2,115**	**2,519**	**10,044**	**220**	**14,898**
Total cash outflows	**2,139**	**2,389**	**9,795**	**127**	**14,450**

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

(70) Disclosures on hedging relationships

Disclosures on hedging derivatives

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

Positive market value of designated hedging derivatives

€ mn	Carrying amount 31 Dec 2021	Nominal amount 31 Dec 2021	Fair value change 1 Jan - 31 Dec 2021	Carrying amount 31 Dec 2020	Nominal amount 31 Dec 2020	Fair value change 1 Jan - 31 Dec 2020
Fair value hedges						
Interest rate risk						
Interest rate swaps	892	16,618	-268	1,343	16,694	181
Hedge of net investments						
Currency risk						
Cross-currency swaps	8	441	0	88	1,027	0
Total	**900**	**17,059**	**-268**	**1,431**	**17,721**	**181**

Negative market value of designated hedging derivatives

€ mn	Carrying amount 31 Dec 2021	Nominal amount 31 Dec 2021	Fair value change 1 Jan-31 Dec 2021	Carrying amount 31 Dec 2020	Nominal amount 31 Dec 2020	Fair value change 1 Jan-31 Dec 2020
Fair value hedges						
Interest rate risk						
Interest rate swaps	919	14,841	-159	1,267	14,609	189
Interest rate and currency risk						
Cross-currency swaps	28	119	-12	31	111	3
Hedge of net investments						
Currency risk						
Cross-currency swaps	24	670	0	–	–	–
Currency swaps	0	19	0	–	–	–
Total	**971**	**15,630**	**-171**	**1,298**	**14,720**	**192**

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

31 December 2021

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Fair value hedges					
Interest rate risk					
Interest rate swaps	1,335	3,880	19,057	7,186	**31,458**
Interest rate and currency risks					
Cross-currency swaps	–	–	119	–	**119**
Hedge of net investments					
Currency risk					
Cross-currency swaps	90	359	662		**1,111**
Currency swaps	19	–	–	–	**19**
Total nominal amounts	**1,444**	**4,239**	**19,838**	**7,186**	**32,707**

Aareal Bank applies the standard amendments from the first part of the effects of the interest rate benchmark reform (IBOR reform) on financial reporting in the period prior to the replacement of an existing interest rate benchmark. The uncertainties refer to the hedging of changes in fair value from interest rate risk. This applies to variable reference rates with terms of one to six months for the currencies AUD, CAD, DKK, EUR, SEK and USD. As a result of the discontinuation of the GBP and the CHF LIBOR as at 31 December 2021, all derivative hedging instruments denominated in GBP and CHF were fully switched so that uncertainties no longer arise in this regard. An amount of € 26.5 billion of the total of € 32.7 billion is attributable to benchmark interest rates for which no official cessation effective date has been communicated and/or for which no contractual arrangements for transition have been made. Aareal Bank still does not expect the changes from the IBOR reform (Phase 1) to require the discontinuation of hedging relationships.

31 December 2020

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Fair value hedges					
Interest rate risk					
Interest rate swaps	1,301	4,730	17,656	7,617	**31,304**
Interest rate and currency risks					
Cross-currency swaps	–	–	111	–	**111**
Hedge of net investments					
Currency risk					
Cross-currency swaps	55	421	551	–	**1,027**
Currency swaps	–	–	–	–	**–**
Total nominal amounts	**1,356**	**5,151**	**18,318**	**7,617**	**32,442**

Disclosures on hedged items

Hedged items of fair value hedges

The following tables show hedged items separately for each type of hedging relationship and risk category:

	Active hedging relationships			Discontinued hedging relationships
€ mn	Carrying amount 31 Dec 2021	Accumulated hedge adjustment 31 Dec 2021	Change in hedged fair values 1 Jan - 31 Dec 2021	Balance of hedge adjustments 31 Dec 2021
Interest rate risk				
Loan receivables (ac)	7,765	8	-247	42
Money market and capital market receivables (ac)	2,935	514	-114	143
Money market and capital market receivables (fvoci)	3,617	51	-87	1
Money market and capital market liabilities (ac)	18,026	503	-553	37
Subordinated liabilities (ac)	489	28	-16	2
Interest rate and currency risk				
Money market and capital market receivables (ac)	156	37	-12	–

€ mn	Active hedging relationships			Discontinued hedging relationships
	Carrying amount 31 Dec 2020	Accumulated hedge adjustment 31 Dec 2020	Change inhedged fair values 1 Jan-31 Dec 2020	Balance of hedge adjustments 31 Dec 2020
Interest rate risk				
Loan receivables (ac)	7,045	224	168	58
Money market and capital market receivables (ac)	2,990	701	10	165
Money market and capital market receivables (fvoci)	3,534	148	18	2
Money market and capital market liabilities (ac)	19,433	1,086	82	46
Subordinated liabilities (ac)	818	45	-6	3
Interest rate and currency risk				
Money market and capital market receivables (ac)	160	49	3	–

Hedge of net investments

The change in value of currency-hedged net investments in foreign operations amounted to € -85 million (2020: € 93 million) in the financial year under review. The balance of the hedging reserve (net) stood at € -10 million (2020: € 68 million) at year-end.

Net gain or loss from hedge accounting

Fair value hedges

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

€ mn	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Interest rate risks	-6	6
Interest rate and currency risks	1	0
Total	**-5**	**6**

Hedge of net investments

The ineffective portion of currency-hedged net investments in foreign operations amounted to € 0 million (2020: € 0 million), reported in net gains or losses from hedge accounting. No amounts were reclassified from the reserve for currency-hedged net investments to the income statement.

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

(71) Maturities of financial liabilities

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

Maturities as at 31 December 2021

€ mn	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Money market and capital market liabilities (ac)	605	2,884	8,593	11,362	8,489	**31,933**
Deposits from the housing industry (ac)	9,409	2,307	1	1	–	**11,718**
Subordinated liabilities (ac)	–	4	198	319	135	**656**
Financial liabilities from other transactions (ac)	93	–	1	–	–	**94**
Lease liabilities	–	3	9	35	34	**81**
Financial guarantees	120	–	–	–	2	**122**
Loan commitments	1,062	–	–	–	–	**1,062**

Maturities as at 31 December 2020

€ mn	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Money market and capital market liabilities (ac)	1,444	1,427	6,898	10,924	8,476	**29,169**
Deposits from the housing industry (ac)	8,428	2,166	–	–	–	**10,594**
Subordinated liabilities (ac)	–	17	22	445	550	**1,034**
Financial liabilities from other transactions (ac)	85	–	1	–	–	**86**
Lease liabilities	–	3	10	34	36	**83**
Financial guarantees	160	–	–	–	2	**162**
Loan commitments	1,258	–	–	–	–	**1,258**

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

Segment Reporting

(72) Operating segments of Aareal Bank

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

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

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

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

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

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

As part of the **Aareon segment**, the Aareon sub-group offers the IT systems and advisory business for the housing and commercial property sector. Aareon offers its customers reliable, pioneering solutions in the fields of consulting, software and services to optimise IT-supported business processes in the digital age. The ERP (Enterprise Resource Planning) systems, which are tailored to the needs of the respective market, may be supplemented by further digital solutions for purposes of process optimisation.

The majority of these integrated systems forms the digital ecosystem "Aareon Smart World". It connects property companies with customers, employees and business partners as well as technical "equipment" in apartments and buildings. Aareon Smart World can be used to restructure and optimise processes. The applications help to reduce costs, enable the creation of new business models by providing links between all participants and offer more ease-of-use in the dialogue between tenants and employees of the housing industry.

Aareon offers software solutions both in Germany and abroad that may be used in various types of operating environments: in-house services, hosting and Software as a Service (SaaS) from the exclusive Aareon Cloud. Data from Aareon's Cloud Computing is held in Aareon's certified data-processing centre in Mainz, which guarantees data security and protection at the highest level. Following successful advice, implementation and training, customers usually opt for a maintenance model covering regular support services.

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

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

(73) Segment results

€ mn	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
Net interest income	560	474	43	39	-6	-1	0	0	597	512
Loss allowance	133	344	0	0	0	0			133	344
Net commission income	8	8	28	26	221	213	-12	-13	245	234
Net derecognition gain or loss	23	28							23	28
Net gain or loss from financial instruments (fvpl)	-30	-32	0	0		0			-30	-32
Net gain or loss from hedge accounting	-5	6							-5	6
Net gain or loss from investments accounted for using the equity method	0	2	-1		-1	-1			-2	1
Administrative expenses	256	227	73	68	211	188	-12	-14	528	469
Net other operating income/expenses	-13	-14	-1	0	2	4	0	-1	-12	-11
Operating profit	**154**	**-99**	**-4**	**-3**	**5**	**27**	**0**	**0**	**155**	**-75**
Income taxes	82	-14	-1	-1	6	9			87	-6
Consolidated net income	**72**	**-85**	**-3**	**-2**	**-1**	**18**	**0**	**0**	**68**	**-69**
Consolidated net income attributable to non-controlling interests	0	0	0	0	1	5			1	5
Consolidated net income attributable to shareholders of Aareal Bank AG	72	-85	-3	-2	-2	13	0	0	67	-74
Allocated equity[1]	1,664	1,849	262	199	39	32	578	442	2,543	2,522
RoE after taxes (%)[2]	3.5	-5.4	-1.3	-1.0	-4.8	39.2			2.1	-3.6
Employees (average)	**785**	**785**	**378**	**385**	**1,914**	**1,745**			**3,077**	**2,915**
Segment assets	**36,095**	**34,101**	**12,084**	**10,997**	**549**	**380**			**48,728**	**45,478**

[1] For management purposes, the allocated equity is calculated for all segments from 2021 onwards on the basis of capital requirements pursuant to Basel IV (phase-in). Reported equity on the statement of financial position differs from this. Aareon's total equity as disclosed in the statement of financial position amounts to € 143 million (2020: € 140 million).

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

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

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020	1 Jan - 31 Dec 2021	1 Jan - 31 Dec 2020
€ mn										
ERP products (incl. add-on products)					200	197	-18	-18	182	179
Digital solutions					70	61			70	61
Banking business and other activities	10	11	35	32	0	0			45	43
Total	**10**	**11**	**35**	**32**	**270**	**258**	**-18**	**-18**	**297**	**283**

(74) Income by geographical markets

	2021	2020
€ mn		
Germany	563	505
Rest of Europe	145	142
North America	120	90
Asia/Pacific	7	6
Total	**835**	**743**

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

Other Notes

(75) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2021	31 Dec 2020
USD	12,059	11,092
GBP	5,080	4,279
CAD	1,412	1,291
SEK	938	862
CHF	324	313
DKK	102	59
Other	633	459
Total	**20,548**	**18,355**

Foreign currency liabilities

€ mn	31 Dec 2021	31 Dec 2020
USD	12,047	11,106
GBP	5,095	4,359
CAD	1,398	1,289
SEK	931	855
CHF	323	311
DKK	102	59
Other	627	452
Total	**20,523**	**18,431**

(76) Subordinated assets

In the event of insolvency or liquidation of the issuer, subordinated assets are those subordinate to the claims of all other creditors. Subordinated assets in the financial year 2021 amounted to € 309 million (2020: € 350 million).

(77) Leases

Leases where the Bank acts as the lessee

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

€ mn	2021 Right-of-use assets in land and buildings	2021 Right-of-use assets in office furniture and equipment	2021 Total	2020 Right-of-use assets in land and buildings	2020 Right-of-use assets in office furniture and equipment	2020 Total
Cost						
Balance as at 1 January	**67**	**6**	**73**	**69**	**7**	**76**
Additions	10	3	**13**	5	4	**9**
Transfers	–	–	**–**	-2	0	**-2**
Amortisation and impairment losses	6	1	**7**	5	2	**7**
Disposals	7	3	**10**	2	3	**5**
Changes in the basis of consolidation	2	0	**2**	4	–	**4**
Currency translation differences	2	0	**2**	-2	0	**-2**
Balance as at 31 December	**68**	**5**	**73**	**67**	**6**	**73**

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

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

The entire cash outflows from leases where Aareal Bank Group is the lessee in the current period amount to € 17 million (2020: € 14 million) as at the reporting date.

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

€ mn	31 Dec 2021	31 Dec 2020
Interest expenses for lease liabilities	2	2
Expenses for short-term leases	2	2
Expenses for low-value leases	0	1
Income from the sublease of right-of-use assets	0	1

In the financial year 2021, no material variable lease payments were agreed upon (2020: € – million).

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

Leases where the Bank acts as the lessor

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

Income from operating leases amounted to € 12 million (2020: € 9 million) in the year under review. It is recognised in the income statement on a straight-line basis over the lease term.

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

€ mn	31 Dec 2021	31 Dec 2020
Up to 1 year	9	6
Longer than 1 year, and up to 5 years	19	14
Longer than 5 years	6	6
Total minimum lease payments	**34**	**26**

(78) Contingent liabilities and loan commitments

€ mn	31 Dec 2021	31 Dec 2020
Contingent liabilities	122	163
Loan commitments	1,062	1,258
of which: irrevocable	740	896

Contingent liabilities include irrevocable payment obligations regarding the bank levy and the liability to the deposit guarantee scheme of German banks. These and the values reported under loan commitments given represent the maximum default risk to which Aareal Bank Group is exposed at the end of the reporting period.

Furthermore, the Bank is involved in legal disputes. Based on a legal analysis, successful outcome of these disputes is more likely than not. Essentially, these are legal disputes with borrowers (or former borrowers) who claim damages against the Bank. These are included in the table above, with a probability-weighted amount of € 27 million (2020: € 92 million), but have not been recognised as liabilities. We estimate the maximum default risk in the medium double-digit million range. The duration of proceedings depends on the complexity of each individual litigation, and the legal remedies available in each case. Likewise, the final amount in the event of defeat may vary considerably, depending upon the duration of proceedings and the legal remedies. Refunds of litigation costs are possible.

In the year under review, the tax risks were included for the first time in the contingent liabilities at a probability-weighted amount of € 37 million. They result from the diverging assessment of tax matters and potential legal changes. This is offset by opportunities, albeit to a somewhat lesser extent. We estimate the maximum tax risk to be in the low triple-digit million range.

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

(79) Regulatory capital and capital management

As regards meeting minimum capital ratios, Aareal Bank Group has to comply with the capital adequacy requirements set out in the Capital Requirements Regulation (CRR), the Capital Requirements Directive IV (CRD IV), the German Banking Act (Kreditwesengesetz, KWG) and the German Solvency Regulation (Solvabilitätsverordnung, SolvV). This requires Aareal Bank to comply with a Total SREP Capital Requirement (TSCR) in 2022 of 10.75 % (2021: 10.25 %). This comprises an additional own funds requirement (Pillar 2 Requirements – P2R) of 2.75 %, which has to be maintained in the form of at least 56.25 % in Common Equity Tier 1 capital and 75 % of Tier 1 capital. The increase is the result of the fact that especially the market for commercial properties has been affected by the Covid-19 pandemic. The Overall Capital Requirement (OCR) of Aareal Bank in 2022 amounts to 13.25 % (2021: 12.75 %), resulting from the TSCR plus the capital conservation buffer of 2.5 % and the currently applicable countercyclical buffer of 0.0 % (2021: 0.0 %). Both of the buffers have to be maintained in the form of Common Equity Tier 1 capital. In addition, several countries have already announced to (re-)introduce the countercyclical capital buffer previously suspended in almost all countries due to the Covid-19 pandemic. For example, the package of macroprudential measures as resolved by the German Federal Financial Supervisory Authority (BaFin) in January 2022 provides for a reinstatement of the countercyclical capital buffer for risk exposures located in Germany as well as the first-time introduction of a sector-specific systemic risk buffer for loans collateralised by residential properties in 2023. This will result in increasing capital buffer requirements for the Bank.

The objectives of capital management are optimising the capital base as well as an efficient capital allocation to the individual business areas in terms of risk and income. Aareal Bank has defined the CET1 ratio (Basel IV (phase-in)) as a key management indicator, subject to further regulatory changes. The capital ratios are managed through the generation of profits, an active dividend policy, optimisation of the capital structure, and an efficient management of risk assets.

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

Aareal Bank Group's regulatory capital[1] pursuant to Basel IV (phase-in) is composed of the following:

€ mn	31 Dec 2021	31 Dec 2020
Tier 1 capital (T1)		
Subscribed capital and capital reserves	900	900
Eligible retained earnings	1,804	1,782
Accumulated other comprehensive income	-127	-180
Amounts to be deducted from CET 1 capital	-250	-216
Sum total of Common Equity Tier 1 (CET1) capital	**2,327**	**2,286**
AT1 bond	300	300
Sum total of Additional Tier 1 (AT1) capital	**300**	**300**
Sum total of Tier 1 capital (T1)	**2,627**	**2,586**
Tier 2 (T2) capital		
Subordinated liabilities	346	752
Other	48	57
Sum total of Tier 2 capital (T2)	**394**	**809**
Total capital (TC)	**3,021**	**3,395**

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

Analysis of risk-weighted assets (RWA)[2] under Basel IV (phase-in)

€ mn	Risk-weighted assets (RWA) 31 Dec 2021	Minimum capital requirements Total 31 Dec 2021	Risk-weighted assets (RWA) 31 Dec 2020	Minimum capital requirements Total 31 Dec 2020
Credit risk (excluding counterparty credit risk)	11,305	904	11,355	909
Counterparty credit risk	381	31	517	41
Market risk[2]	n/a	n/a	87	7
Operational risk	1,131	91	1,236	99
Total	**12,817**	**1,026**	**13,195**	**1,056**

[1] 31 December 2021: excluding proposed dividend of € 1.60 per share in 2022 for the financial year 2021, including the dividend of € 1.10 per share not distributed in 2021 as well as the pro rata temporis accrual of net interest on the AT1 bond. The appropriation of profits is subject to approval by the Annual General Meeting.
31 December 2020: excluding proposed dividend of € 1.50 per share in 2021 and incorporating the pro rata accrual of net interest on the AT1 bond. Previous year's figures were adjusted as the disclosures in the previous year were made in accordance with Basel III.
The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

[2] Previous year's figures were adjusted as the disclosures in the previous year were made in accordance with Basel III.

[3] There was no requirement to determine market risk as the sum total of the net foreign currency position in aggregate did not exceed 2% of regulatory capital.

(80) Remuneration disclosures

Management and Supervisory Board

In the financial year 2021, the Management Board's total remuneration, excluding benefits from pension commitments, amounted to € 9 million (2020: € 10 million), of which € 4 million (2020: € 4 million) referred to variable components.

Benefit payments to former Management Board members, including those retired from the Board during the year under review, and their respective surviving dependants totalled € 8 million in 2021 (2020: € 2 million).

The total amount of pension obligations to active and former members of the Management Board was € 65 million as at 31 December 2021 (2020: € 70 million). Of that amount, € 11 million (2020: € 34 million) related to active members of the Management Board as at the end of the reporting year, € 55 million (2020: € 37 million) was attributable to former members of the Management Board, including those retired from the Board during the year under review, and their surviving dependants.

The total remuneration of members of the Supervisory Board for the financial year 2021 amounted to € 2 million (2020: € 2 million). The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

Remuneration for key executives

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

Total remuneration of executives in key positions is analysed below:

€ 000's	31 Dec 2021	31 Dec 2020
Short-term benefits	7,542	8,193
Post-employment benefits	4,176	3,957
Other long-term benefits	1,112	967
Termination benefits	–	–
Share-based remuneration	2,377	1,985
Total	**15,207**	**15,102**

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

Provisions for pension obligations concerning key executives totalled € 32 million as at 31 December 2021 (2020: € 34 million).

Disclosures on share-based remuneration

Share-based remuneration for risk takers

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

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

Valuation model and valuation assumptions

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

Amount of cash-settled share-based payment transactions

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

Quantity (number)	2021	2020
Balance (outstanding) as at 1 January	**703,561**	**699,743**
Granted during the reporting period	254,153	313,908
Expired during the reporting period	–	–
Exercised during the reporting period	303,649	310,090
Balance (outstanding) as at 31 December	**654,065**	**703,561**
of which: exercisable	–	–

As at the reporting date, the total amount of virtual shares granted during the reporting period was € 7 million (2020: € 6 million).

The virtual shares exercised during the reporting period were converted at a weighted average price of the Aareal Bank AG share of € 22.28 (2020: € 25.38).

Impact on financial performance

The total amount expensed for share-based payment transactions was € 6 million during the financial year 2021 (2020: total income of € 2 million). The obligation from share-based payment transactions as at 31 December 2021 amounted to € 26 million (2020: € 19 million). It is reported in the statement of financial position in the line item "Provisions".

Management Equity Programme

Together with Advent International, Aareal Bank set up a Management Equity Programme (MEP) for Aareon in the year under review and, in line with its shareholding, contributed Aareon shares with a market value of € 6 million into a management equity company, in which individual members of Aareon's management as well as independent members of the Advisory Board acquired an interest – also at market value – of € 4 million. The remaining shares can be issued at a later date.

In the event of a divestment of Aareon, depending on Aareon's performance, the MEP leads to either a gain or loss for the participants in form of Aareon shares (equity-settled). The entitlements generally vest on a quarterly basis over a period of five years. The break-even point is at an appreciation of approximately 60 % and is increased by a minimum interest of 12 % p. a. If the break-even point is exceeded, the management participates in potential disposal gains in a leveraged manner.

The MEP is measured based on an option pricing model with an assumed term of five years and an historic volatility of approximately 30 %.

(81) Related party disclosures in accordance with IAS 24

The group of related parties of Aareal Bank Group comprises the members of management or supervisory bodies of Aareal Bank AG (see preceding note) and close members of these persons' families. The group of companies related to Aareal Bank Group consists of the companies set out in Note 90 "List of Shareholdings". Intra-group receivables and liabilities, as well as consolidated income and expenses, are not shown here.

The following list provides an overview of the balances of existing transactions with related parties:

€ mn	31 Dec 2021	31 Dec 2020
Management Board	–	–
Supervisory Board	–	–
Other related parties	16	20
Total	**16**	**20**

The item "Other related parties" includes a loan of € 16 million which was provided to our investee Mount Street Group Limited on an arm's length basis. Moreover, there is a receivable in the amount of € 0.2 million due from the BauGrund/TREUREAL syndicate.

Together with Advent International, Aareal Bank set up a Management Equity Programme (MEP) for Aareon and, in line with its shareholding, contributed Aareon shares with a market value of € 6 million into a management equity company, in which individual members of Aareon's management as well as independent members of the Advisory Board also acquired an interest at market value.

In addition, there were no further significant transactions within the meaning of IAS 24.

(82) Events after the reporting date

The voluntary public takeover offer made by Atlantic BidCo GmbH on 17 December 2021, a company indirectly held by the financial investors Advent International Corporation and Centerbridge Partners, L.P. and other investors, was not successful as the required minimum acceptance level was not reached, resulting in the offer becoming void.

Sanctions related to the conflict in Ukraine could mean that our remaining (collateralised) exposure to Russia of around € 200 million, which is being further reduced, may not be serviced due to political interventions (transfer risk). It was not yet possible to provide an estimate of the financial impact at the time of preparing the financial statements.

There were no other material matters subsequent to the end of the reporting period that need to be disclosed at this point.

(83) Contingencies

By means of a Letter of Comfort in favour of the Monetary Authority of Singapore, Aareal Bank AG has undertaken to ensure that Aareal Bank Asia Ltd. is able to fulfil its obligations at any time.

(84) Disclosures pursuant to section 160 (1) no. 8 of the AktG

Pursuant to the German Securities Trading Act (WpHG), any investor whose shareholding in a listed company reaches, exceeds or falls short of certain threshold values in terms of voting rights (whether by purchase, sale or by any other means) must notify the Company and the German Federal Financial Supervisory Authority. The lowest threshold for this notification requirement is 3 %. 100 % of Aareal Bank AG shares are held in free float.

As at 31 December 2021, we were aware of the following shareholders holding a share in the voting rights of at least 3 % pursuant to section 33 (1) of the WpHG:

	Location	Voting rights from shares	Threshold reached on (according to notification)
Responsible entity			
Morgan Stanley	Wilmington, Delaware	10.11 %	25 November 2021
Deka	Frankfurt	9.60 %	22 May 2018
VBL[1]	Karlsruhe	6.50 %	3 February 2015
Daniel Křetínský (Vesa Equity Investment S.à r.l.)		7.80 %	10 November 2021
Klaus Umek (Petrus Advisers Investments Fund L.P.)		5.35 %	17 August 2021
Till Hufnagel (Petrus Advisers Investments Fund L.P.)[2]			
Igor Kuzniar		5.06 %	23 April 2020
Teleios Global Opportunities Master Fund Ltd.[3]	George Town		
Janus Henderson Group plc	St. Helier	4.96 %	13 December 2021
Talomon Capital Limited	London	3.46 %	25 October 2021
Dimensional Holdings Inc.	Austin, Texas	3.13 %	1 December 2021

[1] Shares are managed by Deka and are therefore included in Deka's holding.
[2] Shares are also attributed to Klaus Umek and therefore correspond to his shareholding.
[3] Shares are also attributed to Igor Kuzniar and therefore correspond to his shareholding.

(85) Declaration of Compliance in accordance with section 161 of the AktG

The Management Board and the Supervisory Board issued the Declaration of Compliance as stipulated in section 161 of the AktG, and made this Declaration available to shareholders. It is available to the public on the Company's website on www.aareal-bank.com/en/about-us/corporate-governance/declaration-of-compliance.

(86) Employees

The number of Aareal Bank Group employees is shown below:

	31 Dec 2021[1]	Average 1 Jan-31 Dec 2021[2]	31 Dec 2020[1]	Average 1 Jan-31 Dec 2020[2]
Salaried employees	2.998	2.905	2.817	2.751
Executives	172	172	165	164
Total	**3.170**	**3.077**	**2.982**	**2.915**
of which: part-time employees	590	586	584	567

[1] This number does not include 30 employees of the hotel business (31 December 2020: 35 employees).
[2] This number does not include 88 employees of the hotel business (1 January to 31 December 2020: 52 employees).

(87) Nature and extent of interests in unconsolidated structured entities

In accordance with IFRS 12.24, the nature and extent of interests in unconsolidated structured entities as well as the nature of, and changes in, the risks associated with such interests have to be disclosed in the consolidated financial statements. An interest in a structured entity arises from a contractual and/or non-contractual involvement which entitles the Group to receive variable returns from the relevant activities of the structured entity. Examples for this are equity or debt instruments of structured entities or the provision of financing, collateral and guarantees to structured entities.

Structured entities are companies where voting rights or similar rights are not the dominant factor to assess control of the company. The relevant activities of structured entities are directed by means of contractual arrangements; any voting rights relate to administrative tasks only. Structured entities are characterised by features or attributes such as restricted activities, a narrow and well-defined objective and/or insufficient equity. In addition, structured entities may relate to financings in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks. Examples of structured entities are securitisation vehicles, asset-backed financings and some investment funds.

Aareal Bank Group mainly interacts with structured entities such as open-ended property funds and leased property companies. In this context, the Group provides financing to structured entities in the form of loans or guarantees. In the following table, strategic investments made by the Group as well as the Management Equity Programme (MEP) for Aareon are shown under "Other". The leased property companies were established by third parties for the financing of particular transactions and have the legal form of a German private limited company with a limited liability company as general partner (GmbH & Co KG). In the year under review and the previous year, Aareal Bank Group did not provide any non-contractual support for unconsolidated structured entities.

To the extent that this is relevant, the following table shows the carrying amounts of assets and liabilities recognised by Aareal Bank Group as at the reporting date as well as the existing off-balance sheet risk exposures that relate to unconsolidated structured entities. The carrying amounts of the assets and off-balance sheet items correspond to the Group's maximum loss exposure from interests in unconsolidated structured entities (without taking into account collateral). The size of the structured entities was determined on the basis of the net fund assets for open-ended property funds and other vehicles and on the basis of total assets for leased property companies.

31 December 2021

€ mn	Open-ended property funds	Leased property companies	Other	Total
Assets				
Loan receivables	30	16	8	**54**
Off-balance sheet exposures				
Loan commitments and guarantees (nominal value)	–	–	2	**2**
Size range of structured units	**€ 242 million – € 1,247 million**	**€ 3 million – € 47 million**	**€ 1 million – € 36 million**	

31 December 2020

€ mn	Open-ended property funds	Leased property companies	Other	Total
Assets				
Loan receivables	31	17	4	**52**
Off-balance sheet exposures				
Loan commitments and guarantees (nominal value)	–	–	2	**2**
Size range of structured units	**€ 167 million – € 896 million**	**€ 5 million – € 47 million**	**€ 1 million – € 11 million**	

(88) Disclosures on material non-controlling interests

Advent International holds around 30 % of the shares in Aareon AG. Voting rights are attached to the shares. Consolidated net income attributable to the non-controlling interest amounted to € 3 million (2020: € 5 million). Aareon's segment assets (before consolidation) amount to € 549 million (2020: € 380 million), comprising € 361 million (2020: € 173 million) in intangible assets, € 73 million (2020: € 92 million) in financial assets, and € 71 million (2020: € 72 million) in property and equipment. Assets are backed by equity of € 209 million (2020: € 201 million). In addition, there are lease liabilities of € 62 million (2020: € 62 million) and € 54 million (2020: € 54 million) in provisions. For further details, please refer to the explanations in relation to the Aareon segment.

(89) Country-by-Country Reporting

The disclosure requirements refer to information on registered office, revenue, profit or loss, taxes on profit or loss, received government assistance as well as wage and salary earners of Aareal Bank AG, together with its foreign branches and domestic and foreign subsidiaries included in the reporting entity-structure, prior to consolidation.

For this purpose, the Bank's entities – subsidiaries as well as Aareal Bank AG's foreign branches – are allocated to our three business segments, Structured Property Financing, Banking & Digital Solutions and Aareon.

Aareal Bank defines the branch offices' operating profit, which is used as a proxy for revenue, as the sum of the following consolidated income statement items (in accordance with IFRSs):

- Net interest income before loss allowance
- Net commission income
- Net derecognition gain or loss
- Net gain or loss from financial instruments (fvpl)
- Net gain or loss from hedge accounting
- Net gain or loss from investments accounted for using the equity method;
- Net other operating income/expenses

Taxes disclosed are tax expenses in accordance with IFRSs.

The number of wage and salary earners relates to average full-time equivalent staff employed during the financial year.

The following overview shows all countries where Aareal Bank AG has offices, including foreign branches and subsidiaries. Please refer to the list of shareholdings as regards the allocation of individual subsidiaries to the relevant country of domicile. Aareal Bank AG's foreign branches are located in France, Ireland, Italy, Poland, Sweden and the UK.

2021

	Revenues	Profit/loss before taxes	Taxes on profit or loss	Number of wage and salary earners
	€ mn	€ mn	€ mn	Full-time equivalents
Structured Property Financing segment	**541**	**154**	**82**	**752**
Belgium	3	3	–	–
France	8	4	1	8
Germany	376	107	63	662
Ireland	1	0	0	1
Italy	16	-60	-10	27
Poland	8	4	1	5
Singapore	6	4	–	7
Sweden	4	6	1	3
United Kingdom	10	6	1	5
USA	112	80	25	34
Consolidation	-3	–	–	–
Banking & Digital Solutions segment	**59**	**-4**	**-1**	**271**
Germany	69	-4	-1	271
Consolidation	-10	–	–	–
Aareon segment	**216**	**5**	**6**	**1,794**
Finland	0	-2	–	3
France	31	8	2	220
Germany	126	1	1	973
Netherlands	35	6	2	291
Norway	1	0	–	4
Sweden	7	-7	0	98
United Kingdom	16	-1	1	205
Consolidation	–	–	–	–
Total	**816**	**155**	**87**	**2,817**

Government assistance was not received in the financial year 2021 (2020: –).

Aareal Bank Group's return on assets, calculated as the ratio of net profit to total assets, was 0.14 % as at the record date.

2020

	Revenues € mn	Profit/loss before taxes € mn	Taxes on profit or loss € mn	Number of wage and salary earners Full-time equivalents
Structured Property Financing segment	**466**	**-99**	**-14**	**752**
Belgium	0	0	–	–
France	8	5	1	7
Germany	330	-40	1	660
Ireland	2	0	0	1
Italy	-12	-13	5	28
Poland	8	5	0	5
Singapore	5	3	0	6
Spain	0	0	–	–
Sweden	2	–	1	3
United Kingdom	46	-32	-23	6
USA	83	-27	1	36
Consolidation	-6	–	–	–
Banking & Digital Solutions segment	**57**	**-3**	**-1**	**265**
Germany	65	-3	-1	265
Consolidation	-8	–	–	–
Aareon segment	**215**	**27**	**9**	**1,595**
Finland	1	0	–	3
France	28	7	2	206
Germany	132	16	6	889
Netherlands	31	4	1	275
Norway	2	1	0	7
Sweden	10	-1	0	94
United Kingdom	11	0	0	121
Consolidation	–	–	–	–
Total	**738**	**-75**	**-6**	**2,612**

(90) List of shareholding

The list of shareholdings is prepared pursuant to section 313 (2) of the HGB. The disclosures in relation to the companies' equity and earnings are retrieved from the financial statements based on the respective local financial reporting principles.

31 December 2021

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated subsidiaries				
2	Aareal Bank Asia Ltd.	Singapore	100.0	SGD 34.5 mn	SGD 7.4 mn [1]
3	Aareal Beteiligungen AG	Frankfurt	100.0	167.0	0.0 [3]
4	Aareal Capital Corporation	Wilmington	100.0	USD 995.9 mn	USD 57.5 mn [4]
5	Aareal Estate AG	Wiesbaden	100.0	2.9	0.0 [3]
6	Aareal First Financial Solutions AG	Mainz	100.0	7.2	0.3 [3]
7	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.8	0.1 [1]
8	Aareal Holding Realty LP	Wilmington	100.0	USD 239.9 mn	USD -0.3 mn [4]
9	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	416.7	0.0 [3]
10	Aareon AG	Mainz	70.0	151.1	-21.2 [1]
11	Aareon Deutschland GmbH	Mainz	100.0	56.8	0.0 [3]
12	Aareon Finland Oy	Helsinki	100.0	0.2	-1.0 [2]
13	Aareon France S.A.S.	Meudon-la Forêt	100.0	11.7	4.6 [2]
14	Aareon Holding France SAS	Meudon-la Forêt	100.0	0.0	0.0 [1]
15	Aareon Nederland B.V.	Emmen	100.0	28.9	0.5 [2]
16	Aareon Norge AS	Oslo	100.0	NOK 10.5 mn	NOK 9.9 mn [2]
17	Aaeron Planungs- und Bestandsentwicklungs GmbH	Mainz	100.0	1.7	0.9 [1]
18	Aareon RELion GmbH	Augsburg	100.0	1.5	0.2 [1]
19	Aareon SMB HUB UK Limited	Kenilworth	100.0	0.0	0.0 [1]
20	Aareon Sverige AB	Mölndal	100.0	SEK 48.2 mn	SEK -9.7 mn [2]
21	Aareon UK Ltd.	Coventry	100.0	GBP 7.0 mn	GBP 0.0 mn [2]
22	Alexander Quien Nova GmbH	Bremen	100.0	0.1	0.0 [1]
23	Arthur Online Ltd.	London	100.0	2.0	-1.4 [1]
24	AV Management GmbH	Mainz	100.0	0.4	0.0 [3]
25	BauContact Immobilien GmbH	Wiesbaden	100.0	16.1	0.5 [1]
26	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 [3]
27	BauGrund Solida Immobilien GmbH	Frankfurt	100.0	0.2	0.0 [1]
28	BauGrund TVG GmbH	Munich	100.0	0.1	0.0 [1]
29	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	4.5	4.3 [1]
30	BriqVest B.V.	Amsterdam	100.0	6.3	0.1 [2]
31	BVG – Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	152.3	0.0 [3]

>

[1] Preliminary figures as at 31 December 2021; [2] Equity and results as at 31 December 2020;
[3] Profit and loss transfer agreement/control and profit transfer agreement; [4] Disclosures in accordance with IFRSs

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
32	CalCon Austria GmbH	Vienna	100.0	0.4	0.0 [1]
33	CalCon Deutschland GmbH	Munich	100.0	2.0	0.1 [1]
34	CalCrom S.R.L.	Iasi	83.3	0.1	0.0 [1]
35	Cave Nuove S.p.A.	Rome	100.0	-37.7	-1.0 [1]
36	Curo Software Ltd.	Warrenpoint	100.0	0.0	0.0 [1]
37	DBB Inka	Dusseldorf	100.0	99.3	-0.9
38	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	0.3	-1.0 [1]
39	Deutsche Structured Finance GmbH	Wiesbaden	100.0	2.0	-0.5 [1]
40	DSF Flugzeugportfolio GmbH	Wiesbaden	100.0	0.0	0.0 [3]
41	DHB Verwaltungs AG	Wiesbaden	100.0	5.1	0.0 [3]
42	FIRE B.V.	Utrecht	60.0	0.0	0.0 [2]
43	GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH	Bremen	100.0	1.7	0.5 [1]
44	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	3.0	0.0 [3]
45	GEV Beteiligungsgesellschaft mbH	Wiesbaden	100.0	0.1	0.0 [1]
46	GVN-Grundstücks- und Vermögensverwaltungsgesell-schaft mit beschränkter Haftung	Frankfurt	100.0	0.2	0.0 [3]
47	Houses2021 MEP Beteiligungs GmbH	Frankfurt	65.6	137.9	-0.7 [1]
48	Houses2021 MEP Verwaltungs GmbH	Frankfurt	70.0	0.2	0.0 [1]
49	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	2.5	0.0 [1]
50	Izalco Spain S.L.	Madrid	100.0	10.6	0.3 [1]
51	La Sessola Holding GmbH	Wiesbaden	100.0	92.6	0.0 [1]
52	La Sessola S.r.l.	Rome	100.0	68.4	-6.6 [1]
53	La Sessola Service S.r.l.	Rome	100.0	2.9	-3.2 [1]
54	Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn [4]
55	Mercadea S.r.l.	Rome	100.0	15.1	-1.0 [1]
56	Mirante S.r.l.	Rome	100.0	3.8	-0.3 [1]
57	Northpark Realty LP	Wilmington	100.0	USD 97.3 mn	USD 9.0 mn [4]
58	OFI GROUP GmbH	Frankfurt	100.0	-1.6	-0.2 [1]
59	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	3.5	0.0 [3]
60	Participation Elfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3]
61	Participation Zehnte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3]
62	phi-Consulting GmbH	Bochum	100.0	0.1	0.0 [3]
63	Pisana S.p.A.	Rome	100.0	-4.7	1.3 [1]
64	plusForta GmbH	Dusseldorf	100.0	0.2	0.0 [3]
65	RentPro Ltd.	Warrenpoint	100.0	0.2	0.1 [1]
66	Tactile Limited	London	100.0	1.0	0.6 [1]
67	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	100.0	4.7	0.0 [3]
68	Terrain Beteiligungen GmbH	Wiesbaden	94.0	60.5	1.4 [1]
69	Tintoretto Rome S.r.l.	Rome	100.0	2.3	-0.2 [1]
70	Twinq Facilitair B.V.	Oosterhout	100.0	1.9	0.1 [2]
71	Twinq Holding B.V.	Oosterhout	100.0	2.5	0.3 [2]
72	Twinq Uitwijk en Escrow B.V.	Oosterhout	100.0	0.2	0.0 [2]

>

[1] Preliminary figures as at 31 December 2021; [2] Equity and results as at 31 December 2020;
[3] Profit and loss transfer agreement/control and profit transfer agreement; [4] Disclosures in accordance with IFRSs

No.	Company name	Registered office	Shareholding	Equity	Results
			%	€ mn	€ mn
73	Twinq Verkoop en Service B.V.	Oosterhout	100.0	0.4	0.1 [2]
74	Westdeutsche Immobilien Servicing AG	Mainz	100.0	50.0	0.0 [3]
75	wohnungshelden GmbH	Munich	100.0	0.3	0.2 [1]
76	WP Galleria Realty LP	Wilmington	100.0	USD 137.2 mn	USD -4.3 mn [4]
	II. Joint arrangements				
77	ImmoProConsult GmbH[5]	Leverkusen	50.0	0.0	0.0 [1]
78	Konsortium BauGrund/TREUREAL[5]	Bonn	50.0	0.0	0.0 [1]
	III. Associates				
79	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Bremen	48.4	0.3	0.0 [2]
80	Ecaria GmbH	Berlin	35.9	0.6	-0.3 [1]
81	Houses2021 Management Beteiligungs GmbH & Co. KG	Frankfurt	41.7	8.6	0.0 [1]
82	Mount Street Group Limited	London	20.0	GBP -8.7 mn	GBP -4.5 mn [1]
83	objego GmbH	Essen	40.0	3.7	-3.6 [1]
84	Refurbio GmbH	Berlin	33.4	0.2	-0.6 [1]
85	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	0.0	0.0 [2]
	IV. Other enterprises				
86	blackprint Booster Fonds International GmbH & Co. KG	Frankfurt	49.9	0.7	-0.1 [2]
87	Houses Nominee Ltd.	London	70.0	0.0	0.0 [1]
88	PropTech1 Fund I GmbH & Co. KG	Berlin	9.6	50.2	-2.3 [1]

[1] Preliminary figures as at 31 December 2021; [2] Equity and results as at 31 December 2020;
[3] Profit and loss transfer agreement/control and profit transfer agreement; [4] Disclosures in accordance with IFRSs; [5] Joint operation

(91) Executive Bodies of Aareal Bank AG

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

Composition of Supervisory Board's committees

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

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

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

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

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

Supervisory Board

Prof. Dr Hermann Wagner, Chairman of the Supervisory Board (since 23 November 2021)
German Chartered Accountant, tax consultant

capsensixx AG (subsidiary of PEH Wertpapier AG)	Member of the Supervisory Board	
PEH Wertpapier AG	Member of the Supervisory Board	
Squadra Immobilien GmbH & Co. KGaA	Chairman of the Supervisory Board	
(Membership on comparable German and foreign supervisory bodies)		
Corestate Capital Holding S.A.	Deputy Chairman of the Supervisory Board	until 31 December 2021

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

Klaus Novatius*, Deputy Chairman of the Supervisory Board
Aareal Bank AG

Jana Brendel, Chairman of the Technology and Innovation Committee
Chief Information Officer 1&1 Telecommunication SE

(Membership in other statutory supervisory boards)		
IQ-optimize Software AG (Tochtergesellschaft der 1&1 Drillisch AG)	Chairman of the Supervisory Board	since 12 December 2021

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

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

Thomas Hawel*
Aareon Deutschland GmbH

(Membership in other statutory supervisory boards)		
Aareon Deutschland GmbH (Aareal Bank Group)	Deputy Chairman of the Supervisory Board	

Petra Heinemann-Specht*
Aareal Bank AG

Jan Lehmann*
Aareon Deutschland GmbH

(Membership in other statutory supervisory boards)		
Aareon Deutschland GmbH (Aareal Bank Group)	Member of the Supervisory Board	

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

Sylvia Seignette, Chairman of the Risk Committee
Former CEO for Germany and Austria, Crédit Agricole CIB (formerly Calyon)

Elisabeth Stheeman
External Member des Financial Policy Committee and of the Financial Market Infrastructure Board, Bank of England, Prudential Regulation Authority

(Membership in other statutory supervisory boards)		
alstria office REIT-AG	Member of the Supervisory Board	since 6 May 2021
(Membership on comparable German and foreign supervisory bodies)		
Asian Infrastructure Investment Bank	Member of the Board of Directors	since 1 April 2021
Edinburgh Investment Trust Plc	Member of the Board of Directors	

Dr Ulrich Theileis since 14 January 2022
Former Deputy Chairman of the Management Board of L-Bank, Landeskreditbank Baden-Württemberg – Förderbank

(Membership on comparable German and foreign supervisory bodies)		
Sächsische Aufbaubank	Member of the Board of Directors	

Retired members

Marija Korsch, Chairman of the Supervisory Board (until 23 November 2021) until 9 December 2021
Former partner of Bankhaus Metzler seel. Sohn & Co. Holding AG

(Membership in other statutory supervisory boards)		
Instone Real Estate Group AG	Member of the Supervisory Board	until 9 June 2021
Just Software AG	Member of the Supervisory Board	
(Membership on comparable German and foreign supervisory bodies)		
Nomura Financial Products Europe GmbH	Member of the Supervisory Board	until 15 November 2021

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

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Christof von Dryander **Senior Counsel (retired Partner), Cleary Gottlieb Steen & Hamilton LLP**		until 9 December 2021
(Membership in other statutory supervisory boards)		
DWS Investment GmbH	Deputy Chairman of the Supervisory Board	

Hans-Dietrich Voigtländer **Associate Partner at BDG Innovation + Transformation GmbH & Co. KG**		until 9 December 2021

Management Board

Jochen Klösges, Chairman of the Management Board (CEO) **Banking & Digital Solutions, Corporate Affairs, Group Audit, Group Communications & Governmental Affairs, Group Human Resources & Infrastructure, Group Strategy, Group Technology**		since 15 September 2021
(Membership in other statutory supervisory boards)		
Aareon AG (Aareal Bank Group)	Chairman of the Supervisory Board	since 16 December 2021
(Membership on comparable German and foreign supervisory bodies)		
Oest-Stiftung (Oest Group)	Member of the foundation and administrative board	

Marc Hess, Member of the Management Board (CFO) **Finance & Controlling, Investor Relations, Treasury**		
(Membership in other statutory supervisory boards)		
Aareal Beteiligungen AG (Aareal Bank Group)	Member of the Supervisory Board	
Aareon AG (Aareal Bank Group)	Member of the Supervisory Board	

Christiane Kunisch-Wolff, Member of the Management Board (CRO) **Credit Management, Information Security & Data Protection, Non Financial Risk, Regulatory Affairs, Risk Controlling**		
(Membership in other statutory supervisory boards)		
Aareal Estate AG (Aareal Bank Group)	Member of the Supervisory Board	2 June to 18 August 2021

Christof Winkelmann, Member of the Management Board (CMO) **Aareal Asia/Pacific, Business Management & Economic Analysis, Euro-Hub, Loan Markets & Syndication, Non-Euro-Hub, Special Property Finance 1 and 2, Strategy & Business Development, USA Origination**		
(Membership in other statutory supervisory boards)		
Aareal Estate AG (Aareal Bank Group)	Chairman of the Supervisory Board	since 2 June 2021
	Member of the Supervisory Board	until 2 June 2021
(Membership on comparable German and foreign supervisory bodies)		
Aareal Bank Asia Ltd. (Aareal Bank Group)	Chairman of the Board of Directors	
Aareal Capital Corporation (Aareal Bank Group)	Chairman of the Board of Directors	since 31 May 2021
	Member of the Board of Directors	until 31 May 2021

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Retired members

Hermann Josef Merkens, Chairman of the Management Board (CEO)		until 30 April 2021
(Membership in other statutory supervisory boards)		
Aareal Beteiligungen AG (Aareal Bank Group)	Chairman of the Supervisory Board	
Aareal Estate AG (Aareal Bank Group)	Chairman of the Supervisory Board	
Aareon AG (Aareal Bank Group)	Deputy Chairman of the Supervisory Board	
(Membership on comparable German and foreign supervisory bodies)		
Aareal Capital Corporation (Aareal Bank Group)	Chairman of the Board of Directors	
Becker & Kries family foundation	Member of the Board of Trustees	

Dagmar Knopek, Member of the Management Board (CLO)		until 31 May 2021
(Membership in other statutory supervisory boards)		
Aareal Estate AG (Aareal Bank Group)	Member of the Supervisory Board	since 28 January 2021
HypZert GmbH	Chairman of the Supervisory Board	

Thomas Ortmanns, Member of the Management Board (CDO)		until 30 September 2021
(Membership in other statutory supervisory boards)		
Aareon AG (Aareal Bank Group)	Chairman of the Supervisory Board	

Wiesbaden, 1 March 2022

The Management Board

Jochen Klösges

Marc Hess

Christiane Kunisch-Wolff

Christof Winkelmann

Independent Auditor's Report

To Aareal Bank AG, Wiesbaden, Germany

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Aareal Bank AG, Wiesbaden and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Aareal Bank AG for the financial year from 1 January to 31 December 2021.

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

The group management report contains references not required by law. In accordance with German legal requirements, we have not audited the content of the references named in the notes to the auditor's opinion and the information relating to references.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the components of the group management report named in the notes to the audit opinion. The group management report contains references not required by law. Our audit opinion does not cover the references named in the notes to the audit opinion and information relating to the references.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter the "EU Audit Regulation"), taking into account the German Generally Accepted Standards for Financial Statements Audits promulgated by the German Institute of Public Auditors in Germany (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) EU Audit Regulation we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

■ Measurement of the bail-out purchases

For information on the accounting polices applied, please refer to Note 19 – Property, plant and equipment and 22 – Other assets.

THE FINANCIAL STATEMENT RISK

In the consolidated financial statements of Aareal Bank AG as at 31 December 2021 property and land from previous loan exposures – so-called "bail-out purchases" – were recognised under "Property, plant and equipment" and "Other assets".

Depending on the development status of the bail-out purchases and property strategy, in line with IFRS there are different classifications of the bail-out purchases which have significant influence on the subsequent measurement of the bail-out purchase.

The bail-out purchases are held in property companies and, with one exception, are intended for sale in the ordinary course of business. The subsequent measurement takes place in line with IAS 2 according to the lower of cost and net realisable value. With the support of a third-party, a hotel property is being used by the Bank itself for rental. The subsequent measurement is performed in line with IAS 16 on the basis of the cost model. In addition, if there are indications of impairment it must be assessed whether the carrying amount exceeds the recoverable amount and thus whether impairment is required. The properties are either hotel, residential office or retail properties.

In the context of subsequent measurement, Investment Management at the Bank examined the recoverability of the properties and land at each reporting date. In doing so, the Bank mandates independent experts and considers their methodology and results. The market values of the properties are derived as the present value of future cash flows (DCF method or residual value method for project developments), or on the basis of space-related comparable values.

The planning calculations thus integrate various assumptions subject to uncertainty, e.g. property completion, leasing and marketing. Furthermore, as a result of the corona pandemic there is an ongoing high level of uncertainty in respect to the future development, particularly for hotel and retail properties.

These assumptions which are subject to estimating uncertainty have a substantial impact on the net realisable value and the recoverable amount of the bail-out purchases and thus also on the assessment of the recoverability of the carrying amounts of the bail-out purchases.

For the consolidated financial statements there is the risk that inappropriate subsequent measurement is implemented on the basis of an incorrect classification of the bail-out purchases. There is also the risk that the calculating methods underlying the appraisals are inappropriate or that as a result of the inappropriate exercise of judgement resulting from the assumptions subject to uncertainty impairment of the bail-out purchases is not identified.

OUR AUDIT APPROACH

Based on our risk assessment and the assessment of the error risks, we based our audit opinion on both control-based audit procedures and substantive audit procedures.

Based on our audit we initially examined the classification of the bail-out purchases in line with IFRS and thus the accuracy of the subsequent measurement.

We also examined the Bank's controls and processes to validate the appraisals obtained in terms of appropriateness and effectiveness.

Furthermore, with the involvement of KPMG property experts, we examined selected appraisals, in particular in respect to the following focal points:

- Assessment of the expertise, ability and objectivity the external experts
- Assessment of the general appropriateness of the measurement methods used
- Reasonableness of material assumptions subject to assessment uncertainty used by the experts, especially in light of the corona pandemic

In addition, we audited whether the management's currently envisaged development plans and assumptions are appropriate and were appropriately integrated into the appraisals.

OUR OBSERVATIONS

The classification of the bail-out purchases is appropriate. The measurement methods used in the appraisals which are subject to assessment uncertainty are appropriate and proper.

Recoverability of goodwill from the Aareon subgroup

For information on the accounting polices applied, please refer to Note 18 – Intangible assets (in the section on accounting policies). Information on the impairment test is described in Note 47 – Intangible assets (in the balance sheet disclosures section).

RISK FOR THE FINANCIAL STATEMENTS

As at 31 December 2021, goodwill from the Aareon subgroup amounted to € 232 million (previous year: € 99 million).

The recoverability of the goodwill of the Aareon subgroups is tested annually at the level of the six cash-generating units (CGUs) separated by the regions of the Aareon subgroup. In doing so, the carrying amount is compared with the recoverable amount of the CGU group. If the carrying amount is higher than the recoverable amount, there is a need for impairment. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the CGU group. The reporting date for the impairment test is 31 December 2021.

The impairment test for goodwill is complex and is based on a range of assessments where judgement is exercised. These include in particular the expected business and earnings developments of the CGUs individually broken down by region for the next five years, the assumed long-term growth rates and the discount rate applied.

In the 2021 financial year, due to various new acquisitions goodwill at the level of Aareon subgroups increased by € 133 million to € 232 million. These acquisitions included start-ups still in the development phase whose development in respect to future business potential, revenue growth, the assumed long-term growth rate and the discount rate are subject to a particularly high level of uncertainty.

For the consolidated financial statements there is the risk that the underlying calculation methods are not appropriate or not in line with the measurement principles to be applied. There is also the risk that a goodwill impairment as at the reporting date is not identified as a result of an inappropriate exercise of the judgement described.

OUR AUDIT APPROACH

Based on our risk assessment and the assessment of the error risks, we planned to base our audit opinion on both control-based audit procedures and substantive audit procedures.

Based on our audit we assessed the processes and the ICS relating to the corporate planning for identifying impairment requirements. This result was that no appropriate audit evidence was gained so that our audit opinion is based solely on the substantive audit procedures described below.

We examined the appropriate transfer of corporate planning into the goodwill impairment tests.

In addition, with the involvement of our measurement specialists we assessed, among other matters, the appropriateness of the material assumptions and the calculation methodology of the goodwill impairment tests. To do this we discussed with those responsible for planning in particular the anticipated business and earnings development and the long-term growth rates assumed. In addition, we assessed the consistency of the assumptions against external market estimates.

Furthermore, we satisfied ourselves of the previous forecast quality of the companies by comparing planning of previous financial years with the results actually realised and analysed deviations. As slight changes to the discount rate can have a material impact on the results of the impairment tests, we compared the assumptions and data underlying the discount rate, in particular the risk-free interest rate, the market risk premiums and the beta factor with our own assumptions and publicly available data.

We verified the mathematical accuracy of the measurement model used by the Company.

In order to take account of the existing forecast uncertainty, we examined the impact of possible changes in the discount rate, the earnings trend and the long-term growth rate on the recoverable amount by calculating alternative scenarios and comparing them with the values obtained by the Company (sensitivity analysis).

OUR OBSERVATIONS

The calculation method used for the goodwill impairment test is appropriate and is consistent with the measurement principles to be applied. The assumptions of the Company underlying the measurement are reasonable overall.

Appropriateness of risk provisions Stage 3

For information on the accounting polices applied, please refer to Note 9 – Recognition and measurement of financial instruments and Note 43 – Risk provisions and Note 63 – Disclosures on the credit risk.

THE FINANCIAL STATEMENT RISK

The credit business at Aareal Bank preponderately comprises large-volume commercial property financing for which the Aareal Bank Group individually calculates the risk provisions. As at 31 December 2021, the Aareal Bank Group recognises impairment on credit receivables of € 486 million. € 403 million of these relate to Stage 3 provisions.

One of the material requirements of IFRS 9 – Financial Instruments is that the measurement of the risk provision generally takes place on the basis of probability-weighted scenarios and thus consequently also for credit-impaired debt instruments (the State 3 provision). In this context account is also to be taken of macroeconomic factors on the default risks.

In determining scenarios by number and content, the derivation of expected cash flows in the respective scenario and assessment of the probability judgement is to be exercised to a material extent. These estimates are subject to uncertainty because they can be intensified as a result of the consequences of the Covid-19 pandemic.

For this reason it was particularly important for our audit that the number of scenarios observed was consistent with the complexity of situations determining the individual default risks including the dependency on macroeconomic factors. We regarded it as equally important that the selection of the specific scenarios, the assessment of probabilities and the assessment of the expected cash flows in the respective scenarios was verifiable, appropriately substantiated and incontrovertibly implemented and documented.

OUR AUDIT APPROACH

Based on our risk assessment and the assessment of the error risks, we based our audit opinion on both control-based and substantive audit procedures. The audit procedures we performed thus included the following:

In a first step, we obtained a comprehensive overview on the development of the credit portfolio, the related counterparty default risks and the internal control system in relation to the identification, management, monitoring and recognition of the counterparty default risks in the credit portfolio.

Our audit included structural and functional examinations of the internal control system, in which respect we focussed on the assessment of the internal accounting methodology with reference to the measurement of credit-impaired receivables. For the IT and data processing systems deployed, using our IT specialists we examined the effectiveness of the regulations and procedures relating to a large number of IT applications and which support the effectiveness of the application controls.

On the basis of these findings, in the context of our selection of loan exposures defined on the basis of materiality and risk aspects, we also assessed the appropriateness of the number and content of the scenarios used and the probabilities assigned to these scenarios. In our audit we took the complexity of the respective financing and the probable determined factors for the development of the exposure and verified if the assumptions underlying the scenarios were consistent with the forecasts on the general macroeconomic situation used by Aareal Bank.

Then we assessed the cash flows derived for the scenarios. In our assessment, depending on the exposure strategy pursued, we included the measurement of collateral. In auditing the recoverability of the underlying collateral, in our assessment we deployed appraisals of independent experts and on the basis of publicly available data assessed whether the assumptions in the appraisals were appropriately derived. With the selective involvement of KPMG property experts we examined selected appraisals, in particular for the following key matters:

- Assessment of the expertise, ability and objectivity the external experts
- Assessment of the general appropriateness of the measurement methods used
- Reasonableness of material assumptions subject to assessment uncertainty used by the experts, especially in light of the corona pandemic

We concluded our audit by verifying the correct calculation of the expected credit loss.

OUR OBSERVATIONS

With the receivables assigned to Level 3 provisions , we come to the conclusion that the selection of the specific scenarios, the assessment of probabilities and the assessment of the expected cash flows in the respective scenarios, including the dependency on macroeconomic factors, was verifiable, adequately substantiated and incontrovertibly implemented and documented.

Other Information

The Management Board and/or the Supervisory Board are responsible for the other information. The other information comprises:

- the components of the group management report, whose content was not audited, referred to in the notes to the auditor's opinion.

The other information additionally includes the other parts of the annual report. The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information identified above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is responsible for such internal control as it has determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.

- Conclude on the appropriateness of Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with (German) law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the Management Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that can reasonably be thought to bear on our independence and, where applicable, the related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation preclude public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file Aareal Bank_AG_KA+KLB_ESEF_2021-12-31.zip (SHA256 hash value: ae067777139a5f53245107b39609ed502ca1f994a31c 29305cb7 bd22221a569e) made available and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (10.2021)). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Management Board of the Company is responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Management Board of the Company is responsible for such internal control that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, on the technical specification for this electronic file.

- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 EU Audit Regulation

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

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

Other Matter – Use of the Auditor's Report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the examined ESEF documents. The consolidated financial statements and group management report converted to the ESEF format – including the versions to be published in the German Federal Gazette [Bundesanzeiger] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents made available in electronic form.

German Public Auditor Responsible for the Engagement

The audit partner with responsibility for the engagement is Markus Winner.

Frankfur/Main, 4 March 2022

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

Wiechens	**Winner**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
German Public Auditor	**German Public Auditor**

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

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

- the corporate governance statement referred to in the group management report and
- the separate non-financial report referred to in the group management report.

We did not audit the content of the references in the group management report not required by law and the information related to the references:

- Details on key employee indicators (in the "Our employees" section, table of HR data in the group management report)

Responsibility Statement

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

Wiesbaden, 1 March 2022

The Management Board

Jochen Klösges **Marc Hess**

Christiane Kunisch-Wolff **Christof Winkelmann**