

# Regulatory Disclosure Report for Q3 2022 of Aareal Bank Group

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3	Preface
4	Overview of Regulatory Key Metrics
6	Risk-weighted Assets and Regulatory Capital Requirements
8	RWA Developments for AIRBA Exposures
9	Liquidity Coverage Ratio
11	Imprint

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## 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 last 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 KMI 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

		a	b	c	d	e
		30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021	30 Sep 2021
€ mn						
<b>Available own funds</b>						
1	Common Equity Tier 1 (CET1) capital <sup>1)</sup>	2,402	2,579	2,240	2,322	2,225
2	Tier 1 (T1) capital	2,702	2,879	2,540	2,622	2,525
3	Own funds	3,027	3,208	2,906	3,016	2,945
<b>Risk-weighted exposure amounts</b>						
4	Risk-weighted exposure amounts (Risk-weighted assets, RWAs)	13,031	10,094	10,767	10,446	10,803
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>						
5	Common Equity Tier 1 ratio (CET1 ratio)	18.43	25.55	20.81	22.23	20.59
6	Tier 1 ratio (T1 ratio)	20.74	28.52	23.59	25.10	23.37
7	Total capital ratio (TC ratio)	23.23	31.78	26.99	28.87	27.26
<b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage	2.75	2.75	2.75	2.25	2.25
EU 7b	of which: to be made up of CET1 capital	1.55	1.55	1.55	1.27	1.27
EU 7c	of which: to be made up of Tier 1 capital	2.07	2.07	2.07	1.69	1.69
EU 7d	Total SREP own funds requirements	10.75	10.75	10.75	10.25	10.25
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>						
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	0.01	0.01	0.00	0.01	0.01
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	2.50	2.51	2.51
EU 11a	Overall capital requirements	13.27	13.26	13.25	12.76	12.76
12	CET1 available after meeting the total SREP own funds requirements	12.19	19.50	14.76	16.46	14.83

<sup>1)</sup> The CET1 ratio (Basel IV phase-in ratio) was 19.4% as at 30 September 2022. This is based on an underlying RWA estimate using the revised CRSA (phase-in) output floor, resulting from a "higher of" comparison with the RWA estimate based on the CRR in its current version plus revised AIRBA requirements for commercial property finance in line with the European Commission's draft (dated 27 October 2021) for the European implementation of Basel IV, which will officially enter into force as of 1 January 2025.

		a	b	c	d	e
		30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021	30 Sep 2021
€ mn						
<b>Leverage ratio</b>						
13	Total exposure measure	50,172	48,802	48,047	47,724	45,803
14	Leverage Ratio (%)	5.39	5.90	5.29	5.49	5.51
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>						
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
<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>						
EU 14d	Leverage ratio buffer requirement	-	-	-	-	-
EU 14e	Overall leverage ratio requirement	3.00	3.00	3.00	3.00	3.00
<b>Liquidity Coverage Ratio</b>						
15	Total high-quality liquid assets (HQLA) (weighted value – average)	7,175	6,750	6,775	6,643	6,695
EU 16a	Cash outflows – total weighted value	4,024	3,634	3,287	3,080	3,020
EU 16b	Cash inflows – total weighted value	713	672	549	472	450
16	Total net cash outflows (adjusted value)	3,311	2,961	2,740	2,607	2,570
17	Liquidity coverage ratio (LCR) (%)	220.27	231.23	248.54	255.42	261.15
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	35,252	35,166	32,273	33,011	34,997
19	Total required stable funding	30,141	30,901	27,523	27,064	29,807
20	NSFR (%)	116.95	113.80	117.26	121.98	117.41

## Development of key metrics

### Capital ratios and RWAs

Compared to the previous disclosure date of 30 June 2022, the capital ratios reported to the supervisory authorities (CET1, T1 and TC ratio) decreased by 7.82 percentage points on average. This development was due to a € 2,937 million increase in RWAs and a simultaneous € 181 million decline in regulatory capital.

Besides the increase in new business in the Structured Property Financing segment and the mismatch between disbursements and the inclusion of eligible collateral pursuant to the CRR, main drivers of the RWA increase also included a deterioration in the macro-economic environment, alongside changes in the existing commercial property finance portfolio. Furthermore, adjustments imposed by the ECB from its model audit led to an increase in RWAs.

The decline in regulatory capital was largely due to a € 177 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 € 81 million and the mandatory deduction of (gross) additions to loss allowance during the course of the year (€ -82 million).

### Leverage Ratio

Compared to 30 June 2022, the leverage ratio decreased by 0.51 percentage points, which was due to the € 1,370 million increase in the total exposure measure and a simultaneous € 177 million decline in Tier 1 capital. Key drivers for the increase in the total exposure measure were the higher aggregate amount of on-balance sheet exposures (excluding derivatives and securities financing transactions) and off-balance sheet exposures (+ € 727 million in total) as well as securities financing transactions held on the reporting date (+ € 537 million).

### Liquidity Coverage Ratio

High-quality liquid assets (HQLA) stood at € 7 billion on average in the fourth quarter of 2021. Outflows showed an increasing trend during the first quarter of this year, whereas the volume of assets (which had increased at the beginning of the year) gradually declined again – the latter factor being primarily related to credit balances with central banks. In the second quarter, the level of assets held decreased. Outflows clearly reflect the continued strong new business development, and the slightly declining inflows in the third quarter further reduced the average ratio. This is not offset by the higher asset inventory. Overall, these factors led to a LCR decline in the third quarter of 2022.

### Net Stable Funding Ratio (NSFR)

Compared to 30 June 2022, the Net Stable Funding Ratio increased by 3.15 percentage points to 116.95%, reflecting a € 760 million decline in required stable funding (RSF) and a merely slight increase in available stable funding (ASF) in the amount of € 86 million. The increase in ASF was largely due to changes in the recognition of burdens on securities (approx. € -450 million). In addition, the off-balance sheet risk exposures, especially revocable credit lines, declined (€ -417 million). The rise in the credit portfolio partly offset this (+ € 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 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 2022, 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
	30 Sep 2022	30 Jun 2022	RWAs	RWAs	Regulatory capital requirements
€ mn	30 Sep 2022	30 Jun 2022	30 Sep 2022	30 Jun 2022	30 Sep 2022
<b>1 Credit risk (excluding CCR)</b>	<b>11,314</b>	<b>8,493</b>	<b>905</b>		
2 of which: Credit Risk Standard Approach (CRSA)	1,006	1,110	80		
3 of which: Foundation IRB Approach (FIRB)	–	–	–		
4 of which: slotting approach	–	–	–		
EU 4a of which: Equity exposures under the simple risk-weighted approach	805	816	64		
5 of which: Advanced IRB (AIRB) approach	9,503	6,568	760		
<b>6 CCR</b>	<b>431</b>	<b>362</b>	<b>34</b>		
7 of which: Standardised approach	189	153	15		
8 of which: Internal model method (IMM)	–	–	–		
EU 8a of which: exposures to a CCP	33	25	3		
EU 8b of which: credit valuation adjustment – CVA	204	182	16		
9 of which: other CCR	5	2	0		
<b>15 Settlement risk</b>	<b>–</b>	<b>–</b>	<b>–</b>		
<b>16 Securitisation exposures in the banking book (after the cap)</b>	<b>–</b>	<b>–</b>	<b>–</b>		
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	–	–	–		
<b>20 Market risk (position, foreign exchange and commodity risks)</b>	<b>143</b>	<b>96</b>	<b>11</b>		
21 of which: Standardised approach	143	96	11		
22 of which: IMA	–	–	–		
<b>EU 22a Large exposures</b>	<b>–</b>	<b>–</b>	<b>–</b>		
<b>23 Operational risk</b>	<b>1,142</b>	<b>1,142</b>	<b>91</b>		
EU 23a of which: Basic indicator approach	–	–	–		
EU 23b of which: Standardised approach	1,142	1,142	91		
EU 23c of which: advanced measurement approach	–	–	–		
<b>24 Amounts below the thresholds for deduction (subject to 250% risk weight)</b>	<b>248</b>	<b>355</b>	<b>20</b>		
<b>29 Total</b>	<b>13,031</b>	<b>10,094</b>	<b>1,042</b>		

In accordance with Annex II of the Commission Implementation 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 third quarter of 2022, 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 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
<b>1 RWAs as at 30 June 2022</b>	<b>7,384</b>
2 Asset size	74
3 Asset quality	1,561
4 Model updates	1,215
5 Methodology and policy	–
6 Acquisitions and disposals	1
7 Foreign exchange movements	74
8 Other	–
<b>9 RWAs as at 30 September 2022</b>	<b>10,308</b>

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). 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 shows the change in RWAs resulting from the model adjustments ordered by the ECB.

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.





Scope of consolidation		Total unweighted value (average)				Total weighted value (average)			
		Quarter ending on 31 Dec 2021	Quarter ending on 31 Mar 2022	Quarter ending on 30 Jun 2022	Quarter ending on 30 Sep 2022	Quarter ending on 31 Dec 2021	Quarter ending on 31 Mar 2022	Quarter ending on 30 Jun 2022	Quarter ending on 30 Sep 2022
		a	b	c	d	e	f	g	h
€ mn									
12	Outflows related to loss of funding on debt products	–	3	4	15	–	3	4	15
13	Credit and liquidity facilities	960	986	948	963	97	101	98	102
<b>14</b>	<b>Other contractual funding obligations</b>	<b>136</b>	<b>132</b>	<b>119</b>	<b>150</b>	<b>112</b>	<b>108</b>	<b>95</b>	<b>126</b>
<b>15</b>	<b>Other contingent funding obligations</b>	<b>1,247</b>	<b>1,485</b>	<b>1,525</b>	<b>1,410</b>	<b>134</b>	<b>190</b>	<b>254</b>	<b>238</b>
<b>16</b>	<b>Total cash outflows</b>					<b>3,080</b>	<b>3,287</b>	<b>3,634</b>	<b>4,024</b>
<b>Cash inflows</b>									
17	Secured lending (e.g. reverse repos)	56	106	99	140	3	7	7	10
18	Inflows from fully performing exposures	413	531	589	663	310	370	429	474
19	Other cash inflows	159	172	236	229	159	172	236	229
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)					–	–	–	–
<b>20</b>	<b>Total cash inflows</b>	<b>628</b>	<b>809</b>	<b>924</b>	<b>1,032</b>	<b>472</b>	<b>549</b>	<b>672</b>	<b>713</b>
EU-20a	Fully exempt inflows	–	–	–	–	–	–	–	–
EU-20b	Inflows subject to 90 % cap	–	–	–	–	–	–	–	–
EU-20c	Inflows subject to 75 % cap	628	809	924	1,033	472	548	672	713
						<b>Total adjusted value</b>			
<b>EU-21</b>	<b>Liquidity buffer</b>					<b>6,643</b>	<b>6,775</b>	<b>6,750</b>	<b>7,175</b>
<b>22</b>	<b>Total net cash outflows</b>					<b>2,607</b>	<b>2,740</b>	<b>2,961</b>	<b>3,311</b>
<b>23</b>	<b>Liquidity Coverage Ratio (%)</b>					<b>255.42 %</b>	<b>248.54 %</b>	<b>231.23 %</b>	<b>220.27 %</b>

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.

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.

Regarding the causes of LCR changes over time, reference is made to the explanations in the chapter "Overview of regulatory key metrics".

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## 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 30 September 2022, the largest foreign currency portfolio in USD amounts to 3.25 % 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 € 298 million.

## Imprint

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This report is also available in German language.



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