Regulatory Disclosure Report for Q1 2023
of Aareal Bank Group

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Regulatory Disclosure Report for Q1 2023

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 Regulatory Disclosure Report implements the requirements in accordance with part 8 of Regulation (EU) 575/2013 (Capital Requirements Regulation – "CRR"). The existing disclosure requirements are specified by the ECB's Implementing Regulation (EU) 2021/637, published in March 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.

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).

EU KM1: Key metrics

€ mn		a	b	c	d	e
		31 Mar 2023	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
	Available own funds					
1	Common Equity Tier 1 (CET1) capital	2,415	2,468	2,402	2,579	2,240
2	Tier 1 (T1) capital	2,715	2,768	2,702	2,879	2,540
3	Own funds	2,984	3,065	3,027	3,208	2,906
	Risk-weighted exposure amounts					
4	Risk-weighted exposure amounts (Risk-weighted assets, RWAs)	12,941	12,782	13,031	10,094	10,767
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (CET1 ratio)	18.66	19.31	18.43	25.55	20.81
6	Tier 1 ratio (T1 ratio)	20.98	21.66	20.74	28.52	23.59
7	Total capital ratio (TC ratio)	23.06	23.98	23.23	31.78	26.99

€ mn		a 31 Mar 2023	b 31 Dec 2022	c 30 Sep 2022	d 30 Jun 2022	e 31 Mar 2022
	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	3.00	2.75	2.75	2.75	2.75
EU 7b	of which: to be made up of CET1 capital	1.69	1.55	1.55	1.55	1.55
EU 7c	of which: to be made up of Tier 1 capital	2.25	2.07	2.07	2.07	2.07
EU 7d	Total SREP own funds requirements	11.00	10.75	10.75	10.75	10.75
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer	2.50	2.50	2.50	2.50	2.50
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	0.38	0.16	0.01	0.01	0.00
EU 9a	Systemic risk buffer	0.03	–	–	–	–
10	Global Systemically Important Institution buffer	–	–	–	–	–
EU 10a	Other Systemically Important Institution buffer	–	–	–	–	–
11	Combined buffer requirement	2.90	2.66	2.51	2.51	2.50
EU 11a	Overall capital requirements	13.90	13.41	13.27	13.26	13.25
12	CET1 available after meeting the total SREP own funds requirements	12.06	13.23	12.19	19.50	14.76
	Leverage Ratio					
13	Total exposure measure	45,535	46,168	50,172	48,802	48,047
14	Leverage Ratio (%)	5.96	6.00	5.39	5.90	5.29
	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	3.00	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	3.00	3.00	3.00
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (weighted value – average)	8,273	7,662	7,175	6,750	6,775
EU 16a	Cash outflows – total weighted value	4,715	4,474	4,024	3,634	3,287
EU 16b	Cash inflows – total weighted value	725	758	713	672	549
16	Total net cash outflows (adjusted value)	3,991	3,718	3,311	2,961	2,740
17	Liquidity coverage ratio (LCR) (%)	207.31	207.42	220.27	231.23	248.54
	Net Stable Funding Ratio					
18	Total available stable funding	33,568	33,280	35,252	35,166	32,273
19	Total required stable funding	27,438	27,816	30,141	30,901	27,523
20	Net Stable Funding Ratio (NSFR) (%)	122.34	119.64	116.95	113.80	117.26

Development of key metrics

Capital ratios and RWAs

Compared to the previous disclosure date of 31 December 2022, the capital ratios reported to the supervisory authorities (CET1, T1 and TC ratio) decreased by 0.75 percentage points on average. This development was due to a € 159 million increase in RWAs and a simultaneous € 81 million decline in regulatory capital.

The RWAs were determined in accordance with applicable law as at 31 December 2022 (CRR II) and applying the partial regulation for the "output floor" in connection with commercial property lending and equity exposures, based on the European Commission's proposal dated 27 October 2021 for the implementation of Basel IV (CRR III).

The main driver of the RWA increase was the scheduled update of RWAs for operational risk (+ € 141 million).

The decline in regulatory capital was largely due to a € 54 million reduction of CET1 capital. The reduction of CET1 capital was due, in particular, to the increase in the deduction item to account for the expectations defined by regulatory and legislative authorities regarding provisioning for non-performing exposures ("prudential provisioning") in the amount of € 19 million and the mandatory deduction of (gross) additions to loss allowance during the course of the year (€ -67 million). In contrast, the value adjustment deficit, which must be deducted from CET1 capital, decreased by € 29 million.

Leverage Ratio

Compared to 31 December 2022, the leverage ratio decreased only marginally, which was due to a € 633 million decrease in the total exposure measure and a simultaneous € 54 million decline in Tier 1 capital. Key drivers for the decrease in the total exposure measure were the lower aggregate amount of on-balance sheet exposures (excluding derivatives and securities financing transactions) and off-balance sheet exposures (€ -594 million in total).

Liquidity Coverage Ratio

At 207.31 %, the average Liquidity Coverage Ratio (LCR) remained virtually unchanged from 31 December 2022 (207.42 %). Whilst average high-quality liquid assets (HQLA) rose by € 611 million, average net cash outflows (calculated as average cash inflows adjusted by average cash outflows) only increased by € 273 million. Higher deposits with central banks were the main driver for the increase in average HQLA during the first quarter. The increase in average net cash outflows was largely attributable to the maturity of a Pfandbrief issue and of several bearer bonds.

Net Stable Funding Ratio

Compared to the 2022 year-end, the Net Stable Funding Ratio increased by 2.70 percentage points to 122.34 %, reflecting a € 378 million decline in required stable funding (RSF) and an increase in available stable funding (ASF) in the amount of € 288 million.

Factors influencing the increased ASF included an increase in Pfandbriefe issued (by approximately € 1 billion); this was offset by lower deposits from housing industry clients and Treasury, compensated by retail deposits (net decline of € 210 million). The shift of the targeted longer-term refinancing operations (TLTRO) into a shorter maturity band also had an offsetting effect on ASF (€ -500 million).

The RSF parameter declined primarily due to shifts in the cover assets pool as well as a reduction in loans and advances (€ -330 million). Given the maturity shift of the TLTRO, the pledged securities were included with a lower amount (€ -170 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 depend 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, using their respective risk exposure amounts.

As at 31 March 2023, 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 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		31 Mar 2023	31 Dec 2022	31 Mar 2023
1	**Credit risk (excluding CCR)**	**11,146**	**11,120**	**892**
2	of which: Credit Risk Standard Approach (CRSA)	1,214	1,204	97
3	of which: Foundation IRB Approach (FIRB)	–	–	–
4	of which: slotting approach	–	–	–
EU 4a	of which: equity exposures under the simple risk-weighted approach	715	765	57
5	of which: Advanced IRB (AIRB) approach	8,170	8,095	654
6	**CCR**	**348**	**384**	**28**
7	of which: standardised approach	172	188	14
8	of which: internal model method (IMM)	–	–	–
EU 8a	of which: exposures to a CCP	8	2	1
EU 8b	of which: credit valuation adjustment – CVA	164	194	13
9	of which: other CCR	3	0	0
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 commodity risks)**	**165**	**136**	**13**
21	of which: standardised approach	165	136	13
22	of which: IMA	–	–	–

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€ mn		a	b	c
		RWAs		Regulatory capital requirements
		31 Mar 2023	31 Dec 2022	31 Mar 2023
EU 22a	**Large exposures**	**–**	**–**	**–**
23	**Operational risk**	**1,283**	**1,142**	**103**
EU 23a	of which: basic indicator approach	–	–	–
EU 23b	of which: standardised approach	1,283	1,142	103
EU 23c	of which: advanced measurement approach	–	–	–
24	**Amounts below the thresholds for deduction (subject to 250 % risk weight)**	**451**	**441**	**36**
29	**Total**	**12,941**	**12,782**	**1,035**

In accordance with Annex II of the Commission Implementing Regulation, 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 first quarter of 2023, 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 31 December 2022.

The starting and end balances represent the sums of figures disclosed in lines 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

€ mn		a
		RWAs
1	**RWAs as at 31 December 2022**	**8,859**
2	Asset size	-5
3	Asset quality	78
4	Model updates	–
5	Methodology and policy	–
6	Acquisitions and disposals	0
7	Foreign exchange movements	-47
8	Other	–
9	**RWAs as at 31 March 2023**	**8,885**

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.

Line 4 did not show any changes during the quarter under review; 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 acquisition 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 Commission Implementing 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 30 Jun 2022	Quarter ending on 30 Sep 2022	Quarter ending on 31 Dec 2022	Quarter ending on 31 Mar 2023	Quarter ending on 30 Jun 2022	Quarter ending on 30 Sep 2022	Quarter ending on 31 Dec 2022	Quarter ending on 31 Mar 2023
€ mn									
EU 1b	Number of data points used for the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	**Total high-quality liquid assets (HQLA)**					**6,750**	**7,175**	**7,662**	**8,273**
Cash outflows									
2	**Retail deposits and deposits from small business customers, of which:**	**5,798**	**5,889**	**5,959**	**6,037**	**307**	**311**	**314**	**317**
3	Stable deposits	5,431	5,520	5,604	5,700	272	276	280	285
4	Less stable deposits	343	341	332	313	35	35	34	32
5	**Unsecured wholesale funding**	**7,112**	**7,609**	**8,178**	**8,221**	**2,634**	**2,892**	**3,228**	**3,316**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	4,510	4,717	4,813	4,614	1,083	1,134	1,157	1,106
7	Non-operational deposits (all counterparties)	2,440	2,699	3,096	3,325	1,389	1,565	1,802	1,928
8	Unsecured debt	162	193	269	282	162	193	269	282
9	**Secured wholesale funding**					**–**	**–**	**5**	**13**

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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 30 Jun 2022	Quarter ending on 30 Sep 2022	Quarter ending on 31 Dec 2022	Quarter ending on 31 Mar 2023	Quarter ending on 30 Jun 2022	Quarter ending on 30 Sep 2022	Quarter ending on 31 Dec 2022	Quarter ending on 31 Mar 2023
€ mn									
10	**Additional requirements**	**1,199**	**1,323**	**1,520**	**1,737**	**344**	**457**	**604**	**804**
11	Outflows related to derivative exposures and other collateral requirements	247	345	481	633	242	340	455	581
12	Outflows related to loss of funding on debt products	4	15	41	114	4	15	41	114
13	Credit and liquidity facilities	948	963	998	990	98	102	108	108
14	**Other contractual funding obligations**	**119**	**150**	**146**	**142**	**95**	**126**	**121**	**118**
15	**Other contingent funding obligations**	**1,525**	**1,410**	**1,169**	**973**	**254**	**238**	**202**	**148**
16	**Total cash outflows**					**3,634**	**4,024**	**4,474**	**4,715**
Cash inflows									
17	Secured lending (e.g. reverse repos)	99	140	246	179	7	10	32	27
18	Inflows from fully performing exposures	589	663	716	663	429	474	507	492
19	Other cash inflows	236	229	219	205	236	229	219	205
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**	**924**	**1,032**	**1,181**	**1,047**	**672**	**713**	**758**	**725**
EU-20a	Fully exempt inflows	–	–	–	–	–	–	–	–
EU-20b	Inflows subject to 90 % cap	–	–	–	–	–	–	–	–
EU-20c	Inflows subject to 75 % cap	924	1,033	1,180	1,047	672	713	757	725
						Total adjusted value			
EU-21	**Liquidity buffer**					**6,750**	**7,175**	**7,662**	**8,273**
22	**Total net cash outflows**					**2,961**	**3,311**	**3,718**	**3,991**
23	**Liquidity Coverage Ratio (%)**					**231.23 %**	**220.27 %**	**207.42 %**	**207.31 %**

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. More than 80 % of the Treasury portfolio fulfil 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.

The LCR at Group level exceeded 170 % on all reporting dates over the past twelve months, largely due to the high levels of HQLA held.

The average LCR declined by 41.23 percentage points over the past twelve months, to 207.31 %. Average net cash outflows (calculated as average cash inflows adjusted by average cash outflows) increased in the second quarter of 2022. The increase of outflows in the third quarter largely reflected the strong new business development. The fourth quarter was driven by the early termination of a major portion of the TLTRO. Notably, the expiry of reverse repo transactions resulted in higher outflows. A Pfandbrief issue as well as several bearer bonds matured during the first quarter of this year. At the same time, the Bank maintained a higher asset inventory in order to cover the higher liquidity requirements, thus keeping average LCR ratios virtually constant during the first quarter.

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 & Digital Solutions segment, the Bank also generates 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 31 March 2023, the largest foreign currency portfolio in GBP amounts to 2.18 % 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, the annual average of additional liquidity requirements stood at € 515 million.

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