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2018

Regulatory Disclosure Report for Q1 2018 of Aareal Bank Group

Aareal Bank Group

Regulatory Disclosure Report – Q1 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 report on the guidelines on disclosure requirements under part 8 of Regulation (EU) 575/2013 (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 Federal Financial Supervisory Authority (BaFin) 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. This gives rise to the first-time quarterly disclosure as at 31 March 2018, the scope of which is oriented upon the guidelines EBA/GL/2016/11, in conjunction with the revised guidelines on materiality, proprietary 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 the 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).

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 2018
Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,338
Regulatory adjustments	-138
Common Equity Tier 1 (CET1) capital	**2,200**
Additional Tier 1 (AT1) capital before regulatory adjustments	300
Regulatory adjustments	–
Additional Tier 1 (AT1) capital	**300**
Tier 1 capital (T1)	**2,500**
Tier 2 (T2) capital before regulatory adjustments	927
Regulatory adjustments	-6
Tier 2 (T2) capital	**921**
Total capital (TC)	**3,421**
%	
Common Equity Tier 1 ratio (CET1 ratio)	19.19
Tier 1 ratio (T1 ratio)	21.81
Total capital ratio (TC ratio)	29.84

Compared to the disclosure date of 31 December 2017, the capital ratios (CET 1, T1 and TC ratio) were immaterially lower: the € 115 million decline in regulatory capital was more than offset by the simultaneous decline in RWAs, by € 321 million.

The RWA decline was due, in particular, to the lower volume of the property financing portfolio, reflecting the planned reduction in non-core assets. Furthermore, additional paid-in capital from an investment treated under the AIRBA was repaid, reducing the carrying amount of that investment – and hence, the RWAs determined under the simple risk weight approach pursuant to Article 155 of the CRR.

The decline in regulatory capital was largely due to the introduction of IFRS 9, and the deduction of impairments recognised during the first quarter of 2018. It is also worth noting that the gradual inclusion of regulatory deductibles for Common Equity Tier 1 (CET 1) capital ("phase-in") was completed as at 1 January 2018; as a result, these deductibles are now fully reflected in CET 1 capital.

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 percentage.

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, based on their external ratings.

As at 31 March 2018, 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
€ mn		31 Mar 2018	31 Dec 2017	31 Mar 2018
1	**Credit risk (excluding CCR)**	**9,007**	**9,311**	721
2	Credit Risk Standard Approach (CRSA)	1,040	1,157	83
3	IRB Foundation Approach (FIRB)	–	–	–
4	Advanced IRB Approach (AIRBA)	6,915	6,983	553
5	Equity IRB under the simple risk-weighted approach or the IMA	1,052	1,171	84
6	**Counterparty credit risk (CCR)**	**609**	**650**	**49**
7	Mark to market	400	441	32
8	Original exposure	–	–	–
9	Standardised approach	–	–	–
10	Internal model method (IMM)	–	–	–
11	Risk exposure amount from contributions to the default fund of a CCP	0	0	0
12	CVA	209	209	17
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**	**180**	**134**	**14**
20	Standardised approach	180	134	14
21	IMA	–	–	–
22	**Large exposures**	**–**	**–**	**–**
23	**Operational risk**	**1,411**	**1,433**	**113**
24	Basic indicator approach	–	–	–
25	Standardised approach	1,411	1,433	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**	**11,464**	**11,785**	**804**

Regarding the causes of RWA changes during the first 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

Aareal Bank has implemented the requirements for disclosure of RWA changes and related causes, as stipulated by EBA guidelines, as at the reporting date for the first time.

The starting and end balances in table EU CR8 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 RWAs	b Regulatory capital requirements
1	**Position as at 31 December 2017**	**8,154**	**653**
2	Asset size	-212	-17
3	Asset quality	61	4
4	Model updates	–	–
5	Methodology and policy	–	–
6	Acquisitions and disposals	–	–
7	Foreign exchange movements	-36	-3
8	Other	–	–
9	**Position as at 31 March 2018**	**7,967**	**637**

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 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 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. Pursuant to Article 14 (2) of the Implementation Regulation (EU) 2016/428, the Leverage Ratio is calculated using quarter-end data.

€ mn	31 Mar 2018
Tier 1 capital	2,500
Total exposure measure	40,021
Leverage Ratio (%)	6.25 %

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