Regulatory Disclosure Report for Q3 2021
of Aareal Bank Group

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Regulatory Disclosure Report for Q3 2021

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).

In March this year, the European Commission published the Commission Implementation Regulation (EU) 2021/637 for the disclosure of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 (Capital Requirements Regulation – "CRR"). These substantiate the revised disclosure requirements to be applied from 28 June 2021.

Due to its consolidated total assets of more than € 30 billion, Aareal Bank Group is classified as a large institution in accordance with Article 4 no 146 lit. d) of the CRR. The scope of the information that has to be disclosed on a quarterly basis is therefore based on the requirements of Article 433a (1) lit. c) of the CRR.

Due to the use of the waiver option (section 2a (1) sentence 1 of the German Banking Act (Kreditwesengesetz – "KWG") in conjunction with Article 7 (3) of the CRR), Aareal Bank complies with the requirements of parts 2, 3, 4, 6, 7 and 8 of the CRR at a Group level. Aareal Bank AG, whose registered office is in Wiesbaden, Germany, is the parent institution of the Group (LEI code EZKODONU5TYHW4PP1R34).

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.

As the equivalent value of derivatives and the related counterparty credit risk for the purpose of regulatory reporting are determined exclusively according to the standardised approach for measuring counterparty credit risk (SA-CCR) (Article 274 et seqq. of the CRR), disclosure of table EU CCR7 (RWA flow statements of credit risk exposures, the counterparty credit risks of which are measured taking the internal model method into consideration) is not required.

Similarly, as the Bank does not use internal models for the calculation of own funds requirements for market risk, the table EU MR2-B (RWA flow statements of market risk under the internal model approach) is not disclosed either.

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.

Overview of Regulatory Key Metrics

The table EU KM1 provides an overview of the regulatory key metrics in accordance with Article 447 of the CRR. The overview also includes the additional regulatory capital as required by the Supervisory Review and Evaluation Process (SREP).

Due to the first-time disclosure of the Net Stable Funding Ratio (NSFR) and the SREP capital requirements as at 30 June 2021, their disclosure for prior periods is omitted.

EU KM1: Key metrics

		a	b	c	d	e
€ mn		30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020	30 Sep 2020
	Available own funds					
1	Common Equity Tier 1 (CET1) capital	2,225	2,298	2,248	2,286	2,243
2	Tier 1 (T1) capital	2,525	2,598	2,548	2,586	2,543
3	Own funds	2,945	3,048	3,027	3,396	3,360
	Risk-weighted exposure amounts					
4	Risk-weighted exposure amounts (Risk weighted assets, RWAs)	10,803	11,981	11,906	12,138	11,320
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (CET1 ratio)	20.59	19.18	18.9	18.8	19.8
6	Tier 1 ratio (T1 ratio)	23.37	21.69	21.4	21.3	22.5
7	Total capital ratio (TC ratio)	27.26	25.44	25.4	28.0	29.7
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage	1.27	1.27	–	–	–
EU 7b	of which: to be made up of CET1 capital	0.42	0.42	–	–	–
EU 7c	of which: to be made up of Tier 1 capital	0.56	0.56	–	–	–
EU 7d	Total SREP own funds requirements	10.25	10.25	–	–	–
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50	2.50	2.5	2.5	2.5
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	–	–	–	–	–
9	Institution specific countercyclical capital buffer	0.01	0.01	0.0	0.0	0.0
EU 9a	Systemic risk buffer	–	–	–	–	–
10	Global Systemically Important Institution buffer	–	–	–	–	–
EU 10a	Other Systemically Important Institution buffer	–	–	–	–	–
11	Combined buffer requirement	2.51	2.51	–	–	–
EU 11a	Overall capital requirements	12.76	12.76	–	–	–
12	CET1 available after meeting the total SREP own funds requirements	14.83	13.42	–	–	–

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€ mn		a 30 Sep 2021	b 30 Jun 2021	c 31 Mar 2021	d 31 Dec 2020	e 30 Sep 2020
	Leverage Ratio[1]					
13	Total exposure measure	45,803	45,607	45,049	43,577	42,515
14	Leverage Ratio (%)	5.51	5.70	5.7	5.9	6.0
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage	–	–	–	–	–
EU 14b	of which: to be made up of CET1 capital	–	–	–	–	–
EU 14c	Total SREP leverage ratio requirements	3.00	3.00	–	–	–
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement	–	–	–		
EU 14e	Overall leverage ratio requirement	3.00	3.00	–	–	–
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (weighted value – average)	6,695	7,035	6,988	6,909	6,765
EU 16a	Cash outflows – total weighted value	3,020	3,045	–	–	–
EU 16b	Cash inflows – total weighted value	450	447	–	–	–
16	Total net cash outflows (adjusted value)	2,570	2,598	2,651	2,622	2,694
17	Liquidity coverage ratio (LCR) (%)	261.15	271.66	265.02	264.87	252.62
	Net Stable Funding Ratio					
18	Total available stable funding	34,997	34,414	–	–	–
19	Total required stable funding	29,807	29,667	–	–	–
20	NSFR ratio (%)	117.41	116.00	–	–	–

Compared to the previous disclosure date of 30 June 2021, the capital ratios reported to the supervisory authorities[2] (CET 1, T 1 and TC ratio) increased by 1.64 percentage points on average. This development was due to the € 1,178 million decline in RWAs and a simultaneous € 103 million decline in regulatory capital.

Besides differences in the timing of disbursements and the inclusion of eligible collateral pursuant to the CRR, the decline in RWAs – accompanied by a simultaneous increase in new business in the Structured Property Financing segment – was mostly driven by quality improvements in the existing commercial property finance portfolio and the further reduction of the non-performing loan portfolio.

[1] Calculation of the Leverage Ratio has changed with the first-time application of the CRR II as at 30 June 2021. As a result, the figures for the current disclosure date as well as for 30 June 2021 cannot be compared to the figures disclosed in columns c) to e).

[2] 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 2021.

The decrease in regulatory capital resulted from a reduction of Common Equity Tier 1 capital (€ -73 million) and Tier 2 capital (€ -29 million). The reduction of CET1 capital was due, in particular, to the mandatory deduction of (gross) additions to loss allowance (€ -68 million).

Compared to 30 June 2021, the leverage ratio decreased by 0.19 percentage points, which was due to the € 196 million increase in the total exposure measure and a simultaneous € 73 million decline in Tier 1 capital.

For details on changes in the Liquidity Coverage Ratio over time, please refer to the corresponding chapter on page 11 of this Regulatory Disclosure Report.

Compared to 30 June 2021, the Net Stable Funding Ratio increased by 1.41 percentage points to 117.41 %, which was due to the stronger increase in available stable funding (ASF) in relation to required stable funding (RSF). The increase in ASF resulted from the issuance of new Pfandbriefe (approx. € 1 billion). In contrast, registered Pfandbriefe and debt securities were reduced and shifted to shorter maturity buckets. The net result was an increase of € 583 million. The increase in RSF (+€ 140 million) was largely a result of the reduction of liquid assets due to the changes in the ECB pool (-€ 561 million), the increase in the credit portfolio (approx. +€ 930 million) and the reduction of non-performing loans (-€ 178 million).

Risk-weighted Assets and Regulatory Capital Requirements

The regulatory 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 regulatory 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 30 September 2021, 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 risk-weighted assets (RWAs) and regulatory 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)

		a	b	c
			RWAs	Regulatory capital requirements
€ mn		30 Sep 2021	30 Jun 2021	30 Sep 2021
1	**Credit risk (excluding CCR)**	**9,273**	**10,325**	**742**
2	of which: Credit Risk Standard Approach (CRSA)	974	943	78
3	of which: Foundation IRB Approach (FIRB)	–	–	–
4	of which: slotting approach	–	–	–
EU 4a	of which: Equity exposures under the simple risk-weighted approach	754	764	60
5	of which: Advanced IRB (AIRB) approach	7,545	8,619	604
6	**CCR**	**372**	**442**	**30**
7	of which: Standardised approach	210	187	17
8	of which: Internal model method (IMM)	–	–	–
EU 8a	of which: exposures to a CCP	6	7	0
EU 8b	of which: credit valuation adjustment – CVA	156	247	12
9	of which: other CCR	–	–	–
15	**Settlement risk**	**–**	**–**	**–**
16	**Securitisation exposures in the banking book (after the cap)**	**–**	**–**	**–**
17	of which: SEC-IRBA approach	–	–	–
18	of which: SEC-ERBA (including IAA)	–	–	–
19	of which: SEC-SA approach	–	–	–
EU 19a	of which: 1,250 % / deduction	–	–	–
20	**Market risk (position, foreign exchange and commodities risks)**	**27**	**83**	**2**
21	of which: Standardised approach	27	83	2
22	of which: IMA	–	–	–
EU 22a	**Large exposures**	**–**	**–**	**–**
23	**Operational risk**	**1,131**	**1,131**	**90**
EU 23a	of which: Basic indicator approach	15	15	1
EU 23b	of which: Standardised approach	1,116	1,116	89
EU 23c	of which: advanced measurement approach	–	–	–
24	**Amounts below the thresholds for deduction (subject to 250 % risk weight)**	**385**	**379**	**31**
29	**Total**	**10,803**	**11,981**	**864**

In accordance with Annex II of Commission Implementation Regulation 2021 / 637 (EU), the disclosure of RWA of deferred tax assets in line 24 is only for information, since they are already reflected in line 2 of the disclosure table.

Regarding the causes of RWA changes during the third quarter of 2021, reference is made to the explanations in the previous chapter “Overview of regulatory key metrics”.

RWA Developments for AIRBA Exposures

The table EU CR8 provides an overview of the RWA changes and the associated causes to be analysed since 30 June 2021.

The starting and end balances represent the sums of figures disclosed in lines EU 4a 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
€ mn		RWAs
1	**RWAs as at 30 June 2021**	**9,383**
2	Asset size	93
3	Asset quality	-1,219
4	Model updates	–
5	Methodology and policy	–
6	Acquisitions and disposals	-1
7	Foreign exchange movements	43
8	Other	–
9	**RWAs as at 30 September 2021**	**8,299**

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. Moreover, this line also includes the RWA change due to the continued reduction of non-performing loans.

Line 3 reports changes in risk-weighted exposures resulting from changed borrower probabilities of default (PD) or loss given default (LGD). It also includes the RWA effect resulting from differences in the timing of disbursements and the inclusion of eligible collateral pursuant to the CRR.

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.

The RWA effect from the sale of an immaterial investment is disclosed in line 6.

No figures are shown in line 8 since we were able to assign RWA changes within Aareal Bank Group to the aforementioned categories.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) helps to measure whether the liquidity buffer of an institution is high enough. Pursuant to Article 412 (1) of the CRR, the LCR is calculated as the ratio of the liquidity buffer relative to net outflows during a stress phase of 30 calendar days. The LCR must amount to at least 100 %.

The calculation of the LCR is based on the market values of liquid assets and cash flows from all asset and liability items.

The following table is based on the requirements set out in Annex XIV of the Commission Implementation Regulation (EU) 2021/637 on the disclosure of the Liquidity Coverage Ratio. Quantitative details are disclosed using the weighted and unweighted average values of the last 12 reporting days of the respective quarter.

The table EU LIQ1 contains all positions that Aareal Bank deems relevant for its liquidity profile.

EU LIQ1: Quantitative information of LCR

Scope of consolidation		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
		Quarter ending on 31 Dec 2020	Quarter ending on 31 Mar 2021	Quarter ending on 30 Jun 2021	Quarter ending on 30 Sep 2021	Quarter ending on 31 Dec 2020	Quarter ending on 31 Mar 2021	Quarter ending on 30 Jun 2021	Quarter ending on 30 Sep 2021
€ mn									
EU 1b	Number of data points used for the calculation of averages	12	12	12	12	12	12	12	12
Highquality liquid assets									
1	**Total highquality liquid assets (HQLA)**					**6,909**	**6,988**	**7,035**	**6,695**
Cash outflows									
2	**Retail deposits and deposits from small business customers, of which:**	**4,997**	**5,137**	**5,289**	**5,434**	**266**	**272**	**280**	**288**
3	Stable deposits	4,636	4,780	4,925	5,071	232	239	246	254
4	Less stable deposits	333	323	331	336	34	33	34	34
5	**Unsecured wholesale funding**	**5,962**	**6,126**	**6,202**	**6,251**	**2,198**	**2,253**	**2,238**	**2,224**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,793	3,953	4,064	4,146	907	948	975	995
7	Non-operational deposits (all counterparties)	2,117	2,099	2,079	2,058	1,239	1,231	1,204	1,182
8	Unsecured debt	52	74	59	47	52	74	59	47
9	**Secured wholesale funding**					**–**	**1**	**1**	**1**
10	**Additional requirements**	**1,191**	**1,132**	**1,163**	**1,170**	**392**	**349**	**310**	**274**
11	Outflows related to derivative exposures and other collateral requirements	272	244	209	175	265	239	204	170
12	Outflows related to loss of funding on debt products	9	5	–	–	9	5	–	–
13	Credit and liquidity facilities	910	883	954	995	118	105	106	104

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Scope of consolidation		a	b	c	d	e	f	g	h
		Total unweighted value (average)				**Total weighted value (average)**			
		Quarter ending on 31 Dec 2020	**Quarter ending on 31 Mar 2021**	**Quarter ending on 30 Jun 2021**	**Quarter ending on 30 Sep 2021**	**Quarter ending on 31 Dec 2020**	**Quarter ending on 31 Mar 2021**	**Quarter ending on 30 Jun 2021**	**Quarter ending on 30 Sep 2021**
€ mn									
14	**Other contractual funding obligations**	**100**	**121**	**119**	**140**	**77**	**98**	**96**	**116**
15	**Other contingent funding obligations**	**850**	**872**	**987**	**1,043**	**119**	**121**	**120**	**117**
16	**Total cash outflows**					**3,052**	**3,094**	**3,045**	**3,020**
Cash inflows									
17	Secured lending (e.g. reverse repos)	129	146	60	56	6	7	3	3
18	Inflows from fully performing exposures	410	389	410	396	291	284	301	295
19	Other cash inflows	133	151	143	152	133	151	143	152
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					–	–	–	–
EU-19b	Excess inflows from a related specialised credit institution)					–	–	–	–
20	**Total cash inflows**	**672**	**686**	**613**	**604**	**430**	**442**	**447**	**450**
EU-20a	Fully exempt inflows	–	–	–	–	–	–	–	–
EU-20b	Inflows subject to 90 % cap	–	–	–	–	–	–	–	–
EU-20c	Inflows subject to 75 % cap	672	686	613	604	429	442	447	450
						Adjusted total value			
EU-21	**Liquidity buffer**					**6,909**	**6,988**	**7,035**	**6,695**
22	**Total net cash outflows**					**2,622**	**2,651**	**2,598**	**2,570**
23	**Liquidity Coverage Ratio (%)**					**264.87 %**	**265.02 %**	**271.66 %**	**261.15 %**

A large portion of securities held in the Treasury portfolio serve as the Bank's liquidity reserve, both from an economic and a normative perspective. Around 80 % of the Treasury portfolio fulfils the criteria for inclusion as high-quality liquid assets (HQLA); high quality and value stability play a decisive role in this respect.

The Bank's HQLA predominantly comprise the asset class "public-sector borrowers" and deposits with central banks. Key drivers impacting LCR results are largely related to changes in our asset portfolio, as well as outflows connected with housing industry business.

Changes in the LCR over time

The Group's average Liquidity Coverage Ratio was approximately 261 % last year. This was mainly due to the high level of assets held.

A marked increase was seen between November and December 2020: whilst the level of assets was virtually unchanged month-on-month, outflows had declined considerably.

The LCR then gradually declined between December 2020 and February 2021, reflecting the fact that inflows were not sufficient to fully cover outflows. A further LCR decrease was recorded in February 2021, due to a lower level of assets held. The LCR increase in the second quarter of 2021 compared to the previous quarter was mainly due to the above-average increase in assets held. Then, in the third quarter of 2021, the LCR significantly declined again.

Concentration of funding sources

In addition to the issuance of Pfandbriefe, which make up a significant share of its long-term funding, Aareal Bank uses a wide range of other refinancing tools, including senior preferred and senior non-preferred bonds, as well as other promissory notes and bonds. Depending on market conditions, the Bank places large-sized public issues or private placements. In the Banking and Digital Solutions segment, the Bank also generates bank deposits from the housing industry, which represent a strategically important additional source of funding. Furthermore, it has recourse to institutional money market investor deposits.

Diversifying the Bank's funding profile by type of investor, and by product, represents a key aspect to Aareal Bank's approach to liquidity risk management. Besides the pure measurement of risk indicators, the concentrations of funding sources are also monitored. For this purpose, the percentage share of the ten largest counterparties and/or positions in relation to the total portfolio are determined.

A limit is set for each indicator in order to restrict the dependencies upon individual positions or counterparties.

Currency mismatches in the Liquidity Coverage Ratio

Pursuant to Article 415 (2) of the CRR, Aareal Bank Group currently has no significant foreign currency exposure in its portfolio. As at the reporting date 30 September 2021, the largest foreign currency portfolio in GBP amounts to 2.14 % of total liabilities. The Bank monitors the portfolio as to the existence of significant foreign currency exposures on a regular basis.

Derivatives positions and potential hedging requests

Pursuant to Article 423 (3) of the CRR, an additional liquidity outflow is to be provided for collateral which is required due to the impact of unfavourable market conditions on derivatives and financing transactions as well as on other contracts. The aim is to consider additional outflows from collateral potentially arising in an unfavourable market environment. Aareal Bank Group determines the additional outflow as per the historical look-back approach (HLBA). The LCR calculation includes the largest absolute collateral net flow within a period of 30 days which occurred in the last 24 months. As at the reporting date 30 September 2021, the annual average of additional liquidity requirements stood at € 139 million.

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