QUALITY
made by AAREAL

2019

Regulatory Disclosure Report for Q3 2019 of Aareal Bank Group

Aareal Bank Group

Regulatory Disclosure Report – Q3 2019

Preface

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

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

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

The scope of quarterly disclosure as at 30 September 2019 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

	30 Sep 2019
€ mn	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,372
Regulatory adjustments	-269
Common Equity Tier 1 (CET1) capital	**2,103**
Additional Tier 1 (AT1) capital before regulatory adjustments	300
Regulatory adjustments	–
Additional Tier 1 (AT1) capital	**300**
Tier 1 capital (T1)	**2,403**
Tier 2 (T2) capital before regulatory adjustments	915
Regulatory adjustments	–
Tier 2 (T2) capital	**915**
Total capital (TC)	**3,318**
%	
Common Equity Tier 1 ratio[1] (CET1 ratio)	16.6
Tier 1 ratio[1] (T1 ratio)	19.0
Total capital ratio[1] (TC ratio)	26.2

Compared to the previous reporting date (30 June 2019), the capital ratios (CET1, T1 and TC ratio) declined, in particular, due to a € 117 million reduction in regulatory capital and a simultaneous € 135 million decline in RWAs.

Whilst the RWA decline was mainly driven by quality enhancements in the credit portfolio, the decline in regulatory capital was largely due to a € 106 million reduction of CET1 capital, which was in turn due, in particular, to the mandatory deduction of (gross) additions to loss allowance (€ -54 million) and to changes in the OCI reserve (€ -46 million).

Regulatory Capital Requirements

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

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

and, under the AIRBA, additionally depends on

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

[1] No interim profits were taken into account when calculating regulatory capital as at 30 September 2019. The expected relevant impact of the TRIM exercise on commercial property financings, and of the SREP recommendations concerning the NPL inventory as well as the ECB's NPL guidelines for exposures newly classified as NPLs, were taken into account for determining regulatory indicators.

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 30 September 2019, no risks associated with outstanding delivery as part of counterparty risks had to be taken into account when determining counterparty usage limits.

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

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

		RWAs		Regulatory capital requirements
€ mn		30 Sep 2019	30 Jun 2019	30 Sep 2019
1	**Credit risk (excluding CCR)**	**10,166**	**10,300**	**813**
2	of which: Credit Risk Standard Approach (CRSA)	559	586	45
3	of which: Foundation IRB Approach (FIRB)	–	–	–
4	of which: Advanced IRB Approach (AIRBA)	8,765	8,865	701
5	of which: Equity IRB under the simple risk-weighted approach or the IMA	843	849	67
6	**Counterparty credit risk (CCR)**	**546**	**582**	**44**
7	of which: Mark to market	368	376	29
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	1	0	0
12	of which: CVA	178	206	14
13	**Settlement risk**	**–**	**–**	**–**
14	**Securitisation exposures in the banking book (after the cap)**	**–**	**–**	**–**
15	of which: IRB approach	–	–	–
16	of which: IRB supervisory formula approach	–	–	–
17	of which: Internal assessment approach (IAA)	–	–	–
18	of which: Standardised approach	–	–	–
19	**Market risk**	**71**	**92**	**6**
20	of which: Standardised approach	71	92	6
21	of which: IMA	–	–	–
22	**Large exposures**	**–**	**–**	**–**
23	**Operational risk**	**1,489**	**1,489**	**119**
24	of which: Basic indicator approach	44	44	4
25	of which: Standardised approach	1,445	1,445	116
26	of which: Advanced measurement approach	–	–	–
27	**Amounts below the thresholds for deduction (subject to 250 % risk weight)**	**383**	**328**	**31**
28	**Floor adjustment**	**–**	**–**	**–**
29	**Total**	**12,656**	**12,791**	**1,012**

Regarding the causes of RWA changes during the third quarter of 2019, reference is made to the explanations in the previous chapter "Regulatory Capital Structure and 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 30 June 2019. The starting and end balances represent the sums of figures disclosed in lines 4 and 5 of table EU OV1 for the respective reporting date. 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
€ mn		RWAs	Regulatory capital requirements
1	**Position as at 30 June 2019**	**9,714**	**777**
2	Asset size	287	23
3	Asset quality	-518	-41
4	Model updates	–	–
5	Methodology and policy	–	–
6	Acquisitions and disposals	–	–
7	Foreign exchange movements	125	10
8	Other	–	–
9	**Position as at 30 September 2019**	**9,608**	**768**

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

Line 3 reports changes in risk-weighted exposures resulting from changed borrower probabilities of default (PD) or loss given default (LGD). The change compared to the previous quarter was mainly driven by quality improvements in the credit portfolio.

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 during the period under review.

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.

€ mn	30 Sep 2019
Tier 1 capital	2,403
Total exposure measure	41,220
Leverage Ratio	5.83 %

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

This report is also available in German language.

Aareal Bank AG
Investor Relations
Paulinenstrasse 15
65189 Wiesbaden, Germany

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

11/2019

Aareal Bank Group