Regulatory Disclosure Report for H1 2021

of Aareal Bank Group

Aareal

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Regulatory Disclosure Report for H1 2021

Preface

Aareal Bank Group is classified as a significant institution within the scope of the Single Supervisory Mechanism (SSM) and is therefore subject to direct supervision by the European Central Bank (ECB).

In March this year, the European Commission published the Implementation Regulation (EU) 2021/637 for the disclosure of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 (Capital Requirements Regulation – "CRR"). These substantiate the revised disclosure requirements to be applied from 28 June 2021.

Due to its consolidated total assets of more than €30 billion, Aareal Bank Group is classified as a large institution in accordance with Article 4 no 146 lit. d) of the CRR. The scope of the information that has to be disclosed on a half-yearly basis is therefore based on the requirements of Article 433a (1) lit. b) and c) of the CRR.

Due to the use of the waiver option (section 2a (1) sentence 1 of the German Banking Act (Kreditwesengesetz – "KWG") in conjunction with Article 7 (3) of the CRR), Aareal Bank complies with the requirements of parts 2, 3, 4, 6, 7 and 8 of the CRR at a Group level. Aareal Bank AG, whose registered office is in Wiesbaden, Germany, is the parent institution of the Group (LEI code EZKODONU-5TYHW4PP1R34).

The details we have published in this disclosure report are based on both the Credit Risk Standard Approach (CRSA) and the Advanced IRB Approach (Advanced Internal Ratings-Based Approach – AIRBA).

Minor differences may occur regarding the figures stated, due to rounding.

Aareal Bank does not apply the transitional provisions, pursuant to Article 473a of the CRR, to mitigate the impact of the introduction of IFRS 9 on regulatory capital requirements. Accordingly, the obligation to provide additional disclosures (as specified in detail in EBA guidelines EBA/GL/2018/01) is waived.

Since the ECB does not classify Aareal Bank Group as a Global Systemically Important Institution (G-SII) on the basis of Delegated Regulation (EU) 1222/2014, the disclosure requirements pursuant to Article 437a of the CRR ("Disclosure of own funds and eligible liabilities") do not apply.

Overview of regulatory key metrics

The table EU KM1 provides an overview of the regulatory key metrics in accordance with Article 447 of the CRR. The overview also includes the additional regulatory capital as required by the Supervisory Review and Evaluation Process (SREP).

Due to the first-time disclosure of the Net Stable Funding Ratio (NSFR) and the SREP capital requirements as at the reporting date, their disclosure for prior periods is omitted..

Prior period values are disclosed based on the frequency in which the information of this table shall be disclosed (see Article 433a of the CRR). We have limited our disclosure as at the record date observed to prior period values, as already included in the overview of selected indicators published on our website as at 31 March 2021.

EU KM1: Key metrics

		a	b	c	d	e
€ mn		30 Jun 2021	31 Mar 2021	31 Dec 2020	30 Sep 2020	30 Jun 2020
	Available own funds					
1	Common Equity Tier 1 (CET1) capital	2,298	2,248	2,286	2,243	2,318
2	Tier 1 (T1) capital	2,598	2,548	2,568	2,543	2,618
3	Own funds	3,048	3,027	3,396	3,360	3,457
	Risk-weighted exposure amounts					
4	Risk-weighted exposure amounts (Risk weighted assets, RWAs)	11,981	11,906	12,138	11,320	11,702
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (CET1 ratio)	19.18	18.9	18.8	19.8	19.8
6	Tier 1 ratio (T1 ratio)	21.69	21.4	21.3	22.5	22.4
7	Total capital ratio (TC ratio)	25.44	25.4	28.0	29.7	29.5
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage	1.27	–	–	–	–
EU 7b	of which: to be made up of CET1 capital	0.42	–	–	–	–
EU 7c	of which: to be made up of Tier 1 capital	0.56	–	–	–	–
EU 7d	Total SREP own funds requirements	10.25	–	–	–	–
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50	2.5	2.5	2.5	2.5
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	–	–	–	–	–
9	Institution specific countercyclical capital buffer	0.01	0.0	0.0	0.0	0.2
EU 9a	Systemic risk buffer	–	–	–	–	–

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€ mn		a 30 Jun 2021	b 31 Mar 2021	c 31 Dec 2020	d 30 Sep 2020	e 30 Jun 2020
10	Global Systemically Important Institution buffer	–	–	–	–	–
EU 10a	Other Systemically Important Institution buffer	–	–	–	–	–
11	Combined buffer requirement	2.51	–	–	–	–
EU 11a	Overall capital requirements	12.76	–	–	–	–
12	CET1 available after meeting the total SREP own funds requirements	13.42	–	–	–	–
	Leverage Ratio[1]					
13	Total exposure measure	45,607	–	43,577	–	45,266
14	Leverage Ratio (%)	5.70	–	5.9	–	5.8
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage	–	–	–	–	–
EU 14b	of which: to be made up of CET1 capital	–	–	–	–	–
EU 14c	Total SREP leverage ratio requirements	–	–	–	–	–
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement	–	–	–	–	–
EU 14e	Overall leverage ratio requirement	–	–	–	–	–
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (weighted value – average)	6,023	6,988	6,909	6,765	6,503
EU 15a	Cash outflows – total weighted value	2,969	–	–	–	–
EU 15b	Cash inflows – total weighted value	694	–	–	–	–
16	Total net cash outflows (adjusted value)	2,276	2,651	2,622	2,694	2,715
17	Liquidity coverage ratio (LCR) (%)	271.66	263.60	263.50	251.11	239.60
	Net Stable Funding Ratio					
18	Total available stable funding	34,414	–	–	–	–
19	Total required stable funding	29,667	–	–	–	–
20	NSFR ratio (%)	116.00	–	–	–	–

[1] Since the calculation of the Leverage Ratio has changed upon first application of CRR II, figures for the current disclosure record date cannot be compared to those of the two prior periods.

Own funds

Aareal Bank Group has to comply with the capital adequacy requirements set out in the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD IV), the German Banking Act (Kreditwesengesetz – "KWG") and the German Solvency Regulation (Solvabilitätsverordnung – "SolvV").

Following these regulations, institutions and companies operating in the financial sector must calculate their existing regulatory capital on a regular basis, and present these detailed results thereon to the supervisory authorities on specific dates.

Strict regulatory criteria are applied to the availability and sustainability of the qualifying capital when calculating regulatory capital. These provisions are not consistent with the recognition rules pursuant to the German Commercial Code (Handelsgesetzbuch – "HGB") or IFRSs.

The regulatory capital as well as equity disclosed in Aareal Bank Group's interim report are based on the items reported in the statement of financial position according to IFRSs. However, there are differences between items disclosed for regulatory and accounting purposes which are due to different scopes of consolidation on the one hand, as well as adjustments to the Group's regulatory capital on the other hand.

The disclosures in this report are based on the binding provisions for the implementation of disclosure requirements set out in Article 4 of the Commission Implementing Regulation 2021/637/EU, in the interests of comparability and increased transparency pursuant to Article 437 of the CRR.

Upon first-time application of the Regulation (EU) 2019/876 (Capital Requirements Regulation II, CRR II) from 28 June 2021, the intra-year disclosure of the main features of all capital instruments under Article 437 lit. b) of the CRR (Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 capital) is no longer required pursuant to Article 433a (1) of the CRR.

Composition of regulatory own funds

Within the scope of the ECB's Supervisory Review and Evaluation Process, Aareal Bank has to meet total SREP own funds requirements of 10.25% on a consolidated level in 2021. This comprises an additional own funds requirement (Pillar 2 Requirement, P2R) of 2.25%, which has to be maintained at least 56.25% in Common Equity Tier 1 capital and 75% of Tier 1 capital. Taking into account the capital conservation buffer of 2.50% and the countercyclical capital buffer of 0.01%, both of which have to be maintained in the form of Common Equity Tier 1 capital, the Overall Capital Requirement (OCR) of Aareal Bank as at 30 June 2021 amounts to 12.76%.

The average total capital ratio (TC ratio) over the current reporting date and the four last quarters amounts to 27.61%. The comparison to the total SREP own funds requirements demonstrates that Aareal Bank Group is well capitalised to cover its risks.

The following table EU CC1 serves to fulfil the disclosure requirements set out in Article 437 lit. a) and d) of the CRR. The table is followed by information on the components of the Common Equity Tier 1, Additional Tier 1 and Tier 2 items and an explanation for the changes in capital ratios compared to 31 March 2021.

In order to reconcile the regulatory own funds with the balance sheet figures disclosed in column b) of table EU CC2, column b) references the relevant balance sheet line item.

EU CC1: Composition of regulatory own funds

€ mn		a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	901	A, B
	of which: shares	180	A
2	Retained earnings	1,784	C
3	Accumulated other comprehensive income (and other reserves)	-157	D
EU-3a	Funds for general banking risk	–	
4	Amount of qualifying items referred to in Article 484 (3) of the CRR and the related share premium accounts subject to phase-out from CET1	–	
5	Minority interests (amount allowed in consolidated CET1)	–	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	1	E
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**2,529**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-2	
8	Intangible assets (net of related tax liability) (negative amount)	-23	F
9	–	–	
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability where the conditions of Article 38 (3) of the CRR are met) (negative amount)	-7	G
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	–	
12	Negative amounts resulting from the calculation of expected loss amounts	-5	
13	Increase in equity resulting from securitised assets (negative amount)	–	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–	
15	Defined-benefit pension fund assets (negative amount)	–	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	–	
17	Direct, indirect and synthetic holdings of Common Equity Tier 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	
18	Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities in which the institution does not have a significant investment (amount above 10% threshold and net of eligible short positions) (negative amount)	–	
19	Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities in which the institution has a significant investment (amount above 10% threshold and net of eligible short positions) (negative amount)	–	

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€ mn		a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
20	–	–	
EU-20a	Exposure amount of the following items which qualify for a risk weight of 1,250%, where the institution opts for the deduction alternative	–	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	–	
EU-20c	of which: securitisation positions (negative amount)	–	
EU-20d	of which: free deliveries (negative amount)	–	
21	Deferred tax assets arising from temporary differences (amount exceeding the 10% threshold, net of related tax liability where the conditions in Article 38 (3) of the CRR are met) (negative amount)	–	
22	Amount exceeding the 17.65 % threshold (negative amount)	–	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	–	
24	–	–	
25	of which: deferred tax assets arising from temporary differences	–	
EU-25a	Losses for the current financial year (negative amount)	–	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	–	
26	–	–	
27	Qualifying Additional Tier 1 deductions that exceed the AT1 items of the institution (negative amount)	–	
27a	Other regulatory adjustments	-193	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**-230**	
29	**Common Equity Tier 1 (CET1) capital**	**2,298**	
Additional Tier 1 (AT1) capital: Instruments			
30	Capital instruments and the related share premium accounts	300	H
31	of which: classified as equity under applicable accounting standards	300	H
32	of which: classified as liabilities under applicable accounting standards	–	
33	Amount of qualifying items referred to in Article 484 (4) of the CRR and the related share premium accounts subject to phase-out from Additional Tier 1 (AT1) capital	–	
EU-33a	Amount of qualifying items referred to in Article 484 (1) of the CRR subject to phase-out from Additional Tier 1 (AT1) capital	–	
EU-33b	Amount of qualifying items referred to in Article 484b (1) of the CRR subject to phase-out from Additional Tier 1 (AT1) capital	–	
34	Qualifying Tier 1 instruments included in consolidated Additional Tier 1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	–	
35	of which: instruments issued by subsidiaries subject to phase-out	–	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**300**	

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€ mn		a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own Additional Tier 1 instruments (negative amount)	–	
38	Direct, indirect and synthetic holdings of the Additional Tier 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	
39	Direct, indirect and synthetic holdings by the institution of Additional Tier 1 instruments of financial sector entities in which the institution does not have a significant investment (amount above 10 % threshold and net of eligible short positions) (negative amount)	–	
40	Direct, indirect and synthetic holdings by the institution of Additional Tier 1 instruments of financial sector entities in which the institution has a significant investment (net of eligible short positions) (negative amount)	–	
41	–	–	
42	Qualifying Tier 2 deductions that exceed the Tier 2 items of the institution (negative amount)	–	
42a	Other regulatory adjustments to Additional Tier 1 (AT1) capital	–	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**–**	
44	**Additional Tier 1 (AT1) capital**	**300**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2,598**	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	393	I
47	Amount of qualifying items referred to in Article 484 (5) of the CRR and the related share premium accounts subject to phase-out from Tier 2 as described in Article 486 (4) of the CRR	–	
EU-47a	Amount of qualifying items referred to in Article 494a (2) of the CRR subject to phase-out from Tier 2	–	
EU-47b	Amount of qualifying items referred to in Article 494b (2) of the CRR subject to phase-out from Tier 2	–	
48	Qualifying own funds instruments included in consolidated Tier 2 capital (including minority interests and Additional Tier 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	–	
49	of which: instruments issued by subsidiaries subject to phase-out	–	
50	Credit risk adjustments	57	
51	**Tier 2 (T2) capital before regulatory adjustments**	**450**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own Tier 2 instruments and subordinated loans (negative amount)	–	
53	Direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	

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€ mn		a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
54	Direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	
54a	–	–	
55	Direct, indirect and synthetic holdings by the institution of the Tier 2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	
56	–	–	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	–	
EU-56b	Other regulatory adjustments to Tier 2 capital	–	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–**	
58	**Tier 2 (T2) capital**	**450**	
59	**Own funds (TC = T1 + T2)**	**3,048**	
60	**Total risk-weighted assets**	**11,981**	
Capital ratios and requirements including buffers			
61	CET1 ratio	19.18 %	
62	Tier 1 ratio	21.69 %	
63	Total capital ratio	25.44 %	
64	Institution CET1 overall capital requirements	8.27 %	
65	of which: capital conservation buffer requirement	2.50 %	
66	of which: countercyclical capital buffer requirement	0.01 %	
67	of which: systemic risk buffer requirement	–	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	–	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	–	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	13.42 %	
Amounts below thresholds for deductions (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)	–	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65 % thresholds and net of eligible short positions)	–	
74	–	–	
75	Deferred tax assets arising from temporary differences (amount below 17,65 % threshold, net of related tax liability where the conditions in Article 38 (3) of the CRR are met)	152	

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€ mn		a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	–	
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	13	
78	Credit risk adjustments included in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	129	
79	Cap on inclusion of credit risk adjustments in Tier 2 under internal ratings-based approach	57	
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	–	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	
82	Current cap on Additional Tier 1 capital instruments subject to phase-out arrangements	–	
83	Amount excluded from Additional Tier 1 capital due to cap (excess over cap after redemptions and maturities)	–	
84	Current cap on Tier 2 instruments subject to phase-out arrangements	–	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities	–	

Common Equity Tier 1 capital

Aareal Bank Group‘s Common Equity Tier 1 (CET1) capital (€ 2,298 million) is generally limited to the items and capital instruments listed under Article 26 of the CCR, whereby the latter must meet the requirements of Article 28 of the CRR. The CET1 is composed as follows:

- subscribed capital and capital reserves,
- eligible retained earnings,
- accumulated other comprehensive income and
- regulatory adjustments.

Aareal Bank AG’s subscribed capital amounted to € 180 million as at 30 June 2021. It is divided into 59,857,221 fully-paid no-par value shares (“unit shares”) with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

The capital reserves amount to €721 million and contain premiums received upon the issuance of shares. Costs incurred within the framework of a capital increase reduce capital reserves.

Retained earnings (excluding consolidated net retained profit) comprise €5 million in statutory reserves (pursuant to section 150 of the AktG) and € 1,845 million in other retained earnings. Dividends of € 1.10 per share, equivalent to € 66 million, planned to be distributed in the fourth quarter of 2021, are deducted from this[1].

Accumulated other comprehensive income (€-157 million) contains other reserves recognised in equity, in which the following effects are recognised directly:

- reserve from remeasurements of defined benefit plans (€ -131 million),
- reserve from the measurement of equity instruments fvoci (€ -4 million),
- reserve from the measurement of debt instruments fvoci (€ 8 million),
- other recyclable and non-recyclable reserves from companies accounted for using the equity method (€ 3 million),
- reserve from changes in the value of foreign currency basis spreads (€ -28 million), and
- currency translation reserve (€ -5 million).

The regulatory adjustments reducing the CET1 amount to €230 million. Specifically, the following deductions were made:

- **additional value adjustments to assets at fair value in accordance with Article 34 of the CRR in conjunction with Article 105 of the CRR (€-2 million)**

  In accordance with Article 34 of the CRR in conjunction with the requirements for prudent valuation under Article 105 of the CRR, those additional value adjustments that are required to adjust the fair value to the prudent valuation are to be deducted from CET1.

  As the line items at fair value amount to less than € 15 billion, the simplified approach pursuant to Article 4 of the Commission Delegated Regulation (EU) No. 2016/101 does apply to Aareal Bank Group.

- **intangible assets as defined in Article 37 of the CRR (€ -23 million)**

  The amount largely comprises purchased and self-developed software classified as intangible assets (€ 17 million). The regulatory technical standard EBA/RTS/2020/07 on the regulatory treatment of software assets is not applied within Aareal Bank Group.

- **deferred tax assets that rely on future profitability (€ -7 million)**

  The only deferred tax assets considered are those that do not result from temporary differences (net of related tax liability).

[1] Following the corresponding announcement by the European Central Bank 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.

- **negative amounts resulting from the calculation of expected loss amounts (€ -5 million)**

  In accordance with Article 36 (1) lit. d) of the CRR, negative amounts resulting or remaining from the offsetting of an expected loss (EL) and credit risk adjustments (the so-called value adjustment deficit) as required by Article 159 of the CRR are to be deducted from CET1.

  This item includes the EL from investments. Pursuant to Article 159 of the CRR, there are no netting options for this EL within the scope of the comparison of value adjustments, meaning that the amount is directly deducted from CET1.

- **deductions pursuant to Article 3 of the CRR (€ -160 million)**

  This includes a preventive capital deduction of €95 million in connection with the ECB's review of credit processes. This deduction item also accounts for the expectations defined by regulatory and legislative authorities regarding provisioning for non-performing exposures ("prudential provisioning").

- **other deductions from CET1 (€ -33 million)**

  Aareal Bank holds irrevocable payment obligations to deposit guarantee schemes and resolution funds, for which assets were encumbered or cash collateral provided. The fact that the encumbered assets or the cash collateral provided cannot be used to cover potential current losses is taken into account by deducting them from CET1.

Additional Tier 1 capital

Additional Tier 1 (AT1) capital comprises a €300 million Additional Tier 1 (AT1) bond (ISIN DE000A1TNDK2). Regulatory adjustments pursuant to Article 56 et seqq. of the CRR were not made.

On 13 November 2014, the Management Board had issued notes in an aggregate nominal amount of € 300 million with a denomination of € 200,000 and an initial interest rate of 7.625 % p.a. (valid until 30 April 2020), based on the authorisation granted by the Annual General Meeting on 21 May 2014. The rate of interest for any interest period commencing after 30 April 2020 shall be equal to the reference rate (one-year EUR swap rate) determined on the relevant interest determination date plus a margin of 7.18 % p.a.

The notes constitute unsecured and subordinated obligations of the issuer.

Further information on the conditions of the AT1 bond can be found in the annex to the Disclosure Report 2020 "Main Features of Capital Instruments 2020" published on our website.

Tier 2 capital

Aareal Bank's Tier 2 capital of €450 million largely consists of subordinated promissory notes (€ 206 million) and subordinated bearer debt securities (€ 187 million), which are allocated to the measurement category "amortised costs". In the event of liquidation or insolvency, claims on interest and principal from these liabilities are subordinated to the claims of the other creditors, which are not subordinated themselves.

In accordance with Article 64 (2) of the CRR, the IFRS carrying amount (instead of the nominal amount) on the first day of the final five-year period is used in the calculation of the eligible amount for the amortisation of Tier 2 instruments in the last five years of their contractual maturity. The IFRS carrying amount is also used for Tier 2 instruments with a residual maturity of more than five years, to ensure consistency in the measurement basis for all Tier 2 instruments.

The valuation adjustment excess (€57 million) determined in accordance with Article 62 lit. d) of the CRR within the scope of the comparison of value adjustments pursuant to Article 159 of the CRR is another component of Tier 2 capital.

Development of capital ratios

Compared to the previous disclosure date of 31 March 2021, the capital ratios (CET1, T1 and TC ratios) only improved slightly, due to the increase in risk-weighted assets (RWAs) by € 75 million and a relatively smaller increase in own funds (€ 21 million).

Besides a credit line granted to Aareon AG, the RWA increase was mainly driven by effects from the first-time application of the standardised approach for measuring counterparty credit risk exposure ("SA-CCR") pursuant to Articles 274 et seqq. of the CRR. This was offset by quality improvements in the existing commercial property finance portfolio due to changed borrower probabilities of default (PD), as well as changes in loss given default (LGD).

The increase in regulatory capital resulted from increases in Common Equity Tier 1 capital (€ +50 million) and decreases in Tier 2 capital (€ -29 million); the change in CET1 capital was largely due to changes in OCI (€ -26 million). Moreover, loss allowance recorded during the course of the year was not deducted, but already taken into account in CET1 capital through the inclusion of the interim result.

Reconciliation of regulatory own funds to balance sheet in the audited financial statements

To fulfil the disclosure requirements in accordance with Article 437 lit. a) of the CRR, the equity items of table EU CC1 are clearly allocated to the line items contained in the following table via column c). The granularity of the line items disclosed corresponds to the statement of financial position in the interim report.

EU CC2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

	a	b	c
	Balance sheet as at 30 June 2021 under		
€ mn	published financial statements	scope of regulatory consolidation	Cross-reference
Assets			
Financial assets (ac)	**39,478**	**39,467**	
Cash funds (ac)	5,838	5,838	
Loan receivables (ac)	27,863	27,933	
Money market and capital market receivables (ac)	5,705	5,648	
Receivables from other transactions (ac)	72	48	
Loss allowance (ac)	-472	-472	
Financial assets (fvoci)	**3,971**	**3,951**	
Money market and capital market receivables (fvoci)	3,965	3,949	
Equity instruments (fvoci)	6	2	
Financial assets (fvpl)	**2,265**	**2,361**	
Loan receivables (fvpl)	624	621	
Money market and capital market receivables (fvpl)	93	192	
Positive market value of designated hedging derivatives (fvpl)	1,097	1,097	
Positive market value of other derivatives (fvpl)	451	451	
Non-current assets held for sale	59	59	
Investments accounted for using the equity method	22	201	
Intangible assets	306	23	F
Property and equipment	282	208	
Income tax assets	126	116	
Deferred tax assets	150	150	G
Other assets	457	426	
Total assets	**46,644**	**46,491**	
Equity and liabilities			
Financial liabilities (ac)	**41,153**	**41,226**	
Money market and capital market liabilities (ac)	29,478	29,533	
Deposits from the housing industry (ac)	10,957	11,003	
Liabilities from other transactions (ac)	105	77	
Subordinated liabilities (ac)	613	613	I
Financial liabilities (fvpl)	**1,753**	**1,753**	
Negative market value of designated hedging derivatives (fvpl)	1,049	1,049	
Negative market value of other derivatives (fvpl)	704	704	
Provisions	548	497	
Income tax liabilities	15	14	
Deferred tax liabilities	37	23	
Other liabilities	146	49	

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€ mn	a Balance sheet as at 30 June 2021 under published financial statements	b scope of regulatory consolidation	c Cross-reference
Equity	**2,992**	**2,929**	
Subscribed capital	180	180	A
Capital reserve	721	721	B
Retained earnings	1,899	1,885	C, E
AT1 bond	300	300	H
Other reserves	-173	-157	D
Non-controlling interests	65	0	
Total liabilities	**46,644**	**46,491**	

Risk-weighted assets and regulatory capital requirements

The capital requirements for a transaction's counterparty credit risk under the CRSA are essentially based on the following:

1. the regulatory classification (balance sheet, off-balance sheet, or derivatives business);
2. the amount of the loan at the time of default (Exposure at Default – „EaD");

and, under the AIRBA, additionally depends on

3. the Probability of Default (PD); as well as
4. the Loss Given Default (LGD).

The credit conversion factors for off-balance sheet transactions are predefined by the supervisory authorities for capital requirements under the CRSA. The borrowers are subdivided into exposure classes; the exposure amounts are risk-weighted, based on their external ratings.

As at 30 June 2021, no risks associated with outstanding delivery as part of counterparty risks had to be taken into account when determining counterparty usage limits.

Based on the AIRBA or CRSA calculation approach, the following risk-weighted assets (RWAs) and capital requirements were determined as at the reporting date for the types of risk that are relevant for regulatory purposes.

EU OV1: Overview of risk-weighted assets (RWAs)

€ mn		a	b	c
		RWAs		Regulatory capital requirements
		30 Jun 2021	31 March 2021	30 Jun 2021
1	**Credit risk (excluding CCR)**	**10,326**	**9,862**	**826**
2	of which: Credit Risk Standard Approach (CRSA)	943	426	75
3	of which: Foundation IRB Approach (FIRB)	–	–	–
4	of which: slotting approach	–	–	–
EU 4a	of which: Equity exposures under the simple risk-weighted approach	764	727	61
5	of which: Advanced IRB (AIRB) approach	8,619	8,709	690
6	**CCR**	**442**	**421**	**35**
7	of which: Standardised approach	187	212	15
8	of which: Internal model method (IMM)	–	–	–
EU 8a	of which: exposures to a CCP	7	2	1
EU 8b	of which: credit valuation adjustment – CVA	247	189	20
9	of which: other CCR	–	19	–
15	**Settlement risk**	**–**	**–**	**–**
16	**Securitisation exposures in the banking book (after the cap)**	–	–	–
17	of which: SEC-IRBA approach	–	–	–
18	of which: SEC-ERBA (including IAA)	–	–	–
19	of which: SEC-SA approach	–	–	–
EU 19a	of which: 1,250% / deduction	–	–	–
20	**Market risk (position, foreign exchange and commodities risks)**	**83**	**120**	**7**
21	of which: Standardised approach	83	120	7
22	of which: IMA	–	–	–
EU 22a	**Large exposures**	–	–	–
23	**Operational risk**	**1,131**	**1,131**	**90**
EU 23a	of which: Basic indicator approach	15	15	1
EU 23b	of which: Standardised approach	1,116	1,116	89
EU 23c	of which: advanced measurement approach	–	–	–
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)[1]**	**379**	**373**	**30**
29	**Total**	**11,981**	**11,906**	**958**

Counterparty credit risk has been determined according to the standardised approach for measuring counterparty credit risk exposure (SA-CCR; Articles 274 et seqq. of the CRR) as at 30 June 2021 for the first time. Hence, any comparisons with RWAs disclosed as at 31 March 2021 (in accordance with the mark-to-market method) are only possible to a limited extent.

Regarding the causes of RWA changes during the second quarter of 2021, reference is made to the explanations in the chapter “Development of capital ratios“.

[1] Given the implementation of the mapping tool published by the EBA, RWAs included in line 24 were disclosed for information only as at 30 June 2021 for the first time.

In the following table EU CR10.5, the equity investments reported under the AIRBA and previously disclosed on a consolidated level – for which the simple risk-weighted approach is used exclusively pursuant to Article 155 (2) of the CRR – are disclosed separately according to the risk exposures determined in the Regulation.

The specialised lendings held in the portfolio as at the current disclosure date are not assigned any regulatory risk weights prescribed in accordance with Article 153 (5) of the CRR. Therefore, the tables EU CR10.1 to EU CR10.4 are not disclosed.

EU CR10.5: IRB equity exposure under the simple risk-weighted approach

Regulatory categories	a	b	c	d	e	f
	Equity exposures under the simple risk-weighted approach					
	On-balance sheet exposures	Off-balance sheet exposures	Risk weight	Exposure at Default	RWAs	Expected loss amount
€ mn						
Private equity exposures	–	–	190 %	–	–	–
Listed investments	0	–	290 %	0	0	0
Other equity investments	206	–	370 %	206	764	5
Total	**206**	–		**206**	**764**	**5**

The RWAs set out in table EU OV1 for the market risks under the standardised approach are also disclosed in the table EU MR1 for the various market risk positions in accordance with Article 92 (3) lit. b) and c) of the CRR.

EU MR1: Market risk under the standardised approach

		a
		RWAs
€ mn		
	Outright products	
1	Interest rate risk (general and specific)	–
2	Equity risk (general and specific)	–
3	Foreign exchange risk	83
4	Commodities risk	–
	Options	
5	Simplified approach	–
6	Delta-Plus approach	–
7	Scenario approach	–
8	**Securitisation (specific risk)**	–
9	**Total**	**83**

Countercyclical Buffer

The countercyclical capital buffer (CCB) is a macroprudential tool used by banking supervisors to counteract the risk of excessive credit growth in the banking sector and to contribute building up an additional capital buffer to provide for hard times. The purpose of the capital buffer is to increase the loss-absorbing capacity of banks throughout the credit cycle. The value for the CCB usually amounts to between 0 and 2.5 %; it is determined on a quarterly basis by the national supervisory authority of the respective country, based on a variety of economic factors, in particular the ratio of lending volumes to gross domestic product.

The institution-specific countercyclical capital buffer is calculated as the weighted average of the countercyclical capital buffers applicable to the countries where the respective institution is exposed to significant credit risks. The institution is obliged to maintain this weighted average as a percentage of risk-weighted assets (RWAs) in the form of Common Equity Tier 1 capital. Significant credit risk exposures are defined in section 36 of the German Solvency Regulation (Solvabilitätsverordnung – "SolvV") and comprise exposures to corporate and private customers.

The countercyclical capital buffer requirements have been applicable since 1 January 2016, when the ramp-up phase was launched. The regulatory requirements have been fully complied with since 1 January 2019.

The following two disclosure tables are based on the requirements set out in Article 5 of the Commission Implementation Regulation (EU) 2021/637 dated 15 March 2021.

EU CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

		a	b	c	d	e
		General credit risk exposures		Relevant credit exposures – Market risk		
		Exposure value under the Credit Risk Standard Approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures under the standardised approach	Value of trading book exposures for internal models	Securitisation exposures – Exposure value in the banking book
€ mn		€ mn	€ mn	€ mn	€ mn	€ mn
010	**Breakdown by country**					
	Germany	733	4,346	–	–	–
	Belgium	–	446	–	–	–
	Austria	0	328	–	–	–
	Switzerland	0	313	–	–	–
	France	106	3,295	–	–	–
	UK	153	4,737	–	–	–
	Ireland	0	58	–	–	–
	Luxembourg	0	162	–	–	–
	Netherlands	24	1,285	–	–	–
	Denmark	1	58	–	–	–
	Sweden	–	955	–	–	–
	Finland	16	485	–	–	–
	Hungary	–	10	–	–	–
	Italy	0	1,421	–	–	–
	Spain	–	1,505	–	–	–
	Turkey	–	74	–	–	–
	Czech Republic	–	151	–	–	–
	Poland	–	1,062	–	–	–
	Estonia	–	50	–	–	–
	Russia	0	219	–	–	–
	USA	49	7,192	–	–	–
	Cayman Islands	–	2	–	–	–
	Canada	–	1,443	–	–	–
	China	–	153	–	–	–
	Maldives	–	313	–	–	–
	Norway	56	–	–	–	–
	Australia	0	464	–	–	–
020	**Total**	**1,139**	**30,527**	–	–	–

f	g	h	i	j	k	l	m
	Regulatory capital requirements						
Total exposure value	Relevant credit risk exposures – Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation exposures in the banking book	Total	Risk-weighted exposure amounts	Weightings of regulatory capital requirements	Countercyclical capital buffer ratio
€ mn	€ mn	€ mn	€ mn	€ mn	€ mn	%	%
5,079	217	–	–	217	2,710	27.11	0.00
446	4	–	–	4	48	0.48	0.00
328	3	–	–	3	42	0.42	0.00
313	4	–	–	4	56	0.56	0.00
3,400	45	–	–	45	558	5.58	0.00
4,890	77	–	–	77	965	9.65	0.00
58	1	–	–	1	12	0.12	0.00
162	4	–	–	4	55	0.55	0.50
1,309	17	–	–	17	207	2.07	0.00
60	1	–	–	1	7	0.07	0.00
955	6	–	–	6	77	0.77	0.00
501	8	–	–	8	103	1.04	0.00
10	0	–	–	0	6	0.06	0.00
1,421	71	–	–	71	884	8.84	0.00
1,505	27	–	–	27	337	3.37	0.00
74	10	–	–	10	121	1.21	0.00
151	4	–	–	4	54	0.54	0.50
1,062	34	–	–	34	430	4.30	0.00
50	0	–	–	0	3	0.03	0.00
219	14	–	–	14	176	1.76	0.00
7,242	153	–	–	153	1,910	19.11	0.00
2	0	–	–	0	1	0.01	0.00
1,443	57	–	–	57	716	7.16	0.00
153	7	–	–	7	87	0.87	0.00
313	16	–	–	16	201	2.01	0.00
56	0	–	–	0	6	0.06	1.00
464	18	–	–	18	228	2.28	0.00
31,666	**800**	–	–	**800**	**9,997**	**100.00**	

EU CCyB2: Amount of institution-specific countercyclical capital buffer

€ mn		a
010	Total risk exposure amount	11,981
020	Institution specific countercyclical capital buffer rate	0.01 %
030	Institution-specific countercyclical capital buffer requirement	1

Credit Risks and Quantitative Information on Credit Risk Mitigation

Aareal Bank defines credit risk – or counterparty credit risk – as the risk of losses being incurred due to (i) a business partner defaulting on contractual obligations; (ii) collateral being impaired; or (iii) 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.

The following chapters are limited to purely quantitative information on credit risk, with different levels of detail.

Credit quality of exposures

In the following tables, the breakdown of exposures and the related allowances required by Article 442 lit. c), e), f) and g) of the CRR, as submitted to banking supervisors in the context of Financial Reporting (FINREP), are disclosed with different levels of detail.

Aareal Bank believes that the impairment triggers provided as examples in IFRS 9 and the reasons for default set out in Article 178 of the CRR are identical in substance and can thus be applied interchangeably. Consequently, at the time of default, the risk exposure affected is allocated to stage 3 within the loss allowance process in accordance with Article 178 of the CRR and is considered to be defaulted, and hence non-performing, for both regulatory and accounting purposes.

The following information is based on the requirements set out in Annex XVI of the Commission Implementation Regulation (EU) 2021/637 on the disclosure of non-performing and forborne exposures.

The NPL ratio determined in accordance with Article 8 (3) (4) of this Implementation Regulation amounted to 5.6 % as at 30 June 2021.

Table EU CQ1 (p. 23) provides information on the gross carrying amount of forborne exposures (i. e. exposures with forbearance measures), and on the coverage of existing risks through impairments as well as collateral received. In this context, the measurement of collateral received differs from the current market value of such collateral, due – on the one hand – to the fact that a different internal realisation rate is being applied, depending on the type of property and the country where the property is located; and – on the other hand – reflecting a cap on any collateral at the carrying amount.

EU CQ1: Credit quality of forborne exposures

€ mn	a	b	c	d	e	f	g	h
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne exposures	Non-performing forborne exposures	of which: defaulted	of which: impaired	On performing forborne exposures	On non-performing forborne exposures		of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
005 Cash balances at central banks and other demand deposits	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010 Loans and advances	**6,845**	**1,256**	**1,256**	**1,085**	**-71**	**-380**	**7,392**	**753**
020 Central banks	–	–	–	–	–	–	–	–
030 General governments	–	–	–	–	–	–	–	–
040 Credit institutions	–	–	–	–	–	–	–	–
050 Other financial corporations	82	27	27	27	0	-21	86	4
060 Non-financial corporations	6,763	1,229	1,229	1,058	-71	-358	7,306	748
070 Households	–	1	1	1	–	-1	–	–
080 Debt securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
090 Loan commitments given	**114**	**4**	**4**	**4**	**2**	**–**	**111**	**–**
090 Total	**6,959**	**1,260**	**1,260**	**1,089**	**-69**	**-380**	**7,504**	**753**

Table EU CQ2 shows the gross carrying amount of all loans and advances to borrowers which were forborne more than twice in the past due to financial difficulties (forbearance measures). On the reporting date, the Bank's portfolio contained no borrowers which fail to comply with exit criteria for being classified as nonperforming after a forbearance measure (line 020).

EU CQ2: Forbearance quality

€ mn	a Gross carrying amount of forborne exposures
010 Loans and advances that have been forborne more than twice	535
020 Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	–

Table EU CR1 does not take into account financial assets held for trading. In addition to the disclosures on non-performing exposures, the table also discloses loss allowances and provisions attributable to performing exposures.

Besides information on accumulated impairment for non-performing exposures, columns j) to l) also require disclosure of negative changes in fair value due to credit risk. The limitation to negative changes in the borrower's credit risk is due to such negative changes being de facto equivalent to an impairment implied by fair value, whereby no impairment is recognised for assets carried at fair value through profit and loss. Accordingly, the gross carrying amount of these exposures was increased by the fair value change induced by credit quality.

In addition, columns n) and o) specify the collateral (property, financial collateral, deposits held with third-party institutions) and financial guarantees (as defined by the CRR) which Aareal Bank has received for the exposures analysed. However, the respective values are capped at the carrying amount of the respective exposure.

EU CR1: Performing and non-performing exposures and related provisions

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-offs	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				on performing exposures	on non-performing exposures
€ mn		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3			
005 Cash balances at central banks and other demand deposits	**6,748**	**6,748**	**–**	**–**	**–**	**–**	**-1**	**-1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010 Loans and advances	**28,283**	**20,816**	**7,378**	**1,666**	**1**	**1,494**	**-99**	**-15**	**-84**	**-432**	**0**	**-369**	**-122**	**25,253**	**1,033**
020 Central banks	4	4	–	–	–	–	0	0	–	–	–	–	–	–	–
030 General governments	2,073	1,984	–	0	–	–	0	0	0	–	–	–	–	–	–
040 Credit institutions	48	48	–	–	–	–	0	0	–	–	–	–	–	–	–
050 Other financial corporations	972	871	101	35	–	35	-3	-3	0	-24	–	-24	-11	926	8
060 Non-financial corporations	24,854	17,870	6,984	1,625	0	1,454	-93	-13	-80	-406	0	-343	-111	24,067	1,023
070 of which: SMEs	15,929	10,898	5,031	1,460	0	1,310	-71	-5	-65	-368	0	-320	-108	15,457	898
080 Households	331	38	293	6	1	5	-3	0	-3	-3	0	-3	0	261	2
090 Debt securities	**6,980**	**6,603**	**377**	**–**	**–**	**–**	**-4**	**0**	**-3**	**–**	**–**	**–**	**–**	**–**	**–**
100 Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
110 General governments	5,093	4,715	377	–	–	–	-4	0	-3	–	–	–	–	–	–
120 Credit institutions	1,083	1,083	–	–	–	–	0	0	–	–	–	–	–	–	–
130 Other financial corporations	804	804	–	–	–	–	0	0	–	–	–	–	–	–	–
140 Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

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	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-offs	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				on performing exposures	on non-performing exposures
€ mn		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3			
150 Off-balance sheet exposures	**1,612**	**1,306**	**306**	**4**	**–**	**4**	**8**	**2**	**6**	**–**	**–**	**–**		**800**	**–**
160 Central banks	–	–	–	–	–	–	–	–	–	–	–	–		–	–
170 General governments	–	–	–	–	–	–	–	–	–	–	–	–		–	–
180 Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–		–	–
190 Other financial corporations	5	5	–	–	–	–	0	0	–	–	–	–		5	–
200 Non-financial corporations	1,605	1,300	306	4	–	4	8	2	6	–	–	–		795	–
210 Households	2	2	0	–	–	–	0	–	0	–	–	–		–	–
220 Total	**43,622**	**35,472**	**8,061**	**1,670**	**1**	**1,498**	**-96**	**-14**	**-81**	**-432**	**0**	**-369**	**-122**	**26,053**	**1,033**

Table EU CR1-A provides an overview of the net carrying amounts of loans and advances previously disclosed in table EU CR1 as well as debt securities, broken down by remaining term to maturity. The remaining term to maturity is determined on the basis of the contractually agreed term of the exposure. Column a) comprises exposures due on demand.

EU CR1-A: Maturity of exposures

		a	b	c	d	e	f
		Net carrying amount					
€ mn		On demand	up to 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	600	2,472	19,534	6,794	18	29,418
2	Debt securities	–	1,306	1,676	3,994	0	6,976
3	**Total**	**600**	**3,778**	**21,210**	**10,788**	**18**	**36,394**

In line with table EU CR1, table EU CQ4 does not take into account financial assets held for trading. In addition to the disclosures on non-performing exposures, this table also discloses loss allowances and provisions attributable to performing exposures. The information is broken down by relevant countries. In this context, a country with an exposure of at least € 300 million is considered relevant. The allocation is based on the borrower‘s country of domicile.

EU CQ4: Credit quality of non-performing exposures by geography

		a	b	c	d	e	f	g
		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			of which: non-performing					
€ mn				of which: defaulted	of which: subject to impairment			
010	**On-balance sheet exposures**	**43,676**	**1,666**	**1,666**	**43,417**	**-472**		**-63**
020	Germany	13,557	9	9	13,468	-13		–
030	France	3,171	149	149	3,171	-7		–
040	Netherlands	1,738	–	–	1,738	-7		–
050	Austria	749	–	–	749	0		–
060	UK	2,568	147	147	2,568	-56		–
070	Finland	640	104	104	640	-5		–
080	Sweden	909	–	–	909	0		–
090	Italy	2,153	395	395	2,132	-168		0
100	Spain	1,627	158	158	1,627	-35		–
110	Poland	887	66	66	821	-1		-13
120	Canada	1,416	–	–	1,416	-15		–
130	USA	6,839	287	287	6,839	-57		–
140	Australia	449	–	–	449	0		–
150	Jersey	1,278	153	153	1,275	-44		-3
160	Luxembourg	2,049	21	21	2,028	-2		-15
170	Maldives	308	–	–	308	-3		–
180	Other countries	3,341	178	178	3,281	-57		-32
190	**Off-balance sheet exposures**	**1,617**	**4**	**4**			**8**	
200	Germany	717	–	–			4	
210	France	204	–	–			1	
220	Netherlands	44	–	–			1	
230	UK	78	–	–			0	
240	Finland	9	–	–			0	
250	Sweden	26	–	–			0	
260	Italy	8	–	–			0	
270	Spain	21	–	–			0	
280	Poland	40	–	–			0	
290	Canada	10	–	–			0	
300	USA	178	4	4			1	
310	Australia	5	–	–			0	
320	Jersey	56	–	–			0	
330	Luxembourg	217	–	–			0	
340	Other countries	4	–	–			0	
350	**Total**	**45,292**	**1,670**	**1,670**	**43,417**	**-472**	**8**	**-63**

In accordance with Annex XVI of the Commission Implementation Regulation, table EU CQ5 only shows exposures to non-financial institutions

The presentation based on industries corresponds to the differentiation by NACE codes in the context of Financial Reporting (FINREP).

As the Group's business is focused on commercial property financing, the real estate activities sector is by far the most relevant industry.

EU CQ5: Credit quality of loans and advances to non-financial corporations by industry

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on nonperforming exposures
			of which: non-performing		of which: loans and advances subject to impairment		
				of which: defaulted			
€ mn							
010	Agriculture, forestry and fishing	–	–	–	–	–	–
020	Mining and quarrying	–	–	–	–	–	–
030	Manufacturing	–	–	–	–	–	–
040	Electricity, gas, steam and air conditioning supply	0	–	–	0	0	–
050	Water supply	3	0	0	3	0	–
060	Construction	217	216	216	200	-83	–
070	Trading	140	60	60	80	0	-32
080	Transport and storage	1	–	–	1	0	–
090	Accommodation and food service activities	1,693	86	86	1,693	-13	-
100	Information and communication	–	–	–	–	–	–
110	Financial and insurance activities	–	–	–	–	–	–
120	Real estate activities	24,178	1,189	1,189	24,084	-315	-32
130	Professional, scientific and technical activities	149	–	–	149	-6	–
140	Administrative and support service activities	3	–	–	3	0	–
150	Public administration and defence; compulsory social security	–	–	–	–	–	–
160	Education	–	–	–	–	–	–
170	Health and social services	0	–	–	0	0	–
180	Arts, entertainment and recreation	0	–	–	0	0	–
190	Other services	94	74	74	94	-18	–
200	**Total**	**26,479**	**1,625**	**1,625**	**26,309**	**-435**	**-63**

As an international property lender, we focus on property in the context of collateralisation. This is also reflected in table EU CQ6, which provides an overview of the quality of collateral received. As the table shows, exposures are almost completely collateralised by property. Our property financing portfolio has an average loan-to-value (LtV) ratio of 56 %. Please refer to our Interim Report[1] for a breakdown of average LtV ratios by region and by property type.

[1] Aareal Bank Group Interim Report 2021/II: chapter "Financial position", in the Report on the Economic Position of the Group Interim Management Report, page 18

EU CQ6: Collateral valuation – loans and advances

	a	b	c	d	e	f	g	h	i	j	k	l
	Loans and advances											
		Performing		Non-performing								
						Past due > 90 days						
€ mn			of which: Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days		of which: Past due > 90 days ≤ 180 days	of which: Past due > 180 days ≤ 1 year	of which: Past due > 1 year ≤ 2 years	of which: Past due > 2 years ≤ 5 years	of which: Past due > 5 years ≤ 7 years	of which: Past due > 7 years
010 Gross carrying amount	29,949	28,283	454	1,666	976	690	105	101	22	234	4	224
020 of which: secured	27,290	25,629	454	1,662	975	686	105	101	21	231	4	223
030 of which: secured with immovable property	27,124	25,464	454	1,660	975	685	105	101	21	230	4	222
040 of which: instruments with LTV higher than 60 % and lower or equal to 80 %	10,477	10,367		110	109	0						
050 of which: instruments with LTV higher than 80 % and lower or equal to 100 %	1,207	1,157		49	46	4						
060 of which: instruments with LTV higher than 100 %	1,629	152		1,476	819	657						
070 Accumulated impairment for secured assets	-522	-93	-6	-429	-214	-215	-5	-46	-10	-113	-1	-40
080 Collateral												
090 of which: value capped at the value of exposure	26,260	25,228	441	1,032	644	389	79	47	11	116	3	132
100 of which: immovable property	26,059	25,049	441	1,010	644	366	58	47	11	115	3	132
110 of which: value above the cap	429	344	0	86	75	11	–	–	–	–	–	–
120 of which: immovable property	466	358	0	108	75	33	–	–	–	–	–	–
130 Financial guarantees received	27	26	–	1	–	1	–	–	–	0	–	1
140 Accumulated partial write-offs	-122	-4	–	-117	-20	-97	0	0	-46	-13	–	-37

In accordance with EBA requirements set out in Annex XVI of the Implementation Regulation, in table EU CQ7, credit institutions must also disclose negative changes in fair value, in addition to the gross carrying amount at initial recognition of the property when taking possession in order to secure value. Since this information is also disclosed in columns c) and d) of the following table EU CQ8, with the same level of granularity, we do not assign any additional informational value to the disclosures in table EU CQ7.

Given that Aareal Bank generally pursues the strategy of preventing any further losses from a loan exposure, some of the properties disclosed in table EU CQ8 (p. 29) are investments, some of which are subject to re-positioning and further development, and which may thus be held over several years. Hence, fair value (as well as the carrying amount) can be increased by value enhancing measures. The table below does not provide any such information. Accumulated impairment and accumulated negative changes in fair value, as shown in line 010, fully refer to recognised write-downs on the property. Properties shown in line 040 are assigned to current assets. The classification criteria set out in IFRS 5 were not met by any properties held as fixed assets; therefore, no separate values are disclosed in columns k) and l).

EU CQ8: Collateral obtained by taking possession and execution processes – vintage breakdown (initial recognition)

		a	b	c	d	e	f	g	h	i	j	k	l
		Debt balance reduction		Total collateral obtained by taking possession									
						Foreclosed ≤ 2 years		Foreclosed > 2 years ≤ 5 years		Foreclosed > 5 years		of which: non-current assets held for sale	
€ mn		Gross carrying amount	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
010	Collateral obtained by taking possession classified as PP&E	59	–	89	–								
020	Collateral obtained by taking possession other than that classified as PP&E	374	-89	307	-5	137	0	162	-5	7	–	–	–
030	Residential immovable property	13	-4	10	–	8	–	0	–	1	–	–	–
040	Commercial immovable property	361	-85	297	-5	129	0	162	-5	6	–	–	–
050	Movable property (auto, shipping, etc.)	–	–	–	–	–	–	–	–	–	–	–	–
060	Equity and debt instruments	–	–	–	–	–	–	–	–	–	–	–	–
070	Other collateral	–	–	–	–	–	–	–	–	–	–	–	–
080	**Total**	**433**	**-89**	**396**	**-5**	**137**	**0**	**162**	**-5**	**7**	**–**	**–**	**–**

Table EU CR2a outlines the changes within the portfolio of non-performing exposures during the half-year under review. Besides new defaulted loans and advances (shown in line 020), the amounts of exposures removed from the non-performing portfolio (as shown in line 030) are broken down further: in addition to recoveries (line 040), the outflows from the nonperforming portfolio are due to partial or full repayments (line 050), proceeds from the liquidation of collateral (either as a result of enforcement against the client, or on the basis of a voluntary bilateral agreement with the borrower), as well as proceeds from individual sales of loans and advances (line 080). Any losses realised due to the factors shown in lines 060 to 090 are not disclosed again in line 100.

Since the information to be disclosed in table EU CR2 is also fully depicted in table EU CR2a, we do not assign any additional informational value to the disclosures in table EU CR2.

EU CR2a: Changes in the stock of non-performing loans and advances and related net accumulated recoveries

€ mn		a Gross carrying amount	b Related net accumulated recoveries
010	**Initial stock of non-performing loans and advances**	**1.718**	**–**
020	Inflows to non-performing portfolios	252	–
030	Outflows from non-performing portfolios	-304	–
040	Outflow to performing portfolio	-1	–
050	Outflow due to loan repayment, partial or total	–	–
060	Outflow due to collateral liquidations	-96	–
070	Outflow due to taking possession of collateral	–	–
080	Outflow due to sale of instruments	–	–
090	Outflow due to risk transfers	–	–
100	Outflows due to write-offs	-45	–
110	Outflow due to other situations	-40	–
120	Outflow due to reclassification as held for sale	-121	–
130	**Final stock of non-performing loans and advances**	**1,666**	**–**

Exposures subject to a general payment moratorium

As a result of the COVID-19 pandemic, both national and European supervisory authorities initiated a number of regulatory activities in the first half of 2020. These include the following disclosure requirements. They are based on the requirements introduced by EBA that were specified as part of the guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) and have to be implemented for the first time as at 30 June 2020.

In the following table, only those exposures are assessed that meet the conditions for a general payment moratorium in accordance with Article 10 of EBA Guidelines EBA/GL/2020/02 ("Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis"). As at the reporting date under review, Aareal Bank held no loans or advances newly extended under state guarantee schemes in the context of the Covid-19 crisis. Disclosure of table 3 of EBA guidelines EBA/GL/2020/07 is therefore not required. Moreover, there are no loans and advances in the portfolio which are subject to an ongoing moratorium.

The table shows the exposures for which the moratorium was offered, and their number. In addition, columns e) to i) show the gross carrying amount of all exposures which are (or were) subject to a payment moratorium, presented by residual maturity of the moratorium. Where the moratorium has already expired (in Germany, in the case at hand), this has also been indicated.

Table 2: Loans and advances by residual maturity of moratoria

	a	b	c	d	e	f	g	h	i
	Number of obligors	Gross carrying amount							
					Residual maturity of moratoria				
€ mn			of which: legislative moratoria	of which: expired	≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
1 Loans and advances for which a moratorium was offered	**36**	**29**							
2 Loans and advances for which a moratorium was granted	**–**	**29**	**29**	**29**	**–**	**–**	**–**	**–**	**–**
3 of which: households		4	4	4	–	–	–	–	–
4 of which: collateralised by residential immovable property		4	4	4	–	–	–	–	–
5 of which: non-financial corporations		25	25	25	–	–	–	–	–
6 of which: SMEs		25	25	25	–	–	–	–	–
7 of which: collateralised by commercial immovable properties		25	25	25	–	–	–	–	–

Overall, 36 borrowers were granted legislative moratoria on the basis of requests by the customers. These moratoria refer to consumer credit agreements within the discontinued business in Germany where the moratorium rules have no longer applied since 30 June 2020. No more receivables are affected by ongoing deferrals.

Credit risk mitigation

Collateral in the amount of €26,287 million was applied within the scope of credit risk mitigation. This figure comprises no financial collateral included for derivatives transactions.

The following table (p.32) also shows all collateral recognised pursuant to the applicable accounting framework for the two classes of financial instruments "loans and advances" and "debt securities". The real property liens relevant for Aareal Bank as an international property specialist are disclosed in column c) along with the financial collateral, whereas warranties (financial guarantees) are disclosed under column d). Aareal Bank currently does not hold any credit derivatives which may be used for collateralisation purposes. Therefore, table EU CR7 (IRB approach – Effect on the Risk Weighted Exposure amounts of credit derivatives used as CRM techniques) is not disclosed.

In addition to the recognised collateral and secured exposures (column b), column a) discloses the amount of all generally unsecured exposures.

EU CR3: Overview of credit risk mitigation techniques

€ mn		a Exposures unsecured	b Exposures secured	c of which: secured by collateral	d of which: secured by financial guarantees	e of which: secured by credit derivatives
1	Loans and advances	9,879	26,286	26,260	27	–
2	Debt securities	6,984	–	–	–	–
3	**Total**	**16,863**	**26,286**	**26,260**	**27**	**–**
4	of which: non-performing exposures	1,065	1,033	1,032	1	–
EU-5	of which: defaulted	1,065	1,033	–	–	–

Aareal Bank believes that the impairment triggers provided as examples in IFRS 9 and the reasons for default set out in Article 178 of the CRR are identical in substance and can thus be applied interchangeably. Consequently, at the time of default, the risk exposure affected is allocated to stage 3 within the loss allowance process in accordance with Article 178 of the CRR and is considered to be defaulted, and hence non-performing, for both regulatory and accounting purposes. The net carrying amount reported in line EU-5 is therefore equivalent to the amount shown in line 4.

The new disclosure table EU CR7-A is limited to the presentation of the collateral considered for the commercial property lending portfolio subject to the Advanced IRBA. These are shown for each IRBA collateral as a percentage of the respective IRBA exposure.

Aareal Bank considers the relevant types of collateral within the scope of its LGD estimation in accordance with Article 181 (1) lit. e) and f) of the CRR.

Column m) generally remains blank, as we do not make any substitution within the scope of the collateralisation of our exposures treated in AIRBA by guarantees. If the guarantor's rating is better than the borrower's rating, the guarantor's rating reduces the LGD.

EU CR7-A: IRB approach – Disclosure of the extent of the use of CRM techniques

IRBA exposure class		a	b	c	d	e	f	g
			Credit risk mitigation techniques					
			Funded Credit Protection (FCP)					
		Total exposures	Part of exposures covered by Financial collateral	Part of exposures covered by Other eligible collateral	Part of exposures covered by Immovable property collateral	Part of exposures covered by Receivables	Part of exposures covered by Other physical collateral	Part of exposures covered by Other funded credit protection
		€ mn	%	%	%	%	%	%
3	Corporates	29,618	0.01	94.18	93.42	–	0.76	0.04
3.1	of which: Corporates – SMEs	1,189	0.10	83.53	83.53	–	–	–
3.2	of which: Corporates – Specialised lending	26,878	0.00	95.77	94.99	–	0.78	0.00
3.3	of which: Corporates – Other	1,550	0.14	74.68	73.78	–	0.91	0.72
5	**Total**	**29,618**	**0.01**	**94.18**	**93.42**	**–**	**0.76**	**0.04**

IRBA exposure class		h	i	j	k	l	m	n
		Credit risk mitigation techniques					Credit risk mitigation methods in the calculation of RWAs	
		Funded Credit Protection (FCP)			Unfunded Credit Protection (UFCP)			
		Part of exposures covered by Cash on deposit	Part of exposures covered by Life insurance policies	Part of exposures covered by Instruments held by a third party	Part of exposures covered by Guarantees	Part of exposures covered by Credit derivatives	RWA without substitution effects (reduction effects only)	RWA with substitution effects (both reduction and substitution effects)
		%	%	%	%	%	€ mn	€ mn
3	Corporates	0.00	0.04	–	0.08	–	–	7,989
3.1	of which: Corporates – SMEs	–	–	–	1.35	–	–	363
3.2	of which: Corporates – Specialised lending	0.00	–	–	0.03	–	–	6,971
3.3	of which: Corporates – Other	–	0,72	–	–	–	–	655
5	**Total**	**0.00**	**0.04**	**–**	**0.08**	**–**	**–**	**7,989**

Credit Risk Standard Approach

Identical types of collateral respond differently, depending on what transactions they can be offset against.

This is due to the composition of the CRSA exposure amount as well as the exposure categories for undrawn credit facilities and other off-balance sheet transactions (Article 111 of the CRR in conjunction with Annex I of the CRR). The credit conversion factors assigned to each exposure category ensure that lower regulatory capital requirements are calculated for loan commitments and other off-balance sheet transactions rather than on-balance sheet receivables.

Cash deposits as financial collateral and warranties within the meaning of the CRR can be distinguished in terms of how they mitigate credit risk:

- Financial collateral reduces the assessment basis to which the credit conversion factor is applied. The risk weight impacts the exposure amount.

- Warranties do not impact on the assessment basis, but on the risk weighting. A loan collateralised through a warranty is taken into account, with the warranty amount to be included and the risk weight of the guarantor in the guarantor's exposure class.

The following table shows CRSA exposure amounts both before and after mitigating credit risk, shown separately as on- and off-balance sheet exposures. In addition, risk-weighted assets (RWAs) are disclosed for each exposure class.

EU CR4: Credit Risk Standard Approach – credit risk exposure and credit risk mitigation effects

	Exposure classes	a	b	c	d	e	f
		Exposures before CCF		Exposures post CCF and post CRM		RWAs and RWA density	
		On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWAs	RWA density
		€ mn	€ mn	€ mn	€ mn	€ mn	%
1	Central governments or central banks	7,681	–	7,956	–	13	0.17
2	Regional governments or local authorities	4,216	–	4,222	–	386	9.14
3	Other public-sector entities	1,548	2	1,434	–	2	0.13
4	Multilateral development banks	249	–	249	–	–	–
5	International organisations	991	–	991	–	–	–
6	Institutions	368	–	234	–	55	23.46
7	Corporates	256	271	224	101	298	91.47
8	Retail	20	0	20	0	15	75.00
9	Exposures secured by mortgages on immovable property	383	–	383	–	134	34.92
10	Exposures in default	4	–	4	–	4	111.25
11	Exposures associated with particularly high risk	–	–	–	–	–	–
12	Covered bonds	270	–	270	–	27	10.00
13	Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
14	Collective investment undertakings (CIU)	46	–	46	–	10	20.97
15	Equity exposures	–	–	–	–	–	–
16	Other exposures	–	–	–	–	–	–
17	**Total**	**16,032**	**273**	**16,032**	**101**	**943**	**5.84**

Table EU CR5 shows the exposure amount after mitigating credit risk and after taking into consideration the credit conversion factors of all exposures to which the CRSA is applied, for each exposure class and broken down according to risk weight pursuant to Article 114 et seqq. of the CRR. The exposures disclosed in the column q) are exposures for which no external rating is used to derive the risk weight.

EU CR5: Credit Risk Standard Approach

Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Risk weight																
	0 %	2 %	4 %	10 %	20 %	35 %	50 %	70 %	75 %	100 %	150 %	250 %	370 %	1250 %	Others	Total	of which: unrated
€ mn																	
1 Central governments or central banks	7,889	–	–	–	67	–	–	–	–	–	–	–	–	–	–	**7,956**	7,641
2 Regional governments or local authorities	4,037	–	–	–	33	–	–	–	–	–	–	152	–	–	–	**4,222**	4,020
3 Other public-sector entities	1,425	–	–	–	10	–	–	–	–	–	–	–	–	–	–	**1,434**	1,425
4 Multilateral development banks	249	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**249**	249
5 International organisations	991	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**991**	991
6 Institutions	–	–	–	–	207	–	27	–	–	–	–	–	–	–	–	**234**	23
7 Corporates	–	–	–	–	–	–	37	–	–	288	–	–	–	–	–	**325**	288
8 Retail	–	–	–	–	–	–	–	–	20	–	–	–	–	–	–	**20**	20
9 Exposures secured by mortgages on immovable property	–	–	–	–	–	322	61	–	–	–	–	–	–	–	–	**383**	383
10 Exposures in default	–	–	–	–	–	–	–	–	–	3	1	–	–	–	–	**4**	4
11 Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
12 Covered bonds	–	–	–	270	–	–	–	–	–	–	–	–	–	–	–	**270**	–
13 Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
14 Collective investment undertakings (CIU)	16	–	–	–	30	–	–	–	–	–	–	–	–	0	–	**46**	16
15 Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
16 Other exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
17 Total	**14,606**	**–**	**–**	**270**	**346**	**322**	**125**	**–**	**20**	**291**	**1**	**152**	**–**	**0**	**–**	**16,132**	**15,059**

Advanced IRB Approach (AIRBA)

The property lending portfolio (treated under the AIRBA) shall be disclosed in table EU CR6 (p. 36) to be published on a half-yearly basis, which considers clearly-defined PD ranges. Expected loss (EL) is also reported per PD range, thus also ensuring a statement concerning the collateral quality.

Exposures subject to counterparty credit risk pursuant to Article 92 (3) lit. f) of the CRR and treated under the IRBA are not covered in the statements.

The amount to be disclosed in columns b) and c) corresponds to the exposure value determined in accordance with Article 166 (1) to (7) of the CRR, in each case not taking into account the general and specific credit risk adjustments depicted in column m).

EU CR6: IRB Approach – Credit risk exposures by exposure class and PD range

IRBA exposure class	a	b	c	d	e	f
	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EaD post CRM and post-CCF	Average PD
	%	€ mn	€ mn	%	€ mn	%
Corporates – SMEs	0.00 to < 0.15	48	–	–	48	0.01
	0.00 to < 0.10	–	–	–	–	–
	0.10 to < 0.15	48	–	–	48	0.10
	0.15 to < 0.25	78	10	100.00	87	0.23
	0.25 to < 0.50	222	34	100.00	255	0.41
	0.50 to < 0.75	229	17	100.00	246	0.70
	0.75 to < 2.50	167	17	100.00	183	1.43
	0.75 to < 1.75	167	17	100.00	183	1.43
	1.75 to < 2.50	–	–	–	–	–
	2.50 to < 10.00	193	3	100.00	196	5.26
	2.50 to < 5.00	117	3	100.00	121	3.53
	5.00 to < 10.00	75	–	–	75	8.02
	10.00 to < 100.00	–	–	–	–	–
	10.00 to < 20.00	–	–	–	–	–
	20.00 to < 30.00	–	–	–	–	–
	30.00 to < 100.00	–	–	–	–	–
	100.00 (Default)	173	–	–	173	100.00
	Subtotal	**1,109**	**81**	**100.00**	**1,189**	**15.92**
Corporates – specialised lending	0.00 to < 0.15	197	–	–	197	0.09
	0.00 to < 0.10	44	–	–	44	0.05
	0.10 to < 0.15	153	–	–	153	0.10
	0.15 to < 0.25	623	12	100.00	635	0.22
	0.25 to < 0.50	3,607	174	100.00	3,780	0.41
	0.50 to < 0.75	4,541	106	100.00	4,646	0.70
	0.75 to < 2.50	7,090	339	100.00	7,429	1.30
	0.75 to < 1.75	7,090	339	100.00	7,429	1.30
	1.75 to < 2.50	–	–	–	–	–
	2.50 to < 10.00	8,408	299	100.00	8,707	3.41
	2.50 to < 5.00	7,921	291	100.00	8,211	3.13
	5.00 to < 10.00	487	8	100.00	496	8.02
	10.00 to < 100.00	–	–	–	–	–
	10.00 to < 20.00	–	–	–	–	–
	20.00 to < 30.00	–	–	–	–	–
	30.00 to < 100.00	–	–	–	–	–
	100.00 (Default)	1,484	4	–	1,484	100.00
	Subtotal	**25,949**	**933**	**100.00**	**26,878**	**7.17**

g	h	i	j	k	l	m
Number of obligors	Average LGD	Average maturity	Risk-weighted items (RWAs)	RWA density	Expected loss amount (EL)	Value adjustments and provisions
	%	Years	€ mn	%	€ mn	€ mn
5	4.34	3	1	2.29	0	0
1	–	–	–	–	–	–
4	4.34	3	1	2.29	0	0
24	10.76	3	7	8.07	0	0
51	21.85	3	63	24.66	0	0
24	14.30	3	47	18.90	0	0
30	14.58	2	46	24.98	0	0
30	14.58	2	46	24.98	0	0
–	–	–	–	–	–	–
11	34.60	2	173	88.04	4	-6
9	18.29	3	51	42.58	1	-2
2	60.70	2	121	160.80	4	-5
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
10	55.39	3	27	15.49	94	-18
155	**24.63**	**2**	**363**	**30.50**	**99**	**-25**
7	4.26	3	4	2.20	0	0
2	4.12	3	1	1.21	0	0
5	4.30	3	4	2.48	0	0
18	7.26	3	47	7.37	0	0
103	11.81	3	634	16.76	2	-1
119	6.88	3	612	13.16	2	-1
142	9.07	3	1,305	17.56	9	-8
142	9.07	3	1,305	17.56	9	-8
–	–	–	–	–	–	–
130	15.44	3	3,455	39.68	50	-79
121	14.78	3	3,044	37.08	40	-67
9	26.40	2	410	82.78	11	-12
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
35	18.16	2	916	61.71	196	-348
554	**11.57**	**3**	**6,971**	**25.94**	**260**	**-437**

>

IRBA exposure class	a PD range	b On-balance sheet exposures	c Off-balance-sheet exposures pre-CCF	d Average CCF	e EaD post CRM and post-CCF	f Average PD
	%	€ mn	€ mn	%	€ mn	%
Corporates – Others	0.00 to < 0.15	–	–	–	–	–
	0.00 to < 0.10	–	–	–	–	–
	0.10 to < 0.15	–	–	–	–	–
	0.15 to < 0.25	264	33	100.00	297	0.23
	0.25 to < 0.50	124	169	100.00	293	0.36
	0.50 to < 0.75	368	93	100.00	461	0.70
	0.75 to < 2.50	436	38	100.00	474	1.28
	0.75 to < 1.75	436	38	100.00	474	1.28
	1.75 to < 2.50	–	–	–	–	–
	2.50 to < 10.00	0	25	100.00	25	2.62
	2.50 to < 5.00	0	25	100.00	25	2.62
	5.00 to < 10.00	–	–	–	–	–
	10.00 to < 100.00	–	–	–	–	–
	10.00 to < 20.00	–	–	–	–	–
	20.00 to < 30.00	–	–	–	–	–
	30.00 to < 100.00	–	–	–	–	–
	100.00 (Default)	–	–	–	–	–
	Subtotal	**1,192**	**358**	**100.00**	**1,550**	**0.75**
	Total	**28,249**	**1,372**	**100.00**	**29,618**	**7.19**

The table EU CR8 provides an overview of the RWA changes and the associated causes to be analysed since 31 March 2021.

The starting and end balances represent the sums of figures disclosed in lines EU 4a and 5 of table EU OV1 for the respective reporting date.

EU CR8: RWA flow statements of credit risk exposures under the IRB approach

€ mn		a RWAs
1	**RWAs as at 31 March 2021**	**9,436**
2	Asset size	147
3	Asset quality	-214
4	Model updates	–
5	Methodology and policy	–
6	Acquisitions and disposals	22
7	Foreign exchange movements	-8
8	Other	–
9	**RWAs as at 30 June 2021**	**9,383**

g Number of obligors	h Average LGD	i Average maturity	j Risk-weighted items (RWAs)	k RWA density	l Expected loss amount (EL)	m Value adjustments and provisions
	%	Years	€ mn	%	€ mn	€ mn
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
6	20.07	5	98	32.90	0	0
20	34.31	4	191	65.13	0	0
11	14.36	4	144	31.18	0	0
40	16.40	4	202	42.63	1	0
40	16.40	4	202	42.63	1	0
–	–	–	–	–	–	–
4	28.00	3	21	82.41	0	0
4	28.00	3	21	82.41	0	0
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
81	**20.07**	**4**	**655**	**42.27**	**2**	**0**
790	12.54	3	7,989	26.97	361	-462

Besides exposures from new business originated, the changes reported in line 2 also include RWA changes from existing exposures – where we also include investments and other non-credit related assets, except for changes purely related to exchange rate fluctuations, which are presented separately in line 7.

Line 3 reports changes in risk-weighted assets resulting from changed borrower probabilities of default (PD) or loss given default (LGD).

At present, line 4 does not show any changes; this is due to the fact that no new models for estimating risk parameters were implemented, nor were any adjustments made to internal models already approved.

Line 5 only requires disclosure of any changes resulting from a changed RWA calculation methodology – for example, where exposures previously subject to the CRSA are being included under the Advanced IRB Approach. No such changes applied as at the reporting date.

Line 6 discloses the RWA effect of Aareon AG’s acquisition of three companies: these investments are outside the regulatory scope of consolidation, and are therefore included as RWAs in the reporting pursuant to sections 10 and 10a of the KWG.

No figures are shown in line 8 since we were able to assign RWA changes within Aareal Bank Group to the aforementioned categories.

Counterparty Credit Risk

The counterparty credit risk results from derivatives and securities financing transactions, the risk being that the transaction's counterparty defaults. Thus, the transaction could not be settled as intended.

Derivatives are defined for regulatory purposes as "...unconditional forward transactions or option contracts (including financial contracts for differences) that are structured as a purchase, exchange or other acquisition of an underlying instrument, whose value is determined by reference to the underlying instrument and whose value may change in future for at least one counterparty due to future settlement" (section 19 (1a) of the KWG).

Aareal Bank Group's derivatives positions have substantially been entered into in order to hedge interest rate and currency risk exposure, and for refinancing purposes.

For the purpose of regulatory reporting, the equivalent value of derivatives and the related counterparty credit risk are determined exclusively according to the standardised approach pursuant to Articles 274 et seqq. of the CRR (SA-CCR). For this reason, disclosure of table EU CCR7 (RWA flow statements of credit risk exposures, the counterparty credit risks of which are measured taking the internal model method into consideration) is not required.

Similarly, as the Bank currently does not hold any credit derivatives, disclosure of the information under Article 439 lit. j of the CRR in table EU CCR6 is not required either.

The securities financing transactions (SFT) of Aareal Bank are generally treated in accordance with the comprehensive method pursuant to Part 3 Title II Chapter 4 of the CRR. Bilateral master netting agreements have been concluded with all counterparties. However, Aareal Bank currently does not make any use of this netting option.

Pursuant to Article 439 of the CRR, Aareal Bank is obliged to disclose details on the methods of calculating the exposure value, and on the methods to include financial collateral for securities financing transactions (SFTs), as set out in table EU CCR1. However, this excludes trades concluded with a central counterparty (CCP) or CCP-related transactions, as well as capital requirements for credit valuation adjustment (CVA). These transactions are analysed in the following tables.

The Bank held no securities financing transactions on the reporting date under review.

EU-CCR1: Analysis of CCR exposure by approach

€ mn		a Replacement cost	b Potential future exposure	c Effective expected positive exposure (EEPE)	d Alpha used for computing regulatory exposure value	e Exposure value pre-CRM	f Exposure value post-CRM	g Exposure value	h RWAs
EU-1	EU – Original Exposure Method (for derivatives)	–	–		1.4	–	–	–	–
EU-2	EU – Simplified SA-CCR (for derivatives)	–	–		1.4	–	–	–	–
1	SA-CCR (for derivatives)	98	243		1.4	442	478	478	187
2	IMM (for derivatives and SFTs)			–	1.4	–	–	–	–
2a	of which: securities financing transactions netting sets			–		–	–	–	–
2b	of which: derivatives and long settlement transactions netting sets			–		–	–	–	–
2c	of which: from contractual cross-product netting sets			–		–	–	–	–
3	Financial collateral simple method (for SFTs)					–	–	–	–
4	Financial collateral comprehensive method (for SFTs)					–	–	–	–
5	VaR for SFTs					–	–	–	–
6	**Total**					**442**	**478**	**478**	**187**

The following table, EU CCR2, gives an overview of the credit valuation adjustment (CVA) calculations, resulting in additional capital requirements aimed at absorbing the risk of a negative change in the market value of OTC derivatives in the case of a decline in the counterparty‘s credit quality. Aareal Bank uses the standard method pursuant to Article 384 of the CRR for calculating the CVA charge.

EU CCR2: Transactions subject to own funds requirements for CVA risk

€ mn		a EAD	b RWAs
1	Transactions subject to the advanced method	–	–
2	i) VaR component (including the 3x multiplier)		–
3	ii) VaR component under stress conditions (sVaR, including the 3x multiplier)		–
4	Transactions subject to the standardised method	407	247
EU4	Transactions subject to the alternative approach (based on the original exposure method)	–	–
5	**Total transactions subject to own funds requirements for CVA risk**	**407**	**247**

Table EU CCR8 discloses the exposure value and risk-weighted assets (RWA) for exposures to central counterparties. As at the reporting date, Eurex Clearing AG (in short: Eurex) and LCH Limited (which are both qualified counterparties) acted as central counterparties to Aareal Bank. There were no exposures to non-qualified CCPs as at the reporting date of 30 June 2021. In accordance with Article 306 (2) of the CRR, for the purpose of solvency reporting, Aareal Bank assigns an exposure value of zero to initial margin pledged to Eurex and LCH Limited.

EU CCR8: Exposures to CCPs

€ mn		a EAD	b RWAs
1	**Exposures to QCCPs (total)**		7
2	Exposures from trades at QCCPs (excluding initial margin and default fund contributions); of which:	119	2
3	(i) OTC derivatives	119	2
4	ii) Exchange-traded derivatives	–	–
5	iii) SFTs	–	–
6	iv) Netting sets where cross-product netting has been approved	–	–
7	Segregated initial margin	69	
8	Non-segregated initial margin	–	–
9	Pre-funded default fund contributions	27	5
10	Unfunded default fund contributions		–
11	**Exposures to non-QCCPs (total)**		**–**
12	Exposures from trades at non-QCCPs (excluding initial margin and default fund contributions); of which:	–	–
13	(i) OTC derivatives	–	–
14	ii) Exchange-traded derivatives	–	–
15	iii) SFTs	–	–
16	iv) Netting sets where cross-product netting has been approved	–	–
17	Segregated initial margin	–	
18	Non-segregated initial margin	–	–
19	Pre-funded default fund contributions	–	–
20	Unfunded default fund contributions	–	–

Table EU CCR3 (p.43) discloses the exposure amount after mitigating credit risk of all counterparty credit risk exposures to which the CRSA is applied, by analogy with table EU CR5 for each exposure class, and broken down according to risk weight pursuant to Article 114 et seqq. of the CRR.

EU CCR3: Credit Risk Standard Approach – CCR exposures by regulatory exposure class and risk weights

Exposure classes	Risk weight a 0 %	b 2 %	c 4 %	d 10 %	e 20 %	f 50 %	g 70 %	h 75 %	i 100 %	j 150 %	k Other	l Total
€ mn												
1 Central governments or central banks	–	–	–	–	–	–	–	–	–	–	–	**–**
2 Regional governments or local authorities	–	–	–	–	–	–	–	–	–	–	–	**–**
3 Public sector entities	3	–	–	–	–	–	–	–	–	–	–	**3**
4 Multilateral development banks	–	–	–	–	–	–	–	–	–	–	–	**–**
5 International organisations	–	–	–	–	–	–	–	–	–	–	–	**–**
6 Institutions	–	119	–	–	349	–	–	–	–	–	–	**468**
7 Corporates	–	–	–	–	50	5	–	–	3	–	–	**59**
8 Retail	–	–	–	–	–	–	–	–	–	–	–	**–**
9 Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	**–**
10 Other exposures	–	–	–	–	–	–	–	–	–	–	–	**–**
11 Total	**3**	**119**	**–**	**–**	**399**	**5**	**–**	**–**	**3**	**–**	**–**	**529**

The following table EU CCR4 shows the derivative exposures treated in AIRBA – by analogy with the table EU CR6 within clearly-defined PD classes. IRBA exposures classified as specialised lending as at the reporting date under review do not include any derivative exposures.

Certain derivatives fulfil the conditions set out in Article 274 (5) of the CRR; as a result, they are shown with a zero risk exposure value.

The derivatives held by Aareal Bank Group, and entered into with internally rated property clients whose share in EaD after mitigating the credit risk of the entire AIRBA client portfolio is below one per cent, are mainly used to hedge interest rate and currency risks. As the available collateral is fully considered within the scope of determining the LGD of the respective property financing, a default LGD of 90% is used for calculating the expected loss on the derivatives.

EU CCR4: IRB approach – CCR exposures by exposure class and PD scale

Exposure class	PD scale	a Exposure value	b Average PD	c Number of obligors	d Average LGD	e Average maturity	f RWAs	g RWA density
		€ mn	%		%	Years	€ mn	%
Corporates – SMEs	0.00 to < 0.15	–	–	1	–	–	–	–
	0.15 to < 0.25	3	0.23	4	90.00	3	2	67.77
	0.25 to < 0.50	2	0.39	10	90.00	3	2	86.92
	0.50 to < 0.75	15	0.70	6	90.00	2	17	114.07
	0.75 to < 2.50	13	1.71	25	90.00	2	19	151.23
	2.50 to < 10.00	18	2.62	12	90.00	3	38	216.63
	10.00 to < 100.00	–	–	–	–	–	–	–
	100.00 (Default)	8	100.00	1	100.00	3	–	–
	Subtotal	**57**	**14.87**	**59**	**91.35**	**3**	**77**	**135.61**

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Exposure class	PD scale	a Exposure value	b Average PD	c Number of obligors	d Average LGD	e Average maturity	f RWAs	g RWA density
		€ mn	%		%	Years	€ mn	%
Corporates – Others	0.00 to < 0.15	–	–	–	–	–	–	–
	0.15 to < 0.25	–	–	–	–	–	–	–
	0.25 to < 0.50	–	–	1	–	–	–	–
	0.50 to < 0.75	–	–	1	–	–	–	–
	0.75 to < 2.50	11	1.16	7	90.00	3	24	224.70
	2.50 to < 10.00	–	–	1	–	–	–	–
	10.00 to < 100.00	–	–	–	–	–	–	–
	100.00 (Default)	–	–	–	–	–	–	–
	Subtotal	**11**	**1.16**	**10**	**90.00**	**3**	**24**	**224.70**
	Total	**68**	**12.67**	**69**	**91.13**	**3**	**102**	**149.93**

Pursuant to Article 439 lit. e) of the CRR, Aareal Bank is obliged to disclose information on collateral received or posted in table EU CCR5. For this purpose, collateral received or posted must be broken down by type of financial instrument, and by segregated and non-segregated collateral. Collateral is deemed to be segregated if client assets are bankruptcy-remote as defined in Article 300 no. 1 of the CRR.

EU CCR5: Composition of collateral for CCR exposures

		a	b	c	d	e	f	g	h
		Collateral used in derivative transactions				Collateral used in SFTs			
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
		Segregated	Un-segregated	Segregated	Un-segregated	Segregated	Un-segregated	Segregated	Un-segregated
€ mn									
1	Cash – domestic currency	–	543	–	697	–	–	–	–
2	Cash – other currencies	–	–	–	73	–	–	–	–
3	Domestic sovereign debt	–	–	–	–	–	–	–	–
4	Other sovereign debt	–	–	–	–	–	–	–	–
5	Government agency debt	–	–	–	–	–	–	–	–
6	Corporate bonds	–	–	43	–	–	–	–	–
7	Equity securities	–	–	–	–	–	–	–	–
8	Other collateral	–	–	26	–	–	–	–	–
9	**Total**	**–**	**543**	**69**	**770**	**–**	**–**	**–**	**–**

Liquidity Risk

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 and monitoring processes have been designed to cover refinancing and market liquidity risks in addition to liquidity risk in the narrower sense.

The statements below comprise information on the Liquidity Coverage Ratio (LCR) and on the Net Stable Funding Ratio (NSFR) in accordance with Article 451a (2) and (3) of the CRR, to be disclosed as at the current disclosure date.

Liquidity Coverage Ratio

The LCR helps to measure whether the liquidity buffer of an institution is high enough. Pursuant to Article 412 (1) of the CRR, the Liquidity Coverage Ratio is calculated as the ratio of the liquidity buffer relative to net outflows during a stress phase of 30 calendar days. The LCR must amount to at least 100%.

The calculation of the LCR is based on the market values of liquid assets and cash flows from all asset and liability items.

The following table is based on the requirements set out in Annex XIV of the Commission Implementation Regulation (EU) 2021/637 on the disclosure of the Liquidity Coverage Ratio. Quantitative details are disclosed using the weighted and unweighted average values of the last 12 reporting days of the respective quarter.

The table EU LIQ1 contains all positions that Aareal Bank deems relevant for its liquidity profile.

EU LIQ1: Quantitative information of LCR

Scope of consolidation		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
		Quarter ending on 30 Sep 2020	Quarter ending on 31 Dec 2020	Quarter ending on 31 Mar 2021	Quarter ending on 30 Jun 2021	Quarter ending on 30 Sep 2020	Quarter ending on 31 Dec 2020	Quarter ending on 31 Mar 2021	Quarter ending on 30 Jun 2021
€ mn									
EU 1b	Number of data points used for the calculation of averages	12	12	12	12	12	12	12	12
Highquality liquid assets									
1	Total highquality liquid assets (HQLA)					6,765	6,909	6,988	7,035
Cash outflows									
2	**Retail deposits and deposits from small business customers, of which:**	**4,793**	**4,997**	**5,137**	**5,289**	**256**	**266**	**272**	**280**
3	Stable deposits	4,436	4,636	4,780	4,925	222	232	239	246
4	Less stable deposits	341	333	323	331	35	34	33	34

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Scope of consolidation		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
		Quarter ending on 30 Sep 2020	Quarter ending on 31 Dec 2020	Quarter ending on 31 Mar 2021	Quarter ending on 30 Jun 2021	Quarter ending on 30 Sep 2020	Quarter ending on 31 Dec 2020	Quarter ending on 31 Mar 2021	Quarter ending on 30 Jun 2021
€ mn									
5	**Unsecured wholesale funding**	**6,037**	**5,962**	**6,126**	**6,202**	**2,262**	**2,198**	**2,253**	**2,238**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,756	3,793	3,953	4,064	896	907	948	975
7	Non-operational deposits (all counterparties)	2,226	2,117	2,099	2,079	1,311	1,239	1,231	1,204
8	Unsecured debt	55	52	74	59	55	52	74	59
9	**Secured wholesale funding**					**–**	**–**	**1**	**1**
10	**Additional requirements**	**1,210**	**1,191**	**1,132**	**1,163**	**414**	**392**	**349**	**310**
11	Outflows related to derivative exposures and other collateral requirements	280	272	244	209	272	265	239	204
12	Outflows related to loss of funding on debt products	10	9	5	–	10	9	5	–
13	Credit and liquidity facilities	920	910	883	954	132	118	105	106
14	**Other contractual funding obligations**	**84**	**100**	**121**	**119**	**61**	**77**	**98**	**96**
15	**Other contingent funding obligations**	**1,007**	**850**	**872**	**987**	**124**	**119**	**121**	**120**
16	**Total cash outflows**					**3,117**	**3,052**	**3,094**	**3,045**
Cash inflows									
17	Secured lending (e.g. reverse repos)	131	129	146	60	6	6	7	3
18	Inflows from fully performing exposures	438	410	389	410	308	291	284	301
19	Other cash inflows	110	133	151	143	110	133	151	143
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					–	–	–	–
EU-19b	(Excess inflows from a related specialised credit institution)					–	–	–	–
20	**Total cash inflows**	**679**	**672**	**686**	**613**	**424**	**430**	**442**	**447**
EU-20a	Fully exempt inflows	–	–	–	–	–	–	–	–
EU-20b	Inflows subject to 90 % cap	–	–	–	–	–	–	–	–
EU-20c	Inflows subject to 75 % cap	678	672	686	613	424	429	442	447
						Adjusted total value			
EU-21	**Liquidity buffer**					**6,765**	**6,909**	**6,988**	**7,035**
22	**Total net cash outflows**					**2,694**	**2,622**	**2,651**	**2,598**
23	**Liquidity Coverage Ratio (%)**					**251.11 %**	**263.50 %**	**263.60 %**	**271.66 %**

A large portion of securities held in the Treasury portfolio serve as the Bank's liquidity reserve, both from an economic and a normative perspective. Around 80% of the Treasury portfolio fulfils the criteria for inclusion as high-quality liquid assets (HQLA); high quality and value stability play a decisive role in this respect.

The Bank's HQLA predominantly comprise the asset class "public-sector borrowers" and deposits with central banks. Key drivers impacting LCR results are largely related to changes in our asset portfolio, as well as outflows connected with housing industry client deposits.

The LCR at Group level exceeded 150% on the reporting dates during the period under review, largely due to the high levels of HQLA held.

Changes in the LCR over time

The Group's average Liquidity Coverage Ratio was approximately 270% last year.

Any more pronounced deviations – such as the reduction in the ratio between September and October 2020 – were due to the fact that inflows were not sufficient to fully cover outflows. Despite an increase in assets, the LCR declined between September and October, due to lower inflows.

Conversely, a marked increase was seen between November and December 2020: whilst the level of assets was virtually unchanged month-on-month, outflows had declined considerably.

The LCR then gradually declined between December 2020 and February 2021, reflecting the fact that inflows were not sufficient to fully cover outflows. A further LCR decrease was recorded in February 2021, due to a lower level of assets held.

Concentration of funding sources

In addition to the issuance of Pfandbriefe, which make up a significant share of its long-term funding, Aareal Bank uses a wide range of other refinancing tools, including senior preferred and senior non-preferred bonds, as well as other promissory notes and bonds. Depending on market conditions, the Bank places large-sized public issues or private placements. In the Consulting/Services Bank segment, the Bank also generates bank deposits from the housing industry, which represent a strategically important additional source of funding. Furthermore, it has recourse to institutional money market investor deposits.

Diversifying the Bank's funding profile by type of investor, and by product, represents a key aspect to Aareal Bank's approach to liquidity risk management. Besides the pure measurement of risk indicators, the concentrations of funding sources are also monitored. For this purpose, the percentage share of the ten largest counterparties and/or positions in relation to the total portfolio are determined.

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

Currency mismatches in the Liquidity Coverage Ratio

Pursuant to Article 415 (2) of the CRR, Aareal Bank Group has no significant foreign currency exposure in its portfolio. As at the reporting date 30 June 2021, the largest foreign currency portfolio in USD amounts to 3.00 % of total liabilities. The Bank monitors the portfolio as to the existence of significant foreign currency exposures on a regular basis.

Derivatives positions and potential hedging requests

Pursuant to Article 423 (3) of the CRR, an additional liquidity outflow is to be provided for collateral which is required due to the impact of unfavourable market conditions on derivatives and financing transactions as well as on other contracts. The aim is to consider additional outflows from collateral potentially arising in an unfavourable market environment. Aareal Bank Group determines the additional outflow as per the historical look-back approach (HLBA). The LCR calculation includes the largest absolute collateral net flow within a period of 30 days which occurred in the last 24 months. As at the reporting date 30 June 2021, the annual average of additional liquidity requirements stood at € 173 million.

Net Stable Funding Ratio (NSFR)

As opposed to the LCR, the focus of the NSFR – to be disclosed for the first time as at the reporting date at hand – is exclusively on holdings of assets and liabilities as well as on off-balance sheet items (contingent liabilities). The fundamental idea of the NSFR is that the repayment structure of an institution’s asset and liability items should largely correspond to each other so that the institution is able to refinance less liquid asset items using the respective non-current liabilities, even under stress conditions.

To calculate the NSFR, available stable funding (ASF) is set in relation to the required stable funding (RSF).

In addition to liquid assets, the LCR only includes items that are due within 30 days, while the NSFR comprises all of the institution’s balance sheet holdings according to their remaining term. In contrast to the LCR, which is based on the market values of liquid assets and cash flows from all asset and liability items, the NSFR calculation uses the balance sheet as a reference and is therefore generally based on the carrying amounts.

In accordance with Article 451a (3) lit. a) of the CRR, the quarter-end figures shall be published for each quarter of the relevant disclosure period. As a large institution, Aareal Bank discloses its NSFR information on a semi-annual basis. Therefore, in principle, the Bank shall publish its figures for the respective current disclosure date as well as for the previous quarter. As the disclosure requirements for the NSFR have to be implemented for the first time as at 30 June 2021, the quarter-end figures as at 31 March 2021 are not taken into account.

The following table EU LIQ2 generally discloses the carrying amount as the unweighted value by residual maturity (columns a to d). However, derivatives at fair value are excluded from this. The weighted value of stable funding disclosed in column e) is the product of the unweighted value and the factors defined in the CRR for individual asset and liability items.

The available stable funding items disclosed in column a) (“no maturity”) are either unlimited or have no maturity specifications.

EU LIQ2: Net Stable Funding Ratio

€ mn		a	b	c	d	e
		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
	Available stable funding (ASF) Items					
1	**Capital items and instruments**	**2,634**	**–**	**20**	**568**	**3,202**
2	Own funds	2,634	–	20	430	3,065
3	Other capital instruments		–	–	137	137
4	**Retail deposits**		**5,565**	**–**	**–**	**5,269**
5	Stable deposits		5,203	–	–	4,943
6	Less stable deposits		362	–	–	326
7	**Wholesale funding**		**9,871**	**5,951**	**18,836**	**25,507**
8	Operational deposits		4,116	-	-	386
9	Other wholesale funding		5,755	5,951	18,836	25,121
10	**Interdependent liabilities**		**–**	**–**	**–**	**–**
11	**Other liabilities**	**–**	**146**	**38**	**418**	**436**
12	NSFR derivative liabilities	–				
13	All other liabilities and capital instruments not included in the above categories		146	38	418	436
14	**Available stable funding (ASF)**					**34,414**
	Required stable funding (RSF) Items					
15	**Total high-quality liquid assets (HQLA)**					**3,462**
EU-15a	**Assets encumbered for a residual maturity of one year or more in a cover pool**		**38**	**33**	**11,954**	**10,221**
16	**Deposits held at other financial institutions for operational purposes**		**–**	**–**	**–**	**–**
17	**Performing loans and securities**		**1.703**	**1.193**	**14.395**	**13.641**
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		–	–	–	–
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		219	394	213	432
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		1,478	761	13,742	12,859
21	with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		26	1	502	498
22	Performing residential mortgages, of which:		7	6	105	–
23	with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		7	6	105	–
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		–	32	335	351
25	**Interdependent assets**		**–**	**–**	**–**	**–**

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€ mn		a	b	c	d	e
		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
26	**Other assets**		**1,622**	**26**	**1,562**	**2,275**
27	Physical traded commodities				–	–
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		–	–	96	82
29	NSFR derivative assets		16			16
30	NSFR derivative liabilities before deduction of variation margin posted		776			39
31	All other assets not included in the above categories		830	26	1,466	2,138
32	**Off-balance sheet items**		**55**	**71**	**1,478**	**64**
33	**RSF Total**					**29,667**
34	**Net Stable Funding Ratio (%)**					**116.00 %**

Assets and liabilities are considered interdependent if they have the same capital amounts and maturity structures and if the role of the reporting institution is limited to transferring the funds from liabilities to assets (Article 428 et seq. of the CRR). These liabilities and assets can be included in the calculation of the NSFR with a weighting of 0 % of the RSF and ASF, if the competent authorities have approved their classification as interdependent. Aareal Bank refrains from obtaining such approval until further notice.

The NSFR was determined in line with CRR II requirements for the first time, whereby the ratio benefited from a more favourable treatment of RSF loans in the cover assets pool.

Leverage Ratio

The Bank manages the risk of excessive leverage on a quarterly basis, within the scope of forecasting own funds. For this purpose, both Tier 1 capital and total assets are forecast for the year-end dates of the two following years, one month prior to the end of each quarter. In this context, the minimum 3 % Leverage Ratio, as set out in Article 92 (1) lit. d) of the CRR, must be complied with at any time. The information is then submitted to senior management.

Aareal Bank determines the Leverage Ratio to be disclosed, taking into account the regulatory scope of consolidation, based on the requirements set out in the CRR.

The following disclosure tables are based on the requirements set out in the Implementation Regulation (EU) 2021/637 dated 15 March 2021.

Since the calculation of the Leverage Ratio has changed with the first-time application of the CRR II, we have not disclosed comparative figures in table EU LR2 as at the record date at hand.

EU LR1: Summary reconciliation of accounting assets and leverage ratio exposures

€ mn		a Applicable amount
1	**Total assets as per published financial statements**	**46,644**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the regulatory scope of consolidation	-145
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	–
4	Adjustment for temporary exemption of exposures to central banks (if applicable)	–
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with Article 429a (1) lit. i) of the CRR	–
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	–
7	Adjustment for eligible cash pooling transactions	–
8	Adjustments for derivative financial instruments	-924
9	Adjustment for securities financing transactions (SFTs)	–
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	622
11	Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-2
EU-11a	Adjustment for exposures exempted from the total exposure measure in accordance with Article 429a (1) lit. c) of the CRR	–
EU-11b	Adjustment for exposures exempted from the total exposure measure in accordance with Article 429a (1) lit. j of the CRR	–
12	Other adjustments	-588
13	**Total exposure measure**	**45,607**

EU LRC2: Leverage Ratio common disclosure

€ mn		CRR leverage ratio exposures	
		30 Jun 2021	31 December 2020
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	45,007	–
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-611	
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	–	–
5	(General credit risk adjustments to on-balance sheet items)	–	–
6	(Asset amounts deducted in determining Tier 1 capital)	-35	–
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**44,361**	**–**
	Derivative exposures		
8	Replacement cost associated with all derivatives transactions under SA-CCR (i.e. net of eligible cash variation margin)	145	–
EU-8a	Derogation for derivatives: Replacement costs contribution under the simplified standardised approach	–	–
9	Add-on amounts for potential future exposure value associated with SA-CCR derivatives transactions	478	
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	–	–
EU-9b	Exposure determined under Original Exposure Method	–	–
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	–	–
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	–	–
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	–	–
11	Adjusted effective notional amount of written credit derivatives	–	–
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
13	**Total derivatives exposures**	**623**	**–**
	SFT exposures		
14	Gross SFT assets (with no recognition of netting), after adjusting for transactions posted as sales	–	–
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
16	Counterparty credit risk exposure for SFT assets	–	–
EU-16a	Derogation for SFTs: Counterparty credit risk exposure pursuant to Article 429e (5) and Article 222 of the CRR	–	–
17	Agent transaction exposures	–	–
EU-17a	(Exempted CCP leg of client-cleared SFT exposures)	–	–
18	**Total SFT exposures**	**–**	**–**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	1,612	–
20	(Adjustments for conversion to credit equivalent amounts)	-990	–
21	General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures	–	–
22	**Total other off-balance sheet exposures**	**622**	**–**
	Excluded exposures		
EU-22a	Exposures excluded from the total exposure measure in accordance with Article 429a (1) lit. c of the CRR	–	–
EU-22b	Exempted exposures in accordance with Article 429a (1) lit. j of the CRR (on- and off-balance sheet)	–	–

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€ mn		CRR leverage ratio exposures 30 Jun 2021	CRR leverage ratio exposures 31 December 2020
	Tier 1 capital and total exposure measure		
23	Tier 1 capital	2,598	–
24	Total exposure measure	45,607	–
	Leverage ratio		
25	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	5.70 %	–
EU-25	Regulatory minimum leverage ratio requirement (%)	5.70 %	–
25a	Additional own funds requirements to address the risk of excessive leverage (%)	5.70 %	–
26	of which: to be made up of CET1 capital	3.00 %	–
EU-26a	Leverage ratio buffer requirement (%)	–	–
EU-26b	Overall leverage ratio requirement (%)	–	–
27	Choice on transitional arrangements and relevant exposures	–	–
EU-27a	Choice on transitional arrangements for the definition of the capital measure	3.00 %	–
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Fully implemented	–
	Disclosure of mean values		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	221	
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	–	–
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	45,828	–
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	45,828	–
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.67%	–
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.67%	–

The Leverage Ratio increased marginally to 5.70 %, compared to 5.66 % on the disclosure date of 31 March 2021. This is attributable to a disproportionate increase of the total exposure measure compared with the increase in Tier 1 capital.

The following table provides a breakdown of on-balance sheet risk exposures (excluding derivatives, securities financing transactions, and exempted risk exposures).

EU LR3: Split-up of on-balance sheet exposures

€ mn		a CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**44,396**
EU-2	Trading book exposures	–
EU-3	Banking book exposures, of which:	44,396
EU-4	Exposures in the form of covered bonds	270
EU-5	Exposures treated as sovereigns	14,677
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	115
EU-7	Exposures to institutions	466
EU-8	Exposures secured by mortgages on immovable properties	25,541
EU-9	Retail exposures	20
EU-10	Exposures to corporates	1,134
EU-11	Exposures in default	1,293
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	880

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