

Aareal Bank AG

Type of Engagement: Annual Review

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Engagement Team:

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Introduction

In 2022 and 2023, Aareal Bank AG (“Aareal Bank” or the “Bank”) issued two green senior preferred benchmark bonds (the “green bonds”) and green commercial papers (the “CPs”) respectively to finance and refinance existing green buildings.¹ In August 2024, Aareal Bank engaged Sustainalytics to review the projects (the “Nominated Projects”) financed with proceeds from the Green Funding Instruments (CPs and green bonds) and provide an assessment as to whether they meet the use of proceeds criteria and whether the Bank complied with the reporting commitments in the Aareal Green Finance Framework – Liabilities (the “Framework”) dated October 2023.² Sustainalytics provided a Second-Party Opinion on the Framework in July 2021, followed by an update in October, 2023.³ This is Sustainalytics’ second annual review followed by a previous review provided in June 2023.⁴

Evaluation Criteria

Sustainalytics evaluated the Nominated Projects and Aareal Bank’s reporting based on whether they:

1. Meet the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated Key Performance Indicators⁵

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
Green Buildings	<ol style="list-style-type: none"> 1. Classification as EU Taxonomy compliant <ul style="list-style-type: none"> • Buildings meet the EU Taxonomy criteria set out in the EU Commission Delegated Regulation (EU) 2021/2139, Chapter 7.7 “Acquisition and ownership of existing buildings”. 2. Green building certification (type/level) <ul style="list-style-type: none"> • Existence of a reputable (i.e. World Green Building Council) green building certificate with an above-average rating, according to the following provider rating categories: <ul style="list-style-type: none"> • BREEAM: Outstanding, Excellent and Very Good • LEED: Platinum and Gold 	<ul style="list-style-type: none"> • Certification standard (type of certification scheme, certification level and m² Gross Building Area / Gross Floor Area) • Annual emissions avoided (in kgCO₂e/ m² of Gross Building Area / Gross Floor Area p.a.)

¹ In 2022, Aareal Bank raised EUR 0.5 billion each through the he green senior preferred benchmark bonds and EUR 1.3 billion in total through green commercial papers. All of which was allocated as of December 2022. Subsequently, in 2023, the Bank raised EUR 1.3 billion through green commercial papers, which combined with the green senior preferred benchmark bonds amounted to EUR 2.3 billion in funds to be allocated for 2023..

² Aareal Bank, “Aareal Green Finance Framework – Liabilities”, (2023), at: https://www.aareal-bank.com/fileadmin/05_Verantwortung/03_Other_PDF-files/Green_Finance/Aareal_Green_Finance_Framework_Liabilities_2023.pdf

³ Sustainalytics, “Second-Party Opinion, Aareal Bank Green Finance Framework”, (2023), at: [https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/aareal-green-finance-framework-\(liabilities\)-second-party-opinion_oct-2023.pdf?sfvrsn=ed6a8ab1_1](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/aareal-green-finance-framework-(liabilities)-second-party-opinion_oct-2023.pdf?sfvrsn=ed6a8ab1_1)

⁴ Sustainalytics, “Aareal Bank AG Annual Review”, at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/aareal-bank-ag-annual-review-2023.pdf?sfvrsn=7bf78cb5_1

⁵ The Framework defines two categories of green use of proceeds – Green Buildings and Energy Efficiency Upgrade. The Bank has allocated proceeds to Green Buildings only as at 31.12.2023.

	<ul style="list-style-type: none"> • DGNB: Platinum and Gold • HQE: Exceptional and Excellent • Green Star: 6 Stars and 5 Stars • NABERS: 6 Stars, 5 Stars and 4,5 Stars • Energy Star: "80" or above <p>3. Energy efficiency of the property</p> <ul style="list-style-type: none"> • The property meets the national requirements for a nearly zero-energy building (NZEB)⁶ valid at the time the financing commitment is made. <ul style="list-style-type: none"> ○ To reach this standard, the buildings must e.g. be well insulated. In addition, they must use renewable energy sources to cover the remaining energy demand. <p>and/or</p> <ul style="list-style-type: none"> • The property falls below the following maximum energy reference values: Reference values for total final energy consumption (heating and electricity) for each type of commercial property, which are derived from national requirements/green building requirements and our many years of evaluation practice: <ul style="list-style-type: none"> • Residential < 75 kWh/(m² x a) • Office < 140 kWh/(m² x a) • Retail < 140 kWh/(m² x a) • Hotel < 140 kWh/(m² x a) • Logistics < 65 kWh/(m² x a) 	
<p>Energy Efficiency Upgrade</p>	<p>1. Classification as EU Taxonomy compliant</p> <ul style="list-style-type: none"> • To qualify, energy-efficient modernisation/renovation measures need to meet the EU Taxonomy criteria according to the EU Commission Delegated Regulation, (EU) 2021/2139 Chapter 7.2 "Renovation of existing buildings". <p>2. Completion of the modernisation or renovation measure that bring the property up to the green building standard defined above (under the column "Green Buildings").</p> <p>3. Completion of the modernisation or renovation measure that result in an energy efficiency improvement of at least 30% or reduces energy consumption of a building below the maximum thresholds defined above (under the column "Green Buildings").</p>	<ul style="list-style-type: none"> • Annual emissions avoided (in kgCO₂e/ m² of Gross Building Area / Gross Floor Area p.a.)

⁶ European Commission, Energy, "Nearly zero-energy buildings", at: https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficientbuildings/nearly-zero-energy-buildings_en

Issuer's Responsibility

Aareal Bank is responsible for providing accurate information and documentation relating to the details of the projects, including descriptions, amounts allocated and impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the use of proceeds from Aareal Bank's Green Funding Instruments. The work undertaken as part of this engagement included collection of documentation from Aareal Bank and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by Aareal Bank. Sustainalytics is not responsible, nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by Aareal Bank.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight of the review.

Conclusion

Based on the limited assurance procedures conducted,⁷ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the Nominated Projects do not conform with the use of proceeds criteria and reporting commitments in the Framework. Aareal Bank has disclosed to Sustainalytics that of the total proceeds of EUR 2.3 billion raised through the Green Funding Instruments in 2023, EUR 1.4 billion had been allocated and the remaining EUR 0.9 billion had matured as of 31st December 2023. Sustainalytics notes that the matured amount of EUR 0.9 billion had been fully allocated prior to maturity.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of projects to determine alignment with the use of proceeds criteria outlined in the Framework.	The Nominated Projects comply with the use of proceeds criteria.	None
Reporting Criteria	Verification of projects or assets to determine if impact was reported in line with the KPIs outlined in the Framework.	Aareal Bank reported on at least one KPI per use of proceeds category ⁸ .	None

⁷ Sustainalytics' limited assurance process includes reviewing documentation relating to details of projects, as provided by the issuing entity, which is responsible for providing accurate information. These may include descriptions of projects, estimated and realized costs, and reported impact. Sustainalytics has not conducted on-site visits to projects.

⁸ Sustainalytics notes that the Bank's reported KPIs and impact indicators have changed from the previous Annual Review dated June 2023. Further, Sustainalytics notes that it is market practice to report on at least one KPI per use of proceeds category and that the reported KPIs may differ from the KPI included within the framework.

Appendix

As of 31st December 2023, the total amount allocated to Nominated Projects was EUR 2.3 billion. Aareal Bank communicated to Sustainalytics that the proceeds were used exclusively to refinance mortgages for green buildings.

Table 3: Allocation of proceeds from the Green Finance Instruments

Use of Proceeds Category		Proceeds Allocation (EUR)	
Green Buildings	Total amount of allocated Green Funding Instruments as at 31 st December 2023	1,368,000,000	
	Total amount of matured Green Funding Instruments in 2023 ⁹	900,000,000	
	The size of the eligible asset pool as at 31 st December 2023	Residential	49,046,709
		Office	2,963,973,632
		Retail	1,785,374,266
		Logistics	538,668,382
Hotel	443,998,653		
Total	5,781,061,642		

Table 4: Reported Impact from the Green Finance Instruments by Asset Type

Use of Proceeds Category	Reported Impact				
	Asset Type	Annual final energy savings ¹⁰ [MWh/ year] – Aareal Bank's share	Annual final energy savings ¹¹ per EUR million invested [MWh/ EUR million year]	Annual CO ₂ emissions avoidance ¹² [tCO ₂ / year] – Aareal Bank's share	Annual CO ₂ emissions avoidance ¹³ per EUR million invested [tCO ₂ / EUR million year]
Green Buildings	Residential	9,228	188.1	2,140	43.6
	Office	33,075	11.2	6,210	2.1
	Retail	28,386	15.9	5,814	3.3
	Logistics	79,301	147.2	10,005	18.6
	Hotel	16,446	37.0	4,444	10.0
	Total	166,436	28.8	28,612	4.9

⁹ Sustainalytics notes that the matured amount of EUR 0.9 billion had been fully allocated prior to maturity.

¹⁰ Final energy savings calculated using the difference between the energy consumption of the building and the national building stock benchmarks adjusted with the financing share.

¹¹ Final energy savings adjusted with the financing share divided by signed amount.

¹² Greenhouse gas emissions avoidance determined by multiplying the final energy savings with the carbon emissions intensity adjusted with the financing share.

¹³ Greenhouse gas emissions avoidance adjusted with the financing share divided by signed amount.

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