

**Regulatory Disclosure
Report for Q3 2020
of Aareal Bank Group**

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Preface

Areal 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.

Areal 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, Areal Bank Group meets the EBA guidelines in full, on a voluntary basis.

The scope of quarterly disclosure as at 30 September 2020 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, Areal 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.

Areal Bank complies with the requirements of parts 2, 3 and 7 of the CRR at a Group level, due to the fact that Areal 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. Areal 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.

Areal 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 2020
€ mn	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,523
Regulatory adjustments	-280
Common Equity Tier 1 (CET1) capital	2,243
Additional Tier 1 (AT1) capital before regulatory adjustments	300
Regulatory adjustments	-
Additional Tier 1 (AT1) capital	300
Tier 1 (T1) capital	2,543
Tier 2 (T2) capital before regulatory adjustments	817
Regulatory adjustments	-
Tier 2 capital (T2)	817
Total capital (TC)	3,360
%	
Common Equity Tier 1 ratio (CET1 ratio)	19.8
Tier 1 ratio (T1 ratio)	22.5
Total capital ratio (TC ratio)	29.7

Compared to the previous reporting date (30 June 2020), the Tier 1 (T1) ratio and the total capital (TC) ratio reported to supervisory authorities increased slightly, whilst the Common Equity Tier 1 (CET1) ratio remained unchanged.¹⁾ This development was due to the € 382 million decline in RWAs and a simultaneous € 97 million decline in regulatory capital.

The decrease in RWAs was mainly due to the introduction of the new SME Supporting Factor as part of the adjustment of the EU's Capital Requirements Regulation (CRR Quick Fix). Due to the impact of Covid-19, at the time of preparing this report, it was not always possible to obtain new appraisals where there were indications for a fluctuation in value. Given the model employed, it was not possible to incorporate anticipated rating changes within the scope of the management overlay for calculating RWAs as at 30 September 2020.

The decline in regulatory capital was largely due to a € 75 million reduction of CET1 capital, which was in turn due, in particular, to the mandatory deduction of (gross) additions to loss allowance (€ -60 million) and to other changes (€ -15 million).

¹⁾ 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 30 September 2020.

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 2020, 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
	30 Sep 2020	30 Jun 2020	30 Sep 2020
€ mn			
1 Credit risk (excluding CCR)	9,118	9,534	729
2 of which: Credit Risk Standard Approach (CRSA)	462	511	37
3 of which: Foundation IRB Approach (FIRB)	-	-	-
4 of which: Advanced IRB Approach (AIRB)	7,797	8,209	624
5 of which: Equity IRB under the simple risk-weighted approach or the IMA	858	815	69
6 Counterparty Credit Risk (CCR)	516	546	41
7 of which: Mark to market	302	308	24
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	212	218	17
of which: Securities financing transactions (SFTs)	1	20	0
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	-	-	-

	RWAs		Regulatory capital requirements
	30 Sep 2020	30 Jun 2020	30 Sep 2020
€ mn			
19 Market risk	32	34	3
20 of which: Standardised approach	32	34	3
21 of which: IMA	-	-	-
22 Large exposures	-	-	-
23 Operational risk	1,236	1,236	99
24 of which: Basic indicator approach	29	29	2
25 of which: Standardised approach	1,207	1,207	97
26 of which: Advanced measurement approach	-	-	-
27 Amounts below the thresholds for deduction (subject to 250 % risk weight)	418	352	33
28 Floor adjustment	-	-	-
29 Total	11,320	11,702	906

Regarding the causes of RWA changes during the third quarter of 2020, 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 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		
1 Position as at 30 June 2020	9,024	722
2 Asset size	258	21
3 Asset quality	-522	-42
4 Model updates	-	-
5 Methodology and policy	-	-
6 Acquisitions and disposals	-	-
7 Foreign exchange movements	-105	-8
8 Other	-	-
9 Position as at 30 September 2020	8,655	693

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. This is a reflection of risk-mitigating effects from the recognition of the new SME Supporting Factor as part of the adjustment of the EU's Capital Requirements Regulation.

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.

	30 Sep 2020
€ mn	
Tier 1 capital	2,543
Total exposure measure	42,515
Leverage Ratio	6.0 %

Imprint

Contents:

Aareal Bank AG, Investor Relations,
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This report is also available in German language.



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