QUALITY Ⓐ
made by AAREAL

2019

Regulatory Disclosure Report
for H1 2019 of Aareal Bank Group

Aareal Bank Group

Regulatory Disclosure Report – H1 2019

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).

The European Banking Authority (EBA) published its guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013 (the Capital Requirements Regulation – "CRR") (EBA/GL/2016/11) on 14 December 2016. These substantiate the existing disclosure requirements of the CRR.

Aareal Bank Group is – in principle – not covered by the EBA guidelines and is therefore not formally required to meet the disclosure requirements formulated therein, as it is not classified by the ECB as a Global Systemically Important Institution (G-SII) on the basis of Delegated Regulation (EU) 1222/2014 or as an Other Systemically Important Institution (O-SII) on the basis of Article 131 (3) CRD IV. Nor is it obliged to meet the EBA guidelines. Nonetheless, Aareal Bank Group meets the EBA guidelines in full, on a voluntary basis.

The disclosure report comprises all information that has to be disclosed on a half-yearly basis, the scope of which is oriented upon the guidelines EBA/GL/2016/11, in conjunction with the revised guidelines on materiality, proprietary activity and confidentiality, and on disclosure frequency (EBA/GL/2014/14). For this reason, this report does not contain any references to other publications of Aareal Bank.

Aareal Bank complies with the requirements of parts 2 and 3 of the CRR at a Group level, due to the fact that Aareal Bank Group has elected to use the waiver option provided by section 2a (1) sentence 1 of the German Banking Act (Kreditwesengesetz – "KWG") (in conjunction with Article 7 (3) of the CRR), whereby reports for financial holding companies or banking groups may be prepared on a consolidated basis. Aareal Bank AG, whose registered office is in Wiesbaden, Germany, is the parent institution of the Group.

The details we have published in this condensed 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.

Regulatory Capital

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 half-yearly financial 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.

Upon the Regulation (EU) 2019/876 (Capital Requirements Regulation II, CRR II) coming into effect on 27 June 2019, the IFRS carrying amount (including pro-rata interest, and instead of the nominal amount) on the first day of the final five-year period has to be used in the calculation of the eligible amount for the amortisation of Tier 2 instruments in the last five years of their contractual maturity as of 30 June 2019, in accordance with Article 64 (2) CRR II. 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 disclosures in this report are based on the binding provisions for the implementation of disclosure requirements set out in the Commission Implementing Regulation 1423/2013/EU, in the interests of comparability and increased transparency pursuant to Article 437 of the CRR.

Main features of capital instruments

The overview of the main features published on our website is limited to a description of the issued capital instruments. Shares as well as reserves attributable to Common Equity Tier 1 capital are not considered since they are covered in position 1 of the table under section "Disclosure of own funds".

In addition to the overview of the issued capital instruments' main features, Aareal Bank is required, pursuant to Article 437 (1) lit. c) of the CRR, to disclose the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments. Such terms and conditions of issue have been published in full on Aareal Bank's website under the "Investors" item.

Disclosure of own funds

€ mn		Amount as at 30 June 2019	Regulation (EU) No 575/2013 – reference to Article(s)
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	901	26 (1), 27, 28, 29
	of which: ordinary shares	180	EBA index pursuant to Article 26 (3)
2	retained earnings	1,589	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves designated to account for unrealised gains and losses according to applicable accounting standards)	-86	26 (1)
3a	Funds for general banking risk	–	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1	–	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	–	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	14	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**2,417**	

>

€ mn		Amount as at 30 June 2019	Regulation (EU) No 575/2013 – reference to Article(s)
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-2	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-24	36 (1) (b), 37
9	Empty set in the EU	–	
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) are met) (negative amount)	-9	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments	–	33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-23	36 (1) (d), 40, 159
13	Increase in equity resulting from securitised assets (negative amount)	–	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–	33 (b)
15	Defined-benefit pension fund assets (negative amount)	–	36 (1) (e), 41
16	Direct and indirect holdings of own Common Equity Tier 1 instruments (negative amount)	–	36 (1) (f), 42
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)	–	36 (1) (g), 44
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)	–	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
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)	–	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the 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	–	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	–	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	–	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	–	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets that rely on future profitability arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions of Article 38 (3) are met) (negative amount)	–	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	–	48 (1)
23	of which: direct and indirect holdings of Common Equity Tier 1 instruments of financial sector entities in which the institution has a significant investment	–	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	–	
25	of which: deferred tax assets that rely on future profitability and arise from temporary differences	–	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	–	36 (1) (a)
25b	Foreseeable tax charges relating to Common Equity Tier 1 items (negative amount)	–	36 (1) (l)
27	Qualifying Additional Tier 1 deductions that exceed the Additional Tier 1 capital of the institution (negative amount)	–	36 (1) (j)
	Deductions pursuant to Art. 3 of the CRR	-126	
	Components of, or deductions with respect to, Common Equity Tier 1 capital	-25	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**-209**	
29	**Common Equity Tier 1 (CET1) capital**	**2,209**	

>

€ mn		Amount as at 30 June 2019	Regulation (EU) No 575/2013 – reference to Article(s)
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and related share premium accounts	300	51, 52
31	of which: classified as equity according to applicable accounting standards	300	
32	of which: classified as liabilities according to applicable accounting standards	–	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	–	486 (3)
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	–	85, 86
35	of which: instruments issued by subsidiaries, subject to phase-out	–	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**300**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings of own Additional Tier 1 instruments (negative amount)	–	52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of 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)	–	56 (b), 58
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)	–	56 (c), 59, 60, 79
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 interest (net of eligible short positions) (negative amount)	–	56 (d), 59, 79
41	Empty set in the EU	–	
42	Qualifying Tier 2 deductions that exceed the Tier 2 capital of the institution (negative amount)	–	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**–**	
44	**Additional Tier 1 (AT1) capital**	**300**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2,509**	
Tier 2 (T2) capital: instruments and reserves			
46	Capital instruments and related share premium accounts	865	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	–	486 (4)
48	Qualifying own funds instruments included in consolidated Tier 2 capital (including minority interests and AT1 instruments not included in row 5 or 34) issued by subsidiaries and held by third parties	–	87, 88
49	of which: instruments issued by subsidiaries, subject to phase-out	–	486 (4)
50	Credit risk adjustments	60	62 (c) and (d)
51	**Tier 2 (T2) capital before regulatory adjustments**	**926**	

>

€ mn		Amount as at 30 June 2019	Regulation (EU) No 575/2013 – reference to Article(s)
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own Tier 2 instruments and subordinated loans (negative amount)	–	63 (b) (i), 66 (a)
53	Holdings of 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)	–	66 (b), 68
54	Direct and indirect holdings of Tier 2 instruments and subordinated loans 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)	–	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of Tier 2 instruments and subordinated loans of financial sector entities in which the institution has a significant investment (net of eligible short positions) (negative amount)	–	66 (d), 69, 79
56	Empty set in the EU	–	
	Adjustments due to grandfathering rights regarding Additional Tier 1 instruments or subordinated loans	–	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–**	
58	**Tier 2 (T2) capital**	**926**	
59	**Own funds (TC = T1 + T2)**	**3,435**	
60	**Total risk-weighted assets**	**12,791**	
Capital ratios[1] and buffers			
61	Common Equity Tier 1 capital (as a percentage of total risk exposure amount)	17.3%	92 (2) (a)
62	Tier 1 capital (as a percentage of total risk exposure amount)	19.6%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	26.9%	92 (2) (c)
64	Institution-specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution (G-SII or O-SII) buffer expressed as a percentage of total risk exposure amount)	7.140%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.500%	
66	of which: countercyclical buffer requirement	0.140%	
67	of which: systemic risk buffer requirement	–	
67a	of which: buffer for Global Systemically Important Institution (G-SII) or Other Systemically Important Institutions (O-SII)	–	CRD 131
68	Common Equity Tier 1 capital available to meet buffers (as a percentage of total risk exposure amount)	12.77%	CRD 128

>

[1] When calculating own funds as at 30 June 2019, interim profits were taken into account, deducting the pro-rata dividend in line with the dividend policy, and incorporating the pro-rata accrual of net interest payable on the AT1 bond. Moreover, the expected relevant impact of the TRIM exercise on commercial property financings, and of the SREP recommendations concerning the NPL inventory as well as the ECB's NPL guidelines for exposures newly classified as NPLs, were taken into account for determining regulatory indicators.

€ mn		Amount as at 30 June 2019	Regulation (EU) No 575/2013 – reference to Article(s)
Amounts below thresholds for deductions (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities in which the institution does not have a significant investment (amount below 10% threshold and net of eligible short positions)	4	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings of Common Equity Tier 1 instruments of financial sector entities in which the institution has a significant investment (amount below 10% threshold and net of eligible short positions)	2	36 (1) (i), 45, 48
74	Empty set in the EU	–	
75	Deferred tax assets that rely on future profitability arising from temporary differences (amount below 10% threshold and net of related tax liability where the conditions of Article 38 (3) are met)	131	(36) (1) (c), 38, 48
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)	–	62
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	–	62
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)	104	62
79	Cap on inclusion of credit risk adjustments in Tier 2 under internal ratings-based approach	60	62
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	–	484 (3), 486 (2) and (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–	484 (3), 486 (2) and (5)
82	Current cap on AT1 instruments subject to phase-out arrangements	–	484 (4), 486 (3) and (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	–	484 (4), 486 (3) and (5)
84	Current cap on T2 instruments subject to phase-out arrangements	–	484 (5), 486 (4) and (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	–	484 (5), 486 (4) and (5)

Compared to the previous reporting date (31 March 2019), the capital ratios (CET1, T1 and TC ratio) increased, due to a €60 million increase in regulatory capital and a simultaneous €334 million decline in risk-weighted assets (RWAs).

Besides quality improvements in the credit portfolio, the RWA decline was mainly due to the scheduled reduction of the non-strategic credit portfolio, for which the Bank applies the Credit Risk Standard Approach.

The increase in regulatory capital resulted from increases in Common Equity Tier 1 (CET1) capital (€11 million) and Tier 2 (T2) capital (€49 million); the latter was attributable to a change in the assessment basis to carrying amounts in accordance with IFRSs.

Reconciliation from equity, as disclosed in the Statement of Financial Position, to regulatory capital

€ mn	Equity according to reporting scope of consolidation	Equity according to regulatory scope of consolidation	Regulatory capital according to regulatory scope of consolidation
Subscribed capital	**180**	**180**	**180**
Capital reserve	**721**	**721**	**721**
Retained earnings	**1,731**	**1,665**	**1,603**
AT1 bond [1]	**300**	**300**	**–**
Other reserves	**-113**	**-86**	**-86**
Reserve from remeasurements of defined benefit plans	-134	-117	-117
Reserve from the measurement of debt instruments (fvoci)	32	32	32
Reserve from the measurement of equity instruments (fvoci)	0	3	3
Reserve from changes in the value of foreign currency basis spreads	-6	-5	-5
Currency translation reserve	-5	1	1
Non-controlling interests	**2**	**–**	**–**
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**2,821**	**2,780**	**2,417**
Regulatory adjustments	**–**	**–**	**-208**
Amounts to be deducted	**-168**	**-23**	**-55**
Intangible assets	-168	-23	-23
Goodwill	-89	-5	-5
Other intangible assets	-79	-18	-18
Deferred tax assets dependant on future profitability not resulting from temp. differences	–	–	-9
IRB deficit (non-defaulted exposures)	–	–	-23
Qualified investment outside the financial sector (alternative risk weighting 1,250%)	–	–	–
Deductible deferred tax assets dependant on future profitability and resulting from temp. differences	–	–	–
Prudential filters	**–**	**–**	**-2**
Prudent valuation allowances	–	–	-2
Deductions pursuant to Art. 3 of the CRR	**–**	**–**	**-126**
Components of, or deductions with respect to, Common Equity Tier 1 capital	**–**	**–**	**-25**
Common Equity Tier 1 (CET1) capital	**–**	**–**	**2,209**
AT1 bond	**–**	**–**	**300**
AT1 capital instruments with grandfathering rights	**–**	**–**	**–**
Non-controlling interests	–	–	–
Contributions by silent partners	–	–	–
Amounts to be deducted	**–**	**–**	**–**
Other intangible assets	–	–	–
IRB deficit (non-defaulted exposures)	–	–	–

[1] Consideration within Additional Tier 1 (AT1) capital.

>

€ mn	Equity according to reporting scope of consolidation	Equity according to regulatory scope of consolidation	Regulatory capital according to regulatory scope of consolidation
Additional Tier 1 (AT1) capital	**–**	**–**	**300**
Tier 1 (T1) capital	**–**	**–**	**2,509**
Capital instruments and subordinated loans eligible as Tier 2 capital	**990**	**990**	**865**
Subordinated liabilities	990	990	865
T2 capital instruments with grandfathering rights	**–**	**–**	**–**
Subordinated liabilities	–	–	–
Amounts to be deducted	**–**	**–**	**–**
IRB deficit (non-defaulted exposures)	–	–	–
IRB surplus (defaulted exposures)	**–**	**–**	**60**
Tier 2 (T2) capital	**–**	**–**	**926**
Total capital (TC)	**–**	**–**	**3,435**

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. and, under the AIRBA, additionally depends on
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 2019, 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 RWAs and capital requirements were determined as at the reporting date for the types of risk that are relevant for regulatory purposes.

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

€ mn		RWAs		Regulatory capital requirements
		30 Jun 2019	31 Mar 2019	30 Jun 2019
1	**Credit risk (excluding CCR)**	**10,300**	**10,630**	824
2	of which: Credit Risk Standard Approach (CRSA)	586	634	47
3	of which: Foundation IRB Approach (FIRB)	–	–	–
4	of which: Advanced IRB Approach (AIRBA)	8,865	9,146	709
5	of which: Equity IRB under the simple risk-weighted approach or the IMA	849	850	68
6	**CCR**	**582**	**589**	**47**
7	of which: Mark to market	376	376	30
8	of which: Original exposure	–	–	–
9	of which: Standardised approach	–	–	–
10	of which: Internal model method (IMM)	–	–	–
11	of which: Risk exposure amount from contributions to the default fund of a CCP	0	0	0
12	of which: CVA	206	213	16
13	**Settlement risk**	**–**	**–**	**–**
14	**Securitisation exposures in the banking book (after the cap)**	**–**	**–**	**–**
15	of which: IRB approach	–	–	–
16	of which: IRB supervisory formula approach	–	–	–
17	of which: Internal assessment approach (IAA)	–	–	–
18	of which: Standardised approach	–	–	–
19	**Market risk**	**92**	**72**	**7**
20	of which: Standardised approach	92	72	7
21	of which: IMA	–	–	–
22	**Large exposures**	–	**–**	**–**
23	**Operational risk**	**1,489**	**1,489**	**119**
24	of which: Basic indicator approach	44	44	4
25	of which: Standardised approach	1,445	1,445	116
26	of which: Advanced measurement approach	–	–	–
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**328**	**346**	**26**
28	**Floor adjustment**	**–**	**–**	**–**
29	**Total**	**12,791**	**13,125**	**1,023**

Regarding the causes of RWA changes during the second quarter of 2019, reference is made to the explanations in the chapter „Disclosure of own funds“.

The simple risk weight method is exclusively used to determine the capital requirements of the equity investments reported under the AIRBA.

In the following table, the equity investments reported under the AIRBA and previously disclosed on a consolidated level – for which the simple risk weight method 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, they are not disclosed in table EU CR10.

EU CR10: IRB (specialised lending and equities)

Regulatory Categories	Remaining maturity	Specialised lending					
		On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure at Default	RWAs	Expected losses
€ mn							
Category 1	Less than 2.5 years	–	–	50%*	–	–	–
	Equal to or more than 2.5 years	–	–	70%*	–	–	–
Category 2	Less than 2.5 years	–	–	70%*	–	–	–
	Equal to or more than 2.5 years	–	–	90%*	–	–	–
Category 3	Less than 2.5 years	–	–	115%*	–	–	–
	Equal to or more than 2.5 years	–	–	115%*	–	–	–
Category 4	Less than 2.5 years	–	–	250%*	–	–	–
	Equal to or more than 2.5 years	–	–	250%*	–	–	–
Category 5	Less than 2.5 years	–	–	–	–	–	–
	Equal to or more than 2.5 years	–	–	–	–	–	–
Total	**Less than 2.5 years**	**–**	**–**		**–**	**–**	**–**
	Equal to or more than 2.5 years	**–**	**–**		**–**	**–**	**–**

Regulatory categories	Equities under the simple risk-weighted approach					
	On-balance-Sheet amount	Off-balance-Sheet amount	Risk weight	Exposure at Default	RWAs	Regulatory capital requirements
€ mn						
Private equity exposures	–	–	190%	–	–	–
Listed investments	0	–	290%	0	0	0
Other equity investments	229	–	370%	229	849	68
Total	**229**	**–**		**229**	**849**	**68**

The regulatory capital requirements 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. c) of the CRR.

EU MR1: Market risk under the standardised approach

Mio. €	a RWAs	b Regulatory capital requirements
Outright products		
Interest rate risk (general and specific)	–	–
Equity risk (general and specific)	–	–
Foreign exchange risk	92	7
Commodity risk	–	–
Options		
Simplified approach	–	–
Delta-plus method	–	–
Scenario approach	–	–
Securitisation (specific risk)	–	–
Total	**92**	**7**

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 risks 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 past due and impaired exposures and the related allowances required by Article 442 lit. g) and h) of the CRR, as submitted to banking supervisors as part of Solvency reporting, are disclosed with different levels of detail. Pursuant to EBA guidelines, the exposures in tables EU CR1-A to EU CR1-C must be classified as to whether a default under the terms of Article 178 of the CRR exists or not.

The implementation of EBA guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) replaces the previously disclosed tables EU CR1-D and EU CR1-E.

Pursuant to Article 1 of the Commission Delegated Regulation (EU) No. 183/2014, general and specific credit risk adjustments require the inclusion of all amounts "…by which an institution's Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments, or provisions for off-balance sheet items."

Aareal Bank's specific credit risk adjustments at the reporting date comprise existing loss allowance carried. For details concerning the recognition of loss allowance, based on the Bank's internal staging and expected credit loss model, please refer to the explanations in Aareal Bank Group's annual report for 2018[1].

Such utilisations are shown in the „Accumulated write-offs" column of the following tables, for information only.

Credit risk adjustment charges disclosed in column f of tables EU CR1-A to EU CR1-C comprise loss allowance recognised and reversed during the reporting period.

EU CR1-A: Credit quality of exposures by exposures class and instrument

		a	b	c	d	e	f	g
		Gross carrying values of						Net values
€ mn		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	(a+b-c-d)
2	Institutions	–	1,384	0	–	–	0	**1,384**
3	Corporates	1,872	25,457	581	–	73	27	**26,748**
4	of which: specialised lending	55	3,051	13	–	–	-5	**3,093**
5	of which: SMEs	1,641	14,338	499	–	70	107	**15,481**
14	Equity	–	229	–	–	–	–	**229**
	Other non-credit obligation assets	–	567	–	–	–	–	**567**
15	**Total IRB approach**	**1,872**	**27,637**	**581**	**–**	**73**	**27**	**28,928**
16	Central governments or central banks	–	6,478	2	–	–	-8	**6,475**
17	Regional governments and similar entities	–	3,759	0	–	–	0	**3,759**
18	Other public-sector entities	–	1,302	0	–	–	0	**1,301**
19	Multilateral development banks	–	240	–	–	–	–	**240**
20	International organisations	–	609	0	–	–	0	**609**
21	Institutions	–	415	0	–	–	0	**414**
22	Corporates	8	333	9	–	0	4	**332**
23	of which: SMEs	7	72	5	–	–	0	**74**
24	Retail	4	28	1	–	0	0	**31**
25	of which: SMEs	–	–	–	–	–	–	**–**
26	Secured by mortgages on immovable property	–	660	2	–	–	0	**658**
27	of which: SMEs	–	49	0	–	–	0	**49**
28	Exposures in default	12	–	6	–	0	4	**6**
29	Exposures associated with particularly high risk	–	2	0	–	–	0	**2**
30	Covered bonds	–	–	–	–	–	–	**–**
31	Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	**–**

>

[1] „Aareal Bank Group 2018 Annual Report": chapter "Accounting policies" in the Notes to the consolidated financial statements, Note (7), pages 153 et seqq.

		a	b	c	d	e	f	g
		Gross carrying values of						Net values
€ mn		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	(a+b-c-d)
32	Collective investment undertakings (CIU)	–	–	–	–	–	–	**–**
33	Equity exposures	–	0	–	–	–	–	**0**
34	Other items	–	–	–	–	–	–	**–**
35	**Total standardised approach**	**12**	**13,825**	**14**	**–**	**0**	**0**	**13,823**
36	**Total**	**1,884**	**41,462**	**596**	**–**	**73**	**27**	**42,750**
37	of which: loans	1,831	31,355	592	–	73	35	**32,594**
38	of which: debt securities	–	7,591	2	–	–	-8	**7,589**
39	of which: off-balance sheet exposures	53	1,718	2	–	–	-1	**1,769**

Table EU CR1-A above additionally includes the figures for exposures in default listed in line 28 for the original CRSA exposure classes (Corporates, Retail, and exposures secured by mortgages on immovable property). In this way, Aareal Bank has implemented the EBA recommendations, published in January 2018, on disclosure of exposures in default within the scope of this table. Accordingly, line 28 is only for information, since it is not included in the calculation of totals across all CRSA exposure classes.

Aareal Bank monitors the borrower groups by assigning counterparties to four groups in the table EU CR1-B, using the industry codes defined by Deutsche Bundesbank. Besides equity investments, the "Other" borrower group includes all other sectors.

EU CR1-B: Credit quality of exposures by industry or counterparty types

		a	b	c	d	e	f	g
		Gross carrying values of						Net values
€ mn		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	(a+b-c-d)
1	Institutions	–	5,853	1	–	–	0	**5,852**
2	Public-sector entities	–	8,292	2	–	–	–8	**8,290**
3	Corporates	1,880	26,842	590	–	73	34	**28,132**
4	Other	4	475	3	–	0	–	**476**
5	**Total**	**1,884**	**41,462**	**596**	**–**	**73**	**27**	**42,750**

The presented breakdown of the credit quality by major geographical markets in the table EU CR1-C is based on our three-continent strategy, which covers Europe, North America and Asia/Pacific, as explained in our Annual Report 2018. The breakdown criterion used is the country the respective property used as collateral is located in.

Moreover, countries in which the exposure amounts to at least €300 million (before consideration of loss allowances) are listed separately for each region (Germany excluded). All remaining countries are listed under item "Others".

EU CR1-C: Credit quality of exposures by geography

		a	b	c	d	e	f	g
		Gross carrying values of						Net values
€ mn		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	(a+b-c-d)
1	**Germany**	**30**	**13,407**	**18**	**–**	**0**	**8**	**13,419**
2	**Western Europe**	**340**	**10,879**	**56**	**–**	**7**	**36**	**11,163**
	Austria	–	1,457	0	–	–	0	**1,457**
	Belgium	–	313	0	–	4	0	**313**
	Switzerland	–	323	0	–	–	0	**323**
	France	111	2,664	10	–	3	10	**2,765**
	United Kingdom	229	4,484	46	–	0	27	**4,667**
	Netherlands	–	1,266	0	–	–	-1	**1,266**
	Other countries	–	373	0	–	–	0	**373**
3	**Northern Europe**	**321**	**1,215**	**45**	**–**	**0**	**-21**	**1,490**
	Denmark	310	110	40	–	–	-21	**380**
	Finland	12	617	6	–	0	0	**623**
	Sweden	–	487	0	–	–	0	**487**
	Other countries	–	0	0	–	–	0	**0**
4	**Southern Europe**	**1,108**	**4,784**	**433**	**–**	**62**	**4**	**5,458**
	Spain	41	1,688	23	–	1	-1	**1,706**
	Italy	1,067	3,023	410	–	61	5	**3,680**
	Other countries	–	73	0	–	–	0	**72**
5	**Eastern Europe**	**85**	**1,302**	**33**	**–**	**4**	**1**	**1,354**
	Poland	17	629	4	–	0	2	**642**
	Russia	11	462	3	–	–	0	**470**
	Other countries	57	212	26	–	4	-1	**242**
6	**North America**	**–**	**8,398**	**8**	**–**	**–**	**-2**	**8,389**
	Canada	–	1,329	2	–	–	0	**1,327**
	USA	–	7,069	7	–	–	-2	**7,062**
	Other countries	–	–	–	–	–	–	**–**
7	**Asia/Pacific**	**–**	**627**	**1**	**–**	**–**	**0**	**626**
8	**Other countries**	**–**	**851**	**0**	**–**	**–**	**0**	**851**
9	**Total**	**1,884**	**41,462**	**596**	**–**	**73**	**27**	**42,750**

Pursuant to Article 442 lit. i) of the CRR, the Bank must disclose relevant specific credit risk adjustments during the reporting period. Details are shown in table EU CR2-A.

EU CR2-A: Changes in the stock of general and specific credit risk adjustments

€ mn		a Accumulated specific credit risk adjustments	b Accumulated general credit risk adjustments
1	**Opening balance (1 January)**	**577**	**–**
2	Increases due to amounts set aside for estimated loan losses during the period (additions)	96	–
3	Decreases due to amounts reversed for estimated loan losses during the period (reversals)	-68	–
4	Decreases due to amounts taken against accumulated credit risk adjustments (utilisations)	-26	–
5	Transfers between credit risk adjustments	–	–
6	Impact of exchange rate differences	0	–
7	Business combinations, including acquisitions and disposals of subsidiaries	–	–
8	Other adjustments	17	–
9	**Closing balance (30 June)**	**596**	**–**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss (payments on loans and advances previously written off)	2	–
11	Specific credit risk adjustments directly recorded to the statement of profit or loss (direct write-offs)	–	–

The following table provides an overview of the changes in the stock of defaulted and impaired loans and debt securities within the first half of 2019.

Whilst lines 2 and 3 disclose exposures which have newly defaulted or which returned to non-defaulted status during the period under review, respectively, line 4 sets out utilisations of loss allowance recognised in previous periods against uncollectable exposures.

The changes shown in line 5 mainly result from changes in the measurement of the defaulted risk exposures.

EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities

€ mn		a Gross carrying value of defaulted exposures
1	**Opening balance (1 January)**	**1,662**
2	Loans and debt securities that have defaulted since the last reporting period	254
3	Returned to non-defaulted status	0
4	Amounts written off	-26
5	Other changes	-6
6	**Closing balance (30 June)**	**1,884**

Non-performing and forborne exposures

Aareal Bank decided to already implement the EBA Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) as at year-end 2018. Due to total assets as at the current reporting date of €43 billion and a gross NPL ratio of more than 5%, we make all disclosures required by Paragraph 15 of the Guidelines.

The following table 1 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 and 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.

Table 1: Credit quality of forborne exposures

		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	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
				of which: defaulted	of which: impaired				
€ mn									
1	**Loans and advances**	**71**	**1,433**	**1,371**	**1,267**	**–**	**-432**	**1,004**	**934**
2	Central banks	–	–	–	–	–	–	–	–
3	General governments	–	–	–	–	–	–	–	–
4	Credit institutions	–	–	–	–	–	–	–	–
5	Other financial corporations	–	310	310	310	–	-74	210	210
6	Non-financial corporations	71	1,113	1,051	947	0	-348	794	723
7	Households	–	10	10	10	–	-10	1	1
8	**Debt securities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
9	**Loan commitments given**	**–**	**52**	**52**	**52**	**–**	**–**	**1**	**1**
10	**Total**	**71**	**1,485**	**1,423**	**1,318**	**–**	**-432**	**1,005**	**935**

In the following two tables, the loan commitments and financial guarantees as well as the financial assets of the three measurement categories “at amortised costs using the effective interest method (ac)”, “at fair value through other comprehensive income (fvoci)” and “at fair value through profit or loss (fvpl)” are included in the presentation of the credit quality of performing and non-performing exposures. In this context, the fvpl measurement category only refers to financial assets, loan commitments and financial guarantees that are required to be measured at fair value due to their contractual characteristics (so-called SPPI criterion).

Past-due exposures shown in Table 3 (whether impaired or not) are broken down across specified past-due maturity bands. Compared to the table EU CR1-D disclosed most recently, as at 30 June 2018, column e) also has to include such exposures that are deemed defaulted – and therefore also non-performing, based on qualitative criteria (unlikely-to-pay criteria).

Table 3: Credit quality of performing and non–performing exposures

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non–performing exposures								
€ mn			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay and not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	of which: defaulted
1	**Loans and advances**	**30,649**	**30,649**	**0**	**1,920**	**1,299**	**14**	**49**	**14**	**72**	**304**	**169**	**1,858**
2	Central banks	2,939	2,939	–	–	–	–	–	–	–	–	–	–
3	General governments	2,280	2,280	–	–	–	–	–	–	–	–	–	–
4	Credit institutions	1,203	1,203	–	–	–	–	–	–	–	–	–	–
5	Other financial corporations	1,268	1,268	–	313	268	14	21	6	–	–	3	313
6	Non–financial corporations	22,393	22,392	0	1,555	1,030	–	26	7	33	294	165	1,493
7	of which: SMEs	13,746	13,746	0	1,277	878	–	26	7	33	254	124	1,215
8	Households	566	565	0	52	1	0	1	1	38	10	1	52
9	**Debt securities**	**7,672**	**7,672**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
10	Central banks	–	–	–	–	–	–	–	–	–	–	–	–
11	General governments	6,737	6,737	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	809	809	–	–	–	–	–	–	–	–	–	–
13	Other financial corporations	127	127	–	–	–	–	–	–	–	–	–	–
14	Non–financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
15	**Off–balance sheet exposures**	**1,724**			**53**								**53**
16	Central banks	–			–								–
17	General governments	0			–								–
18	Credit institutions	–			–								–
19	Other financial corporations	99			41								41
20	Non–financial corporations	1,622			12								12
21	Households	3			–								–
22	**Total**	**40,045**	**38,321**	**–**	**1,974**	**1,299**	**14**	**49**	**14**	**72**	**304**	**169**	**1,912**

As in Table 3, Table 4 does not include financial assets held for trading. In addition to the disclosures on non-performing exposures, Table 4 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 a 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.

Table 4: Impairment, provisions and negative changes in the fair value of non-performing exposures

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/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
			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			
€ mn																
1	**Loans and advances**	**30,649**	**29,809**	**840**	**1,920**	**62**	**1,858**	**-41**	**-36**	**-6**	**-585**	**-6**	**-578**	**-74**	**22,712**	**1,255**
2	Central banks	2,939	2,939	–	–	–	–	–	–	–	–	–	–	–	–	–
3	General governments	2,280	2,279	1	–	–	–	0	0	0	–	–	–	–	–	–
4	Credit institutions	1,203	1,202	1	–	–	–	-1	-1	0	–	–	–	–	–	–
5	Other financial corporations	1,268	1,250	19	313	–	313	-3	-3	0	-76	–	-76	-1	1,211	211
6	Non-financial corporations	22,393	22,083	309	1,555	62	1,493	-35	-32	-3	-473	-6	-466	-73	20,969	1,031
7	of which: SMEs	13,830	13,541	289	1,381	62	1,319	-24	-21	-3	-408	-6	-402	-69	13,833	935
8	Households	566	56	510	52	–	52	-2	0	-2	-35	–	-35	0	532	14
9	**Debt securities**	**7,672**	**7,546**	**126**	**–**	**–**	**–**	**-3**	**-1**	**-2**	**–**	**–**	**–**	**–**	**419**	**–**
10	Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
11	General governments	6,737	6,610	126	–	–	–	-2	-1	-2	–	–	–	–	239	–
12	Credit institutions	809	809	–	–	–	–	0	0	–	–	–	–	–	179	–
13	Other financial corporations	127	127	–	–	–	–	0	0	–	–	–	–	–	–	–
14	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	**Off-balance sheet exposures**	**1,724**	**1,718**	**6**	**53**	**–**	**53**	**1**	**1**	**0**	**1**	**–**	**1**		**–**	**1**
16	Central banks	0	0	–	–	–	–	–	–	–	–	–	–		–	–
17	General governments	–	–	–	–	–	–	–	–	–	–	–	–		–	–
18	Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–		–	–
19	Other financial corporations	99	99	–	41	–	41	0	0	–	–	–	–		–	–
20	Non-financial corporations	1,622	1,616	6	12	–	12	1	1	0	1	–	1		–	1
21	Households	3	3	0	–	–	–	–	–	–	–	–	–		–	–
22	**Total**	**40,045**	**39,073**	**972**	**1,974**	**62**	**1,912**	**-42**	**-35**	**-7**	**-584**	**-6**	**-577**	**-74**	**23,131**	**1,256**

Table 9: Collateral obtained by taking possession and execution processes

€ mn		a Value at initial recognition	b Accumulated negative changes
1	Property and equipment	89	14
2	Other than property and equipment	191	1
3	Residential immovable property	–	–
4	Commercial immovable property	191	1
5	Movable property (automobiles, shipping etc.)	–	–

Pursuant to the EBA Guidelines, besides the gross carrying amount of the property obtained as collateral at initial recognition, Table 9 also discloses the negative changes in fair value.

Credit risk mitigation

Collateral in the amount of €26,406 million was applied within the scope of credit risk mitigation. This figure comprises no financial collateral included for derivatives transactions.

The following table shows collateral for each exposure class considered under AIRBA and CRSA.

The real property liens relevant for Aareal Bank as an international property specialist (99%) are disclosed in column c) along with the financial collateral – which, at Aareal Bank, mainly comprises pledged credit balances within the Bank – whereas warranties (sureties and guarantees) are disclosed in column d). Aareal Bank currently does not hold any credit derivatives which may be used for collateralisation purposes.

In addition to credit risk mitigating 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 – Net amount	b Exposures secured – Net amount	c Exposures secured by collateral	d Exposures secured by financial guarantees	e Exposures secured by credit derivatives
Total IRB approach	**1,991**	**26,937**	**25,222**	**252**	–
Institutions	493	890	–	179	–
Corporates	701	26,047	25,222	73	–
of which: specialised lending	54	3,040	3,013	–	–
of which: SMEs	415	15,066	14,447	72	–
Equity exposures	229	–	–	–	–
Other non-credit related assets	567	–	–	–	–
Total standardised approach	**12,534**	**1,289**	**683**	**248**	–
Central governments or central banks	6,475	–	–	–	–
Regional governments and similar entities	3,759	–	–	–	–
Multilateral development banks	1,020	281	–	239	–

>

€ mn		a Exposures unsecured – Net amount	b Exposures secured – Net amount	c Exposures secured by collateral	d Exposures secured by financial guarantees	e Exposures secured by credit derivatives
	International organisations	240	–	–	–	–
	Institutions	609	–	–	–	–
	Covered bonds	148	266	–	–	–
	Corporates	–	–	–	–	–
	Unternehmen	248	81	24	8	–
	of which: SMEs	61	10	–	1	–
	Retail	27	2	–	–	–
	of which: SMEs	–	–	–	–	–
	Secured by mortgages on immovable property	–	658	658	–	–
	of which: SMEs	–	49	49	–	–
	Collective investment undertakings (CIU)	–	–	–	–	–
	Equity exposures	0	–	–	–	–
	Other items	–	–	–	–	–
	Exposures in default	5	1	0	1	–
	Exposures associated with particularly high risk	2	–	–	–	–
1	Total loans	6,057	26,536	24,121	79	–
2	Total debt securities	7,170	419	–	419	–
3	**Total**	**14,525**	**28,225**	**25,905**	**501**	–
4	of which: defaulted	62	1,277	1,202	1	–

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 and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance-sheet amount (EAD)	Off-balance-sheet amount (EAD)	On-balance-sheet amount (EAD)	Off-balance-sheet amount (EAD)	RWAs	RWA density
		€ mn	€ mn	€ mn	€ mn	€ mn	%
1	Central governments or central banks	6,475	–	6,894	–	30	0.44
2	Regional governments and similar entities	3,759	0	3,766	–	335	8.90
3	Other public-sector entities	1,300	1	1,020	–	4	0.36
4	Multilateral development banks	240	–	240	–	–	–
5	International organisations	609	–	609	–	–	–
6	Institutions	414	–	201	–	65	32.33
7	Corporates	239	90	204	15	203	92.77
8	Retail	27	1	27	0	20	75.00
9	Secured by mortgages on immovable property	658	–	658	–	248	37.77
10	Exposures in default	6	–	6	–	7	120.28
11	Exposures associated with particularly high risk	–	2	–	1	1	150.00
12	Covered bonds	–	–	–	–	–	–
13	Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
14	Collective investment undertakings (CIU)	–	–	–	–	–	–
15	Equity exposures	0	–	0	–	0	100.00
16	Other items	–	–	–	–	–	–
17	**Total**	**13,728**	**95**	**13,626**	**16**	**914**	**6.70**

The table EU CR5 shows the exposure amount after mitigating credit risk of all exposures to which 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 „of which: unrated“ are exposures for which no external rating is used to derive the risk weight.

EU CR5: Standardised approach (after credit risk mitigation)

Exposure classes		Risk weight																	
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Deducted	Total	of which: unrated
Mio. €																			
1	Central governments or central banks	6,665	–	–	158	71	–	–	–	–	–	–	–	–	–	–	–	**6,894**	6.563
2	Regional governments and similar entities	3,598	–	–	–	37	–	–	–	–	–	–	131	–	–	–	–	**3,766**	3.733
3	Other public-sector entities	1,002	–	–	–	18	–	–	–	–	–	–	–	–	–	–	–	**1,020**	1.002
4	Multilateral development banks	240	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**240**	240
5	International organisations	609	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**609**	609
6	Institutions	–	–	–	–	118	–	83	–	–	–	–	–	–	–	–	–	**201**	–
7	Corporates	–	–	–	–	–	–	26	–	–	193	–	–	–	–	–	–	**219**	193

>

Exposure classes	Risk weight																	
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	De-ducted	Total	of which: unrated
Mio. €																		
8 Retail	–	–	–	–	–	–	–	–	27	–	–	–	–	–	–	–	**27**	27
9 Secured by mortgages on immovable property	–	–	–	–	–	536	122	–	–	–	–	–	–	–	–	–	**658**	658
10 Exposures in default	–	–	–	–	–	–	–	–	–	3	2	–	–	–	–	–	**6**	6
11 Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	**1**	1
12 Covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
13 Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
14 Collective investment undertakings (CIU)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
15 Equity exposures	–	–	–	–	–	–	–	–	–	0	–	–	–	–	–	–	**0**	0
16 Other items	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
17 Total	**12,115**	**–**	**–**	**158**	**245**	**536**	**230**	**–**	**27**	**196**	**3**	**131**	**–**	**–**	**–**	**–**	**13,642**	**13,032**

To facilitate comparison with the disclosure record date of 31 December 2018, the following table provides an additional disclosure of exposure values under the CRSA, before credit risk mitigation in accordance with Article 444 lit. e) of the CRR. The Bank does not provide additional disclosure of unrated risk exposures, since the Article referred to above does not require such disclosure.

EU CR5: Standardised approach (before credit risk mitigation)

Exposure classes	Risk weight														
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Total
€ mn																
1 Central governments or central banks	6,318	–	–	158	–	–	–	–	–	–	–	–	–	–	–	**6,476**
2 Regional governments and similar entities	3,590	–	–	–	37	–	–	–	–	–	–	131	–	–	–	**3,758**
3 Other public-sector entities	1,042	–	–	–	224	–	36	–	–	–	–	–	–	–	–	**1,302**
4 Multilateral development banks	240	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**240**
5 International organisations	609	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**609**
6 Institutions	–	–	–	–	355	–	59	–	–	–	–	–	–	–	–	**414**
7 Corporates	–	–	–	–	–	–	28	–	–	301	–	–	–	–	–	**329**
8 Retail	–	–	–	–	–	–	–	–	28	–	–	–	–	–	–	**28**
9 Secured by mortgages on immovable property	–	–	–	–	–	536	122	–	–	–	–	–	–	–	–	**658**
10 Exposures in default	–	–	–	–	–	–	–	–	–	3	3	–	–	–	–	**6**
11 Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	2	–	–	–	–	**2**
12 Covered bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**
13 Institutions and corporates with short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**
14 Collective investment undertakings	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**
15 Equity	–	–	–	–	–	–	–	–	–	0	–	–	–	–	–	**0**
16 Other items	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**
17 Total	**11,800**	**–**	**–**	**158**	**616**	**536**	**244**	**–**	**28**	**304**	**5**	**131**	**–**	**–**	**–**	**13,823**

Advanced IRB Approach (AIRBA)

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

IRBA exposure class	PD scale	a Original on-balance sheet gross exposure	b Off-balance sheet exposures pre-CCF	c Average CCF	d EaD post CRM and post-CCF	e Average PD
	%	€ mn	€ mn	%	€ mn	%
Corporates – SMEs	0.00 to <0.15	220	–	–	225	0.08
	0.15 to < 0.25	818	29	100.00	867	0.21
	0.25 to < 0.50	2,143	29	100.00	2,219	0.43
	0.50 to < 0.75	2,046	130	100.00	2,223	0.70
	0.75 to < 2.50	6,040	283	100.00	6,461	1.39
	2.50 to < 10.00	2,548	53	100.00	2,647	4.21
	10.00 to < 100.00	–	–	–	–	–
	100.00 (Default)	1,589	52	2.32	1,612	100.00
	Subtotal	**15,404**	**575**	**91.40**	**16,253**	**11.32**
Corporates – specialised lending	0.00 to < 0.15	30	–	–	31	0.07
	0.15 to < 0.25	359	420	100.00	798	0.23
	0.25 to < 0.50	233	1	100.00	239	0.47
	0.50 to < 0.75	280	9	100.00	295	0.70
	0.75 to < 2.50	1,019	51	100.00	1,091	1.47
	2.50 to < 10.00	646	4	100.00	668	4.31
	10.00 to < 100.00	–	–	–	–	–
	100.00 (Default)	55	–	–	55	100.00
	Subtotal	**2,622**	**484**	**100.00**	**3,177**	**3.30**
Corporates – Others	0.00 to < 0.15	–	–	–	–	–
	0.15 to < 0.25	477	113	100.00	602	0.23
	0.25 to < 0.50	1,357	97	100,00	1,482	0.44
	0.50 to < 0.75	1,979	91	100,00	2,115	0.70
	0.75 to < 2.50	2,579	261	100,00	2,908	1.42
	2.50 to < 10.00	1,049	54	100,00	1,128	2.82
	10.00 to < 100.00	12	–	–	12	30.00
	100.00 (Default)	174	1	0.00	174	100.00
	Subtotal	**7,627**	**616**	**99.80**	**8,421**	**3.25**
Institutions	0.00 to < 0.15	350	–	–	279	0.06
	0.15 to < 0.25	1,000	–	–	892	0.17
	0.25 to < 0.50	34	–	–	34	0.45
	0.50 to < 0.75	–	–	–	–	–
	0.75 to <2.50	–	–	–	–	–
	2.50 to <10.00	–	–	–	–	–
	10.00 to <100.00	0	–	–	0	30.00
	100.00 (Default)	–	–	–	–	–
	Subtotal	**1,384**	**–**	**–**	**1,205**	**0.15**
	Total	**27,037**	**1,676**	**96.99**	**29,056**	**7.64**

f	g	h	i	j	k	l
Number of obligors	Average LGD	Average maturity	Risk-weighted items (RWAs)	RWA density	Expected Loss (EL)	Value adjustments and provisions
	%		€ mn	%	€ mn	€ mn
8	5.54	900	6	2.78	0	
43	5.04	1,230	45	5.15	0	
82	6.46	923	196	8.85	1	
84	10.71	972	378	17.00	2	
135	11.48	1,096	1,593	24.66	11	
58	21.11	876	1,635	61.77	28	
–	–	–	–	–	–	
38	30.17	823	1,142	70.86	395	
448	**13.69**	**997**	**4,996**	**30.74**	**436**	**499**
1	3.64	900	0	1.62	0	
20	8.80	951	65	8.20	0	
9	5.39	1,184	22	9.15	0	
12	7.46	1,065	35	12.00	0	
33	9.99	1,629	279	25.58	2	
8	33.96	1,115	688	103.06	10	
–	–	–	–	–	–	
1	0.34	360	0	0.31	0	
84	**13.92**	**1,236**	**1,091**	**34.34**	**12**	**13**
–	–	–	–	–	–	
30	14.29	1,638	133	22.16	0	
32	10.52	1,241	289	19.50	1	
50	6.71	1,335	330	15.60	1	
49	11.01	1,432	920	31.64	5	
21	9.14	1,385	344	30.54	3	
1	4.32	1,800	3	27.48	0	
6	28.30	375	117	67.39	40	
189	**10.17**	**1,361**	**2,138**	**25.38**	**50**	**70**
11	6.28	630	6	2.12	0	
30	7.75	210	65	7.27	0	
6	6.85	103	3	9.39	0	
–	–	–	–	–	–	
–	–	–	–	–	–	
–	–	–	–	–	–	
3	65.00	360	0	372.14	0	
–	–	–	–	–	–	
50	**7.38**	**304**	**74**	**6.14**	**0**	**0**
771	**12.43**	**1,100**	**8,298**	**28.56**	**498**	**581**

The property lending portfolio and portfolio of exposures to banks (treated under the AIRBA) shall be disclosed in table EU CR6 to be disclosed on a half-yearly basis, which considers clearly-defined PD classes. Expected loss (EL) is also reported per PD class, 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 following statements.

The table EU CR8 provides an overview of the RWA changes and the associated causes to be analysed since 31 March 2018.

The starting and end balances represent the sums of figures disclosed in lines 4 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	b Regulatory requirements
1	**Position as at 31 March 2019**	**9,996**	**800**
2	Asset size	113	9
3	Asset quality	-355	-28
4	Model updates	–	–
5	Methodology and policy	–	–
6	Acquisitions and disposals	7	1
7	Foreign exchange movements	-65	-5
	Deconsolidation effects	19	2
8	Other	–	–
9	**Position as at 30 June 2019**	**9,714**	**777**

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 exposures resulting from changed borrower probabilities of default (PD) or loss given default (LGD). The change compared to the previous quarter was mainly driven by quality improvements in the credit portfolio.

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 during the period under review.

Line 6 discloses the RWA effect of the acquisition of an investment during the second quarter which is outside the regulatory scope of consolidation.

The line „Deconsolidation effects“ discloses the RWA increase from the regulatory deconsolidation of former Düsseldorfer Hypothekenbank AG (former Düsselhyp), which was renamed DHB Verwaltungs AG in connection with the split-off of former Düsselhyp‘s banking operations to Aareal Bank and is hence no longer consolidated for regulatory purpose.

The line „Deconsolidation effects“ discloses the RWA increase from the regulatory deconsolidation of former Düsseldorfer Hypothekenbank AG (former Düsselhyp), which was renamed DHB Verwaltungs AG in connection with the split-off of former Düsselhyp‘s banking operations to Aareal Bank, and which has therefore no longer been consolidated for regulatory purposes.

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.

The equivalent value of derivatives and the related counterparty credit risk are determined using the mark-to-market method (Article 274 of the CRR) for the purpose of regulatory reporting.

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

	a	b	c	d	e	f	g
€ mn	Notional	Replacement cost / current market value	Potential future replacement value	EEPE	Multiplier	EAD post CRM	RWAs
1 Mark to market		916	437			1,280	375
2 Original exposure	–					–	–
3 Standardised approach		–			–	–	–
4 IMM (for derivatives and SFTs)				–	–	–	–
5 of which: securities financing transactions				–	–	–	–
6 of which: derivatives and long-term settlement transactions				–	–	–	–
7 of which: from contractual cross-product netting				–	–	–	–
8 Financial collateral simple method (for SFTs)						–	–
9 Financial collateral comprehensive method (for SFTs)						–	–
10 VaR for SFTs						–	–
11 Total							**375**

The following table, EU CCR2, gives an overview of the credit value 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: CVA capital charge

		a	b
Mio. €		EAD	RWAs
1	Total portfolios 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	All portfolios subject to the standardised method	466	206
EU4	Based on the original exposure method	–	–
5	**Total subject to the CVA capital charge**	**466**	**206**

Table EU CCR8 discloses the exposure value and risk-weighted exposure (RWAs) for exposures to a central counterparty. As at the reporting date, Eurex Clearing AG and LCH.Clearnet Limited (which are both qualified counterparties) acted as central counterparties to Aareal Bank. There were no exposures to non-qualified CCPs as at 30 June 2019.

EU CCR8: Exposures to CCPs

€ mn		a EAD post CRM	b RWAs
1	**Exposures to QCCPs (total)**		**1**
2	Exposures from trades at QCCPs (excluding initial margin and default fund contributions); of which	104	1
3	i) OTC derivatives	104	1
4	ii) Exchange-traded derivatives	–	–
5	iii) SFTs	–	–
6	iv) Netting sets where cross-product netting has been approved	–	–
7	Segregated initial margin	–	
8	Non-segregated initial margin	–	–
9	Pre-funded default fund contributions	–	–
10	Alternative calculation of own funds requirements for exposures		–
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	–	–

The purpose of table EU CCR3 is the disclosure of the exposure amount after mitigating credit risk of all counterparty credit risk exposures to which 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. Due to its insignificant share in EaD of all CRSA exposures (0.12%), we do not believe that disclosing the table would provide any additional information.

The following table EU CCR4 shows the derivative exposures treated in AIRBA – by analogy with the table EU CR6 within clearly-defined PD classes. The derivatives held by Aareal Bank Group, and entered into with internally rated property customers 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 – counterparty credit risk exposure by portfolio and PD scale

Exposure class	PD scale	a	b	c	d	e	f	g
		EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
		€ mn	%		%		€ mn	%
Corporates – SMEs	0.00 to <0.15	–	–	–	–	–	–	–
	0.15 to <0.25	4	0.23	7	90.00	900	4	92.32
	0.25 to <0.50	15	0.40	7	90.00	900	16	104.61
	0.50 to <0.75	1	0.70	1	90.00	1,588	2	173.71
	0.75 to <2.50	24	1.16	18	90.00	1,176	48	197.79
	2.50 to <10.00	5	2.94	2	90.00	1,226	13	248.03
	10.00 to <100.00	–	–	–	–	–	–	–
	100.0 (Default)	–	–	–	–	–	–	–
	Subtotal	**50**	**1.03**	**35**	**90.00**	**1,080**	**82**	**164.91**
Corporates - Others	0.00 to <0.15	–	–	–	–	–	–	–
	0.15 to <0.25	–	–	–	–	–	–	–
	0.25 to <0.50	2	0.46	5	90.00	439	3	111.41
	0.50 to <0.75	–	–	–	–	–	–	–
	0.75 to <2.50	14	1.16	1	90.00	1,800	40	274.01
	2.50 to <10.00	3	2.62	2	90.00	1,533	11	308.94
	10.00 to <100.00	–	–	–	–	–	–	–
	100.0 (Default)	–	–	–	–	–	–	–
	Subtotal	**20**	**1.33**	**8**	**90.00**	**1,600**	**53**	**261.47**

>

Exposure class	PD scale	a	b	c	d	e	f	g
		EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
		€ mn	%		%		€ mn	%
Institutions	0.00 to <0.15	273	0.09	9	14.32	1,626	52	18.87
	0.15 to <0.25	895	0.17	21	12.51	1,351	174	19.42
	0.25 to <0.50	25	0.47	2	10.38	1,800	8	30.82
	0.50 to <0.75	–	–	–	–	–	–	–
	0.75 to <2.50	–	–	–	–	–	–	–
	2.50 to <10.00	–	–	–	–	–	–	–
	10.00 to <100.00	–	–	–	–	–	–	–
	100.0 (Default)	–	–	–	–	–	–	–
	Subtotal	**1,194**	**0.16**	**32**	**12.88**	**1,423**	**233**	**19.54**
	Total	**1,264**	**0.21**	**75**	**17.16**	**1,413**	**368**	**29.15**

Pursuant to Article 439 lit. e) of the CRR, Aareal Bank must disclose the effect of netting and of collateral held on derivatives exposures (including those settled via a CCP), in table EU CCR5-A, broken down by type of contract.

Master agreements with netting clauses provide for the netting of claims and liabilities in the event of insolvency or counterparty default, and thus further reduce counterparty risk.

EU CCR5-A: Impact of netting and collateral held on exposure values

		a	b	c	d	e
		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
€ mn						
1	Derivatives	2,124	1,167	957	869	88
2	SFTs	–	–	–	–	–
3	Cross-product netting	–	–	–	–	–
4	**Total**	**2,124**	**1,167**	**957**	**869**	**88**

The aggregate positive replacement value for our derivatives contracts subject to reporting requirements stood at €2,124 million as at 30 June 2019. This amount is reduced to €88 million through netting framework agreements in the amount of € 1,167 million and the deduction of collateral provided in the amount of €869 million.

At present, Aareal Bank does not use credit derivatives to hedge individual contracts, nor does it act as a broker, seller or buyer of credit derivatives.

Table EU CCR5-B supplements the disclosure requirements under Article 439 lit. e) of the CRR, as well as the disclosures in table EU CCR5-A with additional information on collateral received or posted. 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 (1) of the CRR.

EU CCR5-B: Composition of collateral for exposures subject to counterparty credit risk

	a	b	c	d	e	f
	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	Unsegregated	Segregated	Unsegregated		
€ mn						
Cash collateral	55	818	50	990	–	–
Government bonds	–	–	–	–	–	–
Total	**55**	**818**	**50**	**990**	**–**	**–**

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 the framework published by the Basel Committee on Banking Supervision in 2014, 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 Delegated Regulation (EU) 2015/62.

The following disclosure tables are based on the requirements set out in the Implementation Regulation (EU) 2016/200 dated 15 February 2016.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

€ mn		Applicable amount
1	**Total assets as per published financial statements**	**43,264**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	328
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in cordance with Article 429 (13) of Regulation (EU) 575/2013)	–
4	Adjustments for derivative financial instruments	-2,212
5	Adjustments for securities financing transactions (SFTs)	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	741
EU-6a	(Adjustment for intra-group exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) 575/2013)	–
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (14) of Regulation (EU) 575/2013)	–
7	Other adjustments	-381
8	**Leverage ratio total exposure measure**	**41,739**

LRCom: Leverage ratio common disclosure

€ mn		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	41,141
2	(Asset amounts deducted in determining Tier 1 capital)	-55
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**41,085**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	330
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	500
EU-5a	Exposure determined under Original Exposure Method	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-918
8	(Exempted CCP leg of client-cleared trade exposures)	–
9	Adjusted effective notional amount of written credit derivatives	–
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–
11	**Total derivatives exposures (sum of lines 4 to 10)**	**-87**

€ mn		CRR leverage ratio exposures
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for transactions posted as sales	–
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–
14	Counterparty credit risk exposure for SFT assets	–
EU-14a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429b (4) and 222 of Regulation (EU) 575/2013	–
15	Agent transaction exposures	–
EU-15a	(Exempted CCP leg of client-cleared SFT exposures)	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	–
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	1,771
18	(Adjustments for conversion to credit equivalent amounts)	-1,030
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**741**
	Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) 575/2013 (on- and off-balance sheet)	
EU-19a	(Intra-group exposures (solo basis) exempted in accordance with Article 429 (7) of Regulation (EU) 575/2013 (on- and off-balance sheet))	–
EU-19b	Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) 575/2013 (on- and off-balance sheet)	–
	Capital and total exposure measure	
20	**Tier 1 capital**	**2,509**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**41,739**
	Leverage Ratio	
22	Leverage ratio	6.01%
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional arrangements
EU-24	Amount of derecognised fiduciary items in accordance with Article 429 (11) of Regulation (EU) 575/2013	–

The Leverage Ratio declined marginally to 6.01%, compared to 6.05% on the disclosure date of 31 March 2019, This was attributable to a reduction in the total exposure measure, which was virtually offset by an 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).

LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Mio. €		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**40,223**
EU-2	Trading book exposures	–
EU-3	Banking book exposures, of which:	40,223
EU-4	Covered bonds	171
EU-5	Exposures treated as sovereigns	11,357
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	1,204
EU-7	Institutions	568
EU-8	Secured by mortgages on immovable properties	23,072
EU-9	Retail exposures	27
EU-10	Corporate	1,620
EU-11	Exposures in default	1,285
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	920

Imprint
Contents:
Aareal Bank AG, Investor Relations,
Regulatory Affairs – Regulatory Reporting
Design / Layout:
S/COMPANY · Die Markenagentur GmbH, Fulda, Germany

This report is also available in German language.

Corporate Responsibility Prime
rated by
oekom research

Aareal Bank AG
Investor Relations
Paulinenstraße 15
65189 Wiesbaden

Telefon: +49 611 348 3009
Fax: +49 611 348 2637
www.aareal-bank.com

09/2019

Aareal Bank Group