Annual Financial Statements and Management Report 2023

of Aareal Bank AG

Aareal

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Contents

Management Report

Fundamental Information about the Group

Business model

Aareal Bank AG, headquartered in Wiesbaden, Germany, is the parent company of the Group. Aareal Bank Group's strategy focuses on sustainable business success.

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

Structured Property Financing

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

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

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

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

Funding

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

Banking & Digital Solutions

In the Banking & Digital Solutions segment, Aareal Bank Group offers its clients from the institutional housing industry, commercial property companies, as well as the energy and utilities industry, solutions for the integrated processing of payment flows, especially for housing properties, thus contributing to a more efficient and sustainable structure of its clients' fundamental business processes. Aareal Bank Group's BK01 software provides a procedure for the automated settlement of mass payments in the German property industry. The procedure is integrated in licenced ERP systems. In conjunction with payment transactions processed via Aareal Bank's account systems (BK@1), deposits are generated that contribute significantly to Aareal Bank Group's funding base. Besides the German property industry, the German energy sector forms a second major client group of the segment for the services mentioned above. The segment offers further services to these industries, such as digital tenant deposit solutions and end-customer communications, alongside AI-supported solutions for invoices and dunning processes. The Banking & Digital Solutions segment includes the collect.AI and plusForta subsidiaries.

Aareon

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

Management system

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

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

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

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

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

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

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

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

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

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

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

Report on the Economic Position

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

Macro-economic environment

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

Economy

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

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

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

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

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

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

Annual rate of change in real gross domestic product

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

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

Financial and capital markets, monetary policy and inflation

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

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

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

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

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

Short-term interest rates[1] in the euro zone at year-end 2023 were above those for year-end 2022. The same applied to the pound sterling, the US dollar, the Swedish krona, and the Australian dollar. While short-term interest rates also rose for the Canadian dollar, the increase was less pronounced. Long-term interest rates[2] overall went up during the year, reaching peak levels in October 2023. This was followed by a strong and swift decrease in the fourth quarter due to changed interest rate expectations. Interest rate levels in the euro zone, for the pound sterling, Swedish krona, Canadian dollar, and Australian dollar ended the year below the levels seen at the beginning of the year, and remained nearly unchanged for the US dollar. Ten-year government bonds painted a uniform picture, with yield declines observed for most of them. Only the yields for US bonds remained unchanged compared to the beginning of the year, albeit with significant fluctuations over the course of the year. The rapid increase in short-term interest rates caused one of the sharpest yield curve inversions to be witnessed in the euro zone as well as the US. This development was driven by a comparatively stronger increase of short-term than long-term interest rates, and also reflected decreased growth expectations. The inversion levelled off in the fourth quarter due to anticipated interest rate cuts and the higher probability of a soft landing in the US when compared to mid-year expectations.

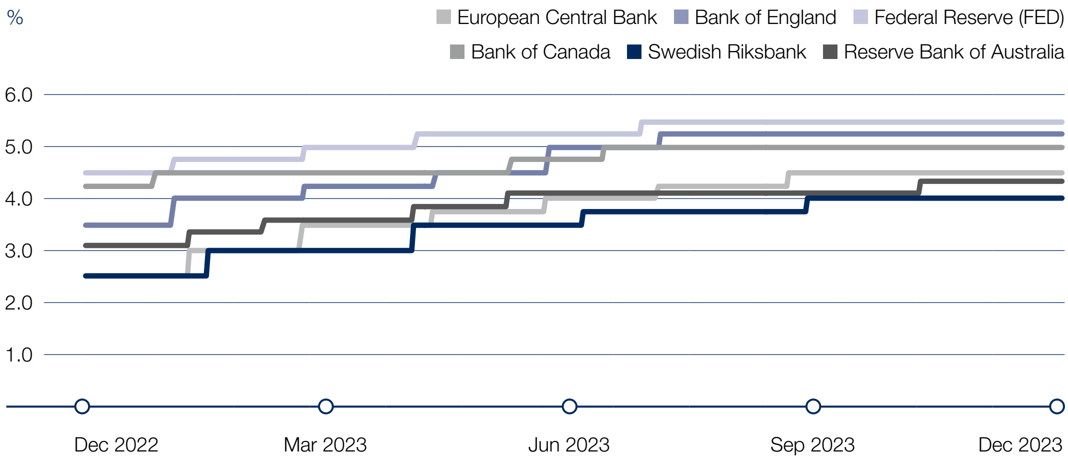
Monetary policy in the individual currency areas, differing economic outlooks and inflation expectations also shaped the currency markets in 2023. Changing market expectations regarding monetary policy perspectives led to strong EUR/USD exchange rate movements over the course of the year. Especially phases with stronger than expected US economic data were accompanied by a depreciation of the euro, followed by an appreciation in the fourth quarter due to increasing expectations concerning potential earlier interest rate cuts in the US in 2024. At the end of the year, the exchange rate was USD1.11 per euro, i.e. above the rate prevailing on 30 December 2022 (USD1.07 per euro). The EUR/CAD exchange rate followed an unspecific trend over the same period, with the euro recovering slightly – from CAD1.44 per euro at the beginning of the year to a year-end rate of CAD1.46 per euro. Against pound sterling, the euro fell slightly over the course of the year, from GBP0.89 to the euro at the beginning of the year to GBP0.87 at year-end. The depreciation occurred in the first six months, followed by a stable exchange rate during the second half of the year. Similarly, the euro depreciated marginally vis-a-vis the Swedish krona, from SEK11.12 to the euro at the beginning of the year to

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

SEK11.10 to the euro at the end of the year, following a volatile intra-year performance. The euro appreciated against the Australian dollar, from AUD1.57 at the beginning of the year to AUD1.63 per euro at the end of 2023.

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

Key rate developments in 2023[1)]



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

Turbulence in the banking sector and the central banks' restrictive monetary policy increased the uncertainty felt by market participants, leading to highly volatile capital markets in 2023. As a result, risk premiums for uncovered bonds were more volatile, and credit spreads for covered bonds rose due to oversupply which in turn was due, amongst other things, to the ECB withdrawing from the market as a large purchaser of covered bonds. The escalating conflict in the Middle East increased market unrest in the fourth quarter.

Regulatory environment

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

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

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

Moreover, both national and European regulators are imposing various new requirements – including in connection with IT/information security risks, or regarding the prevention of money laundering/terrorist financing and tax evasion. Furthermore, politicians and banking supervisors are deeming it necessary to establish sustainability more strongly within society, and as a regulatory requirement within the economy. To this end, a standard taxonomy was introduced in the EU, which provides the basis for the classification of economic activities with regard to sustainability targets. The taxonomy forms the basis for a large number of disclosure requirements for financial and non-financial entities. Disclosure requirements for the 2024 financial year will also increase due to the first-time application of the Corporate Sustainability Reporting Directive (CSRD). In addition, the number of data points to be published in 2024 will increase due to the requirement for large listed institutions to include qualitative and quantitative information on ESG risks in the regulatory disclosure report on a half-yearly basis, as stipulated by the CRR II.

The ECB's Supervisory Review and Evaluation Process (SREP) ensures a common approach on the supervisory review of banks, within the framework of Pillar 2. The SREP is built around a business model analysis, an assessment of governance, as well as of the capital and liquidity risks. Results from the individual areas are aggregated in a score value from which the ECB derives supervisory measures on holding additional capital and/or additional liquidity buffers.

Sector-specific and business developments

Structured Property Financing segment

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

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

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

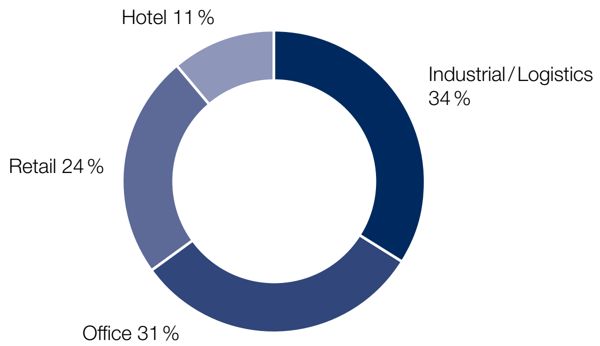
Soaring interest rates not only affected transaction markets and transaction yields demanded by investors, but also the ability to service debt. Financings not hedged via a fixed-rate period or adequate hedging instruments, or financings for which these fixed-date periods or instruments expired, were challenged by higher borrowing costs. The impact on the viability of debt service varied, depending on property type and country, with the strongest effect being observed on the US office market: not only did US interest rate

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

levels rise more than in the euro zone, the US market was also more affected by the working-from-home trend (and the related increase in vacancy rates) which burdened income in addition to the interest rate increases. Logistics properties benefited from higher rents, and hotels from higher occupancy rates and an increase in average room rates, thus offsetting the interest rate pressure on debt service. Even though inflation and the tight labour market challenged hotels with increased operating and personnel costs, and in part with a shortage of skilled labour, this property type generated higher income and thus recorded an overall positive development in 2023. The not-so-new topic of e-commerce had led to lower retail property valuations even before 2023, taking away some of the weight in the year under review.

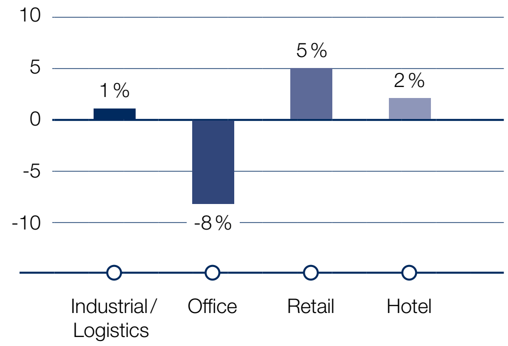
Share of transaction volume observed worldwide in 2023

in %



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

percentage points



Aareal Bank generated new business[1] of €10.0 billion (2022: €8.9 billion) in the full year 2023, reaching the upper limit of the communicated target range of €9 billion to €10 billion. The share of newly-originated loans was 62% (2022: 67%) or €6.2 billion (2022: €6.0 billion). Renewals amounted to €3.8 billion (2022: €2.9 billion). Aareal Bank concluded new green financing business of around €3.0 billion in the full year 2023; the portfolio volume of green financings rose by a total of €2.6 billion to approximately €4.8 billion. In this context, it should be noted that changes to the portfolio volume can also result from existing clients issuing the required undertaking and related certificates for the first time, or from other financings losing their status as green instruments. Green loans meet the minimum energy efficiency requirements of the “Aareal Green Finance Framework” and the client undertakes to meet these requirements throughout the term of the loan. Properties are classified as green if they adhere to the EU taxonomy criteria, have an above-average sustainability rating by recognised rating agencies or comply with energy efficiency criteria.

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

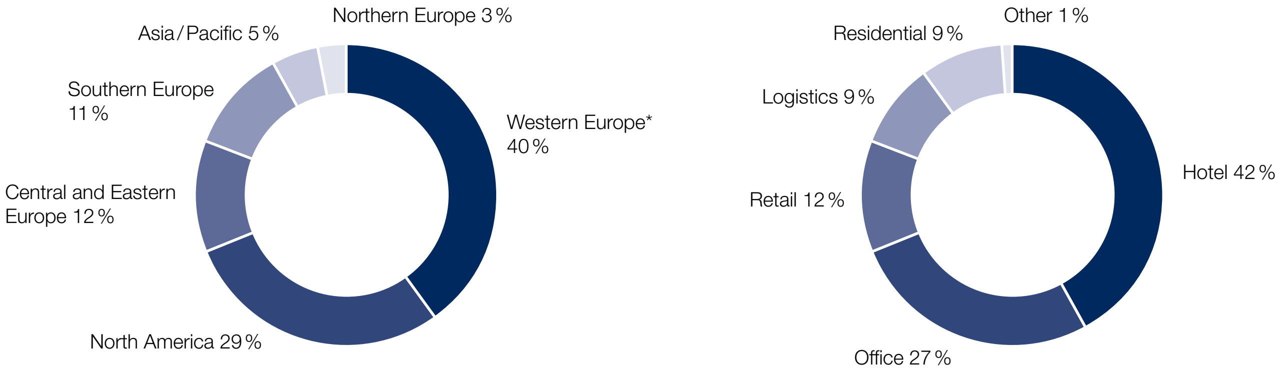
At approximately 66% (2022: 65%), Europe accounted for the largest share of new business, followed by North America with 29% (2022: 28%) and the Asia/Pacific region with 5% (2022: 7%).[2]

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

[1] New business, excluding former WestImmo's private client business and local authority lending business
[2] New business is allocated to the individual regions on the basis of the location of the property used as collateral. For exposures not collateralised by property, allocation is based on the borrower's country of domicile.

New business[1] 2023

by regions | by type of property (%)



* Incl. Germany

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

Europe

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

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

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

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

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

North America

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

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

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

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

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

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

Asia/Pacific region

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

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

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

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

Banking & Digital Solutions segment

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

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

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

Aareon segment

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

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

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

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

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

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

Financial Position and Financial Performance

Financial performance

Aareal Bank AG closed the 2023 financial year – which was characterised by a demanding and challenging market environment, as in the previous year – with an operating profit (excluding loan loss provisions) of €534.6 million (2022: €298.3 million).

The aggregate of net interest income and net commission income amounted to €807.9 million, and thus increased significantly by €122.1 million compared to the previous year, largely due to a year-on-year increase in the credit portfolio, good margins as well as the impact of higher interest rates in connection with the continued high volume of deposits. Interest income from lending and money-market transactions rose by €913.3 million year-on-year, whilst interest income from securities increased by €76.8 million. Interest expenses increased by €803.6 million. Current income of €0.4 million during the year under review (2022: €64.1 million) was attributable to investments. Net commission income of €14.0 million was down €0.7 million year-on-year.

Administrative expenses (including depreciation and amortisation of intangible assets and tangible fixed assets) of €299.4 million were €11.4 million lower than in the previous year. Contributing factors included lower expenses for pension schemes; other administrative expenses also decreased.

Net other operating income and expenses showed a marked improvement of €102.8 million year-on-year, to €26.1 million. Significant increases were seen in income from the valuation of plan assets used for pension obligations, and in currency translation differences.

The balance of provisions for loan losses and the result from securities held as liquidity reserve amounts to €-241.6 million (2022: €-192.1 million). This figure includes expenditure for specific and general loan loss provisions, provisions, amortisation and depreciation. Securities held as liquidity reserve were revalued strictly at the lower of cost or market; the item also includes capital gains and losses realised on this portfolio.

Net other income and expenses of €210.4 million (2022: €-24.7 million) largely comprises income from the partial sale of Aareal First Financial Solutions AG to Aareon AG. Furthermore, the net figure comprises the results and revaluation of subsidiaries, as well as the results from investment securities and non-income taxes.

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

Taking into account a net income tax liability of €112.1 million (2022: €20.5 million), the Bank posted net income of €391.3 million (2022: €61.0 million). Including the profit carried forward from the previous year of €61.0 million, net retained profit amounts to €452.3 million (2022: €61.0 million).

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

Group targets for the 2023 financial year could not be achieved for all key financial performance indicators. The following section presents the key financial indicators in accordance with IFRSs. At €149 million, consolidated operating profit was lower than in the previous year (€239 million) and below the original target, reflecting the additional, substantial efficiency-enhancing measures at Aareon and the exploitation of additional opportunities in the swift NPL reduction. Mainly due to a year-on-year increase in the credit portfolio, solid margins, and the impact of rising interest rates on the continued high volume of deposits, net interest income of €978 million was significantly higher than in the previous year (€702 million), and above expectations. Loss allowance of €441 million (2022: €192 million) exceeded original projections. The figure also includes additional loss allowance for a swift NPL reduction, as well as approximately €35 million for our run-down Russian exposure. In addition, model-based Stage 1 and Stage 2 loss allowance was recognised in an aggregate amount of €25 million, as a result of a post-model adjustment which reflects necessary adjustments to loss allowance due to effects around the reporting date. Net commission income also increased to €307 million (2022: €277 million) on the back of sales revenue growth at Aareon and in the Banking & Digital Solutions segment, only slightly missing the Bank's ambitious expectations. Administrative expenses increased to €645 million (2022: €571 million), reflecting Aareon's strong growth and efficiency-enhancement measures of around €90 million, thus slightly exceeding original expectations. Costs at the Bank remained largely stable. At 32% (excluding the bank levy and contributions to the deposit guarantee scheme, as is customary in the banking sector), the cost/income ratio in the banking business was at a very low – i.e. very good – level during the period under review, even in an international comparison. Assuming the pro rata temporis accrual of interest payments on the AT1 bond, earnings per ordinary share (EpS) amounted to €0.69 (2022: €2.32), and RoE after taxes 1.4% (2022: 5.0%).

Financial position – assets and liabilities

Aareal Bank AG's total assets stood at €49.2 billion as at 31 December 2023, remaining largely stable compared to the previous year's level (31 December 2022: €48.4 billion).

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

The book value of debt and other fixed-income securities increased by €1.7 billion to €9.1 billion as at 31 December 2023 (31 December 2022: €7.4 billion). The portfolio comprises three asset classes: public-sector borrowers, covered bonds and Pfandbriefe, as well as bank bonds.

Structure of the property financing portfolio

The volume of Aareal Bank AG's property financing portfolio stood at €29.1 billion as at 31 December 2023, an increase of approximately 5.8% compared to the year-end 2022 figure of €27.5 billion.

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

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

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

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

Financial position – liquidity

Money-market liabilities and deposits from the housing industry

Generally, in addition to deposits from housing industry clients, Aareal Bank also uses deposits from institutional investors including retail deposits for short-term refinancing. To raise funds from retail deposits, it launched several cooperations in 2022 by way of a trust model – via Raisin and Deutsche Bank, for example. It also uses interbank and repo transactions to manage liquidity and cash positions.

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

Long-term funding and equity

Funding structure

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

The long-term refinancing portfolio totalled €24.8 billion as at 31 December 2023 (31 December 2022: €23.8 billion), comprising €16.1 billion (2022: €14.7 billion) in Mortgage Pfandbriefe and Public Sector Pfandbriefe, €8.2 billion (2022: €8.6 billion) in unsecured funding, €0.2 billion (2022: €0.3 billion) in subordinated funding, plus €0.3 billion (2022: €0.3 billion) in Additional Tier 1 capital.

Funding activities

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

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

Equity

Aareal Bank AG's total equity as disclosed in the statement of financial position amounted to €2,299.9 million as at 31 December 2023 (31 December 2022: €1,908.6 million).

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

Regulatory Indicators[1)]

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

[1)] Aareal Bank AG utilises the rules set out in section 2a of the KWG in conjunction with Article 7 of the CRR, pursuant to which regulatory indicators of own funds may only be determined at Group level. In this respect, the following disclosures relate to Aareal Bank Group.
31 December 2022: including the originally proposed dividend of €1.60 per share in 2022 and pro rata temporis accrual of the interest on the AT1 bond, excluding profits for 2022 under commercial law.
31 December 2023: including profits for 2023 and pro rata temporis accrual of interest on the AT1 bond, given that there are no plans to pay out profits for 2023 in 2024. The appropriation of profits is subject to approval by the Annual General Meeting. The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of new NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.
Adjusted total risk exposure amount (in accordance with Article 3 CRR – RWAs), in accordance with currently applicable law (CRR II) and applying the partial regulation for the "output floor" in connection with commercial property lending and equity exposures, based on the European Commission's proposal dated 27 October 2021 for implementation of Basel IV (CRR III). The adjusted risk-weighted exposure amount for commercial property lending and equity exposures is determined using the higher of (i) total RWAs calculated in accordance with CRR II currently in force, and (ii) the figure calculated in accordance with the revised CRSA (pursuant to CRR III), applying the transitional provisions for 2025 (50% output floor).

Regulatory capital[1)]

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

[1)] 31 December 2022: including originally proposed dividend of €1.60 per share in 2022 and pro rata temporis accrual of interest on the AT1 bond, excluding profits for 2022 under commercial law.
31 December 2023: including profits for 2023 and pro rata temporis accrual of interest on the AT1 bond, given that there are no plans to pay out profits for 2023 in 2024. The appropriation of profits is subject to approval by the Annual General Meeting. The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of new NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

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

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

[1)] Adjusted total risk exposure amount (as defined in Article 3 CRR – RWAs), in accordance with currently applicable law (CRR II) and applying the partial regulation for the "output floor" in connection with commercial property lending and equity exposures, based on the European Commission's proposal dated 27 October 2021 for implementation of Basel IV (CRR III). The adjusted risk-weighted exposure amount for commercial property lending and equity exposures is determined using the higher of (i) total RWAs calculated in accordance with CRR II currently in force, and (ii) the figure calculated in accordance with the revised CRSA (pursuant to CRR III), applying the transitional provisions for 2025 (50% output floor).
[2)] 31 December 2023: there was no requirement to cover market risk with regulatory capital since, under article 351 of the CRR, the sum total of the net foreign currency position in aggregate did not exceed 2% of regulatory capital.

Our Employees

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

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

Employee data as at 31 December 2023[1)]

	31 Dec 2023	31 Dec 2022	Change
Number of employees of Aareal Bank AG	1,045	973	7.4%
Years of service	12.0 years	12.2 years	-0.2 years
Staff turnover rate	4.6%	4.3%	0.3 percentage points

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

Qualification and training programmes

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

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

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

The staff development dialogue builds on the employee's current tasks and, in the Company's and the employee's interests, promotes and enhances both soft skills and hard (professional, methodological and digital) skills. In this context, networking knowledge contributes to the permanent development of the organisation and guarantees that specialist knowledge is secured through sustainable succession planning.

This integrated qualification and professional development approach also helps to improve the balance between work and family life, which is one of Aareal Bank's core concerns. As a matter of consequence, 50% of the training content is available in digital format, therefore facilitating permanent learning regardless of time or location.

In addition, a digital language learning portal helps to further build language and communications skills, within the scope of internationalisation. This learning portal was expanded in 2021 and allows all employees throughout the Group to improve their language skills, anywhere (even at home) and at any time.

Another personnel development measure was to continue the cross-mentoring programme, whereby mentees and mentors from different companies exchange ideas in a professional tandem relationship. This is another way in which we promote targeted, cross-divisional exchange and knowledge transfer.

Promoting the next generation

Attracting and growing talented young employees is a core element of Human Resources work at Aareal Bank Group. The specialist knowledge required in our business segments means that we have to invest continuously and in a targeted manner in training the next generation. For this reason, talent recruitment and training are integral parts of our sustainable succession planning and our structured knowledge management. We continued to expedite talent recruitment and training during the year under review.

Aareal Bank's talent development programme comprises not only trainee programmes, but also two twin-track degree courses – business information systems and business administration – in cooperation with DHBW Mannheim and RheinMain University. It collaborates closely with universities in the region using a variety of initiatives that are constantly being expanded. In addition to the successful transfer of specialist knowledge and the gathering of new perspectives, the specific measures taken at Aareal Bank to empower young professionals have already reduced the average age.

Remuneration system

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

Work-life balance

Aareal Bank Group places great importance on compatibility between career and family. This is emphasised by a broad range of dedicated support services such as partnerships with childcare institutions or service providers for the provision of private childcare, holiday programmes for employees' children (facilitated by the City of Wiesbaden), the availability of a parent-child workroom, flexible working policies, part-time positions and the option of mobile working for all employees. Another component of improving the work-life balance of the employees consists of services that make it easier to combine working life with the care of close relatives.

This includes, among other things, the offer of counselling and support in the event of illness as well as nursing care for close relatives (available throughout Germany), as well as the option of participating in various training courses in the Bank for better compatibility between family, care and work.

Health

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

In order to protect and promote the health of its employees in a targeted manner, Aareal Bank Group offers a comprehensive range of health-promoting measures in the areas of information, prophylaxis, exercise and ergonomics, nutrition, mental health and relaxation that are always based on employees' current needs. These included preventative, individual health consultations on various topics, consultations with the company doctor including screenings, flu vaccinations, skin screenings, colorectal cancer screening and ergonomics advice, and business yoga in a digital format.

Risk Report

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

Risk Management

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

Aareal Bank regularly reviews the appropriateness and effectiveness of its corporate governance systems (including risk governance systems).

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

Risk management – scope of application and areas of responsibility

Aareal Bank AG has implemented extensive systems and procedures to monitor and manage the Group's risk exposure.

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

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

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

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

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

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

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

Strategies

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

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

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

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

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

Risk-bearing capacity and risk limits

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

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

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

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

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

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

Moreover, the value-oriented approach adopted under the economic perspective requires suitable adjustments to be made to regulatory Tier 1 capital, in order to bring aggregate risk cover into line with the economic assessment. Specifically, this may entail adjustments regarding conservative valuation, hidden encumbrances, or a management buffer. The management buffer also includes adjustments for potential climate-related risks.

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

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

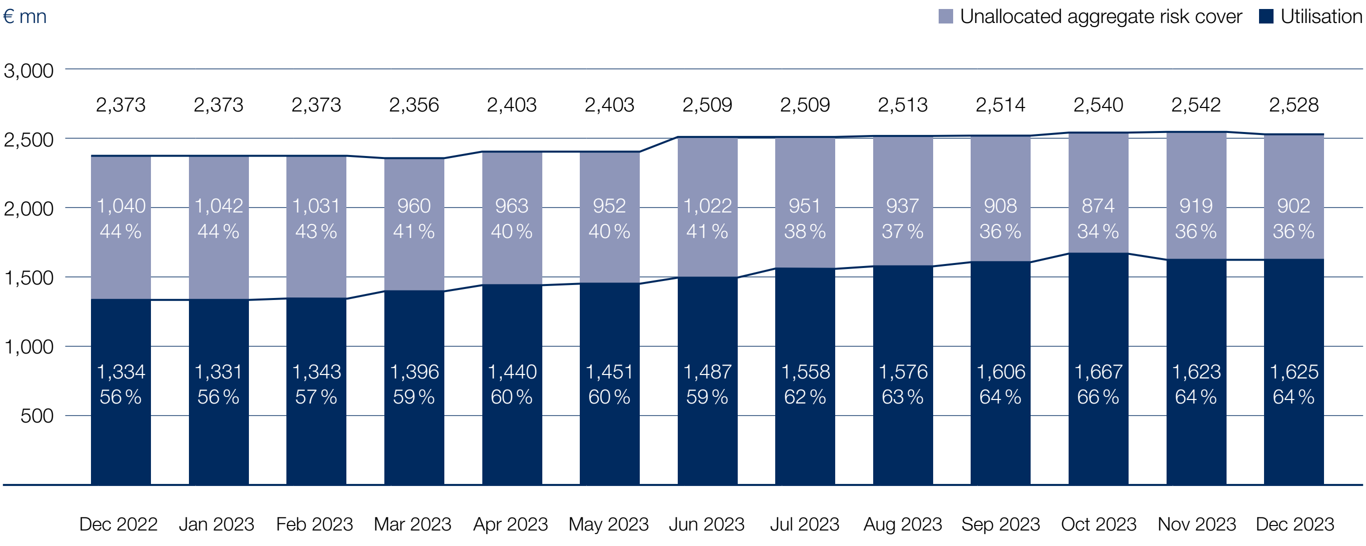
Limits for specific risk types are determined in such a manner that aggregate limits do not exceed economic aggregate risk cover, less a risk buffer designed to cover risks not explicitly covered by limits, and to also absorb other fluctuations of internal capital over time. Individual limits are set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

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

Risk-bearing capacity (ICAAP – economic perspective)

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

Utilisation of aggregate risk cover during the course of 2023



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

Stress testing

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

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

Lending business

Division of functions and voting

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

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

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

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

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

Process requirements

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

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

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

Early risk detection procedures

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

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

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

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

Risk classification procedures

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

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

Property financing business

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

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

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

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

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

In this context, PD and LGD procedures are also applied for accounting purposes, for determining model-based loss allowance. Concerning the scenario analyses to be taken into account when determining individual LGDs, we applied an updated scenario mix, going beyond the customary process. This probability-weighted scenario mix reflects the uncertainty of future developments and supplements our baseline scenario through the addition of divergent developments over an observation period of three years.

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

Financial institutions

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

Sovereign states and local authorities

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

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

Trading activities

Functional separation

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

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

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

The detailed assignment of responsibilities is outlined below.

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

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

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

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

Process requirements

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

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

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

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

Loan loss risks

Definition

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

Credit risk strategy

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

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

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

Risk measurement and monitoring

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

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

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

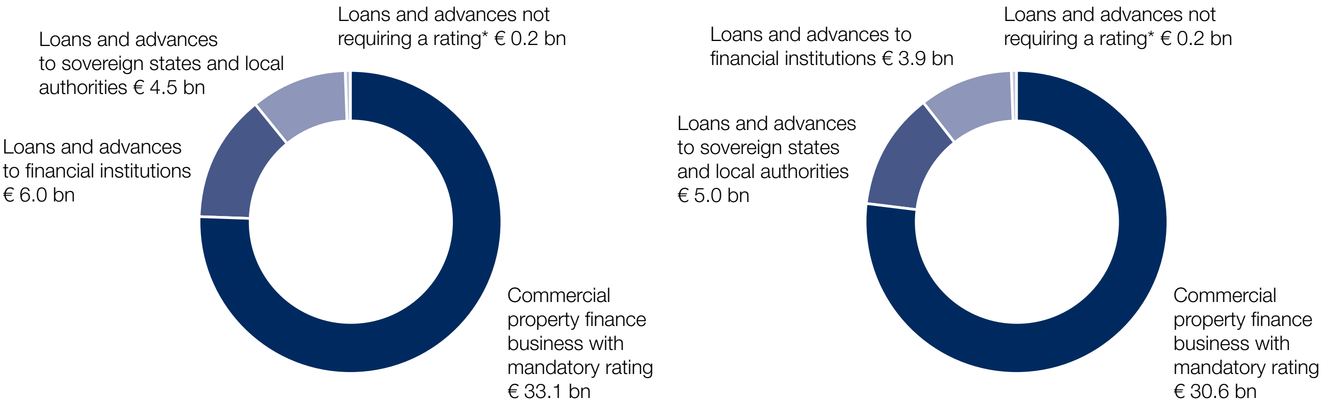
In light of geopolitical and macro-economic uncertainty, special attention is currently paid to economic forecasts. In the context of this ongoing review, we also rely on projections published by the ECB, apart from those issued by our usual data providers. Yet estimation uncertainties are currently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

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

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

by rating procedure, € bn

31 Dec 2023 | 31 Dec 2022



* Including the private client business of former WestImmo

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

The following tables provide a breakdown of gross carrying amounts of on-balance sheet as well as off-balance sheet credit business, money-market business, and capital markets business, by rating classes and loss allowance stages, in line with credit risk management at Group level. The ongoing interest rate increases on the international markets burdened debt service requirements, resulting in continued high levels of Stage 2 loss allowance compared to historical levels. Figures are based on Aareal Bank Group's internal default risk rating classes. The default definition follows the definition pursuant to Article 178 of the CRR, which is decisive for management purposes.

On-balance sheet commercial property finance business with mandatory rating

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

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

Off-balance sheet commercial property finance business with mandatory rating

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

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

On-balance sheet loans and advances to financial institutions

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

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

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

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

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

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

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

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

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

Credit risk mitigation

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

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

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

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

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

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

Credit risk mitigation for trading activities

To reduce counterparty credit risk in Aareal Bank’s trading business, the master agreements for financial derivatives and master agreements for securities repurchase transactions (repos) used by the Bank provide for credit risk mitigation techniques, via mutual netting framework agreements (“contractual netting agreements”).

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

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

Above all, the close-out netting is subject to (international) legal risks. The Bank reviews these legal risks by reference to legal opinions regarding the validity and enforceability of contractual netting agreements in the case of a counterparty’s insolvency. These legal opinions are evaluated based on various criteria such as product type, jurisdiction of the registered office and branch office of the counterparty, individual contract supplements and other criteria, and using a database developed for this purpose. Hence, the Bank decides for each individual transaction whether close-out netting is viable, thus allowing set-off against other individual transactions covered by the relevant framework agreement. The Bank uses eligible contractual netting agreements within the meaning of Article 296 of the CRR for all transactions with financial institutions; in many cases there are additional collateral agreements which further reduce the relevant credit risk.

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

The Bank also enters into repo transactions both on a bilateral basis and via Eurex Clearing AG as a central counterparty. For repo transactions, depending on the counterparty, payment or delivery netting is agreed upon on a single transaction level. For this purpose, the Bank applies the Financial Collateral Comprehensive Method in accordance with chapter 4 (articles 223 et seqq.) of the CRR.

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

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

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

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

Country risks

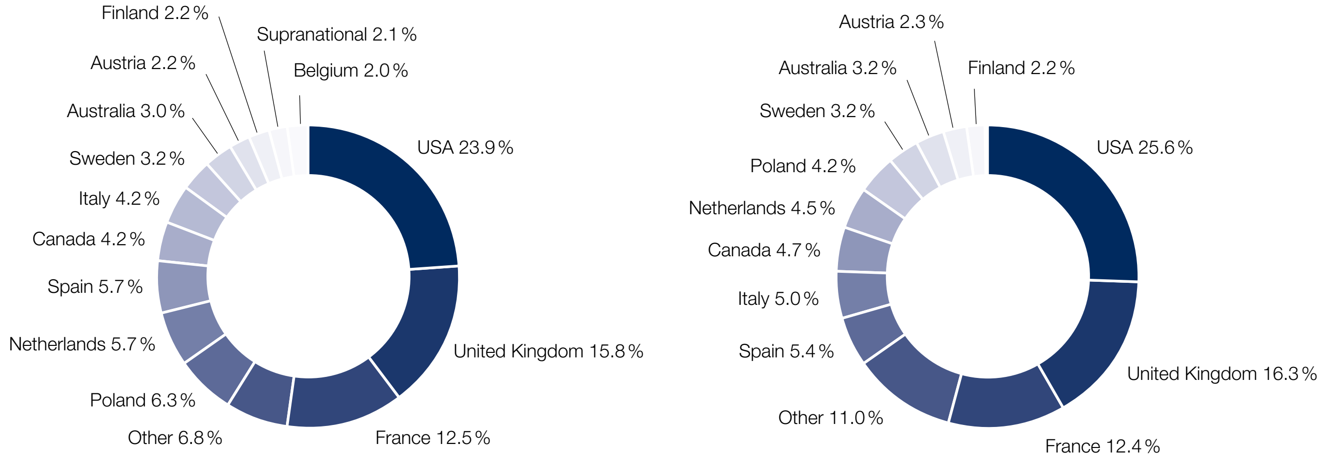
Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment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

The diagram below illustrates the risk exposure by country (comprising receivables and off-balance sheet obligations) in the Bank's international business, at year-end. In the property financing business, country exposures are allocated by location of the property used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile. This reflects the exposure of the property finance business, as well as the activities of Treasury.

Breakdown of country exposure in the international business

%

31 Dec 2023 | 31 Dec 2022



Interest Rate Risk in the Banking Book

Definition

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

Specifically, for Aareal Bank this includes:

- risks arising from maturity transformation in the event of yield curve shifts (so-called gap risk);
- risks from cash flows which are sensitive to interest rates, in terms of spreads to the general yield curve (basis risk);
- risks from explicit and implied options (option risk); and
- risks from changes in Aareal Bank's specific funding spreads (funding risk).

Risks from fluctuations in the value of fund assets (fund risk) have been reclassified to other market risk. Work in the context of the benchmark reform has been completed: for all currencies affected, the so-called risk-free rate of the respective currency is the reference for measuring interest rate risk.

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and the present-value exposure to interest rate risk in the banking book on a daily basis (the “economic value of equity” perspective). This is supplemented, on a monthly basis, by an analysis of possible deviations of planned income in the event of adverse interest rate scenarios (the earnings perspective). The interest rate scenarios used for the measurement of potential plan deviations comprise interest rate shocks (both increases and reductions) as well as time-based increases or reductions of the interest rate projection used to determine planned interest income.

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

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

By their very nature, VaR calculations are based on numerous assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances and deposits at notice which are factored into calculations for a period of up to ten years (1.88 years on average), using the average residual amount of deposits observed in the past. In line with the requirements set out in the EBA guidelines EBA/GL/2022/14 on the management of interest rate risk from non-trading book activities, wholesale deposits from financial customers are excluded from the scope of the model.

Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures). Aareal Bank Group's consolidated equity is not taken into account as a risk-mitigating item, which tends to overstate VaR. The new EBA guidelines (EBA/GL/2022/14), which were applicable for the first time as at 30 June 2023, have not led to any further material adjustments to the present value approach.

In addition to this and in line with EBA/GL/2022/14, the change in net interest income is determined in the relevant interest rate shock scenarios. Net interest income is the difference between interest income and interest expenses from all interest-bearing assets and liabilities of the banking book, including derivatives and off-balance sheet positions under IFRSs. In contrast to a present-value analysis, net interest income is not limited to modelled earnings contributions of existing assets and liabilities as at the planning/forecast date, but additionally includes income and expenses from planned new business and renewals. Changes essentially reflect the diverging developments of forward interest rates prior and after an interest rate shock, as well as the resulting modelled impact on client behaviour.

Interest rate sensitivity

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

Present-value impact of an interest rate shock

The following tables show the changes in present value as prescribed by BaFin circular 06/2019; to this end, EBA guidelines EBA/GL/2018/02 on the management of interest rate risk arising from non-trading book activities are still applied.

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

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

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

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

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

Pension risks

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

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

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

Market risks

Definition

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

Specifically, for Aareal Bank this includes:

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

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

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

Additional elements of market risk are:

- valuation risks due to changes in credit spreads (credit spread risk);
- risks from fluctuations in the value of fund assets (fund risk); and
- risks from adjustments to the credit valuation of OTC derivatives (CVA risk).

Credit spread risk in the banking book (CSRBB) is also assigned to market risk. The requirements of the European Banking Authority's new guidelines on the management of interest rate risk and credit spread risk in non-trading book activities (EBA/GL/2022/14) were applicable in this respect for the first time as at 31 December 2023. The calculation of credit spread risks was reviewed and adjusted as part of implementing these new guidelines. A material adjustment was related to the way in which sensitivities of the Bank's own benchmark issues vis-à-vis suitable Pfandbrief and senior unsecured spreads are taken into account.

Risk measurement and monitoring

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

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

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

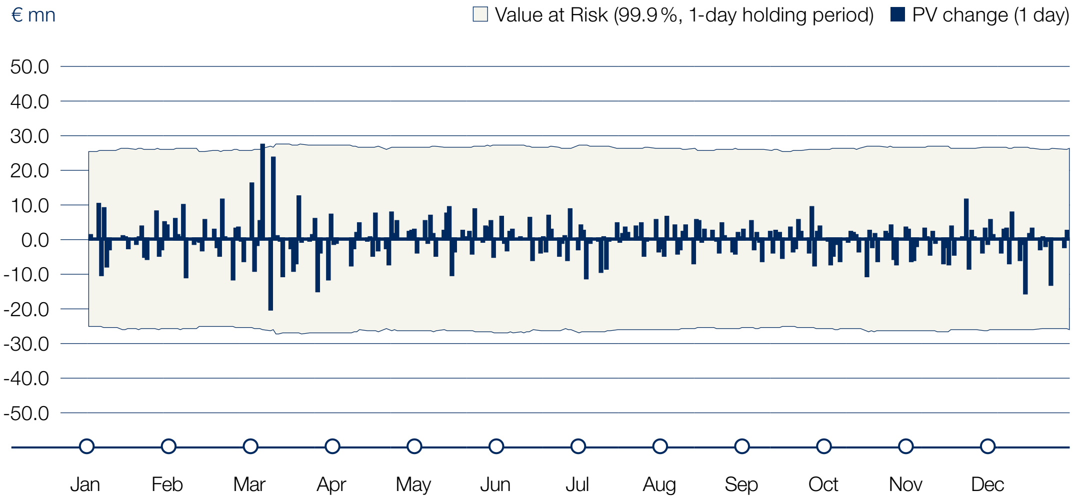
Backtesting

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

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

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

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



Operational risks

Definition

The Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. To the extent that they are caused by operational risks, ESG risk factors as well as model and reputational risks are also taken into consideration within this type of risk.

Risk strategy

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

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

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

The Non-Financial Risks division is responsible for monitoring compliance risks, as well as risks related to financial crime. The Group-wide objective of the compliance management system is to mitigate liability risks in the form of potential fines and penalties for the Bank or its subsidiaries and their board members. In addition, Aareal Bank's positive reputation as a group of companies with integrity vis-à-vis external stakeholders such as business partners, counterparties and investors is to be maintained and further strengthened. The Anti Financial Crime strategy serves to manage risks related to money laundering, terrorist financing, sanction breaches and fraud in a professional and conscious manner. It encompasses applicable qualitative standards (for example, listing business areas and sectors not served) and quantitative key risk indicators (such as thresholds for high-risk clients and politically exposed persons) for the purpose of risk monitoring.

In order to mitigate legal risks, Aareal Bank's central Legal department and decentralised legal units monitor any litigation the Bank is involved in (whether in court or out-of-court), and deal with any legal issues of fundamental importance, and provide legal advice on day-to-day business. Legal compiles all information concerning any legal disputes at Group level, whether in or out of court. The Bank's decentralised operating legal entities, as well as the legal departments of individual Group entities submit quarterly reports on legal risks identified to Aareal Bank's legal department; where particular risks have occurred, such reports are submitted on an event-driven basis. When required, Aareal Bank's legal department discusses and coordinates any concrete measures with the reporting unit. The legal department reports to the Management Board, (at least) on a quarterly basis, as well as on an event-driven basis. Tax risks including related legal risks are monitored and managed separately by Aareal Bank's tax department. The tax compliance management system actively reduces the risk related to tax law compliance and fraud cases, for example by setting standardised work instructions and controls, both within the tax department and in interfaces with other divisions.

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

Risk measurement and monitoring

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

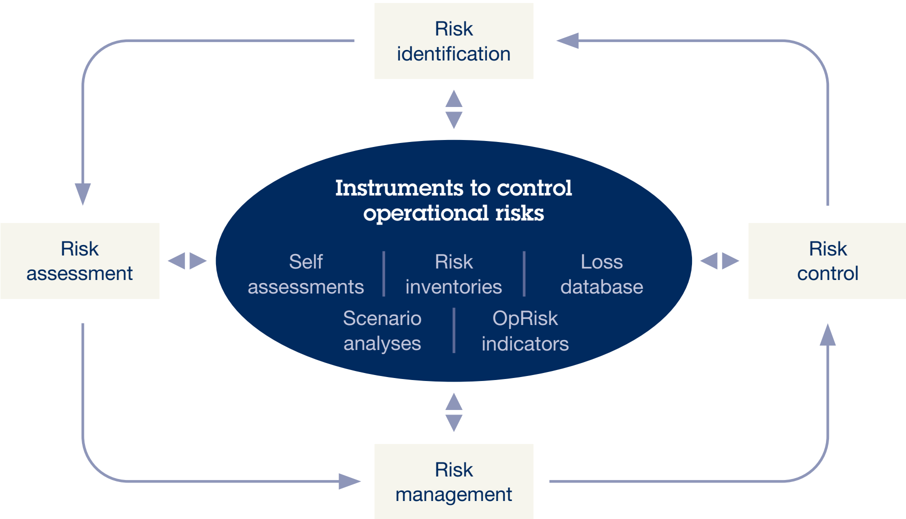
The Bank currently uses the following risk control tools to manage operational risks:

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

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

The tools described above are used to prepare the regular risk reporting to the Bank's senior management. Taken together, these tools for managing operational risks result in an integrated control circuit which leads to risk identification, evaluation, and management – through to risk control. The responsibility for implementing operative risk-reducing measures rests with those responsible for the Bank's risk management. The utilisation of freely available funds for operational risks – as part of the Bank's risk-bearing capacity – is determined using the regulatory standardised approach under Pillar 1.

Management of operational risks



No material risk concentrations were evident in the 2023 financial year. Risk events are recorded in a database on an ongoing basis. The aggregate impact of such risk events during the year under review amounted to less than 10% of the regulatory capital to be maintained for operational risks. Supplementary operational risk management tools – in particular, the monitoring of indicators, scenario analyses and the self-assessment – do not indicate potential elevated risk either.

Investment risks

Definition

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

Risk measurement and monitoring

The investment risk model breaks down investments outside the regulatory scope of consolidation into two groups, whereby risk-equivalent exposures are determined for material investments using the regulatory IRB formula. This was supplemented by a concentration risk component, to account for cases where individual investments constitute a significant concentration risk for the Bank as a whole. For non-material investments, equity coverage is determined using the simple risk weight method for investments in accordance with the CRR. Risk exposure for investments within the regulatory scope of consolidation is measured using the look-through principle, based on the assets of the respective investment.

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

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

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

Property risks

Definition

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

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

Risk measurement and monitoring

In order to measure and monitor risks, property yields are analysed for different regions and property types, and over the time horizons available: on this basis, potential yield increases for different regions and property types over a one-year horizon are determined applying a 99.9% confidence interval. A property's risk contribution results from the difference between the current market value and the property value adjusted for the yield increase. Over and above this, the model takes into account idiosyncratic shock events for individual properties which may occur independently of general market developments.

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

Business and strategic risks

Definition

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

Risk measurement and monitoring

Allocation risk is already covered by various planning scenarios, and is thus incorporated in aggregate risk cover.

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

Liquidity risks

Definition

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

Risk measurement and monitoring

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

Cash flow forecast

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

Liquidity run-off profile

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

Stress testing

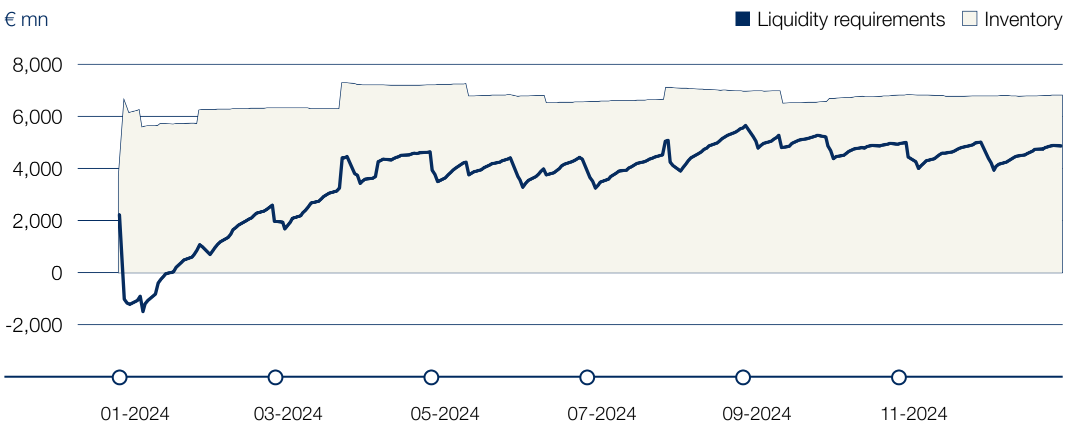
Moreover, we employ stress tests and scenario analyses to assess the impact of sudden stress events onto the Bank's liquidity situation. The various standardised scenarios used, which include historic, idiosyncratic, market-wide and combined scenarios, are evaluated on the basis of the liquidity run-off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

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

Time to illiquidity

To safeguard adequate liquidity beyond the three-month horizon covered by the liquidity run-off profile, we use the concept of time to illiquidity as a parameter. For this purpose, a liquidity run-off profile was developed which compares liquidity requirements occurring with the liquidity stock, for a one-year period. Time to illiquidity (”TtI”) denotes the remaining period (expressed in days) during which the Company can be regarded as sufficiently liquid, even under adverse conditions. In other words, liquidity requirements (including security add-on for adverse future events) do not exceed the liquidity stock. The calculations are based on contractual cash flows and the short-term risk assessment methodology (liquidity run-off profile), as well as the portfolio development within the current plan scenario.

The following chart shows the projected development of the liquidity stock, together with aggregate liquidity requirements (incorporating planned portfolio developments, and including security add-ons for adverse future events) until the end of 2024. The chart demonstrates that the liquidity stock will always exceed liquidity requirements, even under adverse conditions.



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

Funding profile

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

Concentration limits

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

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

LCR forecast

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

NSFR forecast

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

Long Term LAB

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

Accounting-related ICS and RMS

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

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

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

Organisation of the accounting-related ICS and RMS

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

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

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

The Supervisory Board is responsible for monitoring the Management Board. Within the scope of financial reporting, it approves the single-entity financial statements of Aareal Bank AG as well as the consolidated financial statements and group management report. Measures taken by the Supervisory Board to ensure an efficient performance of its control functions include the establishment of an Audit Committee, which is primarily responsible for financial reporting issues and monitors the effectiveness of Aareal Bank's Internal Control System. It analyses and assesses the presented financial statements and internal risk reports as well as the quarterly reports submitted by Internal Audit. In addition, the Audit Committee is responsible for determining the focal points of the audit, as well as for evaluating the auditors' findings. The Audit Committee includes an expert in the fields of accounting or auditing, pursuant to section 100 (5) of the German Public Limited Companies Act (Aktiengesetz – "AktG").

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

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

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

The Management Board regularly assesses the appropriateness and effectiveness of the ICS and RMS. This assessment is primarily based on the result of the semi-annual ICS report and the monthly risk reporting and provides the Management Board with an overview of the key elements of Aareal Bank Group's ICS and RMS. As part of the reporting, the Management Board thus receives a summary of the assessment activities regarding the appropriateness and effectiveness of the ICS and RMS, as well as of any anomalies that were identified during these activities. The information contained in the ICS report and risk reporting are also presented to Aareal Bank AG's Supervisory Board as a report on the effectiveness of the ICS and RMS. The assessment of the ICS is based on the evaluation of the decentralised ICS officers, which includes internal and external audit results in particular. On this basis, the Management Board has no evidence that the ICS or RMS in their entirety are not appropriate or effective as at 31 December 2023.

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

Components of the accounting-related ICS and RMS

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

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

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

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

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

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

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

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

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

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

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

Report on Expected Developments and Opportunities

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

Macro-economic environment

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

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

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

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

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

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

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

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

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

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

Economy

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

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

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

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

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

Financial and capital markets, monetary policy and inflation

The risks and uncertainty factors referred to above are also significant for the financial and capital markets and could once again cause disruption. Steeper funding costs in 2023 were a reflection of monetary policy tightening induced by rising inflation, along with higher levels of uncertainty. They should decline slightly in the course of 2024, whilst remaining at a high level. Major central banks recently confirmed their intention to keep key interest rates at restrictive levels for as long as necessary, depending on available data.

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

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

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

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

Regulatory environment

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

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

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

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

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

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

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

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

Sector-specific and business developments

Structured Property Financing segment

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

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

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

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

Should the trend towards increased remote working continue or even intensify, more and more companies may decide to rent less office space. The transition to such a new way of working could exert pressure on rental prices for office properties and on the demand for office space. It can be assumed that the impact varies depending on the market, the country, and a property's quality. On the other hand, communal and flexible working space will be increasingly sought after in a changing world of work, halting or even reversing the pre-pandemic trend of decreasing office space per employee. There is also the possibility that office properties that do not meet the changed tenant requirements may permanently leave the market, which could lead to a shortage of office supply and a decline in rent levels.

All in all, Aareal Bank expects that the rise in interest rates and financing costs compared with recent years will continue to weigh on the market values of commercial properties in 2024 and may lead to further downward pressure depending on property type and location. This pressure on property values is expected to last until 2025, followed by a period of stabilisation or growth. However, market value developments will be influenced not only by the quality and location of properties, but also increasingly by compliance with sustainability criteria (ESG).

With a view to retail properties, we expect that the structural change in shopping habits will have a weakening effect on the outlook for value-driving rental revenues, depending on location and segment. The current year is exposed to cyclical risks, i.e. higher interest rate levels and slightly weaker labour markets could mean that private consumption might not recover as expected, which, in turn, could have a negative impact on rental growth. Sustained low unemployment rates on the other hand should continue to mitigate negative effects on the retail segment. Apart from that, it should be noted that the retail market had already seen valuations decline in recent years.

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

We have a positive outlook for co-living, i.e. shared housing for a limited period of time, and student housing, where demand from international students has already recovered significantly as a result of the return to face-to-face teaching. In addition, this property type is considered to possess a certain resilience, especially in times of economic uncertainty, so we anticipate investor interest remaining high in this segment.

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

Our assessment of logistics properties remains positive overall, as structural demand drivers remain in place, which should lead to rising rental income in the near future. Overall demand will continue to be supported by a shift from just-in-time to just-in-case production. Companies are undertaking this shift in an attempt to counter supply chain challenges and prevent delays, leading to greater demand for warehouse space. The low level of availability is supported by additional demand from retail companies and logistics service providers. However, rising yields should also generally weigh on market values for this property type in 2024.

As a matter of principle, it is worth noting that estimation uncertainty – concerning the economy, markets and the impact on Aareal Bank – is currently still at a high level. Therefore, we are simulating further potential macro-economic scenarios in addition to our "baseline" scenario.

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

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

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

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

Banking & Digital Solutions segment

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

Even though the Bank's market share in the institutional housing industry is already high, based on the number of residential units, we see excellent opportunities for acquiring new clients and enhancing our existing client relationships in the further course of 2024. We plan to achieve this in particular by continuing to invest in the expansion of the "Housing Industry Ecosystem", the cross-sector development of interface products, and the expansion into related ecosystems, such as companies from the utilities and waste disposal industries. The intensification of joint activities agreed between Aareal Bank, First Financial and Aareon at the end of the 2023 financial year should also contribute to this in 2024.

In our view, the range of services that connect alternative digital payment solutions to existing systems – thus helping to overcome process gaps (even across industry sectors) – are particularly attractive. Leveraging the AI-supported intelligent invoicing and dunning system of our subsidiary collect.AI (acquired in 2022), we see opportunities to further establish a standard for digital receivables management for our clients in the housing and energy industries in the context of integrating various payment routes.

Further growth is anticipated from the integrated tenant deposit guarantee product Aareal Aval and from Aareal Meter, a solution that uses mobile meter reading and subsequent data capture without disrupting traffic to provide a digital solution to a labour-intensive analogue process gap.

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

Aareon segment

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

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

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

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

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

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

Strategic focus

Aareal Bank Group's strategy focuses on sustainable business success. Environmental, social and governance aspects are therefore key elements of its business strategy. All of these aspects are covered by short- and medium-term targets. The medium-term strategic development is therefore being pursued under the guiding principle of "Aareal Next Level". The general strategic orientation will continue – with international commercial property financing on the one hand, as well as banking and consulting services and digital solutions for the institutional housing sector in Europe and related industries on the other.

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

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

The Structured Property Financing segment continues to focus on the controlled, risk-conscious expansion of its portfolio volume within its target range, considering ESG criteria and taking advantage of its flexible approach with regard to countries, property types and financing structures. We will continue to use syndications as one of the tools for active portfolio management. In addition, we intend to actively reduce non-performing loans (NPLs) and sustainably lower the non-performing exposure ratio (NPE ratio).

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

Aareon's position as the leading supplier of SaaS solutions for the European property sector is set to be expanded. The pace of Aareon's growth is set to be maintained, with profitability rising further through organic growth initiatives as well as initiatives to enhance the existing product portfolio's efficiency and improve the cost/income mix for Aareon Group. An institutionalised M&A pipeline and external debt taken out in August 2023 are in place to support inorganic growth.

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

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

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

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

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

Company and Group targets

Key targets of Aareal Bank AG are to preserve and increase capital. These are being taken into account for Group planning purposes, and are also set to be achieved in 2024. No single-entity planning is prepared for Aareal Bank AG. Accordingly, the following statements refer to Group planning in accordance with IFRSs.

Group targets

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

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

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

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

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

Separate Combined Non-financial Report

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

Corporate Governance Statement

The Corporate Governance Statement pursuant to section 289f (4) of the HGB is publicly available on the Company's website (https://www.aareal-bank.com/en/about-us/corporate-governance/), and in the "Transparency" section of the Group Annual Report.

Statement pursuant to section 312 of the AktG

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

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

Annual Financial Statements

Income Statement of Aareal Bank AG for the period from 1 January to 31 December 2023

€ mn				2023	2022
Expenses					
Interest expenses				**1,328.8**	**525.2**
including positive interest from deposit-taking and money-market transactions	*0.0*				*[-91.2]*
Commission expenses				**27.6**	**22.2**
General administrative expenses					
a) Staff expenses					
aa) Wages and salaries		117.1			112.7
ab) Social security contributions, pensions and other employee benefits		29.9			39.4
			147.0		152.1
including for pensions	*14.6*				*[25.3]*
b) Other administrative expenses			146.2		153.3
				293.2	**305.4**
Amortisation/depreciation and write-downs of intangible and tangible fixed assets				**6.2**	**5.4**
Other operating expenses				**9.0**	**88.2**
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions				**241.6**	**192.1**
Amortisation and write-downs on participations, investments in affiliated companies, and investment securities				**-**	**5.8**
Expenses for assumption of losses				**4.6**	**21.4**
Income taxes				**112.1**	**20.5**
Other taxes not reported under other operating expenses				**-3.0**	**0.2**
Net income				**391.3**	**61.0**
Total expenses				**2,411.4**	**1,247.4**
Net income				**391.3**	**61.0**
Profit carried forward from the previous year				**61.0**	**-**
Net retained profit (*Bilanzgewinn*)				**452.3**	**61.0**

€ mn			2023	2022
Income				
Interest income from				
a) Lending and money-market transactions		1,965.9		1,052.6
including negative interest from lending and money-market transactions	-			*[-23.9]*
b) Fixed-income securities and debt register claims		156.4		79.6
			2,122.3	**1,132.2**
Current income from				
a) Participating interests		0.4		-
b) Interests in affiliated companies		-		64.1
			0.4	**64.1**
Income from profit pools, profit transfer agreements or partial profit transfer agreements			**9.8**	**2.7**
Commission income			**41.6**	**36.9**
Income from write-ups on equity investments, interests in affiliated companies, and securities held as fixed assets			**202.2**	**-**
Other operating income			**35.1**	**11.5**
Total income			**2,411.4**	**1,247.4**

Balance Sheet of Aareal Bank AG as at 31 December 2023

€ mn				2023	2022
Assets					
Cash funds					
a) Cash on hand			0.0		0.0
b) Balances with central banks			167.3		95.5
including: with Deutsche Bundesbank	167.3				[95.5]
				167.3	**95.5**
Loans and advances to banks					
Other receivables			4,486.0		7,560.3
				4,486.0	**7,560.3**
including: payable on demand	2,372.6				[7,250.5]
collateralised by pledged securities	1,524.9				[-]
Loans and advances to customers					
a) Mortgage loans			28,030.0		26,237.1
b) Loans to local authorities			1,262.7		1,443.5
c) Other loans and advances			3,436.2		3,161.8
				32,728.9	**30,842.4**
Debt and other fixed-income securities					
a) Bonds and debt securities					
aa) Public-sector issuers		3,422.8			3,739.8
including: securities eligible as collateral with Deutsche Bundesbank	3,140.1				[3,306.5]
ab) Other issuers		2,663.8			1,829.7
including: securities eligible as collateral with Deutsche Bundesbank	2,588.3				[1,673.0]
			6,086.6		5,569.5
b) Own bonds			3,015.2		1,808.4
Nominal amount:	3,007.8				[1,781.3]
				9,101.8	**7,377.9**
Equities and other non-fixed income securities				**101.0**	**97.8**
Participating interests				**6.9**	**7.7**
Interests in affiliated companies				**1,534.9**	**1,389.0**
including: interests in banks	10.3				[10.5]
Trust assets				**18.8**	**19.6**
including: trustee loans	18.8				[19.6]
Intangible assets					
a) Internally generated industrial property rights and similar rights and assets			25.4		18.9
b) Purchased concessions, industrial property rights and similar rights and assets, as well as licences in such rights and assets			3.0		4.3
				28.4	**23.2**
Tangible fixed assets				**6.3**	**6.5**
Other assets				**253.2**	**286.1**
Prepaid expenses					
a) From new issues and lending			159.4		169.3
b) Other			114.5		75.6
				273.9	**244.9**
Deferred tax assets				**461.5**	**446.6**
Total assets				**49,168.9**	**48,397.5**

€ mn			2023	2022
Equity and liabilities				
Liabilities to banks				
a) Outstanding registered mortgage Pfandbriefe		188.6		173.5
b) Outstanding registered public-sector Pfandbriefe		107.9		113.1
c) Other liabilities		5,084.9		2,854.7
			5,381.4	**3,141.3**
including: payable on demand	459.8			*[442.4]*
Liabilities to customers				
a) Outstanding registered mortgage Pfandbriefe		1,721.3		1,819.1
b) Outstanding registered public-sector Pfandbriefe		933.7		1,118.2
c) Other liabilities		18,270.6		19,983.7
			20,925.6	**22,921.0**
including: payable on demand	9,829.4			*[11,057.6]*
Certificated liabilities				
Bonds issued				
a) Mortgage Pfandbriefe	13,108.9			11,449.9
b) Other debt securities	5,787.0			6,793.8
			18,895.9	**18,243.7**
Trust liabilities			**18.8**	**19.6**
including: trustee loans	18.8			*[19.6]*
Other liabilities			**224.6**	**700.2**
Deferred income				
a) From new issues and lending		147.7		136.6
b) Other		101.5		74.1
			249.2	**210.7**
Provisions				
A) Provisions for pensions and similar obligations		109.2		203.7
b) Tax provisions		110.6		67.1
c) Other provisions		103.1		100.5
			322.9	**371.3**
Subordinated liabilities			**361.0**	**398.7**
including: maturing within two years	130.5			*[150.0]*
Additional Tier 1 capital instruments			**322.0**	**314.8**
Fund for general banking risks			**167.6**	**167.6**
Equity				
a) Subscribed capital		179.6		179.6
b) Capital reserve		727.8		727.8
c) Retained earnings				
ca) Legal reserve	4.5			4.5
cb) Other retained earnings	935.7			935.7
		940.2		940.2
d) Net retained profit		452.3		61.0
			2,299.9	**1,908.6**
Total equity and liabilities			**49,168.9**	**48,397.5**

€ mn		2023	2022
Contingent liabilities			
Liabilities from guarantees and indemnity agreements	9.8		10.8
		9.8	**10.8**
Other commitments			
Irrevocable loan commitments	1,049.1		891.7
		1,049.1	**891.7**

Notes

Basis of Accounting

Aareal Bank AG is a public limited company incorporated under German law, with its registered office in Paulinenstrasse 15, 65189 Wiesbaden, Germany. It is the parent company of an international property finance and services group, and registered under no. HRB 13 184 in the Commercial Register at the Wiesbaden local court (Germany).

The financial statements of Aareal Bank AG for the financial year ended on 31 December 2023 were prepared in accordance with the provisions – as applicable at the reporting date – of the German Commercial Code (Handelsgesetzbuch – "HGB"), the supplementary regulations of the German Public Limited Companies Act (Aktiengesetz – "AktG"), the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – "RechKredV") and the German Pfandbrief Act (Pfandbriefgesetz – "PfandBG"). The reporting currency is the euro (€). In addition, the annual financial statements were prepared using the European Single Electronic Format pursuant to Commission Delegated Regulation (EU) No. 2019/815 as amended (i. e. in the XHTML format).

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

Accounting and Valuation Policies

(1) Cash funds

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

(2) Loans and advances

Loans and advances to banks and customers are carried at amortised cost, including deferred interest. Premiums and discounts are shown under deferred items, in accordance with section 340e (2) of the HGB. Credit risks are accounted for by setting aside provisions in the amount of the expected loss, using prudent estimates. The proceeds from realisation are determined on the basis of the expected value of various possible scenarios. In compliance with the requirements set out in Accounting Practice Statement IDW RS BFA 7, the portfolio-based valuation allowances are calculated using a formula-based procedure based on the following Basel III parameters used in the Advanced IRB Approach: expected loss given default (LGD) and probability of default (PD). With regard to exposures that were subject to a significant increase in default risk since the grant date, lifetime expected losses are recorded rather than the 12-month expected loss.

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

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

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

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

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

Model-based calculations of loss allowance may involve specific aspects related to the reporting date which require adjustments to the calculation (post-model adjustments). These may be related to known model weaknesses, technical processing issues or data deficiencies, as well as expert estimates of risks designed to remedy possible gaps in the model. Model-based Stage 1 and Stage 2 loss allowance was recognised as at the reporting date as a result of a post-model adjustment, comprising multiple components. On the one hand, based on experience gained in 2023, the previous model for incorporating forward-looking information into default estimates for commercial property financings was extended to include inflation developments as an additional macroeconomic variable. Moreover, the stage transfer methodology was enhanced to systematically incorporate funding risks for bullet loans in the last year of their term. Not all components required for full technical mapping of these aspects were implemented in the production environment until the time of preparing the financial statements. This required recognition of a technical overlay. As an additional measure, anticipating expected calibration effects in the rating procedure due to the unusually high number of defaults which occurred in 2023, probabilities of default were raised by 10%. Since validation and calibration analyses will only be concluded during the course of 2024 (on schedule), the Bank decided to reflect this aspect by way of an overlay.

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.

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.

(3) Securities

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

(4) Trading portfolio

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

(5) Hedging relationships

The Bank establishes hedging relationships within the meaning of section 254 of the HGB. Accordingly, fixed-income securities of the liquidity reserve in the amount of €4,448.2 million (2022: €3,711.9 million) are hedged against changes in value attributable to interest rate risk by means of interest rate hedges with a nominal amount of €4,471.5 million (2022: €3,698.6 million), on the basis of so-called "micro hedges". In this context, the underlying transaction and the hedge generally are acquired within the framework of so-called "asset swap packages", i.e. they are so-called "perfect hedges" where all value-affecting factors between the hedged portion of the underlying transaction substantially correspond to the hedging portion of the hedge. The prospective effectiveness of the hedging relationship, which refers to the period until the security's final maturity, is proven, based on a sensitivity analysis in conjunction with the so-called "Critical Terms Match Method".

The Bank continues to establish hedging relationships between repurchased own bonds in a nominal amount of €3,015.2 million (2022: €1,808.4 million) and the corresponding securitised liabilities.

This is presented in the financial statements using the so-called "Net Hedge Presentation Method" (Einfrierungsmethode). Under this method, the cumulative change in the value of the underlying transaction is determined on the basis of the hedged risk, and compared to the changes in the value of the hedge. The hedged risk amounts to €-141.8 million (2022: €-342.4 million) and corresponds to the cumulative increase of the fair value of assets since inception of the hedging relationship. This net increase is not shown in the income statement on a net basis, after including hedge transactions. Any previously existing ineffectiveness based on the hedged risk is reflected in a provision for hedging relationships. The changes in value attributable to the hedged risk are reflected on a portfolio basis, in the form of a write-down on the security concerned.

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

In addition, the Bank uses derivative financial instruments of the banking book (non-trading book), above all interest rate swaps, for the purpose of controlling interest rate risk (interest spread risk) as part of the overall management of the Bank. In accordance with the HGB, these instruments represent “pending transactions” which are not recognised on the balance sheet. They form a “hedging relationship”, together with the recognised interest-bearing assets and liabilities of the banking book. In accordance with IDW RS BFA 3, this hedging relationship has to be reviewed as to whether losses are anticipated, taking into account expected expenses required for funding, risk management and administration in relation to managing the banking book. Currently, the Bank has two equally suitable methods available to determine provisions for anticipated losses: the P&L based approach referring to certain time periods, and the (static) present value method. The Bank uses the present value method. Under this method, a provision has to be recognised when the book value of the banking book exceeds the present value of the banking book, i.e. if there are net unrealised losses in the banking book. The present value is derived from the cash flows of the financial instruments included in the banking book, discounted to the balance sheet date. Potential future risk costs are considered by adjusting the applicable interest rate used for the discounting of cash flows. The administrative expenses relating to the banking book are derived from cost accounting and deducted on a lump-sum basis. No provision for anticipated losses had been recognised as at the balance sheet date, since the present value of the banking book is higher than the book value as at 31 December 2023.

(7) Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

(9) Trust assets and trust liabilities

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

(10) Prepaid expenses and deferred income

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

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

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

(11) Other assets

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

(12) Income tax assets/income tax liabilities

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

Even though since the takeover, Aareal Bank AG is no longer the ultimate parent pursuant to section 4 (3) of the MinStG, it assumes the function of an intermediate parent entity pursuant to section 4 (3) et seqq. of the MinStG and might be liable for minimum tax in the capacity of Group responsible entity (Gruppenträger). The relevant regulations in the respective participating jurisdictions (domestic and abroad) will only become applicable to Aareal Bank AG from the 2024 financial year onwards; as a result, the actual tax expense for 2023 was not affected. Looking at the substance of these regulations, aside from significant implementation costs due to additional tax reporting, no material tax effects or top-up taxes are anticipated since the effective tax rate is expected to be above

15% in all countries in which the Bank is active. Aareal Bank will use the transitional provisions and simplification rules provided by sections 79-81, 84-87 and 89 of the MinStG. Aareal Bank AG has determined that global minimum tax is an income tax. Pursuant to section 274 (3) of the HGB, any differences arising from application of the MinStG (or comparable foreign laws) need not be taken into account when determining deferred taxes. Aareal Bank AG is currently preparing its processes for future use of simplification rules, examining potentially advantageous options; the Bank is monitoring the legislative process and is working on further implementation requirements (such as tax compliance).

Aareal Bank AG intends to allocate additional reserves of €18.2 million to its Rome branch, in addition to the endowment capital. This capital reserve (Riserva di capitali art.26, comma 5-bis D.L. 104/2023), equivalent to 2.5 times the calculated Italian special bank tax, is set aside as an alternative to payment of the special bank tax, in accordance with Italian tax law.

(13) Deferred taxes

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

(14) Liabilities

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

(15) Provisions

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

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

(16) Additional Tier 1 capital instruments

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

(17) Fund for general banking risks

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

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

(18) Currency translation

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

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

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

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

Notes to the Income Statement

(19) Interest income and expense

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

(20) Income by geographical segment

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

€ mn	2023	2022
Germany	546.1	193.7
Rest of Europe	959.1	572.6
North America	578.4	401.0
Asia/Pacific	115.8	77.4
Total	**2,199.4**	**1,244.7**

(21) Administration and intermediation services rendered to third parties

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

(22) Other operating income and expenses

Other operating income of €35.1 million (2022: €11.5 million) includes income in the amount of €13.7 million (2022: expenses of €64.7 million) from plan assets used for pension obligations, after offsetting with expenses from the unwinding of discounts pursuant to section 246 (2) sentence 2 of the HGB, currency translation differences of €11.1 million (2022: expenses of €15.8 million), and income from the reversal of provisions in the amount of €4.4 million (2022: €5.9 million). The figure also includes €1.9 million (2022: €1.3 million) in income under agency contracts for subsidiaries.

Other operating expenses of €9.0 million (2022: €88.2 million) include expenses for subsidiaries in the amount of €3.1 million (2022: €5.1 million) as well as expenses in the amount of €5.2 million (2022: €– million) from a tax guarantee in connection with one sold participation.

(23) Income taxes

The net income tax position amounts to expenses of €112.1 million (2022: expenses of €20.5 million), of which expenses of €117.2 million (2022: €96.3 million) included in current taxes were payable in Germany: this figure comprises €60.1 million (2022: €44.6 million) in corporation tax and solidarity surcharge and €58.9 million (2022: €39.7 million) in trade tax payable for the current year, as well as €1.8 million (2022: expenses of €12.0 million) in tax income for previous years. The net income tax position also includes €14.4 million in income (2022: income of €80.5 million) from the recognition of German deferred tax assets as well as €9.3 million in expenses for the Bank's foreign branch offices (2022: income of €4.7 million).

The tax reconciliation is used to determine why the tax expense (current taxes and deferred taxes) reported in the income statement differs from the expense calculated using the expected tax rate. The expected tax rate of 31.3% (2022: 31.3%), including a weighted trade tax rate of assessment of 442%, comprises trade taxes (15.5%), corporation taxes (15.0%) and the solidarity surcharge (0.825%; 5.5% of corporation tax).

€ mn	2023	2022
Income before income taxes	503.4	81.5
Expected income tax expenses; tax rate: 31.3% (2022: 31.3%)	157.6	25.5
Reconciliation		
Different foreign tax burden	-3.7	-1.7
Tax attributable to tax-exempt income	-55.4	-27.2
Tax attributable to non-deductible expenses	6.9	15.9
Remeasurement of deferred taxes	12.9	-1.5
Prior-period actual taxes	-5.9	5.0
Effect of changes in tax rates	-	4.5
Other tax effects	-0.3	-
Reported income tax expenses	112.1	20.5
Effective tax rate (%)	22.3	25.1

(24) Prohibition of distribution

A total amount of €486.9 million (2022: €465.5 million) in profits is subject to a prohibition of distribution, pursuant to section 268 (8) of the HGB, of which €461.5 million (2022: €446.6 million) is attributable to the balance resulting from recognised deferred tax assets and recognised deferred tax liabilities. A prohibition of distribution applies to a net amount of €0.0 million (2022: €0.0 million) (after fair-value netting of assets), pursuant to section 246 (2) sentence 2 of the HGB. Moreover, a prohibition of distribution pursuant to section 248 (2) sentence 1 of the HGB is included for internally generated, capitalised intangible assets in the amount of €25.4 million (2022: €18.9 million).

In addition, a prohibition of distribution applies to an amount of €5.8 million (2022: €23.8 million) pursuant to section 253 (6) sentence 1 of the HGB regarding the difference between (a) the amount to be recognised for provisions for pensions according to the average market interest rate of the previous ten business years and (b) the amount to be recognised for provisions for pensions according to the average market interest rate of the previous seven business years.

The prohibition of distribution therefore totals €492.7 million (2022: €489.3 million) during the year under review pursuant to HGB regulations.

Notes to the Balance Sheet

(25) Securities negotiable at a stock exchange

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

Hedging relationships as defined by section 254 of the HGB have been created with respect to negotiable securities in an aggregate amount of €7,463.3 million (2022: €5,520.3 million).

Bonds and notes, including own bonds, of €9,101.8 million (2022: €7,377.9 million) (including accrued interest) reported under debt and other fixed-income securities comprise €358.2 million (2022: €590.0 million) in securities which are not eligible as collateral with Deutsche Bundesbank. Of that amount, €148.8 million (2022: €113.1 million) relate to sovereign foreign-currency bonds, which are eligible for securities lending.

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

	31 Dec 2023		31 Dec 2022	
€ mn	Listed	Unlisted	Listed	Unlisted
Debt and other fixed-income securities	9,101.8	0.0	7,377.9	0.0
Equities and other non-fixed income securities	0.0	0.0	0.0	0.0
Participating interests	-	0.0	-	-
Interests in affiliated companies	-	366.9	-	240.7

(26) Investment fund units

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

	31 Dec 2023		31 Dec 2022	
€ mn	Book value	Market value	Book value	Market value
DBB INKA	101.0	101.0	97.8	97.8
Aareal Altersvorsorge BV 97	267.0	267.0	150.1	150.1
Total	**368.0**	**368.0**	**247.9**	**247.9**

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

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

The value of investment fund units as defined by sections 168 and 278 of the German Capital Investment Act (Kapitalanlagegesetzbuch – "KAGB") was €368.0 million (2022: €247.9 million). During the financial year under review, no distributions were made under the fund.

(27) Movements in fixed assets

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

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

€ mn	Debt and other fixed-income securities	Participating interests	Interests in affiliated companies	Intangible assets	Tangible fixed assets: Office furniture and equipment	Tangible fixed assets: Land and buildings
Cost						
As at 1 Jan 2023	**1,719.2**	**13.1**	**1,456.8**	**49.7**	**32.9**	**0.1**
Additions	15.4	0.1	168.9	10.0	1.3	-
Disposals	167.6	0.9	22.2	0.5	0.6	0.1
Changes in inventory/ transfers	-	0.0	0.0	0.0	-	-
As at 31 Dec 2023	1,567.0	12.3	1,603.5	59.2	33.6	0.0
Depreciation and amortisation						
As at 1 Jan 2023	**0.0**	**5.4**	**67.8**	**26.5**	**26.5**	**0.0**
Additions	-	-	-	-	-	-
Depreciation and amortisation	-	-	-	4.8	1.4	-
Write-downs	-	-	0.8	-	-	-
Disposals	-	-	-	0.5	0.6	-
Transfers	-	-	-	-	-	-
Write-ups	-	-	-	-	-	-
As at 31 Dec 2023	0.0	5.4	68.6	30.8	27.3	0.0
Book value as at 31 Dec 2023	**1,567.0**	**6.9**	**1,534.9**	**28.4**	**6.3**	**0.0**
Book value as at 31 Dec 2022	1,719.2	7.7	1,389.0	23.2	6.4	0.1

As at 31 December 2023, the securities held as fixed assets largely included securities issued by South- and West European debtors. The following performance was recognised:

€ mn	31 Dec 2023 Book value	31 Dec 2023 Market value	31 Dec 2022 Book value	31 Dec 2022 Market value
Bank bonds	15.5	15.4	-	-
Covered bonds	22.5	19.4	22.5	18.3
Public-sector issuers	1,529.0	1,517.5	1,696.7	1,588.1
Total	1,567.0	1,552.3	1,719.2	1,606.4

Securities with a nominal amount of €1,533.5 million (2022: €1,675.9 million) were not measured at the lower of cost or market. For several securities, the book value in the amount of €869.7 million (2022: €995.4 million) is higher than the market value of €778.9 million (2022: €851.9 million).

An examination of cost vs. market values as at 31 December 2023 did not indicate any permanent impairment (2022: no permanent impairment).

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

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

(28) Subordinated assets

The following items comprise subordinated assets in the amount shown:

€ mn	31 Dec 2023	31 Dec 2022
Loans and advances to banks	-	-
Loans and advances to customers	88.5	96.5
Bonds and other fixed-income securities	15.5	-
Equities and other non-fixed-income securities	-	-
Other assets	-	-

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

	2023				2022			
	Affiliated companies		Enterprises with a participatory interest		Affiliated companies		Enterprises with a participatory interest	
€ mn	Certificated	Not certificated	Certificated	Not certificated	Certificated	Not certificated	Certificated	Not certificated
Loans and advances to banks	-	-	-	-	-	-	-	-
Loans and advances to customers	-	3,536.0	-	-	-	3,581.8	-	-
Debt and other fixed-income securities	-	0.1	-	-	-	0.1	-	-
Liabilities to banks	-	-	-	-	-	-	-	-
Liabilities to customers	-	930.8	-	-	-	717.1	-	-
Certificated liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-	-

Transactions with related parties are generally carried out on an arm's length basis.

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

(30) Trust business

€ mn	31 Dec 2023	31 Dec 2022
Trust assets		
Loans and advances to banks	-	-
Loans and advances to customers	18.8	19.6
Equities and other non-fixed income securities	-	-
Total trust assets	**18.8**	**19.6**
Trust liabilities		
Liabilities to banks	0.4	0.5
Liabilities to customers	18.4	19.1
Total trust liabilities	**18.8**	**19.6**

(31) Other assets

Other assets include, in particular, receivables from the asset item recognised from currency translation (€167.7 million), tax receivables (€21.7 million), and receivables from profit distributions or profit assumptions (€9.7 million). In addition, other assets include receivables from the collateralisation (including pro-rata interest) of irrevocable payment obligations resulting from the bank levy, contributions to the compensation scheme of German banks, and the contribution to the deposit protection fund, totalling €49.0 million.

In 2022, other assets included receivables from the asset item recognised from currency translation (€210.6 million), tax receivables (€27.3 million), and receivables from profit distributions or profit assumptions (€5.7 million). Other assets in the previous year also included receivables from the collateralisation (including pro-rata interest) of irrevocable payment obligations resulting from the bank levy, contributions to the compensation scheme of German banks, and the contribution to the deposit protection fund, totalling €40.8 million.

(32) Prepaid expenses and deferred income

Prepaid expenses in the amount of €273.9 million (2022: €244.9 million) primarily include €3.9 million (2022: €6.4 million) in premiums on originated loans, in accordance with section 340e (2) sentence 3 of the HGB and €155.5 million (2022: €162.9 million) in discounts on bonds issued and borrowings pursuant to section 250 (3) of the HGB. The item also includes €98.9 million (2022: €64.1 million) from upfront payments/option premiums in connection with derivatives.

€249.2 million (2022: €210.7 million) of deferred income refers to upfront payments/option premiums in connection with derivatives (€101.5 million; 2022: €74.1 million), while €41.0 million (2022: €52.6 million) relates to issuing discounts of Pfandbriefe, €0.8 million (2022: €1.7 million) to discounts on originated loans, in accordance with section 340e (2) sentence 2 of the HGB, and to fee portions with interest-paying characteristics in the amount of €104.8 million (2022: €80.9 million).

(33) Deferred taxes

As at 31 December 2023, the Bank's deferred tax assets exceeded its deferred tax liabilities by €461.5 million (2022: €446.6 million). Deferred taxes are recorded in the amount of the assumed tax burden or relief in coming financial years, and are measured using the company- and country-specific tax rates expected to apply at the time of the realisation of temporary differences and the offsetting of loss carryforwards.

For Germany, we used a corporate income tax rate (including solidarity surcharge) of 15.8% and a municipal trade tax rate, depending on the multiplier set by the relevant local authorities. This results in an overall tax rate of 31.3% for Germany (2022: 31.3%).

Deferred tax assets were largely recognised for valuation differences for loans and advances to customers compared to their tax base, provisions for impending losses from executory contracts, as required under German commercial law, prepaid expenses for collected loan fees as well as on provisions for pensions. Deferred tax assets in the amount of €19.2 million (2022: €9.1 million) were recognised for loss carryforwards relating exclusively to foreign permanent establishments of Aareal Bank AG.

Deferred tax liabilities were attributable to the split-off portfolios of former WestImmo (€7.1 million; 2022: €6.3 million) and former Corealcredit Bank AG (€3.7 million; 2022: €3.8 million). In addition, deferred tax liabilities in the amount of €7.3 million were recognised for valuation differences for software compared to the tax base. As in the previous year, all deferred tax liabilities were offset against deferred tax assets.

€ mn	31 Dec 2023	31 Dec 2022	Change in the year under review
Net deferred tax assets	461.5	446.6	14.9
Deferred tax liabilities	-	-	-
Total	461.5	446.6	14.9

(34) Other liabilities

Other liabilities mainly comprise €10.1 million in trade payables, €143.8 million in liabilities recognised from currency translation, as well as €44.7 million in liabilities from the adjustment item reflecting the split-off of Düsselhyp's banking operations. In addition, €3.6 million in liabilities from profit and loss transfer agreements and tax liabilities of €12.6 million have been recognised.

In the previous year, other liabilities mainly comprised €6.7 million in trade payables, €593.2 million in liabilities recognised from currency translation, as well as €52.4 million in liabilities from the adjustment item due to the split-off of the banking operations of Düsselhyp. In addition, €20.1 million in liabilities from profit and loss transfer agreements and tax liabilities of €3.9 million have been recognised.

(35) Provisions for pensions

The values determined in the actuarial pension report are based on the following methods and assumptions. In this context, the collection of personnel data and the determination of the forecast interest rate were made as at 1 October 2023 (cut-off date), not as at the balance sheet date:

	31 Dec 2023	31 Dec 2022
Actuarial method applied:	Projected unit credit method	Projected unit credit method
Fundamental assumptions for calculation:		
Discount rate in %	1.82	1.78
Reference period for discount rate	10 years	10 years
Fluctuation (%)	3.00	3.00
Expected wage and salary increases in %	2.25	2.25
Adjustments of current pension payments (%)	1.00 or 2.25	1.00 or 2.25
Mortality tables used	"Richttafeln 2018G" mortality tables by K. Heubeck	"Richttafeln 2018G" mortality tables by K. Heubeck

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

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

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

€ mn	31 Dec 2023	31 Dec 2022
Pension obligation	407.3	383.4
Fair value of plan assets	298.1	179.7
Cost of plan assets	332.2	232.7
Provisions for pensions and other employee benefits	**109.2**	**203.7**

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

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

€ mn	31 Dec 2023	31 Dec 2022
Fund units	267.0	150.1
Reinsurance cover	31.1	29.6
Fair value of plan assets	**298.1**	**179.7**

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

€ mn	31 Dec 2023	31 Dec 2022
Interest cost on pension obligations	6.8	6.6
Income from plan assets	20.7	-58.0
Net interest expense	**-13.9**	**64.6**

(36) Subordinated liabilities

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

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

On the reporting date, there was one (2022: one) subordinated liability of €80.0 million (2022: €80.0 million) with a fixed rate of 4.25% p.a., maturing on 19 February 2024.

Interest expenses for all subordinated liabilities totalled €16.5 million (2022: €20.5 million), including an amount of €8.8 million (2022: €9.5 million) for accrued interest payments not yet due.

(37) Additional Tier 1 capital instruments

Additional Tier 1 bond (AT1 bond)

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

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

The notes constitute unsecured and subordinated obligations of the issuer.

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

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

Interest expenses for debt securities totalled €29.1 million (2022: €21.3 million), including an amount of €22.0 million (2022: €14.8 million) for accrued interest payments not yet due.

(38) Equity

Equity changed as follows:

	Subscribed capital	Capital reserves	Retained earnings		Net retained profit (*Bilanzgewinn*)	Total equity
€ mn			Legal reserve	Other retained earnings		
As at 1 Jan 2023	**179.6**	**727.8**	**4.5**	**935.7**	**61.0**	**1,908.6**
Transfer from net income 2023	-	-	-	-	391.3	391.3
As at 31 Dec 2023	**179.6**	**727.8**	**4.5**	**935.7**	**452.3**	**2,299.9**

The Bank utilises the rules set out in section 2a of the KWG in conjunction with Article 7 of the CRR pursuant to which regulatory indicators of own funds can only be determined at Group level. As a result, regulatory details no longer need to be disclosed at a single-entity level in this context.

Subscribed capital

Subscribed capital amounts to €179.6 million (2022: €179.6 million) and is divided into 59,857,221 (2022: 59,857,221) bearer shares with a proportionate share in the nominal share capital of €3.00 per share.

Treasury shares

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

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

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

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

Authorised capital

Aareal Bank has authorised capital pursuant to the resolution by the Annual General Meeting held on 10 August 2023. Accordingly, the Management Board is authorised to increase, on one or more occasions, the Company's registered share capital by up to a maximum total amount of €89,785,830 via the issuance of new no-par value bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board (Authorised Capital 2022); this authorisation will expire on 09 August 2028. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right, unless the Management Board exercises its authority to exclude shareholder's pre-emptive subscription rights. The Management Board may exclude shareholders' subscription rights, subject to approval by the Supervisory Board and the conditions set out below:

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

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

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

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

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

The above authorisation for the exclusion of shareholders' subscription rights in the case of capital increases against contributions in cash or in kind is limited to a total of 10% of the share capital; this limit may be exceeded neither at the time said authorisation comes into effect, nor at the time it is exercised. The above-mentioned 10% threshold shall furthermore include treasury shares which are sold to the exclusion of shareholders' subscription rights during the validity of this authorisation as well as such shares which are issued to service debt securities, provided that the debt securities were issued to the exclusion of shareholders' subscription rights during the validity of this authorisation due to the authorisation under agenda item 6 of the Annual General Meeting on 22 May 2019. When a new authorisation for the exclusion of shareholders' subscription rights is resolved after the reduction and said new authorisation comes into effect, the upper limit, reduced in accordance with the above-mentioned requirements, shall be increased again to the amount permitted by the new authorisation, with a maximum total of 10% of the share capital in accordance with the above-mentioned requirements.

The authorised capital has not yet been utilised.

Conditional capital

Based on a resolution passed by the General Meeting on 10 August 2023, the Management Board was authorised to issue, on one or more occasions until 09 August 2028, profit-participation certificates with a limited or unlimited term for contribution in cash or in kind of up to €1,000,000,000. The profit-participation certificates must be constructed in such a way that the funds paid for them after issuance can be recognised as banking regulatory capital pursuant to the legal regulations applicable as at the time of issuance. Profit-participation certificates and other hybrid promissory note loans to be issued according to this authorisation shall be connected with conversion rights, entitling or compelling, in accordance with their respective conditions, the holder to purchase Company shares. Conversion rights or obligations may be attached exclusively to bearer no-par value shares of the Company following the reduction of the existing 2019 Conditional Capital resolved upon at the 2022 Annual General Meeting, and are limited to a maximum amount of €89,785,830 of the Company's share capital. The sum of shares to be issued so as to service conversion or option rights or conversion obligations from profit-participation certificates or hybrid promissory note loans issued pursuant to this authorisation, including shares issued during validity of this authorisation as a result of another authorisation (especially from the Authorised Capital 2017), may not exceed an amount of €89,785,830 (which equals approx. 50% of the current share capital). Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in relation to the profit-participation rights in certain cases.

The share capital is subject to a conditional capital increase not exceeding €89,785,830 by issuance of up to 29,928,610 new no-par value bearer shares ("Conditional Capital 2023"). The conditional capital increase shall be implemented only to the extent that (i) the holders of convertible bonds issued by the Company (or by an enterprise in which the Company either directly or indirectly holds a majority interest) until 9 August 2028 on the basis of the Annual General Meeting's authorisation resolution of 10 August 2023 exercise their conversion rights from these convertible bonds or (ii) the holders of convertible bonds issued by the Company (or by an enterprise in which the Company either directly or indirectly holds a majority interest) until 9 August 2028 on the basis of the Annual General Meeting's authorisation resolution of 10 August 2023, with such holders being obliged to exercise those rights, fulfil their obligation or (iii) the Company exercises its right of substitution, except where treasury shares are used to service the rights or, in the aforementioned cases (i) and (ii), cash compensation is granted. The new shares shall be entitled to a share in the profits from the beginning of the financial year in which they come into existence, through the exercise of conversion rights or the fulfilment of conversion obligations. The Management Board is authorised to determine the details of the conditional capital increase. To date, the Conditional Capital has not yet been utilised.

(39) Contingent liabilities and other commitments

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

Contingent liabilities result from guarantees and indemnity agreements, of which €5.8 million (2022: €5.5 million) are granted to domestic borrowers and €4.0 million (2022: €5.3 million) to foreign borrowers.

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

Irrevocable loan commitments are made up of credit and loan commitments, of which €121.5 million (2022: €153.4 million) are granted to domestic borrowers and €927.6 million (2022: €738.3 million) to foreign borrowers. Loan commitments to affiliated companies amount to €33.0 million (2022: €142.1 million).

(40) Unrecognised transactions and other obligations

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

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

The probability-weighted amount of legal disputes is €28.5 million (2022: €28.1 million). Based on a legal analysis, successful outcome of these disputes is more likely than not, and therefore, no liabilities are recognised in the financial statements.

Tax risks resulting from diverging assessments of tax matters and potential legal changes amount to €43.6 million (2022: €40.1 million) on a probability-weighted basis.

There are fully cash-collateralised and irrevocable payment obligations from the bank levy, the contributions to the deposit guarantee scheme of German banks, and the contribution to the deposit protection fund. During the 2023 financial year, irrevocable payment obligations increased by €7.3 million, €5.4 million of which relate to the bank levy and €1.9 million to the compensation scheme of German banks. As at 31 December 2023, the irrevocable payment obligations amount to €48.1 million, of which €33.0 million is attributable to the bank levy, €9.3 million to the compensation scheme of German banks and €5.8 million to the contribution to the deposit protection fund. Cash collateral is reported under other assets.

(41) Maturity groupings

€ mn	31 Dec 2023	31 Dec 2022
Loans and advances to banks	**4,486.0**	**7,560.3**
With a residual term of		
Payable on demand	2,372.6	7,250.5
Up to 3 months	1,296.3	-
Between 3 months and 1 year	197.2	-
Between 1 year and 5 years	23.4	27.4
More than five years	-	-
Pro rata interest	596.5	282.4
Loans and advances to customers	**32,728.9**	**30,842.4**
With a residual term of		
Payable on demand	113.5	10.9
Up to 3 months	809.1	417.2
Between 3 months and 1 year	7,020.7	5,936.1
Between 1 year and 5 years	21,109.6	20,775.4
More than five years	3,469.1	3,537.1
Pro rata interest	206.9	165.7
Debt and other fixed-income securities maturing in the following year (nominal amount)	**295.0**	**407.9**
Liabilities to banks	**5,381.4**	**3,141.3**
With a residual term of		
Payable on demand	459.8	442.4
Up to 3 months	1,221.3	135.3
Between 3 months and 1 year	455.2	283.8
Between 1 year and 5 years	2,267.3	1,628.7
More than five years	228.3	387.6
Pro rata interest	749.5	263.5
Liabilities to customers	**-**	**-**
Other deposits from customers	**20,925.6**	**22,921.0**
With a residual term of		
Payable on demand	9,829.4	11,057.6
Up to 3 months	5,020.4	3,823.1
Between 3 months and 1 year	976.8	3,045.4
Between 1 year and 5 years	1,587.9	1,693.4
More than five years	3,374.5	3,197.2
Pro rata interest	136.6	104.3
Bonds issued maturing in the following year (nominal amount)	**2,500.0**	**2,832.8**
Other certificated liabilities	**-**	**-**

(42) Shareholdings

The list of shareholdings is prepared pursuant to section 285 no. 11 of the HGB. The disclosures in relation to the companies' equity and earnings are retrieved from the financial statements in accordance with IFRSs.

No.	Company name	Registered office	Shareholding	Equity	Results	
			in %	€ mn	€ mn	
1	Aareal Bank Asia Ltd.	Singapore	100.0	SGD 57 mn	SGD 9.8 mn	1)
2	Aareal Beteiligungen AG	Frankfurt	100.0	167.0	0.0	3)
3	Aareal Capital Corporation	Wilmington	100.0	USD 552.3 mn	USD -150.5 mn	1)
4	Aareal Estate AG	Wiesbaden	100.0	2.9	0.0	3)
5	Aareal First Financial Solutions AG	Mainz	100.0	5.7	0.0	3)
6	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.9	0.0	1)
7	Aareal Holding Realty LP	Wilmington	100.0	USD 289.1 mn	USD -0.6 mn	1)
8	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	453.8	0.0	3)
9	Aareon Accelerate Limited	London	100.0	GBP 38.6 mn	GBP -1.7 mn	1)
10	Aareon AG	Mainz	59.9	265.3	-71.2	1)
11	Aareon Deutschland GmbH	Mainz	100.0	63.4	0.0	3)
12	Aareon Finland Oy	Helsinki	100.0	0.0	0.0	1)
13	Aareon France S.A.S.	Meudon-la Forêt	100.0	14.6	5.7	1)
14	Aareon GAP Beteiligungsgesellschaft mbH	Mainz	100.0	-4.0	-1.2	1)
15	Aareon Holding France SAS	Meudon-la Forêt	100.0	0.0	0.0	1)
16	Aareon Holding GmbH	Frankfurt	100.0	367.0	0.0	1)
17	Aareon Management Spain, S.L. (formerly: Perseus Europe S.L.)	Madrid	100.0	46.8	-3.2	1)
18	Aareon Nederland B.V.	Emmen	100.0	36.6	6.6	1)
19	Aareon Norge AS	Oslo	100.0	NOK 4.9 mn	NOK 0.0	1)
20	Aareon Österreich GmbH	Vienna	100.0	0.2	-0.2	1)
21	Aareon Sverige AB	Gothenburg	100.0	SEK 36.6 mn	SEK 13.8 mn	1)
22	Aareon UK Ltd.	Coventry	100.0	GBP 3.4 mn	GBP -13.8 mn	1)
23	Arthur Online Ltd.	London	100.0	GBP -0.6 mn	GBP -4.5 mn	1)
24	AV Management GmbH	Mainz	100.0	0.4	0.0	3)
25	BauContact Immobilien GmbH	Wiesbaden	100.0	19.1	1.5	1)
26	BauGrund Immobilien-Management GmbH (in liquidation)	Bonn	100.0	0.5	0.0	3)
27	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	5.1	5.0	1)
28	blackprint Booster Fonds International GmbH & Co. KG	Frankfurt	49.9	0.7	0.0	2)
29	BVG - Grundstücks- und Verwertungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	5.3	0.0	3)
30	CalCon Deutschland GmbH	Munich	100.0	6.9	-0.1	1)
31	CalCrom S.R.L.	Iasi	83.3	0.2	0.0	1)

1) Preliminary figures as at 31 December 2023
2) Equity and results as at 31 December 2022
3) Profit and loss transfer agreement / control and profit transfer agreement
4) Joint operation

No.	Company name	Registered office	Shareholding	Equity	Results	
			%	€ mn	€ mn	
32	Cave Nuove S.p.A.	Rome	100.0	3.6	-16.2	1)
33	Centre de Recursos Administración i Manteniment S.L.	Madrid	100.0	0.5	0.0	1)
34	collect Artificial Intelligence GmbH	Hamburg	100.0	2.7	0.0	3)
35	CredaRate	Cologne	12.9	4.7	0.6	2)
36	CubicEyes B.V.	Maarssen	100.0	-0.3	-0.2	1)
37	Deutsche Bau- und Grundstücks-Aktiengesellschaft (in liquidation)	Berlin	95.0	1.2	-3.0	1)
38	Deutsche Structured Finance GmbH	Wiesbaden	100.0	1.3	-0.1	1)
39	DHB Verwaltungs AG	Wiesbaden	100.0	5.1	0.0	3)
40	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Bremen	48.4	0.2	0.0	2)
41	Embrace Customers B.V.	Groningen	100.0	2.2	0.0	1)
42	Embrace Facilities B.V.	Groningen	100.0	4.7	0.7	1)
43	Embrace Housing B.V.	Groningen	100.0	1.6	0.0	1)
44	Embrace Social B.V.	Groningen	100.0	0.2	0.9	1)
45	Embrace the Human Cloud B.V	Groningen	100.0	1.1	0.4	1)
46	FIRE B.V.	Utrecht	60.0	0.3	0.1	1)
47	Galleria City Holding Company LLC	Wilmington	95.0	USD 147.8 mn	USD -7.2 mn	1)
48	Galleria City Holding Company Member 2 LLC	Wilmington	95.0	USD 0.0 mn	USD 0.0 mn	1)
49	Galleria City Partners LP	Wilmington	95.0	USD 158.1 mn	USD 0.0 mn	1)
50	Galleria Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn	1)
51	GAP Gesellschaft für Anwenderprogramme und Organisationsberatung mbH	Bremen	100.0	3.5	-0.6	1)
52	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	3.0	0.0	3)
53	Houses Nominee Ltd.	London	70.0	0.0	0.0	1)
54	Houses Stanwich GmbH & Co KG	Wiesbaden	35.7	0.0	0.0	1)
55	Houses2021 Management Beteiligungs GmbH & Co. KG	Wiesbaden	0.5	8.5	0.0	1)
56	Houses2021 MEP Beteiligungs GmbH	Frankfurt	65.6	137.9	0.0	1)
57	Houses2021 MEP Verwaltungs GmbH	Frankfurt	70.0	0.2	0.0	1)
58	Informatización de Empresas S.L.	Madrid	100.0	7.7	0.2	1)
59	Izalco Spain S.L.	Madrid	100.0	9.9	-0.5	1)
60	Konsortium BauGrund/TREUREAL[4]	Bonn	50.0	0.0	0.0	2)
61	La Sessola Holding GmbH	Wiesbaden	100.0	70.0	0.0	1)
62	La Sessola S.r.l.	Rome	100.0	48.1	-2.2	1)
63	La Sessola Service S.r.l.	Rome	100.0	0.5	-2.2	1)

1) Preliminary figures as at 31 December 2023
2) Equity and results as at 31 December 2022
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No.	Company name	Registered office	Shareholding	Equity	Results	
			in %	€ mn	€ mn	
64	Locoia GmbH	Hamburg	100.0	0.0	-0.5	1)
65	Luce San Giovanni S.r.l.	Rome	100.0	6.0	0.0	1)
66	Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn	1)
67	Mary BidCo AB	Stockholm	100.0	SEK 179 mn	SEK -60.5 mn	1)
68	Mercadea S.r.l.	Rome	100.0	15.5	0.3	1)
69	Met Manager Realty LLC	Wilmington	100.0	USD 0.0 mn	USD 0.0 mn	1)
70	Met Tower Venture LP	Wilmington	98.0	USD 0.9 mn	USD -1.1 mn	1)
71	Momentum Software AB	Stockholm	100.0	SEK 48.9 mn	SEK 7.4 mn	1)
72	Momentum Software Group AB	Stockholm	100.0	SEK 113.5 mn	SEK 9.5 mn	1)
73	Mount Street Group Limited	London	20.0	GBP -4.3 mn	GBP -8.9 mn	2)
74	Northpark Realty LP	Wilmington	100.0	USD 91.7 mn	USD 2.3 mn	1)
75	OSRE B.V.	Amsterdam	100.0	1.1	-0.5	1)
76	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	4.2	0.0	3)
77	Participation Elfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0	3)
78	Participation Zehnte Beteiligungs GmbH	Wiesbaden	100.0	10.6	0.0	3)
79	Participation Zwölfte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0	3)
80	plusForta GmbH	Dusseldorf	100.0	0.2	0.0	3)
81	PropTech1 Fund I GmbH & Co. KG	Berlin	9.6	50.2	-0.7	1)
82	Realmark Group B.V.	Amsterdam	100.0	-0.6	-0.1	1)
83	RentPro Ltd.	Warrenpoint	100.0	0.0	0.0	1)
84	Scale Layer GmbH	Wiesbaden	100.0	0.1	-0.8	1)
85	Sole Sopra Cinquina S.r.l.	Rome	100.0	7.8	-0.1	1)
86	Tactile Limited	London	100.0	GBP 1.4 mn	GBP 0.1 mn	1)
87	Terrain Beteiligungen GmbH	Wiesbaden	94.0	62.9	0.3	1)
88	Terrain Herzogpark GmbH & Co. KG	Wiesbaden	100.0	22.6	-1.2	1)
89	Terrain Management GmbH	Wiesbaden	100.0	2.6	0.0	1)
90	Tintoretto Rome S.r.l.	Rome	100.0	30.5	-0.6	1)
91	UTS innovative Softwaresysteme GmbH	Cologne	100.0	1.9	0.5	1)
92	Vind je Plek B.V.	Amsterdam	100.0	0.0	0.0	1)
93	Westdeutsche Immobilien Servicing AG	Mainz	100.0	50.1	0.0	3)
94	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	0.0	0.0	2)
95	wohnungshelden GmbH	Munich	100.0	0.7	-0.2	1)
96	146 Geary CA LLC	Wilmington	100.0	USD 19.1 mn	USD 4.6 mn	1)
97	220 Post CA LLC	Wilmington	100.0	USD 49.2 mn	USD 28.5 mn	1)

1) Preliminary figures as at 31 December 2023
2) Equity and results as at 31 December 2022
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(43) Assets pledged as collateral

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

€ mn	31 Dec 2023	31 Dec 2022
Liabilities to banks	2,768.5	5,097.6
Liabilities to customers	7.3	6.4
Total	**2,775.8**	**5,104.0**

Cash collateral in the amount of €49.0 million (including pro-rata interest; 2022: €40.8 million) has been pledged for irrevocable payment obligations from the bank levy, contributions to the deposit guarantee scheme of German banks and the deposit protection fund.

Assets with a carrying amount of €1,130.4 million (2022: €2,757.8 million) were pledged as collateral for targeted longer-term refinancing operations (TLTROs).

(44) Repurchase agreements

As at 31 December 2023, no bonds were used as part of repurchase agreements (2022: € –).

(45) Assets and liabilities in foreign currencies

The aggregate equivalent amount of assets denominated in foreign currencies was €18,947.3 million (2022: €18,338.7 million) at the balance sheet date, whilst liabilities totalled €2,409.2 million (2022: €2,810.3 million). Foreign currency balances are partly offset by equivalent foreign exchange forwards and currency swaps.

(46) Forward transactions

The following forward transactions had been entered into as at 31 December 2023:

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

Interest-rate based transactions and cross-currency swaps are primarily used to hedge against interest rate and exchange rate fluctua-

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

31 Dec 2023

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Interest rate instruments					
Interest rate swaps					
Cash inflows	541.4	1,202.5	2,840.8	1,663.1	6,247.8
Cash outflows	623.5	1,305.4	3,250.3	1,821.2	7,000.4
Caps, floors					
Cash inflows	24.9	50.4	28.4	-	103.7
Cash outflows	24.9	50.4	28.4	-	103.7
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	1,733.3	-	-	-	1,733.3
Cash outflows	1,729.1	-	-	-	1,729.1
Cross-currency swaps					
Cash inflows	788.4	3,553.6	11,558.5	0.4	15,900.9
Cash outflows	869.4	3,678.6	11,826.5	-	16,374.5
Total cash inflows	**3,088.0**	**4,806.5**	**14,427.7**	**1,663.5**	**23,985.7**
Total cash outflows	**3,246.9**	**5,034.4**	**15,105.2**	**1,821.2**	**25,207.7**

31 Dec 2022

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

The following overview shows positive and negative market values, aggregated by product level (without taking collateral or netting agreements into account): Unless a quoted market price is available, derivatives are measured using generally accepted methods on the basis of current market parameters (yield curves, volatility factors etc.). Methods used include standard methods and models such as discounted cash flow analyses and option pricing models. Structured products are measured after they have been split into their individual components. Fair values including accrued interest are given for derivative financial instruments not recognised at fair value as at 31 December 2023.

	31 Dec 2023			31 Dec 2022	
		Market value		Market value	
€ mn	Nominal amount	Positive	Negative	Positive	Negative
Interest rate instruments	**77,547.4**	**1,270.0**	**2,375.9**	**1,578.3**	**2,845.0**
OTC products					
Interest rate swaps	66,340.8	1,172.8	2,278.8	1,439.6	2,707.0
Caps, floors	11,206.6	97.2	97.1	138.7	138.0
Currency-related instruments	**16,833.5**	**269.3**	**313.8**	**247.2**	**680.4**
OTC products					
Spot and forward foreign exchange transactions	1,733.3	9.3	3.5	15.7	3.7
Cross-currency swaps	15,100.2	260.0	310.3	231.5	676.7
Total	**94,380.9**	**1,539.3**	**2,689.7**	**1,825.5**	**3,525.4**

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

Derivatives have been entered into with the following counterparties:

	Market value as at 31 Dec 2023		Market value as at 31 Dec 2022	
€ mn	Positive	Negative	Positive	Negative
OECD public-sector authorities	-	-	-	-
OECD banks	1,496.0	2,557.6	1,820.1	3,337.4
Non-OECD banks	-	-	-	-
Companies and private individuals	43.3	132.2	5.4	188.0
Total	**1,539.3**	**2,689.8**	**1,825.5**	**3,525.4**

Other Disclosures

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

Public-sector lending

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

31 Dec 2023

€ mn	Cover assets pool	Pfandbriefe outstanding[1]	Excess cover	Statutory excess cover[2]	Contractual excess cover[2]	Voluntary excess cover[2]
Nominal value	**1,141.7**	**1,018.7**	**123.0**	**40.6**	**-**	**82.3**
of which: derivatives	-	-	-	-	-	-
Present value	**1,286.4**	**1,131.6**	**154.8**	**22.6**	**-**	**132.2**
of which: derivatives	-	-	-	-	-	-
Risk-adjusted net present value[3]	**1,181.2**	**1,077.9**	**103.3**	**-**	**-**	**-**

31 Dec 2022

€ mn	Cover assets pool	Pfandbriefe outstanding[1]	Excess cover	Statutory excess cover[2]	Contractual excess cover[2]	Voluntary excess cover[2]
Nominal value	**1,349.0**	**1,204.4**	**144.6**	**48.3**	**-**	**96.3**
of which: derivatives	-	-	-	-	-	-
Present value	**1,483.0**	**1,301.6**	**181.4**	**26.0**	**-**	**155.4**
of which: derivatives	-	-	-	-	-	-
Risk-adjusted net present value[3]	**1,322.3**	**1,206.9**	**115.4**	**-**	**-**	**-**

[1] Of which transferred to own holdings: €– million (2022: €– million)

[2] Statutory excess cover based on
nominal amount: aggregate of nominal value of excess cover in accordance with section 4 (2) of the PfandBG and the nominal value of present-value excess cover in accordance with section 4 (1) of the PfandBG
present value: present value of excess cover in accordance with section 4 (1) of the PfandBG
Contractual excess cover: contractually-agreed excess cover
Voluntary excess cover: residual amount, depending upon statutory and contractual excess cover; present value includes present value of nominal-value cover in accordance with section 4 (2) of the PfandBG.

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

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

	31 Dec 2023			31 Dec 2022		
€ mn	Cover assets pool	Pfandbriefe outstanding[1]	Pfandbriefe outstanding, extension of maturity (12 months)[1] [2]	Cover assets pool	Pfandbriefe outstanding[1]	Pfandbriefe outstanding, extension of maturity (12 months)[1] [2]
Up to 6 months	65.4	19.2	-	112.3	96.8	-
Between 6 months and 12 months	22.3	78.5	-	15.4	89.1	-
Between 12 months and 18 months	15.6	113.3	19.2	115.5	19.0	96.8
Between 18 months and 2 years	10.6	142.4	78.5	18.2	78.5	89.1
Between 2 years and 3 years	80.3	114.5	255.7	26.2	255.7	97.5
Between 3 years and 4 years	29.9	196.8	114.5	80.2	114.5	255.8
Between 4 years and 5 years	110.3	81.0	196.8	29.7	196.8	114.5
Between 5 years and 10 years	124.0	149.9	146.4	180.9	146.4	318.8
More than 10 years	683.3	123.1	207.6	770.6	207.6	231.9
Total	**1,141.7**	**1,018.7**	**1,018.7**	**1,349.0**	**1,204.4**	**1,204.4**

[1] Of which transferred to own holdings: €– million (2022: €– million)
[2] Effects of an extension of maturity on the maturity structure of the Pfandbriefe/extension scenario: 12 months. This represents a very unlikely scenario which could only materialise once a cover pool administrator is appointed.

Breakdown of assets used as cover for public-sector Pfandbriefe (based on their nominal value) by their amount (section 28 (3) sentence 1 of the PfandBG):

€ mn	2023	2022
Amount classes		
Up to €10 million	111.0	127.2
More than €10 million and up to €100 million	419.2	460.3
More than €100 million	611.5	761.5
Total	**1,141.7**	**1,349.0**

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

31 Dec 2023

€ mn	Total	Guarantees due to promotion of export activities	of which owed by				of which guaranteed by			
				Public-sector entities				Public-sector entities		
			Sovereigns	Regional	Municipal	Other	Sovereigns	Regional	Municipal	Other
Countries										
Germany	861.7	-	-	626.8	190.7	26.1	-	0.7	17.4	-
Japan	20.0	-	-	-	20.0	-	-	-	-	-
Austria	260.0	-	200.0	25.0	-	-	35.0	-	-	-
Spain	-	-	-	-	-	-	-	-	-	-
Total	**1,141.7**	**-**	**200.0**	**651.8**	**210.7**	**26.1**	**35.0**	**0.7**	**17.4**	**-**

31 Dec 2022

€ mn	Total	Guarantees due to promotion of export activities	of which owed by				of which guaranteed by			
				Public-sector entities				Public-sector entities		
			Sovereigns	Regional	Municipal	Other	Sovereigns	Regional	Municipal	Other
Countries										
Germany	1.034.0	-	-	775.3	216.0	22.0	0.1	0.7	19.9	-
Japan	20.0	-	-	-	20.0	-	-	-	-	-
Austria	275.0	-	200.0	25.0	-	-	50.0	-	-	-
Spain	20.0	-	-	20.0	-	-	-	-	-	-
Total	**1,349.0**	**-**	**200.0**	**820.3**	**236.0**	**22.0**	**50.1**	**0.7**	**19.9**	**-**

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

31 December 2023

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

31 December 2022

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

Additional key figures for outstanding Pfandbriefe and related cover assets:

		2023	2022
Outstanding Pfandbriefe[1]	**€ mn**	**1,018.7**	**1,204.4**
of which: share of fixed-income Pfandbriefe	%	97.5	97.9
Cover assets pool	**€ mn**	**1,141.7**	**1,349.0**
of which: total volume of claims pursuant to section 20 (1) and (2) of the PfandBG that exceed the limits set out in section 20 (3) of the PfandBG	€ mn	-	-
of which: total volume of claims above the percentages set out in section 20 (2) no. 2 of the PfandBG	€ mn	-	-
of which: total volume of claims above the percentages set out in section 20 (2) no. 3 of the PfandBG	€ mn	-	-
of which: share of fixed-income cover assets	%	94.5	93.1
of which: share attributable to obligors for which a default is considered to have occurred in accordance with Article 178 (1) of the CRR	€ mn	-	-

[1] Of which transferred to own holdings: €– million (2022: €– million)

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

Balance of assets and liabilities (€ mn)	2023	2022
Currency		
EUR	103.3	115.4

		2023	2022
Liquidity ratios			
Greatest calculated negative total in the next 180 days within the meaning of section 4 (1a) sentence 3 of the PfandBG (liquidity requirements)	€ mn	-0.1	-0.3
Day on which the greatest negative total is calculated	Day	3.0	2.0
Total of cover assets that meet the requirements of section 4 (1a) sentence 3 of the PfandBG (liquidity coverage)	€ mn	70.9	102.7

		2023	2022
Derivative ratios			
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 1 of the PfandBG (credit quality step 3)	%	-	-
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 2 of the PfandBG (credit quality step 2)	%	-	-
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 3c of the PfandBG (credit quality step 1)	%	-	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 1 of the PfandBG (credit quality step 3)	%	-	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 2 of the PfandBG (credit quality step 2)	%	-	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 3c of the PfandBG (credit quality step 1)	%	-	-

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

No registered public-sector Pfandbriefe were surrendered to lenders as collateral for borrowings (2022: none).

Information on the extension of the Pfandbriefe's maturity

Requirements for extending the maturity of the Pfandbriefe

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

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

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

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

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

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

Public-sector Pfandbriefe

ISIN 31 Dec 2023		ISIN 31 Dec 2022	
DE0002023017	DE0003153292	DE0002023017	DE0003153292
DE0003153037	DE0003153417	DE0003153037	DE0003153417
DE0003153078	DE0003153458	DE0003153078	DE0003153458
DE0003153201	DE0003153532	DE0003153201	DE0003153532
DE0003153219	DE0003158887	DE0003153219	DE0003158887
DE0003153268	DE0003159992	DE0003153268	DE0003159992
DE0003153276		DE0003153276	

Mortgage lending

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

31 Dec 2023

€ mn	Cover assets pool	Pfandbriefe outstanding[1)]	Excess cover	Statutory excess cover[2)]	Contractual excess cover[2)]	Voluntary excess cover[2)]
Nominal value	**16,461.3**	**14,559.3**	**1,902.0**	**601.8**	**-**	**1,300.2**
of which: derivatives	-	82.5	-	-	-	-
Present value	**16,940.8**	**14,161.9**	**2,778.9**	**283.2**	**-**	**2,495.7**
of which: derivatives	-	18.2	-	-	-	-
Risk-adjusted net present value[3)]	**16,927.2**	**14,691.3**	**2,235.9**	**-**	**-**	**-**

31 Dec 2022

€ mn	Cover assets pool	Pfandbriefe outstanding[1)]	Excess cover	Statutory excess cover[2)]	Contractual excess cover[2)]	Voluntary excess cover[2)]
Nominal value	**15,172.7**	**13,336.9**	**1,835.8**	**563.0**	**-**	**1,272.8**
of which: derivatives	-	147.9	-	-	-	-
Present value	**15,146.4**	**12,546.8**	**2,599.6**	**250.9**	**-**	**2,348.6**
of which: derivatives	-	147.9	-	-	-	-
Risk-adjusted net present value[3)]	**15,202.4**	**13,406.7**	**1,795.7**	**-**	**-**	**-**

[1)] Of which transferred to own holdings: €2,304.0 million (2022: €1,543.0 million)
[2)] Statutory excess cover based on
nominal amount: aggregate of nominal value of excess cover in accordance with section 4 (2) of the PfandBG and the nominal value of present-value excess cover in accordance with section 4 (1) of the PfandBG
present value: present value of excess cover in accordance with section 4 (1) of the PfandBG
Contractual excess cover: contractually-agreed excess cover
Voluntary excess cover: residual amount, depending upon statutory and contractual excess cover; present value includes present value of nominal-value cover in accordance with section 4 (2) of the PfandBG.
[3)] Dynamic method pursuant to section 5 of the PfandBarwertV/static method pursuant to section 6 of the PfandBarwertV

Maturity structure of outstanding mortgage Pfandbriefe and fixed-interest periods of the related cover assets (section 28 (1) no. 5 of the PfandBG):

	31 Dec 2023			31 Dec 2022		
€ mn	Cover assets pool	Pfandbriefe outstanding[1]	Pfandbriefe outstanding, extension of maturity (12 months)[1] [2]	Cover assets pool	Pfandbriefe outstanding[1]	Pfandbriefe outstanding, extension of maturity (12 months)[1] [2]
Up to 6 months	1,113.9	956.0	-	1,181.6	1,212.9	-
Between 6 months and 12 months	1,382.3	734.3	-	1,690.7	735.1	-
Between 12 months and 18 months	1,568.7	1,475.2	956.0	1,410.3	873.2	1,212.9
Between 18 months and 2 years	2,365.4	708.2	734.3	1,158.6	736.0	735.1
Between 2 years and 3 years	3,578.0	2,274.7	2,183.4	3,239.1	2,188.0	1,609.2
Between 3 years and 4 years	2,096.4	2,074.9	2,274.7	3,170.7	1,021.8	2,188.0
Between 4 years and 5 years	2,328.1	1,950.3	2,074.9	1,639.1	1,576.8	1,021.8
Between 5 years and 10 years	1,855.6	4,016.9	5,456.3	1,518.0	4,823.1	6,313.9
More than 10 years	172.9	368.8	879.7	164.6	170.0	256.0
Total	**16,461.3**	**14,559.3**	**14,559.3**	**15,172.7**	**13,336.9**	**13,336.9**

[1] Of which transferred to own holdings: €2,304.0 million (2022: €1,543.0 million)
[2] Effects of an extension of maturity on the maturity structure of the Pfandbriefe/extension scenario: 12 months. This represents a very unlikely scenario which could only materialise once a cover pool administrator is appointed.

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

€ mn	2023	2022
Amount classes		
Up to € 300 thousand	114.9	145.6
Between € 300 thousand and € 1 million	33.1	37.6
Between € 1 million and € 10 million	293.5	340.6
More than € 10 million	14,819.7	13,534.2
Total	**15,261.2**	**14,058.0**

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

31 Dec 2023

€ mn	Claims pursuant to section 19 (1) sentence 1 nos. 2a) and b) of the PfandBG		Claims pursuant to section 19 (1) sentence 1 nos. 3 a) to c) of the PfandBG		Claims pursuant to section 19 (1) sentence 1 no. 4 of the PfandBG	Total
	Total	of which: covered bonds pursuant to Art. 129 of EU Regulation No. 575/2013	Total	of which: covered bonds pursuant to Art. 129 of EU Regulation No. 575/2013		
Countries						
Denmark	-	-	21.5	21.5	74.7	96.2
Germany	-	-	150.0	150.0	588.5	738.5
EU institutions	-	-	-	-	234.0	234.0
France	-	-	-	-	42.0	42.0
Austria	-	-	69.4	69.4	15.0	84.4
Spain	-	-	-	-	5.0	5.0
Total	**-**	**-**	**240.9**	**240.9**	**959.2**	**1,200.1**

31 Dec 2022

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

Additional key figures for outstanding Pfandbriefe and related cover assets:

		2023	2022
Outstanding Pfandbriefe[1]	**€ mn**	**14,559.3**	**13,336.9**
of which: share of fixed-income Pfandbriefe	%	71.7	74.1
Cover assets pool	**€ mn**	**16,461.3**	**15,172.7**
of which: total volume of claims above the limits set out in section 13 (1) of the PfandBG	€ mn	-	-
of which: total volume of values above the limits set out in section 19 (1) sentence 7 of the PfandBG	€ mn	-	-
of which: total volume of claims above the percentages set out in section 19 (1) no. 2 of the PfandBG	€ mn	-	-
of which: total volume of claims above the percentages set out in section 19 (1) no. 3 of the PfandBG	€ mn	-	-
of which: total volume of claims above the percentages set out in section 19 (1) no. 4 of the PfandBG	€ mn	-	-
of which: share of fixed-income cover assets	%	50.0	50.5
of which: share attributable to obligors for which a default is considered to have occurred in accordance with Article 178 (1) of the CRR	%	0.0	0.0
Volume-weighted average age of receivables (seasoning)	**Years**	**4.6**	**4.6**
Weighted average mortgage lending value ratio, based on mortgage lending value	**%**	**55.7**	**55.5**
Weighted average mortgage lending value ratio, based on market value	**%**	**33.5**	**32.0**

[1] Of which transferred to own holdings: €2,304.0 million (2022: €1,543.0 million)

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

Balance of assets and liabilities in € mn	2023	2022
Currency		
AUD	-28.0	61.9
CAD	68.3	66.8
CHF	69.4	67.0
DKK	214.0	50.3
EUR	962.7	202.3
GBP	557.2	492.1
SEK	56.3	87.8
USD	640.6	1,175.5

		2023	2022
Liquidity ratios			
Greatest calculated negative total in the next 180 days within the meaning of section 4 (1a) sentence 3 of the PfandBG (liquidity requirements)	€ mn	756.3	763.1
Day on which the greatest negative total is calculated	Day	46.0	51
Total of cover assets that meet the requirements of section 4 (1a) sentence 3 of the PfandBG (liquidity coverage)	€ mn	1,104.1	972.6

		2023	2022
Derivative ratios			
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 1 of the PfandBG (credit quality step 3)	%	-	-
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 2 of the PfandBG (credit quality step 2)	%	-	-
Share of derivative transactions included in the cover pools in accordance with section 20 (2) sentence 1 no. 3c of the PfandBG (credit quality step 1)	%	-	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 1 of the PfandBG (credit quality step 3)	%	-	-
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 2 of the PfandBG (credit quality step 2)	%	0.5	1.1
Share of derivative transactions in the liabilities to be covered in accordance with section 20 (2) sentence 1 no. 3c of the PfandBG (credit quality step 1)	%	0.0	0.0

Information on the extension of the Pfandbriefe's maturity

Requirements for extending the maturity of the Pfandbriefe

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

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

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

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

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

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

Mortgage Pfandbriefe

ISIN 31 Dec 2023				ISIN 31 Dec 2022			
DE0002020013	DE0003150496	DE000A1TNDH8	DE000AAR0215	DE0002020013	DE0003150496	DE000A1CR5Q6	DE000A2E4DC0
DE0002020021	DE0003150512	DE000A1TNDP1	DE000AAR0249	DE0002020021	DE0003150512	DE000A1E88F4	DE000AAR0207
DE0002020047	DE0003150520	DE000A1TNDX5	DE000AAR0256	DE0002020047	DE0003150520	DE000A1RE4S3	DE000AAR0215
DE0002020138	DE0003150538	DE000A289L62	DE000AAR0272	DE0002020138	DE0003150538	DE000A1TNDC9	DE000AAR0223
DE0002020211	DE0003150561	DE000A289L70	DE000AAR0280	DE0002020211	DE0003150561	DE000A1TNDH8	DE000AAR0231
DE0003150074	DE0003150579	DE000A289L96	DE000AAR0306	DE0003150074	DE0003150579	DE000A1TNDP1	DE000AAR0249
DE0003150165	DE0003150587	DE000A289MA4	DE000AAR0314	DE0003150165	DE0003150587	DE000A1TNDX5	DE000AAR0256
DE0003150173	DE0003150595	DE000A289MB2	DE000AAR0330	DE0003150173	DE0003150595	DE000A289L62	DE000AAR0272
DE0003150181	DE0003150611	DE000A289MC0	DE000AAR0348	DE0003150181	DE0003150611	DE000A289L70	DE000AAR0280
DE0003150199	DE0003150629	DE000A289MD8	DE000AAR0363	DE0003150199	DE0003150629	DE000A289L96	DE000AAR0306
DE0003150207	DE0003150645	DE000A289MG1	DE000AAR0371	DE0003150207	DE0003150645	DE000A289MA4	DE000AAR0314
DE0003150231	DE0003150652	DE000A289MH9	DE000AAR0389	DE0003150231	DE0003150652	DE000A289MB2	DE000AAR0330
DE0003150256	DE0003150678	DE000A289ML1	DE000AAR0397	DE0003150256	DE0003150678	DE000A289MC0	DE000AAR0348
DE0003150363	DE0003150686	DE000A289MU2	XS1046548787	DE0003150363	DE0003150686	DE000A289MD8	DE000AAR0363
DE0003150389	DE0003150694	DE000A289MV0	XS1092160461	DE0003150389	DE0003150694	DE000A289MG1	DE000DUS20G4
DE0003150405	DE0003150728	DE000A2E4C43	XS1101800396	DE0003150405	DE0003150728	DE000A289MH9	XS0897426416
DE0003150421	DE0003150744	DE000A2E4CE8	XS2297684842	DE0003150421	DE0003150744	DE000A2E4C43	XS0996189659
DE0003150439	DE0003150850	DE000A2E4CT6	XS2337339977	DE0003150439	DE0003150850	DE000A2E4C76	XS1046548787
DE0003150447	DE0003150918	DE000A2E4CU4		DE0003150447	DE0003150918	DE000A2E4CE8	XS1092160461
DE0003150462	DE0003151684	DE000A2E4DA4		DE0003150462	DE0003151684	DE000A2E4CT6	XS1101800396
DE0003150470	DE000A1CR5Q6	DE000A2E4DC0		DE0003150470	DE000A12T7Q5	DE000A2E4CU4	XS2297684842
DE0003150488	DE000A1TNDC9	DE000AAR0207		DE0003150488	DE000A12T7R3	DE000A2E4DA4	XS2337339977

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

31 Dec 2023

	Commercial property							Residential property						
€ mn	Building plots only	New buildings not yet yielding returns	Office buildings	Retail	Industrial	Other	Total	Building plots only	New buildings not yet yielding returns	Condominiums	One- and two-family homes	Multi-family homes	Total	Total cover assets pool
Australia	-	-	-	-	45.1	82.2	**127.3**	-	-	-	-	236.9	**236.9**	364.2
Belgium	-	-	92.3	66.5	10.0	58.0	**226.8**	-	-	-	-	-	**-**	226.8
Denmark	-	-	-	-	-	195.5	**195.5**	-	-	-	-	-	**-**	195.5
Germany	-	-	158.0	187.6	320.8	236.6	**903.0**	-	-	-	80.1	375.9	**456.0**	1,359.0
Estonia	-	-	-	18.7	-	-	**18.7**	-	-	-	-	-	**-**	18.7
Finland	-	-	77.4	184.7	35.3	-	**297.4**	-	-	-	-	14.6	**14.6**	312.0
France	-	150.1	860.5	139.3	178.1	326.5	**1,654.5**	-	-	-	-	9.9	**9.9**	1,664.4
UK	-	-	585.9	186.9	427.6	949.7	**2,150.1**	-	-	-	-	309.7	**309.7**	2,459.8
Ireland	-	-	-	-	-	20.3	**20.3**	-	-	-	-	-	**-**	20.3
Italy	-	-	176.9	375.7	34.1	60.4	**647.1**	-	-	-	-	-	**-**	647.1
Canada	-	-	-	-	-	283.0	**283.0**	-	-	-	-	-	**-**	283.0
Luxembourg	-	-	52.6	-	-	4.5	**57.1**	-	-	-	-	-	**-**	57.1
Netherlands	-	-	3.8	-	248.8	482.6	**735.2**	-	-	-	-	-	**-**	735.2
Austria	-	22.7	-	119.7	8.0	14.7	**165.1**	-	-	-	-	-	**-**	165.1
Poland	-	-	516.6	244.2	622.0	-	**1,382.8**	-	-	-	-	-	**-**	1,382.8
Sweden	-	-	188.6	106.8	159.7	-	**455.1**	-	-	-	-	-	**-**	455.1
Switzerland	-	-	-	-	-	238.0	**238.0**	-	-	-	-	-	**-**	238.0
Spain	-	-	4.0	756.5	188.4	91.6	**1,040.5**	-	-	-	-	143.1	**143.1**	1,183.6
Czech Republic	-	-	-	-	154.0	10.2	**164.2**	-	-	-	-	-	**-**	164.2
US	-	-	1,874.4	307.1	48.4	1,015.7	**3,245.6**	-	-	-	-	83.7	**83.7**	3,329.3
Total	**-**	**172.8**	**4,591.0**	**2,693.7**	**2,480.3**	**4,069.5**	**14,007.3**	**-**	**-**	**-**	**80.1**	**1,173.8**	**1,253.9**	**15,261.2**

31 Dec 2022

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

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

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

€ mn	2023		2022	
	Aggregate payments which are at least 90 days overdue	Total volume of these receivables, to the extent that the relevant amount overdue is not less than 5% of the receivable	Aggregate payments which are at least 90 days overdue	Total volume of these receivables, to the extent that the relevant amount overdue is not less than 5% of the receivable
Germany	0.1	0.1	0.0	0.0
Total	**0.1**	**0.1**	**0.0**	**0.0**

No registered mortgage Pfandbriefe were surrendered to lenders as collateral for borrowings (2022: none).

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

		2023		2022	
		Commercial property	Residential property	Commercial property	Residential property
Forced sales pending	Number	-	13	-	5
of which forced administrations pending	Number	-	-	-	-
Forced administrations pending	Number	-	-	-	-
Forced sales executed	Number	-	1	-	7
Purchases of properties to prevent losses (foreclosed assets)	Number	-	-	-	-
Total amount of arrears on interest payable	€ mn	3.0	0.1	1.6	0.1

(48) 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.

(49) Events after the reporting date

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

(50) Remuneration disclosures

Management and Supervisory Board

In the financial year 2023, the Management Board's total remuneration, excluding benefits from pension commitments, amounted to €7.8 million (2022: €8.3 million), of which €3.9 million (2022: €4.2 million) referred to variable components.

Pension payments to former Management Board members and their surviving dependants totalled €2.2 million in 2023 (2022: €2.1 million).

The amount of pension obligations to active and former members of the Management Board was €64.2 million as at 31 December 2023 (2022: €58.9 million). Of that amount, €10.7 million (2022: €8.3 million) related to members of the Management Board active at the end of the financial year and €53.5 million to former members of the Management Board and their surviving dependants (2022: €50.6 million).

The total remuneration of members of the Supervisory Board for the financial year 2023 amounted to €1.7 million (2022: €1.9 million). The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

(51) Employees

The average staffing level is shown below:

Yearly average	1 Jan - 31 Dec 2023	1 Jan - 31 Dec 2022
Salaried employees	961	914
Executives	32	32
Total	**993**	**946**
of which: part-time employees	171	168

(52) Auditors' fees

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

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

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

In accordance with the notification pursuant to section 20 (6) of the German Public Limited Companies Act (Aktiengesetz – AktG), Atlantic BidCo GmbH directly holds more than 50%, and Atlantic Lux HoldCo S.à r.l. indirectly holds more than 50% of shares in Aareal Bank AG. Atlantic BidCo GmbH's holding is attributable to Atlantic Lux HoldCo S.à r.l.

(54) Statement pursuant to section 312 of the AktG

Aareal Bank AG has prepared a subordinate status report (Abhängigkeitsbericht) in accordance with section 312 of the AktG for the 2023 financial year.

(55) Proposal on the appropriation of profits

Aareal Bank does not plan to distribute net income for 2023 in 2024.

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

(56) Executive Bodies of Aareal Bank AG

Composition of Supervisory Board's committees

Executive and Nomination Committee	
Jean Pierre Mustier	Chairman
Barbara Knoflach	Deputy Chairwoman
Hans-Hermann Lotter	
Marika Lulay	
Klaus Novatius	
José Sevilla Álvarez	

Remuneration Control Committee	
Jean Pierre Mustier	Chairman
Hans-Hermann Lotter	Deputy Chairman
Henning Giesecke	
Petra Heinemann-Specht	
Klaus Novatius	
Prof. Dr Hermann Wagner	

Audit Committee	
Prof. Dr Hermann Wagner	Chairman
José Sevilla Álvarez	Deputy Chairman
Henning Giesecke	
Denis Hall	
Petra Heinemann-Specht	
Hans-Hermann Lotter	

Technology and Innovation Committee	
Marika Lulay	Chairwoman
Barbara Knoflach	Deputy Chairwoman
Sylwia Bach	
Denis Hall	
Jan Lehmann	
José Sevilla Álvarez	

Risk Committee	
Henning Giesecke	Chairman
Denis Hall	Deputy Chairman
Petra Heinemann-Specht	
Barbara Knoflach	
José Sevilla Álvarez	

Supervisory Board

Jean Pierre Mustier, Chairman of the Supervisory Board (since 15 January 2024) **Former Chief Executive Officer of UniCredit S.p.A. and former President of the European Banking Federation**	since 10 August 2023
Sylwia Bach* **Aareon Deutschland GmbH**	since 16 March 2023
Henning Giesecke, Chairman of the Risk Committee **Former Chief Risk Officer of UniCredit S.p.A. and UniCredit Bank AG**	
Denis Hall **Former Chief Risk Officer Global Consumer Banking of GE Capital EMEA**	
Petra Heinemann-Specht* **Aareal Bank AG**	
Barbara Knoflach, Deputy Chairwoman of the Supervisory Board **Former Global Head der BNP Paribas Real Estate Investment Management and Deputy Chief Executive Officer of BNP Paribas Real Estate S.A.**	
Jan Lehmann* **Aareon Deutschland GmbH**	
Hans-Hermann Lotter, Deputy Chairman of the Supervisory Board **Self-employed consultant for private equity investments, mergers, takeovers and restructurings, and Managing Director of Atlantic BidCo GmbH**	
Marika Lulay, Chairwoman of the Technology and Innovation Committee **Chief Executive Officer and Managing Director of GFT Technologies SE**	
Klaus Novatius*, Deputy Chairman of the Supervisory Board **Aareal Bank AG**	
José Sevilla Álvarez **Former Chief Executive Officer of Bankia S.A.**	
Prof. Dr Hermann Wagner[1)], Chairman of the Audit Committee **German Chartered Accountant, tax consultant**	

[1)] Prof. Dr Wagner was Chairman of the Supervisory Board until 14 January 2024

Retired members

Thomas Hawel* **Aareon Deutschland GmbH**	until 15 March 2023
Sylvia Seignette **Former CEO Deutschland / Österreich Crédit Agricole CIB (formerly Calyon)**	until 10 August 2023

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

Management Board

Jochen Klösges, Chairman of the Management Board (CEO)

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

Nina Babic, Member of the Management Board (CRO)

Capital Markets Management, Credit Management, Information Security & Data Protection, Non-Financial Risks incl. Compl., Regulatory Affairs, Risk Controlling, USA – Credit Management, USA – Distressed Loans, Valuation & Research, Workout / Non Core Assets

(Membership of statutory supervisory bodies or similar bodies of corporations within the meaning of section 267 (3) of the HGB)	
Aareal Capital Corporation (Aareal Bank Group)	Member of the Board of Directors

Marc Hess, Member of the Management Board (CFO)

Finance & Controlling, Investor Relations, Treasury

Christof Winkelmann, Member of the Management Board (CMO)

Aareal Asia / Pacific, Credit Legal, Euro Hub, Loan Markets & Syndication, Special Property Finance I, Special Property Finance II, Strategy & Business Management, USA – Origination

(Membership of statutory supervisory bodies or similar bodies of corporations within the meaning of section 267 (3) of the HGB)	
Aareal Capital Corporation (Aareal Bank Group)	Chairman of the Board of Directors

Wiesbaden, 4 March 2024

The Management Board

Jochen Klösges Nina Babic

Marc Hess Christof Winkelmann

Independent Auditor's Report

To Aareal Bank AG, Wiesbaden, Germany

Report on the Audit of the Annual Financial Statements and the Management Report

Opinions

We have audited the annual financial statements of Aareal Bank AG, Wiesbaden, which comprise the balance sheet as at 31 December 2023, and the income statement for the financial year from 1 January to 31 December 2023, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Aareal Bank AG for the financial year from 1 January to 31 December 2023.

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

The management report contains references not required by law. In accordance with the requirements of German law, we did not audit the contents of the references named in the notes to the auditor's opinion and the information relating to references.

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

- the accompanying annual financial statements comply, in all material aspects, with the requirements of German commercial law applicable to institutes and in compliance with German Legally Required Accounting Principles give a true and fair view of the assets, liabilities and financial position of the Company as of 31 December 2023 and its financial performance for the financial year from 1 January to 31 December 2023 and

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

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

Basis for the Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are such matters that, in our professional judgement, were the most significant in our audit of the annual financial statements for the financial year from 1 January to 31 December 2023. These matters were addressed in connection with our audit of the annual financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Recoverability of the bail-out purchases

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

THE FINANCIAL STATEMENT RISK
In the annual financial statements of Aareal Bank AG as at 31 December 2023 indirectly property and land from previous loan exposures – so-called "bail-out purchases" – were recognised under "Shares in associates".

The bail-out purchases are held in property companies and, with one exception, are intended for sale in the ordinary course of business. For a hotel property, the Bank has entered into an agreement over its sale. The properties are either hotel, residential office or retail properties as well as land for project developments of these property types. In the financial year, the Bank acquired two further salvage acquisitions from US loan commitments, which were recognized at a value of EUR 45 million and EUR 18 million respectively at the time of acquisition.

At each reporting date, the Bank examines the recoverability of the properties and land held in the property companies and thus the recoverability of the shares held. In doing so, the Bank mandates external property experts and considers their work. The market values of the properties are derived as the present value of future cash flows (DCF method or residual value method for project developments) or on the basis of space-related comparable values.

The planning calculations thus integrate assumptions subject to uncertainty, e.g. property completion, leasing and marketing.

These assumptions which are subject to estimating uncertainty have a substantial impact on the market value and thus also on the assessment of the recoverability of the carrying amounts of the property companies held.

There is also the risk for the annual financial statements that the calculation methods underlying the appraisals are inappropriate or that as a result of the inappropriate exercise of judgement resulting from the assumptions subject to uncertainty impairment of the bail-out purchases is not identified or not identified at an appropriate level.

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

Based on our audit, we examined the Bank's controls and processes to check the plausibility of the appraisals obtained in terms of appropriateness and effectiveness.

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

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

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

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

Loans – specific valuation allowances

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

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

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

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

In a first step, we obtained a comprehensive overview on the development of the credit portfolio, the related counterparty default risks and the internal control system in relation to the identification, management, monitoring and recognition of the counterparty default risks in the credit portfolio. Our audit included structural and functional examinations of the internal control system, in which respect we focussed on the assessment of the internal accounting methodology with reference to the measurement of credit-impaired receivables. For the IT and data processing systems deployed, using our IT specialists we examined the effectiveness of the regulations and procedures relating to a large number of IT applications and which support the effectiveness of the application controls.

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

Then we assessed the cash flows derived for the scenarios. In our assessment, depending on the exposure strategy pursued by Aareal Bank, we included the measurement of collateral. In auditing the recoverability of the underlying collateral, in our assessment we deployed appraisals of independent experts and on the basis of publicly available data assessed whether the assumptions in the appraisals were appropriately derived.

With the selective involvement of KPMG real estate experts we examined selected appraisals, in particular for the following key matters:

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

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

OUR OBSERVATIONS

In determining the specific valuation allowances for credit-impaired receivables ,the selection of the specific scenarios, the assessment of probabilities and the assessment of the expected cash flows in the respective scenarios, including the dependency on macroeconomic factors, was verifiable, adequately substantiated and incontrovertibly implemented.

Other Information

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

- the non-audited components and cross-references of the management report listed in the appendix to the auditor's report.

Other information also comprises the annual report which we expect to be provided after the date of this auditor's report. The other information does not include the annual financial statements, the disclosures in the management report audited for content or our auditor's report thereon.

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

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

- is materially inconsistent with the annual financial statements, with the management report information audited for content or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

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

Responsibilities of the Management Board and the Supervisory Board for the Annual Financial Statements and the Management Report

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

In preparing the annual financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that can reasonably be thought to bear on our independence and, where applicable, the actions taken to eliminate dangers to independence or safeguards put in place to protect against this.

From the matters communicated with those charged with governance, we determine those matters that were of most significance during the audit of the annual financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation preclude public disclosure about the matter.

Other Legal and Regulatory Requirements

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

We have performed an audit in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the electronic file "Aareal Bank_AG_JA+LB_ESEF-2023-12-31.zip" (SHA hash value 111fd9d25b08f7af919ae5901643b77a908851ecba6bdde10a-0891e1ed6c60ea) made available and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this audit opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January to 31 December 2023 contained in the "Report on the Audit of the Annual Financial Statements and the Management Report" above, we do not express any audit opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our audit on the rendering of the consolidated financial statements and the group management report contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Auditing Standard: Audit of the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AuS 410 (06.2022)). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management: Requirements for Quality Management in Audit Firms (IDW QMS 1 (09.2022)). The Company's Management Board is responsible for the preparation of the ESEF documents including the electronic rendering of the annual financial statements and the management report in accordance with Section 328 (1) sentence 4 item 1 HGB.

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

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

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

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- Obtain an understanding of internal control relevant to the audit on the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited annual financial statements and the audited management report.

Other disclosures in accordance with Article 10 EU Audit Regulation

We were elected by the Annual General Meeting on 10 August 2023 as auditor of the annual financial statements. We were engaged by the Chairman of the Supervisory Board on September 20, 2023. We have been the statutory auditor of Aareal Bank AG since the 2021 financial year.

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

Other Matter – Use of the Auditor's Report

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

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Markus Winner.

Frankfurt / Main, 6 March 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

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

Appendix to the Independent Auditor's Report: the Components and References of the Management Report were not Audited for Content

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

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

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

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

Responsibility Statement

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

Wiesbaden, 4 March 2024

The Management Board

Jochen Klösges **Nina Babic**

Marc Hess **Christof Winkelmann**

Report on Remuneration Transparency

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

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

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

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

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

2. Measures to ensure equal pay for women and men

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

In order to continue to fulfil our responsibility as a fair and attractive employer in the future, the Bank decided in the 2023 financial year to look deeper into the gender pay gap issue in cooperation with external consultants.

	Men			Women			Total
	Part time	Full time	Total	Part time	Full time	Total	
Ø 2019	32.80	456.50	**489.30**	147.30	221.00	**368.30**	**857.60**
Ø 2020	36.80	464.90	**501.70**	142.40	223.50	**365.90**	**867.60**
Ø 2021	31.80	478.30	**510.10**	147.00	221.90	**368.90**	**879.00**
Ø 2022	32.40	479.60	**512.00**	135.30	239.90	**375.20**	**887.20**
Ø 2023	32.30	496.00	**528.30**	139.10	263.40	**402.50**	**930.80**

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Financial Calendar

15 May 2024	Publication of results as at 31 March 2024
8 August 2024	Publication of results as at 30 June 2024
7 November 2024	Publication of results as at 30 September 2024

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Aareal Bank

03/2024

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