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2019

# Regulatory Disclosure Report for Q1 2019 of Aareal Bank Group

Aareal Bank Group

# Regulatory Disclosure Report – Q1 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 31 March 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

| € mn | 31 Mar 2019 |
|---|---|
| Common Equity Tier 1 (CET1) capital before regulatory adjustments | 2,400 |
| Regulatory adjustments | -202 |
| **Common Equity Tier 1 (CET1) capital** | **2,198** |
| Additional Tier 1 (AT1) capital before regulatory adjustments | 300 |
| Regulatory adjustments | – |
| **Additional Tier 1 (AT1) capital** | **300** |
| **Tier 1 (T1) capital** | **2,498** |
| Tier 2 (T2) capital before regulatory adjustments | 878 |
| Regulatory adjustments | -1 |
| **Tier 2 (T2) capital** | **877** |
| **Total capital (TC)** | **3,375** |
| % | |
| Common Equity Tier 1 ratio (CET1 ratio) | 16.7 |
| Tier 1 ratio (T1 ratio) | 19.0 |
| Total capital ratio (TC ratio) | 25.7 |

Compared to the previous reporting date (31 December 2018), the capital ratios (CET 1, T 1 and TC ratio) declined, due to a € 67 million reduction in regulatory capital and a € 2,347 million increase in RWAs.

The RWA increase was mainly driven by the impact of the review of internal models within pillar I (Targeted Review of Internal Models – "TRIM") on commercial property finance.

The decline in regulatory capital was largely due to a € 65 million reduction of CET 1 capital, predominantly reflecting the change in OCI reserves (€ -36 million) as well as the deduction of intra-year gross loss allowance (€ 23 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).

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 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 RWAs**

| | | RWAs | | Regulatory capital requirements |
|---|---|---|---|---|
| € mn | | 31 Mar 2019 | 31 Dec 2018 | 31 Mar 2019 |
| **1** | **Credit risk (excluding CCR)** | **10,630** | **8,357** | **850** |
| 2 | Of which: the standardised approach | 634 | 638 | 51 |
| 3 | Of which: the foundation IRB (FIRB) approach | – | – | – |
| 4 | Of which: the advanced IRB (AIRB) approach | 9,146 | 6,436 | 732 |
| 5 | Of which: equity IRB under the simple risk-weighted approach or the IMA | 850 | 1,284 | 68 |
| **6** | **CCR** | **589** | **573** | **47** |
| 7 | Of which: mark to market | 376 | 358 | 30 |
| 8 | Of which: original exposure | – | – | – |
| 9 | Of which: the standardised approach | – | – | – |
| 10 | Of which: the internal model method (IMM) | – | – | – |
| 11 | Of which: risk exposure amount from contributions to the default fund of a CCP | 0 | 0 | 0 |
| 12 | Of which: CVA | 213 | 215 | 17 |
| **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 (SFA) | – | – | – |
| 17 | Of which: internal assessment approach (IAA) | – | – | – |
| 18 | Of which: standardised approach | – | – | – |
| **19** | **Market risk** | **72** | **112** | **6** |
| 20 | Of which: the standardised approach | 72 | 112 | 6 |
| 21 | Of which: IMA | – | – | – |
| **22** | **Large exposures** | **–** | **–** | **–** |
| **23** | **Operational risk** | **1,489** | **1,455** | **119** |
| 24 | Of which: basic indicator approach | 44 | 44 | 4 |
| 25 | Of which: standardised approach | 1,445 | 1,411 | 116 |
| 26 | Of which: advanced measurement approach | – | – | – |
| **27** | **Amounts below the thresholds for deduction (subject to 250 % risk weight)** | **346** | **281** | **28** |
| **28** | **Floor adjustment** | **–** | **–** | **–** |
| **29** | **Total** | **13,125** | **10,778** | **1,050** |

Regarding the causes of RWA changes during the first quarter of 2019, 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 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**

| € mn | | a<br>RWA amounts | b<br>Regulatory capital requirements |
|---|---|---|---|
| **1** | **Position as at 31 December 2018** | **7,720** | **618** |
| 2 | Asset size | -16 | -1 |
| 3 | Asset quality | -96 | -8 |
| 4 | Model updates | 2,273 | 182 |
| 5 | Methodology and policy | – | – |
| 6 | Acquisitions and disposals | 10 | 1 |
| 7 | Foreign exchange movements | 105 | 8 |
| 8 | Other | – | – |
| **9** | **Position as at 31 March 2019** | **9,996** | **800** |

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 in RWAs shown in line 4 results from incorporating the impact of TRIM on commercial property finance.

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 discloses the RWA effect of the acquisition and disposal of one investment each during the first quarter; these investments are 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 | 31 Dec 2019 |
|---|---|
| Tier 1 capital | 2,498 |
| Total exposure measure | 41,287 |
| Leverage Ratio (%) | 6.05 % |

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