

**2<sup>nd</sup> Supplement  
to the Prospectus**

2<sup>nd</sup> supplement dated 16 August 2021 (the "**2<sup>nd</sup> Supplement**") to the base prospectus dated 8 June 2021 (the "**Prospectus**") in relation to the

**Aareal Bank AG**

**Federal Republic of Germany, Wiesbaden**

**Euro 20,000,000,000**

**Debt Issuance Programme**

(the "**Programme**")

Aareal Bank AG (the "**Issuer**") with its registered office in Wiesbaden, Federal Republic of Germany, is solely responsible for the information given in this 2<sup>nd</sup> Supplement. The Issuer hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this 2<sup>nd</sup> Supplement is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

**SUPPLEMENT TO THE PROSPECTUS**

This 2<sup>nd</sup> Supplement constitutes a supplement to the Prospectus for the purposes of Article 23 (1) of Regulation (EU) 2017/1129 of the European Parliament and the Council of 14 June 2017, as amended (the "**Prospectus Regulation**").

This 2<sup>nd</sup> Supplement supplements and updates the Prospectus as supplemented by the 1<sup>st</sup> Supplement to the Prospectus dated 24 June 2021 (the "**1<sup>st</sup> Supplement**") and is to be read in conjunction therewith.

Terms defined in the Prospectus have the same meaning when used in this 2<sup>nd</sup> Supplement. This 2<sup>nd</sup> Supplement shall only be distributed in connection with the Prospectus as supplemented by the 1<sup>st</sup> Supplement.

**Aareal**

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## SUPPLEMENTAL INFORMATION

The amendments set out below shall be made to the Prospectus:

### 1. Changes relating to the section "Risk Factors"

The paragraphs under the heading "**Risks specific for Structured Property Financing, including risks relating to Covid-19/Coronavirus**" on pages 8 and 9 of the Prospectus shall be deleted in their entirety and replaced by the following:

"There are various risks and uncertainties regarding the macro-economic environment which have become relevant or could be relevant if they were to materialise to a considerable extent for the financial and capital markets as well as for the commercial real estate markets and thus negatively affect Aareal Bank's business:

The economy, financial markets and commercial property are all exposed to a number of different risks. Given the events surrounding the Covid-19 pandemic, the risk lies, in particular, in the length of the economic recovery phase. Recovery is likely to be gradual and, in those regions hit hardest by the pandemic, it will take a long time. An ongoing Covid-19 pandemic due to high rates of new infections and viral mutations or lack of vaccine success could slow or halt the recovery of the global economy. Extension or reintroduction of infection control measures could have adverse consequences on demand and the services sector in particular.

Rising national debt, as a result of massive fiscal support provided, but also as a consequence of the previous year's economic slump, is also a risk. While central banks continue to provide favourable refinancing conditions, risk premiums for highly indebted sovereigns could rise as bond buying programmes come to an end. Also non-financial corporate debt has expanded in many advanced economies, mainly due to an increase in bond issuance. An ongoing pandemic or other risks could be a reason for downgrading the rating of these bonds. In particular, ending special regulations and state aid poses a risk of higher insolvency rates for non-financial companies.

The political shift away from European cohesion poses a threat not only to the EU, but also to Europe. Nationalism among Central and Eastern European governments and the uncertainties surrounding the possible succession of the autonomous community of Catalonia from Spain must be mentioned in this context. 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 risk factors. While the EU's recovery package specifically seeks to support these countries, there is still the risk that the measures in place will not be enough to fully address structural problems at play and the negative impact of the Covid-19 pandemic.

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 conflicts are likely to have a significant impact on markets and their participants.

Rising global demand from the conversion of pent-up savings into consumption and higher investment spending has already driven up consumer prices. If this increased demand encounters capacity constraints, prices of goods and services may rise more sharply, contributing to rising inflation.

The risks and adverse effects on the economic development including the financial and capital markets as well as on commercial property markets could have a material adverse effect on Aareal Bank's profitability. Profitability may also be adversely affected

where the Bank decides to prolong loans rather than to insist on repayment in order to avoid defaults on repayment obligations.

There are several risks for commercial property resulting from the economic development and the Covid-19 pandemic. The economic recovery will be decisive for the development of commercial property, especially given that some regions and property types have been more severely affected by the pandemic than others. This also applies to possible new infection control measures, which are likely to have different impacts depending on the country and property type. A potential renewed tightening of contact bans, travel restrictions and business closures of a temporary nature could have a significant negative impact on cash flows, especially for hotel and retail properties. Due to these factors there is the risk that these developments could have negative effects not only on cash-flows but also on property values the Aareal Bank Group holds in its property financing portfolio and could also have an adverse effect on the amount of non-performing loans and on the allowances for credit losses of Aareal Bank Group.

With a view to the financing markets for commercial properties the Bank estimates that the competition will remain intensive. Although loan-to-value ratios across various regions for the financing of commercial properties remained largely stable in the first half of 2021, changes in the market environment could increase pressure on margins or lead to lifts in loan-to-value ratios. As lenders are expected to prefer financing first-class properties in top locations, just like for investors, the shortage of properties in this segment and the uncertainty regarding the economic development following the Covid-19 pandemic could limit financing opportunities. The developments in competition and economic development could have a negative impact on the profitability of the Bank and its risk position.

Besides the clients' individual situation, different property types and property locations are affected differently by governments restrictions and support, which is crucial for the segment structured real estate finance. The Bank supports individual solutions for clients which are affected by Covid-19 specific restrictions and economic developments. This could e.g. be waiving individual contractual elements like deferral of interest or amortisation payments or provision of liquidity facilities.

Deteriorating economic forecasts and prolonged recovery periods for defaulted loans must be seen as a risk which in general could lead to higher risk provisioning.

In general it is to be noted that currently, the uncertainty of estimations – regarding macroeconomics, markets and the effects on Aareal Bank – is much higher than usual with a view to the Covid-19 pandemic and its effects as there has been no comparable event in the near past and there is no data or empirical evidence."

## **2. Changes relating to the section "Aareal Bank AG"**

- a) The paragraphs under the heading "**Outlook for the year 2021**" on page 343 of the Prospectus shall be deleted in their entirety and replaced by the following:

"The increase in economic activity during the first half year and the rise in private consumption support the assumption that the global economy will recover in 2021. The recovery is expected to be largely gradual and regionally different and that economic growth stems not only from the manufacturing sector but also from the service sector. However, pre-crisis levels will not be reached everywhere by the end of the year. For the course of the year, we expect inflation to increase noticeably.

Gross domestic product in the euro zone is expected to increase in 2021. This is based on expectations that private consumption will remain strong as a substantial share of the savings accumulated by households will be spent over the next few months. The

funds from the EU support packages are also likely to provide support in the second half of the year. Given that the respective member states have formulated different support packages, the recovery will be heterogeneous.

With gross domestic product forecast to grow in 2021, the UK is expected to recover. The trade agreement reached with the EU is likely to support the recovery and reduce uncertainty, even though it creates obstacle in the form of customs bureaucracy and regulatory barriers.

We expect a strong positive economic growth for the US in 2021, especially due to a large fiscal support, recovering employment, and consumer growth. The economy in Canada is expected to expand in 2021, with accelerating growth anticipated from mid-year onwards.

China was already starting to recover in 2020. In 2021, we expect China's economy to further expand. However, we see a shift in the growth drivers from infrastructure investment and exports to consumption and corporate investments.

Based on consumption and a positive trend on the labour market, Australia's economy is expected to expand in 2021.

Due to the uncertainty, especially regarding the impact of the Covid-19 pandemic on the economy, we expect to see strongly expansionary monetary and fiscal policy measures and continued low interest rates in 2021. However, the persistent low interest rate environment might impair the effect of central banks' traditional policy.

Demand for commercial properties will vary in 2021, depending on the region and property type. This is an area in which developments surrounding the Covid-19 pandemic and the form of economic recovery will be decisive, especially given that some regions and types of property were more severely affected by the Covid-19 pandemic than others.

It is expected that various factors will have an impact on how commercial property values develop this year. While historically low interest rates support property values, political uncertainty, economic downturns or restraint among investors can have an adverse impact on property values. With regard to commercial property, we expect stable to rising average market values in 2021. With a view to retail properties, we expect the situation to ease more slowly, as the structural change in buying behaviour is having a dampening effect on the outlook of value-driving rental revenues, depending on location and segment. Also depending on location and segment, we see hotel properties recovering over the coming years. We expect a similar development for student housing activities, where demand by international students should recover. We expect the values of office properties to rise slower compared to the previous year, due to the Covid-19 pandemic. Logistics properties continue to be assessed positively, as we expect the trend of rising market values of these properties to prevail. Individual properties may generally deviate from this estimate, depending on the different regional economic impacts of the Covid-19 pandemic."

- b) On page 347 of the Prospectus, the table under the heading "**Regulatory Indicators**" shall be deleted in its entirety and replaced by the following:

"

|   | 30 June 2021 | 31 December 2020 |
|---|--------------|------------------|
| <b>Regulatory Indicators<sup>1)</sup></b>   |              |                  |
| Risk-weighted assets (€ mn)                 | 11,981       | 12,138           |
| Common Equity Tier 1 ratio (CET1 ratio) (%) | 19.2         | 18.8             |
| Tier 1 ratio (T1 ratio) (%)                 | 21.7         | 21.3             |
| Total capital ratio (TC ratio) (%)          | 25.4         | 28.0             |

1) 31 December 2020: less a proposed dividend payout of € 1.50 per share in 2021 and incorporating the pro-rata accrual of net interest payable on the AT1 bond. The 2021 dividend payment of € 1.50 for 2020 would need to be made in two steps. In compliance with the requirements published by the European Central Bank (ECB) on 15 December 2020, the distributable amount is calculated at € 0.40 per share. A proposal on the allocation of profits was approved at the ordinary Annual General Meeting in May 2021. Following the announcement issued by the ECB on 23 July 2021, and depending on further economic developments, regulatory requirements, the Bank's capital position and its risk situation, in the absence of material adverse developments the Bank plans to convene an extraordinary Annual General Meeting, to be held during the fourth quarter of 2021, to decide on the intended remaining payout of € 1.10 per share, amending the resolution dated 18 May 2021 on the appropriation of profits.

30 June 2021: less the remaining proposed dividend distribution of € 1.10 per share in 2021 and inclusive of the interim dividend for 2021 less any pro rata dividends in accordance with the dividend policy and pro rata accrual of the net interest on the AT1 bond.

The SREP recommendations concerning the NPL inventory and the ECB's NPL guidelines for exposures newly classified as NPLs were taken into account."

- c) Under the heading "**Financial Information concerning Aareal Bank Group's Assets and Liabilities, Financial Liabilities, Financial Position and Profits and Losses**" the last paragraph on page 347 of the Prospectus shall be deleted in its entirety and replaced by the following:

"The unaudited consolidated interim financial information as at 31 March 2021 and the unaudited consolidated interim financial statement as at 30 June 2021 of Aareal Bank were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU."

- d) The statement under the heading "**No Significant Change in the Financial Position or Financial Performance**" on page 349 of the Prospectus shall be deleted in its entirety and replaced by the following:

"There has been no significant change in the financial position or financial performance of Aareal Bank AG and its subsidiaries since 30 June 2021, noting that significant uncertainties with respect to the impact of the Covid-19 pandemic still exist as described in "Risk Factors – A. Risk Factors relating to Aareal Bank AG – 3. Risks related to the Issuer's business activities and industry – Risks specific for Structured Property Financing, including risks relating to COVID-19/Coronavirus"."

### 3. Changes relating to the section "General Information"

The following list shall be inserted under the heading "**Documents incorporated by reference**" on page 366 of the Prospectus before the paragraph beginning with "*Any information not incorporated by reference into this Prospectus...*":

| <b>"10) Unaudited consolidated interim financial statement for the six months ended 30 June 2021:</b> | <b>Extracted from the Aareal Bank Group – Interim Report 1 January to 30 June 2021:</b> |
|---|---|
| – Statement of Comprehensive Income   | – page 39 to 40   |
| – Statement of Financial Position   | – page 41   |
| – Statement of Changes in Equity  | – page 42   |
| – Statement of Cash Flows (condensed)   | – page 43   |
| – Notes (condensed)   | – page 44 to 64   |
| – Review Report   | – page 65   |

[https://www.aareal-bank.com/fileadmin/downloadlist/DAM\\_Content/IR/Finanzberichte/2021/20210630\\_zb\\_en.pdf](https://www.aareal-bank.com/fileadmin/downloadlist/DAM_Content/IR/Finanzberichte/2021/20210630_zb_en.pdf)

## GENERAL PROVISIONS

Save as disclosed on pages 1 to 5 of this 2<sup>nd</sup> Supplement, there has been no other significant new factor, material mistake or material inaccuracy since the publication of the Prospectus.

To the extent that there is any inconsistency between (a) any statement in this 2<sup>nd</sup> Supplement and (b) any other statement in or incorporated by reference into the Prospectus, the statement referred to in (a) will prevail.

Any information not incorporated by reference into this 2<sup>nd</sup> Supplement but contained in the Aareal Bank Group - Interim Report 1 January to 30 June 2021 mentioned as source document in the cross reference list in number **3. Changes relating to the section "GENERAL INFORMATION"** above is either not relevant for the investor or covered in another part of the Prospectus, as supplemented by this 2<sup>nd</sup> Supplement.

To the extent permitted by the laws of any relevant jurisdiction neither the Arranger nor any Dealer accepts any responsibility for the accuracy and completeness of the information contained in the Prospectus, as supplemented by this 2<sup>nd</sup> Supplement.

This 2<sup>nd</sup> Supplement and the document incorporated by reference in the Prospectus (as listed in number **3. Changes relating to the section "GENERAL INFORMATION"** above) are also available on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). Copies of this 2<sup>nd</sup> Supplement and the document incorporated by reference in the Prospectus (as listed in number **3. Changes relating to the section "GENERAL INFORMATION"** above) may also be inspected and are available free of charge during normal business hours at the registered office of Aareal Bank AG at Paulinenstrasse 15, 65189 Wiesbaden, Germany.