

Aareal Bank

Issuer View • 02 January 2024

Authors: Dr Frederik Kunze // Lukas Kühne

Ratings

Aareal Bank AG

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

Homepage

www.aareal-bank.com

Headquartered in Wiesbaden, Aareal Bank AG (Aareal) is the parent company of the Aareal Bank Group and an international supplier of financing, software products and digital solutions for the commercial real estate sector and adjacent industries. Since May 2023, 90% of all Aareal shares have been held by Atlantic BidCo GmbH. In September 2023, Aareal announced that it had entered into a delisting agreement with its main shareholder Atlantic BidCo GmbH. Aareal's business activities are conducted in the business segments Structured Property Financing (SPF), Banking & Digital Solutions (BDS) and Aareon. The SPF segment deals with financing commercial real estate and group refinancing activities. BDS offers customers a joint package of consultancy services focused on digitalisation, corporate banking and the deposit business. Aareon, the third operating segment, offers software solutions and digital solutions for the European real estate sector. In geographical terms, the commercial real estate financing portfolio operated by Aareal is focused on the regions of Western Europe (Q3 2023: 36%) and North America (31%). Additional shares of the portfolio are attributable to Southern Europe (9%), Germany (8%), CEE (7%) and Northern Europe (5%), among other regions. In terms of asset type, hotels account for 37% and offices for 28%. The funding mix (Q3 2023) comprised 45% customer deposits, 31% mortgage Pfandbriefe and 12% senior unsecured bonds (preferred). Aareal regularly issues green bonds (CP, Senior) and was last active on the market in July 2022 with a green bond (Senior Preferred) with a volume of EUR 500m.

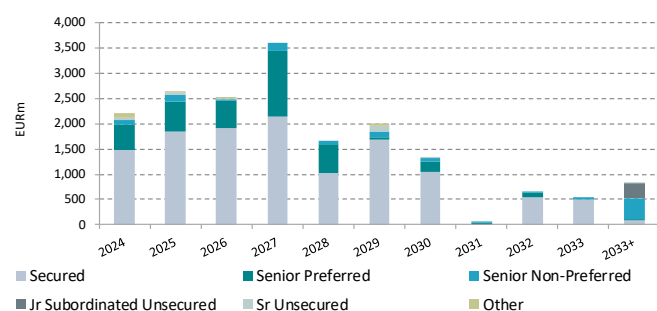
Balance Sheet

(EURm)	2021Y	2022Y	2023Q3
Net Loans to Customers	29,546	29,889	31,746
Total Securities	10,852	10,497	10,501
Total Deposits	11,717	13,115	12,871
Tier 1 Common Capital	2,327	2,468	2,628
Total Assets	48,728	47,331	49,442
Total Risk-weighted Assets	12,817	12,782	13,547

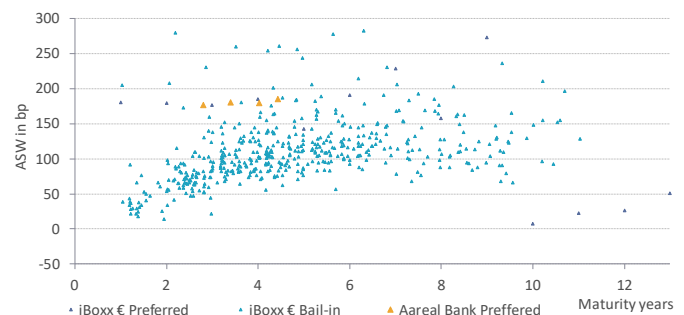
Income Statement

(EURm)	2021Y	2022Y	2023Q3
Net Interest Income	597	702	248
Net Fee & Commission Inc.	245	277	76
Net Trading Income	-12	25	-13
Operating Expense	528	559	144
Credit Commit. Impairment	133	192	102
Pre-tax Profit	155	239	68

Redemption Profile



Senior Unsecured Bonds (EUR BMK)



Company Ratios

	2021Y	2022Y	2023Q3	2021Y	2022Y	2023Q3	
Net Interest Margin	1.31	1.44	2.08	Liquidity Coverage Ratio	-	-	206.00
ROAE	2.25	4.79	5.55	IFRS Tier 1 Leverage Ratio	5.01	5.71	-
Cost-to-Income	63.85	55.79	45.86	NPL/ Loans at Amortised Cost	5.43	3.79	4.29
Core Tier 1 Ratio	18.16	19.31	19.40	Reserves/Loans at Amort. Cost	1.65	1.62	1.17

As of 02.01.2024; Source: Bloomberg, S&P Global Market Intelligence, NORD/LB Floor Research

Strengths / Opportunities

- Capitalisation
- Liquidity
- Resilient deposit base

Risks / Weaknesses

- Concentration of CRE segment
- Profitability
- Asset Quality

Covered Bonds

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Mortgage and publicly collateralised cover pool

Aareal Bank maintains both a program for issuing Mortgage Pfandbriefe and one for issuing Public Sector Pfandbriefe. As at the end of September 2023, the mortgage-backed program had outstanding covered bonds with a volume of around EUR 14.0bn. The volume of Public Sector Pfandbriefe amounted to EUR 1.2bn, with none of the issues in the benchmark volume. The overcollateralization ratios were 12.7% (Mortgage Pfandbrief issuance program) and 12.1% (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

30 September 2023	Mortgage	Public Sector
Covered bonds outstanding	EUR 13,974m	EUR 1,083m
Cover pool volume	EUR 15,750m	EUR 1,214m
Current OC (nominal / legal)	12.7% / 2.0%	12.1% / 2.0%
Type	92% Commercial	56% Regional auth.
Country	24.2% USA	74.1% Germany
Number of borrowers	2,749	84
10 largest exposures	10.6%	78,8%
ØLTV (unindexed / based on market value)	55.3% / 32.7%	- / -
Fixed interest (Cover Pool / CBs)	49.8% / 75.5%	94.7% / 97.7%
WAL (Cover Pool / CBs)	2.7y / 3.6y	8.8y / 4.3y
CB Rating (Fitch / Moody's / S&P)	- / Aaa / -	- / - / -

Source: Issuer, rating agencies, Bloomberg, NORD/LB Floor Research

Spread overview (BMK) – Germany



Mortgage pool with commercial character

The mortgage cover pool consists of 95.3% original cover assets. Commercial cover assets account for 92.0% of the total cover pool volume. The main types of use of commercial cover assets are office buildings (32.1%) and retail buildings (20.4%), with the second-largest share of 29.9% already accounted for the “other buildings” category. A look at the geographical concentration of the assets shows that 24.2% of the cover assets are attributable to the USA. Other notable shares are attributable to the United Kingdom (15.2%) and France (10.8%). The cover assets for Public Sector Pfandbriefe are made up of 100% primary cover. Of these, 56.0% are claims on regional authorities, followed by claims on sovereigns (20.6%) and claims on local authorities (19.4%). German debtors account for 74.1% of the cover pool, followed by Austria (22.7%) and Spain (1.7%). Neither the mortgage-backed nor the public-sector collateral pool are attributable to overdue receivables (payment arrears >90 days; HTT as of 30.09.2023).

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 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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