

**Regulatory Disclosure  
Report for Q1 2021  
of Aareal Bank Group**

# Regulatory Disclosure Report for Q1 2021

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## Preface

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

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

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

The scope of quarterly disclosure as at 31 March 2021 is oriented upon the guidelines EBA/GL/2016/11, in conjunction with the revised guidelines on materiality, proprietary activity and confidentiality, and on disclosure frequency (EBA/GL/2014/14). According to these guidelines, Aareal Bank Group is obliged to disclose the following information, on a quarterly basis:

- regulatory capital structure and capital ratios;
- risk-weighted assets (RWAs) and regulatory capital requirements;
- development of RWAs and regulatory capital requirements for all exposures covered by the AIRBA; as well as
- the Leverage Ratio.

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

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

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

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

## Regulatory Capital Structure and Capital Ratios

	31 Mar 2021
€ mn	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,500
Regulatory adjustments	-252
<b>Common Equity Tier 1 (CET1) capital</b>	<b>2,248</b>
Additional Tier 1 (AT1) capital before regulatory adjustments	300
Regulatory adjustments	-
<b>Additional Tier 1 (AT1) capital</b>	<b>300</b>
<b>Tier 1 (T1) capital</b>	<b>2,548</b>
Tier 2 (T2) capital before regulatory adjustments	479
Regulatory adjustments	-
<b>Tier 2 capital (T2)</b>	<b>479</b>
<b>Total capital (TC)</b>	<b>3,027</b>
%	
Common Equity Tier 1 ratio (CET1 ratio)	18.9
Tier 1 ratio (T1 ratio)	21.4
Total capital ratio (TC ratio)	25.4

Compared to the previous reporting date (31 December 2020), the Common Equity Tier 1 ratio (CET1 ratio) and the Tier 1 ratio (T1 ratio) reported to supervisory authorities increased slightly, whilst the Total capital ratio (TC ratio) declined.<sup>1)</sup> This development was due to the € 232 million decline in RWAs and a simultaneous € 369 million decline in regulatory capital.

The exposure – and hence, the RWA – in the commercial property lending portfolio increased due to new business and FX effects. This was offset by repayments and data maintenance measures in relation to existing business, as well as by the regular update of RWA for operational risk.

The decline in regulatory capital largely resulted from a € 331 million reduction in Tier 2 capital, which was due to the termination of a subordinated debt security in the nominal amount of € 300 million. In addition, Common Equity Tier 1 capital was down € 38 million, which was due, in particular, to the mandatory deduction of (gross) additions to loss allowance (€ -26 million).

<sup>1)</sup> The capital ratios reported to the supervisory authorities differ from those communicated in the interim financial information, as Aareal Bank did not submit an application for an inclusion of profits to the ECB as at 31 March 2021. The CET1 ratio reported in the interim financial information stood at 19.5 %.

## Regulatory Capital Requirements

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

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

and, under the AIRBA, additionally depends on

3. the Probability of Default; as well as
4. the Loss Given Default.

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

As at 31 March 2021, no risks associated with outstanding delivery as part of counterparty risks had to be taken into account when determining counterparty usage limits.

Based on the AIRBA or CRSA calculation approach, the following 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)

	RWAs		Regulatory capital requirements
	31 Mar 2021	31 Dec 2020	31 Mar 2021
€ mn			
<b>1 Credit risk (excluding CCR)</b>	<b>9,862</b>	<b>9,886</b>	<b>789</b>
2 of which: Credit Risk Standard Approach (CRSA)	426	416	34
3 of which: Foundation IRB Approach (FIRB)	-	-	-
4 of which: Advanced IRB Approach (AIRBA)	8,709	8,795	697
5 of which: Equity IRB under the simple risk-weighted approach or the IMA	727	675	58
<b>6 Counterparty Credit Risk (CCR)</b>	<b>421</b>	<b>517</b>	<b>33</b>
7 of which: Mark to market	212	288	17
8 of which: Original exposure	-	-	-
9 of which: Standardised approach	-	-	-
10 of which: Internal model method (IMM)	-	-	-
11 of which: Risk exposure amount from contributions to the default fund of a CCP	2	5	0
12 of which: CVA	189	224	15
of which: Securities financing transactions (SFTs)	19	-	1
<b>13 Settlement risk</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>14 Securitisation exposures in the banking book (after the cap)</b>	<b>-</b>	<b>-</b>	<b>-</b>
15 of which: IRB approach	-	-	-
16 of which: IRB supervisory formula approach (SFA)	-	-	-
17 of which: Internal assessment approach (IAA)	-	-	-
18 of which: Standardised approach	-	-	-

	RWAs		Regulatory capital requirements
	31 Mar 2021	31 Dec 2020	31 Mar 2021
€ mn			
<b>19 Market risk</b>	<b>120</b>	<b>87</b>	<b>10</b>
20 of which: Standardised approach	120	87	10
21 of which: IMA	-	-	-
<b>22 Large exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>23 Operational risk</b>	<b>1,131</b>	<b>1,236</b>	<b>90</b>
24 of which: Basic indicator approach	15	29	1
25 of which: Standardised approach	1,116	1,207	89
26 of which: Advanced measurement approach	-	-	-
<b>27 Amounts below the thresholds for deduction (subject to 250 % risk weight)</b>	<b>373</b>	<b>412</b>	<b>30</b>
<b>28 Floor adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>29 Total</b>	<b>11,906</b>	<b>12,138</b>	<b>952</b>

Regarding the causes of RWA changes during the first quarter of 2021, reference is made to the explanations in the previous chapter "Regulatory Capital Structure and Capital Ratios".

## RWA Developments and Regulatory Capital Requirements for AIRBA Exposures

The table EU CR8 provides an overview of the RWA changes and the associated causes to be analysed since 31 December 2020. The starting and end balances represent the sums of figures disclosed in lines 4 and 5 of table EU OVI 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

	a	b
	RWAs	Regulatory capital requirements
€ mn		
<b>1 Position as at 31 December 2020</b>	<b>9,470</b>	<b>758</b>
2 Asset size	-64	-5
3 Asset quality	-156	-12
4 Model updates	-	-
5 Methodology and policy	-	-
6 Acquisitions and disposals	-	-
7 Foreign exchange movements	185	15
8 Other	-	-
<b>9 Position as at 31 March 2021</b>	<b>9,436</b>	<b>755</b>

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

Line 3 reports changes in risk-weighted exposures resulting from changed borrower probabilities of default or loss given default.

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

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

Line 6 does not show any changes, due to the fact that Aareal Bank did not acquire any new investments (or disposed of any existing investments) outside the regulatory scope of consolidation, which need to be included as RWAs in the reporting pursuant to sections 10 and 10a of the KWG.

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

## Leverage Ratio

The Leverage Ratio is calculated taking into account the regulatory scope of consolidation, based on Delegated Regulation (EU) 2015/62.

	31 Mar 2021
€ mn	
Tier 1 capital	2,548
Total exposure measure	45,049
Leverage Ratio (%)	5.7

## Imprint

### Contents:

Aareal Bank AG, Investor Relations,  
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Group**

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