AAREAL BANK GROUP – INTERIM REPORT
1 JANUARY TO 30 JUNE 2022

Outlook: growth

Aareal
YOUR COMPETITIVE ADVANTAGE.

Key Indicators

	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Results		
Operating profit (€ mn)	91	73
Consolidated net income (€ mn)	58	33
Consolidated net income allocated to ordinary shareholders (€ mn)[1]	50	24
Cost/income ratio (%)[2]	35.1	45.3
Earnings per ordinary share (€)[1]	0.84	0.40
RoE before taxes (%)[1][3]	5.8	4.9
RoE after taxes (%)[1][3]	3.7	1.9

	30 Jun 2022	31 Dec 2021
Statement of Financial Position		
Property finance (€ mn)	31,323	30,048
Equity (€ mn)	3,206	3,061
Total assets (€ mn)	50,741	48,728
Regulatory Indicators[4]		
Basel IV (phase-in)[5]		
Risk-weighted assets (€ mn)	13,031	12,817
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.8	18.2
Tier 1 ratio (T1 ratio) (%)	22.1	20.5
Total capital ratio (TC ratio) (%)	24.7	23.6
Basel III		
Common Equity Tier 1 ratio (CET1 ratio) (%)	25.5	22.2
Employees	3,206	3,170

	30 Jun 2022	31 Dec 2021
Moody's		
Issuer rating	A3	A3
Senior Preferred[6]	A3	–
Bank deposit rating	A3	A3
Outlook	negative	negative
Mortgage Pfandbrief Rating	Aaa	Aaa
Fitch Ratings		
Issuer default rating	BBB+	BBB+
Senior Preferred	A-	A-
Senior Non Preferred	BBB+	BBB+
Deposit ratings	A-	A-
Outlook	negative	negative
Sustainability Ratings[7]		
MSCI	AA	AA
ISS-ESG	prime (C+)	prime (C+)
CDP	Awareness Level C	Awareness Level C
Share price		
Xetra® closing price (€)	28.58	28.70

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

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

[3] On an annualised basis

[4] 31 December 2021: excluding originally proposed dividend of € 1.60 per share in 2022 for the financial year 2021, including the dividend of € 1.10 per share not distributed in 2021 as well as the pro rata temporis accrual of net interest on the AT1 bond. The appropriation of profits is subject to approval by the Annual General Meeting.
30 June 2022: including originally proposed dividend of € 1.60 per share in 2022, including interim profits for 2022 and pro rata accrual of the net interest on the AT1 bond.
In accordance with the Investment Agreement entered into with Atlantic BidCo GmbH, there are no plans to distribute any dividends.
The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.

[5] Underlying RWA estimate using the revised CRSA under Basel IV, based on the European Commission's draft for the European implementation of Basel IV (phase-in) dated 27 October 2021, representing the higher value determined using (i) the AIRBA under Basel III, in accordance with the current CRR; and (ii) future revised AIRBA and revised CRSA (phase-in) under Basel IV, which will become officially valid from 1 January 2025.

[6] Issued on 8 July 2022

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

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

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Interim Group Management Report

Report on the Economic Position

Macro-economic environment

The global economy went through a tough first half of 2022. The war in Ukraine and reciprocal sanctions between the West and Russia weighed particularly on the European economy by increasing food and energy prices, but also aggravating existing supply chain issues. China's zero-Covid strategy further added to the tense situation. Elevated uncertainty surrounding the availability of important raw materials and intermediate goods dampened the business climate. Rising inflationary pressure also shaped developments on the financial markets. On the bond markets, both higher inflation rates and expectations and monetary policy tightening led to a marked increase in yields. Meanwhile, the health situation improved amid lower levels of new Covid-19 infections and commensurate hospitalisations. In many countries, the subsequent reduction of infection control measures boosted a recovery in the services sector. In the context of this difficult environment, growth momentum in many economies slowed in the first two quarters.

Economy

In the euro zone, real gross domestic product rose by 0.5 % in the first quarter of 2022 compared to the previous quarter, followed by a 0.7 % increase during the second quarter. All in all, economic output in the first half of 2022 was up 4.7 % on the same period of the previous year. In the course of the first half of 2022, significant discrepancies emerged between developments in the manufacturing industry – which suffered from supply bottlenecks, higher input costs and the slowing economy, and the services sector – which proved much more resilient and benefited from the easing of Covid-19-related contact restrictions. However, the services sector also faced a growing number of issues, since rising inflation affected real income and private consumption. Among the largest euro zone countries, Spain recorded the greatest increase in economic output in the first half of 2022 with 6.3 %, followed by Italy with 5.4 % and France with 4.5 %. At 2.6 %, growth in Germany was slightly less pronounced.

The recovery reported in some countries within the European Union that are not members of the euro zone was milder than was seen on average in the euro zone member states. Sweden, for example, achieved economic growth of 3.5 % year-on-year in the first half of 2022, and the Czech Republic 4.3 %. In contrast, at 8.3 %, Poland saw markedly stronger growth.

The UK recorded a stronger increase in economic output in the first half of the year than most EU countries. At the end of the first six months, gross domestic product was 5.8 % higher than in the same period of the previous year. Whilst at the turn of the year, economic activity was dynamic across all sectors, with those services involving close contact benefiting most from the subsiding Omicron wave, economic activity started to slow down in the second quarter, with many industrial companies facing price hikes for intermediate products, supply bottlenecks, and labour shortages.

Economic output in the US rose by 1.6 % year-on-year by the middle of the year. However, the economy showed quarter-on-quarter declines both in the first and the second quarter. The economic slowdown was attributable to a decline in domestic demand, due to high inflation rates, the tightened monetary policy, and persisting supply chain issues. Private consumption, which is a crucial economic driver, continued to increase but faced rising pressure from high inflation rates and tighter financing terms in the course of the first half of 2022. In Canada, gross domestic product at the end of the first half of the year was up by 3.8 % on the same period of the previous year.

China's zero-Covid strategy – where just a few infections are enough to incite a drastic government response – weighed on growth in the country, causing the strongest economic and social distortions since 2020. The lockdown of China's megalopolis Shanghai, which lasted several weeks, and logistics issues in some areas of the country were two of several factors that heavily impacted industrial production, exports, and thus global supply chains. Retail sales also declined, especially in the second quarter, since private consumption decreased, and private households exhibited more cautious behaviour. The persistent troubles of some property conglomerates were another stress factor for China's economy. In this tense economic environment, the Chinese authorities announced a series of economic aid measures, which, however, are unlikely to take effect before the second half of 2022. All in all, economic output grew by 3.1 % year-on-year in the first six months. In Australia, private consumption supported economic growth and made up for the decline in construction investments due to labour and material shortages. Overall, economic output in the first six months of the year was up by 3.4 % on the same period of the previous year.

In many countries, labour markets continued to recover from the Covid-19 pandemic, and job creation proceeded apace especially in the services sector. It was, however, limited by a labour shortage, which was quite pronounced in some places. The unemployment rate in the euro zone was 6.6 % at the end of the first half of 2022 and thus below the pre-pandemic first quarter of 2020. In the US, the unemployment rate ended the first six months at 3.6 %, and thus only slightly exceeded pre-pandemic levels.

Financial and capital markets, monetary policy and inflation

Covid-19 was no longer the dominant topic for financial markets; instead, rising inflation rates and expectations and a gloomy economic forecast were the biggest concerns. Major central banks started to tighten their monetary policy, or announced their intention to do so. As a result, bond and equity markets suffered heavy price slumps in the course of the first six months.

Whilst the European Central Bank (ECB) maintained a very accommodating stance at the start of the year, to promote favourable financing conditions for the real economy and support economic recovery in times of heightened uncertainty, it announced a monetary policy change in June, thus giving in to broad inflationary pressure. The ECB's Governing Council decided to discontinue net asset purchases under its asset purchase programme (APP) as of 1 July 2022, but to maintain the reinvestment of principal payments. Accordingly, principal payments for maturing assets that were bought under the pandemic emergency purchase programme (PEPP) will continue to be reinvested until the end of 2024. The ECB's Governing Council, however, reserves the option to adjust reinvestments flexibly across time, asset classes and jurisdictions at any time to counteract a renewed market fragmentation. The Governing Council also decided to raise the key interest rates by 50 basis points, to 0.50 % (main refinancing rate), 0 % (deposit facility) and 0.75 % (marginal lending facility) as of July 2022. In addition, it was indicated that the key rates may be raised again in September, depending on the medium-term inflation outlook.

In the light of an inflation rate of more than 2 % over the longer term and the tight labour market, the US Federal Reserve (Fed) ended its government bond and mortgage-backed security purchase programme in the first quarter and started to reduce its securities holdings in June 2022. In addition, it lifted the key interest rate in three steps during the first six months, to a corridor of 1.50 – 1.75 %. It also indicated further interest rate hikes, as did the ECB.

A tight labour market and high inflation also convinced the Bank of England to raise its base rate in four steps in the course of the first half of 2022, from 0.25 % to 1.25 %. In March it also began reducing its government and corporate bond portfolio, by no longer reinvesting the payments for maturing bonds.

Other major central banks lifted their key rates, too: the Bank of Canada raised its key interest rate in the first six months to 1.5 %, the Swedish Riksbank to 0.25 %, and the Reserve Bank of Australia to 0.85 %.

Short-term interest rates[1] in the euro area at the end of the first half of 2022 were higher than at the end of 2021. The same applied to the pound sterling, the Swedish krona, and the Australian dollar. The increase was particularly pronounced in the US dollar and the Canadian dollar. Long-term interest rates[2] rose in all of the currency areas relevant to Aareal Bank. Government bonds with a ten-year maturity also painted a uniform picture, with prices rising during the first half of 2022.

Expectations of inflation and economic developments and future monetary policy in the individual currency areas also shaped the currency markets. The euro lost value vis-a-vis the US dollar in the course of the first half of 2022, with significant volatility observed at times. At the end of the first six months, the exchange rate was USD 1.04 per euro and therefore below the rate prevailing on 31 December 2021 (USD 1.13 per euro). The euro also weakened against the Canadian dollar over the same period, from CAD 1.44 to CAD 1.34 per euro. Vis-a-vis the pound sterling, the euro remained stable in the first quarter, but appreciated slightly in the second quarter. The exchange rate rose from GBP 0.84 per euro at the start of the year, to GBP 0.86. After an overall volatile performance, the euro appreciated vis-a-vis the Swedish krona, from SEK 10.25 per euro at the beginning of the year to SEK 10.73 per euro after the first six months. The euro weakened against the Australian dollar, from AUD 1.56 to AUD 1.51 per euro, with the majority of the devaluation happening in the first quarter.

Inflation increased strongly in many economies since the start of the year, and clearly exceeded the target inflation rates defined by the central banks for their respective currency area. Primary inflation drivers were higher energy and materials costs, along with goods and food price pressures against the backdrop of the persisting disruption of global supply chains and the impact of the war in Ukraine. In areas that had been particularly hit by the Covid-19 crisis, such as the hospitality industry, high demand met limited supply and labour shortage strains. Especially in the US and the UK, the stressed labour market incited wage increases, which also contributed to the inflation development. In the euro zone, inflation reached 8.6 % at the end of June compared to the same month of the previous year: in the US it was 9.1 % and 9.4 % in the UK.

Regulatory environment

The environment in which banks are operating continues to be defined by highly dynamic regulatory requirements, as well as by changes in banking supervision. This includes, in particular, implementation of the final draft of the Basel III framework into EU law (known as “Basel IV”), which was resolved by the Basel Committee (BCBS). The EU Commission submitted proposals on this on 27 October 2021, which are now to be finalised as part of the trilogue procedure. The proposed first-time application of the new regulation is 1 January 2025, two years later than planned by the BCBS.

After BaFin published the sixth amendment to the Minimum Requirements for Risk Management (MaRisk) in 2021, a first draft of the seventh amendment is expected in 2022. The focus here will be on implementing the EBA guidelines on loan origination and monitoring, new requirements for banks’ proprietary property business, and the risk management of sustainability risks.

Moreover, both national and European regulators are imposing various new requirements – including in connection with IT/information security risks, or regarding the prevention of money laundering/ terrorist financing and tax evasion. Furthermore, politicians and banking supervisors deem it necessary to establish sustainability more strongly with society, and as a regulatory requirement within the economy. To this end, a standard taxonomy was introduced in the EU, which creates the basis for the classification of economic activities with regard to sustainability targets. The taxonomy forms the

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

[2] Calculated on the basis of swaps in the respective currencies.

basis for a large number of disclosure obligations for financial and non-financial entities. Initial minor disclosure requirements for ESG matters were applicable as of 31 December 2021, with the scope increasing over time. Furthermore, the ECB conducted its first climate stress test in 2022.

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

Sector-specific and business developments

Structured Property Financing segment

Macro-economic uncertainty, which grew throughout the first half of 2022, has started to leave its marks on the commercial property markets as well. Whilst global transaction volume still increased significantly year-on-year in the first quarter along with the normalisation of the general business environment, the second quarter saw a decline in transaction activity. All in all, global transaction volumes rose in the first six months of 2022 by around 10 % compared to the first half of 2021. However, there were clear regional differences. Whilst transaction volumes in North America increased by 45 %, they stagnated in Europe and were down 15 % in the Asia/Pacific region.

There were regional differences between property types as well: In Europe, it was only retail properties that were able to increase transaction levels year-on-year, while volumes for office and logistics properties roughly stagnated and volumes of hotel properties declined. In North America, retail properties in particular showed increases, followed by logistics and office properties, while volumes for hotel properties remained relatively stable. In the Asia/Pacific region, volumes for logistics and retail properties were lower; transaction volumes for hotel properties were higher while office properties remained stable, at the previous year's levels.

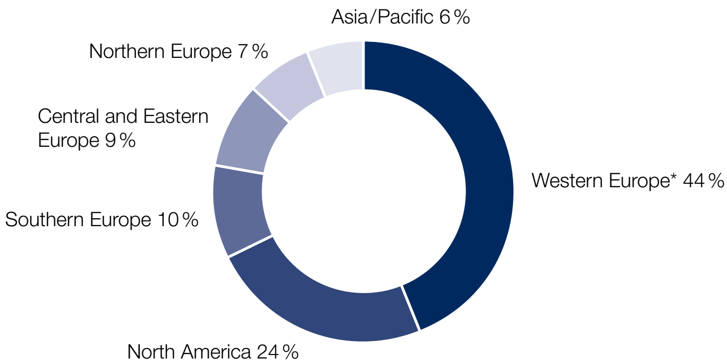
Lenders focused their interest on logistics properties, food stores, as well as on office properties in preferred locations. Properties which meet sustainability criteria, such as energy-efficient management, saw a rise in demand. The recovery from the Covid-19 pandemic continued to support commercial property markets, but uncertainty about economic and monetary policy developments, such as high inflation or interest rate hikes, started to be felt. For example, construction phases were delayed since energy and construction materials were subject to price hikes and supply bottlenecks. On the back of rising interest rates due to the rise in inflation, financing costs for newly-financed commercial properties have increased in many markets since the start of the year, while loan-to-value ratios have remained largely stable. Strong investor interest in the logistics sector ensured that the margins for office and logistics properties not only converged, but also that logistics properties were priced more competitively in some markets.

Aareal Bank generated new business of € 5.2 billion[1] in the first half of 2022 (H1 2021: € 3.3 billion), with dynamic development showing across all six months. Newly-originated loans accounted for € 3.5 billion over the same period (H1 2021: € 2.2 billion), significantly exceeding the prior-year period. Green financings of approximately € 350 million were completed by the end of June. The volume of green financings increased by € 1.1 billion to a total of € 1.5 billion; in this context, some existing clients also issued the required undertaking and the related certificates for the first time. Green financings meet the high energy efficiency requirements of the "Aareal Green Finance Framework" and the client undertakes to meet these requirements throughout the

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

New business[1] 1 January – 30 June 2022

by region (%) Total volume: € 5.2 bn



* Including Germany

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

term of the loan. The criteria for classification as a green building comprise the EU taxonomy criteria, alongside an above-average sustainability rating by recognised rating agencies or compliance with conservative energy efficiency criteria.

At around 70 %, the highest proportion of the new business volume was generated in Europe (H1 2021: 70 %), followed by North America at 24 % (H1 2021: 24 %). The Asia/Pacific region accounted for a share of 6 % (H1 2021: 6 %).[2]

In terms of property type, around 24 % of new business was attributable to retail properties, which were broadly dispersed across different countries. One focus of newly-originated loans was on retail parks. Since this sub-segment proved resilient during the Covid-19 crisis, it represents an attractive investment opportunity. Logistics properties accounted for 22 %, followed by hotels with 20 % and office properties with a share of 18 %. Residential properties accounted for 14 %, which also included student housing, while other property types made up 2 % of the total volume of new business. "Other property types" exclusively referred to life science properties containing office space: these are heavily sought after by investors. In terms of newly-originated loans, logistics properties dominated with around 28 %, followed by retail properties with 20 %, and hotel and office properties with a share of 17 % each. Hotel properties accounted for a share of 15 %, whilst other property types made up 3 % of the business.

Europe

Transaction volumes in Europe remained stable year-on-year during the first half of 2022. Declining transaction volumes were seen in Germany and Sweden, whilst transaction volumes remained stable in many other countries, and even increased in the UK as well as in Italy. Hotel properties saw a decline in volumes while logistics and office properties remained stable. In contrast, retail properties showed rising transaction volumes, suggesting that investor interest – after a period of caution during the Covid-19 crisis – rebounded in this segment. The majority of cross-border investors were on the buy side, whilst private investors tended to be sellers. Institutional investors and REIT structures assumed a balanced position overall.

Average rents in the prime office property segment rose during the first half of 2022, with more distinct rent increases in some sub-markets, e. g. London or Paris. Rental developments for retail properties remained stable on average, although these varied depending on the retail segment. Even though shopping centres recorded a slight decline in rents on a European average, this did not affect most of the markets. Rents for logistics properties benefited from ongoing strong demand in the entire segment, continuing the positive development of the last few years.

Prime yields for office properties changed only marginally during the first half of the year and remained low. However, some increases were observed in individual sub-markets such as Paris. Average yields for logistics properties have hardly moved since the beginning of the year; hence,

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.

yield levels increasingly stabilised. Whilst further falling yields were seen in numerous markets, the yield levels on the German and French markets were up slightly at the end of the first six months, compared to the beginning of the year. Looking at retail properties, prime yields for both shopping centres and high-street properties remained stable on a European average. In contrast to the trend of recent years, some individual markets saw no notable yield movements either. For secondary locations, the picture was largely the same.

The ongoing recovery of global travel from the lows of the last two years was clearly evident in the first half of 2022. Domestic travel saw the strongest recovery, while long-distance tourism recovered more slowly – probably since closer travel destinations feel more familiar and, as a result, tourists feel safer. In this environment, occupancy and revenue per available hotel room have significantly increased in Europe since the start of the year, even though pre-crisis levels had not been reached by the end of the first half of the year.

The Bank generated new business of approximately € 3.7 billion in the first half of 2022 (H1 2021: € 2.3 billion). Most of this business emanated from Western Europe, followed by Southern, Central and Eastern, and Northern Europe in descending order of volumes.

North America

Transaction volumes in North America were up by around 45 % in the first half of 2022 compared with the corresponding period of the previous year. In the first quarter, growth was still significantly higher year-on-year, but then declined in the course of the three months that followed. The number of transactions was above the long-term average, following reduced activity at the peak of the Covid-19 pandemic. This illustrates the high dynamics in reducing postponed transactions on the one hand and the overall positive stance towards the property markets on the other. Cross-border investors assumed an overall balanced position, whilst institutional investors were mostly buyers. REIT structures and private investors increasingly tended to be sellers.

Rents offered for prime and secondary office properties in US metropolitan areas were stable on average in the first half of 2022, which was also true for relevant individual markets such as New York or Chicago. In San Francisco, rents have declined slightly since the start of the year. In contrast, the average shopping mall rents in the US were up on a national level. This rise was most pronounced in Dallas, Atlanta and Chicago, whilst rent levels in New York remained stable. The rents for logistics properties continued to rise significantly, by around 7 % on average on a national level, with increases being reported in all the important individual markets.

Yields on prime and secondary office properties have hardly changed since the start of the year, owing to the availability of liquidity and the readiness to provide financing in the market. The highest decline in yields was seen in Atlanta. Yields on retail properties were also stable, changing only marginally since the start of the year, except for San Francisco, where yields increased slightly. After a year-long decline in yields for logistics properties, this trend halted and the level at the start of 2022 maintained a national average throughout the first six months. In some markets, however, the decline continued.

Hotel occupancy and revenue in North America have improved significantly since the start of the year. Occupancy ratios and revenues per available room in the luxury & upper upscale category in the US increased between January and June, driven not only by strong domestic tourism but also by an increasing number of visitors from abroad. In Canada, key hotel indicators developed even better.

In North America, the Bank originated new business of € 1.2 billion (H1 2021: € 0.8 billion), almost all of which was attributable to the US.

Asia/Pacific

Transaction volumes for commercial property in the Asia/Pacific region were roughly 15 % lower in the first half of 2022 than in the comparable period of the previous year, with declines also seen in Australia (-5 %) and China (-27 %). Muted dynamics were particularly observed in the second quarter; in China, this was due to the country's zero-Covid policy which made investors act more cautiously. Across the region, cross-border and institutional investors were on the buy side for the most part, while REIT structures and private investors were predominantly sellers.

Prime rents for logistics properties in the Australian metropolitan areas of Sydney, Perth and Melbourne showed a rising trend in the first half of 2022, whilst rents for retail properties stagnated in the relevant Chinese metropolitan areas.

Yields for logistics properties in the major Australian markets were stable overall compared to year-end 2021, in line with the yields for Chinese retail properties.

Hotels in the Asia/Pacific region once again showed a (in some cases significant) recovery due to the easing of contact and travel restrictions. Revenues per available room have increased since the beginning of the year, driven by significantly higher occupancy ratios mainly thanks the return of international tourists. The Maldives, for example, recorded a marked increase in visitors during the first six months of 2022. Overall, around 0.8 million tourists visited the Maldives by the middle of the year, after around 0.5 million tourists in the same period of 2021; in fact the number of visitors fell only slightly short of the pre-pandemic levels of 2019.

The Bank originated new business of € 0.3 billion in the Asia/Pacific region during the first half of 2022 (H1 2021: € 0.2 billion)

Banking & Digital Solutions segment

The residential and commercial property sectors once again proved stable market segments in the first half of 2022. Rental prices continued to increase year-on-year in the first quarter, reaching a national level of 4.6 %.

The number of completed apartments stopped growing in 2021 for the first time since 2011, and, at 293,000, it was down by around 4 % compared to 2020. The backlog of approved but not yet completed apartments reached the record level of 847,000. Supply chain issues, overall price inflation (especially regarding construction materials, the skilled labour shortage, and the war in Ukraine) made it even harder to reach the German government's target of 400,000 new apartments per annum to counter the demand-driven pressure. 64 % of companies organised in the Federal Association of German Housing and Real Estate Companies (GdW) postponed new construction projects, while 24 % abandoned construction projects that had already been planned (67 % and 13 %, respectively, when it comes to refurbishing projects to make buildings more energy-efficient and/or suitable for the elderly).

A concern for both tenants and landlords is the development of energy prices, since many households are stretched to their financial limits due to rising operating costs.

Our range of services was expanded in the current year with the acquisition of payment solutions provider Collect Artificial Intelligence GmbH ("CollectAI") from Otto Group, to include end-customer communications services as well as AI-based interactive invoicing and intelligent dunning solutions.

With the Aareal Exchange & Payment Platform (AEPP), the segment offers a solution that enables companies to integrate alternative payment methods in the automatic administrative processes. AEPP also opens up the opportunity to implement new customer services and to invoice efficiently. During the period under review, AEPP was expanded to include the Aareal Pay direct transfer method.

At present, more than 4,100 corporate clients throughout Germany are using our process-optimising products and banking services. The segment's volume of deposits averaged € 13.2 billion in the first half of 2022 (H1 2021: € 11.9 billion) and thus slightly exceeded our expectations. All in all, this reflects the strong trust that clients place in Aareal Bank. Net commission income of € 15 million increased slightly, as planned (H1 2021: € 13 million).

Aareon segment

Aareon is a technology provider for the European property industry and its partners. The company digitalises the property sector with user-oriented software solutions that simplify and automate processes, support sustainable and energy-efficient operations, and interconnect all process participants. Aareon pursues an international growth strategy based on expanding the operating business, implementing the VCP (Value Creation Programme) that was developed in 2020, and achieving inorganic growth through mergers & acquisitions.

The first half of 2022 was shaped by changes in the composition of the Management Board: Harry Thomsen was appointed as the new CEO of Aareon AG with effect from 1 April 2022. Dr Ernesto Marinelli also joined the Management Board to assume the newly created Management Board function of Chief People Officer (CPO) as of 1 July 2022, along with Rumyana Trencheva, who was appointed Chief Market Officer (CMO). Rumyana Trencheva succeeds Sabine Fischer, whose retirement had been planned for some time.

Aareon's sales revenues increased by 10 % in the first six months as planned, to reach € 147 million (H1 2021: € 133 million), This was driven by higher sales for both digital solutions (20 %) and ERP software (7 %). The transformation process towards SaaS and subscription solutions continued to be on track (20 % growth), lifting the share of recurring revenue to 73 % of total revenues (H1 2021: 68 %). Adjusted EBITDA[1] amounted to € 32 million (H1 2021: € 29 million) and was thus in line with our expectations.

ERP sales in the DACH region were higher than in the first half of 2021. As part of the process to transform Aareon to a SaaS company, the SaaS campaign for the new product generation Wodis Yuneo was continued, while other process-oriented product packages were offered to meet the clients' individual needs and simplify the offer structure for the clients. Accordingly, the share of recurring sales revenue increased. Sales revenues from SAP® ERP software solutions, including Blue Eagle, and from RELion for the commercial property business, were slightly up overall year-on-year, while GAP Group's ERP software immotion also contributed positively (GAP Group was acquired by Aareon in 2021). Sales revenues in the international ERP business increased significantly year-on-year, mainly driven by Aareon Nederland and by Arthur Online and Tilt in the UK. The two British companies, both of which focus on SMEs, were acquired in the previous year. In the Netherlands, transformation of the business model to a SaaS operation proceeded apace. Sales volume at Dutch ERP solution Tobias increased, while Twinq also contributed significantly. BriqVest B.V. (Twinq), which was also taken over in 2021, specialises in residential property management and was merged with Aareon Nederland as planned. In France, the French ERP solutions business remained virtually unchanged year-on-year. In the Nordics, Aareon acquired a 95 % majority stake in Momentum Software Group AB. The Swedish company develops, sells and implements software as a service (SaaS) for property management and energy monitoring. This will clearly bring Aareon to the number one slot in the Nordic countries in terms of projected sales reveues.

Volumes from the digital solutions business have increased further in 2022. Sales revenues from digital solutions were up – both in the DACH Region and internationally – across all four segments: WRM (Workforce Relationship Management), CRM (Customer Relationship Management), BRM (Building Relationship Management), and SRM (Supplier Relationship Management). Notable sales contributions were made by British Tactile Ltd.'s BRM solution Fixflo and wohnungshelden's CRM solution (both Tactile Ltd. and wohnungshelden were acquired in 2021), and by the SRM solutions to maintain connectivity to craftsmen

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

and particularly those for occupant change management. Aareon increased its stake in Dutch PropTech OSRE B.V. to 51 % in March, in line with its growth strategy. OSRE offers a SaaS solution that automates the entire property transaction process across all segments of the residential and commercial property markets – with a focus on new rentals. The goal of this deepened partnership is to further expand Aareon's presence in the Dutch market.

Financial Position and Financial Performance

Financial performance

Group

Consolidated operating profit of € 91 million for the first half of the financial year was markedly higher than the previous year's figure of € 73 million and within the expected range – thanks to good operating performance and in spite of loss allowance of around € 83 million for our remaining exposure to Russia, which is being run down.

As expected, net interest income of € 330 million was significantly higher than in the previous year (€ 280 million), mainly due to a year-on-year increase in the credit portfolio.

Loss allowance totalled € 107 million (H1 2021: € 40 million). This includes an addition to loss allowance for our direct exposure to Russia of around € 83 million, bringing the coverage of the outstanding exposure (of around € 200 million) to just over 40 %. The exposure could not be serviced due to mutual sanctions imposed by Western states and Russia against each other (transfer risk), even though the borrower is willing and able to pay. The potential additional impact of the war in Ukraine and the economic consequences of the imposed sanctions is very difficult to estimate at this point in time.

Furthermore, we moved a new LGD model for our commercial property finance portfolio (which complies with new EBA guidelines for rating procedures) into production as at the record date; this new model also serves as a basis for model-based Stage 1 and 2 loss allowance. The model

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Net interest income	330	280
Loss allowance	107	40
Net commission income	132	118
Net derecognition gain or loss	22	8
Net gain or loss from financial instruments (fvpl)	18	-4
Net gain or loss from hedge accounting	-7	-2
Net gain or loss from investments accounted for using the equity method	-2	-1
Administrative expenses	295	268
Net other operating income/expenses	0	-18
Operating profit	**91**	**73**
Income taxes	33	40
Consolidated net income	**58**	**33**
Consolidated net income attributable to non-controlling interests	1	2
Consolidated net income attributable to shareholders of Aareal Bank AG	57	31

effect due to this conversion was approximately € 10 million.

Other net additions reflected the impact of current macro-economic scenarios deployed; given the outbreak of war, these are markedly worse than at the turn of the year and are only partially offset by positive portfolio effects (maturity effects in particular). The risk of Russia potentially stopping gas deliveries to the EU altogether has been incorporated into deteriorated macro-economic forecasts.

Net commission income increased as planned, to a total of € 132 million (H1 2021: € 118 million), both in the Banking & Digital Solutions segment and at Aareon.

The net derecognition gain of € 22 million (H1 2021: € 8 million) was attributable to market-driven effects from early loan repayments, and to income from the securities portfolio. De-risking measures of € 3 million had burdened results from the securities business in the previous year.

Net gain or loss from financial instruments (fvpl) and net gain or loss from hedge accounting in the aggregate amount of € 11 million (H1 2021: € -6 million) was mainly incurred by positive valuation effects resulting from market developments for currency and interest rate hedging derivatives, due to the strong market dynamics and coming from negative values at the beginning of the year. To reduce volatility in the income statement brought about by these items, the Bank has concluded additional hedging transactions.

Administrative expenses rose to € 295 million (H1 2021: € 268 million), as expected, as a result of two factors: on the one hand, business expansion, especially at Aareon; on the other hand, transaction costs incurred by the successful completion of the voluntary public offer made by Atlantic BidCo.

Net other operating income/expenses amounted to € 0 million (H1 2021: € -18 million). In the previous year, it was burdened by € 11 million in interest on tax back payments, as well as lower rental income on properties held by the Bank, as a result of Covid-19.

Overall, this resulted in consolidated operating profit of € 91 million (H1 2021: € 73 million). Taking into consideration tax expenses of € 33 million and non-controlling interest income of € 1 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 57 million (H1 2021: € 31 million). In the previous year, income taxes were burdened by a non-recurring tax effect. Earnings per ordinary share amounted to € 0.84 (H1 2021: € 0.40), and RoE after taxes to 3.7 % (H1 2021: 1.9 %).

Structured Property Financing segment

Operating profit in the Structured Property Financing segment amounted to € 95 million in the first half of 2022 (H1 2021: € 72 million).

As expected, net interest income of € 313 million was significantly higher than in the previous year (€ 260 million), mainly due to a year-on-year increase in the credit portfolio.

Loss allowance totalled € 107 million (H1 2021: € 40 million). This includes an addition to loss allowance for our direct exposure to Russia of around € 83 million, bringing the coverage of the outstanding exposure (of around € 200 million) to just over 40 %. The exposure could not be serviced due to mutual sanctions imposed by Western states and Russia against each other (transfer risk), even though the borrower is willing and able to pay. The potential additional impact of the war in Ukraine and the economic consequences of the imposed sanctions is very difficult to estimate at this point in time.

Furthermore, we moved a new LGD model for our commercial property finance portfolio (which complies with new EBA guidelines for rating procedures) into production as at the record date; this new model also serves as a basis for model-based Stage 1 and 2 loss allowance. The model effect due to this conversion was approximately € 10 million.

Structured Property Financing segment result

€ mn	1 Jan - 30 Jun 2022	1 Jan - 30 Jun 2021
Net interest income	313	260
Loss allowance	107	40
Net commission income	4	4
Net derecognition gain or loss	22	8
Net gain or loss from financial instruments (fvpl)	18	-4
Net gain or loss from hedge accounting	-7	-2
Administrative expenses	146	134
Net other operating income/expenses	-2	-20
Operating profit	**95**	**72**
Income taxes	34	40
Segment result	**61**	**32**

Other net additions reflected the impact of current macro-economic scenarios deployed; given the outbreak of war, these are markedly worse than at the turn of the year and are only partially offset by positive portfolio effects (maturity effects in particular). The risk of Russia potentially stopping gas deliveries to the EU altogether has been incorporated into deteriorated macro-economic forecasts.

The net derecognition gain of € 22 million (H1 2021: € 8 million) was attributable to market-driven effects from early loan repayments, and to income from the securities portfolio. De-risking measures of € 3 million had burdened results from the securities business in the previous year.

Net gain or loss from financial instruments (fvpl) and net gain or loss from hedge accounting in the aggregate amount of € 11 million (H1 2021: € -6 million) was mainly incurred by positive valuation effects resulting from market developments for currency and interest rate hedging derivatives, due to the strong market dynamics and coming from negative values at the beginning of the year. To reduce volatility in the income statement brought about by these items, the Bank has concluded additional hedging transactions.

Administrative expenses increased to € 146 million (H1 2021: € 134 million) due to transaction costs incurred by the successful completion of the voluntary public offer made by Atlantic BidCo.

Net other operating income/expenses amounted to € -2 million (H1 2021: € -20 million). In the previous year, it was burdened by € 11 million in interest on tax back payments, as well as lower rental income on properties held by the Bank, as a result of Covid-19.

Overall, operating profit for the Structured Property Financing segment was € 95 million (H1 2021: € 72 million). Taking into consideration income taxes of € 34 million (H1 2021: € 40 million), the segment result amounted to € 61 million (H1 2021: € 32 million). In the previous year, income taxes were burdened by a non-recurring tax effect.

Banking & Digital Solutions segment

Net interest income in the Banking & Digital Solutions segment amounted to € 23 million (H1 2021: € 22 million). The sustained low interest rates continue to weigh on the segment result, although positive trends from an increase in general interest rate levels are to be expected going forward.

Net commission income of € 15 million increased slightly, as planned (H1 2021: € 13 million).

Administrative expenses increased slightly to € 37 million (H1 2021: € 36 million) – due to, among other things, the acquisition of CollectAI, which will lead to a business expansion in the future.

Overall, segment operating profit for the first half of 2022 was € -1 million (H1 2021: € -2 million). Taking income taxes into consideration, the segment result for the first half of the year amounted to € -1 million (H1 2021: € -1 million).

Aareon segment

Net interest income amounted to € -6 million, reflecting debt-financed M&A activities (H1 2021: € -2 million).

Net commission income increased to € 119 million (H1 2021: € 107 million), despite Aareon's transformation to a SaaS company. M&A transactions closed in the previous year also contributed to this rise.

Administrative expenses increased to € 118 million (H1 2021: € 104 million), as expected, reflecting the business expansion as well as non-recurring effects.

Banking & Digital Solutions segment result

€ mn	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Net interest income	23	22
Net commission income	15	13
Net gain or loss from financial instruments (fvpl)	0	–
Net gain or loss from investments accounted for using the equity method	-1	-1
Administrative expenses	37	36
Net other operating income/expenses	-1	0
Operating profit	**-1**	**-2**
Income taxes	0	-1
Segment result	**-1**	**-1**

Aareon segment result

€ mn	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Net interest income	-6	-2
Loss allowance	0	0
Net commission income	119	107
Net gain or loss from financial instruments (fvpl)	0	–
Net gain or loss from investments accounted for using the equity method	-1	0
Administrative expenses	118	104
Net other operating income/expenses	3	2
Operating profit	**-3**	**3**
Income taxes	-1	1
Segment result	**-2**	**2**

Overall, segment operating profit for the first half of 2022 was € -3 million (H1 2021: € 3 million). Taking income taxes into consideration, the segment result for the first half of the year amounted to € -2 million (H1 2021: € 2 million).

Financial position – assets and liabilities

Consolidated total assets of Aareal Bank Group increased to € 50.7 billion as at 30 June 2022 (31 December 2021: € 48.7 billion), reflecting the strong new business and the increase in the property financing portfolio. Growth was supported by corresponding refinancing activities and a high average deposit volume from the housing industry.

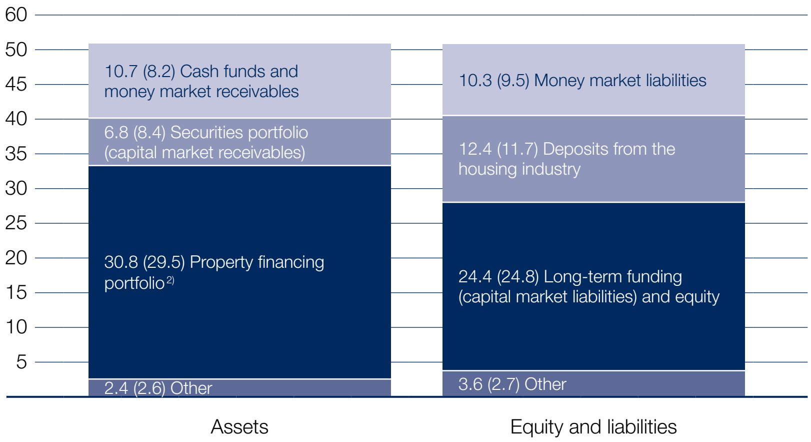
Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio[1] stood at € 30.8 billion as at 30 June 2022 (31 December 2021: € 29.5 billion). Including the former WestImmo's private client and local authority lending businesses it amounted to € 31.3 billion. Accordingly, Aareal Bank has now reached its original target portfolio size of around € 31 billion; the target portfolio size is now projected between € 31 billion and € 32 billion at the end of the year.

At the reporting date (30 June 2022), Aareal Bank Group's property financing portfolio was composed as shown below, compared to year-end 2021.

Balance sheet structure as at 30 June 2022 (31 December 2021)

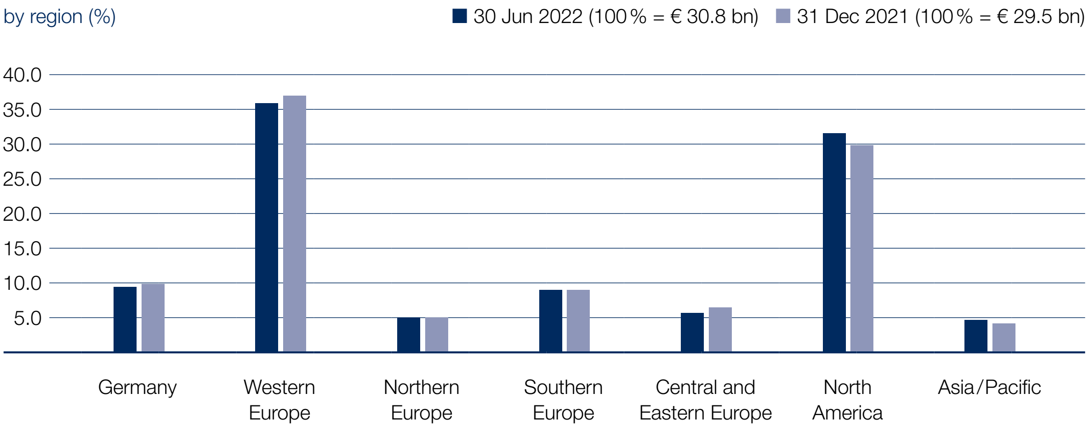
€ bn



[2] Excluding € 0.2 billion in private client business (31 December 2021: € 0.3 billion) and € 0.3 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2021: € 0.3 billion), and excluding loss allowance

Property financing volume[1] (amounts drawn)

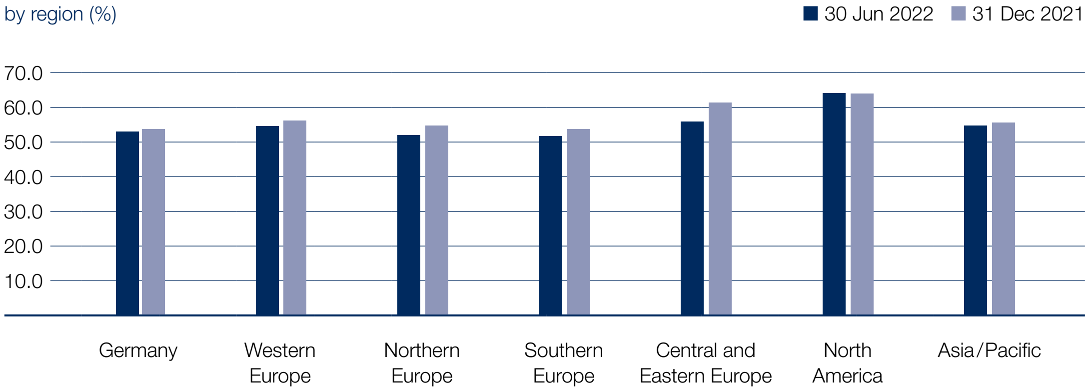
by region (%)



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

Average LTV of property financing[1)]

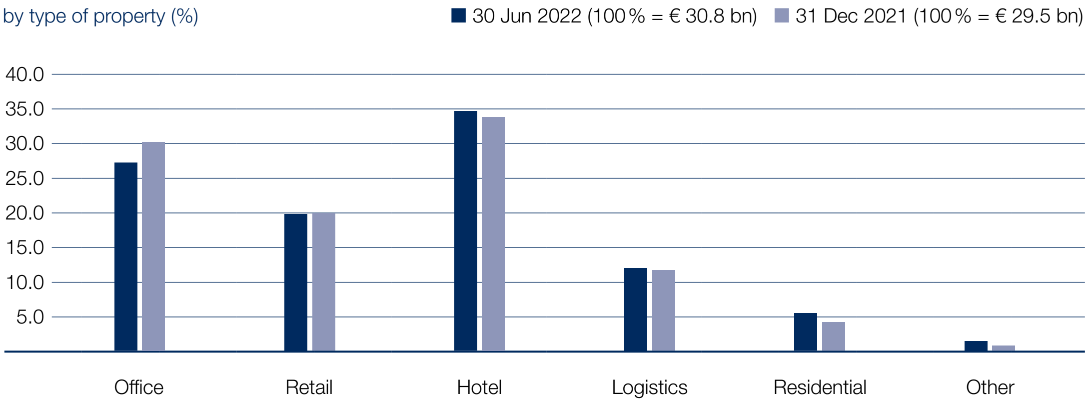
by region (%)



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

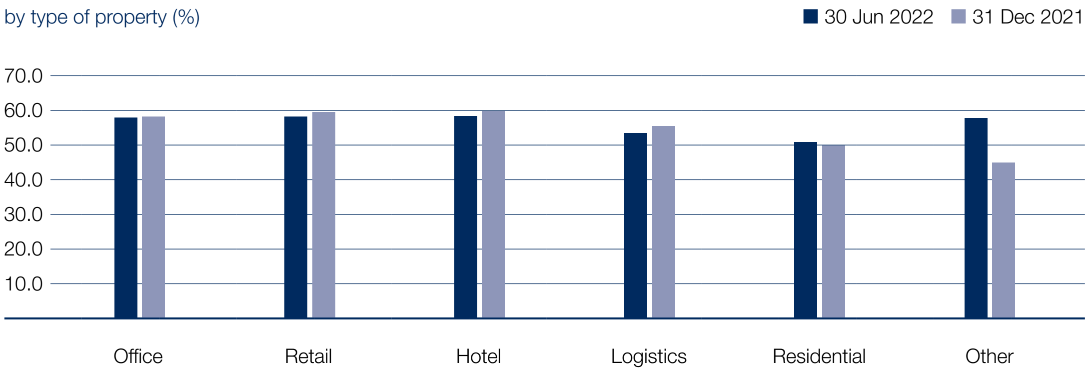
Property financing volume[1)] (amounts drawn)

by type of property (%)



Average LTV of property financing[1)]

by type of property (%)



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

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

Portfolio allocation by region and continent did not change significantly during the period under review. Whilst the portfolio share of exposures in North America rose by around 1.7 percentage points, mostly on the back of exchange rate moves, it declined in Western Europe by around 1.1 percentage points, remaining relatively stable for all other regions.

The breakdown of the portfolio by property type did not change significantly during the reporting period. Compared to year-end 2021, the share of residential property increased by approximately 1.2 percentage points and the share of hotel and other property by approximately 0.8 percentage point, whilst the share of office property fell by around 3.0 percentage points. The share of retail and logistics properties in the overall portfolio remained almost unchanged compared to the year-end 2021.

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

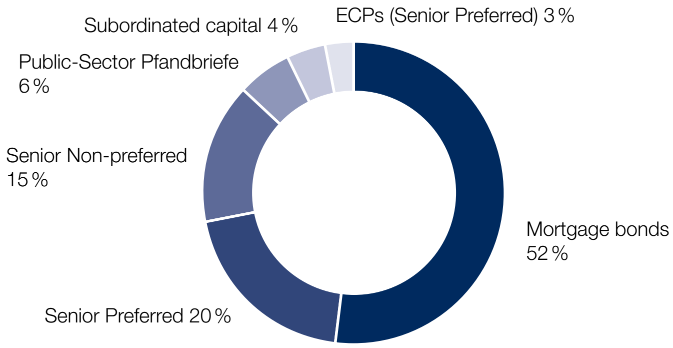
Treasury portfolio

In terms of its ratings structure, Aareal Bank's Treasury portfolio has a very high credit quality and liquidity.

Capital market funding mix as at 30 June 2022

%

Total volume (nominal): € 22.2 bn



As at 30 June 2022, the total nominal volume of the Treasury portfolio[1)] was € 6.5 billion (31 December 2021: € 7.4 billion).

The portfolio comprises the asset classes public-sector borrowers, covered bonds and bank bonds (financials), with the public-sector asset class accounting for the largest share of the portfolio at around 89 %.

The high creditworthiness requirements are also reflected in the rating breakdown in the portfolio. 99.8 % of the portfolio has an investment grade rating[2)], and 85 % of the positions have an AAA to AA- rating.

The portfolio currently comprises almost exclusively (98 %) securities denominated in euros and its average remaining term on the reporting date was 6.4 years.

Financial position – liquidity

Funding and equity

Funding

Aareal Bank Group has remained very solidly funded throughout the first half of the 2022 financial year, a development visible by its major share of long-term funding. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinated capital. According to its legal characteristics, we recognise European Commercial Paper (ECP) as debt even though their maturity is usually less than one year. Subordinated capital includes subordinated liabilities and the Additional Tier 1 (AT1) bond.

As at 30 June 2022, the notional volume of the long-term refinancing portfolio was € 22.2 billion (31 December 2021: € 21.1 billion).

As at the reporting date, Aareal Bank also had € 12.4 billion at its disposal in deposits generated

[1)] As at 30 June 2022, the securities portfolio was carried at € 6.8 billion (31 December 2021: € 8.4 billion).
[2)] The rating details are based on the composite ratings.

from the business with the housing industry (31 December 2021: € 11.7 billion). Money market liabilities, including targeted longer-term refinancing operations (TLTROs) of Deutsche Bundesbank, amounted to € 10.3 billion (31 December 2021: € 9.5 billion).

Aareal Bank Group raised € 3.2 billion on the capital market during the first half of 2022. This included four benchmark transactions: two € 750 million Pfandbrief issues, one € 500 million Pfandbrief issue and the first "green" senior preferred bond[1)] in the amount of € 500 million.

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 Group's total equity as disclosed in the statement of financial position amounted to € 3,206 million as at 30 June 2022 (31 December 2021: 3,061 million); the increase was due, in particular, to markedly lower pension provisions (reflecting the strong increase in interest rates) as well as to consolidated net income for 2022. Please also refer to the Statement of Changes in Equity, and to our explanations in Note 22 of the consolidated interim financial statements for the first half of 2021.

Regulatory indicators[2)]

€ mn	30 Jun 2022	31 Dec 2021
Basel IV (phase-in)[3)]		
Common Equity Tier 1 (CET1) capital	2,584	2,327
Tier 1 (T1) capital	2,884	2,627
Total capital (TC)	3,213	3,021
%		
Common Equity Tier 1 ratio (CET1 ratio)	19.8	18,2
Tier 1 ratio (T1 ratio)	22.1	20,5
Total capital ratio (TC ratio)	24.7	23,6
Basel III		
Common Equity Tier 1 ratio (CET1 ratio)	25.5	22,2

[2)] Aareal Bank AG utilises the rules set out in section 2a of the KWG in conjunction with Article 7 of the CRR, pursuant to which regulatory indicators of own funds may only be determined at Group level. In this respect, the following disclosures relate to Aareal Bank Group.
31 December 2021: excluding originally proposed dividend of €1.60 per share in 2022 for the financial year 2021, including the dividend of € 1.10 per share not distributed in 2021 as well as the pro rata temporis accrual of net interest on the AT1 bond. The appropriation of profits is subject to approval by the Annual General Meeting.
30 June 2022: including originally proposed dividend of € 1.60 per share in 2022, including interim profits for 2022 and pro rata accrual of the net interest on the AT1 bond. In accordance with the Investment Agreement entered into with Atlantic BidCo GmbH, there are no plans to distribute any dividends.
The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for the regulatory capital of NPLs and an additional voluntary and preventive capital deduction for regulatory uncertainties from ECB tests were taken into account.
[3)] Underlying RWA estimate using the revised CRSA under Basel IV, based on the European Commission's draft for the European implementation of Basel IV (phase-in) dated 27 October 2021, representing the higher value determined using (i) the AIRBA under Basel III, in accordance with the current CRR; and (ii) future revised AIRBA and revised CRSA (phase-in) under Basel IV, which will become officially valid from 1 January 2025.

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

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

Mio. €	RWA amounts 30 Jun 2022	Minimum capital requirements Total 30 Jun 2022	RWA amounts 31 Dec 2021	Minimum capital requirements Total 31 Dec 2021
Credit risk (excluding counterparty credit risk)	12,314	984	11,305	904
Counterparty credit risk	98	8	381	31
Market risk[2)]	48	4	n/a	n/a
Operational risk	571	46	1,131	91
Total	**13,031**	**1,042**	**12,817**	**1,026**

[1)] Underlying RWA estimate using the revised CRSA under Basel IV, based on the European Commission's draft for the European implementation of Basel IV (phase-in) dated 27 October 2021, representing the higher value determined using (i) the AIRBA under Basel III, in accordance with the current CRR; and (ii) future revised AIRBA and revised CRSA (phase-in) under Basel IV, which will become officially valid from 1 January 2025.
[2)] 31 December 2021: there was no requirement to determine market risk as the sum total of the net foreign currency position in aggregate did not exceed 2% of regulatory capital.

Risk Report

Aareal Bank Group Risk Management

The Group Management Report 2021 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of the present Interim Report, we briefly reiterate the key elements of our risk management, also outlining material developments during the period under review.

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. Taking this as a basis, and strictly considering the Bank's defined risk appetite, we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the Bank's business strategy, are adapted to the changed environment at least once a year, adopted by the Management Board, and duly acknowledged by the Supervisory Board. Appropriate risk management and risk control processes are deployed to implement the risk strategies and to ascertain the Bank's ability to bear risk. A monthly internal risk report is prepared for all material types of risk, and submitted to the Bank's Management Board and Supervisory Board.

Aareal Bank regularly reviews the appropriateness and effectiveness of its corporate governance systems (including risk governance systems). The Risk Appetite Framework was updated during the second quarter of 2022, with pension risks defined as a separate type of risk.

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

Risk-bearing capacity and risk limits

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

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

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

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

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

The purpose of internal capital is to serve as a risk-bearing component under the economic perspective. Within Aareal Bank Group, the current regulatory Common Equity Tier 1 (CET1) capital forms the basis for determining economic aggregate risk cover. The Bank ceased adding Additional Tier 1 (AT1) capital to internal capital in April 2022. Tier 2 capital, as well as projected results to be incurred during the risk analysis horizon, are not taken into account.

Moreover, the value-oriented approach adopted under the economic perspective requires suitable adjustments to be made to regulatory Tier 1 capital, in order to bring aggregate risk cover into line with the economic assessment. Specifically, this may entail adjustments regarding conservative valuation, hidden encumbrances, or a management buffer. Starting in 2022, the management buffer has also included adjustments for potential climate risks as determined within the scope of our Group-wide ESG strategy.

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

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

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

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

Utilisation of aggregate risk cover developed during the period under review as shown above.

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.

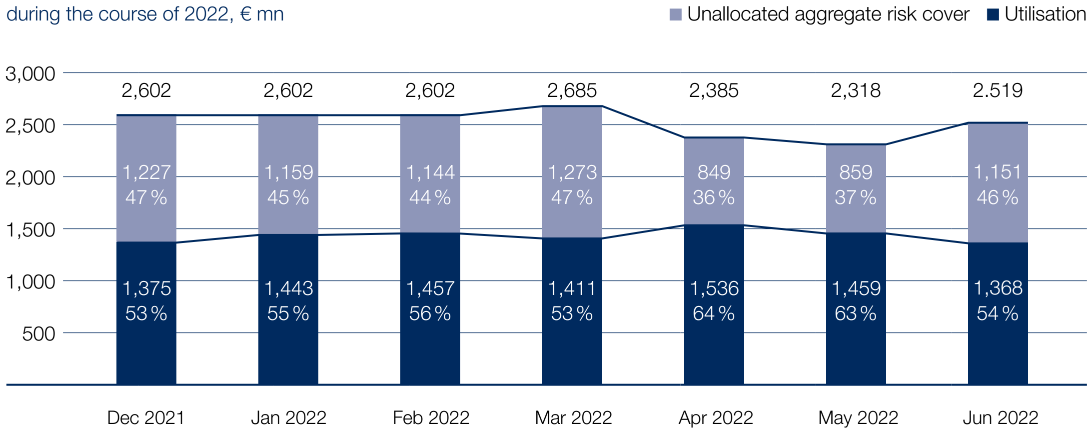
Risk-bearing capacity of Aareal Bank Group (ICAAP – economic perspective)

€ mn	30 Jun 2022	31 Dec 2021
Common Equity Tier 1 capital (CET1 in accordance with Basel III)[1]	2,579	2,622
Economic adjustments	-60	-20
Aggregate risk cover	**2,519**	**2,602**
Utilisation of aggregate risk cover		
Loan loss risks	526	574
Interest rate risk in the banking book (IRRBB)	115	136
Pension risks[2]	78	n/a
Market risks	357	373
Operational risks	91	93
Investment risks	70	62
Property risks	71	79
Business and strategic risks	60	58
Total utilisation	**1,368**	**1,375**
Utilisation (% of aggregate risk cover)	**54 %**	**53 %**

[1] T1 was still used in 2021; [2] In 2021, pension risks were included as part of interest rate risk in the banking book.

Utilisation of aggregate risk cover

during the course of 2022, € mn



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.

Risk measurement and monitoring

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

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

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

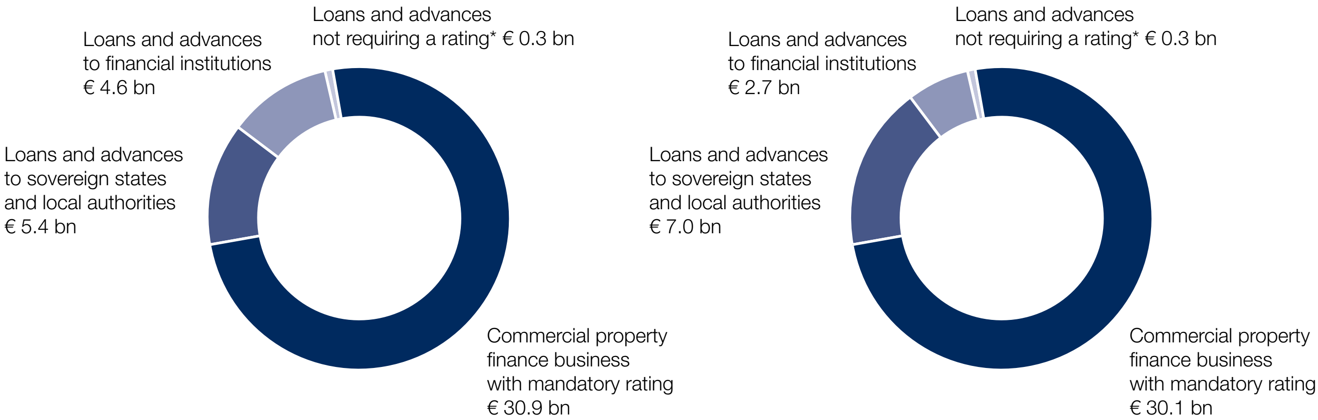
Against the background of the Covid-19 pandemic, special attention is currently paid to macro-economic forecasts. In the context of this ongoing review, we also rely on projections published by the ECB, apart from those issued by our usual data providers. Yet estimation uncertainties are currently much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

We use two different credit risk models to measure, control and monitor concentration and diversification effects on a portfolio level. These are supplemented by limits on individual and sub-portfolio level to facilitate operating management. Based on these instruments, the Bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of

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

by rating procedure, € bn

30 Jun 2022 | 31 Dec 2021



* Including the private client business of former WestImmo

business with financial institutions. The models in question allow the Bank to include in particular, rating changes and correlation effects in the assessment of the risk concentrations.

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

Against the background of the Covid-19 pandemic, Aareal Bank has established contact with national and international property financing clients subject to mandatory rating, and has amended contractual arrangements to clients' updated business plans to the extent necessary and possible. Given the lockdown, this primarily affected financings of hotels and shopping centres, as well as involving waivers of certain contractual agreements without impact on payments (covenants). Our clients and sponsors have provided a significant portion of the required liquidity from their own resources. In addition, funds obtained from government assistance were used in isolated cases, and a few clients reduced their exposures.

On top of existing processes, additional measures were implemented for those portfolios particularly affected by the Covid-19 pandemic, such as retail, hotels, and student housing. These portfolios were subject to particular monitoring (regardless of whether liquidity facilities were provided), including ad-hoc valuation reviews of the financed properties, which were increasingly backed by external appraisals. The frequency for periodic monitoring and internal rating (which also comprise a detailed target/actual comparison of the business plan) was adjusted to a semi-annual cycle. The CRE Credit Risk Committee was closely involved in evaluating and assessing all credit or monitoring decisions. A separate reporting system was established for the affected portfolios, enabling follow-ups of individual exposures and providing credit-relevant information, in order to be able to derive suitable measures at portfolio level, at an early stage. Developments during the first half of 2022 have shown the expected recovery in income, especially for the hotel portfolio.

When accounting for these measures, we have taken the recommendations made by the IASB, and by relevant regulatory authorities such as the EBA, the ECB and ESMA, into consideration – with the objective of providing a realistic assessment of expected losses. Intensified handling triggers recognition of loss allowance, in the amount of lifetime expected credit loss for the financial instrument concerned (Stage 2). The same applies for financings for which a forbearance measure has been granted.

The following tables provide a breakdown of gross carrying amounts of on-balance sheet as well as off-balance sheet credit business, money-market business, and capital markets business, by rating classes and loss allowance stages, in line with credit risk management at Group level. Compared to historical data, the impact of the Covid-19 pandemic has led to an increase in Stage 2 loss allowance, which has subsided again during the reporting period. 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.

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.

On-balance sheet commercial property finance business with mandatory rating

	30 Jun 2022					31 Dec 2021				
	Stage 1	Stage 2	Stage 3	fvpl [1]	Total	Stage 1	Stage 2	Stage 3	fvpl [1]	Total
€ mn										
Class 1	–	–	–	–	**–**	–	–	–	–	**–**
Class 2	118	–	–	–	**118**	116	–	–	–	**116**
Class 3	226	–	–	–	**226**	203	3	–	–	**206**
Class 4	1,240	–	–	–	**1,240**	694	–	–	–	**694**
Class 5	4,406	–	–	27	**4,433**	3,602	105	–	160	**3,867**
Class 6	4,421	49	–	119	**4,589**	4,800	185	–	138	**5,123**
Class 7	4,061	824	–	40	**4,925**	4,337	331	–	67	**4,735**
Class 8	3,627	974	–	137	**4,738**	3,034	1,158	–	82	**4,274**
Class 9	1,829	2,821	–	50	**4,700**	1,004	2,545	–	48	**3,597**
Class 10	572	2,403	–	42	**3,017**	908	3,366	–	39	**4,313**
Class 11	55	508	–	–	**563**	38	731	–	–	**769**
Class 12	–	140	–	–	**140**	–	77	–	–	**77**
Classes 13 - 15	–	102	–	–	**102**	–	74	–	–	**74**
Defaulted	–	–	1,378	61	**1,439**	–	–	1,503	64	**1,567**
Total	**20,555**	**7,821**	**1,378**	**476**	**30,230**	**18,736**	**8,575**	**1,503**	**598**	**29,412**

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

Off-balance sheet commercial property finance business with mandatory rating

	30 Jun 2022					31 Dec 2021				
€ mn	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
Classes 1-3	–	–	–	–	**–**	–	–	–	–	**–**
Class 4	12	–	–	–	**12**	8	–	–	–	**8**
Class 5	64	–	–	–	**64**	157	–	–	–	**157**
Class 6	92	–	–	–	**92**	70	–	–	–	**70**
Class 7	219	–	–	–	**219**	102	–	–	–	**102**
Class 8	47	23	–	–	**70**	15	9	–	–	**24**
Class 9	39	28	0	–	**67**	113	47	–	–	**160**
Class 10	147	17	–	–	**164**	65	66	–	–	**131**
Class 11	26	5	–	–	**31**	23	8	–	–	**31**
Classes 12-15	–	1	–	–	**1**	–	1	–	–	**1**
Defaulted	–	–	2	–	**2**	–	–	6	–	**6**
Total	646	74	2	–	722	553	131	6	–	690

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

On-balance sheet loans and advances to financial institutions

	30 Jun 2022					31 Dec 2021				
€ mn	Stage 1	Stage 2	Stage 3	fvpl[1]	Total	Stage 1	Stage 2	Stage 3	fvpl[1]	Total
Class 1	366	–	–	–	**366**	619	–	–	–	**619**
Class 2	184	–	–	–	**184**	160	–	–	–	**160**
Class 3	449	–	–	–	**449**	373	–	–	–	**373**
Class 4	1,834	–	–	–	**1,834**	212	–	–	–	**212**
Class 5	205	–	–	–	**205**	21	–	–	–	**21**
Class 6	171	–	–	–	**171**	93	–	–	–	**93**
Class 7	708	–	–	–	**708**	708	–	–	–	**708**
Class 8	342	–	–	–	**342**	424	3	–	–	**427**
Class 9	263	–	–	–	**263**	30	–	–	–	**30**
Class 10	38	–	–	–	**38**	27	–	–	–	**27**
Classes 11-18	–	–	–	–	**–**	–	–	–	–	**–**
Defaulted	–	–	–	–	**–**	–	–	–	–	**–**
Total	4,560	–	–	–	4,560	2,667	3	–	–	2,670

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

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

	30 Jun 2022					31 Dec 2021				
€ mn	Stage 1	Stage 2	Stage 3	fvpl [1]	Total	Stage 1	Stage 2	Stage 3	fvpl [1]	Total
Class 1	1,909	–	–	–	**1,909**	3,400	–	–	–	**3,400**
Class 2	2,258	–	–	–	**2,258**	1,777	–	–	–	**1,777**
Class 3	394	–	–	–	**394**	656	–	–	–	**656**
Class 4	15	–	–	–	**15**	69	–	–	–	**69**
Class 5	27	–	–	–	**27**	64	–	–	–	**64**
Class 6	32	–	–	–	**32**	1	–	–	–	**1**
Class 7	102	–	–	–	**102**	187	–	–	–	**187**
Class 8	0	–	–	–	**0**	0	–	–	–	**0**
Class 9	576	137	–	–	**713**	620	186	–	–	**806**
Classes 10-20	–	–	–	–	**–**	–	–	–	–	**–**
Defaulted	–	–	–	–	**–**	–	–	–	–	**–**
Total	5,313	137	–	–	5,450	6,774	186	–	–	6,960

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

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.

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.

Interest rate risk in the banking book

Definition

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

Specifically, for Aareal Bank this includes:

- risks arising from maturity transformation in the event of yield curve shifts (so-called gap risk), which, in turn, are broken down into:

  – risks from cash flows which are sensitive to interest rates, relative to the general yield curve (interest rate risk or repricing risk);

  – risks arising from the valuation of future cash flows, relative to the general yield curve (yield curve risk);

- risks from cash flows which are sensitive to interest rates, in terms of spreads to the general yield curve (basis risk);

- risks from explicit and implied options (option risk);

- risks from fluctuations in the value of fund assets (fund risk); and

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

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and the present-value exposure to interest rate risk in the banking book on a daily basis (the "economic value of equity" perspective). This is supplemented, on a monthly basis, by 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 (2.24 years on average), using the average residual amount of deposits observed , in the past. Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures). Aareal Bank Group's consolidated equity is not taken into account as a risk-mitigating item. This tends to overstate VaR, demonstrating our goal to pursue a conservative approach adopted in our risk measurement processes.

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 is calculated based on a stochastic model using the delta-normal approach. Crucial input variables for the model are sensitivities on risk factors (representing the risk exposure) as well as a covariance matrix (volatilities and correlations) of these risk factors in order to model the market dynamics.

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

Market risks

Definition

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

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

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the CRR. Given that no such trades were concluded during the period under review, trading book risks played a negligible role. Commodities are irrelevant for the Bank's business. Currency risks are controlled through derivatives.

Additional elements of market risk are:

- valuation risks due to changes in credit spreads (credit spread risk);
- specific price risks from the bond portfolio, wherein the bonds are mainly sovereign bonds (sovereign risk); and
- risks from adjustments to the credit valuation of OTC derivatives (CVA risk).

To differentiate spread risks (credit spread risk and sovereign risk) in terms of their credit risk exposure, reported market risk is adjusted accordingly.

Risk measurement and monitoring

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

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

A variance-covariance approach (delta-normal method) is used throughout the Group to determine the VaR indicator. Determined on a daily basis for the Group, the VaR figure takes into account the correlation between individual risk types. Statistical parameters used in the VaR model are calculated directly from a historical data pool maintained within the Bank, which covers at least 250 days[1]. The loss potential is determined applying a 99.9 % confidence interval.

Backtesting

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

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

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

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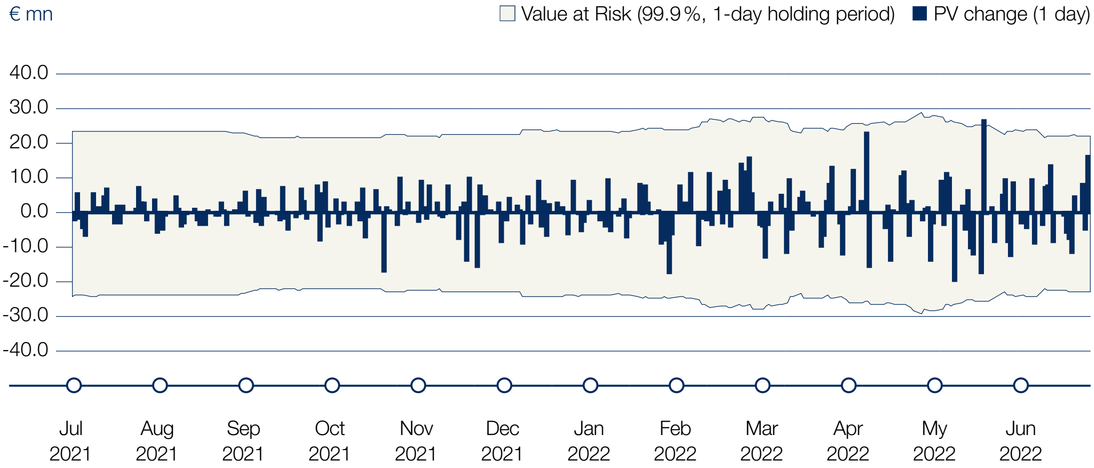
[1] Historical data covering two years is used for the sub-risk type of credit spread risk.

Present values and 1-day VaR during the course of 2021/2022



Operational risks

The Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. To the extent that they are caused by operational risks, model and reputational risks are also taken into consideration within this type of risk. ESG risk factors have also been taken into account within operational risk since 2021. Systemic risks (or their impact on operational risks) are not affected by this.

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

Operational risk is quantified using the regulatory standardised approach. Supplementary operational risk management tools – in particular, the monitoring of indicators, analyses of loss events, scenario analyses and the self-assessment – do not indicate potential elevated risk either; nor were any material risk concentrations evident.

Tools to control operational risk are supplemented by a system to manage and monitor outsourced activities and processes (outsourcing).

Investment risks

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.

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

Property risks

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.

Business and strategic risks

Business and strategic risk is defined as the risk of unexpected losses, usually brought about by a decline in profits due to income falling short of expectations, whereby the shortfall cannot be compensated for by cost reductions. Strategic risk may emerge from changes in the competitive or regulatory environment, or due to unsuitable positioning in the macro-economic environment.

In this context, we distinguish between investment risk and allocation risk, whereby allocation risk is already covered by various planning scenarios, and is thus incorporated in aggregate risk cover.

Liquidity risks

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

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.

Report on Expected Developments and Opportunities

Macro-economic environment

The economy, financial markets, and commercial property are all exposed to a number of risks, with some downside risks intensifying or materialising in the first half of 2022 – due in particular to Russia's invasion of Ukraine, which has caused major humanitarian and economic problems. Other risks that could have a negative impact include the ongoing Covid-19 pandemic with its emerging viral mutations and associated economic restrictions. Doubts about the cohesion of the European project, increased levels of government and private debt, excessive (or too weak) monetary policy tightening by the central banks, geopolitical risks, continued high inflation as well as the consequences of the transition of the economy towards more climate neutrality pose further significant risks.

The direct consequences of the war in Ukraine, and reciprocal sanctions between the West and Russia are already strongly impacting many economies; they are likely to intensify if the conflict continues. Direct economic consequences of this war include ongoing supply chain disruptions and higher commodity prices which, alongside increased uncertainty and increasing risk aversion amongst market participants, pose a threat to economic growth. The war has also fuelled high inflation rates, lowering real incomes; in conjunction with increased cost of production and share price losses on the financial markets, this is a burden to macro-economic demand. In this context, it is fair to expect that the economic relationship between Russia and the West will not normalise completely, even if the war ends.

An ongoing Covid-19 pandemic – due to high rates of new infections and virus mutations or due to vaccination programmes failing to show effect – could slow down or halt the recovery of individual regions. Extension or reintroduction of infection control measures may have adverse consequences on demand and the services sector in particular. Countries with major deficits as regards vaccination levels are facing the biggest social and economic challenges in view of potential new waves of infection.

The political shift away from European cohesion poses a significant threat not only to the EU, but also to Europe, in the longer term. This refers especially to governments in Central and Eastern Europe with nationalist attitudes. The Covid-19 pandemic has also elevated the risk of a rise in populism in several countries. The reform backlog and structural economic problems in some euro zone countries present further uncertainties, risk and stress factors. While the EU's recovery package specifically seeks to support these countries, the risk still exists that the measures in place will be insufficient to fully address structural problems and the negative impact of the Covid-19 pandemic.

Another risk is rising government indebtedness due to massive fiscal support on the one hand, and the economic downturn associated with the pandemic on the other. The tapering of net bond purchase programmes and increasing monetary policy tightening by the central banks could widen risk premiums, particularly for highly indebted countries; this phenomenon has for example been visible in some countries on Europe's periphery since the beginning of the year. Non-financial corporate debt has expanded in many advanced economies, mainly due to an increase in bond issuance. An ongoing pandemic, reduced macro-economic activities or other risks could be a reason for downgrading the rating of these bonds. In particular, the expiry of special schemes and state aid poses a risk of higher insolvency rates for companies outside the financial services sector.

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

Potentially excessive monetary policy tightening by the central banks, i.e. material interest rate increases and faster than expected balance sheet reductions pose another uncertainty factor, incurring potentially grave consequences for financial and property markets. Thus bond market yields could rise significantly – a trend that already started in the first half of 2022, whilst negative revaluations occur on the equity and property markets. Ultimately, decreasing macro-economic demand and loss of confidence amongst consumers and enterprises would burden the real economy. Given the high inflation rates, a reaction that is too weak – or comes too late – also constitutes a serious macro-economic risk.

The global value creation and supply chains are facing considerably more severe effects than would be expected in a recovery cycle, based on historical experience. If existing supply bottlenecks persisted or even deteriorated, this would represent a significant risk factor, eventually decelerating growth of the economy as a whole, but in particular growth of production output in the manufacturing sector.

The strong global demand for goods and services as pent-up savings are being used for consumption, high capital expenditure, and the pick-up in energy and commodity prices have together already significantly accelerated the rise in price levels and, in some economies, lifted them to the highest rate in several decades. If this demand continues to encounter bottlenecks on the supply side due to capacity constraints and disruptions in the supply chains, wages and prices for some goods and services may rise further, contributing to increasing price inflation and possibly to expectations of persistently higher inflation. This risk increases with escalating sanctions and Western energy embargoes against Russia and corresponding Russian countermeasures. A sustained high inflation rate might lead to a more restrictive monetary policy. In this context, it is important to note that central banks could lose credibility if they fail to act.

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. Similarly, this change entails costs that will likely be borne by companies and end-consumers alike. Decarbonisation of the economy, for instance, not only involves energy supply, but also requires significant changes in industry, transport, construction and agriculture. The economic transition, however, is also an opportunity – not only for climate action, but also for sectors and property markets if they manage to capitalise on the situation.

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.

Economy

A variety of stress factors support the assumption that global economic activity will continue to be hampered in the second half of the year. Economic momentum will depend on the extent to which supply constraints dissipate, and whether monetary policy tightening and high inflation rates will curb macro-economic demand. Contact-intensive sectors in particular will continue to benefit from the reversal of Covid-19-related restrictions, as will the shift in consumption from manufacturing to services. On balance, the existing economic recovery potential and solid private consumption are supporting the assumption of positive global real economic growth in the second half of 2022.

Real gross domestic product in the euro zone should pick up during the course of the year, albeit to a materially lesser extent than in 2021. Service expenditure is expected to remain on its upwards trend in the second half of the year due to recovery in the tourism and hospitality industries. Weaker order activity and persistent long delivery times are to be expected in the manufacturing industry, with disruptions to global supply chains continuing to affect the transport of key production resources. As a result of the inconsistent dynamics in the different economic sectors, nations with a large industrial sector, such as Germany, are anticipated to generate weaker growth than the euro zone as a whole.

Positive real economic growth (likely more pronounced than in the euro zone) is also expected for the UK in the full year 2022. Exports and investments are anticipated to provide positive triggers. Private households, however, are facing significant purchasing power pressure due to the inflationary environment, as a result of which consumer spending should recede in the second half of the year.

We further expect the US to generate positive real growth in 2022 – similar to the euro zone and the UK, however, at a far lower level than in the previous year. Negative growth – as seen in the first quarters – is no longer expected in the second half of the year. Private consumption, exports, and imports on the one hand, and investments on the other, are likely to generate consistently positive growth rates on a quarterly basis, even though the Fed's more consistent tightening policy is likely to lead to economic performance losing momentum over the course of the year.

Turning to China, fiscal stimulus measures are expected to benefit a recovery in the second half of 2022, following June's provisional easing of the lockdown in Shanghai. However, the risks of this forecast are rather tilted downwards; after all, the extent of future Covid-19 outbreaks and restrictions will determine how effective fiscal stimulus measures are. Comparable to China, Australia is also expected to show positive real growth in 2022.

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. Increased inflation rates, monetary policy tightening, and higher uncertainties have recently been reflected in higher funding costs, a development likely to persist in the short- and medium term, depending on the macro-economic and political environment.

In view of the high inflation rates, and despite increased recession risks, monetary policy is expected to become even more restrictive in the upcoming months. Major central banks most recently clearly confirmed their intention of focusing on price stability, and no longer on stimulating the economy and the labour market. Following the ECB's monetary policy turnaround initiated on 21 July, interest rate developments in peripheral countries such as Italy should particularly have an influence on monetary policy and potential intervention.

Due to the prevailing broad-based inflationary pressure and market-based inflation expectations towards the end of the first half-year, strong price increases are also likely in the second half of 2022. Whilst inflation in the US is likely to have peaked in the second quarter, in the euro zone the peak is expected in the third quarter before inflation begins to moderate. Inflation in the UK on the other hand, could continue to increase into the fourth quarter.

Regulatory environment

The Covid-19 pandemic also impacted the regulatory environment, at least temporarily. For example, as an immediate reaction to the outbreak of the pandemic, various regulatory initiatives were deferred, and temporary relief was resolved for financial institutions. Nonetheless, the trend towards a tighter regulatory framework is set to persist in the years ahead. For instance, finalisation of the Basel III framework, adopted by the Basel Committee's Group of Governors and Heads of Supervision (GHOS), will bring about extensive changes to the approaches used for determining risk-weighted capital requirements (the regime known as "Basel IV"). The EU Commission submitted a proposal on this in October 2021, which will now be finalised as part of the trilogue procedure. The proposed first-time application of the new regulation is 1 January 2025 – two years later than planned by the BCBS.

The EU also adopted a package of measures to overhaul its anti-money laundering and countering of terrorist financing frameworks. Aside from a new EU regulation and a revision of the applicable EU directives, it stipulates the creation of a new European authority to fight money laundering and terrorist financing from 1 January 2023 onwards, which is to be fully established by 2025.

In addition, over the next few years, the regulatory environment will be increasingly defined by growing requirements with regard to sustainable business and ESG (Environmental, Social, Governance) risk management. One of the main foundations here is the introduction and further expansion of the EU taxonomy for the classification of economic activities. Initial, minor disclosure requirements for ESG matters were applicable as of 31 December 2021 for the first time, with the scope increasing over time. Furthermore, the ECB has conducted its first climate stress test in 2022.

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

In addition, several countries have already announced a (re-)introduction of the countercyclical capital buffer previously suspended in almost all countries due to the Covid-19 pandemic. For example, the package of macroprudential measures as resolved by the German Federal Financial Supervisory Authority (BaFin) in January 2022 provides for a reinstatement of the countercyclical capital buffer for risk exposures located in Germany as well as the first-time introduction of a sector-specific systemic risk buffer for loans collateralised by residential properties in 2023. This will result in increasing capital buffer requirements for the Bank.

Sector-specific and business developments

Structured Property Financing segment

Demand for commercial property will vary in the second half of 2022, depending on the region and property type. Despite the currently reduced momentum experienced in many economies, we continue to see a positive environment for the property markets. Whilst interest rate developments are expected to increasingly influence investment decisions amongst buyers and sellers alike, the substantial volume of funds from investors around the world which has not yet been invested should counteract potential downside pressure on demand. The Bank anticipates competition in the commercial property financing markets to remain intense, particularly in regions and for property types that were in higher demand already over the past two years. However, property types that were hit harder by the pandemic should also see stronger demand again. Increased financing costs should offset increased loan-to-value ratios; we thus anticipate stable new business, even though changes in the market environment could put direct pressure on margins, or result in higher loan-to-value ratios.

Uncertainty remains for commercial property in the wake of the Covid-19 pandemic, mainly due to the pandemic and further macro-economic development, which will vary depending on the region. This uncertainty relates in particular to possible new infection control measures, which are likely to have varying effects depending on the country and type of property, albeit not at the same level as in the past. A renewed tightening of contact bans, travel restrictions and business closures of a temporary nature could have a negative impact on cash flows in the second half of the year, particularly for hotel, student housing, and retail properties.

Moreover, other uncertainty factors and risks in the macro-economic environment are also relevant for commercial property markets. Various factors are expected to have an impact on how commercial property values develop in the second half of the year. Increasing political uncertainty, market downturns or investor reticence may all affect property values negatively. Rising interest rates also represent a risk. For example, the increase in the cost of capital associated with rising interest rates can result in a lower valuation of commercial properties if the higher cost of capital is not offset by rent increases. And a marked interest rate hike could exert pressure on rents and cash flows for commercial properties if macro-economic demand decreases.

Should the trend towards increased working from home continue or even intensify, companies may decide to rent less office space. The transition to such a new way of working could exert pressure on rental prices for office properties. It is fair to expect that consequences would vary depending on the market, and would rather affect properties in secondary and tertiary locations, whilst high-quality office properties should remain in demand. On the other hand, co-working and communal 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.

We expect slightly rising market values on average for commercial properties in the current year; increasing financing costs should limit the extent to which market values rise in the medium term. 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).

Turning our attention to retail properties, we anticipate the current development to continue, with assets recovering from the lows induced by the pandemic. The fact that Covid-19-related restrictions have been lifted and no longer affect private consumption supports this trend. However, we expect that the structural change in shopping behaviour is having a dampening effect on the outlook of value-driving rental revenues, depending on location and segment. Also subject to location and segment, we see hotel properties performing well, driven by increasing travel activity. In some markets, a recovery to pre-crisis levels might occur as early as this year. We expect a similar development with student housing, where demand from international students should recover as a result of the return to face-to-face teaching. As for office properties, we believe market values will remain stable on average. Value appreciation potential should be less pronounced than before the crisis, since rental growth is expected to slow or remain flat. This is due to potential changes in the demand for space and the increasing impact of sustainability requirements. We expect under-performance from properties that fail to comply with corporate environmental and sustainability goals along with government climate targets. Logistics properties continue to be assessed positively, even though value appreciation should be less pronounced than in the previous years; after all, investment yields have already reached low levels.

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 very high level. Therefore, we have simulated a "bad case" scenario in addition to our "baseline" scenario, whereby loss allowance on the overall portfolio increases by around 10 basis points, compared to our "baseline" scenario based on our current Group planning for 2022. Our scenarios are currently based on the following macroeconomic parameters.

In the Structured Property Financing segment, we are raising our target corridor for new business volume by € 0.5 billion, to between € 7.5 billion and € 8.5 billion for the 2022 financial year, so that Aareal Bank Group's property financing portfolio will amount to between € 31 billion and € 32 billion at the end of 2022, market conditions permitting and subject to exchange rate fluctua-

in %	2021	2022	2023	2024
"Baseline" scenario				
Gross domestic product (year-on-year change in %)				
Euro zone	5.3	2.7	1.1	2.6
USA	5.7	1.9	1.1	2.1
UK	7.4	3.5	0.8	2.4
Unemployment (%)				
Euro zone	7.7	6.8	7.1	7.1
USA	5.4	3.7	3.8	3.8
UK	5.8	4.1	4.3	4.1
Portfolio-weighted property price development (2021 basis = 100%)	100%	105%	106%	106%
"Bad case" scenario				
Gross domestic product (year-on-year change in %)				
Euro zone	5.3	2.3	-1.8	1.5
USA	5.7	1.7	-0.5	1.4
UK	7.4	3.2	-1.5	1.4
Unemployment (%)				
Euro zone	7.7	6.9	8.2	8.8
USA	5.4	3.7	4.3	4.5
UK	5.8	4.1	4.9	5.4
Portfolio-weighted property price development (2021 basis = 100%)	100%	104%	100%	96%

tions. To manage our portfolio and risk exposure, we also use syndications.

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

Banking & Digital Solutions segment

The development of the German housing and commercial property industries is expected to remain solid in 2022, in spite of the Covid-19 pandemic and the war in Ukraine: we expect rents to remain largely steady overall. Demand for housing will continue to exceed supply, as the impact of the Ukraine war should reinforce trends such as rising construction costs and scarcity of materials.

In this context, we are seeing a slight migration from A-cities towards suburban areas – second-tier towns, suburbs and even rural areas. Families, as well as people between 50 and 65, are moving away from large urban centres; this trend has been intensified by the Covid-19 pandemic and working from home on the one hand, and the loss of attractive leisure facilities in cities on the other; in contrast, the 18- to 30 population is increasing in the seven German A-cities.

Even though the Bank's market share in the institutional housing industry is already high based on the number of residential units, we see excellent opportunities for acquiring new clients and enhancing our existing client relationships in the course of the 2022 financial year. We plan to achieve this by continuing to invest in the expansion of the "Housing Industry Ecosystem", the cross-sector development of interface products, and the expansion into adjacent ecosystems, such as companies from the utilities and waste disposal industries. The focus here remains on, for example, the functional expansion of the Aareal Portal corporate client platform as regards the digitalisation of client communication and account processing.

In our view, the service offerings that connect alternative online payment solutions to existing systems, thus helping to overcome process breaks (even across industry sectors), are particularly interesting. The Aareal Exchange & Payment Platform, which integrates alternative payment methods with existing accounting systems, has been expanded to include additional payment methods such as viacash, credit cards and PayPal; it also has an interface for the energy industry.

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

Against this background, we are aiming for renewed net commission income growth in our core activities and expect the average deposit volume from the housing industry to be above € 12 billion. The low interest rate environment, which is relevant for the results from our deposit-taking business, continues to burden segment results. Depending on the competitive environment, the impact should lessen with increasing interest rate levels. However, the importance of this business goes way beyond the interest margin generated from deposits, which is under pressure in the current market environment. This is because deposits from the housing industry represent a strategically important, stable and alternative source of funding for Aareal Bank.

Aareon segment

Aareon will accelerate its growth strategy in the 2022 financial year, to become a "Rule of 40" enterprise over the medium term, by 2025. This indicator is calculated on the basis of revenue growth and adjusted EBITDA margin (earnings before interest, taxes, depreciation and amortisation). The sum of the two should add up to 40 % in order to achieve a balance between growth and profitability. In this context, the Aareon Flight Plan will be implemented further. This plan includes investments in existing and new products, as well as measures from the Value Creation Programme. Inorganic growth will also be achieved through mergers and acquisitions. Measures from the Value Creation Programme include the expansion of sales activities, such as the marketing of process-oriented product packages – which combine an ERP product with various digital solutions – that started in 2021, the accelerated transformation of the in-house operating model to a software as a service (SaaS) operating model, and the switch to a subscription-based rental model.

Aareon's consolidated sales revenues for the 2022 financial year are expected to increase significantly to between € 305 million and € 325 million (2021: € 269 million). Whilst this should be realised through the expansion of the operating business, the acquisitions made during the year in 2021 will also contribute to this increase. Revenue growth from ERP products is expected to be in the low double-digit percentage range. Plans to continue to expand the SaaS business, coupled with the rental model as a payment option, will lead to lower licence revenues. However, recurring revenues will contribute significantly over the short to medium term. Adjusted EBITDA[1] is expected to be significantly higher than in the previous year (2021: € 67 million) between € 73 million to € 78 million and will include adjustments of between € 21 million and € 23 million (2021: € 24 million). Due to additional M&A-related costs as well as non-recurring effects, adjustments exceed the original forecast.

Demand for the new Wodis Yuneo product generation in the DACH region is expected to increase further. The ERP system Wodis Yuneo, launched in September 2020, will be a revenue driver in 2022 both as a subscription model and as software as a service. Aareon anticipates sales revenues for the SAP® solutions and Blue Eagle product range, and for the RELion ERP solution catering mainly to the commercial property sector, to be in line with the previous year. Business volume is also anticipated to be in line with the previous year for Aareon Cloud Services, while a slight increase is expected for BauSecura insurance management. The ERP system immotion®, which was added to the product portfolio through the acquisition of the GAP Group, will contribute to the strong development of ERP sales revenues in 2022. Aareon's market share of SaaS solutions in the Netherlands will increase significantly, driven by the acquisition of BriqVest B.V. (Twinq) in May 2021, which opens up a new market segment. Strong growth in recurring revenues is expected for the existing Tobias solution as well. Newly concluded maintenance contracts in particular should help increase revenues in France. In the UK market, the QL ERP software distributed by Aareon UK is expected to be available in a SaaS-capable version starting autumn 2022, strongly boosting recurring revenues thereafter. The UK business is expected to continue its high rate of client acquisition in the market segment of small and medium-sized clients. We also forecast an increase in recurring revenues for the Nordic countries. The software solution offered here will henceforth be promoted as standard software, which is why consulting revenues will be on the previous year's level. Aareon acquired a 95 % majority in the Momentum Software Group AB from Sweden, which specialises in the development, sale and implementation of software-as-a-service for property management and energy monitoring. Momentum is expected to make a further proportional contribution to sales.

Digital solutions will make a decisive contribution towards realising the growth potential. Among the main drivers here are the digital solutions acquired through the takeovers in 2021 and the cross-selling of digital solutions to our existing clients. Since 2021, some of the digital solutions have been sold in various process-oriented product packages together with an ERP product. SaaS revenues are expected to increase particularly for WRM (Workforce Relationship Management) and CRM (Customer Relationship Management) products due to additional products being rolled out, including a new generation of mobile solutions in the UK. Higher revenues with SRM (Supplier Relationship

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

Management) products should be achieved thanks to greater volumes of tradesmen's orders that are settled via the Mareon service portal, as well as new business generated by Aareon's occupant change management solution. Demand for the latter has surpassed expectations. Strong revenue growth is anticipated in 2022 for the Building Relationship Management (BRM) solution of CalCon Deutschland GmbH, acquired by Aareon in 2020. While the advisory businesses benefited from pandemic-related restrictions having been lifted, it will post only a slight increase in sales.

Aareon will continue with its development drive in new products and services in 2022, but delays incurred during the first half of the year will result in a smaller revenue contribution to the financial year than expected. In addition, the capacities built up for M&A and post-merger integration will be used to further accelerate Aareon's inorganic growth in 2022, and to successfully integrate the acquisitions already made. Aareal Bank has provided an acquisition credit line totalling € 350 million to its subsidiary.

Strategic focus

Aareal Bank Group's strategy focuses on sustainable business success. Environmental, social and governance aspects are therefore key elements of the Group's business strategy. In 2022, we complemented these aspects with ESG targets. The medium-term strategic development is being pursued under the guiding principle of "Aareal Next Level". The general strategic orientation will continue – with large-volume, international commercial property financing on the one hand, and consulting services and digital solutions for the institutional housing sector in Europe and related industries on the other.

Based on the "Aareal Next Level" strategy, individual business activities will be developed 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. Specifically, the Bank wants to increasingly exploit opportunities for profitable growth, in order to further accelerate the pace of growth in all three segments – also leveraging its solid, crisis-tested capital position.

The Structured Property Financing segment continues to focus on the controlled, risk-conscious expansion of its portfolio volume within its target range, in accordance with ESG requirements and taking advantage of its flexible approach with regard to countries, asset classes and financing structures. We will continue to use syndications as one of the tools for active portfolio management.

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

Aareon's position as a provider of ERP Software and digital solutions for the European property industry and its partners is set to be expanded further – with the clear objective of developing Aareon into a "Rule of 40" enterprise. Together with its partner Advent International, the Group wants to further boost the pace of Aareon's growth, through initiatives for organic growth within the framework of the Value Creation Programme. An institutionalised M&A pipeline and credit lines support inorganic growth.

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

Atlantic BidCo GmbH (the "Bidder"), a bidder company indirectly held by funds managed and advised by Advent International Corporation and Centerbridge Partners as well as CPP Investment Board Europe S.à.r.l., a wholly-owned subsidiary of the Canada Pension Plan Investment Board, and further minority shareholders, announced on

30 May 2022 that it had secured 74.62 % of Aareal Bank shares after the end of the acceptance period, thus exceeding the minimum acceptance level of 60 % set out in the course of the voluntary public takeover offer. On 16 June 2022, Atlantic BidCo GmbH announced that it had secured a total of 83.8 % of Aareal Bank shares after the end of the statutory additional acceptance period. Closing of the takeover offer is subject to regulatory approvals and is expected to take place in the fourth quarter of 2022 or in the first quarter of 2023.

Future cooperation will be based on the Investment Agreement concluded between Aareal Bank and Atlantic BidCo GmbH in conjunction with the transaction. In the Investment Agreement, the Bidder commits to supporting Aareal Bank 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 – based on the "Aareal Next Level" strategy – and to expedite growth in all of the Group's segments. This would be facilitated by the Bidder's extensive experience in the financial services, software and payments sectors, and by increasingly retaining profits in the next few years. Based on a business plan supported by the Bidder, this would generate significant additional funds for attractive growth opportunities in all three segments.

In view of the Investment Agreement, the ordinary Annual General Meeting had been postponed to 31 August 2022. In accordance with the Investment Agreement entered into with Atlantic BidCo GmbH, there are no plans to distribute any dividends for the 2021 financial year.

Group targets

Besides the strategic initiatives and measures within the framework of "Aareal Next Level", Aareal Bank Group's focus in the 2022 financial year will remain on coping with the impact of the Covid-19 pandemic in the best way possible – together with its clients.

A further uncertainty factor is the potential impact of the war in Ukraine, which is currently very difficult to estimate – in relation to our limited exposure in Russia as well as to the economic consequences of the imposed sanctions and escalated geopolitical tensions.[1)]

Given the good operating performance in the first half-year, Aareal Bank currently maintains its guidance for 2022 consolidated operating profit between € 210 million and € 250 million (2021: € 155 million), despite loss allowance of around € 83 million for the exposure to Russia; however, the Bank anticipates achieving the lower end of this range. The same applies to earnings per share (EpS), forecast in a range between € 2.00 and € 2.50 (2021: € 0.89) and RoE after taxes (4.5 % – 6 %; 2021: 2.1 %). Loss allowance (including credit risk-induced adjustments to the measurement of defaulted property loans, which are reported in net gain or loss from financial instruments (fvpl)) is projected in a range between € 140 million and € 180 million (2021: € 169 million).

Aareal Bank Group expects income to continue to rise significantly vis-à-vis the previous year. Net interest income is expected to rise further, reflecting the higher (and further growing) credit portfolio and despite the partial cessation of TLTRO benefits. Given that we have already reached the original target portfolio size, we now expect net interest income in a range between € 610 million and € 640 million (originally: € 600 million to € 630 million; 2021: € 597 million). Net commission income should also rise significantly, thanks in particular to Aareon's growth, to between € 270 million and € 290 million (2021: € 245 million).

Due to Aareon's strong growth, administrative expenses are expected to rise above the previous year's level. As a matter of course, the original Group target did not incorporate transaction costs related to the successful completion of the voluntary public offer made by Atlantic BidCo to the shareholders,

1) For details, please refer to our explanations and the description of macro-economic influencing factors in the Report on Expected Developments and Opportunities of the Structured Property Financing segment.

which were largely incurred during the first half of 2022. Administrative expenses are therefore expected in a range of between € 550 million and € 580 million (original range: € 540 million to € 570 million; 2021: € 528 million).

In the Structured Property Financing segment, we are raising our target corridor for new business volume by € 0.5 billion, to between € 7.5 billion and € 8.5 billion for the 2022 financial year, so that Aareal Bank Group's property financing portfolio should amount to between € 31 billion and € 32 billion at the end of 2022, market conditions permitting and subject to exchange rate fluctuations.

For the Banking & Digital Solutions segment, Aareal Bank assumes slight growth in net commission income for the core activities and now expects an average deposit volume from the housing industry of above € 12 billion.

Aareon is expected to see a marked increase in sales revenue in the region of € 305 million to € 325 million for the current year (2021: € 269 million). Adjusted EBITDA[1] is also likely to see a further increase to between € 73 million and € 78 million (2021: € 67 million).

With regard to capitalisation, Aareal Bank expects a CET1 ratio (Basel IV (phase-in)) markedly above 16 % by the end of the year, despite the planned portfolio growth and subject to further regulatory changes.

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

Consolidated Interim Financial Statements

Statement of Comprehensive Income

Income Statement

€ mn	Note	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Interest income from financial instruments (ac and fvoci)		473	367
Interest income from financial instruments (fvpl)		11	14
Market-driven modification gains		2	1
Interest expenses for financial instruments (ac and fvoci)		58	35
Interest expenses for financial instruments (fvpl)		94	66
Market-driven modification losses		4	1
Net interest income	1	**330**	**280**
Loss allowance excluding credit-driven net modification gain or loss		107	40
Credit-driven net modification gain or loss		0	0
Loss allowance	2	**107**	**40**
Commission income		161	146
Commission expenses		29	28
Net commission income	3	**132**	**118**
Net gain or loss on the derecognition of financial assets (ac)		11	6
Net gain or loss on the derecognition of financial liabilities (ac)		3	2
Net gain or loss on the derecognition of financial assets (fvoci)		8	0
Net derecognition gain or loss	4	**22**	**8**
Net gain or loss from financial instruments (fvpl)	5	18	-4
Net gain or loss from hedge accounting	6	-7	-2
Net gain or loss from investments accounted for using the equity method		-2	-1
Administrative expenses	7	295	268
Net other operating income/expenses	8	0	-18
Operating profit		**91**	**73**
Income taxes		33	40
Consolidated net income		**58**	**33**
Consolidated net income attributable to non-controlling interests		1	2
Consolidated net income attributable to shareholders of Aareal Bank AG		57	31
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG[1]		57	31
of which: allocated to ordinary shareholders		50	24
of which: allocated to AT1 investors		7	7
Earnings per ordinary share (€)[2]	9	0.84	0.40
Earnings per AT1 unit (€)[3]	9	0.07	0.07

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

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

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

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan - 30 Jun 2022	1 Jan - 30 Jun 2021
Consolidated net income	**58**	**33**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from remeasurements of defined benefit plans	**70**	**25**
Remeasurements of defined benefit plans	102	36
Taxes on remeasurements of defined benefit plans	-32	-11
Changes in the reserve from the measurement of equity instruments (fvoci)	**0**	**1**
Gains and losses from equity instruments (fvoci)	0	1
Reclassifications to retained earnings from equity instruments (fvoci)	–	–
Taxes on gains and losses from equity instruments (fvoci)	–	0
Items that are reclassified subsequently to profit or loss		
Changes in the reserve from the measurement of debt instruments (fvoci)	**-4**	**-4**
Gains and losses from debt instruments (fvoci)	2	-6
Reclassifications to the income statement from debt instruments (fvoci)	-7	0
Taxes on gains and losses from debt instruments (fvoci)	1	2
Changes in the reserve from foreign currency basis spreads	**29**	**-2**
Gains and losses from foreign currency basis spreads	43	-3
Reclassifications to the income statement from foreign currency basis spreads	–	–
Taxes on gains and losses from foreign currency basis spreads	-14	1
Changes in currency translation reserves	**7**	**5**
Gains and losses from translating foreign operations' financial statements	-1	3
Reclassifications to the income statement from translating foreign operations' financial statements	–	–
Taxes on gains and losses arising from translating foreign operations' financial statements	8	2
Other comprehensive income	**102**	**25**
Total comprehensive income	**160**	**58**
Total comprehensive income attributable to non-controlling interests	1	3
Total comprehensive income attributable to shareholders of Aareal Bank AG	159	55

Statement of Financial Position

€ mn	Note	30 Jun 2022	31 Dec 2021
Assets			
Financial assets (ac)	10	**44,886**	**42,345**
Cash funds (ac)		7,737	6,942
Loan receivables (ac)		30,459	29,434
Money market and capital market receivables (ac)		6,604	5,884
Receivables from other transactions (ac)		86	85
Loss allowance (ac)	11	-568	-492
Financial assets (fvoci)	12	**3,159**	**3,753**
Money market and capital market receivables (fvoci)		3,157	3,749
Equity instruments (fvoci)		2	4
Financial assets (fvpl)	13	**1,736**	**1,734**
Loan receivables (fvpl)		476	598
Money market and capital market receivables (fvpl)		4	4
Positive market value of designated hedging derivatives (fvpl)		902	900
Positive market value of other derivatives (fvpl)		354	232
Non-current assets held for sale	14	2	–
Investments accounted for using the equity method		22	19
Intangible assets	15	555	394
Property and equipment	16	270	278
Income tax assets		47	66
Deferred tax assets		156	168
Other assets	17	476	463
Total		**50,741**	**48,728**
Equity and liabilities			
Financial liabilities (ac)	18	**43,945**	**43,017**
Money market and capital market liabilities (ac)		30,972	30,597
Deposits from the housing industry (ac)		12,394	11,717
Liabilities from other transactions (ac)		103	94
Subordinated liabilities (ac)		476	609
Financial liabilities (fvpl)	19	**3,091**	**1,882**
Negative market value of designated hedging derivatives (fvpl)		1,564	971
Negative market value of other derivatives (fvpl)		1,527	911
Provisions	20	261	558
Income tax liabilities		45	17
Deferred tax liabilities		60	56
Other liabilities	21	133	137
Equity	22	**3,206**	**3,061**
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,980	1,937
AT1 bond		300	300
Other reserves		-41	-143
Non-controlling interests		66	66
Total		**50,741**	**48,728**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Reserve from the measurement of equity instruments (fvoci)	Other reserves: Reserve from the measurement of debt instruments (fvoci)	Other reserves: Reserve from changes in the value of foreign currency basis spreads	Other reserves: Currency translation reserve	Total	Non-controlling interests	Equity
Equity as at 1 January 2022	**180**	**721**	**1,937**	**300**	**-133**	**-3**	**16**	**-23**	**0**	**2,995**	**66**	**3,061**
Total comprehensive income for the period	–	–	57	–	69	0	-4	29	8	**159**	1	**160**
Consolidated net income	–	–	57	–	–	–	–	–	–	**57**	1	**58**
Other comprehensive income	–	–	–	–	69	0	-4	29	8	**102**	0	**102**
Payments to non-controlling interests	–	–	–	–	–	–	–	–	–	**–**	-2	**-2**
Dividends	–	–	–	–	–	–	–	–	–	**–**	–	**–**
AT1 coupon	–	–	-14	–	–	–	–	–	–	**-14**	–	**-14**
Changes in ownership interests in subsidiaries	–	–	–	–	–	–	–	–	–	**–**	1	**1**
Other changes	–	–	–	–	–	–	–	–	–	**–**	–	**–**
Equity as at 30 June 2022	180	721	1,980	300	-64	-3	12	6	8	3,140	66	3,206

€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Other reserves: Reserve from remeasurements of defined benefit plans	Other reserves: Reserve from the measurement of equity instruments (fvoci)	Other reserves: Reserve from the measurement of debt instruments (fvoci)	Other reserves: Reserve from changes in the value of foreign currency basis spreads	Other reserves: Currency translation reserve	Total	Non-controlling interests	Equity
Equity as at 1 January 2021	**180**	**721**	**1,902**	**300**	**-166**	**-4**	**12**	**-26**	**-13**	**2,906**	**61**	**2,967**
Total comprehensive income for the period	–	–	31	–	24	1	-4	-2	5	**55**	3	**58**
Consolidated net income	–	–	31	–	–	–	–	–	–	**31**	2	**33**
Other comprehensive income	–	–	–	–	24	1	-4	-2	5	**24**	1	**25**
Payments to non-controlling interests	–	–	–	–	–	–	–	–	–	**–**	-2	**-2**
Dividends	–	–	-24	–	–	–	–	–	–	**-24**	–	**-24**
AT1 coupon	–	–	-14	–	–	–	–	–	–	**-14**	–	**-14**
Changes in ownership interests in subsidiaries	–	–	5	–	–	–	–	–	–	**5**	2	**7**
Other changes	–	–	-1	–	–	–	–	–	–	**-1**	1	**–**
Equity as at 30 June 2021	180	721	1,899	300	-142	-3	8	-28	-8	2,927	65	2,992

Statement of Cash Flows (condensed)

€ mn	2022	2021
Cash and cash equivalents as at 1 January	**6,942**	**4,744**
Cash flow from operating activities	941	1,465
Cash flow from investing activities	-8	-10
Cash flow from financing activities	-138	-361
Total cash flow	**795**	**1,094**
Cash and cash equivalents as at 30 June	**7,737**	**5,838**

Notes (condensed)

Basis of Accounting

Legal framework

Aareal Bank AG is a listed public limited company incorporated under German law, with its registered office in Wiesbaden, Germany. It is the parent company of an international property finance and services group.

Since no Annual General Meeting was held prior to publication of the report, appointing external auditors, as prescribed by section 115 (5) sentence 2 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") was impossible. Hence, the present half-yearly financial report was not audited pursuant to section 317 of the German Commercial Code (Handelsgesetzbuch – "HGB"), nor was it reviewed by external auditors in accordance with section 115 of the WpHG. The half-yearly financial report, which comprises an interim group management report in addition to the interim condensed consolidated financial statements shown here, was approved by the Management Board on 9 August 2022.

Aareal Bank AG prepares its condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315e (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). In particular, the consolidated interim financial statements comply with the requirements for interim financial reporting set out in IAS 34. The reporting currency is the euro (€).

Reporting entity structure

Subsidiaries of Aareal Bank AG are included in the consolidated financial statements by way of full consolidation. Companies over which Aareal Bank AG may exercise a significant influence ("associates") are included in the consolidated financial statements, using the equity method. The present interim report is based on the same consolidation methods as were applied in the consolidated financial statements 2021.

In the reporting period, it was mainly three companies that were added to the reporting entity structure. Our range of services in the Banking & Digital Solutions segment was expanded with the acquisition of payment solutions provider Collect Artificial Intelligence GmbH ("CollectAI") from Otto Group, to include end-customer communications services as well as AI-based interactive invoicing and intelligent dunning solutions.

On 20 June 2022, Aareon entered into a binding agreement on the acquisition of approximately 93 % of shares and voting rights in Momentum Software Group AB. Aareon also purchased shares on the market; it thus held around 95 % in the company's capital at the consolidation date (30 June 2022). The purchase price amounted to approximately € 160 million and was paid in cash. The preliminary fair value of assets and liabilities amounts to € 24 million; it largely comprises € 7 million in software, € 10 million related to client relationships; and € 2 million in brand rights. The preliminary nature of these amounts is due, in particular, to the fact that the acquisition took place as recently as on 20 June 2022. The company generated € 0 million in profits on sales revenues of € 5 million in the first half of 2022. The acquisition results in a preliminary goodwill of € 136 million, including potential market value effects and synergies. With this transaction, Aareon has acquired a SaaS solution for property management and energy monitoring in the Nordic countries, thus strengthening its footprint in the market. Clients will be offered a more extensive portfolio of products in connection with Aareon's digital ecosystem.

Aareon also increased its stake in Dutch PropTech OSRE B.V. to 51 %. OSRE offers a SaaS solution that automates the property transaction process for new rentals across all segments of the residential and commercial property markets. The goal of this partnership is to further expand Aareon's presence in the Dutch market.

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

Accounting Policies

Unless specifically indicated otherwise, the accounting policies applied in preparation of the consolidated financial statements 2021 were also applied in preparation of these condensed consolidated interim financial statements, including the calculation of comparative figures.

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

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

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

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

Even though the second phase of the standard amendments as a result of the effects of the IBOR reform has been applicable since 2021, we will list it below because the period during which the existing interest rate benchmarks are replaced is not yet over.

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

The effects of the IBOR reform are analysed and monitored, and any resulting new requirements are implemented, as part of a separate project.

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

The existing transactions will be changed on a currency-by-currency basis. The transactions based on EONIA interest were changed to €STR terms and conditions. As a result of the discontinuation of CHF and GBP LIBOR, respectively, as at 31 December 2021, existing transactions were modified, except for two defaulted loans. As a result of the discontinuation of USD LIBOR as at 30 June 2023, we are no longer applying USD LIBOR for new business, instead using only the risk-free rate SOFR. The transformation processes for the existing USD LIBOR portfolio have been initiated, and first changes have been made in the lending business. This was partly implemented using the practical relief applicable to the accounting treatment for modifications. The modification was made using prevailing market conditions; there were no material effects from transition. Such effects are neither expected from further transition.

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

Notes to the Statement of Comprehensive Income

(1) Net interest income

€ mn	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Interest income from financial assets (ac and fvoci)	425	327
Loan receivables	423	327
Money market and capital market receivables	2	0
Interest income from financial liabilities (ac)	48	40
Money market and capital market liabilities	36	30
Deposits from the housing industry	12	10
Interest income from financial instruments (fvpl)	11	14
Loan receivables	6	9
Money market and capital market receivables	–	2
Other derivatives	5	3
Market-driven modification gains	2	1
Total interest and similar income	**486**	**382**
Interest expenses from financial liabilities (ac)	11	10
Money market and capital market liabilities	5	1
Deposits from the housing industry	0	0
Liabilities from other transactions	0	1
Subordinated liabilities	6	8
Interest expenses for financial assets (ac and fvoci)	47	25
Cash funds	30	17
Money market and capital market receivables	17	8
Interest expenses for financial instruments (fvpl)	94	66
Other derivatives	94	66
Market-driven modification losses	4	1
Total interest and similar expenses	**156**	**102**
Total	**330**	**280**

As expected, net interest income of € 330 million was significantly higher than in the previous year (€ 280 million), mainly due to a year-on-year increase in the credit portfolio.

(2) Loss allowance

€ mn	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Additions	163	111
Reversals	56	70
Recoveries on loans and advances previously written off	0	1
Loss allowance – other items	–	–
Credit-driven net modification gain or loss	0	0
Total	**107**	**40**

Loss allowance totalled € 107 million (H1 2021: € 40 million). This includes an addition to loss allowance for our direct exposure to Russia of around € 83 million, bringing the coverage of the outstanding exposure (of around € 200 million) to just over 40 %. The exposure could not be serviced due to mutual sanctions imposed by Western states and Russia against each other (transfer risk), even though the borrower is willing and able to pay. The potential additional impact of the war in Ukraine and the economic consequences of the imposed sanctions is very difficult to estimate at this point in time.

Furthermore, we moved a new LGD model for our commercial property finance portfolio (which complies with new EBA guidelines for rating procedures) into production as at the record date; this new model also serves as a basis for model-based Stage 1 and 2 loss allowance. The model effect due to this conversion was approximately € 10 million.

Other net additions reflected the impact of current macro-economic scenarios deployed; given the outbreak of war, these are markedly worse than at the turn of the year and are only partially offset by positive portfolio effects (maturity effects in particular). The risk of Russia potentially stopping gas deliveries to the EU altogether has been incorporated into deteriorated macro-economic forecasts.

Please also refer to Note (11).

(3) Net commission income

€ mn	1 Jan - 30 Jun 2022	1 Jan - 30 Jun 2021
Commission income from		
ERP products (incl. add-on products)	99	91
Digital solutions	40	33
Banking business and other activities	22	22
Total commission income	**161**	**146**
Commission expenses for		
Purchased services	27	25
Banking business and other activities	2	3
Total commission expenses	**29**	**28**
Total	132	118

Net commission income increased as planned to € 132 million (H1 2021: € 118 million) as a result of higher commission income both in the Banking & Digital Solutions segment and at Aareon.

(4) Net derecognition gain or loss

€ mn	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Net gain or loss on the derecognition of financial assets (ac)		
Loan receivables	11	9
Money market and capital market receivables	0	-3
Net gain or loss on the derecognition of financial liabilities (ac)		
Money market and capital market liabilities	3	2
Net gain or loss on the derecognition of financial assets (fvoci)		
Money market and capital market receivables	8	0
Total	**22**	**8**

The net derecognition gain of € 22 million (H1 2021: € 8 million) was attributable to market-driven effects from early loan repayments, and to income from the securities portfolio. De-risking measures of € 3 million had burdened results from the securities business in the previous year.

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

€ mn	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Net gain or loss from loan receivables	-16	-4
Net gain or loss from money market and capital market receivables	0	0
Net gain or loss from other derivatives	36	3
Currency translation	-2	-3
Total	**18**	**-4**

Net gain or loss from financial instruments (fvpl) was mainly incurred by positive valuation effects resulting from market developments for currency and interest rate hedging derivatives due to the strong market dynamics and coming from negative values at the beginning of the year. To reduce volatility in the income statement brought about by these items, the Bank has concluded additional hedging transactions.

(6) Net gain or loss from hedge accounting

€ mn	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Ineffective portion of fair value hedges	-7	-2
Ineffective portion of net investment hedges	0	0
Total	**-7**	**-2**

(7) Administrative expenses

€ mn	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Staff expenses	167	157
Wages and salaries	134	124
Social security contributions	22	20
Pensions	11	13
Other administrative expenses	102	89
Depreciation, amortisation and impairment of property and equipment and intangible assets	26	22
Total	**295**	**268**

Administrative expenses rose to € 295 million (H1 2021: € 268 million). as a result of two factors: on the one hand and as expected, business development, especially at Aareon; on the other hand, transaction costs incurred by the successful completion of the voluntary public offer made by Atlantic BidCo.

(8) Net other operating income/expenses

€ mn	1 Jan-30 Jun 2022	1 Jan-30 Jun 2021
Income from properties	17	6
Income from the reversal of provisions	0	0
Income from goods and services	–	0
Other operating income	10	6
Total other operating income	**27**	**12**
Expenses for properties	21	13
Expenses for other taxes	5	3
Other operating expenses	1	14
Total other operating expenses	**27**	**30**
Total	**0**	**-18**

Net other operating income/expenses amounted to € 0 million (H1 2021: € -18 million). In the previous year, it was burdened by € 11 million in interest on tax back payments, as well as lower rental income on properties held by the Bank, as a result of Covid-19.

(9) Earnings per share

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

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

Notes to the Statement of Financial Position

(10) Financial assets (ac)

€ mn	30 Jun 2022	31 Dec 2021
Cash funds (ac)	**7,737**	**6,942**
Cash on hand	0	0
Balances with central banks	7,737	6,942
Loan receivables (ac)	**30,459**	**29,434**
Property loans	30,118	29,059
Public-sector loans	298	323
Other loan receivables	43	52
Money market and capital market receivables (ac)	**6,604**	**5,884**
Money market receivables	2,993	1,264
Promissory note loans	1,482	1,691
Bonds	2,129	2,929
Receivables from other transactions (ac)	**86**	**85**
Trade receivables	36	38
Other financial receivables	50	47
Total	**44,886**	**42,345**

(11) Loss allowance (ac)

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Position as at 1 January 2022	**9**	**77**	**403**	**3**	**492**
Additions	19	30	111	1	**161**
Utilisation	–	–	46	–	**46**
Reversals	3	27	24	0	**54**
Transfer to Stage 1	2	-2	–	–	**–**
Transfer to Stage 2	0	2	-2	–	**–**
Transfer to Stage 3	–	-2	2	–	**–**
Interest rate effect	–	–	13	–	**13**
Currency adjustments	0	4	-2	0	**2**
Transfers	–	–	–	–	**–**
Position as at 30 June 2022	**27**	**82**	**455**	**4**	**568**

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

€ mn	Stage 1	Stage 2	Stage 3	Receivables from other transactions (ac)	Total loss allowance (ac)
Position as at 1 January 2021	**19**	**77**	**492**	**4**	**592**
Additions	8	21	80	–	**109**
Utilisation	–	–	146	1	**147**
Reversals	8	20	40	0	**68**
Transfer to Stage 1	0	0	–	–	**–**
Transfer to Stage 2	-5	5	–	–	**–**
Transfer to Stage 3	–	0	0	–	**–**
Interest rate effect	–	–	37	–	**37**
Currency adjustments	0	3	10	0	**13**
Transfers	–	–	-64	–	**-64**
Position as at 30 June 2021	**14**	**86**	**369**	**3**	**472**

(12) Financial assets (fvoci)

€ mn	30 Jun 2022	31 Dec 2021
Money market and capital market receivables (fvoci)	**3,157**	**3,749**
Bonds	3,157	3,749
Equity instruments (fvoci)	**2**	**4**
Equities and other non-fixed income securities	0	0
Other investments	2	4
Total	**3,159**	**3,753**

(13) Financial assets (fvpl)

€ mn	30 Jun 2022	31 Dec 2021
Loan receivables (fvpl)	**476**	**598**
Property loans	476	598
Money market and capital market receivables (fvpl)	**4**	**4**
Fund units	4	4
Positive market value of designated hedging derivatives (fvpl)	**902**	**900**
Positive market value of fair value hedges	902	892
Positive market value of net investment hedges	–	8
Positive market value of other derivatives (fvpl)	**354**	**232**
Positive market value of economic hedging derivatives	119	111
Positive market value of other derivatives	235	121
Total	**1,736**	**1,734**

(14) Non-current assets held for sale

One property loan with a carrying amount of € 2 million held by the Structured Property Financing segment fulfilled the criteria for being classified as "held for sale" as at 30 June 2022. The property loan has now been sold.

(15) Intangible assets

€ mn	30 Jun 2022	31 Dec 2021
Goodwill	375	235
Proprietary software	81	75
Other intangible assets	99	84
Total	**555**	**394**

The increase in goodwill is attributable to the acquisition of Momentum and CollectAI. Momentum forms part of the new cash-generating unit (CGU) Aareon Nordics. No further impairment losses were required for the goodwill of Aareon Nordics.

(16) Property and equipment

€ mn	30 Jun 2022	31 Dec 2021
Land and buildings and construction in progress	246	253
Office furniture and equipment	24	25
Total	**270**	**278**

(17) Other assets

€ mn	30 Jun 2022	31 Dec 2021
Properties	367	348
Contract assets	24	20
Miscellaneous	85	95
Total	**476**	**463**

(18) Financial liabilities (ac)

€ mn	30 Jun 2022	31 Dec 2021
Money market and capital market liabilities (ac)	**30,972**	**30,597**
Money market liabilities	10,297	9,501
Promissory note loans	2,739	3,373
Mortgage Pfandbriefe	11,254	10,620
Public-sector Pfandbriefe	1,487	1,734
Other debt securities	5,195	5,369
Other financial liabilities	0	–
Deposits from the housing industry (ac)	**12,394**	**11,717**
Payable on demand	10,197	9,409
Term deposits	2,197	2,308
Liabilities from other transactions (ac)	**103**	**94**
Trade payables	14	19
Other liabilities	89	75
Subordinated liabilities (ac)	**476**	**609**
Total	**43,945**	**43,017**

(19) Financial liabilities (fvpl)

€ mn	30 Jun 2022	31 Dec 2021
Negative market value of designated hedging derivatives (fvpl)	**1,564**	**971**
Negative market value of fair value hedges	1,501	947
Negative market value of net investment hedges	63	24
Negative market value of other derivatives (fvpl)	**1,527**	**911**
Negative market value of economic hedging derivatives	1,021	526
Negative market value of other derivatives	506	385
Total	**3,091**	**1,882**

(20) Provisions

€ mn	30 Jun 2022	31 Dec 2021
Provisions for pensions and similar obligations	147	425
Provisions for unrecognised lending business	3	3
Other provisions	111	130
Total	**261**	**558**

Changes in the discount rate applicable to pensions require a revaluation of the amount of obligations. This is recognised directly in other comprehensive income, under changes in the reserve from defined benefit plans. The discount rate was 3.37 % as at 30 June 2022 (31 December 2021: 1.17 %). Provisions for pensions showed a marked decline, due to the strong increase in interest rates and higher funding levels (to € 228 million as at 30 June 2022; 31 December 2021: € 114 million).

(21) Other liabilities

€ mn	30 Jun 2022	31 Dec 2021
Lease liabilities	77	81
Deferred income	2	3
Liabilities from other taxes	20	21
Contract liabilities	27	24
Miscellaneous	7	8
Total	**133**	**137**

(22) Equity

€ mn	30 Jun 2022	31 Dec 2021
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,980	1,937
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-64	-133
Reserve from the measurement of equity instruments (fvoci)	-3	-3
Reserve from the measurement of debt instruments (fvoci)	12	16
Reserve from foreign currency basis spreads	6	-23
Currency translation reserves	8	0
Non-controlling interests	66	66
Total	**3,206**	**3,061**

The negative amount of the reserve from remeasurements of defined benefit plans markedly declined due to the strong increase in interest rates.

The item “Reserve from the measurement of debt instruments (fvoci)” includes loss allowance of € 0 million (31 December 2021: € 0 million).

Treasury shares

No treasury shares were held during the period under review.

Distributions

Aareal Bank had originally intended to pay a dividend in a total amount of € 1.60 per share in 2022 for the financial year 2021, including the amount of € 1.10 per share not paid out in 2021. In view of the Investment Agreement and the planned takeover by Atlantic BidCo GmbH, the ordinary Annual General Meeting had been postponed to 31 August 2022. In accordance with the Investment Agreement, there are no plans to distribute any dividends for the 2021 financial year.

The Management Board proposes to the Annual General Meeting on 31 August 2022 that net retained profit of € 95,771,553.60 for the financial year 2021, as reported under the German Commercial Code (HGB), including the profit carried forward from the financial year 2020 in the amount of € 65,842,943.10, be transferred in full to other retained earnings.

In addition, on 30 April 2022, the Management Board resolved on a distribution in relation to the AT1 instruments, in accordance with the terms and conditions of the notes.

Within Aareal Bank Group's consolidated statement of financial position, a distribution on the AT1 bond reduces the retained earnings item within consolidated equity.

Notes to Financial Instruments

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

(23) Determination of fair value

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

Fair value hierarchy

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

Measurement methods

The property and public-sector loans included in loan receivables are measured using the discounted cash flow method for the purpose of the determination of fair value. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for risks specific to the counterparty as well as credit costs. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions. In the case of defaulted loans, future cash flows are reduced by the expected losses.

Debt securities and promissory note loans for which no current market price is available in an active market are measured through an analysis of future payments using the fully-capitalised earnings value approach, where the inputs are based on observable market data to the extent possible. These approaches include the discounted cash flow (DCF) method which is used to determine the present value of contractual cash flows until the expected end of the term. The present value is determined based on the benchmark curve applicable for the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or numerical procedures.

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

The fair value of OTC derivatives is determined on the basis of sector-specific standardised measurement models, such as the present value method or option pricing models. These techniques are based on inputs of active markets, such as interest rates, yield curves and credit spreads. The fair value of foreign exchange forwards is generally based on current forward exchange rates quoted on active markets. Since the derivatives are part of highly effective collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives Transactions) which are each subject to a master collateralisation agreement, measurement adjustments to reflect any potential counterparty credit risk or own credit risk (CVA and DVA) are not required for reasons of materiality. The Bank uses the overnight interest rate swap curve (OIS curve) for the measurement of derivatives secured by cash collateral.

Yield curves used for measurement purposes were fine-tuned during the period under review. The measurement impact of this change in estimates, which was applied prospectively, was in a mid-single-digit million euro amount.

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

(24) Fair value hierarchy in accordance with IFRS 13

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

30 June 2022 € mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**3,159**	**2,641**	**516**	**2**
Money market and capital market receivables	3,157	2,641	516	–
Equity instruments	2	–	0	2
Financial assets (fvpl)	**1,736**	**0**	**1,256**	**480**
Loan receivables	476	–	–	476
Money market and capital market receivables	4	0	–	4
Positive market value of designated hedging derivatives	902	–	902	–
Positive market value of other derivatives	354	–	354	–

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30 June 2022 € mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial liabilities (fvpl)	**3,091**	**–**	**3,091**	**–**
Negative market value of designated hedging derivatives	1,564	–	1,564	–
Negative market value of other derivatives	1,527	–	1,527	–

31 December 2021 € mn	Total fair value	Fair value level 1	Fair value level 2	Fair value level 3
Financial assets (fvoci)	**3,753**	**3,365**	**386**	**2**
Money market and capital market receivables	3,749	3,365	384	–
Equity instruments	4	–	2	2
Financial assets (fvpl)	**1,734**	**0**	**1,132**	**602**
Loan receivables	598	–	–	598
Money market and capital market receivables	4	0	–	4
Positive market value of designated hedging derivatives	900	–	900	–
Positive market value of other derivatives	232	–	232	–
Financial liabilities (fvpl)	**1,882**	**–**	**1,882**	**–**
Negative market value of designated hedging derivatives	971	–	971	–
Negative market value of other derivatives	911	–	911	–

During the first six months of the financial year 2022, € 1,208 million in financial assets (ac) were transferred from Level 1 to Level 2, and € 2,552 million in financial liabilities (ac) were transferred from Level 1 to Level 2.

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

Loan receivables (fvpl)

€ mn	2022	2021
Fair value as at 1 January	**598**	**856**
Change in measurement	**-16**	**-4**
Portfolio changes		
Additions	81	17
Derecognition	187	245
Deferred interest	0	0
Fair value as at 30 June	**476**	**624**

Financial instruments held in the Bank's portfolio contributed € -20 million to the net gain or loss from financial instruments fvpl (H1 2021: € -6 million).

Regarding loan receivables (fvpl), the add-ons for risks specific to the counterparty represent the material input parameter not observable in the market. Regarding the non-defaulted loans, an increase/decrease by 1 % would lead to a decrease/increase of the fair value by approximately € 6 million (H1 2021: approximately € 15 million).

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

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

€ mn	30 Jun 2022 Carrying amount	30 Jun 2022 Fair value	31 Dec 2021 Carrying amount	31 Dec 2021 Fair value
Financial assets (ac)	**44,320**	**43,849**	**41,853**	**41,960**
Cash funds	7,737	7,737	6,942	6,942
Loan receivables[1]	29,899	29,602	28,948	29,100
Money market and capital market receivables	6,601	6,427	5,881	5,836
Receivables from other transactions	83	83	82	82
Financial assets (fvoci)	**3,159**	**3,159**	**3,753**	**3,753**
Money market and capital market receivables	3,157	3,157	3,749	3,749
Equity instruments	2	2	4	4
Financial assets (fvpl)	**1,736**	**1,736**	**1,734**	**1,734**
Loan receivables	476	476	598	598
Money market and capital market receivables	4	4	4	4
Positive market value of designated hedging derivatives	902	902	900	900
Positive market value of other derivatives	354	354	232	232
Financial liabilities (ac)	**43,945**	**43,754**	**43,017**	**43,242**
Money market and capital market liabilities	30,972	30,766	30,597	30,782
Deposits from the housing industry	12,394	12,394	11,717	11,717
Liabilities from other transactions	103	103	94	94
Subordinated liabilities	476	491	609	649
Financial liabilities (fvpl)	**3,091**	**3,091**	**1,882**	**1,882**
Negative market value of designated hedging derivatives	1,564	1,564	971	971
Negative market value of other derivatives	1,527	1,527	911	911

[1] Including non-current assets held for sale

Segment Reporting

(26) Segment results

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan–30 Jun 2022	1 Jan–30 Jun 2021	1 Jan–30 Jun 2022	1 Jan–30 Jun 2021	1 Jan–30 Jun 2022	1 Jan–30 Jun 2021	1 Jan–30 Jun 2022	1 Jan–30 Jun 2021	1 Jan–30 Jun 2022	1 Jan–30 Jun 2021
€ mn										
Net interest income	313	260	23	22	-6	-2	0	0	330	280
Loss allowance	107	40	0		0	0			107	40
Net commission income	4	4	15	13	119	107	-6	-6	132	118
Net derecognition gain or loss	22	8							22	8
Net gain or loss from financial instruments (fvpl)	18	-4	0		0				18	-4
Net gain or loss from hedge accounting	-7	-2							-7	-2
Net gain or loss from investments accounted for using the equity method			-1	-1	-1	0			-2	-1
Administrative expenses	146	134	37	36	118	104	-6	-6	295	268
Net other operating income/expenses	-2	-20	-1	0	3	2	0	0	0	-18
Operating profit	**95**	**72**	**-1**	**-2**	**-3**	**3**	**0**	**0**	**91**	**73**
Income taxes	34	40	0	-1	-1	1			33	40
Consolidated net income	**61**	**32**	**-1**	**-1**	**-2**	**2**	**0**	**0**	**58**	**33**
Consolidated net income attributable to non-controlling interests	0	0	0	0	1	2			1	2
Consolidated net income attributable to shareholders of Aareal Bank AG	61	32	-1	-1	-3	0	0	0	57	31
Allocated equity[1]	1,616	1,686	287	258	39	38	815	533	2,757	2,515
RoE after taxes (%) [2][3]	6.7	3.0	-0.8	-1.1	-12.5	-0.2			3.7	1.9
Employees (average)	**803**	**787**	**388**	**382**	**1,995**	**1,837**			**3,186**	**3,006**
Segment assets	**36,803**	**34,277**	**13,207**	**11,907**	**731**	**460**			**50,741**	**46,644**

[1] Allocated equity is calculated for all segments on the basis of standardised capital requirements pursuant to Basel IV (phase-in) of 15 %. Reported equity on the statement of financial position differs from this. Aareon's total equity as disclosed in the statement of financial position amounts to € 142 million (31 December 2021: € 143 million).

[2] On an annualised basis

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

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

	Structured Property Financing		Banking & Digital Solutions		Aareon		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
€ mn										
ERP products (incl. add-on products)					107	100	-8	-9	99	91
Digital solutions					40	33			40	33
Banking business and other activities	4	5	18	17					22	22
Total	**4**	**5**	**18**	**17**	**147**	**133**	**-8**	**-9**	**161**	**146**

Other Notes

(27) Contingent liabilities and loan commitments

€ mn	30 Jun 2022	31 Dec 2021
Contingent liabilities	148	122
Loan commitments	1,144	1,062
of which: irrevocable	810	740

Contingent liabilities include € 57 million (31 December 2021: € 27 million) in probability-weighted amounts for litigation risks which the Bank considers predominantly probable, following a legal analysis. We estimate the maximum default risk in the medium triple-digit million range.

(28) Employees

The number of Aareal Bank Group employees is shown below:

	30 Jun 2022[1)]	Average 1 Jan - 30 Jun 2022[2)]	31 Dec 2021[1)]	Average 1 Jan - 31 Dec 2021[2)]
Salaried employees	3,043	3,019	2,998	2,905
Executives	163	167	172	172
Total	**3,206**	**3,186**	**3,170**	**3,077**
of which: part-time employees	596	590	590	586

[1)] This number does not include 237 employees of the hotel business (31 December 2021: 30 employees).
[2)] This number does not include 143 employees of the hotel business (1 January to 31 December 2021: 88 employees).

(29) Related party disclosures in accordance with IAS 24

There were no material transactions with related parties in the reporting period that would have to be reported here.

(30) Events after the interim reporting period

There were no material events after the end of the interim reporting period which would have to be reported here.

Executive Bodies of Aareal Bank AG

Supervisory Board

Prof. Dr Hermann Wagner [1) 2) 3) 4)]
Chairman of the Supervisory Board
German Chartered Accountant, tax consultant

Richard Peters [1) 2)]
Deputy Chairman of the Supervisory Board
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder

Klaus Novatius [1) 2) 6)]
Deputy Chairman of the Supervisory Board
Aareal Bank AG

Jana Brendel [4) 5)]
Chairman of the Technology and Innovation Committee
Chief Information Officer at 1&1 Telecommunication SE

Holger Giese [3) 5)]
(since 14 January 2022)
Lawyer, former General Counsel
Private Bank Germany, Deutsche Bank AG

Thomas Hawel [5) 6)]
Aareon Deutschland GmbH

Petra Heinemann-Specht [2) 3) 4) 6)]
Aareal Bank AG

Jan Lehmann [5) 6)]
Aareon Deutschland GmbH

Friedrich Munsberg [2) 3) 4)]
(since 14 January 2022)
Former Managing Director of KOFIBA-Kommunalfinanzierungsbank GmbH (formerly Dexia Kommunalbank Deutschland AG)

Sylvia Seignette [1) 3) 4)]
Chairman of the Risk Committees
Former CEO for Germany and Austria, Crédit Agricole CIB (ehem. Caylon)

Elisabeth Stheeman [1) 4) 5)]
External Member of the Financial Policy Committee and of the Financial Market Infrastructure Board, Bank of England, Prudential Regulation Authority

Dr Ulrich Theileis [3) 5)]
(since 14 January 2022)
Partner and Chief Operating Officer, Audit & Assurance, Deloitte GmbH Wirtschafts-prüfungsgesellschaft

Management Board

Jochen Klösges
Chairman of the Management Board

Nina Babic
(since 1 July 2022)
Member of the Management Board

Marc Hess
Member of the Management Board

Christiane Kunisch-Wolff
(until 30 June 2022)
Member of the Management Board

Christof Winkelmann
Member of the Management Board

[1)] Member of the Executive and Nomination Committee; [2)] Member of the Remuneration Control Committee; [3)] Member of the Audit Committee; [4)] Member of the Risk Committee; [5)] Member of the Technology and Innovation Committee; [6)] Elected by employees

Responsibility Statement

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

Wiesbaden, 9 August 2022

The Management Board

Jochen Klösges   Nina Babic

Marc Hess   Christof Winkelmann

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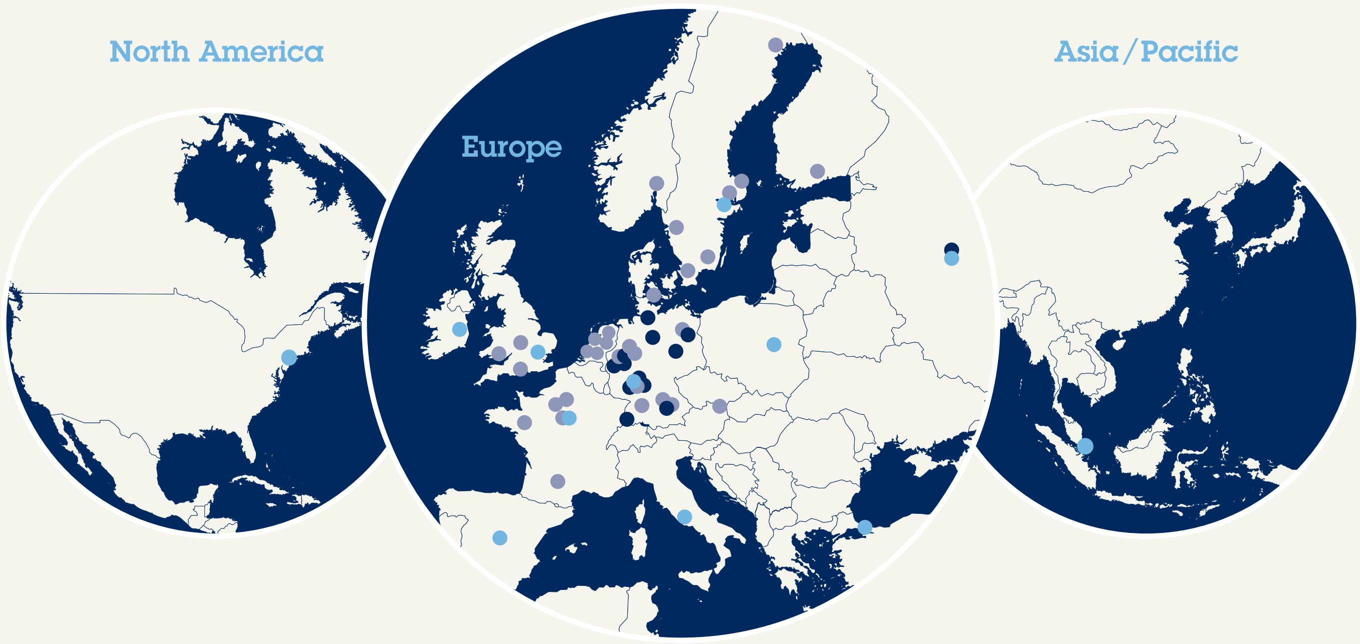
Financial Calendar

10 November 2022	Publication of results as at 30 September 2022
24 May 2023	Annual General Meeting

Locations/Imprint



● Structured Property Financing ● Banking & Digital Solutions ● Aareon

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

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

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

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Aareal Bank Group

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