

Aareal Bank

Issuer View • 7 February 2023

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Aareal Bank AG (Aareal) is the parent company of the Aareal Bank Group and an international supplier of financing, software products as well as digital solutions for the commercial real estate sector and adjacent industries. In November 2021, Atlantic BidCo GmbH (bidding company comprising of, among others, Advent Funds, Centerbridge Funds, CPP Investment Board Europe and Goldman Sachs Funds) submitted a takeover offer for the majority of Aareal Bank shares. Atlantic BidCo (future majority owner) had already announced on May 30, 2022 that it had obtained 74.62% of Aareal Bank's shares and, following the expiry of the further acceptance period provided for by law, had secured 83.8% of Aareal Bank's shares. Subject to regulatory approval, the acquisition is expected to be completed in spring 2023. Aareal comprises the business segments of Structured Property Financing (SPF), Banking & Digital Solutions and Aareon. The segment SPF deals with financing commercial real estate. Banking & Digital Solutions offers customers a joint package of consultancy services focused on digitisation and corporate banking. Aareon, the third operating segment, offers ERP software solutions and digital solutions for the European real estate sector. Under the Green Finance Framework, Aareal issued two green senior bonds (EUR 500m each) and a further EUR 500m in green commercial paper by the end of September 2022. The green finance portfolio stood at EUR 6.4bn at the end of Q3/2022. The loan portfolio is expected to grow by a further EUR 2.0bn in green finance by 2024.

Ratings

		Outlook
Fitch	BBB+	Negative
Moody's	A3	Negative
S&P	-	-

Homepage

www.aareal-bank.com

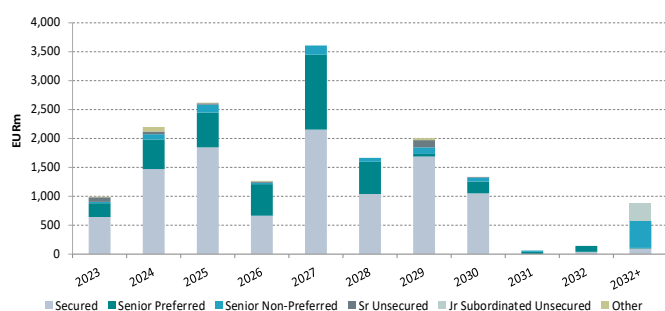
Balance Sheet

(EURm)	2020Y	2021Y	2022T3
Net Loans to Customers	27,552	29,546	30,681
Total Securities	11,950	10,852	12,659
Total Deposits	10,592	11,717	12,814
Tier 1 Common Capital	2,286	2,327	2,548
Total Assets	45,478	48,728	53,268
Total Risk-weighted Assets	12,138	12,817	13,136

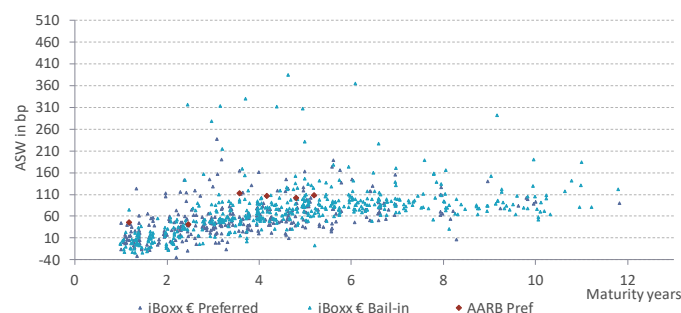
Income Statement

(EURm)	2020Y	2021Y	2022T3
Net Interest Income	512	597	514
Net Fee & Commission Inc.	234	245	199
Net Trading Income	2	-12	40
Operating Expense	469	528	411
Credit Commit. Impairment	344	133	170
Pre-tax Profit	-75	155	157

Redemption Profile



Senior Unsecured Bonds (EUR BMK)



Company Ratios

	2020Y	2021Y	2022T3		2020Y	2021Y	2022T3
Net Interest Margin	1.21	1.31	1.41	Liquidity Coverage Ratio	263.50	254.81	216.70
ROAE	-2.41	2.25	4.21	IFRS Tier 1 Leverage Ratio	5.27	5.01	-
Cost-to-Income	63.55	63.85	54.80	NPL/ Loans at Amortised Cost	6.15	5.41	4.87
Core Tier 1 Ratio	18.83	18.16	19.40	Reserves/Loans at Amort. Cost	2.13	1.65	2.04

As of: 07.02.2023; Source: Bloomberg, S&P Global Market Intelligence, NORD/LB Markets Strategy & Floor Research

Strengths / Opportunities

- Capitalisation
- Liquidity
- Potential of software development income stream

Risks / Weaknesses

- Diversified income sources
- Risk concentration: CRE
- Above-average NPL ratio

Covered Bonds

Author: Melanie Kiene

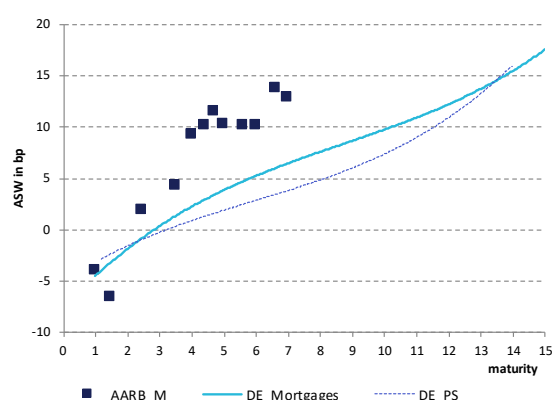
Mortgage-backed as well as public-sector cover pool

Aareal Bank maintains both a program for issuing Mortgage Pfandbriefe and one for issuing Public Sector Pfandbriefe. As at the end of December 2022, the mortgage-backed program had outstanding covered bonds with a volume of around EUR 13.3bn. The volume of public sector backed bonds amounted to EUR 1.2bn, with none of the issues in the benchmark volume. The overcollateralization ratios were 13.8% (Mortgage Pfandbrief issuance program) and 12.0% (Public Sector Pfandbrief program). Aareal Bank has a total of twelve outstanding Mortgage Pfandbriefe in the EUR benchmark format (residual maturity >1 year), with a total volume of EUR 7.13bn.

Programme data

31 December 2022	Mortgage	Public Sector
Covered bonds outstanding	EUR 13,337m	EUR 1,204m
Cover pool volume	EUR 15,173m	EUR 1,349m
Current OC (nominal / legal)	13.8% / 2.0%	12.0% / 2.0%
Type	94% Commercial	61% Regional authorities*
Country	27% USA	76.6% Germany*
Number of borrowers	2,725*	96*
10 largest exposures	10.6%*	76,9%*
ØLTV (unindexed / indexed)	55.5% / 32%	- / -
Fixed interest (Cover Pool / CBs)	50.5% / 74.1%	93.1% / 97.9%
WAL (Cover Pool / CBs)	4.7y / 3.1y*	8.1y* / 4.5y*
CB Rating (Fitch / Moody's / S&P)	- / Aaa / -	- / - / -

Spread overview (BMK; maturity >1y) – Germany



Source: Issuer, rating agencies, Bloomberg, NORD/LB Markets Strategy & Floor Research; *HTT as of 30.09.2022

Mortgage pool with commercial character

The mortgage cover pool consists of 96.7% original cover assets. Commercial cover assets account for 93.5% of the total cover pool volume. The main types of use of commercial cover assets are office buildings (34.4%) and retail buildings (22.6%), with the second-largest share of 26.8% already accounted for by the "other buildings" category. A look at the geographical concentration of the assets shows that 26.9% of the cover assets are attributable to the USA. Other notable shares are attributable to the United Kingdom (15.0%), Germany (11.4%) and France (10.8%). The cover assets for Public Sector Pfandbriefe are made up of 100% primary cover. Of these, 60.8% are claims on regional authorities, followed by local authorities (17.5%) and claims on sovereigns (14.8%). German debtors account for 76.6% of the cover pool, followed by Austria (20.4%) and Spain (1.5%). Neither the mortgage-backed nor the public-sector collateral pool are attributable to overdue receivables (payment arrears >90 days; HTT as of 30.09.2022).

Rating and regulatory treatment

While Aareal Bank's Mortgage Pfandbrief program is rated Aaa by Moody's, no rating is available for the Public Pfandbrief issuance program. In our opinion, the mortgage-backed bonds in benchmark format meet the requirements for Level 1 assets within the scope of LCR management (see also our [LCR study](#)) and, at the same time, have a preferred risk weighting pursuant to CRR of 10%. The issues are also generally suitable as collateral in the context of the ECB Collateral Framework and are eligible for purchase under CBPP3 and PEPP. The German Pfandbrief Act provides for the possibility of a maturity extension. Pfandbriefe of the Issuer placed as of 08 July 2022 onwards may bear the label "European Covered Bond (Premium)".

Appendix

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