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2018

Regulatory Disclosure Report for Q3 2018 of Aareal Bank Group

Aareal Bank Group

Regulatory Disclosure Report – Q3 2018

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 the final draft guidelines on disclosure requirements under part 8 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 2018 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;
- capital ratios;
- risk-weighted assets (RWAs) and regulatory capital requirements;
- information on the 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 2018
€ mn	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,326
Regulatory adjustments	-231
Common Equity Tier 1 (CET1) capital	**2,095**
Additional Tier 1 (AT1) capital before regulatory adjustments	300
Regulatory adjustments	–
Additional Tier 1 (AT1) capital	**300**
Tier 1 capital (T1)	**2,395**
Tier 2 (T2) capital before regulatory adjustments	893
Regulatory adjustments	-3
Tier 2 (T2) capital	**890**
Total capital (TC)	**3,285**
%	
Common Equity Tier 1 ratio (CET1 ratio)	20.82
Tier 1 ratio (T1 ratio)	23.80
Total capital ratio (TC ratio)	32.64

The capital ratios (CET1, T1 and TC ratio) increased compared to the previous disclosure date of 30 June 2018: the € 33 million decline in regulatory capital was more than offset by the simultaneous decline in RWAs, by € 552 million.

Besides quality improvements in the credit portfolio, the RWA decline was driven by the transfer of commercial property loans extended by former Westdeutsche ImmobilienBank AG from the Credit Risk Standard Approach to the Advanced IRB Approach. Moreover, the non-strategic loan portfolio (which is subject to the CRSA) was reduced further.

The decline in regulatory capital was largely due to a € 20 million reduction of CET1 capital, which in turn was due, in particular, to higher deductions from intra-year loss allowance recognised.

Regulatory Capital Requirements

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

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

and, under the AIRBA, additionally depends on

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

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

As at 30 September 2018, risks associated with outstanding delivery as part of counterparty risks amounted to € 1 million and 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
€ mn		30 Sep 2018	30 Jun 2018	30 Sep 2018
1	**Credit risk (excluding CCR)**	**7,769**	**8,257**	**622**
2	Credit Risk Standard Approach (CRSA)	392	950	31
3	IRB Foundation Approach (FIRB)	–	–	–
4	Advanced IRB Approach (AIRBA)	6,327	6,258	506
5	Equity IRB under the simple risk-weighted approach or the IMA	1,051	1,050	84
6	**Counterparty credit risk (CCR)**	**527**	**566**	**42**
7	Mark to market	338	370	27
8	Original exposure	–	–	–
9	Standardised approach	–	–	–
10	Internal model method (IMM)	–	–	–
11	Risk exposure amount for contributions to default fund of a CCP	0	0	0
12	CVA	189	196	15
13	**Settlement risk**	**–**	**–**	**–**
14	**Securitisation exposures in the banking book (after the cap)**	**–**	**–**	**–**
15	IRB approach	–	–	–
16	IRB supervisory formula approach (SFA)	–	–	–
17	Internal assessment approach (IAA)	–	–	–
18	Standardised approach	–	–	–
19	**Market risk**	**100**	**124**	**8**
20	Standardised approach	100	124	8
21	IMA	–	–	–
22	**Large exposures**	**–**	**–**	**–**
23	**Operational risk**	**1,411**	**1,411**	**113**
24	Basic indicator approach	–	–	–
25	Standardised approach	1,411	1,411	113
26	Advanced measurement approach	–	–	–
27	**Amounts below the thresholds for deduction (subject to 250 % risk weight)**	**257**	**257**	**21**
28	**Floor adjustment**	**–**	**–**	**–**
29	**Total**	**10,063**	**10,615**	**805**

Regarding the causes of RWA changes during the third quarter of 2018, 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 30 June 2018. The starting and end balances represent the sums of figures disclosed in lines 4 and 5 of table EU OV1 for the respective reporting date. 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 2018**	**7,308**	**585**
2	Asset size	-41	-3
3	Asset quality	-40	-3
4	Model updates	–	–
5	Methodology and policy	141	11
6	Acquisitions and disposals	-1	0
7	Foreign exchange movements	11	1
8	Other	–	–
9	**Position as at 30 September 2018**	**7,378**	**590**

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).

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 shows the change in RWAs resulting from the transfer of commercial property loans extended by former Westdeutsche ImmobilienBank AG to the Advanced IRB Approach.

Line 6 discloses the RWA effect of the merger of four investments during the third quarter; these investments were outside the regulatory scope of consolidation and thus included as RWAs in the report pursuant to sections 10 and 10a of the German Banking Act (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 2018
Tier 1 capital	2,395
Total exposure measure	39.075
Leverage Ratio	6.13 %

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.

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11/2018

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