Regulatory Disclosure Report for the 2024 financial year

of Atlantic Group

Aareal

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Preface

Atlantic BidCo GmbH's voluntary public takeover offer for Aareal Bank AG was closed in June 2023. Accordingly, the Regulatory Disclosure Report has had to be prepared at the level of Atlantic Lux HoldCo Group ("Atlantic Group") since 30 June 2023. The Group's parent institution, which is required to consolidate Group information in accordance with Article 11 of Regulation (EU) 575/2013 (Capital Requirements Regulation – "CRR"), is Aareal Bank AG, having its registered office in Wiesbaden, Germany (LEI code EZKODONU5TYHW4PP1R34).

Since Atlantic Group is managed entirely at the level of Aareal Bank AG, Atlantic Group and Aareal Bank Group have the same risk profile. Apart from holding Aareal Bank AG shares via its subsidiary Atlantic BidCo GmbH, Atlantic Group has no other operating business. This is why this Regulatory Disclosure Report is prepared from Aareal Bank Group's perspective. Regulatory indicators and further information on Aareal Bank Group are available in Aareal Bank Group's Annual Report 2024 and in the presentation to the Analyst Conference Call on the 2024 results, which is available for download from Aareal Bank's website.

This Regulatory Disclosure Report outlines the business policy standards and facts that are relevant for assessing the situation at Group level from a regulatory perspective. Besides providing a qualified description of the manner in which risks are identified, evaluated, weighted and reviewed, the Regulatory Disclosure Report also contains detailed quantitative statements about the sizes of the individual areas.

The Regulatory Disclosure Report implements the requirements in accordance with part 8 of the CRR. The existing disclosure requirements are specified by Commission Implementing Regulation (EU) 2021/637, published by the European Commission in March 2021.

Atlantic 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).

Due to its total assets of more than € 30 billion, Atlantic Group is classified as a large institution in accordance with Article 4 No. 146 lit. d) of the CRR.

Aareal Bank AG fulfils the requirements set out in Article 4 No. 136 of the CRR for classification as a significant subsidiary of Atlantic Group. Given that Aareal Bank AG is relieved from application of regulatory requirements on a standalone basis, applying a waiver under section 2a (1) sentence 1 of the German Banking Act (Kreditwesengesetz – "KWG") in conjunction with Article 7 (1) and (2) of the CRR, only the disclosure requirements regarding liquidity apply on a single-institution basis.

The Regulatory Disclosure Report is prepared in accordance with internal provisions and procedures applicable within Aareal Bank AG, stipulated in writing in order to fulfil disclosure requirements.

In line with the requirements of Article 431 (3) of the CRR, Aareal Bank AG has created formal procedures for Atlantic Group through disclosure guidelines, which ensure that the disclosure requirements are met. The disclosure guidelines contain rules on:

- the scope and content of the disclosure requirements,
- the principles of disclosure, in particular on appropriateness, structure of the report, locations, reporting date and frequency,
- determining the materiality, confidential information and trade secrets,
- responsibilities and organisational units involved,
- the structure of the disclosure process,
- the data sources and relevant IT systems and
- the review of the disclosure procedure.

The specific structure and implementation of the disclosure requirements is described in detail in the supplementary documents.

Aareal Bank has implemented comprehensive control mechanisms as part of the disclosure process, which are used to review the disclosed data for completeness, accuracy, and appropriateness. These control activities associated with the disclosure process are an integral component of Aareal Bank's Internal Control System (ICS). Besides the ongoing control in the course of the creation process, the control activities include an annual, central review of the following aspects:

- appropriateness of the details,
- content-related design of the disclosures,
- frequency of the disclosures,
- new regulatory requirements and adjustments.

The Regulatory Disclosure Report and the disclosure guidelines are approved by the Management Board of Aareal Bank AG. In addition, the Regulatory Disclosure Report is also subject to an approval process by Atlantic Lux HoldCo S.à r.l. as the ultimate Group parent.

In addition, compliance with the disclosure requirements is regularly reviewed by Aareal Bank AG's Internal Audit division.

Overall, the Regulatory Disclosure Report is subject to control mechanisms comparable to those used in the management report for financial reporting.

In accordance with the legal requirements, the Regulatory Disclosure Report does not require a qualified audit opinion and is therefore not audited.

The Regulatory Disclosure Report is published pursuant to Article 434 (1) of the CRR on the Aareal Bank AG website, under the menu item "Investors".

Aareal Bank AG publishes the Regulatory Disclosure Report on a quarterly basis. The scope of information to be disclosed as at the respective reporting dates is based on the requirements set out in Article 433a of the CRR.

Summary

The details 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). Only the relevant disclosure requirements for Atlantic Group are explicitly addressed.

As at the reporting date, Atlantic Group holds no securitisation exposures in its portfolio, so that the disclosure requirements pursuant to Article 449 of the CRR do not apply.

Since the ECB does not classify Atlantic 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.

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

Overview of Regulatory Key Metrics

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 required for Atlantic Group under the Supervisory Review and Evaluation Process (SREP).

EU KM1: Key metrics

		a	b	c	d	e
€ mn		31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024	31 Dec 2023
	Available own funds					
1	Common Equity Tier 1 (CET1) capital	2,892	2,469	2,652	2,518	2,578
2	Tier 1 (T1) capital	3,192	2,756	2,938	2,804	2,864
3	Own funds	3,808	3,363	3,166	3,042	3,112
	Risk-weighted exposure amounts					
4	Risk-weighted exposure amounts (Risk-weighted assets, RWAs)	14,268	14,783	13,919	13,788	13,723
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (CET1 ratio)	20.27	16.70	19.05	18.26	18.78
6	Tier 1 ratio (T1 ratio)	22.37	18.64	21.11	20.34	20.87
7	Total capital ratio (TC ratio)	26.69	22.75	22.74	22.06	22.68
	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	3.00	3.00	3.00	3.00	–
EU 7b	of which: to be made up of CET1 capital	1.69	1.69	1.69	1.69	–
EU 7c	of which: to be made up of Tier 1 capital	2.25	2.25	2.25	2.25	–
EU 7d	Total SREP own funds requirements	11.00	11.00	11.00	11.00	8.00
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50	2.50	2.50	2.50	2.50
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	0.59	0.65	0.59	0.54	0.52
EU 9a	Systemic risk buffer	0.02	0.02	0.02	0.02	0.02
10	Global Systemically Important Institution buffer	–	–	–	–	–
EU 10a	Other Systemically Important Institution buffer	–	–	–	–	–
11	Combined buffer requirement	3.11	3.17	3.12	3.06	3.04
EU 11a	Overall capital requirements	14.11	14.17	14.12	14.06	11.04
12	CET1 available after meeting the total SREP own funds requirements	14.08	10.39	11.74	11.06	14.28
	Leverage Ratio					
13	Total exposure measure	46,683	44,860	44,152	45,459	44,736
14	Leverage Ratio (%)	6.84	6.14	6.65	6.17	6.40
	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	3.00	3.00	3.00	3.00	3.00

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€ mn		a 31 Dec 2024	b 30 Sep 2024	c 30 Jun 2024	d 31 Mar 2024	e 31 Dec 2023
	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	3.00	3.00	3.00	3.00	3.00
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (weighted value – average)	7,605	7,493	7,383	7,344	7,084
EU 16a	Cash outflows – total weighted value	4,289	4,409	4,436	4,489	4,369
EU 16b	Cash inflows – total weighted value	983	1,013	877	816	889
16	Total net cash outflows (adjusted value)	3,306	3,396	3,559	3,673	3,480
17	Liquidity coverage ratio (LCR) (%)	234.96	225.68	210.61	200.78	203.73
	Net Stable Funding Ratio					
18	Total available stable funding	35,193	34,473	34,214	33,200	33,757
19	Total required stable funding	29,971	28,166	28,232	28,433	29,322
20	NSFR (%)	117.43	122.39	121.19	116.76	115.12

Development of key metrics

Capital ratios and RWAs

Compared to the previous disclosure date of 30 September 2024, the capital ratios reported to the supervisory authorities (CET I, T I and TC ratio) increased by 3.75 percentage points on average. This was due to a € 445 million increase in regulatory capital and a decrease in RWAs (€ -515 million).

The RWAs were determined in accordance with the law applicable for the last time as at the reporting date (CRR II), applying the partial regulation for the “output floor” in connection with commercial property lending and equity exposures, based on the European Commission’s final implementation of Basel IV dated 31 May 2024 (CRR III). The “higher of” comparison with the total RWA calculation in accordance with CRR II and the revised CRSA pursuant to the CRR III, in line with the status of the transitional regulations for 2025 (50 % output floor) did not result in any RWA adjustment as set out in Article 3 of the CRR.

The decline in RWAs with a simultaneous increase in new business in the Structured Property Financing segment was mostly driven by quality improvements in the existing commercial property finance portfolio, a modification of the market value forecast model and a conservative adjustment of some probabilities of default (PDs). In addition, the temporary RWA increase due to the new business generated in the commercial property financing business at the end of the third quarter of 2024 declined again, as expected. RWAs from counterparty credit risk were down as well.

The increase in regulatory capital was largely due to a € 423 million increase in CET I capital. Amongst other things, this development was attributable to the omission of deductions of impairments recognised during the course of the year (contributing € 165 million) as a result of the approved application for inclusion of profits (€ 238 million) and the reduction in the deduction item to account for the expectations defined by regulatory and legislative authorities regarding provisioning for non-performing exposures (referred to as “prudential provisioning”) in the amount of € 22 million.

Leverage Ratio

Compared to 30 September 2024, the Leverage Ratio increased only slightly by 0.70 percentage points, due to the € 436 million increase in Tier I capital and a simultaneous € 1,823 million increase in the total exposure measure. The main driver for the increase in the total exposure measure is the increase in new business in the Structured Property Financing segment by € 1,540 million.

Liquidity Coverage Ratio

Atlantic Group's Liquidity Coverage Ratio (LCR), as reported to the supervisory authorities, decreased compared to 30 September 2024 (265.35 %), reaching 206.91 % as at the reporting date. This development was driven by a decrease in high-quality liquid assets (HQLAs; € -2,225 million) with an offsetting € 211 million decline in net cash outflows.

The HQLA decline was due in particular to the disbursements of new loans.

The quarter-on-quarter decrease in net cash outflows was mainly due to declining deposits and loan commitments.

Since the disclosure of key LCR parameters is based on the weighted and unweighted averages of the past 12 reporting dates of the respective quarter, the changes outlined above do not have the same effect upon quarter-on-quarter changes as shown in tables EU KM1 and EU LIQ1.

Net Stable Funding Ratio

Compared to 30 September 2024, the Net Stable Funding Ratio (NSFR) decreased by 4.96 percentage points to 117.43 %, reflecting a lower-than-proportionate increase in available stable funding (ASF) of € 720 million compared to the increase in required stable funding (RSF) of € 1,805 million.

The RSF increase of € 1,823 million was mainly due to growth in the loan portfolio.

The increase in ASF largely resulted from higher regulatory capital that is relevant for determining the NSFR (€ +475 million), a securities lending transaction and the issue of new covered bonds (€ +585 million). This was offset by a decrease in liabilities to non-financial companies (€ -413 million) which resulted mainly from a lower volume of treasury deposits (€ -120 million) and retail deposits (€ -216 million).

Risk Management

Atlantic Group's management also makes use of Aareal Bank Group's risk management system: descriptions are identical with the exception of risk-bearing capacity, carrying amounts for credit default risk and liquidity risk indicators.

The ability to assess risks correctly and manage them strategically is a core skill in banking. This means that being able to control risks in all their relevant variations is central to a bank's long-term commercial success. This economic motivation for a highly developed risk management system increases continually as regulatory requirements for risk management become more and more far-reaching.

Aareal Bank reviews the appropriateness and effectiveness of its corporate governance systems (including risk governance systems) on a regular basis.

The Bank's risk management activities also incorporate sustainability risks, i.e. ESG risks relating to environmental, social and governance factors. Aareal Bank considers sustainability risks to include overarching risks or risk drivers whose occurrence may have an actually or potentially negative impact on the Bank's financial position, financial performance or reputation. Such risks manifest themselves in existing financial and non-financial risk types, which means that they are managed implicitly according to the risk types under which they are classified. ESG risks are a component of the regular risk inventory process. Physical climate-related risks that have an impact on credit, liquidity, property and business risk were identified as major short-term risk factors. These are complemented by major mid- to long-term risk factors: climate-related and environmental transition risks as well as governance factors such as sustainability management, disclosure policy and data protection. In addition, there is changing market behaviour as an overarching factor. The management and monitoring of ESG risks are optimised on an ongoing basis, with various risk indicators and limits being integrated into the risk management cycle.

Risk management – scope of application and areas of responsibility

Aareal Bank AG has implemented extensive systems and procedures for monitoring and managing the Group's risk exposure.

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

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

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

The Management Board formulates the business and risk strategies, as well as what is known as the Risk Appetite Framework. For this purpose, "risk appetite" means the maximum risk exposure that is not expected to threaten the Bank's continued existence, even if the risks in question are assumed to materialise. For individual business units (the "First Line of Defence"), the Risk Appetite Framework defines guidelines for handling risks independently and responsibly.

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

In addition, Group Internal Audit (as the "Third Line of Defence") reviews the organisational structure and procedures and the risk processes – including the Risk Appetite Framework – and assesses whether these are appropriate. Internal processes also ensure that the Compliance function is involved whenever there are matters relating to compliance.

In order to perform its control function efficiently, the Supervisory Board established a Risk Committee that is responsible above all for risk strategies and for managing and monitoring all material types of risk.

Strategies

The business policy set by the Management Board and duly acknowledged by the Supervisory Board provides the conceptual framework for Aareal Bank Group's risk management. The Risk Appetite Framework, which also outlines the key elements of the risk culture put into practice, is consistent with the business strategy and builds on the defined risk appetite. Taking the Risk Appetite Framework as a basis and carefully factoring in the Bank's risk-bearing capacity, we formulated detailed strategies for managing each material type of risk, in terms of both capital and liquidity. Taken together, these represent the Group's risk strategy. These strategies are designed to ensure that risks are managed professionally and carefully. Accordingly, they include general definitions and specifications to ensure a uniform understanding of risks throughout the Group. The strategies also provide a cross-sectional, binding framework that applies to all divisions. The Bank has implemented adequate risk management and risk control processes to implement these strategies and to safeguard its risk-bearing capacity.

The business strategy, Risk Appetite Framework and risk strategies are reviewed on an ongoing basis and updated if necessary. Besides the regular review of the business strategy (with any necessary adjustments) and in turn, of the Group risk strategy, an independent validation of the Bank's risk-bearing capacity and its material risk models is conducted at least once a year. This involves above all examining the appropriateness of risk measurement methods, processes and risk limits. During the financial year under review, the strategies were adopted by the Management Board, duly noted, and approved by the Supervisory Board.

The Bank has defined escalation and decision-making processes for dealing with limit breaches. Risk Controlling prepares independent risk reports for the management in good time.

Aareal Bank Group maintains a decentralised Internal Control System (ICS), i.e. the respective control activities are outlined in the Written Set of Procedural Rules for the individual processes of divisions, subsidiaries or other units. Internal controls may run upstream, downstream or parallel to workflows; this applies to automatic control and monitoring functions and also to corresponding manual steps. Accordingly, the ICS covers all control activities and aims to ensure that qualitative and quantitative standards are adhered to (compliance with legal or regulatory requirements, compliance with limits, etc.).

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

Risk-bearing capacity and risk limits

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

The normative perspective aims to ensure that Aareal Bank Group is able to fulfil all of its regulatory requirements over a multi-year period. Accordingly, this perspective accounts for all material risks that may impact upon relevant regulatory indicators over the multi-year planning period.

The normative ICAAP perspective is incorporated in Aareal Bank Group's planning process, which includes above all capital planning. Group planning covers three planning years, comprising both baseline and adverse scenarios. The Group planning results are shown as a projected consolidated income statement for Aareal Bank Group. Planning also covers the balance sheet structure, key regulatory indicators and additional internal management indicators.

Besides the planning process itself, intra-year computation adjustments to Aareal Bank Group's planning process included the monitoring of management indicators on an ongoing basis and checking whether limits in the normative perspective were being complied with. A number of different regulatory ratios make up the management indicators in the normative perspective and these are monitored with specified limits.

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

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

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

Aareal Bank Group consistently applies a period of one year (or 250 trading days) as a risk analysis horizon; this also serves as the holding period as part of risk models under the economic perspective. The independent validation of the corresponding risk models and parameters verifies the appropriateness of model assumptions.

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

Limits for specific risk types are determined in such a way that aggregate limits do not exceed economic aggregate risk cover less a risk buffer. This risk buffer is designed, among other things, to account for risks that are not explicitly covered by limits and to also absorb other fluctuations of internal capital over time. Individual limits are set on the basis of existing risk exposures and historical levels of potential risks, provided that these are in line with the Bank's business and risk strategy. Specific limits have been set so that each limit can be used in line with planned business development and for common market fluctuations.

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

Since risk cover potential is not an adequate means to assessing the risk-bearing capacity when it comes to monitoring the Bank's ability to meet its payment obligations (liquidity risk in the narrower sense), we have defined special tools within the framework of the Internal Liquidity Adequacy Assessment Process (ILAAP) for managing and monitoring this type of risk. These tools are described in detail in the chapter "Liquidity Risk" (page 105).

Stress testing

Within the scope of ICAAP and ILAAP, scenario analyses are carried out in all perspectives as a core element of our risk management system. This involves conducting stress tests for all material risks, using both historical parameters as well as hypothetical stress-testing scenarios. So that we can also assess cross-relationships between the various types of risk, we have defined multi-factor stress scenarios, known as "global" stress tests. For instance, the impact that the 2007 financial and economic crisis had on individual types of risk and aggregate risk is analysed within the scope of a historical scenario. In the hypothetical scenario, current potential developments are derived from factors such as political developments and are combined with significant macro-economic deterioration. The stress-testing methodology that is implemented also takes into account the impact of any risk concentrations. Stress scenarios are analysed both from an economic and a normative perspective, factoring in the respective cross-relationships. This means that any economic risks that may materialise (from a normative view) over the analysis period are incorporated in the normative perspective unless they are sufficiently covered already. ESG risks are integrated into the stress-testing methodology and ESG-related stress test calculations include climate change scenarios, together with a scenario relating to change in society.

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

Credit business

Division of functions and voting

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

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

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

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

Process requirements

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

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

The organisational guidelines contain provisions governing escalation procedures and further handling in the event that limits are breached or that individual risk parameters deteriorate. Measures involved may include providing extra collateral or conducting an impairment test.

Early risk detection procedures

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

In particular, the procedures applied for detecting risks early on serve the purpose of identifying, in good time, borrowers or exposures for which higher risks are beginning to emerge. For this purpose, we generally monitor individual exposures and the parties involved (such as borrowers or guarantors) regularly throughout the credit term, assessing quantitative and qualitative factors, with the aid of instruments such as periodic monitoring and internal ratings. The intensity of the ongoing assessments is based on the risk level and size of the exposure. The Group's risk management processes ensure that counterparty credit risk is assessed at least once a year.

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

One crucially important factor in this context is actively managing client relationships, i.e. approaching clients in time to jointly develop a solution to any problems that may arise. Wherever necessary, we enlist expert assistance from the independent restructuring and recovery functions.

Risk classification procedures

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

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

Property financing business

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

First of all, the client's probability of default (PD) is determined using a rating procedure. The method used here comprises two main components: a property rating and a corporate rating.

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

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

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

In this context, PD and LGD procedures are also applied for accounting purposes, i. e. for determining model-based loss allowance. Concerning the scenario analyses to be taken into account when determining individual LGDs, an updated scenario mix is applied to the customary process and model. This probability-weighted scenario mix reflects the uncertainty of future developments and supplements our baseline scenario by adding divergent developments. These scenarios are also applied to modelling scenario-driven PDs. At present, this is being mapped using an overlay since technical implementation in the models applied in a production environment has yet to be finalised.

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

Financial institutions

Aareal Bank Group uses an internal rating procedure for financial institutions to classify the risk exposure to banks, financial services providers, securities firms, public-sector development banks and insurance companies. This procedure takes into account qualitative and quantitative factors and our client's group affiliation. By assessing relevant financial indicators and factoring in expert knowledge, the Group assigns financial institutions to a specific rating grade.

Sovereign states and local authorities

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

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

Trading activities

Functional separation

We have implemented a consistent functional separation between Sales units and Credit Management along the entire process chain for concluding, settling and monitoring trading transactions.

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

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

The detailed assignment of responsibilities is outlined below.

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

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

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

The Risk Controlling division is responsible for identifying, quantifying and monitoring market price, liquidity and counterparty credit risk exposure from trading activities and also for providing prompt, independent risk reporting to senior management.

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

Change processes (as defined in Section AT 8 of the MaRisk) are managed consistently via Group-wide framework directives. As well as this, processes and systems are designed in such a way that new products can be incorporated into the risk monitoring system quickly and effectively so that the Sales units can ble flexible in their business activities.

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

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

Investment risks

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

Risk measurement and monitoring
The investment risk model breaks down investments outside the regulatory scope of consolidation into two groups, whereby risk-equivalent exposures are determined for material investments using the regulatory IRB formula. The latter was modified to include a concentration risk component to account for the eventuality of individual equity investments representing a significant concentration risk from an overall bank perspective. For non-material investments, equity coverage is determined using the simple risk weight function for investments in accordance with the CRR. Risk exposure for investments within the regulatory scope of consolidation is measured using the look-through principle, based on the assets of the respective investment.

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

Group Strategy, together with Finance & Controlling and Risk Controlling, is responsible for measuring and monitoring investment risk exposure.

Risk Controlling submits a quarterly equity investment risk report to the Bank's Management Board.

Property risks

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

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

Risk measurement and monitoring

In order to measure and monitor risks, property yields are analysed for different regions and property types, and over the time horizons available: on this basis, potential yield increases for different regions and property types over a one-year horizon are determined by applying a 99.9 % confidence interval. A property's risk contribution results from the difference between the current market value and the property value adjusted for the yield increase.

The model also factors in idiosyncratic shock events for each property, which may occur independently of general market developments.

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

Country risks

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

Business and strategic risks

Definition

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

Risk measurement and monitoring

As allocation risk is already covered by various planning scenarios, it is incorporated in aggregate risk cover.

Investment risk is measured across segments. It is quantified based on the assumption that additional upfront investment is required to establish an investment opportunity that was previously unavailable. This upfront investment is assumed to represent potential risk.

Pension risks

Pension risks arise from measuring pension obligations that have been entered into and plan assets that are held under pension plans. Risk is mitigated by structuring plan assets – essentially a special investment fund held in trust – accordingly.

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

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

Information about Corporate Governance Regulations

The disclosures required pursuant to Article 435 (2) of the CRR are outlined below.

Management and supervisory functions of the Management Board and the Supervisory Board

The following tables show the number of management and supervisory functions held by members of the Management Board and Supervisory Board.

	Number of management or supervisory functions actually exercised	Number of management or supervisory functions taking into account the privileged status pursuant to section 25c (2) of the KWG
Management Board		
Dr Christian Ricken	3	3
Andy Halford	2	2
Nina Babic	3	2
Christof Winkelmann	3	1

	Number of management or supervisory functions actually exercised	Number of management or supervisory functions taking into account the privileged status pursuant to section 25d (3) of the KWG
Supervisory Board		
Jean Pierre Mustier	2	2
Henning Giesecke	3	3
Denis Hall	4	4
Petra Heinemann-Specht	1	1
Barbara Knoflach	7	5[1)]
Hans-Hermann Lotter	6	4
Marika Lulay	6	3[2)]
Klaus Novatius	1	1
Maximilian Rinke[3)]	2	2
Nicole Schäfer[4)]	1	1
José Sevilla Álvarez	2	2
Markus Zywitza[5)]	1	1

1) The ECB approved that Ms Knoflach holds an additional Supervisory Board office.
2) The ECB approved that Ms Lulay holds an additional Supervisory Board office.
3) The Annual General Meeting elected Mr Rinke to the Supervisory Board on 3 May 2024.
4) Ms Schäfer was elected as an employee representative to the Supervisory Board on 2 October 2024.
5) Mr Zywitza was elected as an employee representative to the Supervisory Board on 2 October 2024.

Guidelines for selecting members of the Management Board and the Supervisory Board

The Supervisory Board of Aareal Bank AG is satisfied that the Management Board and the Supervisory Board are adequately staffed if all members are in a position to perform their duties (professional qualification), commit the time necessary to perform these and possess the integrity to be guided by the ethical principles of Aareal Bank when performing their duties (with respect to personal reliability, including conflict of interest and independence aspects). The composition of the Supervisory Board and the Management Board, respectively, shall facilitate, in its entirety, cooperation and the widest possible diversity of opinions and knowledge (the concept of diversity).

The Supervisory Board has defined concrete requirements and processes to incorporate these criteria when evaluating Management Board and Supervisory Board members, as well as when selecting candidates for appointment to the Management Board, or shareholder representatives to the Supervisory Board. When establishing these processes, it took into account the provisions of the AktG and the KWG, the recommendations of the German Corporate Governance Code, and the regulatory guidelines of the European Central Bank and the European Banking Authority on adequacy and internal governance. Besides the Supervisory Board, the European Central Bank also reviews the suitability of the respective candidates, using what is known as the "fit & proper" approach.

Personal reliability

The principles of personal reliability apply equally for all members of the Management Board and the Supervisory Board. The members of the Management Board and the Supervisory Board must demonstrate honesty, integrity and independence of mind. They should live by the ethical principles of Aareal Bank, as set out in the Code of Conduct, and dedicate sufficient time to perform their duties. The time commitment of every Management Board and Supervisory Board member is calculated; an annual review reveals whether they are dedicating sufficient time to exercising the mandate. The Supervisory Board takes care to ensure compliance with the requirements for the maximum number of additional offices, pursuant to sections 25c (2) and 25d (3) of the KWG.

Conflicts of interest and independence of Supervisory Board members

Special rules apply to the Supervisory Board over and above the Group-wide Conflicts of Interest Policy. Acting in the interests of the Company means making judgements free from extraneous influence. In line with this, the Supervisory Board attaches particular importance to the handling and disclosure of actual, potential, temporary or permanent conflicts of interest that could, for example, impact the independence of the Supervisory Board.

In the Management Board's and Supervisory Board's Conflicts of Interest Policy, which has been specifically designed for these two bodies, the Supervisory Board has laid down procedures on how to handle conflicts of interest affecting members of the Management Board or the Supervisory Board. In accordance with this Policy, individual Management Board and Supervisory Board members must transparently declare any potential conflicts of interest.

The Supervisory Board has also defined the circumstances under which the independence of shareholder representatives is no longer ensured. At least once a year it carries out a review of whether the independence of individual members is no longer ensured, or may be compromised. The Supervisory Board usually assumes that independence is not ensured in the event of the following circumstances:

- a material, and not just temporary, conflict of interest materialises within the meaning of the Management Board's and Supervisory Board's Conflict of Interest Policy;
- if the member of the Supervisory Board has served on the Supervisory Board or Management Board of Aareal Bank AG for twelve consecutive years or longer;
- if less than five years have elapsed between their service on the management board of an institution included in the scope of prudential consolidation and their membership on Aareal Bank AG's Supervisory Board;
- if less than three years have elapsed between their serving as a senior manager at the top management level below the Management Board at Aareal Bank AG or another entity included in the scope of prudential consolidation and their membership on the Supervisory Board of Aareal Bank AG;
- if the member of the Supervisory Board is a controlling shareholder of Aareal Bank AG, as defined in Article 22 (1) of Directive 2013/34/EU, or if they represent the interests of a controlling shareholder;
- if the member of the Supervisory Board has a material financial or business relationship with the relevant institution;
- if the Supervisory Board member is an employee of, or otherwise affiliated with, a controlling shareholder of Aareal Bank AG;

- if the member of the Supervisory Board has been the owner of a significant professional advisor or external auditor or have themselves been a significant advisor to Aareal Bank AG or any other entities included in the scope of prudential consolidation within a three-year period;
- if the member of the Supervisory Board is, or was in the previous year, a significant supplier or client of Aareal Bank AG or any other entity included in the scope of prudential consolidation, or had any other material business relationship with, or is a senior executive (leitende(r) Angestellte(r)) of, a significant supplier, client or commercial enterprise that has a significant business relationship, or is otherwise directly or indirectly related to such significant supplier, client or commercial enterprise;
- if the member of the Supervisory Board receives significant remuneration or other benefits from Aareal Bank AG or another entity included in the scope of prudential consolidation over and above the remuneration for their activities as a member of the Supervisory Board or any remuneration for activities performed in connection with any significant financial or business relationship with Aareal Bank AG; or
- if the Supervisory Board member is a close relative of a member of the Management Board of Aareal Bank AG or of a management board member or managing director of another entity included in the scope of prudential consolidation.

The Supervisory Board may deviate from this principle if it is determined in a specific individual case that the Supervisory Board member's ability to make objective and balanced judgements and independent decisions is not impaired due to the circumstance jeopardising independence.

Furthermore, all Supervisory Board members are subject to the statutory limitations laid out in section 100 (2) nos. 2 to 4 of the AktG and in section 25d (3) sentence 1 of the KWG. Unlike the criteria listed above, the statutory limitations are mandatory, which means that they prevent the nomination of a potential candidate, or require the resignation of the affected board member.

Effective 2 December 2024, the Supervisory Board believes, reflecting the above definition, that seven of eight shareholder representatives – specifically, Mr Mustier, Mr Giesecke, Mr Hall, Ms Knoflach, Ms Lulay, Mr Lotter and Mr Sevilla Álvarez – are independent, whereas Mr Rinke is not considered independent in line with the above definition. As regards Ms Lulay, Aareal Bank AG has a business relationship with GFT Technologies SE. This must be considered material as defined by the Conflicts of Interest Policy for the Management Board and Supervisory Board. However, following its requisite case-by-case assessment, the Supervisory Board does not believe that this conflict of interest compromises the independence of Ms Lulay. While she is CEO and Executive Director of GFT Technologies SE, the business relationship is not relevant for the practical work of Aareal Bank's Supervisory Board. In the previous year, Mr Lotter was subject to a conflict of interest in his role as Managing Director of Atlantic BidCo GmbH. This conflict of interest ceased to exist at the close of 2 December 2024 when Mr Lotter resigned from that office. Mr Lotter did not receive any payments from Atlantic BidCo GmbH in this respect at any time. Therefore, Mr Lotter is once again deemed to be an independent member of the Supervisory Board. Mr Giesecke, Mr Hall, Ms Knoflach, Mr Lotter and Ms Lulay are subject to a potential conflict of interest due to their investments in the Atlantic Co-investment Programme. However, since their investment (= economic interest) does not exceed 1 % of Aareal Bank's eligible regulatory capital (as at 31 December 2024: € 2,122,096,255.31), it is considered immaterial and does not affect the work of the Supervisory Board.

Professional qualification

Every member of an executive body must possess the knowledge, ability and experience to properly perform their duties. This means that they must at least be able to understand and assess the Company's material business activities and the associated material risks, the control and monitoring system established in this regard, as well as the corresponding accounting and financial reporting systems. This also requires being familiar with the underlying material legal requirements. Each member of the Supervisory Board must be in a position to perform the duties incumbent on the Supervisory Board in its entirety.

When chairing a committee, Supervisory Board members should possess extensive expertise in the topics covered by that committee. The Chairman of the Audit Committee, for example, must be an expert on accounting/financial reporting issues and internal control and risk management systems, while the Chairman of the Risk Committee must be an expert in assessing the efficacy of risk management systems in credit institutions.

Overall, with regard to its collective composition, the Supervisory Board further decided that the following additional expertise be adequately represented:

- Experience in sectors and financial markets which are material to Aareal Bank Group
- Digitalisation and transformation
- Strategic planning
- Design and assessment of risk management systems, internal control systems and corporate governance frameworks
- Accounting/financial reporting and audit matters
- ESG
- M&A

The skills matrix below provides an overview of the implementation status of the collective profile of required skills and expertise:

Member of the Supervisory Board	Material sector and financial markets expertise	Digitalisation and transformation	Strategic planning	Design and assessment of RMS, ICS and CG frameworks	Accounting/financial reporting and auditing	ESG	M&A
Jean Pierre Mustier	X	X	X	X	X	X	X
Henning Giesecke	X		X	X	X		
Denis Hall	X	X		X	X	X	X
Petra Heinemann-Specht*	X			X			
Barbara Knoflach	X	X	X			X	X
Hans-Hermann Lotter	X		X	X	X		X
Marika Lulay	X	X	X			X	X
Klaus Novatius*	X			X			
Maximilian Rinke	X	X	X	X	X		
Nicole Schäfer*		X					
José Sevilla Álvarez	X		X	X	X		X
Markus Zywitza*		X					

* Employee representative

The following Audit Committee members are experts in the areas of accounting/financial reporting and auditing: Mr Giesecke, Mr Hall, Mr Sevilla Álvarez, Mr Rinke and Mr Lotter. Mr Mustier possesses expertise in the area of accounting.

Please refer to Aareal Bank's website for the curricula vitae of the members of the Management Board (www.aareal-bank.com/en/about-us/company-profile/the-management-board) and of the Supervisory Board (www.aareal-bank.com/en/about-us/company-profile/supervisory-board).

Diversity concept

The Management Board and the Supervisory Board pursue the objective of ensuring that the bodies are as diverse as possible with regard to gender, age, internationality and professional experience. Where there are several equally suitable candidates, these factors are taken into account when making selection to avoid "herd mentality" and to draw together the broadest possible spectrum of different points of view so the best decision for Aareal Bank can be made. The Management Board ensures that these aspects of diversity are also taken into consideration at the management levels it controls to facilitate succession based on this diversity concept. The Supervisory Board has set objectives for the diversity aspects mentioned above, both for itself and the Management Board, and presents implementation progress annually. It views these objectives as establishing a minimum base level; there is no reason why they cannot be exceeded.

Gender diversity

The Supervisory Board sets specific targets – including concrete implementation deadlines – for the share of female members on the Supervisory Board and the Management Board. Likewise, the Management Board defines such targets for the two management levels immediately below the Management Board. The target share for female members on the Supervisory Board is 33 % by 30 June 2027. The status quo is 33.3 % (2023: 33.3 %). On the Management Board, by 30 June 2027 at least 25 % of positions are to be held by women. The status quo is 25 % (2023: 25 %). As things stand, the minimum objectives set by the Supervisory Board have been achieved.

Age diversity

The Supervisory Board has set out targets for the age structure of the Management Board and the Supervisory Board to safeguard the continuous development of both bodies. At the time of (re)election to the Supervisory Board, candidates should be less than 70 years old. Furthermore, half of the Supervisory Board members should be younger than 60 years. Members of the Management Board should not exceed the upper age limit of 65 years while serving on the Management Board. With the exception of Mr Halford, all Management Board and Supervisory Board members fulfil these targets.

International profile

Given Aareal Bank's international business activities, the Supervisory Board has set itself and the Management Board the goal of having the broadest possible international experience; this can be demonstrated by nationality or at least three years of relevant professional experience gained in another country. For the Management Board, the figure is currently at 75 % (2023: 50 %), for the Supervisory Board it is at 66.67 % (2023: 58.3 %).

Diversity of professional skills

The Supervisory Board pursues the objective of maximum professional diversity when selecting the members of the Management Board and the Supervisory Board. However, the demanding professional requirements for members of the management board and the supervisory board of "significant credit institutions" limit the opportunities for achieving this objective: for instance, regulatory rules require in principle that members of the Management Board have extensive experience in the lending business and in risk management. In accordance with section 100 (5) of the AktG, the Management Board members in their entirety must be familiar with the sector in which the Company operates. The Supervisory Board's aim of ensuring that not all members have gained most of their professional experience at a credit institution is currently met.

Risk Committee

The Supervisory Board has established five committees, including the Risk Committee, in order to perform its supervisory duties in an efficient manner. The Risk Committee monitors Aareal Bank's material risks, comprising financial and non-financial types of risk alike, including IT-related risks. The committee is also responsible for reviewing the contents of the risk strategies in accordance with the MaRisk and preparing the corresponding resolutions of the Supervisory Board. It furthermore advises the Management Board on how to design an appropriate and effective risk management system, making sure that the Bank's risk-bearing capacity is adequate. To that end, the Committee monitors the Management Board, especially as regards determining risk appetite and the corresponding limits.

The Risk Committee held four meetings during the financial year under review. It regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted by the Committee members. The Risk Committee concerned itself with the Bank's strategies and risks, including credit and country risks, market risks, liquidity risks, operational risks, reputational and IT risks. The Committee also examined Aareal Bank's risk-bearing capacity and its capital ratios. Detailed reports regarding the Bank's liquidity status, management and funding were also provided. Moreover, the Risk Committee concerned itself with the results of the risk management system review carried out by the external auditors and with the main focus of the ECB's supervisory activities during the 2024 financial year. The regulatory reviews and other regulatory publications and amendments were also presented during the meetings, in particular the results of the SREP 2023 and the results of the SREP 2024. Also, all material risks were outlined suc and the risk inventory was presented. In this context, the Risk Committee discussed the results of the external auditors' examination of the risk management system.

The Management Board submitted detailed reports to the Risk Committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The Committee members discussed these reports and market assessments in detail, while also examining measures for reducing high-risk exposures within the scope of risk reporting. The Risk Committee also received reports on recovery planning and other risk management measures.

In addition, the Committee concerned itself in all meetings with the banking and regulatory environment. Individual meetings focused on current topics such as individual risk types, the development of all of the Bank's portfolios, concentrating on current critical developments in individual markets. This also included an in-depth look at the portfolio of office properties in the US and, in this context, at the necessary measures for reducing or restructuring exposures.

Other topics discussed by the Risk Committee in the financial year under review included the remuneration strategy, which was subjected to a regular review against the background of the Company's risk, capital and liquidity structure. The Risk Committee also took a close look at steering measures for existing pension obligations and the regular review of terms and conditions in the client business.

The Risk Committee further discussed the regulatory requirements related to the Digital Operational Resilience Act (DORA) in the 2024 financial year. Together with the Technology and Innovation Committee, it also concerned itself with IT risks at every meeting.

In addition, Mr José Sevilla Álvarez succeeded Mr Henning Giesecke as Chairman of the Risk Committee in the year under review.

Flow of information towards the Management Board and the Supervisory Board

Reporting to the Management Board and the Supervisory Board is described in the section "Risk management" of this Regulatory Disclosure Report as well as in the relevant sections addressing the risk types that are relevant for disclosure.

The Chairman of the Supervisory Board regularly discusses questions regarding the strategy, performance, risk situation, risk management, and personnel- and remuneration-related matters with the Chairman of the Management Board. The Chairman of the Risk Committee goes into detail – especially with the Chief Risk Officer – on topics such as the risk situation, risk management, and risk strategies.

Scope of Application of the Regulatory Framework

The Group's strategic business activities are commercial property financing, payments processes, corporate banking services and tenant deposit solutions for the German property sector and related industries.

Aareal Bank comprises two business segments: Structured Property Financing and Banking & Digital Solutions.

In the Structured Property Financing segment, Aareal Bank facilitates property investments for its domestic and international clients, and is active in Europe, North America and the Asia/Pacific region. Aareal Bank finances commercial property investments, especially hotels, alternative living (student housing, micro-living, etc.) retail, logistics, office and residential properties, with a focus on existing buildings. Its sales operations combine local market expertise with specific know-how for the hotel, logistics, retail and alternative living sectors, providing its clients with specialist teams in the Group's head office located in Wiesbaden. The industry experts work closely with the local teams, ensuring that the full scope of requisite know-how is available for every transaction. This allows Aareal Bank to offer financing concepts that meet the special requirements of its domestic and international clients, as well as conclude structured portfolio and cross-border financings.

In the Banking & Digital Solutions segment, Aareal Bank Group provides sector-specific payments processes to its clients from the institutional housing industry, the commercial property sector, as well as to the energy and utilities industry. Aareal Bank helps its clients structure their core business processes more efficiently so they are fit for purpose for the long term. It does so in combination with the software suite provided by First Financial Software GmbH, which facilitates integrated payment flow processing between ERP systems and the Bank's accounts platform. Aareal Bank, First Financial Software GmbH and Aareon AG have entered into a strategic partnership for this purpose. Wherever the property sector and the energy industry cross over, Aareal Bank and its partners contribute to optimising payments and adjacent business processes. Payments processed using BK@1 on Aareal Bank's accounts platform generate deposits that factor into the Group's funding. The digital tenant deposit solutions and selected financing products enhance the range of services the

B&DS segment offers the German property sector. Aareal Bank's investment offerings for property and energy industry companies support clients to actively manage their investments and cash.

Comparison of the scopes of consolidation

The entities within the Group are consolidated for accounting and regulatory monitoring purposes. Applicable accounting and regulatory rules differ in some areas in relation to their specifications and objectives.

Hence, the scope of consolidation created on the basis of the legal requirements differs, in terms of the number of consolidated entities, as well as regarding the method of consolidation.

The following table EU LI3 lists all parent companies, subsidiaries, joint arrangements and associates of Atlantic Group that are consolidated on the basis of regulatory aspects and included in consolidated financial reporting as at the reporting date. Furthermore, the table includes only companies included in consolidated financial reporting with absolute equity amounting to at least € 1 million.

With regard to the description of the respective company to be disclosed in column h, the Bank follows the definitions listed in Article 4 of the CRR and section 1 of the KWG, whereby companies which are consolidated on the basis of regulatory aspects are classified depending on their principal activity, including as credit institutions, providers of ancillary services or financial institutions. Shareholdings classified as other companies comprise only those included in consolidated financial reporting and for which classification pursuant to CRR does not apply.

Investments that are outside the regulatory scope of consolidation are allocated to the "at equity" measurement category, and are reported in the "Investments accounted for using the equity method" line item. These investments are not consolidated, nor are they deducted from regulatory capital; instead, they are taken into account when determining RWAs.

EU LI3: Outline of the differences in the scopes of consolidation

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full con-solidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Parent companies							
Atlantic Lux HoldCo S.à r.l. Luxembourg	Full consolidation	X					Financial holding company
Atlantic BidCo GmbH, Frankfurt/Main	Full consolidation	X					Financial holding company
Structured Property Financing							
Aareal Bank AG, Wiesbaden	Full consolidation	X					Credit institution
Aareal Bank Asia Ltd., Singapore	Full consolidation	X					Credit institution
Chronos Beteiligungen GmbH (formerly: Aareal Beteiligungen AG), Frankfurt/Main	Full consolidation	X					Financial institution
Aareal Capital Corporation, Wilmington	Full consolidation	X					Financial institution
Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG, Wiesbaden	Full consolidation				X		Other
Aareal Holding Realty LP, Wilmington	Full consolidation	X					Financial institution
Aareal Immobilien Beteiligungen GmbH, Wiesbaden	Full consolidation	X					Financial institution
Apex Owner NY LLC, Wilmington	Full consolidation	X					Financial institution
BauContact Immobilien GmbH, Wiesbaden	Full consolidation				X		Other

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a	b	c	d	e	f	g	h
Name of the entity	**Method of accounting consolidation**	**Method of prudential consolidation**					**Description of the entity**
		Full con-solidation	**Proportional consolidation**	**Equity method**	**Neither consolidated nor deducted**	**Deducted**	
BVG – Grundstücks- und Verwertungsgesell-schaft mbH, Frankfurt/Main	Full consolidation				X		Other
Cave Nuove S.p.A., Rome	Full consolidation	X					Ancillary services undertaking
DBB Inka, Dusseldorf	Full consolidation				[1]		Other
Deutsche Structured Finance GmbH, Wiesbaden	Full consolidation				X		Other
DHB Verwaltungs AG, Wiesbaden	Full consolidation				X		Other
Galleria City Holding Company LLC, Wilmington	Full consolidation	X					Ancillary services undertaking
Galleria Manager Realty LLC, Wilmington	Full consolidation	X					Financial institution
Galleria City Partners LP, Wilmington	Full consolidation	X					Financial institution
Izalco Spain S.L., Madrid	Full consolidation	X					Ancillary services undertaking
La Sessola Holding GmbH, Wiesbaden	Full consolidation	X					Financial institution
La Sessola S.r.l., Rome	Full consolidation	X					Ancillary services undertaking
La Sessola Service S.r.l., Rome	Full consolidation	X					Ancillary services undertaking
Luce San Giovanni S.r.l., Rome	Full consolidation	X					Ancillary services undertaking
Manager Realty LLC, Wilmington	Full consolidation	X					Ancillary services undertaking
Mercadea S.r.l., Rome	Full consolidation				X		Other
Met Manager Realty LLC, Wilmington	Full consolidation	X					Financial institution
Met Tower Owner LLC, Wilmington	Full consolidation	X					Ancillary services undertaking
Met Tower Venture LP, Wilmington	Full consolidation	X					Financial institution
Mount Street Group Limited, London	Full consolidation				X		Other
Northpark Realty LP, Wilmington	Full consolidation	X					Ancillary services undertaking
Participation Achte Beteiligungs GmbH, Wiesbaden	Full consolidation	X					Financial institution
Participation Zehnte Beteiligungs GmbH, Wiesbaden	Full consolidation				X		Other
PropTech1 Fund I GmbH & Co. KG, Berlin	No consolidation				[1]		Other
Sole Sopra Cinquina S.r.l., Rome	Full consolidation	X					Ancillary services undertaking
Summit Holdings NY LLC,Wilmington	Full consolidation	X					Financial institution
Terrain Beteiligungen GmbH, Wiesbaden	Full consolidation	X					Financial institution
Terrain Herzogpark GmbH & Co. KG, Wiesbaden	Full consolidation	X					Ancillary services undertaking
Terrain Management GmbH, Wiesbaden	Full consolidation				X		Other
Tintoretto Rome S.r.l., Rome	Full consolidation	X					Ancillary services undertaking
Westdeutsche Immobilien Servicing AG, Mainz	Full consolidation	X					Financial institution
1015 15TH Street DC LLC, Wilmington	Full consolidation	X					Ancillary services undertaking
146 Geary CA LLC, Wilmington	Full consolidation	X					Ancillary services undertaking
220 Post CA LLC, Wilmington	Full consolidation	X					Ancillary services undertaking
Banking & Digital Solutions							
collect Artificial Intelligence GmbH	Full consolidation				X		Other
First Financial Software GmbH, Mainz	At equity				X		Other

[1] The special funds reported under the advanced IRB approach are treated using the simple risk weight method pursuant to Article 155 (2) of the CRR.

Undercapitalised entities

Currently, there are no Atlantic Group subsidiaries failing to meet capital adequacy requirements whose participation is deducted from the liable equity capital of the parent institution.

Utilisation of the "waiver" regulation

As a subsidiary of Atlantic BidCo GmbH, a financial holding company within the meaning of Article 4 (1) no. 20 of the CRR, Aareal Bank is exempted pursuant to section 2a (1) sentence 1 of the KWG in conjunction with Article 7 (1) and (2) of the CRR. This waiver allows for the fulfilment of the requirements set out in Article 6 (1) of the CRR on a consolidated basis only. Moreover, Aareal Bank is exempt under section 2a (2) of the KWG from meeting the requirements with regard to the risk control function (with the exception of liquidity risk at single-entity level) as set out in section 25a (1) sentence 3 nos. 1, 2 and 3 lit. b) and c) of the KWG.

Due to the size of its shareholding in Aareal Bank, Atlantic BidCo GmbH is able to transfer excess capital to Aareal Bank if required, e.g. by means of a capital increase.

There are no material practical or legal impediment as per Article 7 (1) lit. a) of the CRR to the prompt transfer of own funds to Aareal Bank or the assumption of the obligation to repay Aareal Bank's liabilities by Atlantic BidCo GmbH.

The continued fulfilment of the prerequisites of Article 7 (1) and (2) of the CRR is reviewed on an event-driven basis and the results are documented in writing.

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories to regulatory risk categories

For each of the line items in the annual financial statements, the following table shows the differences between the scope of accounting consolidation and the regulatory scope of consolidation within Atlantic Group. Furthermore, for the line items shown, the table outlines the allocation to relevant risk categories for regulatory capital requirements.

The carrying values shown in table EU LI1 are calculated using financial reporting principles in accordance with the IFRSs. Allocation to risk categories is in line with the regulatory scope of consolidation; this also encompasses those line items which are generally exempt from regulatory capital requirements (such as liabilities), or which are deducted when determining regulatory capital requirements.

For regulatory purposes, consolidation at Atlantic Group level is based on carrying amounts in accordance with section 10a (4) of the KWG. This is a simplified method for determining own funds requirements in accordance with section 10a (5) of the KWG ("aggregation method"). This method aggregates the balance sheet assets and liabilities of the separate financial statements of the parent institution and the companies belonging to the regulatory group (IFRS carrying amounts of Aareal Bank Group).

Accounting consolidation, on the other hand, is based on IFRS 3 ("acquisition method"), according to which all identifiable assets and liabilities of the acquired company are measured at their fair value at the time of acquisition. These fair values also represent the amounts recognised on initial consolidation.

Differences between the carrying amounts shown are also due to the different scopes of consolidation and the resulting consolidation postings. In this context, there are overlaps between the corporate entities included in the respective scope of consolidation. For further details, please refer to the comparison of scopes of consolidation in table EU LI3.

Please note that the sum of the amounts shown in the above-mentioned columns c) to g) is not identical to the amounts disclosed in column b); this is due to the fact that several line items are subject to capital requirements for credit or counterparty credit risk, as well as to capital requirements for market risk.

EU LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories to regulatory risk categories

		a	b	c	d	e	f	g
				Carrying values of items				
€ mn		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or deduction from own funds
	Assets							
1	**Financial assets (ac)**	**39,851**	**40,411**	**40,411**	**–**	**–**	**17,455**	**–**
1a	Cash funds (ac)	2,605	2,605	2,605	–	–	0	–
1b	Loan receivables (ac)	32,171	32,611	32,611	–	–	16,940	–
1c	Money market and capital market receivables (ac)	5,007	5,130	5,130	–	–	505	–
1d	Receivables from other transactions (ac)	68	65	65	–	–	9	–
2	Loss allowance (ac)	-304	-394	-394	–	–	-327	–
3	**Financial assets (fvoci)**	**4,823**	**4,808**	**4,808**	**–**	**–**	**62**	**–**
3a	Money market and capital market receivables (fvoci)	4,821	4,807	4,807	–	–	62	–
3b	Equity instruments (fvoci)	2	1	1	–	–	–	–
4	**Financial assets (fvpl)**	**1,541**	**1,633**	**490**	**1,144**	**–**	**556**	**–**
4a	Loan receivables (fvpl)	393	381	381	–	–	263	–
4b	Money market and capital market receivables (fvpl)	5	109	109	–	–	–	–
4c	Positive market value of designated hedging derivatives (fvpl)	672	672	–	672	–	121	–
4d	Positive market value of other derivatives (fvpl)	471	471	–	471	–	172	–
5	Non-current assets held for sale	280	282	282	–	–	126	–
6	Investments accounted for using the equity method	75	138	138	–	–	0	–
7	Intangible assets	785	28	28	–	–	0	41
8	Property and equipment	121	77	77	–	–	3	–
9	Income tax assets	41	41	41	–	–	5	–
10	Deferred tax assets	80	251	251	–	–	–	75
11	Other assets	713	640	640	–	–	405	–
12	**Total assets**	**48,006**	**47,914**	**46,771**	**1,144**	**–**	**18,286**	**116**
	Equity and liabilities							
12	**Financial liabilities (ac)**	**39,142**	**39,594**	**–**	**–**	**–**	**2,301**	**37,294**
12a	Money market and capital market liabilities (ac)	26,210	26,618	–	–	–	2,290	24,329
12b	Deposits from the housing industry (ac)	12,216	12,267	–	–	–	–	12,267
12c	Liabilities from other transactions (ac)	71	68	–	–	–	11	57
12d	Subordinated liabilities (ac)	645	641	–	–	–	0	641
13	**Financial liabilities (fvpl)**	**2,566**	**2,566**	**–**	**2,566**	**–**	**768**	**–**
13a	Negative market value of designated hedging derivatives (fvpl)	1,057	1,057	–	1,057	–	77	–
13b	Negative market value of other derivatives (fvpl)	1,509	1,509	–	1,509	–	691	–
14	Non-current liabilities held for sale	9	9	–	–	–	–	9
15	Provisions	235	154	–	–	–	39	115
16	Income tax liabilities	91	67	–	–	–	3	64
17	Deferred tax liabilities	23	1	–	–	–	–	1
18	Other liabilities	42	40	–	–	–	7	33

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	a	b	c	d	e	f	g
			Carrying values of items				
€ mn	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or deduction from own funds
19 Equity	**5,898**	**5,483**	**–**	**–**	**–**	**–**	**5,483**
19a Subscribed capital	43	43	–	–	–	–	43
19b Capital reserves	1,970	1,970	–	–	–	–	1,970
19c Retained earnings	3,615	3,267	–	–	–	–	3,267
19d AT1 bond	300	300	–	–	–	–	300
19e Other reserves	-52	-118	–	–	–	–	-118
19f Non-controlling interests	22	21	–	–	–	–	21
20 Total liabilities	**48,006**	**47,914**	**–**	**2,566**	**–**	**3,118**	**42,998**

Main sources of differences between regulatory risk exposure amounts and carrying values in financial statements

Whilst the focus of table EU LI1 is on the reconciliation of carrying amounts in the financial statements under IFRSs to the regulatory scope of consolidation, and on the allocation to regulatory risk categories, table EU LI2 reconciles carrying amounts with the regulatory risk exposure (Exposure at Default – "EaD"), in line with the scope of prudential consolidation.

In this context, table EU LI2 identifies the main sources of differences between the carrying amounts/values shown, and exposures at default used for regulatory purposes.

EU LI2: Main sources of differences between regulatory exposure amounts and carrying amounts in financial statements

	a	b	c	d	e
		Items subject to			
€ mn	Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1 Assets carrying value under the scope of prudential consolidation (as per table EU LI1)	**47,914**	**46,771**	**–**	**1,144**	**18,286**
2 Liabilities carrying value under the scope of prudential consolidation (as per table EU LI1)	47,914	–	–	2,566	3,118
3 Total net amount under the scope of prudential consolidation	–	–	–	–	–
4 Off-balance sheet amounts	1,365	1,365	–	–	–
5 Differences in valuations	–	–	–	–	–
6 Differences due to different netting rules, other than those already included in row 2	–	–	–	–	–
7 Differences due to consideration of provisions	651	651	–	–	–
8 Differences due to the use of credit risk mitigation techniques	0	0	–	–	–
9 Differences due to credit conversion factors	-159	-159	–	–	–
10 Differences due to securitisation with risk transfer	–	–	–	–	–
11 Other differences	-2,061	-1,409	–	-653	-18,286
12 Exposure amounts considered for regulatory purposes	**47,710**	**47,219**	**–**	**491**	**–** [1]

[1] Since the sum total of the aggregate net foreign exchange position was below the threshold of 2 % of own funds, own funds requirements for foreign exchange risk were not determined.

As at the reporting date, none of the financial assets and financial liabilities meet the offsetting requirements for accounting purposes, therefore, no disclosure is made in line 3 of table EU LI2.

Line 4 shows off-balance sheet exposures not carried on the statement of financial position, which must be supplemented for regulatory purposes. Off-balance sheet exposures are shown before application of credit conversion factors (CCFs) and credit risk mitigation techniques.

There are no values reported in line 5 as the additional value adjustments of the assets and liabilities measured at fair value in accordance with Article 34 of the CRR in conjunction with Article 105 of the CRR (Prudent Valuation)[1] are included in own funds and do not affect EaD determination.

Line 7 reflects credit risk adjustments used for the regulatory comparison of Expected Loss (EL) and credit risk adjustments of exposures under the AIRBA as they have already been deducted from the carrying amounts shown in line 1. EaD for IRBA exposures is determined prior to deduction of credit risk adjustments; hence, credit risk adjustments already deducted from the carrying value must be supplemented.

Line 8 only shows credit risk mitigants in relation to the exposure value disclosed in line 12 for risk exposures reported under the CRSA. The collateral available under the AIRBA is fully taken into account in the determination of the LGD of the respective property financing.

Line 9 comprises the effect on the EaD of the off-balance sheet risk exposures reported in line 4, which results from the consideration of the CCF.

Line 11 shows the balance-sheet items deducted from regulatory capital, as reported in column g) of table EU LI1, since these are not included in the risk categories shown above (columns b) and c) of table EU LI2). These items must be deducted in order to reconcile the totals column (a) with the amounts of relevant risk categories (columns b and c). This line also includes, on the one hand, the difference attributable to the determination of the net foreign exchange position, for the purpose of own funds requirements for market risk, and, on the other hand, valuation differences between the carrying amounts under IFRSs and EaD for on-balance sheet exposures. This is largely attributable to no longer applicable adjustments due to the methodology for determining EaD for credit risk exposures under the AIRBA, as well as to adjustments of the total exposure value as a result of the SA-CCR calculation logic for derivative transactions. This line item also includes the carrying amounts of the initial margins due from central counterparties Eurex and LCH Limited, which are recorded as financial assets. In accordance with section 306 (2) of the CRR, Aareal Bank assigns an EaD of zero to the assets pledged as collateral.

Regulatory Capital

Atlantic Group has to comply with the capital adequacy requirements set out in the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD), 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.

[1] Since the determination of the additional value adjustments is not based on the core approach set out in Chapter III of Delegated Regulation (EU) 2016/101, but on the simplified approach, table EU PV1 (Prudent valuation adjustments) is not disclosed.

These provisions are not consistent with the recognition rules for the financial statements.

While the acquisition method in accordance with IFRS 3 is applied for accounting purposes, regulatory capital is calculated based on the aggregation method stipulated in section 10a (5) of the KWG. Additional differences arise from diverging scopes of consolidation, as well as from regulatory adjustments taken into account when determining regulatory capital.

Regulatory capital is based on the items reported in the statement of financial position in accordance with IFRSs.

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

The disclosure requirements pursuant to Article 437a of the CRR are not relevant for Atlantic Group, since Aareal Bank AG, as the Group's parent institution, has been categorised as a resolution unit, but is neither a Global Systemically Important Institution (Article 92a (1) of the CRR) nor a significant subsidiary of a Global Systemically Important Institution outside the EU.

Main features of capital instruments

The main features of capital instruments of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital are described by using the table EU CCA, which is published on Aareal Bank's website as an annex to this Disclosure Report.

In addition, Article 437 lit. (c) of the CRR requires to Group to disclose the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments. These terms and conditions of issue presented in the table EU CCA are fully published on Aarel Bank's website in the section "Investors › Financial Information › Terms and Conditions of Issue pursuant to Article 437 lit. (c) of the CRR".

Composition of regulatory own funds

Within the scope of the ECB's Supervisory Review and Evaluation Process (SREP), Aareal Bank has to meet total SREP capital requirements (TSCR) of 11.00 % on a consolidated basis at the level of Atlantic Lux HoldCo S.à r.l. (Atlantic Group) in 2024. This includes the requirement to maintain additional own funds (capital buffer) for risks other than the risk of excessive leverage (Pillar 2 requirements – P2R) of 3.00 %, which must be maintained in the form of at least 56.25 % Common Equity Tier 1 (CET1) capital and 75 % Tier 1 (T1) capital, respectively. Taking into account the capital conservation buffer of 2.50 %, the applicable countercyclical capital buffer of 0.59 % and the sectoral systemic risk buffer of 0.02 %, Atlantic Group's Overall Capital Requirement (OCR) as at 31 December 2024 amounts to 14.11 %.

The average total capital ratio (TC ratio) over the current reporting date and the four last quarters amounts to 23.38 %. The comparison to the TSCR demonstrates that Atlantic 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 components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital are described in the section following this table.

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.

[1] These two methods are further described in the chapter "Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories to regulatory risk categories" in this Disclosure Report (page 24f).

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	2,013	A, B
	of which: nominal capital	43	A
2	Retained earnings	1,050	C
3	Accumulated other comprehensive income (and other reserves)	-118	D
EU-3a	Funds for general banking risks	–	–
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	238	E
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**3,183**	**–**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-3	F
8	Intangible assets (net of related tax liability) (negative amount)	-41	G
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)	-75	H
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	-3	–
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)	–	–
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)	–	–

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€ mn		a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
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	-169	–
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**-291**	**–**
29	**Common Equity Tier 1 (CET1) capital**	**2,892**	**–**
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	300	I
31	of which: classified as equity under applicable accounting standards	300	I
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 494a (1) of the CRR subject to phase-out from Additional Tier 1 (AT1) capital	–	–
EU-33b	Amount of qualifying items referred to in Article 494b (1) 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**	**–**
	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)	–	–

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€ mn		a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
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)**	**3,192**	**–**
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	548	–
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	68	–
51	**Tier 2 (T2) capital before regulatory adjustments**	**616**	**–**
	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)	–	–
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**	**616**	**–**
59	**Own funds (TC = T1 + T2)**	**3,808**	**–**
60	**Total risk-weighted assets**	**14,268**	**–**

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€ mn		a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Capital ratios and requirements including buffers (in %)		
61	CET1 ratio	20.27	–
62	Tier 1 ratio	22.37	–
63	Total capital ratio	26.69	–
64	Institution CET1 overall capital requirements	9.30	–
65	of which: capital conservation buffer requirement	2.50	–
66	of which: countercyclical capital buffer requirement	0.59	–
67	of which: systemic risk buffer requirement	0.02	–
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	1.69	–
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	14.08	–
	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)	5	–
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 % threshold 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)	209	–
	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	16	–
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)	257	–
79	Cap on inclusion of credit risk adjustments in Tier 2 under internal ratings-based approach	68	–
	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

Atlantic Group's Common Equity Tier I (CET1) capital (€ 2,892 million) is generally limited to the items and capital instruments listed under Article 26 of the CRR, 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.

Atlantic Lux HoldCo S.à r.l.'s subscribed capital amounted to € 43 million as at 31 December 2024.

The capital reserve of € 1,970 million consists of contributions made by Atlantic BidCo GmbH's investors.

Retained earnings – including consolidated net retained profit recognised in CET1 capital – totalled € 1,288 million.

Accumulated other comprehensive income (€ -118 million) contains other reserves recognised in equity, in which the following effects are recognised directly:

- reserve from remeasurements of defined benefit plans (€ -60 million),
- reserve from the measurement of equity instruments fvoci (€ -4 million),
- reserve from the measurement of debt instruments fvoci (€ -39 million),
- other recyclable and non-recyclable reserves from companies accounted for using the equity method (€ 2 million),
- reserve from changes in the value of foreign currency basis spreads (€ -30 million), and
- currency translation reserve (€ 13 million).

The regulatory adjustments reduce the CET1 amount to € 291 million. Specifically, the following deductions were made:

- **Additional value adjustments to assets and liabilities at fair value in accordance with Article 34 of the CRR in conjunction with Article 105 of the CRR (€ -3 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 Commission Delegated Regulation (EU) No. 2016/101 applies.

- **Intangible assets as defined in Article 37 of the CRR (€ -41 million)**
  The amount comprises purchased and self-developed software classified as intangible assets, net of related tax liability (€ 19 million). The regulatory technical standard EBA/RTS/2020/07 on the regulatory treatment of software assets is not applied. In addition, the goodwill of First Financial Software GmbH is recognised in the amount of € 22 million.

- **Deferred tax assets dependant on future profitability (€ -75 million)**
  The only deferred tax assets considered are those that do not result from temporary differences (net of related tax liability).

- **Negative amounts resulting from the calculation of expected loss amounts (€ -3 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 (known as 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.

- **Other regulatory adjustments (€ -169 million)**

  – **Deductions pursuant to Article 3 of the CRR (€ -83 million)**
  Among other things, this includes an additional voluntary and preventive capital deduction for regulatory uncertainties in connection with ECB reviews in the amount of € 30 million. This deduction item also accounts for the expectations defined by regulatory and legislative authorities regarding provisioning for non-performing exposures ("prudential provisioning").

  – **Deductions pursuant to Article 36 lit. m) of the CRR (€ -35 million)**

  – **Other deductions from CET1 (€ -51 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).[1)] Regulatory adjustments pursuant to Article 56 et seqq. of the CRR were not made.

On 13 November 2014, the Management Board of Aareal Bank Group 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 is 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 2024 "Main Features of Capital Instruments" published on Aareal Bank AG's website.

Tier 2 capital

Aareal Bank's Tier 2 capital of € 616 million largely consists of subordinated promissory notes (€ 109 million) and subordinated bearer debt securities (€ 439 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 to calculate 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 (€ 68 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.

[1)] On 14 January 2025, Aareal Bank announced that it would call its existing € 300 million AT1 Notes issue in full, effective 30 April 2025, replacing it on 22 January 2025 with a new AT1 bond having an aggregate nominal amount of USD 425 million.

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 Atlantic Lux HoldCo S.à r.l.'s interim report.

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

	a	b	c
	Balance sheet as at 31 December 2024		
€ mn	as in published financial statements	under regulatory scope of consolidation	Reference
Assets			
Financial assets (ac)	**39,851**	**40,411**	
Cash funds (ac)	2,605	2,605	
Loan receivables (ac)	32,171	32,611	
Money market and capital market receivables (ac)	5,007	5,130	
Receivables from other transactions (ac)	68	65	
Loss allowance (ac)	-304	-394	
Financial assets (fvoci)	**4,823**	**4,808**	
Money market and capital market receivables (fvoci)	4,821	4,807	F
Equity instruments (fvoci)	2	1	F
Financial assets (fvpl)	**1,541**	**1,633**	
Loan receivables (fvpl)	393	381	F
Money market and capital market receivables (fvpl)	5	109	F
Positive market value of designated hedging derivatives (fvpl)	672	672	
Positive market value of other derivatives (fvpl)	471	471	
Non-current assets held for sale	280	282	
Investments accounted for using the equity method	75	138	
Intangible assets	785	28	G
Property and equipment	121	77	
Income tax assets	41	41	
Deferred tax assets	80	251	H
Other assets	713	640	
Total assets	**48,006**	**47,914**	

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€ mn	a Balance sheet as at 31 December 2024 as in published financial statements	b under regulatory scope of consolidation	c Reference
Equity and liabilities			
Financial liabilities (ac)	**39,142**	**39,594**	
Money market and capital market liabilities (ac)	26,210	26,618	
Deposits from the housing industry (ac)	12,216	12,267	
Liabilities from other transactions (ac)	71	68	
Subordinated liabilities (ac)	645	641	J
Financial liabilities (fvpl)	**2,566**	**2,566**	
Negative market value of designated hedging derivatives (fvpl)	1,057	1,057	F
Negative market value of other derivatives (fvpl)	1,509	1,509	F
Non-current liabilities held for sale	9	9	
Provisions	235	154	
Income tax liabilities	91	67	
Deferred tax liabilities	23	1	
Other liabilities	42	40	
Equity	**5,898**	**5,483**	
Subscribed capital	43	43	A
Capital reserves	1,970	1,970	B
Retained earnings	3,615	3,267	C, E
AT1 bond	300	300	I
Other reserves	-52	-118	D
Non-controlling interests	22	21	
Total liabilities	**48,006**	**47,914**	

Risk-weighted assets and regulatory capital requirements

The regulatory 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 depend 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 regulatory 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 31 December 2024, 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 OV1: Overview of risk-weighted assets (RWAs)

		a	b	c
		RWAs		Regulatory capital requirements
€ mn		31 Dec 2024	30 Sep 2024	31 Dec 2024
1	**Credit risk (excluding CCR)**	**12,214**	**12,652**	**977**
2	of which: Credit Risk Standard Approach (CRSA)	1,087	1,048	87
3	of which: Foundation IRB Approach (FIRB)	–	–	–
4	of which: slotting approach	–	–	–
EU 4a	of which: equity exposures under the simple risk-weighted approach	450	520	36
5	of which: advanced IRB (AIRB) approach	10,677	11,083	854
6	**CCR**	**443**	**520**	**35**
7	of which: standardised approach	273	333	22
8	of which: internal model method (IMM)	–	–	–
EU 8a	of which: exposures to a CCP	3	4	0
EU 8b	of which: credit valuation adjustment (CVA)	118	143	9
9	of which: other CCR	49	39	4
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 commodity risks)**	**–**	**–**	**–**
21	of which: standardised approach	–	–	–
22	of which: IMA	–	–	–
EU 22a	**Large exposures**	**–**	**–**	**–**
23	**Operational risk**	**1,611**	**1,611**	**129**
EU 23a	of which: basic indicator approach	–	–	–
EU 23b	of which: standardised approach	1,611	1,611	129
EU 23c	of which: advanced measurement approach	–	–	–
24	**Amounts below the thresholds for deduction (subject to 250 % risk weight)**	**523**	**472**	**42**
29	**Total**	**14,268**	**14,783**	**1,141**

In accordance with Annex II of Commission Implementing Regulation (EU) 2021/637, the disclosure of RWAs of deferred tax assets in line 24 is only for information, since they are already reflected in line 2 of the disclosure table.

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: Equity IRB 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	€ mn	%	€ mn	€ mn	€ mn
Private equity exposures	–	–	190	–	–	–
Listed investments	–	–	290	–	–	–
Other equity investments	122	–	370	122	450	3
Total	**122**	**–**		**122**	**450**	**3**

Minimum Requirements for Own Funds and Eligible Liabilities

Compliance with Minimum Requirements for Own Funds and Eligible Liabilities (MREL) is aimed at ensuring sufficient loss-absorbing and recapitalisation capacity. A key element in achieving this is the bail-in, i. e. the participation of a credit institution's shareholders and creditors in covering its losses and in its recapitalisation. As a prerequisite, sufficient capital instruments and liabilities must be available for a bail-in. To safeguard capacities, the competent resolution authority defines the institution-specific minimum requirements.

Aareal Bank pursues a resolution strategy that is based on a Single Point of Entry (SPE).

MREL disclosure requirements are based on Article 45i (3) of the Directive 2014/59/EU (Bank Recovery and Resolution Directive (BRRD)) in conjunction with Article 10 et seqq. and Annex V of Implementing Regulation (EU) No. 2021/763. As Atlantic Lux HoldCo S.à r.l. has not been categorised as a resolution unit, MREL disclosure is made at Aareal Bank Group level (resolution group) and Aareal Bank AG (resolution unit). Aareal Bank AG is not classified as a Global Systemically Important Institution (G-SII). Accordingly, the additional disclosure requirements for G-SII are waived. Therefore, only the tables EU KM2, EU TLAC1 and EU TLAC3b are disclosed below. The lines and columns contained in these tables that relate to G-SII-relevant information are not taken into account.

Table EU KM2 provides an overview of the key metrics included in the calculation of MREL as at the reporting date. In addition to own funds (Tier 1 capital, Additional Tier 1 capital and Tier 2 capital) and eligible liabilities, these include Aareal Bank Group's risk-weighted exposure amounts (RWA) and the total exposure measure (Leverage Ratio exposure – "LRE"). The own funds do not match the values shown in table EU KM1, as the key metrics in table EU KM1 relate to Atlantic Group.

EU KM2: Key metrics – MREL

€ mn		a Minimum requirement for own funds and eligible liabilities (MREL) 31 Dec 2024
	Own funds and eligible liabilities, ratios and components	
1	Regulatory capital and eligible liabilities	9,771
EU-1a	of which: own funds and subordinated liabilities	6,925
2	Risk-weighted exposure amounts (Risk-weighted assets, RWAs) of the resolution group	14,268
3	Own funds and eligible liabilities as a percentage of RWAs	68.48 %
EU-3a	of which: own funds and subordinated liabilities	48.54 %
4	Total exposure measure of the resolution group	46,666
5	Own funds and eligible liabilities as a percentage of total exposure measure	20.94 %
EU-5a	of which: own funds or subordinated liabilities	14.84 %

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€ mn		a Minimum requirement for own funds and eligible liabilities (MREL) 31 Dec 2024
6a	Does the subordination exemption in Article 72b (4) of Regulation (EU) No 575/2013 apply? (5 % exemption)	
6b	Aggregate amount of permitted non-subordinated eligible liabilities instruments if the subordination discretion in accordance with Article 72b (3) of Regulation (EU) No 575/2013 is applied (max 3,5 % exemption)	
6c	If a capped subordination exemption applies in accordance with Article 72b (3) of Regulation (EU) No 575/2013, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised under row 1, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised under row 1 if no cap was applied (%)	
	Minimum requirement for own funds and eligible liabilities (MREL)	
EU-7	MREL expressed as a percentage of RWAs	24.30 %
EU-8	of which: to be met with own funds or subordinated liabilities	–
EU-9	MREL expressed as a percentage of the total exposure measure	5.37 %
EU-10	of which: to be met with own funds or subordinated liabilities	–

Aareal Bank Group has to fulfil a minimum MREL requirement of 24.30 % for RWAs and of 5.37 % for the total exposure measure (LRE), which takes into account a combined buffer requirement (CBR) of 3.11 %. As at 31 December 2024, the MREL ratio was at 68.48 % of RWAs and at 20.94 % of LRE. This comfortably meets the MREL requirements as of the reporting date.

Table EU TLAC1 shows the composition of own funds and eligible liabilities.

EU TLAC1: Composition – MREL

€ mn		a Minimum requirement for own funds and eligible liabilities (MREL)
	Own funds and eligible liabilities and adjustments	
1	Common Equity Tier 1 (CET1) capital	2,877
2	Additional Tier 1 (AT1) capital	300
3	Empty set in the EU	
4	Empty set in the EU	
5	Empty set in the EU	
6	Tier 2 (T2) capital	616
7	Empty set in the EU	
8	Empty set in the EU	
11	Own funds for the purpose of Articles 92a of Regulation (EU) No 575/2013 and 45 of Directive 2014/59/EU	3,793
	Regulatory capital and eligible liabilities: non-regulatory capital elements	
12	Eligible liabilities instruments issued directly by the resolution entity that are subordinated to excluded liabilities (not grandfathered)	812
EU-12a	Eligible liabilities instruments issued by other entities within the resolution group that are subordinated to excluded liabilities (not grandfathered)	–
EU-12b	Eligible liabilities instruments that are subordinated to excluded liabilities issued prior to 27 June 2019 (subordinated grandfathered)	2,444
EU-12c	Tier 2 instruments with a residual maturity of at least one year to the extent they do not qualify as Tier 2 items	76

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€ mn		a Minimum requirement for own funds and eligible liabilities (MREL)
13	Eligible liabilities that are not subordinated to excluded liabilities (not grandfathered pre-cap)	3,365
EU-13a	Eligible liabilities that are not subordinated to excluded liabilities issued prior to 27 June 2019 (pre-cap)	–
14	Amount of non subordinated eligible liabilities instruments, where applicable after application of Article 72b (3) CRR	3,365
15	Empty set in the EU	
16	Empty set in the EU	
17	Eligible liabilities items before adjustments	6,697
EU-17a	of which: subordinated liabilities items	3,332
	Own funds and eligible liabilities: adjustments to non-regulatory capital elements	
18	Own funds and eligible liabilities items before adjustments	10,490
19	(Deduction of exposures between multiple point of entry (MPE) resolution groups)	
20	(Deduction of investments in other eligible liabilities instruments)	
21	Empty set in the EU	
22	Own funds and eligible liabilities after adjustments	9,771
EU-22a	of which: own funds and subordinated liabilities	6,925
	Risk-weighted exposure amount and leverage exposure measure of the resolution group	
23	Risk-weighted exposure amount (Risk-weighted assets, RWAs)	14,268
24	Total exposure measure	46,666
	Ratio of own funds and eligible liabilities	
25	Own funds and eligible liabilities as a percentage of RWAs	68.48 %
EU-25a	of which: own funds and subordinated liabilities	48.54 %
26	Own funds and eligible liabilities as a percentage of total exposure measure	20.94 %
EU-26a	of which: own funds and subordinated liabilities	14.84 %
27	CET1 (as a percentage of RWAs) available after meeting the resolution group's requirements	13.97 %
28	Institution-specific combined buffer requirement	
29	of which: capital conservation buffer requirement	
30	of which: countercyclical buffer requirement	
31	of which: systemic risk buffer requirement	
EU-31a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institutions (O-SII) buffer	
	Memorandum items	
EU-32	Total amount of excluded liabilities referred to in Article 72a (2) of Regulation (EU) No 575/2013	

The following table EU TLAC3b discloses the own funds and eligible liabilities that fulfil the requirements of Article 45 BRRD, taking into account the maturity profile and insolvency ranking at the level of Aareal Bank AG. The number of insolvency ranks depends on the set of liabilities of a bank. The ranks are presented from the most junior to the most senior.

EU TLAC3b: Creditor ranking – resolution entity

		Insolvency ranking								
		1 (most junior)	2	3	11	12	13	14	17 (most senior)	Total
1	Description of insolvency rank	Common Equity Tier 1 instruments	Additional Tier 1 capital instruments	Tier 2 capital instruments	Non-preferred claims from non-subordinated, unsecured, non-structured debt instruments	Other claims of insolvency creditors	Deposits which are not covered but have a preferential ranking	Covered deposits with a preferential ranking	Segregation rights	
2	Empty set in the EU									
3	Empty set in the EU									
4	Empty set in the EU									
5	Own funds and liabilities potentially eligible for meeting MREL	3,168	300	624	3,256	3,365	–	–	–	**10,713**
6	of which: residual maturity ≥ 1 year < 2 years	–	–	69	683	508	–	–	–	**1,261**
7	of which: residual maturity ≥ 2 year < 5 years	–	–	151	594	1,935	–	–	–	**2,680**
8	of which: residual maturity ≥ 5 year < 10 years	–	–	402	595	597	–	–	–	**1,594**
9	of which: residual maturity ≥ 10 years, but excluding perpetual securities	–	–	–	1,383	324	–	–	–	**1,707**
10	of which: perpetual securities	3,168	300	–	–	–	–	–	–	**3,468**

Countercyclical Buffer

The countercyclical capital buffer (CCyB) 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 CCyB 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 clients.

The following two disclosure tables are based on the requirements set out in Article 5 of Commission Implementing 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	f
	General credit risk exposures		Relevant credit exposures – Market risk		Securitisation exposures – Exposure value in the banking book	Total risk exposure amount
	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		
	€ mn	€ mn	€ mn	€ mn	€ mn	€ mn
010 Breakdown by country						
Australia	–	821	–	–	–	821
Belgium	16	607	–	–	–	623
Denmark	190	314	–	–	–	504
Germany	1,094	3,815	–	–	–	4,908
Finland	72	592	–	–	–	664
France	453	3,816	–	–	–	4,269
UK	32	6,304	–	–	–	6,337
Ireland	1	160	–	–	–	161
Italy	51	1,273	–	–	–	1,324
Jersey	–	5	–	–	–	5
Canada	–	917	–	–	–	917
Luxembourg	0	130	–	–	–	130
Maldives	–	511	–	–	–	511
New Zealand	–	31	–	–	–	31
Netherlands	228	1,836	–	–	–	2,064
Norway	150	0	–	–	–	150
Austria	133	336	–	–	–	469
Poland	–	2,541	–	–	–	2,541
Portugal	45	–	–	–	–	45
Sweden	153	863	–	–	–	1,016
Switzerland	0	245	–	–	–	245
Spain	48	1,878	–	–	–	1,927
Czech Republic	–	146	–	–	–	146
Turkey	–	52	–	–	–	52
Hungary	–	9	–	–	–	9
USA	45	7,842	–	–	–	7,887
United Arab Emirates	0	–	–	–	–	0
Other	0	–	–	–	–	0
020 Total	**2,712**	**35,045**	**–**	**–**	**–**	**37,757**

	g	h	i	j	k	l	m
	Regulatory capital requirements				Risk-weighted exposure amounts	Own funds requirements weights	Countercyclical capital buffer rate
	Relevant credit risk exposures – Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation exposures in the banking book	Total			
	€ mn	€ mn	€ mn	€ mn	€ mn	%	%
010 Breakdown by country							
Australia	12	–	–	12	147	1.25	1.00
Belgium	8	–	–	8	102	0.87	1.00
Denmark	5	–	–	5	58	0.49	2.50
Germany	201	–	–	201	2.509	21.41	0.75
Finland	8	–	–	8	96	0.82	–
France	86	–	–	86	1,072	9.15	1.00
UK	96	–	–	96	1,194	10.19	2.00
Ireland	4	–	–	4	46	0.39	1.50
Italy	28	–	–	28	345	2.94	–
Jersey	1	–	–	1	9	0.07	–
Canada	15	–	–	15	183	1.56	–
Luxembourg	3	–	–	3	39	0.33	0.50
Maldives	9	–	–	9	118	1.01	–
New Zealand	0	–	–	0	6	0.05	–
Netherlands	33	–	–	33	416	3.55	2.00
Norway	1	–	–	1	15	0.13	2.50
Austria	6	–	–	6	75	0.64	–
Poland	64	–	–	64	795	6.79	–
Portugal	0	–	–	0	4	0.04	–
Sweden	9	–	–	9	111	0.94	2.00
Switzerland	3	–	–	3	38	0.32	–
Spain	32	–	–	32	405	3.46	–
Czech Republic	1	–	–	1	14	0.12	1.25
Turkey	3	–	–	3	42	0.36	–
Hungary	0	–	–	0	2	0.01	0.50
USA	310	–	–	310	3,878	33.09	–
United Arab Emirates	0	–	–	0	0	–	–
Others	0	–	–	0	0	0.00	–
020 Total	**938**	**–**	**–**	**938**	**11,720**	**100.00**	

EU CCyB2: Amount of institution-specific countercyclical capital buffer

€ mn		a
010	Total risk exposure amount	14,268
020	Institution-specific countercyclical capital buffer rate	0.01 %
030	Institution-specific countercyclical capital buffer requirement	84

Credit Risks and General Information on Credit Risk Mitigation

Management of credit risks

Definition

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

Credit risk strategy

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

The credit risk strategy will be reviewed, at least once a year to determine whether it is still suitable for the Bank's risk-bearing capacity and its business environment; amendments will be made as necessary. In this context, we also incorporate ESG criteria to assess the sustainable intrinsic value of the properties in question. The relevant process is initiated by senior management and implemented by Risk Controlling, which submits to senior management a proposal that has been agreed upon with all divisions. Following this, the adopted credit risk strategy is discussed by the Supervisory Board.

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

Risk measurement and monitoring

Regulatory requirements are taken into account when organising Aareal Bank's operations and workflows in the credit and trading businesses.

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

Aareal Bank employs different risk classification procedures depending on the requirements of the type of business that is subject to the initial, regular or event-driven assessment of counterparty credit risk. Forward-looking and macro-economic information is taken into consideration for risk classification procedures and when valuing collateral. These procedures and parameters are subject to regular review and adjustment. The Sales units are not responsible for development quality assurance or for monitoring the implementation of procedures.

In light of geopolitical and macro-economic uncertainty, special attention is being paid to economic forecasts. In this ongoing review, we also rely on projections published by the ECB in addition to those issued by our usual data providers.

We use a credit portfolio model to measure, control and monitor concentration and diversification effects for default risk on a portfolio level, supplemented by limits at individual and sub-portfolio level to facilitate operating management. Separate models are used to measure migration and realisation risks in the NPL portfolio. For all models, potential losses are determined using a 99.9 % confidence interval and a one-year risk horizon. Based on these instruments, the Bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business with financial institutions. Above all, the models in question allow the Bank to include rating changes and correlation effects when assessing risk concentrations.

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

Monthly reporting covers the material aspects of credit risk, including detailed information on specific credit portfolio developments (broken down by country, property and product type, risk classes, collateral categories, etc.). Risk concentrations are also a key factor here.

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

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

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

Loss allowance

The best way to provide for risks is to carefully review such risks before granting a loan. We embrace this fundamental principle by adopting a multi-level review process, using (amongst others) our well-trained, experienced employees in the credit divisions.

As a property finance specialist, we not only focus on the borrower's credit rating but also carry out an in-depth analysis of the value and profitability of the property pledged as collateral.

Despite all the due care taken, events occasionally occur that can lead to impairment or even default. Our credit management teams are obliged to follow certain rules for these receivables when the first signs emerge that a loan might become impaired.

Our specialised and high-volume business requires us to maintain close contact with clients. Apart from events that can be determined objectively, such as when a loan is in arrears, or when a borrower fails to meet disclosure duties, the first signs of potential problems comprise a series of soft factors.

The responsible loan manager is informed of such soft factors, for example, by analysing performance reports. If there is evidence of events that could hamper the continuity of payments, the exposure is flagged in line with the risks involved.

The intensity of the attendant measures to be taken depends on the extent of the potential default, the internal assessment of the borrower/property, plus time-related and legal issues. All events are examined on a case-by-case basis.

Definition of terms and allowance process

Regulatory disclosure follows accounting policies in accordance with IFRS 9. The loss allowance to be recognised in this context is based on the internal staging and expected credit loss (ECL/EL) model of Aareal Bank. For this purpose, financial instruments of the categories "measured at amortised cost" (ac) and "measured at fair value through other comprehensive income" (fvoci) as well as loan commitments and financial guarantees are allocated to various stages at both initial recognition and subsequent measurement. The related loss allowances are recognised in the amount of the twelvemonth or the lifetime expected credit loss (lifetime ECL or LEL).

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

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

Stage 3: This stage includes all financial instruments where there is objective evidence of impairment (impairment trigger or credit impaired). Loss allowances are recognised in the amount of the losses of the lifetime expected credit loss, and interest income is calculated on the basis of the net carrying amount (i.e. gross carrying amount less loss allowance) using the effective interest method. The lifetime expected credit loss in Stage 3 is determined as the difference between the gross carrying amount and the present value of expected future cash flows (discounted using the original effective interest). If the impairment triggers no longer apply, the financial instrument is re-transferred to Stage 1 or 2.

POCI (purchased or originated credit impaired): This category includes all financial instruments that were subject to an impairment trigger at initial recognition. The loss allowance is recorded in the amount of the lifetime expected credit loss.

The expected credit loss is generally determined by Aareal Bank using a model-based procedure where, depending on the stage, one- or multi-year parameters are used. The calculation of the expected loss in Stage 1 and of lifetime expected credit loss in Stage 2 is based on the one-year or lifetime probability of default (PD), respectively, the loss given default (LGD), the expected exposure at default (EAD), a discount factor (DF) and the expected contractual term. Current and expected country-specific economic conditions such as the GDP, long-term interest rates and unemployment rate are included in the LGD by means of a scenario-weighted market value forecast. This probability-weighted scenario mix reflects geopolitical and macro-economic uncertainty and supplements our baseline scenario through the addition of divergent developments over an observation period of three years. In addition, the economic outlook is taken into consideration implicitly in the estimation of the future development of the borrowers' financial position and performance and the expected property cash flows and, hence, in the probability of default (PD). Scenario-based PDs are currently incorporated via a management overlay.

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

Model-based calculations of loss allowance may involve specific aspects related to the reporting date which require adjustments to the calculation (post-model adjustments). These may be related to known model weaknesses, technical processing issues or data deficiencies, as well as expert estimates of risks designed to remedy possible gaps in the model. Post-model adjustments – to the extent there were required as at the reporting date – are described in Note (33) Loss allowance of Aareal Bank Group's Annual Report 2024.[1)]

A period of not more than twelve months is assessed for Stage 1, while the expected contractual term of the financial instrument has to be taken into account for Stages 2 and 3 (and, in addition, the expected term for repayment of the financial instrument in Stage 3).

[1)] "Aareal Bank Group 2024 Annual Report": chapter "Notes to the Statement of Comprehensive Income", Note (33) in the Notes to the consolidated financial statements, pages 295 et seqq.

The expected loss in Stage 3 is usually determined on the basis of individually estimated cash flows (ECF procedure) in three probability-weighted scenarios. The amount of the loss allowance is determined as being the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted using the original effective interest rate applicable at initial recognition or after the most recent interest rate adjustment in the case of variable-rate financial instruments (taking into account cash flows from realisation of collateral provided). Collateral is largely provided in the form of land charges or mortgages; these are measured at fair value of the respective scenario which is generally based on either the income capitalisation approach or the discounted cash flow method. Impairment triggers are strong indications for a decline of the borrower's credit quality, arrears, external expert opinions as well as further indications that not all interest and principal payments can be made as contractually agreed.

The loss allowance for debt instruments measured at amortised cost is reported in the item "Loss allowance (ac)", for debt instruments measured at fair value through other comprehensive income in the item "Reserve from the measurement of debt instruments (fvoci)" and for loan commitments and financial guarantees under provisions. Debt instruments reported under POCI are accounted for on a net basis, i. e. without any loss allowance. Changes in loss allowance are reflected by increasing or decreasing the carrying amount through other loss allowance.

If the receivables are not recoverable, the corresponding loss allowance is utilised and the receivable is derecognised. Direct write-offs are not made.

The loss allowance for receivables from other transactions is determined using a simplified procedure in the amount of the lifetime expected credit losses.

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.

According to the EBA guidelines on the application of the definition of default under Article 178 of the CRR (EBA/GL/2016/07), a default can be omitted, amongst other criteria, especially after a certain grace period (3 months or 12 months). This means that even if the economic reasons for a default no longer apply (and the exposures are no longer allocated to Stage 3), the financial instruments continue to be recorded as defaulted or non-performing during the grace period for supervisory purposes.

For financial instruments of the category "measured at fair value through profit or loss (fvpl)", the default of a borrower does not lead to the recognition of loss allowance in Stage 3, but to a creditinduced fair value adjustment.

In the absence of any other reasons for default, all liabilities of a borrower that are up to 90 days past due are deemed overdue, but not defaulted.

Forbearance

"Forbearance" means concessions in the form of contractual amendments vis-à-vis a debtor which is in financial difficulty (or would be in financial difficulty, at the time of the contractual amendments, without the forbearance measure), enabling the debtor to continue or resume to meet its payment obligations. Such a modification of the loan agreement is deemed to constitute a significant increase in credit risk since the recognition of the financial instrument. The financial instrument is allocated to Stage 2 from the time it is granted until the end of a period of good conduct, and loss allowance is recognised in the amount of the lifetime expected credit loss.

Credit quality of exposures

In the following tables, the breakdown of exposures and the related loss allowances required by Article 442 lit. c) – g) of the CRR, as submitted to banking supervisors in the context of the Financial Reporting framework (FINREP), are disclosed with different levels of detail. In this context, exposures resulting from counterparty credit risk exposures are not taken into account; these are disclosed separately in this report.

The following information is based on the requirements set out in Annex XVI of Commission Implementing 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 the Commission Implementing Regulation mentioned above amounts to 3.7 % as at 31 December 2024. Since the NPL ratio had already fallen below 5 % as at the three previous quarterly reporting dates, the tables EU CQ2, EU CQ6, EU CQ8, and EU CR2a are not disclosed in accordance with Article 8 (6) of the Commission Implementing Regulation.

Table EU CQ1 provides information on the gross carrying amount of forborne exposures (i. e. exposures with forbearance measures), and on the coverage of existing risks through loss allowance as well as collateral received. In this context, the measurement of collateral received differs from the current market value of such collateral, due 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 reflecting a cap on any collateral at the carrying amount.

EU CQ1: 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 exposures	Non-performing forborne exposures			On performing forborne exposures	On non-performing forborne exposures		of which: collateral received and financial guarantees received on non-performing exposures with forbearance measures
				of which: defaulted	of which: impaired				
€ mn									
005	**Cash balances at central banks and other demand deposits**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010	**Loans and advances**	**3,238**	**702**	**702**	**441**	**-78**	**-110**	**3,689**	**543**
020	Central banks	–	–	–	–	–	–	–	–
030	General governments	–	–	–	–	–	–	–	–
040	Credit institutions	–	–	–	–	–	–	–	–
050	Other financial corporations	–	7	7	7	–	-1	6	6
060	Non-financial corporations	3,238	694	694	434	-78	-109	3,683	536
070	Households	–	–	–	–	–	–	–	–
080	**Debt securities**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
090	**Loan commitments given**	**96**	**72**	**72**	**70**	**3**	**11**	**104**	**12**
100	**Total**	**3,334**	**774**	**774**	**511**	**-82**	**-121**	**3,793**	**554**

Table EU CR1 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.

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.

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 amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accu-mulated partial write-offs	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impair-ment 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															
005 Cash balances at central banks and other demand deposits	**4,072**	**4,072**	**–**	**–**	**–**	**–**	**0**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010 Loans and advances	**32,711**	**27,700**	**4,908**	**1,261**	**291**	**932**	**-186**	**-42**	**-144**	**-221**	**-5**	**-209**	**-136**	**30,833**	**932**
020 Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
030 General governments	1,448	1,448	–	–	–	–	0	0	–	–	–	–	–	–	–
040 Credit institutions	51	51	–	–	–	–	0	0	–	–	–	–	–	–	–
050 Other financial corporations	1,094	1,068	26	7	–	7	-2	-2	0	-1	–	-1	-3	1,068	6
060 Non-financial corporations	29,997	25,131	4,763	1,250	291	922	-183	-40	-143	-219	-5	-208	-132	29,671	924
070 of which: SMEs	21,528	17,523	3,903	1,250	291	922	-149	-26	-123	-219	-5	-208	-132	21,308	924
080 Households	120	2	119	3	0	3	0	–	0	-1	0	-1	0	94	2
090 Debt securities	**7,315**	**7,280**	**35**	**–**	**–**	**–**	**-1**	**-1**	**0**	**–**	**–**	**–**	**–**	**–**	**–**
100 Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
110 General governments	3,281	3,281	–	–	–	–	0	0	–	–	–	–	–	–	–
120 Credit institutions	3,490	3,455	35	–	–	–	0	0	0	–	–	–	–	–	–
130 Other financial corporations	543	543	–	–	–	–	0	0	–	–	–	–	–	–	–
140 Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
150 Off-balance sheet exposures	**1,251**	**1,045**	**205**	**98**	**8**	**90**	**8**	**3**	**5**	**11**	**0**	**11**		**902**	**20**
160 Central banks	–	–	–	–	–	–	–	–	–	–	–	–		–	–
170 General governments	0	0	–	–	–	–	–	–	–	–	–	–		–	–
180 Credit institutions	–	–	–	–	–	–	–	–	–	–	–	–		–	–
190 Other financial corporations	20	20	–	0	–	0	0	0	–	–	–	–		19	0
200 Non-financial corporations	1,231	1,025	205	97	8	89	8	3	5	11	0	11		883	20
210 Households	0	0	0	–	–	–	0	–	0	–	–	–		–	–
220 Total	**45,348**	**40,098**	**5,148**	**1,358**	**299**	**1,021**	**-194**	**-46**	**-149**	**-232**	**-6**	**-220**	**-136**	**31,736**	**951**

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					
		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
€ mn							
1	Loans and advances	190	5,052	24,542	3,746	17	**33,546**
2	Debt securities	–	401	3,328	3,586	–	**7,314**
3	**Total**	**190**	**5,453**	**27,870**	**7,331**	**17**	**40,860**

Past-due financial assets held for trading shown in table EU CQ3 (whether impaired or not) are broken down across specified past-due maturity bands. For a definition of “past due”, please refer to the statements in the chapter “Loss allowance” (page 45).

EU CQ3: Credit quality of performing and non-performing exposures by past due days

	a	b	c	d	e	f	g	h	i	j	k	l
	Gross carrying/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are 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
€ mn												
005 Cash balances at central banks and other demand deposits	**4,072**	**4,072**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010 Loans and advances	**32,711**	**32,711**	**–**	**1,261**	**982**	**38**	**40**	**150**	**–**	**40**	**11**	**1,261**
020 Central banks	–	–	–	–	–	–	–	–	–	–	–	–
030 General governments	1,448	1,448	–	–	–	–	–	–	–	–	–	–
040 Credit institutions	51	51	–	–	–	–	–	–	–	–	–	–
050 Other financial corporations	1,094	1,094	–	7	7	–	–	–	–	–	–	7
060 Non-financial corporations	29,997	29,997	–	1,250	972	38	40	149	–	40	11	1,250
070 of which: SMEs	21,528	21,528	–	1,250	972	38	40	149	–	40	11	1,250
080 Households	120	120	–	3	3	–	–	0	–	–	–	3
090 Debt securities	**7,315**	**7,315**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100 Central banks	–	–	–	–	–	–	–	–	–	–	–	–
110 General governments	3,281	3,281	–	–	–	–	–	–	–	–	–	–
120 Credit institutions	3,490	3,490	–	–	–	–	–	–	–	–	–	–
130 Other financial corporations	543	543	–	–	–	–	–	–	–	–	–	–
140 Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–

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€ mn	a	b	c	d	e	f	g	h	i	j	k	l
	Gross carrying/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are 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
150 Off-balance sheet exposures	**1,251**			**98**								**98**
160 Central banks	–			–								–
170 General governments	0			–								–
180 Credit institutions	–			–								–
190 Other financial corporations	20			0								0
200 Non-financial corporations	1,231			97								97
210 Households	0			–								–
220 Total	**45,348**	**44,098**	**–**	**1,358**	**982**	**38**	**40**	**150**	**–**	**40**	**11**	**1,358**

In line with table EU CR1, table EU CQ4 does not take financial assets held for trading into account either. 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. When determining the materiality threshold, care is taken to ensure that the aggregate gross carrying amount of all major countries equals at least 95 % of all on- and off-balance sheet exposures. Exposures to supranational organisations are included in the "Other countries" line irrespective of their gross carrying amount.[1)]

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

€ mn	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					
			of which: defaulted	of which: subject to impairment			
010 On-balance sheet exposures	**41,286**	**1,261**	**1,261**	**41,146**	**-401**		**-6**
020 Australia	821	–	–	821	-2		–
030 Belgium	406	–	–	406	0		–
040 Denmark	566	–	–	566	0		–
050 Germany	5,282	10	10	5,282	-9		0
060 Finland	776	–	–	776	-3		–
070 France	4,189	7	7	4,189	-21		–
080 UK	3,544	48	48	3,543	-30		–
090 Italy	1,830	44	44	1,826	-4		0
100 Jersey	1,626	–	–	1,626	-2		–
110 Canada	1,260	–	–	1,260	-1		–
120 Luxembourg	2,579	–	–	2,579	-3		–

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1) The following countries are categorised as non-material: Switzerland, Czech Republic, Guernsey, Hungary, Ireland, Japan, Norway, New Zealand, Portugal, Slovenia, Turkey and the British Virgin Islands.

€ mn		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					
				of which: defaulted	of which: subject to impairment			
130	Maldives	459	–	–	459	-2		–
140	Netherlands	2,526	–	–	2,526	-3		–
150	Austria	785	–	–	785	-4		–
160	Poland	2,497	–	–	2,497	-5		–
170	Sweden	1,000	–	–	1,000	-1		–
180	Spain	1,953	57	57	1,953	-22		–
190	USA	7,317	1,094	1,094	7,181	-289		-6
200	Other countries	1,872	–	–	1,872	-1		–

€ mn		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					
				of which: defaulted	of which: subject to impairment			
210	**Off-balance sheet exposures**	**1,348**	**98**	**98**			**19**	
220	Australia	–	–	–			–	
230	Belgium	31	–	–			1	
240	Denmark	24	–	–			0	
250	Germany	391	0	0			0	
260	Finland	13	–	–			0	
270	France	160	–	–			2	
280	UK	162	3	3			0	
290	Italy	33	–	–			0	
300	Jersey	3	–	–			0	
310	Canada	2	–	–			0	
320	Luxembourg	49	–	–			0	
330	Maldives	3	–	–			0	
340	Netherlands	133	–	–			0	
350	Austria	–	–	–			–	
360	Poland	31	–	–			0	
370	Sweden	16	–	–			0	
380	Spain	49	–	–			0	
390	USA	247	94	94			15	
400	Other countries	–	–	–			–	
410	**Total**	**42,635**	**1,358**	**1,358**	**41,146**	**-401**	**19**	**-6**

In accordance with Annex XVI of Commission Implementing Regulation, table EU CQ5 only shows exposures to non-financial corporations.

The presentation by sector of economic activity corresponds to the differentiation by NACE codes in the context of the Financial Reporting framework (FINREP).

Since 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 non-performing 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	–	–	–	–	–	–
050	Water supply	2	–	–	2	0	–
060	Construction	40	40	40	40	-2	–
070	Trading	70	–	–	70	0	–
080	Transport and storage	–	–	–	–	–	–
090	Accommodation and food service activities	1,459	0	0	1,459	-2	–
100	Information and communication	0	–	–	0	–	–
110	Financial and insurance activities	–	–	–	–	–	–
120	Real estate activities	29,602	1,210	1,210	29,462	-391	-6
130	Professional, scientific and technical activities	56	–	–	56	-1	–
140	Administrative and support service activities	–	–	–	–	–	–
150	Public administration and defence; compulsory social security	–	–	–	–	–	–
160	Education	–	–	–	–	–	–
170	Health and social services	–	–	–	–	–	–
180	Arts, entertainment and recreation	0	–	–	0	–	–
190	Other services	19	0	0	19	0	–
200	**Total**	**31,248**	**1,250**	**1,250**	**31,108**	**-396**	**-6**

Given that Aareal Bank Group generally pursues the strategy of preventing any further losses from a loan exposure, some of the properties disclosed in table EU CQ7 are subject to re-positioning and further development and may thus be held for several years. Hence, fair value (as well as amortised cost) can be increased by value-enhancing measures. The table below does not provide any such information.

EU CQ7: Collateral obtained by taking possession and execution processes

		a	b
		Total collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
€ mn			
010	Collateral obtained by taking possession classified as PP&E	–	–
020	Collateral obtained by taking possession other than that classified as PP&E	484	-15
030	Residential immovable property	8	–
040	Commercial immovable property	476	-15
050	Movable property (auto, shipping, etc.)	–	–
060	Equity and debt instruments	–	–
070	Other collateral	–	–
080	**Total**	**484**	**-15**

Table EU CR2 outlines the changes within the portfolio of non-performing exposures during the year 2024. Besides new defaulted loans and advances (shown in line 020), the gross carrying amounts of exposures removed from the nonperforming portfolio are broken down further below by reason of the outflow.

EU CR2: Changes in the stock of non-performing loans and advances

€ mn		a Gross carrying amount
010	**Initial stock of non-performing loans and advances as at 1 Jan 2024**	**1,600**
020	Inflows to non-performing portfolios	765
030	Outflows from non-performing portfolios	-909
040	Outflows due to write-offs	-39
050	Outflow due to other situations	-869
060	**Final stock of non-performing loans and advances as at 31 Dec 2024**	**1,261**

General information on credit risk mitigations

Aareal Bank's Credit Manual contains further details regarding collateral to be used within the Bank. The regulatory inclusion of the collateral reflects the Bank's conservative hedging strategy. The collateral employed fulfils the extensive impairment checks and enforcement reviews that are part of the credit process.

For the purpose of the internal estimation of the loss ratio in the case of a borrower default, only collateral that can be allocated to the following categories is taken into account:

- property-related collateral,
- warranties, and
- financial collateral.

The legal minimum requirements regarding collateral and the security interest are reviewed by legal counsels. The internal estimation of the loss ratio only uses collateral that is included in Bank-internal approved lists. These security interests are always enforceable. A Bank-internal process ensures that the legal enforceability of all CRR-relevant collateral is subjected to permanent legal monitoring in the jurisdictions relevant for us. If this results in changes, corresponding measures are initiated.

Any collateral must be reviewed in the case of new business, loan extensions, material changes to the collateral structure as well as at certain time intervals and upon certain events. The review covers the legal minimum requirements and the value of the collateral.

In addition to the inclusion of real property liens, Aareal Bank developed a methodology in cooperation with external law firms. This methodology is used to assess other property-related security interests for international financings, including pledges of unlisted shares in a property company or special-purpose entity. On this basis, the rights are taken into consideration for the purpose of the internal loss ratio estimation.

In contrast to the AIRBA, only certain types of impersonal collateral, indemnities and guarantees as well as financial collateral may be used under the CRSA. Commercial and residential property collateral is eligible for inclusion in accordance with the CRSA, albeit not for mitigating credit risk. Loans secured by a real property lien are included instead in a separate exposure class with a preferable risk weight. All collateral values in foreign currency are translated into euro on a daily basis, using the official foreign currency rates.

Regulatory haircuts based on mismatches related to term/lifetime or currencies are applied during netting of collateral.

Property-related collateral

As an international property lender, Aareal Bank focuses on property in the context of collateralisation. Real property liens – or any equivalent security interests in terms of quality depending on the location of the property – are the main types of security interests used for the internal loss ratio estimations for property loans.

Market or fair values of the property are set in accordance with the respective lending authority, and form an integral part of the lending decision.

Valuation reports are used for property-related collateral. The provisions of Article 208 (3) of the CRR are complied with during the valuation. The property's market or fair values are subjected to a defined internal monitoring and review process:

Step 1: Monitoring

The regular monitoring of collateral values in the commercial property finance business (Real Estate Structured Finance, RSF) for properties located in Germany and abroad is carried out by the internal valuer on an annual basis. Furthermore, the Banking & Digital Solutions ("BDS") segment monitors residential properties located in Germany on the basis of the vdp/VÖB market fluctuation concept. In addition to regular monitoring, collateral values are reviewed immediately in both the RSF business and the BDS business if there are indications of substantial value fluctuations or if case- or property-specific characteristics emerge from credit monitoring.

Step 2: Review

In the RSF business, all property values are reviewed by the internal valuer at least once a year. In addition to this, properties identified in Step 1 in the BDS business are subject to an event-driven review, which is carried out by an independent valuer or a loan manager with applicable expertise. It is also ensured that the collateral value of the properties in the BDS segment is regularly reviewed at least every three years. Event-driven reviews are carried out immediately.

Step 3: Revaluation

In Step 3, all properties in the RSF business are generally revalued at least every three years. A revaluation is carried out both in the RSF business and in the BDS business for the properties identified from Step 2 if the underlying assumptions since the last valuation would lead to a decline in value taking into account current market conditions.

Warranties

Warranties include indemnities and guarantees. The guarantors include rated clients from the segments "Sovereign states", "Regional governments" and "Local authorities" as well as "Institutions" and "Corporates". Credit risk mitigation focuses on the creditworthiness of the guarantor. In the case of large-sized property lending, if a warranty is provided, the guarantor has to be rated using the applicable rating procedure when the lending decision is based (among other things) upon the creditworthiness of the guarantor. The rating process for guarantors is subject to the same requirements applicable to the borrower. Assigned life insurance policies are only included under the AIRBA and are treated – by analogy with assigned balances held at third-party institutions – like warranties.

Financial collateral

Pledged balances held at the Bank are included as financial collateral. Financial collateral in the form of pledged securities play a minor role. Their current market values are taken into account as credit risk mitigation, also applying haircuts.

We use the comprehensive method for financial collateral under the CRSA.

Collateralising loans through balances saved under home loan and savings contracts and fund units is insignificant in our business model.

Credit risk mitigation

Collateral in the total amount of € 31,765 million was applied within the scope of credit risk mitigation. This figure comprises no financial collateral included for derivatives transactions.

The following table shows all collateral eligible to collateralise loans and advances as well as debt securities. The respective values are capped at the carrying amount of the respective exposure. 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. Credit derivatives which may be used for collateralisation purposes are currently not held. 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 eligible collateral and secured exposures (column b), column a discloses the amount of all generally unsecured exposures.

EU CR3: Overview of credit risk mitigation techniques

		a	b	c	d	e
		Exposures unsecured	Exposures secured	of which: exposures secured by collateral	of which: exposures secured by financial guarantees	of which: exposures secured by credit derivatives
€ mn						
1	Loans and advances	5,872	31,765	31,753	12	–
2	Debt securities	7,314	–	–	–	
3	**Total**	**13,186**	**31,765**	**31,753**	**12**	**–**
4	of which: non-performing exposures	109	932	932	–	–
EU-5	of which: defaulted	109	932			

As defaulted exposures are considered non-performing, the net carrying amount reported in line EU-5 is equivalent to the amount shown in line 4. This is further described in the chapter "Credit quality of exposures" in this Disclosure Report (pages 47 et seqq.).

The 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. This collateral is shown for each IRBA collateral as a percentage of the respective IRBA exposure.

The relevant types of collateral are considered within the scope of the LGD estimation in accordance with Article 181 (1) lit. e) and f) of the CRR.

Column m generally remains blank, as no substitution is made within the scope of the collateralisation of exposures treated in IRBA 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	34,002	0.19	98.84	98.63	–	0.21	0.01
3.1 of which: Corporates – SMEs	3,089	0.07	97.98	96.29	–	1.69	–
3.2 of which: Corporates – Specialised lending	29,350	0.21	99.69	99.62	–	0.07	0.01
3.3 of which: Corporates – Other	1,563	–	84.69	84.69	–	–	–
5 Total	**34,002**	**0.19**	**98.84**	**98.63**	**–**	**0.21**	**0.01**

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	RWAs without substitution effects (reduction effects only)	RWAs with substitution effects (both reduction and substitution effects)
	%	%	%	%	%	€ mn	€ mn
3 Corporates	0.01	–	–	0.03	–	–	9,844
3.1 of which: Corporates – SMEs	–	–	–	0.33	–	–	758
3.2 of which: Corporates – Specialised lending	0.01	–	–	–	–	–	8,299
3.3 of which: Corporates – Other	–	–	–	–	–	–	787
5 Total	**0.01**	**–**	**–**	**0.03**	**–**	**–**	**9,844**

Risk concentrations

According to the statements in the previous chapter, real property liens represent the major portion of the Bank's eligible collateral. However, risk concentrations are minimised through diversification by countries and types of property.

The qualitative and quantitative processes to assess and control risk concentrations are described in the chapter "Management of credit risks" (pages 44 et seqq.).

Netting framework agreements

The netting framework agreements used at Aareal Bank are presented in the chapter "Credit risk mitigation for trading activities" in this Disclosure Report (pages 99 et seqq.).

Qualitative information on the use of the IRB Approach

The Advanced Internal Ratings-Based Approach (AIRBA) is used to determine the risk-weighted exposure amounts in relation to counterparty credit risk for the large-sized commercial property lending business within the "Corporates" exposure class. This was approved by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – „BaFin") in February 2011, with retrospective effect as at 31 December 2010.

Internal rating systems

As regards the Advanced IRB Approach (AIRBA) used to determine the regulatory capital requirements for exposures, the Bank is required to make internal estimates of the probability of default (PD), and to determine the expected loss given default (LGD) as well as credit conversion factors (CCFs). One risk model per risk parameter has been approved for Aareal Bank's exposure class "Corporates". Additional approved models do not exist.

The internal rating procedure for borrowers is approved by the supervisory authorities and determines a borrower's probability of default (PD). In addition, the Bank uses an approved procedure to determine the loss given default (LGD) for the "Corporates" exposure class.

Within the framework of this rating procedure, a rating is established for large-sized commercial lending business (our core business) with a total exposure of at least € 2.5 million, and for the commercial housing industry with a total exposure of at least € 750,000.

The contractual positions relevant for reporting duties are maintained in the Bank's relevant Sales unit systems, while the assignment of IRBA items and borrowers to the IRBA exposure class "Corporates" is made fully automatically on the basis of the characteristics of the transaction and the client.

The internal rating procedure to determine a client's probability of default consists of two main components: a property rating and a corporate rating. The relative impact of the two components on the rating result is determined by the structure of the exposure in question. The borrower's current and future default probability is determined based on specific financial indicators, together with qualitative aspects and expert knowledge. The result of the rating process is reflected in the classification of the borrower into one of the rating classes. The Bank currently uses 15 rating classes – within the rating procedure for large-sized commercial property financing – for borrowers that are not deemed to have defaulted pursuant to the CRR criteria. Borrowers in default pursuant to the CRR are allocated to a special rating class.

When determining internal credit ratings and default rates, the Bank does not use assessments by external rating agencies, in accordance with Article 180 (1) lit. f) of the CRR. Hence, there is no relation between internal and external credit assessments.

Credit Management is responsible for the determination of the borrower rating; this responsibility is regulated in the Bank's credit manuals. The relevant authorised person makes a decision on the rating which ensures an independent rating allocation from a process view.

The second step involves the calculation of the expected loss given a borrower's default for the internally rated large-sized commercial property financings under the AIRB approach. The LGD estimates the extent of the economic loss in the event of a borrower defaulting. In simple terms, this is the amount of the claim not covered by the proceeds from the realisation of collateral.

The LGD is determined based on a bottom-up approach, where the components relevant for the LGD level and their driving factors – in the form of recovery rates, waivers of principal and interest as well as direct and indirect costs – are estimated.

The LGD determination is based on the definition of economic loss (Article 5 (2) of the CRR). As the future development of a borrower cannot be anticipated in case of a borrower's default, the alternatives – resolution, recovery/re-ageing – are included in the LGD calculation using weightings based on the respective probability. The LGD is driven primarily by the expected proceeds from the realisation of collateral and from unsecured portions of loans and advances. The proceeds from property-related collateral are determined based on the recovery rate in the form of a haircut applied to the market value under downturn conditions. For financings of domestic properties, recovery rates are taken from an inter-bank pool of data, whilst recovery rates for international properties are derived using an internal approach. An internal projection model based on macro-economic inputs has been developed by the Bank for market value outlooks.

In addition to the nature and extent of the collateralisation of a financing, the estimated exposure at the borrower's default (Exposure at Default, EaD) is the second major parameter for the LGD calculation.

Reporting

In addition, the risk parameters are a major element of Aareal Bank's internal and external reporting. The reporting comprises various portfolio analyses based on the rating procedures used in the Bank. Accordingly, the MaRisk report (as the central risk report for credit risks) includes comprehensive information on the development of the credit portfolio, e.g. by rating classes and their changes. Compliance with rating updates and property monitoring is reported on a monthly basis.

Additional uses of internal estimates

The internally-estimated risk parameters are central factors for the Bank's lending process, the recognition of loss allowance, and its risk management. The credit risk strategy incorporates the rating; it is based – with regard to its specific requirements – on the rating and the parameters underlying the LGD, among other things. The basic prerequisite and foundation for the loan approval is a detailed risk evaluation of each lending exposure of a borrower. The risk evaluation includes the borrower's creditworthiness, as well as the risks and collateral underlying the lending exposure. The resulting risk classification is subject to approval powers with regard to approval and prolongation of lending exposures. The extent of monitoring activities depends on the risk classification. The basis for granting a commitment is the preparation of a borrower rating.

The credit documentation includes the collateral influencing the LGD as well as assessments of this collateral.

The relevant authorised person approves the credit application and the determination of the borrower rating.

The rating result is one of the many indicators – within the framework of early risk identification – to classify an exposure as on-watch, intensive-handling, restructuring, or recovery exposure.

The Bank primarily uses a credit risk model to monitor concentration and diversification effects on a portfolio level. Both expected and unexpected loss can be derived. The basis for determining the relevant values are the risk parameters PD, LGD and EaD.

During the estimating phase of the acquisition process, risk costs and capital requirements are determined using the risk parameters PD and LGD, and are then included as parameters for risk-adjusted pricing. The individual financings are subjected to an economic assessment for the current profit centre calculation (accounting for individual transactions/final costing). This economic assessment takes into account the parameters PD and LGD via capital and standard risk costs.

PD and LGD procedures are applied for accounting purposes in the context of determining model-based loss allowance. Concerning the scenario analyses to be taken into account when determining individual LGDs, an updated scenario mix is applied to the customary process. This probability-based scenario mix relies on five differently weighted macroeconomic scenarios.

Control mechanisms

The Credit Management unit is responsible for the correct and regular determination of the rating results as well as for data quality within the IT and rating systems. The rating is prepared using the principle of dual control. The authorities for determining the rating are based on the authority regulations for lending decisions.

The uniformity of the rating for a borrower or a guarantor is ensured through a number of measures. All rating users are trained to become familiar with the procedure, and there is also documentation dealing with interpretation issues in the context of the rating preparation.

Manual adjustments may be made during the rating preparation (overrulings) and are documented in the rating system thereafter.

The internal rating procedure to determine a borrower-specific probability of default for large-sized property financing is validated, both on the basis of the underlying data pool and through internal validation of Aareal Bank's portfolio, once per year. The validation covers all measures required pursuant to the CRR. The further development of the rating procedure is made under the umbrella of CredaRate, on behalf of – and with the participation of – the banks involved.

The procedures used by the Bank for determining LGD and CCF are also validated on an annual basis. As these procedures represent Bank-internal developments, validation is made mostly by the Bank itself. Exceptions to this are the parameters used within the LGD calculation process (recovery rates and settlement periods for properties in Germany). A two-stage process takes effect here. The data gathered for Germany within the scope of pooling under the umbrella of the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken – "vdp") is the basis. The central validation of these parameters for the entire pool is carried out by vdp. Aareal Bank draws on the already centrally validated pool data for its own validation of these parameters.

The loss given default percentage and the EaD for property financings are derived automatically in the system on the basis of the transaction and collateral data stored in the system where data is maintained. The provision of data is subject to strict quality standards for data entries of the system where data is maintained; these quality standards are set out in Aareal Bank's quality manuals. The necessary reviews with regard to information on collateral are the responsibility of Credit Management.

Irrespective of the treatment of the bank portfolio under the CRSA, applicable internal rating procedures to determine PD and LGD continue to be carried out internally, once a year.

Risk Controlling is responsible for developing rating models, whilst Non-Financial Risks (which is independent from Risk Controlling) is responsible for validating all rating models. The validation results are discussed within and adopted by the Risk Executive Committee (RiskExCo). Reports on the results of the validation are submitted to the Management Board.

The Internal Audit division, as a process-independent unit, reviews the adequacy of the internal rating systems on a regular basis, including compliance with the minimum requirements for using rating systems.

Quantitative information on the use of the IRB Approach

The property lending portfolio (treated under the AIRBA) shall be disclosed in the EU CR6 table, 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 statements. They are disclosed in table EU CCR4 in the chapter "Counterparty Credit Risk".

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

IRBA exposure class	a	b	c	d	e	f	g
	PD range	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Average CCF	Exposure post CRM and post CCF	Average PD	Number of obligors
	%	€ mn	€ mn	%	€ mn	%	
Corporates – SMEs	0.00 to < 0.15	89	3	100.00	91	0.12	8
	0.00 to < 0.10	–	–	–	–	–	–
	0.10 to < 0.15	89	3	100.00	91	0.12	8
	0.15 to < 0.25	130	9	100.00	139	0.21	17
	0.25 to < 0.50	48	13	100.00	61	0.37	16
	0.50 to < 0.75	214	20	100.00	234	0.60	21
	0.75 to < 2.50	2,405	100	100.00	2,505	1.23	73
	0.75 to < 1.75	1,900	95	100.00	1,995	1.04	58
	1.75 to < 2.50	504	5	100.00	509	1.96	15
	2.50 to < 10.00	52	–	–	52	6.86	1
	2.50 to < 5.00	–	–	–	–	–	–
	5.00 to < 10.00	52	–	–	52	6.86	1
	10.00 to < 100.00	–	–	–	–	–	–
	10.00 to < 20.00	–	–	–	–	–	–
	20.00 to < 30.00	–	–	–	–	–	–
	30.00 to < 100.00	–	–	–	–	–	–
	100.00 (Default)	7	–	–	7	100.00	2
	Subtotal	**2,944**	**144**	**100.00**	**3,089**	**1.41**	**138**
Corporates – Specialised lending	0.00 to < 0.15	204	–	–	204	0.12	3
	0.00 to < 0.10	–	–	–	–	–	–
	0.10 to < 0.15	204	–	–	204	0.12	3
	0.15 to < 0.25	331	–	–	331	0.21	7
	0.25 to < 0.50	2,848	32	100.00	2,881	0.37	87
	0.50 to < 0.75	3,104	32	100.00	3,135	0.60	79
	0.75 to < 2.50	17,019	472	100.00	17,491	1.34	366
	0.75 to < 1.75	12,167	221	100.00	12,387	1.09	304
	1.75 to < 2.50	4,853	251	100.00	5,103	1.96	62
	2.50 to < 10.00	2,628	224	100.00	2,852	3.81	44
	2.50 to < 5.00	2,298	149	100.00	2,447	3.31	40
	5.00 to < 10.00	330	74	100.00	405	6.86	4
	10.00 to < 100.00	739	–	–	739	19.02	9
	10.00 to < 20.00	185	–	–	185	10.29	3
	20.00 to < 30.00	554	–	–	554	21.95	6
	30.00 to < 100.00	–	–	–	–	–	–
	100.00 (Default)	1,717	98	–	1,717	100.00	26
	Subtotal	**28,591**	**857**	**88.60**	**29,350**	**7.60**	**621**

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IRBA exposure class	a PD range	b On-balance sheet exposures	c Off-balance-sheet exposures pre-CCF	d Average CCF	e Exposure post CRM and post CCF	f Average PD	g Number of obligors
	%	€ mn	€ mn	%	€ mn	%	
Corporates – Other	0.00 to < 0.15	–	–	–	–	–	–
	0.00 to < 0.10	–	–	–	–	–	–
	0.10 to < 0.15	–	–	–	–	–	–
	0.15 to < 0.25	20	38	100.00	58	0.21	6
	0.25 to < 0.50	299	87	100.00	386	0.37	14
	0.50 to < 0.75	53	33	100.00	86	0.60	5
	0.75 to < 2.50	904	110	100.00	1.013	1.27	37
	0.75 to < 1.75	618	103	100.00	721	0.99	35
	1.75 to < 2.50	285	7	100.00	292	1.96	2
	2.50 to < 10.00	–	20	100.00	20	3.00	2
	2.50 to < 5.00	–	20	100.00	20	3.00	2
	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	**1,276**	**287**	**100.00**	**1,563**	**1.00**	**64**
	Total	32,811	1,288	100.00	34,002	6.74	823

IRBA exposure class	a PD range	h Average LGD	i Average maturity	j Risk-weighted assets (RWAs)	k RWA density	l Expected loss amount (EL)	m Value adjustments and provisions
	%	%	Years	€ mn	%	€ mn	€ mn
Corporates – SMEs	0.00 to < 0.15	12.01	3	6	6.22	0	0
	0.00 to < 0.10	–	–	–	–	–	–
	0.10 to < 0.15	12.01	3	6	6.22	0	0
	0.15 to < 0.25	17.60	3	19	13.58	0	0
	0.25 to < 0.50	34.89	3	21	34.51	0	0
	0.50 to < 0.75	21.35	3	62	26.34	0	0
	0.75 to < 2.50	15.18	2	607	24.22	5	-4
	0.75 to < 1.75	16.47	2	511	25.59	4	-3
	1.75 to < 2.50	10.12	3	96	18.86	1	-1
	2.50 to < 10.00	33.03	1	42	80.06	1	-1
	2.50 to < 5.00	–	–	–	–	–	–
	5.00 to < 10.00	33.03	1	42	80.06	1	-1
	10.00 to < 100.00	–	–	–	–	–	–
	10.00 to < 20.00	–	–	–	–	–	–
	20.00 to < 30.00	–	–	–	–	–	–
	30.00 to < 100.00	–	–	–	–	–	–
	100.00 (Default)	117.83	–	2	28.62	8	-4
	Subtotal	**16.59**	**2**	**758**	**24.53**	**14**	**-9**

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IRBA exposure class	a PD range	h Average LGD	i Average maturity	j Risk-weighted assets (RWAs)	k RWA density	l Expected loss amount (EL)	m Value adjustments and provisions
	%	%	Years	€ mn	%	€ mn	€ mn
Corporates – Specialised lending	0.00 to < 0.15	7.76	4	16	7.68	0	0
	0.00 to < 0.10	–	–	–	–	–	–
	0.10 to < 0.15	7.76	4	16	7.68	0	0
	0.15 to < 0.25	8.03	2	19	5.73	0	0
	0.25 to < 0.50	12.21	3	383	13.29	1	-1
	0.50 to < 0.75	11.40	3	502	16.01	2	-2
	0.75 to < 2.50	11.27	3	3,869	22.12	27	-47
	0.75 to < 1.75	10.75	3	2,458	19.84	15	-27
	1.75 to < 2.50	12.55	3	1,412	27.66	13	-20
	2.50 to < 10.00	21.28	3	1,443	50.60	23	-53
	2.50 to < 5.00	21.32	3	1,218	49.78	18	-46
	5.00 to < 10.00	21.04	3	225	55.51	6	-7
	10.00 to < 100.00	34.95	1	946	127.91	49	-78
	10.00 to < 20.00	36.41	3	203	109.53	7	-7
	20.00 to < 30.00	34.47	1	743	134.06	42	-72
	30.00 to < 100.00	–	–	–	–	–	–
	100.00 (Default)	21.10	–	1,122	65.33	273	-459
	Subtotal	**13.46**	**3**	**8,299**	**28.28**	**376**	**-641**
Corporates – Other	0.00 to < 0.15	–	–	–	–	–	–
	0.00 to < 0.10	–	–	–	–	–	–
	0.10 to < 0.15	–	–	–	–	–	–
	0.15 to < 0.25	62.82	3	39	67.10	0	0
	0.25 to < 0.50	28.17	3	170	44.14	0	0
	0.50 to < 0.75	43.67	2	58	67.64	0	0
	0.75 to < 2.50	16.46	4	465	45.93	2	-1
	0.75 to < 1.75	20.13	4	401	55.62	1	-1
	1.75 to < 2.50	7.43	3	64	22.05	0	0
	2.50 to < 10.00	100.85	1	54	272.12	1	–
	2.50 to < 5.00	100.85	1	54	272.12	1	–
	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	**23.66**	**4**	**787**	**50.37**	**3**	**-1**
	Total	14.21	3	9,844	28.95	393	-651

RWA Developments for AIRBA Exposures

Table EU CR8 provides an overview of the RWA changes and the associated causes to be analysed since 30 September 2024.

The starting and end balances represent the sums of figures disclosed in lines 4a and 5 of table EU OV1 for the respective reporting date. IRBA exposures subject to counterparty credit risk were not taken into account for this purpose.

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

€ mn		a RWAs
1	**RWAs as at 30 September 2024**	**11,603**
2	Asset size	235
3	Asset quality	-1,238
4	Model updates	331
5	Methodology and policy	–
6	Acquisitions and disposals	-62
7	Foreign exchange movements	258
8	Other	–
9	**RWAs as at 31 December 2024**	**11,127**

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.

The figures in line 3 include changes resulting from a temporary RWA increase in the new commercial property finance business in the third quarter 2024, which has since declined again as expected, as well as from changes in debtors' probabilities of default (PD) or loss given default (LGD).

The RWA effect disclosed in line 4 results from the change of the model for the market value forecast and a conservative adjustment of individual PDs.

Line 5 only requires disclosure of 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 from the disposal of Aareon to the private equity company TPG and the investor group CDPQ, which was closed at the beginning of October.

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

Coverage ratio

The coverage ratio represents the portion of all on-balance sheet and off-balance sheet exposures in the portfolio of a credit institution for which the regulatory own funds requirement is determined using the IRB approach.

In the following table, the exposures addressed under the CRSA and the IRBA are allocated to the IRBA exposure classes set out in Article 147 of the CRR, with counterparty credit risks not being taken into account. While the exposure value of IRBA exposures has to be disclosed in column a without taking into account specific credit risk adjustments, column b shows the exposure values of all CRSA and IRBA exposures taking into account specific credit risk adjustments.

EU CR6-A: Scope of the use of IRB and CRS approaches

		a	b	c	d	e
		Exposure value as defined in Article 166 of the CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the CRSA and to the IRBA	Percentage of total exposure value subject to the permanent partial use of the CRSA from column b	Percentage of total exposure value subject to IRBA from column b	Percentage of total exposure value subject to a roll-out plan from column b
		€ mn	€ mn	%	%	%
1	Central governments or central banks	–	8,753	100.00	–	–
1.1	of which: regional governments or local authorities		2,532	100.00	–	–
1.2	of which: public-sector entities		1,479	100.00	–	–
2	Institutions	–	3,010	100.00	–	–
3	Corporates	34,002	32,924	0.66	99.34	–
3.1	of which: specialised lending, excluding slotting approach		28,382	–	100.00	–
3.2	of which: specialised lending under slotting approach		28,382	–	100.00	–
4	Retail	–	121	100.00	–	–
4.1	of which: secured by real estate (SMEs)		–	–	–	–
4.2	of which: secured by real estate (non-SMEs)		116	100.00	–	–
4.3	of which: qualifying revolving		–	–	–	–
4.4	of which: other SMEs		–	–	–	–
4.5	of which: other non-SMEs		5	100.00	–	–
5	Equity	122	118	–	100.00	–
6	Other non-credit obligation assets	833	941	11.12	88.88	–
7	**Total**	**34,956**	**45,868**	**26.61**	**73.39**	**–**

The advanced IRB approach, therefore, covers 73.39 % of the total exposure value as at 31 December 2024. Apart from the commercial property financings, the equity exposures and the other non-credit obligation assets, Atlantic Group does not hold any further exposures in its portfolio for which a sequential implementation of the IRB approach in accordance with Article 148 of the CRR is planned at the moment.

The variation in the exposure values to be disclosed in columns a and b mainly results from the variation in the handling of the specific credit risk adjustments (see above) as well as from valuation differences between the carrying amounts under IFRSs and EaD for on-balance sheet exposures disclosed in column a. This is attributable to adjustments due to the methodology for determining EaD for credit risk exposures under the AIRBA.

Backtesting of default probabilities

The following section compares the PDs used for the commercial property lending portfolio subject to the Advanced IRBA with the effective default rates of borrowers. The average historical annual default rate for the past five years is used for comparison.

In accordance with Implementing Regulation (EU) 2021/637, counterparty credit risk exposures are outside the observed IRBA exposure classes.

In accordance with the information disclosed in table EU CR6, the RWA of the commercial property financing portfolio, which was subjected to back-testing of the probability of default (PD), amounted to € 9,844 million as at the reporting date, most of which (84.30 %) is attributable to the IRBA exposure class “Corporates – specialised lending”.

The PD ranges do not correspond to Aareal Bank's internal master scale – comprised of 16 PD classes (15 rating classes for borrowers not subject to default, one default class). Instead, the granularity corresponds to the breakdown in table EU CR6.

When determining internal credit ratings and default rates, the Bank does not use assessments by external rating agencies.

The observed average default rate to be disclosed in column e of table EU CR9 is consistent with the one-year default rate pursuant to Article 4 (1) no. 78 of the CRR, which represents the percentage share of obligors defaulted in 2024 out of the total number of all obligors assigned to a PD range as at 31 December 2024. Calculation of the observed average default rate is based on non-overlapping one-year windows.

While column f shows an EaD-weighted average, the average PD disclosed in column g is weighted for the number of obligors. Where a PD range includes only one credit rating of our internal master scale, the figures disclosed in the columns mentioned above are consistent.

In 2024, a total of ten borrowers defaulted pursuant to Article 178 of the CRR. All of the borrowers who defaulted had already been financed as at the end of the previous reporting period. There are restrictions to the interpretation of comparing average PD to historical average annual default rates as shown in the table; this is due to the small number of defaults in few rating classes.

As at 31 December 2024, Aareal Bank's portfolio contained 307 borrowers with short-term contracts (mostly in the IRBA exposure class "Corporates – specialised lending"). Short-term contracts are contracts with a remaining term of less than twelve months.

EU CR9: Back-testing of PD per IRBA exposure class – SMEs

a	b	c	d	e	f	g	h
		Number of obligors at the end of previous year					
Exposure class	PD range		of which: number of obligors which defaulted in the year	Observed average PD	Exposures weighted average PD	Average PD	Average historical annual default rate
	%			%	%	%	%
Corporates – SMEs	0.00 to < 0.15	3	–	–	0.12	0.12	–
	0.00 to < 0.10	–	–	–	–	–	–
	0.10 to < 0.15	3	–	–	0.12	0.12	–
	0.15 to < 0.25	12	–	–	0.21	0.20	–
	0.25 to < 0.50	27	–	–	0.37	0.36	–
	0.50 to < 0.75	19	–	–	0.60	0.59	–
	0.75 to < 2.50	40	–	–	1.23	1.37	1.01
	0.75 to < 1.75	25	–	–	1.04	1.04	1.01
	1.75 to < 2.50	15	–	–	1.96	1.91	–
	2.50 to < 10.00	2	–	–	6.86	2.91	1.60
	2.50 to < 5.00	2	–	–	–	2.91	1.82
	5.00 to < 10.00	–	–	–	6.86	–	–
	10.00 to < 100.00	1	–	–	–	10.00	–
	10.00 to < 20.00	1	–	–	–	10.00	–
	20.00 to < 30.00	–	–	–	–	–	–
	30.00 to < 100.00	–	–	–	–	–	–
	100.00 (Default)	3	–	–	100.00	100.00	–

EU CR9: Back-testing of PD per IRBA exposure class – Corporates specialised lending

a	b	c	d	e	f	g	h
		Number of obligors at the end of previous year					
Exposure class	PD range		of which: number of obligors which defaulted in the year	Observed average PD	Exposures weighted average PD	Average PD	Average historical annual default rate
	%			%	%	%	%
Corporates – Specialised lending	0.00 to < 0.15	2	–	–	0.12	0.09	–
	0.00 to < 0.10	1	–	–	–	0.06	–
	0.10 to < 0.15	1	–	–	0.12	0.12	–
	0.15 to < 0.25	11	–	–	0.21	0.20	–
	0.25 to < 0.50	90	–	–	0.37	0.36	–
	0.50 to < 0.75	98	–	–	0.60	0.59	0.39
	0.75 to < 2.50	347	6	1.73	1.34	1.33	2.27
	0.75 to < 1.75	248	2	0.81	1.09	1.10	1.98
	1.75 to < 2.50	99	4	4.04	1.96	1.91	1.83
	2.50 to < 10.00	45	3	6.67	3.81	3.58	8.72
	2.50 to < 5.00	41	2	4.88	3.31	3.28	8.52
	5.00 to < 10.00	4	1	25.00	6.86	6.67	11.67
	10.00 to < 100.00	5	1	20.00	19.02	19.06	4.00
	10.00 to < 20.00	1	–	–	10.29	10.00	–
	20.00 to < 30.00	4	1	25.00	21.95	21.33	5.00
	30.00 to < 100.00	–	–	–	–	–	–
	100.00 (Default)	29	–	–	100.00	100.00	–

EU CR9: Back-testing of PD per IRBA exposure class – Corporates – Other

a	b	c	d	e	f	g	h
		Number of obligors at the end of previous year					
Exposure class	PD range		of which: number of obligors which defaulted in the year	Observed average PD	Exposures weighted average PD	Average PD	Average historical annual default rate
	%			%	%	%	%
Corporates – Other	0.00 to < 0.15	–	–	–	–	–	–
	0.00 to < 0.10	–	–	–	–	–	–
	0.10 to < 0.15	–	–	–	–	–	–
	0.15 to < 0.25	5	–	–	0.21	0.20	–
	0.25 to < 0.50	14	–	–	0.37	0.36	–
	0.50 to < 0.75	9	–	–	0.60	0.59	–
	0.75 to < 2.50	58	–	–	1.27	1.05	–
	0.75 to < 1.75	50	–	–	0.99	0.92	–
	1.75 to < 2.50	8	–	–	1.96	1.91	–
	2.50 to < 10.00	1	–	–	3.00	2.91	–
	2.50 to < 5.00	1	–	–	3.00	2.91	–
	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)	–	–	–	–	–	–

Qualitative information on the use of the Credit Risk Standard Approach

Calculation approaches

Article 107 (1) of the CRR allows different approaches to be taken when calculating the risk-weighted exposure amounts in relation to counterparty credit risk.

The Credit Risk Standard Approach (CRSA) continues to be used within the framework of the partial-use method (Article 150 of the CRR). This partial-use method covers the following CRSA exposure classes on a continuous basis:

- institutions,
- central governments or central banks,
- regional governments and similar entities,
- other public-sector entities,
- multilateral development banks,
- international organisations,
- corporates (only noncore business, legacy business),
- retail lending business (discontinued business, legacy business),
- exposures secured by property (only non-core business, legacy business), and
- exposures in default (only non-core business, legacy business).

Under the CRSA, parameters defined by the regulatory framework are used to determine risk-weighted exposure amounts. Only specific collateral defined by the regulatory framework may be used to mitigate credit risk.

External rating for CRSA exposures

A key element of the economic and regulatory assessment is the borrower's credit rating. This rating is determined by rating agencies recognised by the regulatory authorities. These agencies' assessments and valuations facilitate a uniform classification of borrowers across all banks. The ratings of governments, banks and exchange-listed companies, as well as investment fund units, are generally assessed externally.

Three agencies have been retained (Fitch Ratings, Moody's Investors Service, and Standard & Poor's) to classify borrowers and guarantors in accordance with Article 138 of the CRR. The ratings determined by these three agencies apply for all the aforementioned rating-related exposure classes in relation to the Credit Risk Standard Approach. Assessments by export credit insurance agencies are not used.

Exposures rated by at least one rating agency are deemed "rated" CRSA exposures pursuant to Article 138 of the CRR. The "unrated" CRSA exposures are rated in accordance with Article 139 (2) of the CRR. In line with Aareal Bank's business model, most of the exposures are in the "Corporates" exposure class under the AIRBA. Legacy business from Aareal Bank AG's non-core business remains included in the "Corporates" and "Secured by mortgages on immovable property" exposure classes, which are reported as unrated CRSA exposures with the prescribed standard risk weighting.

At present, the Bank has neither transactions within the portfolio for which an issue rating has been migrated to receivables nor any for which a comparable rating is determined pursuant to Article 139 (2) of the CRR.

The external credit ratings are allocated to the risk weights pursuant to Article 114 et seqq. of the CRR using the regulatory standardised approach as set out in the Implementing Regulation (EU) 2016/1799.

Quantitative information on the use of the 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 than for 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 the assessment basis, but 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	3,962	–	4,239	–	38	0.89
2	Regional governments or local authorities	2,533	–	2,535	–	528	20.83
3	Other public-sector entities	1,549	0	1,490	–	2	0.14
4	Multilateral development banks	220	–	220	–	–	–
5	International organisations	561	–	561	–	–	–
6	Institutions	609	–	407	–	86	21.09
7	Corporates	141	76	122	15	121	87.90
8	Retail	3	0	3	0	2	75.00
9	Secured by mortgages on immovable property	173	–	173	–	58	33.42
10	Exposures in default	2	–	2	–	3	106.67
11	Exposures associated with particularly high risk	–	–	–	–	–	–
12	Covered bonds	2,330	–	2,330	–	233	10.00
13	Exposures to institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
14	Collective investment undertakings (CIU)	43	–	43	–	17	39.10
15	Equity exposures	–	–	–	–	–	–
16	Other exposures	–	–	–	–	–	–
17	**Total**	**12,125**	**76**	**12,125**	**15**	**1,087**	**8.95**

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 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%	1,250%	Others	Total	of which: unrated
€ mn																	
1 Central governments or central banks	4,049	–	–	–	189	–	–	–	–	–	–	–	–	–	–	**4,239**	3,864
2 Regional governments or local authorities	2,301	–	–	–	25	–	–	–	–	–	–	209	–	–	–	**2,535**	2,163
3 Other public-sector entities	1,479	–	–	–	11	–	–	–	–	–	–	–	–	–	–	**1,490**	1,411
4 Multilateral development banks	220	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**220**	220
5 International organisations	561	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**561**	34
6 Institutions	–	–	–	–	393	–	15	–	–	–	–	–	–	–	–	**407**	71
7 Corporates	–	–	–	–	–	–	28	–	–	109	–	–	–	–	–	**137**	109
8 Retail	–	–	–	–	–	–	–	–	3	–	–	–	–	–	–	**3**	3
9 Secured by mortgages on immovable property	–	–	–	–	–	162	11	–	–	–	–	–	–	–	–	**173**	–
10 Exposures in default	–	–	–	–	–	–	–	–	–	2	0	–	–	–	–	**2**	2
11 Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
12 Covered bonds	–	–	–	2,330	–	–	–	–	–	–	–	–	–	–	–	**2,330**	–
13 Exposures to institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
14 Collective investment undertakings (CIU)	15	–	–	–	28	–	0	–	–	–	–	–	–	1	–	**43**	43
15 Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
16 Other exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**–**	–
17 Total	**8,624**	**–**	**–**	**2,330**	**646**	**162**	**54**	**–**	**3**	**111**	**0**	**209**	**–**	**1**	**–**	**12,140**	**7,921**

Environmental, Social and Governance Risk

In the following chapters, Aareal Bank discloses the information on environmental, social and governance risks required by Article 449a of the Capital Requirements Regulation (CRR). The more detailed requirements are based on Article 18a of Commission Implementing Regulation (EU) 2021/637. This sets out both the qualitative requirements for the three risk dimensions and a total of 10 tables for disclosing quantitative information on climate risks; the publication of these has been staggered, however.

Qualitative information on ESG risk

ESG risks are defined as events or circumstances related to environmental (E), social (S) or governance (G) matters, the occurrence of which could adversely impact the Bank's assets, liabilities, financial position and financial performance, or its reputation. We identified the following ESG risk factors as being relevant for Aareal Bank Group: physical climate risks and climate transition risks, environmental resources, governance aspects relating to sustainability management, information policy and public relations, data protection and information security, and changing stakeholder requirements. These impact our credit risk, property risk, business risk, liquidity risk and operational risk.

Business strategy and processes

The subject area of ESG is considered to be not only a risk but also an opportunity. Environmental, social and governance aspects are core elements of the Group's business strategy, underscoring the importance of sustainable development.

Aareal Bank Group plays an important part in supporting the transformation of the economy, both in the financial sector and in the property industry. Banks play a key role in promoting and implementing sustainable development by providing financing and through their associated steering function. In addition, the property industry represents a significant lever for achieving the climate goals set out in the Paris Agreement, since the building sector accounts for a significant proportion of global energy consumption and resulting greenhouse gas emissions.

Aareal Bank Group accompanies and supports the sustainable transformation of the economy and society by adopting a systematic approach to sustainability. In line with our basic policy of "strategically engaging in sustainability", we want to do our bit to help meet international climate protection goals such as those set out in the Paris Agreement on climate change and the United Nations' Sustainable Development Goals (SDGs). In addition, we focus on embedding ESG principles in our decision-making processes.

ESG criteria play an increasingly important role not only in lending but also in attracting funding, in our investment portfolio, and in our digital product portfolio. Above and beyond this, Aareal Bank considers the inclusion of ESG risks to be a fundamental necessity for ensuring its long-term business success. In this context, we use compliance with the ESG criteria that have been classified as relevant to our business as a tool for assessing properties' sustainable intrinsic value. In our investment portfolio, we apply these criteria both out of ethical conviction and from a risk perspective, so as to avoid any losses in value as far as possible. At the same time, enhancing ESG transparency when valuing the properties we finance serves as a basis for providing additional support for international climate protection efforts. In addition, our funding activities and securities business can have an active impact on the market. As in the past, the Commercial Property Finance segment's business strategy focuses on the controlled, risk-conscious expansion of its portfolio volume within its target range, taking ESG requirements into account and adopting a flexible approach with regard to countries, property types and funding structures.

We are already helping transition to a lower-emissions economy today with each energy-efficient property and each refurbishment project that we finance.

Aareal Bank enhanced its existing ESG target agenda during the reporting year, and extended its medium-term ESG targets for its core business with a horizon of 2026. It continued to pursue its existing targets and is either on track to reach them or has already done so. In addition, it will continue to successively expand its ESG-compliant business in the coming years. In 2024, Aareal Bank exceeded its target volume of € 1.5 billion in additional green loans under its 2023 Green Finance Framework. New green loans totalling approximately € 3.9 billion were entered into in the year as a whole, lifting the total portfolio of green loans by € 2.8 billion to approximately € 7.6 billion. The figure of € 3.9 billion comprises both new business and loan renewals. Aareal Bank is aiming to achieve a green loan volume in the range of € 7–8 billion, and for green loans to account for one-third of its new business, by 2027. As regards the equity and liabilities side of its balance sheet, the Bank has set itself the goal of further improving its green funding base by effectively deploying the funds in its green asset pool for green funding activities. It reached its 2024 target of an additional € 0.5 billion of green long-term funding activities by issuing its first green senior non-preferred bond. The Bank is planning additional green funding activities in the amount of € 0.5 billion in 2025 as well.

As a signatory of the Partnership for Carbon Accounting Financials (PCAF)'s Commitment Letter, we published our first PCAF Report in December 2024, creating transparency regarding the financed carbon emissions in our commercial property lending portfolio.

In addition, Aareal Bank published its Green Bond Allocation & Impact Report for 2023, which caters in particular to the greater importance attached to climate action by ESG-focused investors.

Conserving resources is environmental protection and part of our corporate philosophy. Continuously cutting energy usage and avoiding carbon emissions also play an important role in our internal planning and optimisation measures. Unavoidable emissions for 2023 were offset, and offsetting of the corresponding emissions for the 2024 financial year was planned and budgeted, so as to reach the ultimate goal of achieving climate neutrality in operations by avoidance, reduction and finally offsetting, as set out in our business strategy.

The products and services in our Banking & Digital Solutions segment raise our clients' environmental awareness and offer digital solutions that actively and measurably help cut energy usage and carbon emissions, and hence reduce negative environmental impacts. For example, they help make processes more efficient and cut the amount of paper used in them, as well as reducing the number of kilometres travelled.

Integration of sustainability in the organisational structure

An overarching governance model was implemented to ensure end-to-end management of all sustainability aspects, covering both the Sales units and Credit Management divisions and individual corporate functions.

As a matter of principle, the Management Board is responsible for including sustainability risks in the business and risk strategy and for risk governance. The internal supervisory bodies that monitor risks (e.g. the Supervisory Board and its Risk Committee) play a central role in ensuring that sustainability risks are adequately taken into account at the Company.

The full Management Board and the Supervisory Board address the strategic positioning on ESG issues, integrating ESG into processes and structures, and the Group-wide management of sustainability activities in the course of the regular Management Board and Supervisory Board meetings.

Aareal Bank Group's sustainability management activities are directed by Aareal Bank AG. The Group Sustainability Officer is responsible for centrally coordinating sustainability management activities, and reports directly to the Chairman of Aareal Bank AG's Management Board, who has overall responsibility for Aareal Bank Group's sustainability strategy. In addition, regularly addressing and discussing ESG topics and questions is a fixed component of Management Board and Supervisory Board meetings.

"ESG & Innovation" organisational unit serves as the central contact point for internal and external stakeholders when it comes to Group-wide sustainability activities, and ensures that Aareal Bank Group's sustainability credentials are presented transparently outside the Group in its reporting for clients, investors and other stakeholder groups. In addition, the unit represents Aareal Bank Group on and in external bodies and working groups. The unit is assigned to the Strategy & Corporate Development division, reflecting the increasing strategic importance of ESG to Aareal Bank Group's sustainable corporate success. It is assisted in its work by experts from a number of other departments within Aareal Bank AG. Group-wide sustainability activities are coordinated via the ESG Expert Group, which generally meets every month under ESG & Innovation's leadership, on the one hand and via the Green Finance Committee on the other.

ESG risk governance, which forms part of the overarching governance model, is integrated with Aareal Bank's existing risk governance. The identification, assessment, management and monitoring of ESG risks is appropriately implemented and organised across the risk management cycle as part of the Three Lines of Defence (3LoD) model. This governance framework ensures that the issues are included in the relevant committee structures and that risk-relevant ESG aspects are embedded in the organisation. Aareal Bank's business/sales units (as the first LoD) are responsible for identifying and managing ESG risks, taking into account the requirements specified by the second LoD.

As the second, central line of defence, the Non Financial Risks and Risk Control divisions ensure that ESG risks are appropriately taken into account and integrated throughout the risk management cycle. This comprises specifying methods for identifying and assessing ESG risks and including them in risk reporting. ESG risks are included in risk management using the existing risk types. The second LoD is also represented by a compliance function, which assumes a control function in relation to ESG risks with regard to compliance with material legal and internal regulations.

AUDIT acts as the third LoD, ensuring an independent and objective review of the risk management framework. This includes a review of the adequacy and effectiveness of ESG risk management arrangements, the specific implementation of the risk strategy and risk appetite related to ESG risks, and internal policies, procedures and responsibilities for ESG risks.

As an integral part of internal reporting, ESG risks are presented and monitored transparently on a continuous basis. The main topics covered apart from the results of the stress test analyses are operational risks particularly associated with ESG issues, ensuring portfolio transparency (green buildings) and monitoring the use of the proceeds for the green bonds that have been issued.

Since all material ESG risks can be assigned to financial and non-financial risks, please refer to the chapters of this Disclosure Report detailing the management of the risk types concerned for additional information on the reporting lines and the reporting frequency for ESG risks.

Management of ESG risk

The topic of sustainability in its various facets is considered a relevant driver with a significant influence on the Bank's overall risk profile.

The individual sustainability risks and factors impact existing financial and non-financial risk types and are managed as an integral part of these. The relevant ESG risks are quantified using a variety of scenarios in the stress test calculation. The key bases for managing ESG risks are the Minimum Requirements for Risk Management and the supervisory expectations set out in the ECB Guide on climate-related and environmental risks and the EBA Guidelines on loan origination and monitoring.

A structured identification and inventory of ESG risks is performed as part of the regular risk inventory so as to develop an understanding of sustainability risks, including physical climate risks and climate transition risks, their characteristics and possible impacts on the Bank's business and risk situation. A structured process is used to assess the impact of potential ESG factors on Aareal Bank. These factors are not confined to climate risks alone, but also encompass environmental risks and the social and governance areas. The Risk Committee (RiskCo), the Management Board and the Supervisory Board (Risk Committee) are involved in the risk inventory process.

The impact of the ESG risk factors on Aareal Bank is determined for the short-term (up to 1 year), medium-term (1-5 years) and long-term (> 5 years) perspectives.

The physical climate risks were identified as being relevant for the short-term horizon. In addition, climate transition risks, environmental resources and governance factors such as sustainability management, the information policy and public relations, data protection and information security, and changes in stakeholder requirements were identified as being ESG-relevant in the medium to long term.

After the relevant ESG factors were identified, a structured assessment of the effect of these risk factors on the financial and non-financial risk types via the various transmission channels is performed.

The risk types classified as ESG-relevant during the risk identification process serve as the basis for assessment and – as far as possible – measurement within the risk type and for adequate qualitative and quantitative management, monitoring and limit setting. Risk indicators and limits for climate and environmental risks have been implemented for this. At the same time, the management and monitoring of ESG risks is being continuously progressed and refined.

With regard to financial risk and, within this, in relation to credit risk in particular, acute and chronic physical risks and transition risks relating to the transition to a lower-carbon and more sustainable economy exhibit relevant impact correlations. The main transmission channel for the environmental and climate factors are the collateralised properties in the loan exposures. These are exposed to physical climate and environmental risks due to their location. Extreme weather events can damage buildings and hence negatively impact their market value. In addition, they can lead to damage to buildings' surroundings and hence substantially impair their use, resulting in loss of rental income or lost cash flows in the wider sense of the word. Buildings account for a large proportion of global energy consumption and resulting greenhouse gas emissions. Consequently, they are particularly affected by increases in carbon prices and by refurbishment costs. Future carbon costs and expenditure on energy efficiency improvements could negatively impact market values and hence affect credit risk profiles for financing.

Similar interdependencies also exist in relation to properties that we own ourselves, the risks for which are included in the property risk category. In contrast to credit risk, however, changes in the value of these properties impact the balance sheet directly.

In the case of liquidity risk, transitional measures or physical events can lead to outflows of capital. Potential mechanisms are e.g. liquidity outflows due to housing associations having to rebuild or restore properties in an area that has been hit by a natural disaster. In addition, liquidity outflows are possible as a result of an increase in the number of energy efficiency improvement projects performed.

Repeated assessments performed when adding assets as part of the risk inventory process did not identify any relevant interdependencies to ESG factors as regards market risk.

In the case of non-financial risks, transition risks impact aspects of legal risk, especially via changes in the political, legal or regulatory framework regarding the transition to a lower-carbon and more sustainable economy. They can therefore arise from violations of statutory or regulatory provisions and requirements related to sustainability, such as measures to increase energy efficiency and reduce energy costs or the disclosure of sustainability-related information in the course of non-financial reporting, and can take the form of corresponding fines, penalties or other sanctions imposed by authorities that impact the institution's financial position, financial performance and cash flows.

The same applies to reputational risks, which may also arise from changes in statutory and regulatory provisions and requirements in connection with sustainability and which may take the form of corresponding communications costs, such as in relation to the sustainability strategy and the associated impact on the value of the "Aareal" brand.

The relevant short-term ESG factors identified are linked in particular to Aareal Bank's planning horizon, average loan terms and the analysis of risk-bearing capacity, and are integrated in the ICAAP/limit system. Since institutions' climate-related and environmental risks are primarily expected to materialise in the medium to long term, the long-term perspective adopts a forward-looking approach and is particularly relevant for designing scenario and stress tests. The inclusion of ESG risks in the methodology for stress testing is part of the comprehensive monitoring and management of sustainability risks.

This means that Aareal Bank's risk management operations take ESG risk factors into account across the entire risk management cycle by identifying (inventory), assessing, measuring and managing risks and by including them in the ICAAP economic and normative perspectives. In addition to the key performance indicators specified in the business strategy, quantitative key risk indicators have been defined for ESG-relevant risk types, ensuring comprehensive, effective ESG risk management. These are measurable and, where appropriate, linked to risk limits, tolerances or thresholds.

ESG scoring model

Aareal Bank has worked together with CredaRate Solution GmbH and other partner banks to develop and implement an ESG scoring model for assessing the risks to which loan receivables are exposed. This provides a score for each financing transaction that reflects the risk and the impact associated with its environmental (including climate), social and governance dimensions. Scoring must be performed for the first time when the new business is originated and at least once a year thereafter, as in the case for credit quality assessment. This ensures that the portfolio is examined on a regular basis. Going forward, the goal is to use ESG scoring as a risk/portfolio management tool when making lending decisions, and so to supplement the classic risk models with sustainability factors. The update to the credit risk strategy as at 31 March 2025 will for the first time introduce requirements for new business (initial lending/increases) that build on the results of the ESG scoring process. The focus is on the environmental risk score at partner level.

Stricter lending criteria are applied to all scores in the two weakest categories, F and G. For example, potential insurance deductibles are taken into account when determining the loan-to-value (LtV) ratio and higher minimum debt service coverage ratios (DSCRs) are required in a standardised adverse scenario.

Inclusion of ESG components in the variable remuneration system

The variable remuneration for the Management Board also includes sustainability targets, which are based on a sustainability-related remuneration policy.

One of the Group targets in the remuneration systems is ESG-related, reflecting the growing importance of ESG/sustainability-related matters. In addition, the target-setting arrangements for the Management Board members provide for at least one ESG-related strategic target. As a consequence, 10 % of the variable remuneration for Management Board members directly depends upon them achieving ESG-related targets.

The 2024 targets relate to the following factors:

- Achievement of the green loan targets
- Ethical behaviour and respect
- Gender diversity for new hires
- Promotion of gender diversity
- Implementation of the CSRD requirements

In line with section 25d (7) sentence 2 (12) of the German Banking Act (Kreditwesengesetz – KWG), Aareal Bank AG's Supervisory Board has established a Remuneration Control Committee, which advises and supports the Supervisory Board in its tasks, which include appropriately structuring the remuneration systems for the Management Board and employees.

The remuneration systems and the underlying remuneration inputs for the Management Board and employees are reviewed for appropriateness at least once a year. The review is performed with the assistance of Group Human Resources & Communication, the Remuneration Officer and the control units.

Additional information on how ESG components are included in the variable remuneration system are provided in the separate Regulatory Remuneration Report pursuant to sections 16 and 27 (1) sentence 3 of the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – InstitutsVergV) in conjunction with Article 450 of the Capital Requirements Regulation (CRR). This will be published at a later date on the same section of Aareal Bank AG's website as this Regulatory Disclosure Report.

Climate and environmental risks

Definitions

Climate risks comprise all risks resulting from, or caused or exacerbated by, climate change and are broken down into physical climate risks and climate transition risks.

Physical climate risks are direct effects of climate change that are triggered by ongoing global warming and the increasing destruction of the environment. These climate change risks result directly from the consequences of changes in the climate such as a rise in global average temperatures, more frequent natural disasters and extreme weather events such as flooding, heat waves/droughts, storms and hail. Physical climate risks can also have indirect consequences (ranging from, for example, the collapse of supply chains and the abandonment of water-intensive business activities through to climate-related migration).

Climate transition risks are risks caused to institutions as a direct or indirect consequence of the process of becoming a less carbon-intensive and more ecologically sustainable economy. They comprise changes in the political, legal and regulatory framework conditions and technological developments and/or a change in investor behaviour.

Environmental risks comprise all risks caused by the destruction of the environment (e.g. in the form of air and water pollution, the pollution of land surfaces, water stress, loss of biodiversity, deforestation and resource consumption) and can also be broken down into physical and environmental transition risks. Environmental transition risks, like climate transition risks, are adjustment processes that are triggered, for example, by policymakers, technology or market participants in order to counter the destruction of the environment.

Management of climate and environmental risks

In Structured Property Financing, credit risk is the main risk type associated with climate transition risks and physical climate risks. Aareal Bank measures these risks by performing a number of different annual ESG and climate stress tests to assess the impact of sustainability matters on the ICAAP's economic perspective. The ICAAP is the process used to implement the internal capital adequacy concept. The process also involves examining what impacts different scenarios have on the Bank's internal capital.

Aareal Bank AG takes the economic impact of climate-related and environmental risks into account in its economic management buffer. Quantification is based on the expected and unexpected losses from the “Orderly” transition stress test scenario for climate-related and environmental risks (see the section entitled “Stress testing”). Within the Orderly transition scenario (the NGFS “Net Zero 2050” scenario), amounts are derived for credit risk, property risk and business risk – the risk types identified during the risk inventory as being material for ESG.

The capital deduction determined for the ICAAP economic perspective (using the management buffer described above) is also taken into consideration via the ESG view during derivation of the normative management buffer. This involves examining the potential impacts on regulatory capital of the economic ESG risk impacts mentioned above. The associated effect is then included as one of the inputs influencing the derivation of the normative management buffer.

ESG risks are included in the liquidity risk on the basis of an expert-based observation, analysis and assessment of ESG-specific scenarios. The analyses start with the ESG factors classified as relevant for liquidity risk: “physical climate risks”, “climate transition risks – regulations”, “climate transition risks – investor conduct” and “data protection”. These factors were used as the basis for preparing scenarios analysing how they might impact liquidity risk. The analyses show that no additional liquidity buffers need to be maintained for ESG risks at present. The net cash outflows potentially resulting from ESG factors, or any potential reduction of liquidity buffers due to these factors, are already adequately taken into consideration either via the conservative methods in the risk model or in the stress tests used.

Risk inventory

Aareal Bank AG’s risk inventory regularly (at least annually) identifies all relevant, material risk types as the basis for managing them. The sustainability risks (or ESG risks) are a sub-aspect of the familiar risk types and are compiled using a structured questionnaire. The following bodies are involved in the risk inventory process: the RiskExCo, the Management Board and the Supervisory Board (Risk Committee). The result of the annual risk inventory prioritises the sustainability risks by identifying those ESG aspects that are expected to have a material influence on Aareal Bank Group. These are integrated in the monitoring and management of the relevant financial and non-financial risks. The Management Board and the Supervisory Board (Risk Committee) addressed the following material environmental impacts, risks and opportunities during the reporting period:

- Negative impacts on climate change resulting from carbon emissions caused by Aareal Bank Group’s own operations, for example as a result of energy consumption for its office operations, employees’ business trips, the use of company cars or data centre usage

- Negative impacts on climate change resulting from financed carbon emissions in connection with properties financed by Aareal Bank AG

- Positive impacts resulting from the granting of transformation credits, which contribute to energy efficiency improvements and hence to a less carbon-intensive property portfolio

- Climate-related transition risks relating to potential declines in the market values of buildings in both the Bank’s own portfolio and its loan portfolio, and to potential breaches of climate protection legislation and funding risks

- Physical climate-related risks relating to potential declines in the market values of buildings in both the Bank’s portfolio and its loan portfolio

- Opportunities for expanding the business by offering green finance solutions or developing ESG-aligned asset classes as a new business opportunity.

The results of the ESG risk inventory are presented to the Management Board and Supervisory Board once a year.

Stress testing

Prior to the stress test, a qualitative risk inventory is performed to analyse transition and physical factors, and their impact on the risks faced by the Bank. The upstream portion of the value chain and downstream parts above and beyond property finance did not fall within the scope of the climate stress test in the reporting year.

The scope of the transition stress tests covers both the properties owned by the Bank itself and those contained in its commercial real estate financing portfolio (property and credit risks). This allows us to take into account not only the perspective of our own business activities but also and above all that part of our downstream value chain relating to the properties financed by the Bank. Future events such as higher carbon prices or energy efficiency improvements are included in the transition stress test. A transition stress reflecting possible transition scenarios (and especially the NGFS Orderly and Disorderly scenarios) is calculated for all properties. The carbon costs for the individual scenarios are supplied by the NGFS. The carbon emission and energy consumption values form part of the CredaRate ESG score. The Bank's stress test uses the difference in the costs for the Delayed Transition (Disorderly) and Net Zero 2050 (Orderly) scenarios to the Current Policies scenario in its stress scenarios, on the assumption that the current carbon price (Current Policies) is already factored in to the fair values. The conservative assumption made is that the carbon costs will be borne in their entirety by the owners. The "Delayed Transition (Disorderly)" scenario assumes that the rise in carbon costs occurs five years earlier than in the original NGFS scenario. The scenarios considered assume that global warming will reach 1.5 degrees Celsius but that it will not exceed this figure, or will only do so to a limited extent (see the NFGS). The transition scenario takes changes in carbon prices for the next 20 years plus energy efficiency improvements into account. These are considered to be given in the scenario and are reflected in the current fair value using a discounted cash flow method.

The physical stress test only takes acute scenarios with a time horizon of less than one year into account. The risk value calculated when evaluating the results of the stress test does not include protective measures or insurance. In a next step, the properties affected are reviewed by Cover Management to determine whether insurance or other protective measures such as dykes exist. The physical events with the greatest potential impact that were identified were a flood scenario, a storm and a drought scenario. The hazard for each building is determined using data supplied by an external provider and the impact on the property value is calculated using a loss function. The losses per individual property are aggregated into clusters with a radius of 30 km and the three clusters with the largest cluster losses are reviewed within the Bank to determine whether the protection for the properties offered by insurance or other measures is sufficient.

Climate transition risks were identified as a relevant risk factor in the case of business risk. These climate transition risks are quantified by checking whether the properties in the portfolio comply with the Paris-aligned climate pathway. Any properties that are not aligned with the climate pathway are analysed to determine whether they can bear the cost of the necessary refurbishments themselves or whether additional finance would be needed. In the latter case, a decline in the margin during the refurbishment period is assumed when calculating the risk. In this context it is assumed that it will be possible to generate higher cash flows, and hence realise a higher margin, following the refurbishment.

In another scenario, the Bank looks not only at the impact on capital in transition climate scenarios but also at the impact on liquidity. This is done by simulating cash outflows at housing associations due to the need for energy efficiency improvements. Conservative assumptions were adopted for the scenario. The ESG and climate scenarios look at the Bank's economic perspective and serve to preserve its capital in the long term.

In addition, the impacts on operational risk and reputational risk of the "Delayed Transition (Disorderly)" scenario are assessed.

The hypothetical "Societal Change" ESG scenario is based on the possibility of sustainability-related societal changes impacting the Bank's business environment, and focuses in particular on incorporating the impacts of societal changes on the world of work and travel behaviour, and on credit risk and operational risk, plus necessary investments and accompanying losses.

The results of the most recent stress test as at 31 December 2024 show once again that the impacts of the transition climate stress scenarios are moderate compared to the other stress scenarios (e.g. the historical financial crisis in 2008). The uncertainty factors that are taken into account are write-downs of building values due to carbon levies and potential energy efficiency improvements. The physical stress scenario – which includes the impacts of physical damage on the buildings (losses in fair value and/or rental income) as uncertainty factors – also shows that, given current assumptions, a physical scenario would have a minor impact due to the fact that physical risks are managed using insurance.

The ICAAP management buffer comprises the contributions to climate transition risk for the relevant risk types (business risk, property risk and credit risk). The amount for the management buffer is derived from the consideration that this scenario includes costs for climate-related transition risks not yet considered in the risk parameters for individual exposures. Items that contribute positively to business risk are not taken into consideration any further in relation to credit risk, so as to avoid overlaps between credit risk and business risk items. The risk contributions for property risk and business risk are added together without taking diversification effects into account. Credit risk is based on the changes in the VaR[1] under the Orderly scenario compared to the basic scenario for all risks that do not contribute to business risk.

Data infrastructure

Aareal Bank has created a data infrastructure to capture information on energy efficiency, green building certificates and energy efficiency improvements in its systems. Once again, progress was made with data gathering, capture and validation for our global portfolio in the reporting period. The data enable us to calculate a number of sustainability-related KPIs for our lending business. In the future, we aim to go into greater detail and expand this to capture its carbon impact (Scope 3 emissions). We worked together with external property and data specialists to develop a calculation model for this that aims to use the available information to produce a robust, maximally comparable calculation of the carbon footprint of the buildings in the Bank's commercial property financing portfolio. This model serves as the basis for establishing a structured process for using heterogeneous data of varying quality to calculate financed carbon emissions. We finance properties of lasting value that live up to our strict quality requirements. When performing property valuations, we not only focus on the buildings' fair values but also determine the mortgage lending value and use a lifecycle analysis that includes environmental aspects such as the buildings' technical, functional and environmental quality as standard components. We also always take marketability and third-party usability into account when looking at sustainable property use. Comprehensive, full management and monitoring of ESG risks depends crucially both on the risk-type-specific treatment of ESG risks and on the development and implementation of Bank-wide indicators and KPIs for ESG aspects, in line with the prescribed business strategy.

Current and future investments to reach environmental objectives

Since 2021, the Bank has offered green loans (as defined in its Green Finance Framework – Lending). These are designed to support its clients in achieving their business goals and hence to promote the property industry's contribution to greater sustainability. We have defined environmental sustainability criteria for commercial property based on our valuation expertise, our many years of experience, our property market knowledge and existing market standards such as the Loan Market Association's Green Loan Principles. These form the basis for our "Green Finance Framework – Lending". Qualification criteria for green loans include not only compliance with minimum energy efficiency standards and the existence of certain high-quality building certificates but also building requirements that meet the strict standards set out in the EU Taxonomy. This definition was developed together with internal experts with the goal of applying it around the world. A second-party opinion by Sustainalytics GmbH (Sustainalytics) reviewed the framework developed in this way for its ambition, market conformity and the suitability of the qualification criteria, and rated it as "credible and impactful". This third-party certified model serves as the basis for extending green loans and hence is successively aligning the Bank's credit portfolio with sustainability criteria. We also received a second party opinion from Sustainalytics for our green definition (an Aareal-specific definition of "green" for (a) buildings and (b) building energy efficiency improvements), underscoring Aareal Bank's credible and robust approach to sustainability.

This green funding offering supplements our green lending activities, allowing ESG-conscious clients to be offered products in both the asset and the liability areas of the business during the reporting period. The suitability criteria for liability-side products and their classification as "green" have been designed in a similar way to the existing "Green Finance Framework – Lending". The resulting "Green Finance Framework – Liabilities" was also subjected to a second party opinion review by Sustainalytics and was classified as "market-conforming, credible and impactful". At the same time as the first green funding products were introduced, the Green Finance Committee (GFC) was established to manage and monitor the green asset pool.

An annual issuer-based ESG screening of the Bank's Treasury portfolio is performed, allowing it to be analysed and assessed from an ESG perspective. Among other things, social criteria such as the freedom of the press and the Corruption Index are taken into account here.

[1] Comprising expected losses (EL) and unexpected losses (UL)

Social risks

Definition

Social risks refer to issues such as occupational health and safety, employment law standards and the working environment, diversity and social involvement. Social risks are also identified by negative effects on stakeholders of the company.

Social aspects include e.g. human rights abuses, income disparity and discrimination.

Management of social risks

Social risk factors are not expected to materially impact Aareal Bank's financial and non-financial risk types in the short-, medium- or long-term time horizons. This assessment is regularly reviewed as part of the materiality assessment.

Aareal Bank AG's Structured Property Financing segment primarily provides finance for completed buildings. The focus on hotels, alternative living (student housing, micro living, etc.), retail properties, logistics facilities, office buildings and residential property means that our portfolio does not contain any potentially controversial industrial plant or other properties that might be considered problematic. Aareal Bank Group has further reduced its risk by restricting certain business activities and does not actively do business in the following sectors: shell banks, correspondent banks, the nuclear industry, arms production, raw materials extraction, red light business/adult entertainment, drugs and cash payment services. Additional detailed rules have been set out as part of the anti-financial crime strategy. Consequently, many typical sector-specific social risks are relatively unimportant for us.

Other social aspects have been embedded as integral components of operational risk and are managed using the various tools used in operational risk control. In particular, human resources risk scenarios are used (see the section entitled "Management of operational risk" on pages 117 et seq.).

Strategy & Corporate Development directly incorporates ESG topics, and hence social matters as well, in its development and management of the business strategy, and the Management Board also includes them in its business decisions.

We take the following social aspects of properties into account during valuations performed in connection with lending decisions:

- Functional quality, e.g. ease of access and transportation links, building accessibility and barrier-free design;
- Life-cycle quality, e.g. as demonstrated by opportunities for the flexible use of properties, the ability to relet them, third-party usability and appropriate expenditure on value preservation measures.
- Sociocultural quality, e.g. high-quality architecture, the quality of town planning and potential tenants.

We consider respect for human rights to be an inalienable part of our responsibility as a global enterprise. This is why we have undertaken not only to strictly comply with all applicable legal requirements but also to uphold human rights within our sphere of influence.

Breaches of human rights – including along our value chain – must be prevented above all for humanitarian reasons. Above and beyond this, though, any infringements could have far-reaching economic consequences for the Group. Reputational damage and financial penalties can lead to long-term risks for the company involved that should not be underestimated. Managing these risks comprehensively and responsibly is a particularly important task. This is why we have established guidelines and mandatory codes of conduct that apply throughout the Group, so as to uphold and strengthen human rights in our international business to the best of our ability.

Contractual rules relating to the Code of Conduct for Suppliers and Business Partners, which underscore the obligation to comply with certain standards, were introduced in Purchasing and Procurement in order to combat the risk of human rights violations among suppliers. The Code of Conduct is mandatory and forms the basis for the business relationships between Group companies and suppliers/service providers. It ensures on the one hand that the Bank's business partners respect human rights, while on the other it protects the Bank against potential risks arising from failures to comply with environmental or social standards in the supply chain that would reflect negatively on Aareal Bank Group.

New regulatory requirements that could lead to obligations for the Bank with respect to the observance of human rights in the Group are reviewed regularly for their relevance and for any need to take action. These include, for example, the revised EBA Guidelines on internal governance. In addition, the Bank tracks new laws, identifying potential implications for Aareal Bank Group at an early stage.

At the level of the workforce, complying with the German General Equal Treatment Act (Allgemeines Gleichstellungsgesetz – AGG) and the ban on discrimination (e.g. treating staff differently on the basis of diversity aspects, or inappropriate or unfair remuneration) is a key issue. Unethical behaviour of this kind would damage teamwork and hence results, lead to inefficient working processes, demotivate talented employees and cause economic damage as a result.

Our Code of Conduct for employees summarises the values and convictions that make us – Aareal Bank Group – what we are. Its principles are designed to ensure a culture of integrity and mutual trust throughout the Group. In line with this, the Code of Conduct covers the topics of equal opportunities and diversity, fairness and protecting human rights, among other things. It is a matter of course for us that we respect and comply with the laws and regulations of the countries in which we operate and that we respect human rights, focusing in particular on the abolition of all forms of forced and child labour. The Management Board has expressly undertaken to respect human rights in this Code of Conduct, which applies to the entire Group, and to observe the principles of diversity and equal treatment. The Bank's reporting on its respect for human rights is used to inform the Management Board of the measures implemented, their effectiveness, any infringements and the actions taken to penalise them. The Code of Conduct is based on the requirements of the EBA Guidelines on internal governance and international industry standards such as the Universal Declaration of Human Rights, the conventions drawn up by the International Labour Organization (ILO), the OECD Guidelines for Multinational Enterprises and the UN Global Compact's Ten Principles.

The non-financial reporting reports annually on employee-related and social matters, and on human rights observance, among other things. This also includes how social risks are dealt with in Aareal Bank Group's operating and business environment. In addition, relevant topics relating to social risks are regularly discussed at Management Board and top management level in a number of different bodies.

The workers' representative body responsible exercises its right of co-determination in the case of appointments at our German offices. We also report annually on the proportion of women in management positions and in the workforce throughout the world. We define "women in management" as all female non-pay scale employees at the Company who exercise a professional management role or who have the right to issue instructions to employees.

As part of the Bank's comprehensive sustainability risk monitoring and management activities, our stress test scenarios take not only climate and environmental risks but also changes in the world of work and in travel patterns into account. An analysis of social change performed in this context also focuses increasingly on social and governance risks, and assesses their impact on both financial and non-financial risks.

Governance risks

Definition

Governance risks are defined as the risks resulting from (un-)sustainable corporate governance. The focus here is on business ethics, on complying with data protection requirements and on an appropriate sustainability-related information policy and public relations.

Management of governance risks

The sustainable corporate governance factors mentioned can have a financial impact in the medium to long term, especially in relation to operational or reputational risks. Like social risks, these aspects are an integral part of the operational risk methodologies, with risk management mainly being centred on reputational, legal and ICT risks.[1]

[1] See the section of this Disclosure Report entitled "Management of operational risk" (page 117 et seqq.) for information on operational risk management.

Other ways in which Aareal Bank Group manages its risks are by defining permissible transactions (e.g. by choosing not to do business with correspondent banks, specifying permissible sectors, etc.) and by not doing business in areas or sectors that are not permitted. Qualitative standards represent the operational guide rails for managing risks. When defining these qualitative guide rails, the Bank relies for guidance in particular on the Wolfsberg Questionnaire (the international correspondent bank standard), which is also disclosed to business partners. Aareal Bank Group has also restricted certain business activities in order to further reduce risks. For example, the Wolfsberg Questionnaire lists other transactions that are only permitted at the Bank following a case-by-case decision by the Management Board.

We expect our business partners to act in a similarly responsible manner with respect to governance risks. Increased caution is required in the case of business partners who are the subject of current proceedings for fraud, bribery, corruption, environmental crime, etc., and mandatory regular negative news screening is performed. In addition, business partners undertake to observe Aareal Bank Group's Code of Conduct. This mandatory policy forms the basis for the business relationships between Group companies and suppliers/service providers. It ensures on the one hand that our business partners respect human rights, while on the other it protects us against potential risks in the supply chain arising from failures to comply with environmental or social standards that would reflect negatively on Aareal Bank Group. New suppliers and service providers with an order volume in excess of € 100,000 are checked using commercial credit agency reports. Primary suppliers are examined regularly using a supplier evaluation system that assesses their reliability and compliance with the terms and conditions of their contracts, among other things. If functions (particularly material ones) are outsourced, the division performing the outsourcing must ensure the service provider's suitability using a selection and assessment procedure, and must review this regularly. Factors that must be examined during due diligence are defined in detail in Group-wide procedural guidelines. Additional requirements apply when outsourcing material functions.

At Group level, the Framework Directive on Preventing Corruption and the Procedural Guidelines on the Prevention of White-collar Crime serve as the basis for raising awareness among our employees and as the benchmark for acting correctly. They are supplemented by fraud prevention measures and by Aareal Bank AG's whistleblowing procedures, which serve to prevent corruption risks, and by a Conflict of Interest Policy that generally sets out how conflicts of interest are to be dealt with. The goal is to help avoid and manage any conflicts of interest as far as possible.

In addition, employees receive training on the Company's compliance and fraud prevention requirements and on the potential consequences of any breaches. More specifically, the training courses designed to raise employee awareness of compliance requirements comprise individual modules on general compliance requirements, on the Code of Conduct, on preventing money laundering and terrorist financing, and on preventing corruption and fraud. A confidential (and anonymous) whistle-blowing channel also exists that can be used to report suspected breaches of the rules, fraudulent behaviour or white-collar crime. This guarantees the employee reporting the issue confidentiality and protection. Employees can use this voluntary, confidential reporting system to raise concerns online or by phone – including anonymously, if desired.

Quantitative information on ESG risk

Table 1 below discloses the gross carrying amounts for the loans and advances, debt securities and equity instruments to non-financial corporations, broken down by the industries involved. It does not include financial assets belonging to the "held for trading" category. The contractually agreed maturities were used for the additional presentation of the exposures by their remaining terms to maturity.

The presentation by industry corresponds to the classification by NACE codes used in FINREP.

As the Group's business is focused on commercial property financing, the real estate activities sector is by far the most relevant industry. We are exercising the option set out in Article 19 (1) of Commission Implementing Regulation (EU) 2021/637 and are only disclosing those industries that are relevant for us, while retaining the row numbers.

Column b comprises exposures to non-financial corporations that are excluded from the EU Paris-aligned Benchmarks pursuant to Article 12 (1) points d) to g) and Article 12 (2) of Commission Delegated Regulation (EU) 2020/1818 ("Minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks"). As at the reporting date, there were no exposures to companies that were classified, based on their sector keys, as "excluded from the EU Paris-aligned Benchmarks".

Columns f to h are to be used to disclose information on risk provisions and provisions relating to non-performing and performing exposures.

Information on greenhouse gas emissions is disclosed in columns i to k. The Scope 1 and Scope 2 emissions financed by Aareal Bank and contained in the Bank's commercial property finance portfolio are collected at the level of the counterparty concerned (in this context the financed building) using the global Partnership for Carbon Accounting Financials (PCAF) Standard. PCAF is a global initiative of financial institutions that work together to develop and implement a harmonised approach to assessing and disclosing the carbon emissions associated with loans and investments.

Under the PCAF Standard, financed carbon emissions are attributed to financial institutions on the basis of agreed, consistent carbon accounting rules. The Standard does this by requiring the carbon emissions associated with loans and investments to be accounted for and disclosed annually at a fixed point in time, in line with the financial accounting periods. By signing the PCAF Commitment Letter, Aareal Bank has made a voluntary statement committing to account for and disclose the greenhouse gas emissions associated with its lending activities using the PCAF as a basis.

Collection of the carbon data disclosed in this report was already closely modelled on the requirements of the PCAF Standard. A significant proportion of the carbon data were provided by the counterparty (almost entirely in the form of European energy performance certificates); in addition, data gaps were closed in a fallback procedure by consulting science-based databases such as the PCAF European building emissions factor database and the U.S. Building Performance Database (BPD). Approximations were made with the help of a variety of building-specific specifications such as the asset class, geographical location and energy efficiency.

Given the widespread lack of a centralised pool of building-specific Scope 3 emissions data and the difficulties that financial institutions have in accessing such data, Aareal Bank relied on scientific studies when collecting the data and calculated a mean value suitable for the specific finance portfolio in question. This approach also enables Scope 3 emissions resulting, for example, from the building's construction, maintenance and demolition to be broken down annually across the building's typical useful life.

**ESG table 1: Indicators of potential climate change transition risk:
Credit quality of exposures by sector, emissions and residual maturity**

		a	b	c	d	e
		Gross carrying amount				
			of which: exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with Article 12 (1) points d) to g) and Article 12 (2) of Commission Delegated Regulation (EU) 2020/1818	of which: environmentally sustainable	of which: stage 2	of which: non-performing
		€ mn	€ mn	€ mn	€ mn	€ mn
1	**Exposures towards sectors that highly contribute to climate change**	**31,232**	**–**	**39**	**5,002**	**1,250**
9	**C – Manufacturing**	**–**	**–**	**–**	**–**	**–**
30	C.30 – Manufacture of other transport equipment	–	–	–	–	–
39	**E – Water supply; sewerage, waste management and remediation activities**	**2**	**–**	**–**	**–**	**–**
40	**F – Construction**	**99**	**–**	**39**	**–**	**40**
41	F.41 – Construction of buildings	40	–	–	–	40
42	F.42 – Civil engineering	59	–	39	–	–
44	**G – Wholesale and retail trade; repair of motor vehicles and motorcycles**	**70**	**–**	**–**	**–**	**–**
45	**H – Transportation and storage**	**–**	**–**	**–**	**–**	**–**
49	H.52 – Warehousing and support activities for transportation	–	–	–	–	–
51	**I – Accommodation and food service activities**	**1,459**	**–**	**–**	**134**	**0**
52	**L – Real estate activities**	**29,602**	**–**	**–**	**4,868**	**1,210**
53	**Exposure towards sectors other than those that highly contribute to climate change**	**80**	**–**	**–**	**52**	**0**
54	**K – Financial and insurance activities[1)]**	**–**	**–**	**–**	**–**	**–**
55	Exposures to other sectors (NACE Codes J, M - U)	80	–	–	52	0
56	**Total**	**31,312**	**–**	**39**	**5,055**	**1,250**

[1)] Q&A 2022_6600 states that the EBA is of the opinion that row 54 also requires disclosure of exposures to financial counterparties from NACE sector K. In Aareal Bank's view, EBA Q&As serve to clarify questions of interpretation. It is our understanding that Commission Implementing Regulation (EU) 2022/2453 clearly states that only exposures to non-financial corporations are to be included in ESG table 1. Consequently, in the current case application of the EBA Q&A would lead to a failure to comply with the legal framework. Aareal Bank has addressed this inconsistency by not including financial corporations, given the unambiguous formulation contained in Commission Implementing Regulation (EU) 2022/2453. Examples of non-financial corporations belonging to sector K include investment companies that are also non-financial corporations. The Bank did not have any exposures to such counterparties in its portfolio as at 31 December 2024.

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		f	g	h	i	j
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			GHG financed emissions (Scope 1, Scope 2 and Scope 3 emissions of the counterparty	
			of which: stage 2	of which: non-performing		of which: financed Scope 3 emissions
		€ mn	€ mn	€ mn	t CO_2e thousands	t CO_2e thousands
1	**Exposures towards sectors that highly contribute to climate change**	**-395**	**-148**	**-213**	**688**	**110**
9	**C – Manufacturing**	**–**	**–**	**–**	**–**	**–**
30	C.30 – Manufacture of other transport equipment	–	–	–	–	–
39	**E – Water supply; sewerage, waste management and remediation activities**	**0**	**–**	**–**	**0**	**0**
40	**F – Construction**	**-2**	**–**	**-2**	**7**	**3**
41	F.41 – Construction of buildings	-2	–	-2	5	2
42	F.42 – Civil engineering	0	–	–	2	2
44	**G – Wholesale and retail trade; repair of motor vehicles and motorcycles**	**0**	**–**	**–**	**1**	**0**
45	**H – Transportation and storage**	**–**	**–**	**–**	**–**	**–**
49	H.52 – Warehousing and support activities for transportation	–	–	–	–	–
51	**I – Accommodation and food service activities**	**-2**	**-1**	**0**	**15**	**2**
52	**L – Real estate activities**	**-391**	**-147**	**-211**	**666**	**105**
53	**Exposure towards sectors other than those that highly contribute to climate change**	**-1**	**-1**	**–**		
54	**K – Financial and insurance activities[1)]**	**–**	**–**	**–**		
55	Exposures to other sectors (NACE Codes J, M-U)	-1	-1	–		
56	**Total**	**-396**	**-149**	**-213**	**688**	**110**

[1)] Q&A 2022_6600 states that the EBA is of the opinion that row 54 also requires disclosure of exposures to financial counterparties from NACE sector K. In Aareal Bank's view, EBA Q&As serve to clarify questions of interpretation. It is our understanding that Commission Implementing Regulation (EU) 2022/2453 clearly states that only exposures to non-financial corporations are to be included in ESG table 1. Consequently, in the current case application of the EBA Q&A would lead to a failure to comply with the legal framework. Aareal Bank has addressed this inconsistency by not including financial corporations, given the unambiguous formulation contained in Commission Implementing Regulation (EU) 2022/2453. Examples of non-financial corporations belonging to sector K include investment companies that are also non-financial corporations. The Bank did not have any exposures to such counterparties in its portfolio as at 31 December 2024.

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		k	l	m	n	o	p
		GHG emissions: gross carrying amount percentage of the portfolio derived from company-specific reporting	≤ 5 years	> 5 years ≤ 10 years	> 10 years ≤ 20 years	> 20 years	Average maturity
		%	€ mn	€ mn	€ mn	€ mn	
1	**Exposures towards sectors that highly contribute to climate change**	**10.66**	**29,588**	**1,349**	**189**	**106**	**3**
9	**C – Manufacturing**	**–**	**–**	**–**	**–**	**–**	**–**
30	C.30 – Manufacture of other transport equipment	–	–	–	–	–	–
39	**E – Water supply; sewerage, waste management and remediation activities**	**–**	**0**	**1**	**–**	**–**	**7**
40	**F – Construction**	**–**	**40**	**–**	**59**	**–**	**8**
41	F.41 – Construction of buildings	–	40	–	–	–	–
42	F.42 – Civil engineering	–	–	–	59	–	13
44	**G – Wholesale and retail trade; repair of motor vehicles and motorcycles**	**–**	**70**	**–**	**–**	**–**	**0**
45	**H – Transportation and storage**	**–**	**–**	**–**	**–**	**–**	**–**
49	H.52 – Warehousing and support activities for transportation	–	–	–	–	–	–
51	**I – Accommodation and food service activities**	**2.12**	**1,405**	**54**	**–**	**–**	**2**
52	**L – Real estate activities**	**11.15**	**28,073**	**1,293**	**130**	**106**	**3**
53	**Exposure towards sectors other than those that highly contribute to climate change**		**80**	**0**	**–**	**0**	**–**
54	**K – Financial and insurance activities**[1]		**–**	**–**	**–**	**–**	**–**
55	Exposures to other sectors (NACE Codes J, M - U)		80	0	–	0	–
56	**Total**	**10.64**	**29,667**	**1,349**	**189**	**106**	**3**

[1] Q&A 2022_6600 states that the EBA is of the opinion that row 54 also requires disclosure of exposures to financial counterparties from NACE sector K. In Aareal Bank's view, EBA Q&As serve to clarify questions of interpretation. It is our understanding that Commission Implementing Regulation (EU) 2022/2453 clearly states that only exposures to non-financial corporations are to be included in ESG table 1. Consequently, in the current case application of the EBA Q&A would lead to a failure to comply with the legal framework. Aareal Bank has addressed this inconsistency by not including financial corporations, given the unambiguous formulation contained in Commission Implementing Regulation (EU) 2022/2453. Examples of non-financial corporations belonging to sector K include investment companies that are also non-financial corporations. The Bank did not have any exposures to such counterparties in its portfolio as at 31 December 2024.

Table 2 presents the gross carrying amount of loans collateralised by commercial and residential immovable property and the gross carrying amount of repossessed real estate collateral, broken down into fixed energy efficiency level categories (in kWh/m²) and by energy performance certificate (EPC) labels.

The gross carrying amount of loan finance with multiple real estate collaterals is broken down to the energy efficiency levels and EPC labels using the ratio of an individual property's mortgage lending value to the total mortgage lending value for all properties. In exceptional cases, the market price of a building is used as the starting point for the breakdown.

Column o is used to enter real estate loans for which the properties serving as collateral do not have an EPC label. Column p shows the proportion of the real estate loans without EPC labels disclosed in column o for which the Bank has estimated the energy performance score (EPS) for the real estate collateral. It should be noted here that, in line with EBA Q&A 2022_6625, the EPS is only considered to be "not estimated" in the case of properties for which an EPC label was available. Nevertheless, the Bank has EPCs or similar certificates for some of these properties that document the energy efficiency level in kWh/m² but to which no EPC labels have been assigned. This means that the proportion of exposures for which estimates rather than real data actually had to be used is smaller than the figure shown in column p. This procedure also applies to the exposures reported in rows 5 and 10.

The energy efficiency levels for the real estate collateral that were actually based on estimates were determined using the PCAF Standard. Estimates were based on the location and type of the financed properties. They were performed for all properties for which this is appropriate. This covers all property types with the exception of undeveloped land.

Since Aareal Bank generally pursues the strategy of preventing any further losses from loan exposures, the properties disclosed in rows 4 and 9 are in some cases being repositioned and upgraded, and may be held for several years.

ESG table 2: Indicators of potential climate change transition risk:
Loans collateralised by immovable property – Energy efficiency of the collateral

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Gross carrying amount															
		Level of energy efficiency (EP score in kWh/m² of the collateral)							Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
			of which: 0 ≤ 100	of which: > 100 ≤ 200	of which: > 200 ≤ 300	of which: >300 ≤ 400	of which: > 400 ≤ 500	of which: > 500	A	B	C	D	E	F	G		of which: level of energy efficiency (EP score in kWh/m² of collateral) estimated
€ mn																	%
1	**Total EU area**	**17,527**	**4,984**	**5,786**	**4,478**	**1,032**	**175**	**841**	**1,889**	**2,114**	**1,547**	**1,292**	**724**	**30**	**97**	**9,834**	**40.03**
2	of which: collateralised by commercial immovable property	16,570	4,572	5,478	4,470	1,032	175	841	1,722	2,092	1,514	1,280	721	29	93	9,119	40.85
3	of which: collateralised by residential immovable property	806	413	267	7	–	–	–	167	22	32	13	3	0	5	564	30.31
4	of which: collateral obtained by taking possession (residential and commercial immovable properties)	151	–	41	–	–	–	–	–	–	–	–	–	–	–	151	27.07
5	of which: level of energy efficiency estimated	4,576	474	1,019	2,341	434	3	305								3,937	100.00
6	**Total non-EU area**	**15,390**	**746**	**4,768**	**6,390**	**1,030**	**458**	**1,995**	**481**	**1,742**	**994**	**645**	**453**	**94**	**99**	**10,882**	**93.86**
7	of which: collateralised by commercial immovable property	13,798	746	3,841	6,052	933	277	1,945	294	1,439	982	588	442	94	99	9,861	93.22
8	of which: collateralised by residential immovable property	1,194	–	759	107	97	180	50	187	304	12	57	11	–	–	623	100.00
9	of which: collateral obtained by taking possession (residential and commercial immovable properties)	399	–	168	230	–	–	–	–	–	–	–	–	–	–	399	100.00
10	of which: level of energy efficiency estimated	11,127	79	3,929	5,775	736	–	610								10,214	100.00

ESG table 3 basically aims to give an overview of efforts to reduce greenhouse gas emissions in the building sector so as to reach the climate action goals set out in the Paris Agreement on climate change, taking into account the alignment metrics for the Net Zero Emissions by 2050 (NZE2050) scenario defined by the International Energy Agency (IEA). The focus is restricted to loans and advances, debt securities and equity instruments relating to non-financial corporations in the banking book.

Aareal Bank's portfolio does not contain any exposures to companies active in the sectors specified in rows 1 to 8 pursuant to Commission Implementing Regulation (EU) 2022/2453. Its business model means that the commercial property finance sector is decisive. This is represented by NACE sectors F, G, I and L, with NACE sector L – which accounts for roughly 95 % of the gross carrying amount of the above-mentioned NACE sectors – being material.

ESG table 3: Indicators of potential climate change transition risk: Alignment metrics

		b	c	d	e	f	g
		NACE sectors	Portfolio gross carrying amount	Alignment metric	Year of reference	Distance to IEA NZE2050[1)]	Target (year of reference + 3 years)
			€ mn	kg CO_2/m²		%	kg CO_2/m²
9	Commercial property finance	68	30,800	55.45	2024	158.80	55.45

[1)] Distance to NZE2050 scenario for 2030

The Bank is currently working on a transition plan, which involves specifying a decarbonisation pathway and the corresponding targets for its portfolio. This development work is expected to continue into the second half of 2025. Consequently, the information given on the alignment metrics, the distance to the IEA decarbonisation pathway for 2030 (column f) and the target for 2026 (column g) is only preliminary and may change in subsequent Disclosure Reports.

The alignment metric considered suitable for the commercial property finance is kg CO_2/m², which has also become established in the sector. The Carbon Risk Real Estate Monitor (CCREM) was chosen for the commercial real estate lending portfolio instead of the IEA NZE2050 decarbonisation pathway, since this permits a more granular breakdown of property types and country combinations.

No target can be set at present since Aareal Bank has not yet chosen a decarbonisation pathway; however, the aim is to maintain the current value of portfolio at a minimum. Equally, the target for the green loan volume of € 6-7 billion cannot currently be measured in terms of carbon reductions. Consequently, the current value of the portfolio has been given as the target for 2026.

ESG table 4 is used to disclose exposures to counterparties among the top 20 carbon emitting companies in the world. The portfolio of loans and advances, debt securities and equity instruments was reviewed using current data from the Carbon Majors Database (Launch Report, April 2024).

At the reporting date under review, Aareal Bank's portfolio did not contain any exposures to counterparties among the top 20 carbon-emitting companies in the world.

Table 5 provides a summary of exposures subject to acute and chronic physical climate risks. Physical climate risks are considered to be acute if they arise as a result of extreme events such as drought, floods or storms. If they result from gradual changes (such as rising temperatures, rising sea levels, water stress, loss of biodiversity, changes in land use, habitat loss or resource scarcity), they are classified as chronic.

For the sake of transparency, we have restricted our presentation of geographical areas impacted by physical climate risks due to climate change to a breakdown of exposures at the "EU" and "non-EU" levels.

In the case of the commercial real estate lending portfolio, the information on physical climate risks is supplied by an external data provider in the form of risk scores. These depict vulnerabilities to natural hazards in relation to a vulnerability scale and also supply additional information from which vulnerabilities can be derived. Information about both current and future vulnerabilities associated with the location, among other things, is taken into account when determining the risk score. A conservative methodology has been adopted to establish properties' physical vulnerability that also includes risks that do not directly lead to damage to the building concerned (e.g. drought). The methodology used to establish physical vulnerability to natural hazards will be examined this year together with the external data provider and will then be adapted on the basis of the results of this investigation.

Column b contains the gross carrying amount of all exposures required to be included by Annex II of Commission Implementing Regulation (EU) 2022/2453, regardless of whether these are subject to physical climate risks or not. By contrast, the information on maturity buckets and risk provisions contained in the following columns is restricted to those exposures that are subject to acute and/or physical climate risk.

Whereas the exposures that have to be disclosed by sector of economic activity are restricted to exposures to non-financial corporations, the information given in rows 10 and 11 also includes loans to other counterparties that are collateralised by residential or commercial immovable property.

ESG table 5: Indicators of potential climate change physical risk: Exposures subject to physical risk (EU)

	b	c	d	e	f	g	h	i
	Gross carrying amount							
		of which: exposures sensitive to impact from climate change physical events						
		Breakdown by maturity bucket						
		≤ 5 years	> 5 years ≤ 10 years	> 10 years ≤ 20 years	≥ 20 years	Average maturity	of which: exposures sensitive to impact from chronic climate change events	of which: exposures sensitive to impact from acute climate change events
€ mn								
1 A – Agriculture, forestry and fishing	–	–	–	–	–	–	–	–
2 B – Mining and quarrying	–	–	–	–	–	–	–	–
3 C – Manufacturing	–	–	–	–	–	–	–	–
4 D – Electricity, gas, steam and air conditioning supply	–	–	–	–	–	–	–	–
5 E – Water supply; sewerage, waste management and remediation activities	2	–	–	–	–	–	–	–>
6 F – Construction	99	40	–	–	–	–	–	–
7 G – Wholesale and retail trade; repair of motor vehicles and motorcycles	70	70	–	–	–	0	–	–
8 H – Transportation and storage	–	–	–	–	–	–	–	–
9 L – Real estate activities	15,246	11,992	892	91	29	3	2,562	5,964
10 Loans collateralised by residential immovable property	806	350	40	91	28	7	132	190
11 Loans collateralised by commercial immovable property	15,639	12,669	904	0	1	3	2,472	6,033
12 Repossessed collaterals	151	–	–	–	41	–	–	41
13 Other relevant sectors	287	162	50	–	–	5	23	148

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€ mn	j	k	l	m	n	o
	Gross carrying amount					
	of which: exposures sensitive to impact from climate change physical events					
	of which: exposures sensitive to impact from chronic and acute climate change events	of which: Stage 2	of which: non-performing	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	of which: Stage 2	of which: non-performing
1 A – Agriculture, forestry and fishing	–	–	–	–	–	–
2 B – Mining and quarrying	–	–	–	–	–	–
3 C – Manufacturing	–	–	–	–	–	–
4 D – Electricity, gas, steam and air conditioning supply	–	–	–	–	–	–
5 E – Water supply; sewerage, waste management and remediation activities	–	–	–	–	–	–
6 F – Construction	40	–	40	-2	–	-2
7 G – Wholesale and retail trade; repair of motor vehicles and motorcycles	70	–	–	0	–	–
8 H – Transportation and storage	–	–	–	–	–	–
9 L – Real estate activities	4,478	1,130	61	-54	-17	-20
10 Loans collateralised by residential immovable property	187	11	4	0	0	0
11 Loans collateralised by commercial immovable property	5,068	1,150	105	-58	-17	-23
12 Repossessed collaterals	–	–	–	-2	–	–
13 Other relevant sectors	41	11	–	0	0	–

ESG table 5: Indicators of potential climate change physical risk: Exposures subject to physical risk (non-EU)

		b	c	d	e	f	g	h	i
		Gross carrying amount							
			of which: exposures sensitive to impact from climate change physical events						
			Breakdown by maturity bucket					of which: exposures sensitive to impact from chronic climate change events	of which: exposures sensitive to impact from acute climate change events
€ mn			≤ 5 years	> 5 years ≤ 10 years	> 10 years ≤ 20 years	≥ 20 years	Average maturity		
1	A – Agriculture, forestry and fishing	–	–	–	–	–	–	–	–
2	B – Mining and quarrying	–	–	–	–	–	–	–	–
3	C – Manufacturing	–	–	–	–	–	–	–	–
4	D – Electricity, gas, steam and air conditioning supply	–	–	–	–	–	–	–	–
5	E – Water supply; sewerage, waste management and remediation activities	–	–	–	–	–	–	–	–
6	F – Construction	–	–	–	–	–	–	–	–
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	–	–	–	–	–	–	–	–
8	H – Transportation and storage	–	–	–	–	–	–	–	–
9	L – Real estate activities	14,356	8,809	235	–	–	3	838	2,161
10	Loans collateralised by residential immovable property	1,194	618	28	–	–	3	67	139
11	Loans collateralised by commercial immovable property	14,729	9,394	206	–	–	3	890	2,718
12	Repossessed collaterals	399	–	–	–	333	–	–	–
13	Other relevant sectors	1,252	962	–	–	–	2	119	454

	j	k	l	m	n	o
	Gross carrying amount					
	of which: exposures sensitive to impact from climate change physical events					
				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
€ mn	of which: exposures sensitive to impact from chronic and acute climate change events	of which: Stage 2	of which: non-performing		of which: Stage 2	of which: non-performing
1 A – Agriculture, forestry and fishing	–	–	–	–	–	–
2 B – Mining and quarrying	–	–	–	–	–	–
3 C – Manufacturing	–	–	–	–	–	–
4 D – Electricity, gas, steam and air conditioning supply	–	–	–	–	–	–
5 E – Water supply; sewerage, waste management and remediation activities	–	–	–	–	–	–
6 F – Construction	–	–	–	–	–	–
7 G – Wholesale and retail trade; repair of motor vehicles and motorcycles	–	–	–	–	–	–
8 H – Transportation and storage	–	–	–	–	–	–
9 L – Real estate activities	6,045	3,261	890	-262	-126	-135
10 Loans collateralised by residential immovable property	441	148	26	-1	-1	–
11 Loans collateralised by commercial immovable property	5,993	3,285	864	-265	-127	-135
12 Repossessed collaterals	333	–	–	-13	–	–
13 Other relevant sectors	388	172	–	-3	-2	–

ESG table 6 provides a summary of the key performance indicators (KPIs) in the EU Taxonomy Regulation (EU) 2020/852 (hereinafter referred to as the "Taxonomy Regulation") and was calculated on the basis of ESG tables 7 and 8.

The main indicator disclosed is the green asset ratio (GAR), which was determined in line with the Taxonomy Regulation and the supplementary Commission Delegated Regulations (EU) 2021/2178 and (EU) 2023/2486. The GAR is the ratio of Taxonomy-aligned assets to the total assets relevant for the GAR. In accordance with Article 1 no. 2 of Commission Delegated Regulation (EU) 2021/2178 and, in addition, in accordance with Regulation (EU) 2023/2486, economic activities are considered to be Taxonomy-aligned if they meet the requirements set out in Article 3 of the Taxonomy Regulation. Aareal Bank AG's business activities have largely been classified as Taxonomy non-eligible or Taxonomy non-aligned. This is due to the large proportion of Aareal Bank Group activities in non-EU countries and exposures to non-NFRD/non-CSRD undertakings, which result in a lower GAR in comparison to other banking groups that are solely active in EU countries and that have a large proportion of private housing exposures in their portfolios.

Whereas Article 8 of the Taxonomy Regulation requires both a turnover-based GAR and a CapEx-based GAR to be reported, ESG tables 6, 7 and 8 in Commission Implementing Regulation (EU) 2022/2453 only report the GAR using turnover-based Taxonomy information ("turnover-based GAR" KPI).

The data used to check Taxonomy eligibility and Taxonomy alignment was based on the last non-financial reports published by the counterparties and on properties that were analysed at the individual transaction level, building-specific information such as the year of construction, energy performance certificates, valuation reports and physical risk analyses. Aareal Bank AG's identified Taxonomy-aligned assets in the reporting period comprise debt securities relating to non-financial undertakings.

Aareal Bank's clients' sophisticated requirements for structuring their cross-portfolio and cross-border finance deals mean that a large majority of the Bank's economic activities are attributable to SPV finance and hence to clients whose size, structure and/or legal form exempt them from the requirement to submit a non-financial statement as defined by the Corporate Sustainability Reporting Directive (CSRD). Classic SPV finance is not included in the numerator of the GAR since section 1.1.2 of Annex V to the Commission Delegated Regulation excludes exposures to business partners that are not obliged to publish non-financial information in accordance with the NFRD from the coverage of the GAR.

The following assumptions were made when determining the GAR:

- Exposures for which insufficient information was available to determine their Taxonomy eligibility were disclosed as Taxonomy-non-eligible economic activities.
- The analysis of the exposures for the GAR flow KPI is based on the start of maturity of the exposure in the reporting period. For simplicity's sake, only exposures that are disclosed in the statement of financial position as at the closing date are examined. This means that only those exposures that were newly entered into during the financial year were included in the analysis. The precise start of maturity of other demand deposits cannot be determined, since these receivables are payable on demand. Consequently, other demand deposits were not included in the list of the GAR flow KPI assets, since they only exhibit limited annual volatility and recognising this information precisely for each day would entail an unreasonable amount of effort.
- In the case of derivatives, a distinction was made between trading and non-trading derivatives in line with the EU Taxonomy Regulation. The Bank does not hold any derivatives for trading or derivatives in the regulatory trading book pursuant to Article 104 of the Capital Requirements Regulation (CRR) (e.g. for short-term profit taking or for selling in the near term). However, under IFRS 9 and the Financial Reporting framework (FINREP), derivatives that are not in a designated hedging relationship must be classified and reported as "held for trading". These derivatives were assigned to the "trading book" line in the Taxonomy tables. Derivatives in designated hedging relationships are reported under "derivatives".
- Exposures to households comprise financing for private residential property. This portfolio represents a discontinued business from Aareal Bank AG's perspective. In Aareal Bank AG's opinion, the information needed to assess Taxonomy alignment at the level of individual transactions can only be collected with a disproportionate amount of effort. This being the case and given the small size of this subportfolio in comparison to the commercial real estate portfolio, no assessment has been made at the individual transaction level.
- Where the purpose is not known, the published Taxonomy KPIs (turnover and CapEx) for the identified NFRD undertakings were used in the GAR numerator. If an NFRD undertaking only disclosed turnover information, only this information was used to calculate the turnover-based GAR.
- Exposures to local governments were assigned to the items in the other asset category in line with questions 15, 16 and 47 of the FAQ 3 document dated November 2024.

ESG table 6: Summary of key performance indicators (KPIs) on the Taxonomy-aligned exposures

	Key performance indicators (KPIs)			
%	Climate change mitigation	Climate change adaptation	Total (climate change mitigation and climate change adaptation)	% coverage (over total assets)[1]
GAR stock	0.22	0.00	0.22	6.41
GAR flow	0.24	0.00	0.24	11.24

[1] % of assets covered by the KPI over banks' total assets

ESG table 7 discloses the gross carrying amount of the loans and advances, debt securities and equity instruments that were used to calculate the GAR given in table 6, broken down by counterparty type. The transitional activities examined in columns e and o comprise economic activities that make a substantial contribution to climate change mitigation pursuant to Article 10 of the Taxonomy

Regulation. Enabling activities are set out in greater detail in Article 16 of the Taxonomy Regulation and comprise economic activities that enable other economic activities to make a substantial contribution to climate change mitigation. The environmentally sustainable exposures making a substantial contribution to climate change adaptation that must be disclosed in columns j and o are not currently relevant for Aareal Bank since – as was already described in relation to ESG table 6 – it was possible to assign all financed economic activities to the “climate change mitigation” environmental objective.

The Bank did not hold any environmentally sustainable specialised lending exposures pursuant to Article 147 (8) of the CRR in its portfolio as at the disclosure date.

ESG table 7: Mitigating actions – Assets for the calculation of GAR

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Total gross carrying amount	Climate change mitigation (CCM)					Climate change adaptation (CCA)					Total (CCM + CCA)				
			of which: towards Taxonomy-relevant sectors (Taxonomy-eligible)						of which: towards Taxonomy-relevant sectors (Taxonomy-eligible)					of which: towards Taxonomy-relevant sectors (Taxonomy-eligible)			
				of which: environmentally sustainable (Taxonomy-aligned)						of which: environmentally sustainable (Taxonomy-aligned)					of which: environmentally sustainable (Taxonomy-aligned)		
					of which: specialised lending	of which: transitional	of which: enabling				of which: specialised lending	of which: adaptation	of which: enabling			of which: specialised lending	of which: transitional/ adaptation	of which: enabling
	€ mn																
	GAR – Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	2,547	872	89	–	42	36	0	0	–	–	–	872	89	–	42	36
2	**Financial corporations**	**2,343**	**702**	**49**	**–**	**3**	**2**	**0**	**0**	**–**	**–**	**–**	**702**	**49**	**–**	**3**	**2**
3	Credit institutions	2,286	688	49	–	3	2	0	0	–	–	–	689	49	–	3	2
4	Loans and advances	37	6	0	–	0	0	0	–	–	–	–	6	0	–	0	0
5	Debt securities, including UoP	2,249	682	49	–	3	2	0	0	–	–	–	683	49	–	3	2
6	Equity instruments	–	–	–		–	–	–	–		–	–	–	–		–	–
7	Other financial corporations	57	13	0	–	0	0	0	0	–	–	–	13	0	–	0	0
8	of which: investment firms	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
9	Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
10	Debt securities, including UoP	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
11	Equity instruments	–	–	–		–	–	–	–		–	–	–	–		–	–
12	of which: management companies	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
13	Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Debt securities, including UoP	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	Equity instruments	–	–	–		–	–	–	–		–	–	–	–		–	–
16	of which: insurance undertakings	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
17	Loans and advances	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
18	Debt securities, including UoP	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
19	Equity instruments	–	–	–		–	–	–	–		–	–	–	–		–	–
20	**Non-financial corporations (subject to NFRD disclosure obligations)**	**81**	**47**	**39**	**–**	**39**	**34**	**–**	**–**	**–**	**–**	**–**	**47**	**39**	**–**	**39**	**34**
21	Loans and advances	22	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
22	Debt securities, including UoP	59	47	39	–	39	34	–	–	–	–	–	47	39	–	39	34
23	Equity instruments	–	–	–		–	–	–	–		–	–	–	–		–	–

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€ mn		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Total gross carrying amount	Climate change mitigation (CCM)					Climate change adaptation (CCA)					Total (CCM + CCA)				
			of which: towards Taxonomy-relevant sectors (Taxonomy-eligible)					of which: towards Taxonomy-relevant sectors (Taxonomy-eligible)					of which: towards Taxonomy-relevant sectors (Taxonomy-eligible)				
				of which: environmentally sustainable (Taxonomy-aligned)					of which: environmentally sustainable (Taxonomy-aligned)					of which: environmentally sustainable (Taxonomy-aligned)			
					of which: specialised lending	of which: transitional	of which: enabling			of which: specialised lending	of which: adaptation	of which: enabling			of which: specialised lending	of which: transitional/adaptation	of which: enabling
24	**Households**	**124**	**124**	**–**	**–**	**–**	**–**						**124**	**–**	**–**	**–**	**–**
25	of which: loans collateralised by residential immovable property	125	124	–	–	–	–						124	–	–	–	–
26	of which: building renovation loans	–	–	–	–	–	–						–	–	–	–	–
27	of which: motor vehicle loans	–	–	–	–	–	–						–	–	–	–	–
28	**Local government financing**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
29	Housing financing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
30	Other local government financing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	**550**	**550**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**550**	**–**	**–**	**–**	**–**
32	Total GAR assets	3,097	1,422	89	–	42	36	0	0	–	–	–	1,422	89	–	42	36
	Assets excluded from the numerator for GAR calculation (covered in the denominator)																
33	**EU Non-financial corporations (not subject to NFRD disclosure obligations)**	**16,679**															
34	Loans and advances	16,572															
35	Debt securities	–															
36	Equity instruments	107															
37	**Non-EU Non-financial corporations (not subject to NFRD disclosure obligations)**	**14,663**															
38	Loans and advances	14,654															
39	Debt securities	–															
40	Equity instruments	9															
41	Derivatives	672															
42	On demand interbank loans	1,467															
43	Cash and cash-related assets	0															
44	Other assets (e. g. goodwill, commodities, etc.)	3,280															
45	Total assets in the denominator (GAR)	39,858															
	Other assets excluded from both the numerator and denominator for GAR calculation																
46	Sovereigns	5,159															
47	Central bank exposures	2,605															
48	Trading book	718															
49	Total assets excluded from numerator and denominator	8,482															
50	Total assets	48,340															

The following ESG table 8 discloses the GAR calculated in accordance with the Taxonomy Regulation and the supplementary Commission Delegated Regulations (EU) 2021/2178 and (EU) 2023/2486 on the basis of the information given in ESG table 7. Whereas the information given in columns a to p relates to the proportion of existing eligible assets funding Taxonomy relevant sectors, columns q to af focus on new eligible assets funding Taxonomy relevant sectors.

ESG table 8: GAR (%)

		a	b	c	d	e	f	g	h	i	j
		Key performance indicators (KPIs) on stock									
		Climate change mitigation (CCM)					Climate change adaptation (CCA)				
		Proportion of eligible assets funding Taxonomy-relevant sectors					Proportion of eligible assets funding Taxonomy-relevant sectors				
			of which: environmentally sustainable					of which: environmentally sustainable			
				of which: specialised lending	of which: transitional	of which: enabling			of which: specialised lending	of which: adaptation	of which: enabling
%*											
1	**GAR**	**3.57**	**0.22**	**–**	**0.11**	**0.09**	**0.00**	**0.00**	**–**	**–**	**–**
2	Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	2.19	0.22	–	0.11	0.09	0.00	0.00	–	–	–
3	Financial corporations	1.76	0.12	–	0.01	0.01	0.00	0.00	–	–	–
4	Credit institutions	1.73	0.12	–	0.01	0.00	0.00	0.00	–	–	–
5	Other financial corporations	0.03	0.00	–	0.00	0.00	0.00	0.00	–	–	–
6	of which: investment firms	–	–	–	–	–	–	–	–	–	–
7	of which: management companies	–	–	–	–	–	–	–	–	–	–
8	of which: insurance undertakings	–	–	–	–	–	–	–	–	–	–
9	Non-financial corporations subject to NFRD disclosure obligations	0.12	0.10	–	0.10	0.08	–	–	–	–	–
10	Households	0.31	–	–	–	–					
11	of which: loans collateralised by residential immovable property	0.31	–	–	–	–					
12	of which: building renovation loans	–	–	–	–	–					
13	of which: motor vehicle loans	–	–	–	–	–					
14	Local government financing	–	–	–	–	–					
15	Housing financing	–	–	–	–	–					
16	Other local government financing	–	–	–	–	–	–	–	–	–	–
17	Collateral obtained by taking possession: residential and commercial immovable properties	1.38	–	–	–	–					

* compared to total covered assets in the denominator

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	k	l	m	n	o	p	q	r	s	t	u
	Key performance indicators (KPIs) on stock						Key performance indicators (KPIs) on flows				
	Total (CCM + CCA)						Climate change mitigation (CCM)				
	Proportion of eligible assets funding Taxonomy-relevant sectors					Proportion of total assets covered	Proportion of new eligible assets funding Taxonomy-relevant sectors				
		of which: environmentally sustainable						of which: environmentally sustainable			
%*			of which: specialised lending	of which: transitional/ adaptation	of which: enabling				of which: specialised lending	of which: transitional/ adaptation	of which: enabling
1 GAR	**3.57**	**0.22**	**–**	**0.11**	**0.09**	**6.41**	**5.13**	**0.24**	**–**	**0.01**	**0.01**
2 Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	2.19	0.22	–	0.11	0.09	5.27	3.11	0.24	–	0.01	0.01
3 Financial corporations	1.76	0.12	–	0.01	0.01	4.85	3.11	0.24	–	0.01	0.01
4 Credit institutions	1.73	0.12	–	0.01	0.00	4.73	3.11	0.24	–	0.01	0.01
5 Other financial corporations	0.03	0.00	–	0.00	0.00	0.12	–	–	–	–	–
6 of which: investment firms	–	–	–	–	–	–	–	–	–	–	–
7 of which: management companies	–	–	–	–	–	–	–	–	–	–	–
8 of which: insurance undertakings	–	–	–	–	–	–	–	–	–	–	–
9 Non-financial corporations subject to NFRD disclosure obligations	0.12	0.10	–	0.10	0.08	0.17	–	–	–	–	–
10 Households	0.31	–	–	–	–	0.26	–	–	–	–	–
11 of which: loans collateralised by residential immovable property	0.31	–	–	–	–	0.26	–	–	–	–	–
12 of which: building renovation loans	–	–	–	–	–	–	–	–	–	–	–
13 of which: motor vehicle loans	–	–	–	–	–	–	–	–	–	–	–
14 Local government financing	–	–	–	–	–	–	–	–	–	–	–
15 Housing financing	–	–	–	–	–	–	–	–	–	–	–
16 Other local government financing	–	–	–	–	–	–	–	–	–	–	–
17 Collateral obtained by taking possession: residential and commercial immovable properties	1.38	–	–	–	–	1.14	2.02	–	–	–	–

* compared to total covered assets in the denominator

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		v	w	x	y	z	aa	ab	ac	ad	ae	af
		Key performance indicators (KPIs) on flows										
		Climate change adaptation (CCA)					Total (CCM + CCA)					
		Proportion of new eligible assets funding Taxonomy-relevant sectors					Proportion of new eligible assets funding Taxonomy-relevant sectors					Proportion of total new assets covered
			of which: environmentally sustainable					of which: environmentally sustainable				
%*				of which: specialised lending	of which: adaptation	of which: enabling			of which: specialised lending	of which: adaptation	of which: enabling	
1	**GAR**	**0.00**	**0.00**	**–**	**–**	**–**	**5.13**	**0.24**	**–**	**0.01**	**0.01**	**11.24**
2	Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	0.00	0.00	–	–	–	3.11	0.24	–	0.01	0.01	9.37
3	Financial corporations	0.00	0.00	–	–	–	3.11	0.24	–	0.01	0.01	9.37
4	Credit institutions	0.00	0.00	–	–	–	3.11	0.24	–	0.01	0.01	9.37
5	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–
6	of which: investment firms	–	–	–	–	–	–	–	–	–	–	–
7	of which: management companies	–	–	–	–	–	–	–	–	–	–	–
8	of which: insurance undertakings	–	–	–	–	–	–	–	–	–	–	–
9	Non-financial corporations subject to NFRD disclosure obligations	–	–	–	–	–	–	–	–	–	–	–
10	Households						–	–	–	–	–	–
11	of which: loans collateralised by residential immovable property						–	–	–	–	–	–
12	of which: building renovation loans						–	–	–	–	–	–
13	of which: motor vehicle loans						–	–	–	–	–	–
14	Local government financing						–	–	–	–	–	–
15	Housing financing						–	–	–	–	–	–
16	Other local government financing	–	–	–	–	–	–	–	–	–	–	–
17	Collateral obtained by taking possession: residential and commercial immovable properties						2.02	–	–	–	–	1.86

* compared to total covered assets in the denominator

The Bank has decided not to voluntarily disclose ESG tables 9.1, 9.2 and 9.3 on the Banking Book Taxonomy Alignment Ratio (BTAR) as at 31 December 2024. A decision on whether to voluntarily disclose them in future will be regularly examined in the context of the additional reviews to be performed by the Commission in accordance with Article 9 of Commission Implementing Regulation (EU) 2021/2178 and the availability of data for our international property portfolio.

ESG table 10 looks at the bonds and loans in the Bank's assets that are not classified as environmentally sustainable in accordance with Article 3 of the Taxonomy Regulation and are therefore not Taxonomy-aligned, but that support the transition to a lower-carbon and more sustainable economy within the meaning of the "climate change mitigation" and "climate change adaptation" environmental objectives.

At present, there are only a comparatively small number of Taxonomy-aligned investment products on the market due to the scarcity of available data and the staggered timing of the disclosure obligations in accordance with Article 10 of Commission Delegated Regulation (EU) 2021/2178. For this reason, we did not perform a look-through of the green bond frameworks when reviewing Taxonomy alignment and have assumed that the green bonds in stock are Taxonomy-non-aligned exposures. We use the Bank-specific criteria for the green classification. In addition, we have included ESG criteria in the investment criteria used for our securities portfolios. Among other things, we also take social criteria such as the freedom of the press and the Corruption Index into account here.

According to the review of the issuers' green bond frameworks, the proceeds of issue for the green bonds are used to fund a variety of eligible projects. Examples that can be given in this context are the areas of renewable energy, sustainable buildings and low-carbon transport infrastructure. These measures primarily mitigate transition risk, but also climate change physical risk.

Environmental sustainability criteria for commercial property were defined on the basis of the Bank's valuation expertise, many years of experience and property market knowledge, and of existing market standards. These form the basis for Aareal Bank AG's "Green Finance Framework – Lending". In addition to meeting minimum energy efficiency standards and the existence of certain high-quality building certificates, the requirements for Taxonomy-aligned buildings serve as qualification criteria for green loans. This definition was developed together with Aareal Bank AG's experts with the goal of applying it around the world. A second-party opinion by Sustainalytics then reviewed the framework developed in this way for its ambition and market conformity and the suitability of the qualification criteria, and rated it as "credible and impactful". This third-party certified model serves as the basis for extending green loans and hence is successively aligning the Bank's credit portfolio with sustainability criteria.

Aareal Bank AG defines loans as green if they are used to finance environmentally sustainable/sustainably managed properties. This includes loans that are used for building stock and for refurbished and new buildings, but also loans for modernisation/refurbishment measures (including renovations/refurbishments or ADC funding), as a result of which the buildings reach the Bank-specific standards for green buildings or increase their energy efficiency to a defined minimum level. As a result, these green loans serve to mitigate climate change transition risk.

The gross carrying amounts of loans for which not all commercial properties serving as collateral meet the qualification criteria for green loans (known as "partial green loans"), are included in the table in proportion to the mortgage lending values or market values of the green properties.

ESG table 10: Other climate change mitigating actions that are not covered in Regulation (EU) 2020/852

		b	c	d	e
		Type of counterparty	Gross carrying amount	Type of risk mitigated	
				Climate change transition risk	Climate change physical risk
€ mn					
1	Bonds	Financial corporations	474	X	X
2		Non-financial corporations	–		
3		of which: loans collateralised by commercial immovable property	–		
4		Other counterparties	222	X	X
5	Loans	Financial corporations	243	X	
6		Non-financial corporations	7,326	X	
7		of which: loans collateralised by commercial immovable property	7,152	X	
8		Households	–		
9		of which: loans collateralised by residential immovable property	–		
10		of which: building renovation loans	–		
11		Other counterparties	–		

Counterparty Credit Risk

Management of counterparty credit risk

Definition

The counterparty credit risk results from derivatives and securities financing transactions, the risk being that the transaction's counterparty defaults – in which case the transaction cannot 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).

The derivatives positions have substantially been entered into in order to hedge interest rate and currency risk exposure, and for funding purposes.

Risk measurement and monitoring

For information on risk measurement and monitoring of counterparty credit risk, please refer to the chapter "Management of credit risks" of this Disclosure Report (pages 44 et seqq.).

Other qualitative disclosures on counterparty credit risk

Internal capital allocation

Within the framework of the economic capital model for credit risks, derivatives are taken into account in the amount of their positive market value plus the regulatory add-on, determined depending on the type and term of the transaction. The netting framework agreements concluded by the Bank to reduce counterparty credit risks within the trading business are taken into account in the calculation. This also applies to additional agreements on the furnishing of collateral.

Internal limitation of risks from derivative transactions

To assess counterparty credit risk from derivative transactions in the trading business, an internal rating is prepared for all counterparties on a regular or event-driven basis. The internal rating constitutes a key indicator for determining counterparty-specific limits for the derivatives business.

Credit risk mitigation for trading activities

To reduce counterparty credit risk in Aareal Bank's trading business, the master agreements for financial derivatives[1)] and master agreements for securities repurchase transactions (repos)[2)] used by the Bank provide for credit risk mitigation techniques, via mutual netting framework agreements ("contractual netting agreements").

[1)] Any comments below referring to the German Master Agreement on Financial Derivatives (Deutscher Rahmenvertrag für Finanztermingeschäfte – "DRV") also pertain to the master agreement issued by the International Swaps and Derivatives Association Inc. (ISDA) (the "ISDA Master Agreement"). Both agreements are standardised agreements recommended by leading associations – among others, by the Association of German Banks (Bundesverband deutscher Banken – "BdB").

[2)] Any comments below referring to Master Agreement for Securities Repurchase Agreements (Rahmenvertrag für Wertpapierpensionsgeschäfte, repos) also pertain to the master agreement issued by the International Capital Markets Association Inc. (ICMA) (the "Global Master Repurchase Agreement"). Both agreements are standardised agreements recommended by leading associations – among others, by the Association of German Banks (Bundesverband deutscher Banken –"BdB").

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

Generally speaking, all master agreements for financial derivatives are based on the principle of a common agreement. This means that, in the event of a termination or counterparty default, the individual claims are netted and only this net amount can be claimed from the defaulted counterparty. This claim must not be affected by any insolvency, i. e. it must be legally valid and enforceable. This in turn means that the jurisdictions in question must recognise the concept of a common agreement, which protects the net amount of the claim from being seized by the insolvency administrator.

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

Furthermore, counterparty credit risk is reduced by settling derivatives via central counterparties (CCPs). Aareal Bank uses Eurex Clearing AG and LCH Limited for this purpose.

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

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

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

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

Some collateral agreements provide for higher collateral levels if a contracting party's rating is significantly downgraded.

Loss allowance

No loss allowance was recognised for hedging derivatives, since these are recognised at fair value through profit or loss pursuant to IFRSs.

Correlation risk

Correlation risk is insignificant for Atlantic Group.

Impact of a rating downgrade on collateral to be furnished

In general, the collateral agreements concluded provide for rating-independent minimum transfer amounts. In individual cases, the collateral agreements the Bank has entered into require that a higher amount of collateral be provided in the event of a downgrade of the Bank's external rating. However, the risk is immaterial due to the low volume and in relation to liquidity.

Valuation approach

For the purpose of regulatory reporting, the equivalent value of derivatives and the related counterparty credit risk are determined according to the standardised approach for measuring counterparty credit risk (SA-CCR) (Article 274 et seqq. of the CRR). 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.

Quantitative disclosures on counterparty credit risk

Pursuant to Article 439 of the CRR, institutions shall 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.

EU CCR1: Analysis of CCR exposures by approach

		a	b	c	d	e	f	g	h
		Replacement cost	Potential future exposure	Effective expected positive exposure (EEPE)	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWAs
€ mn									
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)	46	205		1.4	855	351	351	273
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)					725	117	117	49
5	VaR for SFTs					–	–	–	–
6	**Total**					**1,581**	**469**	**469**	**322**

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 case of a decline in the counterparty's credit quality. Atlantic Group 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) Stressed VaR component (sVaR, including the 3x multiplier)		–
4	Transactions subject to the standardised method	265	118
EU-4	Transactions subject to the alternative approach (based on the original exposure method)	–	–
5	**Total transactions subject to own funds requirements for CVA risk**	**265**	**118**

Table EU CCR8 discloses the exposure value and risk-weighted exposure (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 31 December 2024. In accordance with Article 306 (2) of the CRR, for the purpose of solvency reporting, an exposure value of zero is assigned to initial margin pledged to Eurex and LCH Limited.

EU CCR8: Exposures to CCPs

€ mn		a EAD	b RWAs
1	**Exposures to QCCPs (total)**		**3**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which:	326	0
3	(i) OTC derivatives	18	0
4	ii) Exchange-traded derivatives	–	–
5	iii) SFTs	309	0
6	iv) Netting sets where cross-product netting has been approved	–	–
7	Segregated initial margin	93	
8	Non-segregated initial margin	–	–
9	Pre-funded default fund contributions	16	3
10	Unfunded default fund contributions	–	–
11	**Exposures to non-QCCPs (total)**		**–**
12	Exposures for 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 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		a	b	c	d	e	f	g	h	i	j	k	l
		Risk weight											
		0 %	2 %	4 %	10 %	20 %	50 %	70 %	75 %	100 %	150 %	Other	Total
€ mn													
1	Central governments or central banks	18	–	–	–	–	–	–	–	–	–	–	**18**
2	Regional governments or local authorities	–	–	–	–	–	–	–	–	–	–	–	**–**
3	Public-sector entities	–	–	–	–	–	–	–	–	–	–	–	**–**
4	Multilateral development banks	–	–	–	–	–	–	–	–	–	–	–	**–**
5	International organisations	–	–	–	–	–	–	–	–	–	–	–	**–**
6	Institutions	–	22	–	–	48	312	–	–	–	–	–	**382**
7	Corporates	–	–	–	–	–	5	–	–	–	–	–	**5**
8	Retail	–	–	–	–	–	–	–	–	–	–	–	**–**
9	Exposures to institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	**–**
10	Other exposures	–	–	–	–	–	–	–	–	–	–	–	**–**
11	**Total**	**18**	**22**	**–**	**–**	**48**	**317**	**–**	**–**	**–**	**–**	**–**	**405**

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 IRBA exposures classified as specialised lending as at the reporting date do not comprise 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 1 %, 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.

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

Exposure class	PD scale	a	b	c	d	e	f	g
		Exposure value	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
	%	€ mn	%		%	Years	€ mn	%
Corporates – SMEs	0.00 to < 0.15	–	–	–	–	–	–	–
	0.15 to < 0.25	–	–	–	–	–	–	–
	0.25 to < 0.50	–	–	–	–	–	–	–
	0.50 to < 0.75	6	0.60	2	90.00	4	10	153.97
	0.75 to < 2.50	58	1.67	19	90.00	3	92	157.21
	2.50 to < 10.00	–	–	–	–	–	–	–
	10.00 to < 100.00	–	–	–	–	–	–	–
	100.0 (Default)	–	–	–	–	–	–	–
	Subtotal	**65**	**1.56**	**21**	**90.00**	**3**	**101**	**156.89**

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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	–	–	–	–	–	–	–
	0.50 to < 0.75	3	0.60	3	90.00	2	4	152.52
	0.75 to < 2.50	19	1.65	7	90.00	4	49	259.66
	2.50 to < 10.00	–	–	–	–	–	–	–
	10.00 to < 100.00	–	–	–	–	–	–	–
	100.0 (Default)	–	–	–	–	–	–	–
	Subtotal	**21**	**1.52**	**10**	**90.00**	**4**	**53**	**246.35**
	Total	**86**	**1.55**	**31**	**90.00**	**3**	**154**	**179.11**

Pursuant to Article 439 lit. e) of the CRR, Atlantic Group is obliged to disclose information on collateral received or posted in table EU CCR5. For this purpose, this collateral 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	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
€ mn									
1	Cash – domestic currency	–	31	1	1,346	–	–	–	–
2	Cash – other currencies	33	69	4	–	–	–	–	–
3	Domestic sovereign debt	–	–	–	–	–	–	–	–
4	Other sovereign debt	–	–	93	–	–	–	–	36
5	Government agency debt	–	–	–	–	–	–	–	179
6	Corporate bonds	–	–	–	–	–	–	–	–
7	Equity securities	–	–	–	–	–	–	–	–
8	Other collateral	–	–	–	–	–	–	–	819
9	**Total**	**33**	**100**	**98**	**1,346**	**–**	**–**	**–**	**1,034**

As we currently do not hold any credit derivatives, disclosure of the information required under Article 439 lit. j) of the CRR in table EU CCR6 is not included.

Liquidity Risk

As a significant subsidiary of Atlantic Group, Aareal Bank AG is not exempt from meeting liquidity requirements on a stand-alone basis under Article 8 of the CRR, and is obliged to disclose its liquidity requirements at single-entity level under Article 451a (2) and (3) of the CRR.

Management of liquidity risk

Definition

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

Liquidity risk strategy

The objective of the liquidity risk strategy is to ensure the Bank's solvency at all times, even in the case of serious crisis events. The degree of crisis events to be covered is determined by Aareal Bank Group's[1] risk appetite and reflected in the risk tolerances. In turn, these risk tolerances are reflected in limits (in particular, those applied within internal liquidity models), normative metrics and their projections, and in strategic planning.

The Bank's portfolio comprises a broad range of liquid and high-quality securities, ensuring the Bank's ability to generate large volumes of liquidity at short notice, and thus prevent liquidity shortages, even in a tight market environment or a crisis scenario.

Within the framework of the refinancing strategy, various money and capital market instruments are used to achieve a broadly-diversified range of funding vehicles. 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, bonds and Euro Commercial Paper (ECP). Depending on market conditions, the Bank places large-sized public issues or private placements. The targeted maturity of the refinancings is generally based on the maturity profiles of the credit portfolio. In addition, the Bank aims to achieve a balanced maturity structure of liabilities. In this context, the respective market conditions and investor demand are taken into account. In the Banking & Digital Solutions segment, the Bank also generates deposits from the housing industry, which represent a strategically important additional source of funding. Furthermore, it has recourse to institutional money market investor deposits and enters into repo transactions in the interbank market and on Eurex as well as into open market transactions with the ECB as required. To raise funds from retail deposits, Aareal Bank launched several cooperations in 2022 by way of a trust model. These cooperations included Raisin and Deutsche Bank.

Risk measurement and monitoring

Treasury is responsible for managing liquidity risks, and thus for the strategic and tactical management of liquidity risk within the framework of the defined limits and directions, whilst Risk Controlling ensures the continuous monitoring, including a daily liquidity report submitted to Treasury, and a contribution to the monthly risk report to Aareal Bank's entire Management Board. Aareal Bank generally

[1] The business purpose of Atlantic Lux HoldCo S.à r.l. and Atlantic BidCo GmbH is generally limited to holding and managing the Aareal Bank investment. As a consequence, no additional liquidity risk is taken at the level of the two companies. Aareal Bank AG's liquidity risk strategy is also the Group liquidity risk strategy.

aims to monitor liquidity risks across all of its entities using standardised methods and procedures. This applies also if companies are taken over. The following tools are used for this purpose:

Cash flow forecast

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

Liquidity run-off profile

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

Time to illiquidity

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

Funding profile

Diversifying the Bank's refinancing profile by type of investor and by product is another key aspect of our approach to liquidity risk management. Core sources of funding such as customer deposits and funds invested by institutional clients – alongside covered and uncovered bond issues – make up the foundation of our liability profile.

Generally, in addition to deposits from housing industry clients and institutional investors and also including retail deposits, Aareal Bank also uses interbank and repo transactions for short-term refinancing, the latter being used primarily to manage liquidity and cash positions.

Aareal Bank Group is solidly funded, which is underscored by its major share of long-term funding. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinated capital. As they legally qualify as debt securities, ECP are included as well, even though they usually have a term of less than one year. Subordinated capital includes subordinated liabilities and the Additional Tier 1 (AT1) bond.

Concentration limits

As well as measuring the risk indicators themselves, we monitor concentrations of liquid assets and of funding sources, determining the percentage share of the ten largest counterparties and/or positions relative to the total portfolio.

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

LCR forecast

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

NSFR forecast

A forecast of the net stable funding ratio is another cornerstone of our liquidity management. It is calculated over a horizon of up to three years. This measurement tool allows us to forecast the regulatory Net Stable Funding Ratio for future dates, thus identifying any potential liquidity shortfalls or reserves in terms of the NSFR at an early stage.

Long-term liquidity run-off profile

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

Stress testing

We also employ stress tests and scenario analyses to assess the impact of sudden stress events on the Bank's liquidity situation. The various standardised scenarios used – which include historic, idiosyncratic, market-wide and combined scenarios – are evaluated on the basis of the liquidity run-off profile. The results of the listed stress analyses are reported to the Management Board on a quarterly basis.

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

Liquidity emergency plan

Aareal Bank AG's liquidity emergency plan describes the governance regulations, internal provisions as well as roles in the wake of a liquidity crisis, and reflects the Bank's liquidity-specific risk profile. In addition, the plan defines qualitative and quantitative early warning indicators and the measures to remedy liquidity bottlenecks under stress conditions. This ensures that material potential disruptions of the Bank's funding capacity can be addressed in a timely and appropriate manner.

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 Commission Implementing 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, as managing entity of Atlantic Group, deems relevant for its liquidity profile.

EU LIQ1: Quantitative information on LCR (Atlantic Group)

Scope of consolidation		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
€ mn									
EU 1a	Quarter ending on	31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024	31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024
EU 1b	Number of data points used in the calculation of averages	12	12	12	10	12	12	12	10
	High-quality liquid assets								
1	Total high-quality liquid assets (HQLA)					7,605	7,493	7,383	7,344
	Cash outflows								
2	**Retail deposits and deposits from small business customers, of which:**	**6,616**	**6,549**	**6,481**	**6,432**	**347**	**337**	**334**	**331**
3	Stable deposits	6,284	6,299	6,238	6,194	314	315	312	310
4	Less stable deposits	287	211	208	204	33	22	22	21
5	**Unsecured wholesale funding**	**6,709**	**6,964**	**7,081**	**7,157**	**2,756**	**2,884**	**2,929**	**2,957**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,327	3,303	3,247	3,168	778	773	760	742
7	Non-operational deposits (all counterparties)	3,095	3,407	3,581	3,756	1,691	1,858	1,916	1,981
8	Unsecured debt	287	254	253	233	287	254	253	233
9	**Secured wholesale funding**					**26**	**35**	**51**	**54**
10	**Additional requirements**	**1,886**	**1,936**	**1,930**	**1,945**	**873**	**878**	**892**	**918**
11	Outflows related to derivative exposures and other collateral requirements	698	697	683	687	668	670	662	666
12	Outflows related to loss of funding on debt products	83	81	96	118	83	81	96	118
13	Credit and liquidity facilities	1,106	1,158	1,151	1,140	122	127	135	135
14	**Other contractual funding obligations**	**186**	**206**	**177**	**167**	**164**	**184**	**154**	**144**
15	**Other contingent funding obligations**	**1,050**	**839**	**899**	**986**	**124**	**92**	**77**	**85**
16	**Total cash outflows**					**4,289**	**4,409**	**4,436**	**4,489**
	Cash inflows								
17	Secured lending (e. g. reverse repos)	–	127	127	153	–	9	9	11
18	Inflows from fully performing exposures	1,195	1,214	1,021	884	804	809	716	640
19	Other cash inflows	179	195	152	166	179	195	152	166
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**	**1,374**	**1,536**	**1,300**	**1,202**	**983**	**1,013**	**877**	**816**
EU-20a	Fully exempt inflows	–	–	–	–	–	–	–	–
EU-20b	Inflows subject to 90 % cap	–	–	–	–	–	–	–	–
EU-20c	Inflows subject to 75 % cap	1,374	1,536	1,300	1,202	983	1,013	877	816
						Total adjusted value			
EU-21	**Liquidity buffer**					**7,605**	**7,493**	**7,383**	**7,344**
22	**Total net cash outflows**					**3,306**	**3,396**	**3,559**	**3,673**
23	**Liquidity Coverage Ratio (%)**					**234.96**	**225.68**	**210.61**	**200.78**

EU LIQ1: Quantitative information on LCR (Aareal Bank AG)

	Scope of consolidation	a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
€ mn									
EU 1a	Quarter ending on	31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024	31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	High-quality liquid assets								
1	Total high-quality liquid assets (HQLA)					7,605	7,494	7,383	7,564
	Cash outflows								
2	**Retail deposits and deposits from small business customers, of which:**	**6,616**	**6,549**	**6,481**	**6,398**	**347**	**337**	**334**	**329**
3	Stable deposits	6,284	6,299	6,238	6,160	314	315	312	308
4	Less stable deposits	287	211	208	205	33	22	22	21
5	**Unsecured wholesale funding**	**7,039**	**7,387**	**7,539**	**7,609**	**3,063**	**3,282**	**3,360**	**3,381**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,327	3,303	3,247	3,190	778	773	760	748
7	Non-operational deposits (all counterparties)	3,424	3,830	4,040	4,187	1,998	2,255	2,347	2,401
8	Unsecured debt	287	254	252	232	287	254	252	232
9	**Secured wholesale funding**					**26**	**35**	**51**	**53**
10	**Additional requirements**	**1,974**	**1,982**	**1,970**	**1,913**	**1,106**	**1,056**	**1,051**	**998**
11	Outflows related to derivative exposures and other collateral requirements	699	699	686	712	669	671	663	671
12	Outflows related to loss of funding on debt products	83	81	96	117	83	81	96	117
13	Credit and liquidity facilities	1,192	1,202	1,188	1,084	354	303	292	209
14	**Other contractual funding obligations**	**177**	**197**	**169**	**151**	**164**	**184**	**154**	**134**
15	**Other contingent funding obligations**	**1,003**	**809**	**880**	**1,056**	**120**	**89**	**75**	**101**
16	**Total cash outflows**					**4,824**	**4,982**	**5,024**	**4,996**
	Cash inflows								
17	Secured lending (e.g. reverse repos)	–	127	127	127	–	9	9	9
18	Inflows from fully performing exposures	1,018	1,064	877	761	654	688	608	544
19	Other cash inflows	178	193	150	155	178	193	150	155
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**	**1,196**	**1,384**	**1,154**	**1,043**	**832**	**890**	**766**	**707**
EU-20a	Fully exempt inflows	–	–	–	–	–	–	–	–
EU-20b	Inflows subject to 90 % cap	–	–	–	–	–	–	–	–
EU-20c	Inflows subject to 75 % cap	1,196	1,384	1,154	1,043	832	890	766	707
						Total adjusted value			
EU-21	**Liquidity buffer**					**7,605**	**7,494**	**7,383**	**7,564**
22	**Total net cash outflows**					**3,992**	**4,092**	**4,257**	**4,289**
23	**Liquidity Coverage Ratio (%)**					**193.46**	**186.04**	**174.78**	**176.92**

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. 88 % 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 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 business.

Evolution of Aareal Bank AG's Liquidity Coverage Ratio over time

Aareal Bank AG's LCR, as reported to the supervisory authorities, decreased compared to 30 September 2024 (214.27 %), reaching 170.97 % as at the reporting date. This development was due to the € 2,225 million decline in HQLA and a simultaneous € 341 million decline in net cash outflows.

The decline in HQLA was due in particular to the disbursement of new loans.

The quarter-on-quarter decrease in net cash outflows was mainly due to declining deposits and loan commitments.

Since the disclosure of key LCR parameters is based on the weighted and unweighted averages of the past 12 reporting dates of the respective quarter, the drivers outlined above do not have the same effect upon quarter-on-quarter changes as shown in table EU LIQ 1.

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 Banking & Digital Solutions segment, the Bank also generates deposits from the housing industry, which represent a strategically important additional source of funding. Furthermore, it has recourse to institutional money market 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 is 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, Atlantic Group and Aareal Bank AG have no significant foreign currency exposure in their portfolios. As at the reporting date of 31 December 2024, Atlantic Group's largest foreign currency portfolio in USD amounts to 3.14 % of total liabilities (Aareal Bank AG: 3.91 %). We monitor 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. The additional outflow is determined as per the historical look-back approach (HLBA) both at Atlantic Group and Aareal Bank AG level. The LCR calculation for Atlantic Group includes the largest absolute collateral net flow within a period of 30 days which occurred since the Group's foundation (maximum period of 24 months; the same period is used to calculate Aareal Bank AG's LCR). As at the reporting date, the annual average of additional liquidity requirements stood at € 582 million for both Atlantic Group and Aareal Bank AG.

Net Stable Funding Ratio

As opposed to the LCR, the focus of the NSFR – to be disclosed as at the reporting date – 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, the 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 is bound to disclose 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.

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 of Atlantic Group as at 31 December 2024

		a	b	c	d	e
		Unweighted value by residual maturity				
€ mn		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
	Available stable funding (ASF) Items					
1	**Capital items and instruments**	**3,337**	**1**	**3**	**691**	**4,028**
2	Own funds	3,337	1	3	613	3,949
3	Other capital instruments		–	–	79	79
4	**Retail deposits**		**6,738**	**3**	**0**	**6,348**
5	Stable deposits		5,629	1	0	5,349
6	Less stable deposits		1,109	2	–	1,000
7	**Wholesale funding**		**9,263**	**2,599**	**19,763**	**24,315**
8	Operational deposits		3,378	–	–	244
9	Other wholesale funding		5,885	2,599	19,763	24,071
10	**Interdependent liabilities**		**–**	**–**	**–**	**–**
11	**Other liabilities**	**156**	**1,024**	**23**	**490**	**502**
12	NSFR derivative liabilities	156				
13	All other liabilities and capital instruments not included in the above categories		1,024	23	490	502
14	**Total available stable funding (ASF)**					**35,193**

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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
	Required stable funding (RSF) Items					
15	**Total high-quality liquid assets (HQLA)**					**467**
EU-15a	**Assets encumbered for a residual maturity of one year or more in a cover pool**		**23**	**1,302**	**14,272**	**13,258**
16	**Deposits held at other financial institutions for operational purposes**		**–**	**–**	**–**	**–**
17	**Performing loans and securities**		**2,291**	**1,754**	**13,299**	**13,192**
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0 % haircut		–	–	–	–
19	Performing securities financing transactions with financial customers collateralised by other assets and loans and advances to financial institutions		168	84	468	527
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		2,117	1,666	12,207	12,558
21	with a risk weight of less than or equal to 35 % under the Basel II Standardised Approach for credit risk		10	154	601	729
22	Performing residential mortgages, of which:		5	4	499	–
23	with a risk weight of less than or equal to 35 % under the Basel II Standardised Approach for credit risk		5	3	370	–
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		–	–	125	107
25	**Interdependent assets**		**–**	**–**	**–**	**–**
26	**Other assets**	**–**	**2,119**	**88**	**2,205**	**2,752**
27	Physically traded commodities				–	–
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		–	–	113	96
29	NSFR derivative assets		–			–
30	NSFR derivative liabilities before deduction of variation margin posted		1,508			75
31	All other assets not included in the above categories		610	88	2,091	2,581
32	**Off-balance sheet items**		**412**	**50**	**1,628**	**302**
33	**Total RSF**					**29,971**
34	**Net Stable Funding Ratio (%)**					**117.43**

EU LIQ2: Net Stable Funding Ratio of Atlantic Group as at 30 September 2024

		a	b	c	d	e
		Unweighted value by residual maturity				
€ mn		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
	Available stable funding (ASF) Items					
1	**Capital items and instruments**	**2,877**	**0**	**2**	**676**	**3,554**
2	Own funds	2,877	0	2	605	3,482
3	Other capital instruments		–	–	72	72
4	**Retail deposits**		**6,734**	**6**	**0**	**6,392**
5	Stable deposits		6,508	6	0	6,189
6	Less stable deposits		226	0	–	203
7	**Wholesale funding**		**9,999**	**2,977**	**18,966**	**24,033**
8	Operational deposits		3,185	–	–	283
9	Other wholesale funding		6,814	2,977	18,966	23,749
10	**Interdependent liabilities**		**–**	**–**	**–**	**–**
11	**Other liabilities**	**2**	**499**	**10**	**489**	**494**
12	NSFR derivative liabilities	2				
13	All other liabilities and capital instruments not included in the above categories		499	10	489	494
14	**Total available stable funding (ASF)**					**34,473**
	Required stable funding (RSF) Items					
15	**Total high-quality liquid assets (HQLA)**					**465**
EU-15a	**Assets encumbered for a residual maturity of one year or more in a cover pool**		**21**	**155**	**14,235**	**12,249**
16	**Deposits held at other financial institutions for operational purposes**		**–**	**–**	**–**	**–**
17	**Performing loans and securities**		**3,342**	**2,332**	**11,591**	**12,447**
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0 % haircut		–	–	–	–
19	Performing securities financing transactions with financial customers collateralised by other assets and loans and advances to financial institutions		338	44	288	344
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		2,999	2,280	10,632	11,935
21	with a risk weight of less than or equal to 35 % under the Basel II Standardised Approach for credit risk		11	150	516	658
22	Performing residential mortgages, of which:		5	8	484	–
23	with a risk weight of less than or equal to 35 % under the Basel II Standardised Approach for credit risk		4	8	345	–
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		–	–	186	168
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**	**–**	**1,650**	**108**	**2,054**	**2,505**
27	Physically traded commodities				–	–
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		–	–	116	99
29	NSFR derivative assets		–			–
30	NSFR derivative liabilities before deduction of variation margin posted		1,104			55
31	All other assets not included in the above categories		546	108	1,938	2,352
32	**Off-balance sheet items**		**229**	**92**	**2,106**	**500**
33	**Total RSF**					**28,166**
34	**Net Stable Funding Ratio (%)**					**122.39**

EU LIQ2: Net Stable Funding Ratio of Aareal Bank AG as at 31 December 2024

€ 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**	**1,872**	**1**	**2**	**712**	**2,584**
2	Own funds	1,872	1	2	610	2,482
3	Other capital instruments		–	–	102	102
4	**Retail deposits**		**6,738**	**3**	**0**	**6,348**
5	Stable deposits		5,629	1	0	5,349
6	Less stable deposits		1,109	2	–	1,000
7	**Wholesale funding**		**9,554**	**2,687**	**24,370**	**28,980**
8	Operational deposits		3,378	–	–	244
9	Other wholesale funding		6,176	2,687	24,370	28,736
10	**Interdependent liabilities**		**–**	**–**	**–**	**–**
11	**Other liabilities**	**160**	**2,243**	**26**	**514**	**527**
12	NSFR derivative liabilities	160				
13	All other liabilities and capital instruments not included in the above categories		2,243	26	514	527
14	**Total available stable funding (ASF)**					**38,440**
	Required stable funding (RSF) Items					
15	**Total high-quality liquid assets (HQLA)**					**469**
EU-15a	**Assets encumbered for a residual maturity of one year or more in a cover pool**		**28**	**1,267**	**14,340**	**13,289**
16	**Deposits held at other financial institutions for operational purposes**		**–**	**–**	**–**	**–**

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€ mn		a No maturity	b < 6 months	c 6 months to < 1 year	d ≥ 1 year	e Weighted value
		Unweighted value by residual maturity				
17	**Performing loans and securities**		**2,134**	**1,602**	**18,354**	**18,001**
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0 % haircut		–	–	–	–
19	Performing securities financing transactions with financial customers collateralised by other assets and loans and advances to financial institutions		105	84	3,220	3,273
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		2,023	1,456	10,226	10,602
21	with a risk weight of less than or equal to 35 % under the Basel II Standardised Approach for credit risk		10	154	511	574
22	Performing residential mortgages, of which:		6	4	298	–
23	with a risk weight of less than or equal to 35 % under the Basel II Standardised Approach for credit risk		5	3	222	–
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		–	58	4,610	4,127
25	**Interdependent assets**		**–**	**–**	**–**	**–**
26	**Other assets**	**–**	**1,945**	**82**	**2,297**	**2,693**
27	Physically traded commodities				–	–
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		–	–	102	87
29	NSFR derivative assets		–			–
30	NSFR derivative liabilities before deduction of variation margin posted		1,513			76
31	All other assets not included in the above categories		432	82	2,194	2,531
32	**Off-balance sheet items**		**650**	**50**	**1,344**	**159**
33	**Total RSF**					**34,612**
34	**Net Stable Funding Ratio (%)**					**111.06**

EU LIQ2: Net Stable Funding Ratio of Aareal Bank AG as at 30 September 2024

€ mn		a No maturity	b < 6 months	c 6 months to < 1 year	d ≥ 1 year	e Weighted value
		Unweighted value by residual maturity				
	Available stable funding (ASF) Items					
1	**Capital items and instruments**	**2,042**	**0**	**2**	**714**	**2,755**
2	Own funds	2,042	0	2	625	2,666
3	Other capital instruments		–	–	89	89
4	**Retail deposits**		**6,734**	**6**	**0**	**6,392**
5	Stable deposits		6,508	6	0	6,189
6	Less stable deposits		226	0	–	203

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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
7	**Wholesale funding**		**10,426**	**3,053**	**23,032**	**28,160**
8	Operational deposits		3,185	–	–	283
9	Other wholesale funding		7,241	3,053	23,032	27,877
10	**Interdependent liabilities**		**–**	**–**	**–**	**–**
11	**Other liabilities**	**4**	**2,017**	**11**	**502**	**507**
12	NSFR derivative liabilities	4				
13	All other liabilities and capital instruments not included in the above categories		2,017	11	502	507
14	**Total available stable funding (ASF)**					**37,815**
	Required stable funding (RSF) Items					
15	**Total high-quality liquid assets (HQLA)**					**467**
EU-15a	**Assets encumbered for a residual maturity of one year or more in a cover pool**		**39**	**106**	**14,280**	**12,261**
16	**Deposits held at other financial institutions for operational purposes**		**–**	**–**	**–**	**–**
17	**Performing loans and securities**		**3,085**	**2,256**	**16,293**	**16,933**
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0 % haircut		–	–	–	–
19	Performing securities financing transactions with financial customers collateralised by other assets and loans and advances to financial institutions		197	44	2,846	2,887
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		2,872	2,147	8,667	10,088
21	with a risk weight of less than or equal to 35 % under the Basel II Standardised Approach for credit risk		11	150	439	556
22	Performing residential mortgages, of which:		5	8	392	–
23	with a risk weight of less than or equal to 35 % under the Basel II Standardised Approach for credit risk		4	8	266	–
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		10	57	4,388	3,957
25	**Interdependent assets**		**–**	**–**	**–**	**–**
26	**Other assets**	**–**	**1,520**	**65**	**2,201**	**2,510**
27	Physically traded commodities				–	–
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		–	–	107	91
29	NSFR derivative assets		–			–
30	NSFR derivative liabilities before deduction of variation margin posted		1,107			55
31	All other assets not included in the above categories		413	65	2,094	2,364
32	**Off-balance sheet items**		**487**	**83**	**1,957**	**457**
33	**Total RSF**					**32,628**
34	**Net Stable Funding Ratio (%)**					**115.90**

Operational Risk

Management of operational risk

Definition

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

Risk strategy

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

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

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

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

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

Information Security & Data Protection has central responsibility for monitoring risks affecting operational resilience. The division defines Bank-wide requirements and initiates different measures for mitigating information security risk and achieving the level of security aimed for the Information Security Framework Directive. This includes raising awareness among internal and external employees by means of suitable training courses and exchanging information on cyber threats via the communication channels with ECB, BaFin and BSI.

To reduce outsourcing risk, the responsible outsourcing organisational units regularly assess the performance of external service providers using defined criteria. The results of this process and the control measures taken are consolidated and communicated to the Bank's Management. Business Continuity Management (BCM) mitigates business continuity risks by defining the emergency organisation, which involves setting out and testing emergency and crisis plans for the Bank's business processes that are identified as time-critical. In the event of an emergency or crisis, its business will be managed in accordance with these plans.

Risk measurement and monitoring

The policy pursued by Aareal Bank aims to achieve a risk-minimising or loss-limiting effect at an early stage by employing a pro-active approach.

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

- Self-assessments: analysing these can make management aware of any potential risks within the organisational structure
- Risk inventories and subsequent risk assessments that include systematically identifying and compiling all relevant risks periodically and subjecting them to a qualitative and quantitative assessment
- A loss database in which relevant risk events incurred are reported and can then be monitored until they are officially closed
- Operational risk indicators for all risk levels that show current threat potential using a defined "traffic light" system
- Stress tests based on hypothetical and historical scenarios and also on sensitivity analyses of risk inventory data, carried out to identify developments that may potentially threaten the Bank's continued existence.

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

The tools described above are used to prepare the regular risk reporting to the Bank's senior management. Taken together, these tools for managing operational risks form an integrated control circuit that allows risks to be identified, evaluated, managed and controlled. The responsibility for implementing operative risk-reducing measures rests with those in charge of the Bank's risk management. The extent to which freely available funds are used for operational risks – as part of the Bank's risk-bearing capacity – is determined based on the regulatory standardised approach under Pillar I.

No material risk concentrations were evident in the 2024 financial year. Risk events are recorded in a database on an ongoing basis. The aggregate impact of such risk events during the year under review amounted to less than 10 % of the regulatory capital to be maintained for operational risks. Supplementary operational risk management tools – i. e. monitoring indicators, scenario analyses and self-assessment in particular – do not indicate a potentially elevated risk either.

For information on the responsibilities in connection with operational risks on organisational unit level, we refer to the overview in the chapter "Risk management – scope of application and areas of responsibility" in this Disclosure Report (page 8).

Regulatory assessment

The capital charge for the Group's operational risks is calculated according to the standardised approach pursuant to Article 317 et seqq. of the CRR.

As an international property specialist within Atlantic Group, Aareal Bank limits its operations to trading and sales, commercial banking, retail banking, plus payment and settlement provided within the scope of the standardised approach.[1)]

[1)] Due to the fact that the CRR does not provide for a separate adequate business line for the Banking & Digital Solutions segment, the relevant income of that segment is weighted using the highest beta factor (18 %, corresponding, inter alia, to the beta factor for the trading and sales business).

Article 317 (2) of the CRR defines regulatory risk weights (so-called ‘beta factors’) for the individual business lines forming the basis of the standardised approach. Aareal Bank uses these defined weightings rather than exercising the option to apply proprietary beta factors.

The information included in relation to the relevant indicator is based on segment reporting as at financial year end based on the regulatory scope of consolidation pursuant to IFRSs. As segment reporting is not in line with the breakdown of business lines pursuant to the CRR, the individual items of the segment report are re-allocated on the basis of factually logical arguments. Statistical values are partially used as further supporting data (such as the ratio of private vs. commercial loans).

The following table provides an overview of the calculation of own funds requirements and of the RWAs for the operational risk based on the standardised approach. The own funds requirements for operational risk as determined under the standardised approach are the three-year average of the combined total of the own funds requirements of each business line and taking into consideration the reporting dates set out in the table. In this context, the annual own funds requirements of a business line equal the product of the beta factor defined for each business line and the relevant indicator calculated for each business line.

The “commercial banking” business line accounts for 82.3 % of the relevant indicator.

EU OR1: Operational risk own funds requirements and risk-weighted exposure amounts

		a	b	c	d	e
		Relevant indicator				
€ mn		31 Dec 2021	31 Dec 2022	31 Dec 2023	Own funds requirements	RWAs
1	Banking activities subject to basic indicator approach (BIA)	–	–	–	–	–
2	Banking activities subject to standardised (TSA)/ alternative standardised (ASA) approaches	631	792	1,071	129	1,611
3	Subject to TSA	631	792	1,071		
4	Subject to ASA	–	–	–		
5	Banking activities subject to advanced measurement approaches AMA	–	–	–	–	–

Market Risk

Management of market risk

Definition

Aareal Bank broadly defines market risk as the threat of losses due to changes in market parameters. The term refers to market risks that are not assigned to the IRRBB. In particular, it also includes any type of spread risk exposure relating to instruments held in the banking book that are sensitive to changes in interest rates and not included in IRRBB or in credit risk.

For Aareal Bank, this includes:

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

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

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

Additional elements of market risk are:

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

This means that credit spread risk in the banking book (CSRBB) is assigned to market risk. The requirements of new EBA guidelines on the management of interest rate risk and credit spread risk arising from non-trading book activities (EBA/GL/2022/14) have been applicable since 31 December 2023. The calculation of credit spread risks was reviewed and adjusted during the course of implementation of these new guidelines. One material adjustment in this context involved incorporating in the risk indicators those sensitivities that were associated with the Bank's own benchmark issues regarding suitable Pfandbrief and senior unsecured spreads.

Market risk strategy

Aareal Bank's exposure to the capital market is based on a responsible and sustainable strategy. Identified risks are offset, for example, through hedging agreements.

Interest rate exposures from the current lending and funding business are typically hedged (if required) using interest rate derivatives. Generally, we use one-to-one hedges to meet IFRS hedge accounting criteria. Macro positions for which IFRS hedge accounting cannot be applied are monitored and controlled within the overall position.

The lending and refinancing business in foreign currencies is managed using money market transactions, FX swaps and cross-currency basis swaps in the respective currency. The currency positions from accumulated lending and refinancing margins are reviewed regularly and closed out on a timely basis. Basic risks from differing fixing dates are largely avoided for each currency by selecting suitable roll dates.

The Bank does not invest in precious metals, other commodities and raw materials. Similarly, there are currently no amounts to be included for net equity or equity index positions. The Bank calculates the regulatory capital requirements for foreign currency risk based on the rights and obligations, cash on hand as well as investments in foreign currencies.

Risk measurement and monitoring

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

Risk management is performed within the Treasury division and monitored by the Risk Controlling division. Based on the daily risk report, all changes of the present value in all currencies are analysed on a daily basis; if necessary, risk-reducing measures are taken.

The Asset Liability Committee (ALCO) reports comprehensively on the Bank's position regarding the management of market and interest rate risks, as well as additional indicators, on a monthly basis. In addition to the Management Board member responsible for Treasury, the ALCO comprises the head of Treasury, the Management Board member responsible for Risk Controlling, as well as the heads of Risk Controlling, Finance & Controlling and Regulatory Affairs as voting members.

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

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

Backtesting

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

Regulatory assessment

The Bank employs only standard regulatory procedures when calculating regulatory capital requirements for market risk.

The option provided in Article 340 of the CRR, as well as the duration-based approach, are used to calculate general risks.

We do not apply any lump-sum weighting amounts for investment fund units in accordance with Article 348 (1) of the CRR.

The table EU MR1 (Market risk under the standardised approach) is used to disclose RWAs for various market risk exposures pursuant to Article 92 (3) lit. c) of the CRR. As at 31 December 2024, only currency risk applies to the Bank. Since the sum total of the aggregate net foreign exchange position does not exceed the threshold of 2% of own funds, the Bank has neither determined own funds requirements for foreign exchange risk, nor reported these to the supervisory authorities. Accordingly, the table mentioned above is not disclosed.

Interest Rate Risk in the Banking Book

Management of interest rate risk in the banking book

Definition

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

Specifically, for Aareal Bank this includes:

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

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and the present-value exposure to interest rate risk in the banking book on a daily basis (the "economic value of equity" perspective).[1)] This is supplemented on a monthly basis by an analysis of possible deviations of planned income in the event of adverse interest rate scenarios (the earnings perspective). The interest rate scenarios used for measuring potential plan deviations comprise interest rate shocks (both increases and reductions) and also time-based increases or reductions of the interest rate projection used to determine planned interest income.

[1)] The responsibilities with respect to interest rate risks in the banking book on organisational unit level can be found in the overview on page 8.

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

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

By their very nature, VaR calculations are based on various assumptions regarding the future development of the business and related cash flows. Key assumptions used include current account balances and deposits at notice, which are factored into calculations by applying a suitable replication portfolio for a period of up to ten years (2.1 years on average). Financial wholesale deposits are excluded from modelling as per the EBA guidelines on the management of interest rate risks of non-trading book activities (EBA/GL/2022/14).

Loans are taken into account using their fixed-interest period (for fixed-rate exposures) or their expected maturity (variable-rate exposures). Aareal Bank Group's consolidated equity is not factored in as a risk-mitigating item, which tends to overstate VaR.

In addition to this and in line with the previously mentioned EBA guidelines, the change in net interest income is determined in the relevant interest rate shock scenarios. Net interest income is the difference between interest income and interest expenses from all interest-bearing assets and liabilities of the banking book, including derivatives and off-balance sheet items in accordance with IFRSs. Unlike the present value approach, net interest income not only includes the earnings contributions of the modelled existing business as at the planning or forecast date, but, additionally, income and expenses from planned portfolio changes in a dynamic balance sheet view or from renewals of maturing transactions in a static view. Changes reflect the diverging developments of forward interest rates prior to and after an interest shock, together with the resulting modelled impact on client behaviour.

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

Effect of hedging

Treasury manages the general interest rate risk as well as the tenor basis risk of the banking group in line with the principles of the IRRBB strategy within the framework of the limits set under the RAF and the approval powers defined in the Schedule of Powers (Kompetenzordnung) for Treasury. The focus is on linear risks, while optional risks are largely hedged.

Based on the daily risk report, all changes of the present value in all currencies are analysed by TR; if necessary, risk-reducing measures are taken. Structured and/or puttable financial instruments are hedged externally using interest rate derivatives. The same applies to fixed-income exposures which remain unhedged without any such intention within the framework of asset/liability macro exposures.

In the context of foreign currency transactions, IRRBB is hedged through interest rate swaps in the respective currency or through FX or cross-currency swaps, respectively.

The management of the interest risk exposure is effected by Treasury on the basis of the objective of a broad-based immunisation of the IFRS income statement over several reporting periods as well as the hedge of the Bank's economic value of equity (EVE). At Aareal Bank, fair value hedge accounting under IFRS 9 plays a major role in this context.

This procedure is complemented by selective macro management of interest rate risks and the management of deposit modelling within the context of the above-mentioned asset/liability macro exposure.

Regulatory assessment

The following table is based on the requirements set out in Article 16a of Commission Implementing Regulation (EU) 2021/637. In accordance with these requirements, present value changes and net interest income are disclosed in this table in case of a change in the yield curves for the interest rate shock scenarios presented in EBA/GL/2022/14 (Guidelines on the management of interest rate risk and credit spread risk arising from non-trading book activities).

Table EU IRRBB1 includes information on interest rate risk in the banking book as reported to the supervisory authorities by Atlantic Group.

EU IRRBB1: Interest rate risk in the banking book

		a	b	c	d
		Changes of EVE		Changes of NII	
		31 Dec 2024	30 Jun 2024	31 Dec 2024	30 Jun 2024
€ mn					
1	Parallel up	-23	-48	53	42
2	Parallel down	25	24	-137	-41
3	Steepener	2	6		
4	Flattener	-15	-23		
5	Short rates up	-27	-43		
6	Short rates down	12	14		

The change in economic value of equity (EVE) corresponds to the present value change resulting from a change in interest rates in relation to all non-trading book positions sensitive to interest rates, assuming that these positions will expire at a later date.

The changes in EVE compared to 30 June 2024 mainly result from the active positioning (particularly in GBP) and the transition to the new reporting standard in accordance with Delegated Regulation (EU) 2024/856.

The earnings risk is measured as part of regulatory reporting based on changes in net interest income over the next twelve months, resulting from a parallel shift of the yield curve in a constant balance sheet view. The behaviour of clients and competitors assumed in such a scenario is based on models reflecting an idealisation.

The key driver for the scenario effects under the NII perspective is the excess of floating-rate financial assets, which can largely be interpreted as an implicit investment of equity. The asymmetry of the reported changes in NII in the two scenarios results from regulatory requirements regarding the aggregation of currency-specific effects, according to which positive changes are only taken into account on a pro-rata basis.

The NII changes stated as at 30 June 2024 were not reported to the supervisory authorities in this form and were determined solely to facilitate a comparison. The increase as at the reporting date of 31 December 2024 results in particular from the investment of the purchase price payment from the Aareon sale assumed in accordance with the constant balance sheet view.

Encumbered and Unencumbered Assets

Asset encumbrance provides an overview of the degree of asset encumbrance and – derived from this overview – an assessment of the Bank's ability to meet its financial obligations. The Asset Encumbrance Ratio, a key indicator of asset encumbrance, presents total encumbered assets and total collateral reused in proportion to total assets and total collateral received.

Assets are considered encumbered or used if they are not freely available to the institution. This is always the case if an asset is pledged or subject to lending arrangements or any form of arrangement to secure, collateralise or credit-enhance any originated loans or potential commitments from derivative transactions or any on-balance-sheet or off-balance-sheet transaction.

The following explanations are based on the requirements set out in Article 18 of Commission Implementing Regulation (EU) 2021/637. Accordingly, quantitative information has to be disclosed generally as median values of the data reported to the supervisory authorities on a quarterly basis; these data are determined based on the IFRS accounting framework.

The scope of consolidation used for determining the asset encumbrance is not different from the scope of consolidation used for liquidity requirements.

As both total assets and the percentage-based asset encumbrance level as at 31 December 2024 were above the thresholds set out in point 6 of the Annex XXXVI of the Commission Implementing Regulation mentioned above, additional disclosures are made with respect of assets that, if unencumbered, would be eligible for a classification as assets of extremely high liquidity and credit quality (EHQLA) or assets of high liquidity and credit quality (HQLA).

EU AE1: Encumbered and unencumbered assets

		Carrying amount of encumbered assets		Fair value of encumbered assets	
			of which: notionally eligible unencumbered EHQLA and HQLA		of which: notionally eligible unencumbered EHQLA and HQLA
€ mn		010	030	040	050
010	**Assets of the reporting institution**	**20,658**	**811**		
030	Equity instruments	–	–	–	–
040	Debt securities	805	795	780	769
050	of which: covered bonds	141	141	141	141
060	of which: Securitisations	–	–	–	–
070	of which: issued by general governments	439	439	417	417
080	of which: issued by financial corporations	392	384	390	382
090	of which: issued by non-financial corporations	–	–	–	–
120	Other assets	19,904	15		

		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which: EHQLA and HQLA		of which: EHQLA and HQLA
€ mn		060	080	090	100
010	**Assets of the reporting institution**	**25,893**	**8,571**		
030	Equity instruments	109	–	109	–
040	Debt securities	5,965	5,947	5,875	5,856
050	of which: covered bonds	2,194	2,194	2,192	2,192
060	of which: Securitisations	–	–	–	–
070	of which: issued by general governments	2,661	2,661	2,591	2,591
080	of which: issued by financial corporations	3,304	3,286	3,284	3,265
090	of which: issued by non-financial corporations	–	–	–	–
120	Other assets	19,784	2,478		

EU AE2: Collateral received and own debt securities issued

€ mn		Fair value of encumbered collateral received or own debt securities issued		Unencumbered – Fair value of collateral received or own debt securities issued available for encumbrance	
			of which: notionally eligible unencumbered EHQLA and HQLA		of which: EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the reporting institution**	**–**	**–**	**0**	**0**
140	Loans on demand	–	–	–	–
150	Equity instruments	–	–	–	–
160	Debt securities	–	–	0	0
170	of which: covered bonds	–	–	–	–
180	of which: Securitisations	–	–	–	–
190	of which: issued by general governments	–	–	–	–
200	of which: issued by financial corporations	–	–	–	–
210	of which: issued by non-financial corporations	–	–	–	–
220	Loans and advances other than loans on demand	–	–	–	–
230	Other collateral received	–	–	–	–
240	**Own debt securities issued other than own covered bonds or securitisations**	**–**	**–**	**272**	**–**
241	**Own covered bonds and securitisations issued and not yet pledged**			**1,797**	**–**
250	**Total collateral received and own debt securities issued**	**20,658**	**811**		

EU AE3: Sources of encumbrance

€ mn		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds
		010	030
010	**Carrying amount of selected financial liabilities**	**17,854**	**20,517**

Information on importance of encumbrance

Asset encumbrance is calculated as per Implementing Regulation (EU) 2015/79.

Commercial property financing is a major element of Atlantic Group's business model. Accordingly, Pfandbriefe (German covered bonds) represent a significant portion in long-term funding and are therefore a major source of asset encumbrance.

Apart from Pfandbriefe, other major sources of asset encumbrance are deposits from institutional investors, the derivatives business, the Targeted Longer-Term Refinancing Operations (TLTRO) of the ECB, securities repurchase transactions as well as deposits from the housing industry. Borrowings under the TLTRO decreased by € 1 billion in the financial year 2024 to a current level of € 0.05 billion. With regard to commercial property financing and related refinancing, encumbrance within Atlantic Group is mainly concentrated on Aareal Bank AG.

As at 31 December 2024, the cover assets pools held for issuance of Aareal Bank's covered bonds accounted for encumbrance of assets in a total amount of € 16.1 billion.

On a Group level, no structure of encumbrance between entities within Atlantic Group existed, due to consolidation. A significant over-collateralisation only applied to the cover assets pool. Besides compliance with statutory minimum excess cover requirements, the over-collateralisation of Mortgage Pfandbriefe also serves to satisfy the requirements of rating agency Moody's. Public-Sector Pfandbriefe are currently not subject to any rating.

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions and on the collateralisation of forward transactions. Derivatives transactions are generally entered into only on the basis of the German Master Agreement for Financial Derivatives, or the ISDA Master Agreement. Such master agreements provide for the netting of claims and liabilities in the event of insolvency or counterparty default, and thus further reduce counterparty risk.

As at 31 December 2024, other assets amounted to € 2.3 billion, € 1.1 billion of which are attributable to derivatives which are deemed encumbered under asset encumbrance criteria. Unencumbered other assets included € 1.2 billion in assets which cannot be encumbered within the scope of current business operations. This included € 0.1 billion in equity exposures and another € 0.1 billion in property and equipment. As at the reporting date, properties accounted for in accordance with IAS 2 amount to € 0.5 billion; tax reclaims and deferred tax assets amount to € 0.3 billion.

Remuneration

The qualitative and quantitative disclosure requirements in accordance with Article 450 of the CRR in conjunction with Section 16 of the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – InstVergV) are met by Aareal Bank through a separate Remuneration Report which will be published at a later date on Aareal Bank AG's website in the same section as this Regulatory Disclosure Report.

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 current and the two following years, after 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.

The Leverage Ratio to be disclosed is determined, 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 Implementing Regulation (EU) 2021/637 dated 15 March 2021.

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

€ mn		a Applicable amount
1	**Total assets as per published financial statements**	**47,812**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	121
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	-666
9	Adjustment for securities financing transactions (SFTs)	57
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	544
11	Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	–
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	-1,184
13	**Total exposure measure**	**46,683**

EU LR2: Leverage Ratio common disclosure

		a	b
		CRR leverage ratio exposures	
€ mn		31 Dec 2024	30 Jun 2024
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	47,091	44,561
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)	-1,329	-1,372
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)	-154	-77
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**45,608**	**43,112**
	Derivative exposures		
8	Replacement cost associated with all derivatives transactions under SA-CCR (i.e. net of eligible cash variation margin)	68	40
EU-8a	Derogation for derivatives: Replacement costs contributions under the simplified standardised approach	–	–
9	Add-on amounts for potential future exposure value associated with SA-CCR derivatives transactions	407	423
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)	–	–

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		a	b
		CRR leverage ratio exposures	
€ mn		31 Dec 2024	30 Jun 2024
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**	**475**	**463**
	SFT exposures		
14	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–	–
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
16	Counterparty credit risk exposure for SFT assets	57	18
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**	**57**	**18**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	1,365	1,386
20	(Adjustments for conversion to credit equivalent amounts)	-821	-827
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**	**544**	**560**
	Excluded exposures		
EU-22a	(Exposures excluded from the total exposure measure in accordance with Article 429a (1) lit. c) of the CRR)	–	–
EU-22b	(Exposures exempted in accordance with Article 429a (1) lit. j) of the CRR (on- and off-balance sheet))	–	–
EU-22c	(Excluded exposures of public development banks (or units) – public-sector investments)	–	–
EU-22d	(Excluded exposures of public development banks (or units) – promotional loans)	–	–
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	–	–
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	–	–
EU-22g	(Excluded excess collateral deposited at triparty agents)	–	–
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with Article 429a (1) lit. o) of the CRR)	–	–
EU-22i	(Excluded CSD related services of designated institutions in accordance with Article 429a (1) lit. p) of the CRR)	–	–
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	–	–
EU-22k	**Total exempted exposures**	**–**	**–**
	Tier 1 capital and total exposure measure		
23	Tier 1 capital	3,192	2,938
24	Total exposure measure	46,683	44,152
	Leverage Ratio		
25	Leverage Ratio (%)	6.84	6.65
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	6.84	6.65
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	6.84	6.65
26	Regulatory minimum leverage ratio requirement (%)	3.00	3.00
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	–	–
EU-26b	of which: to be made up of CET1 capital	–	–
27	Leverage ratio buffer requirement (%)	–	–
EU-27a	Overall leverage ratio requirement (%)	3.00	3.00

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€ mn		a	b
		CRR leverage ratio exposures	
		31 Dec 2024	30 Jun 2024
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Fully implemented	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 receivables	1	–
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)	46,684	44,152
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)	46,684	44,152
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) (%)	6.84	6.65
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) (%)	6.84	6.65

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:**	**45,762**
EU-2	Trading book exposures	–
EU-3	Banking book exposures, of which:	45,762
EU-4	Exposures in the form of covered bonds	2,330
EU-5	Exposures treated as sovereigns	8,753
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	70
EU-7	Exposures to institutions	621
EU-8	Exposures secured by mortgages on immovable properties	30,835
EU-9	Retail exposures	3
EU-10	Exposures to corporates	383
EU-11	Exposures in default	1,293
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,474

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This report is also available in German language.

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