

Second-Party Opinion

Aareal Green Finance Framework – Liabilities



Evaluation Summary

Sustainalytics is of the opinion that the Aareal Green Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Green Properties and Energy Efficiency Upgrade – are aligned with those recognized by the Green Bond Principles. Sustainalytics considers that investments in the eligible category are expected to reduce the environmental footprint of buildings in Europe, North America and Asia Pacific and advance the UN Sustainable Development Goals, specifically SDGs 7 and 11.



PROJECT EVALUATION AND SELECTION Aareal Bank's credit management function and Credit Management team are responsible for assessing and documenting the eligibility of assets. The ESG-Expert-Group and the Green Finance Committee, comprising experts in credit, valuation, portfolio management, treasury, legal and sustainability provide guidance on the sustainability criteria for financing and manage the green asset pool respectively. Aareal Bank has in place an environmental and social risk assessment as a part of its evaluation and due diligence processes that are applicable to all financing decisions. Sustainalytics considers the risk management systems and the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS The Green Finance Committee will manage the net proceeds on a portfolio basis. Proceeds will be deposited in a general account and earmarked in internal IT systems for allocation to eligible assets. Aareal Bank intends to achieve full allocation within 24 months of the respective issuance date. Pending full allocation, net proceeds will be held in cash, cash equivalents or other liquid marketable instruments. Sustainalytics considers this process to be in line with market practice.



REPORTING Aareal Bank intends to report annually on the allocation and impact of proceeds on its website, on an annual basis until full allocation. Allocation reporting will include the total amount of outstanding Green Financing Instruments, the share of proceeds used for financing and refinancing purposes, the size of the eligible asset pool, a split by eligible asset categories, any shortfall or amount of assets unallocated, amount of covered bonds (Pfandbriefe) outstanding and the size of the respective part within the eligible asset pool (if any), and illustrative examples describing green eligible assets to which Green Financing Instruments' net proceeds have been allocated, subject to confidentiality commitments to clients. Sustainalytics views Aareal Bank's allocation and impact reporting commitments as aligned with market practice.

Evaluation date October 19, 2023

Issuer Location Wiesbaden, Germany

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Introduction

Aareal Bank Group (“Aareal Bank” or the “Bank”) is a property bank specialized in structured property financing, banking and digital solutions. Headquartered in Wiesbaden, Germany, the Bank has approximately 3,300 employees and total assets amounting to EUR 47,331 million (USD 51,978 million) as of December 2022.¹

Aareal Bank has developed the Aareal Green Finance Framework – Liabilities (the “Framework”) under which it intends to issue mortgage pfandbriefe, bonds, promissory notes (schuldenscheindarlehen) and commercial papers (the “Green Financing Instruments”) to finance, in whole or in part, existing and future properties that contribute toward enhancing the sustainability and energy efficiency of the existing building stock in Europe, North America and Asia Pacific. The Framework defines eligibility criteria in two green categories:

1. Green Properties
2. Energy Efficiency Upgrade

Aareal Bank engaged Sustainalytics to review the Aareal Green Finance Framework – Liabilities, dated October 2023, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP).² The Framework will be published in a separate document.³ The Framework updates and replaces the 2021 Green Finance Framework – Liabilities, for which Sustainalytics provided a second-party opinion in August 2021.⁴

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁵ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.14, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Aareal Bank’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. Aareal Bank representatives have confirmed that: (1) they understand it is the sole responsibility of Aareal Bank to ensure that the information provided is complete, accurate or up to date; (2) they have provided Sustainalytics with all relevant information; and (3) any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Aareal Bank.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market

¹ Aareal Bank Group, “Annual Report 2022”, (2022), at: https://www.aareal-bank.com/fileadmin/downloadlist/DAM_Content/IR/Finanzberichte/2022/20221231_gb_en.pdf

² The Green Bond Principles are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-100621.pdf>

³ The Aareal Green Finance Framework is available on Aareal Bank’s website at: <https://www.aareal-bank.com/en/responsibility/managing-sustainability/sustainable-finance>

⁴ Sustainalytics’ 2021 Second-Party Opinion is available at: https://www.aareal-bank.com/fileadmin/05_Verantwortung/03_Other_PDF-files/Aareal_Green_Finance_Framework_Liabilities_second_party_opinion.pdf

⁵ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date set stated herein, Aareal Bank is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Aareal Bank has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Aareal Green Finance Framework - Liabilities

Sustainalytics is of the opinion that the Aareal Green Finance Framework is credible and impactful, and aligns with the four core components of the GBP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
 - The eligible categories – Green Properties and Energy Efficiency Upgrade – are aligned with those recognized by the GBP. Sustainalytics notes that the green bonds issued under the Framework are expected to reduce the environmental footprint of buildings in Europe, North America and the Asia-Pacific region and contribute to climate change mitigation in these regions.
 - Sustainalytics notes that Aareal Bank will limit refinancing under the Framework to capital expenditures and therefore, has not established a look-back period. This is in line with market practice.
 - Under the Green Properties category, Aareal Bank may finance or refinance the acquisition and renovation of existing buildings in Europe,⁶ North America⁷ and the Asia-Pacific Region⁸ that fulfil one of the following criteria:
 - Compliance with the Technical Screening Criteria in the Technical Expert Group's proposed EU Taxonomy⁹ for the acquisition and ownership of existing buildings.
 - Buildings that have achieved one of the following third-party green building certification levels: BREEAM (Very Good or above),¹⁰ LEED (Gold or above),¹¹ DGNB (Gold or above),¹² HQE (Excellent or above),¹³ Green Star (5 stars or above),¹⁴ NABERS (4.5 stars or above)¹⁵ and Energy Star (80 and above).¹⁶ Sustainalytics considers BREEAM Excellent to be aligned with market practice and encourages the Bank to select BREEAM-certified buildings that score high enough in the Energy category (which Sustainalytics regards as the most important one) to fulfill the requirements for BREEAM Excellent in that category. Additionally, Sustainalytics encourages Aareal

⁶ Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom.

⁷ Canada and US.

⁸ Australia, China, Japan, Maldives, Singapore.

⁹ European Commission, "Taxonomy Report: Technical Annex", (2020), at: https://finance.ec.europa.eu/system/files/2020-03/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf

¹⁰ BREEAM, at: <https://www.breeam.com/>

¹¹ LEED, at: <https://www.usgbc.org/leed>

¹² DGNB, at: <https://www.dgnb.de/en/>

¹³ HQE, at: <https://www.hqegbc.org/home/>

¹⁴ Green Star, at: <https://new.gbca.org.au/>

¹⁵ NABERS, at: <https://www.nabers.gov.au/about/what-nabers>

¹⁶ Energy Star, at: https://www.energystar.gov/buildings/building_recognition/building_certification

- Bank to select buildings that achieve Energy Star score of 85 and above in its allocation decisions.
- Energy efficient buildings that meet the following criteria: i) the property uses less than the following maximum energy reference values for total final energy consumption (heating and electricity): Residential – 75 kWh/m²; Office/Retail/Hotel – 140 kWh/m²; and Logistics – 65 kWh/m²; or ii) the property meets the national requirements¹⁷ for a nearly zero-energy building (NZEB).¹⁸ Sustainalytics considers the use of energy consumption thresholds to finance buildings relevant within the local context in a country or jurisdiction. Sustainalytics notes that the Bank's choice to use globally applicable thresholds represents a deviation from what Sustainalytics considers good practice. Nevertheless, Sustainalytics notes that the selected thresholds represent an improvement compared to average global buildings energy performance and further encourages Aareal Bank to target assets in the top 15% most energy efficient in the local context or target an additional 10% on top of the NZEB requirement for improvements to buildings.
 - Under the Energy Efficiency Upgrade category, Aareal Bank may finance or refinance energy efficiency upgrades of existing buildings, which result in:
 - Compliance with the Technical Screening Criteria for Substantial Contribution to an Environmental Objective of the EU Taxonomy¹⁹ for renovation of existing buildings;²⁰
 - The building achieving or expecting to achieve one of the above-mentioned green building certification levels;
 - The building achieving an energy efficiency improvement of at least 30% compared to the baseline performance of the building;
 - Sustainalytics considers Aareal Bank's financing of energy efficiency upgrades under this category as aligned with market practice.
 - Project Evaluation and Selection:
 - Aareal Bank's credit management function is responsible for assessing and documenting the eligibility of assets under the Framework. The Credit Management (CM) team subsequently conducts the final check to ensure the fulfilment of all requirements prior to drawdown of the financing and provides approval for financing.
 - Additionally, the Bank's ESG-Expert-Group (EEG) provides guidance on the sustainability criteria for financing and reviews the Framework on a regular basis to determine potential amendments. The Green Finance Committee (GFC) is responsible for managing the green asset pool and can request a review of the Framework and the sustainability criteria conducted by the EEG. The EEG and the GFC comprise experts in credit, valuation, portfolio management, treasury, legal and sustainability.
 - The Bank conducts an environmental and social risk assessment as part of its evaluation and due diligence processes that are applicable to all financing decisions. Eligible assets are subjected to the Bank's standard lending process, which involves an analysis of ESG risks and requirements. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. For more details on Aareal Bank's environmental and social risk mitigation processes, please refer to Section 2.
 - Based on the cross functional oversight for project evaluation and selection and the presence of risk management systems, Sustainalytics considers this process to be in line with market practice.
 - Management of Proceeds:
 - The GFC is responsible for the management of proceeds on a portfolio basis. Proceeds from the Green Financing Instruments will be deposited in a general account and earmarked in internal IT systems for allocation to eligible assets. The GFC will be responsible for ensuring that

¹⁷ The buildings must be well insulated and use renewable energy sources to cover the remaining energy demand.

¹⁸ European Commission, Energy, "Nearly zero-energy buildings", at: https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/nearly-zero-energy-buildings_en

¹⁹ European Commission, "Taxonomy Report: Technical Annex", (2020), at: https://finance.ec.europa.eu/system/files/2020-03/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf

²⁰ Sustainalytics notes that the EU Taxonomy requires meeting the relevant cost-optimal minimum energy performance requirements in accordance with the EPBD, which varies among EU Member States. Sustainalytics therefore encourages Aareal Bank to report on the actual improvement on primary energy demand performance or energy savings achieved in comparison with the existing building stock in the area or region.

- the total net proceeds of all Green Financing Instruments outstanding will not exceed the eligible asset pool.
- The Bank intends to achieve full allocation within 24 months of the respective issuance date. Pending full allocation, net proceeds will be held in cash, cash equivalents or other liquid marketable instruments.
- Based on the use of an internal tracking system and disclosure of temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Aareal Bank commits to reporting on the allocation and impact of the Green Financing Instruments on its website, on an annual basis until full allocation. Allocation reporting will include the total amount of outstanding Green Financing Instruments, the share of proceeds used for financing and refinancing purposes, the size of the eligible asset pool, a split by eligible asset categories, any shortfall or amount of assets unallocated, amount of covered bonds (Pfandbriefe) outstanding and the size of the respective part within the eligible asset pool (if any) and illustrative examples describing green eligible assets to which Green Financing Instruments' net proceeds have been allocated, subject to confidentiality commitments to clients.
 - Regarding impact reporting, the Bank may report on relevant indicators including certification standard (type of certification scheme, certification level and m² gross building area/gross floor area) and annual emissions avoided (in kgCO_{2e}/m² of gross building area/gross floor area p.a.), on a best-effort basis and subject to feasibility and data availability.
 - Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment with Green Bond Principles 2021

Sustainalytics has determined that the Aareal Green Finance Framework aligns with the four core components of the GBP.

Section 2: Sustainability Strategy of Aareal Bank

Contribution of the framework to Aareal Bank's sustainability strategy

Aareal Bank's commitment to sustainability is underpinned by its sustainability mission statement which details guiding principles for the Bank to conduct business in a responsible and sustainable manner. This includes accounting for social and ecological issues in the Bank's activities, aligning its sustainability performance with evaluated risks and opportunities, and regularly engaging with relevant stakeholders with the aim of integrating the insights into business decisions.²¹

Aareal Bank is committed to implementing environmental matters into its business operations through the following initiatives: i) storing data on energy efficiency, green building certificates and energy-efficient renovation projects, and implementing these into its lending decisions; ii) offering green lending to help clients finance sustainable commercial real estate; iii) creating transparency for its property finance portfolio by using a standardized reporting method for carbon footprint; and iv) developing digital solutions focused on improving its clients' environmental footprint and contributing to their climate protection.²²

In 2022, Aareal Bank's materiality analysis, based on Global Reporting Initiative Standards and principles from the UN Global Compact, identified ESG offerings, including green lending as material contributors towards the Bank's continued growth.²³ Regarding sustainable finance activities, Aareal Bank issued approximately EUR 1 billion in new green loans in 2022 with the total green loan volume reaching EUR 2.2 billion as of the end of the year. Aareal Bank also has verified ESG information such as energy performance certificates for 48% of its global credit finance portfolio, 21% of which was composed of green properties.²⁴ In addition, since 2012, Aareal Bank annually releases the Climate Disclosure Program questionnaire to provide transparency on the targets set for its operational emissions, portfolio transparency and green financing.²⁵ For example, the Bank achieved its target of achieving full transparency on climate-related issues of its global commercial

²¹ Aareal Bank, "Our sustainability mission statement", at: <https://www.aareal-bank.com/en/responsibility/managing-sustainability/our-sustainability-mission-statement>

²² Aareal Bank, "Separate Combined Non-financial Report 2022", (2023), at: https://www.aareal-bank.com/fileadmin/05_Verantwortung/03_Other_PDF-files/Nichtfinanzieller_Bericht_2022_en.pdf

²³ Ibid.

²⁴ Ibid.

²⁵ CDP, "Aareal Bank AG", at: <https://www.cdp.net/en/responses/97/Aareal-Bank-AG>

real estate finance portfolio by 2022 from a 2015 baseline.^{26, 27} In 2021, the Bank committed to reporting the carbon footprint for its property finance portfolio in line with the Partnership for Carbon Accounting Financials standard by 2024.²⁸

Sustainalytics is of the opinion that the Aareal Green Finance Framework is aligned with the Bank's overall sustainability strategy and initiatives and will further the Bank's action on its key environmental priorities.

Well positioned to address common environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes, such as those related to occupational health and safety, biodiversity loss, waste and effluents generated from large-scale infrastructure development and community relations. Sustainalytics acknowledges that Aareal Bank has limited involvement in the development of the projects which it finances, such as existing buildings that have already been completed. Nevertheless, by offering lending and financial services, the Bank could be exposed to environmental and social risks associated with its lending decisions, such as predatory lending.

Sustainalytics is of the opinion that Aareal Bank is able to manage or mitigate potential risks through implementation of the following:

- The Bank's internal loan approval process for its property financing portfolio involves: i) screening for risks, including environmental and social risks such as climate, energy and water; and ii) carrying out mitigation checks to minimize environmental and social risks associated with its lending decisions. Aareal Bank also requires borrowers to provide climate-related information for each property as part of its lending process, which enables the Bank to assess the ecological quality and development of its financing.²⁹
- To address risks associated with biodiversity loss, waste and effluents generated from large-scale infrastructure development, Aareal Bank's lending policy includes various sustainability aspects as criteria that are taken into account during property valuations performed to support financing decisions.³⁰ The sustainability criteria include: i) life-cycle quality, demonstrated through third-party usability and appropriate expenditure on value preservation matters; ii) sociocultural quality, expressed through quality of architecture, town planning and potential tenants; and iii) ecological quality, demonstrated by environmental liability, contamination audits and energy efficiency, among others.
- Aareal Bank complies with the recommendations of Germany's Corporate Governance Code,³¹ which sets out guidelines and standards for good and responsible corporate governance. Aareal Bank has also been a signatory to the UN Global Compact since 2012,³² indicating the Bank's commitment to its 10 principles on upholding human rights, eliminating unfair labour practices, preventing environmental degradation and corruption.³³
- The Bank engages only with institutional and professional clients, therefore limiting its exposure to risk associated with predatory lending. Moreover, Aareal Bank is subject to external supervision by the European Central Bank, the German banking supervision initiative carried out by the Deutsche Bundesbank,³⁴ the German Federal Financial Supervisory Authority and external auditors.
- In addition to the above, Sustainalytics notes that most of Aareal Bank's financing under the Framework will take place in Designated Countries under the Equator Principles³⁵, indicating the presence of robust environmental and social governance, legislation and institutional capacity to

²⁶ Aareal Bank, "Aareal Bank AG CDP Climate Change Questionnaire 2021", at: https://www.aareal-bank.com/fileadmin/04_Investoren/09_Sustainability_reports/2020/Aareal_Bank_CDP_Climate_Change_Questionnaire_2021.pdf

²⁷ Aareal Bank has communicated to Sustainalytics that the Bank has achieved this target.

²⁸ Aareal Bank, "Separate Combined Non-financial Report 2022", (2023), at: https://www.aareal-bank.com/fileadmin/05_Verantwortung/03_Other_PDF-files/Nichtfinanzieller_Bericht_2022_en.pdf

²⁹ Aareal Bank, "Separate Combined Non-financial Report 2021", at: https://www.aareal-bank.com/fileadmin/05_Verantwortung/03_Other_PDF-files/Nichtfinanzieller_Bericht_2021_en.pdf

³⁰ Aareal Bank, "Lending Business", at: <https://www.aareal-bank.com/en/responsibility/implementing-solutions/lending-business>

³¹ Deutscher Corporate Governance Kodex, "Code", at: <https://dcgk.de/en/code.html>

³² Aareal Bank, "Separate Combined Non-financial Report 2021", at: https://www.aareal-bank.com/fileadmin/05_Verantwortung/03_Other_PDF-files/Nichtfinanzieller_Bericht_2021_en.pdf

³³ United Nations Global Compact, "The Ten Principles of the UN Global Compact", at: <https://www.unglobalcompact.org/what-is-gc/mission/principles#:~:text=%20The%20Ten%20Principles%20of%20the%20UN%20Global,diffusion%20of%20environmentally%20friendly%20technologies.%20%20More%20>

³⁴ The central bank of the Federal Republic of Germany.

³⁵ As of December 2022, financing in the APAC region constitutes 5% of the Bank's commercial real estate financing portfolio. The Bank has communicated to Sustainalytics that this representation is not expected to alter significantly as a result of financing under the Framework.

mitigate the environmental and social risks associated with projects intended to be financed under the Framework.³⁶

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Aareal Bank has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

Both use of proceeds categories are aligned with those recognized by the GBP. Sustainalytics focused below on where the impact is specifically relevant in the local context.

Contribution of green buildings and energy efficiency to climate change mitigation in Europe

In 2021, the operations of buildings was responsible for 30% of global final energy consumption and 27% of total energy sector GHG emissions.³⁷ Building operations, such as heating, cooling and lighting accounted for 28% of global carbon emissions.³⁸ In order to reach a net zero carbon building stock by 2050, carbon emissions from buildings globally would need to fall by 50% by 2030.³⁹ A similar trend is observed in the European Union, where the buildings sector is the largest energy consumer, responsible for 40% of the EU's total energy consumption and 36% of GHG emissions, stemming mainly from construction, use, renovation and demolition.⁴⁰ Recognizing the importance of buildings as a key sector for decarbonization, the EU's Climate Target Plan 2030 proposes that buildings' GHG emissions would need to be reduced by 60%, final energy consumption by 14% and energy consumption for heating and cooling by 18% by 2030. These targets feed into the overall EU target of reducing emissions by at least 55% by 2030 and the longer-term goal to be climate neutral by 2050.⁴¹

Almost 75% of the building stock in the EU is energy inefficient while only 0.4-1.2% of the total building stock is renovated annually.⁴² According to the European Commission, the renovation and retrofit of existing buildings can reduce the EU's total energy consumption by 5-6% and lower GHG emissions by about 5%.⁴³ To promote efforts in improving the energy efficiency of buildings, the EU has established several guidelines, including the Energy Performance of Buildings Directive (EPBD), which requires EU countries to develop long-term renovation strategies to facilitate the cost-effective decarbonization of existing buildings, with the overall objective of achieving a zero emissions building stock by 2050.⁴⁴ At the end of 2021, the European Commission proposed to align the EPBD with the European Green Deal by moving from near-zero emissions buildings to zero-emission buildings by 2030.⁴⁵ This proposal also facilitates the implementation of the Renovation Wave strategy, which aims to double the annual energy renovation rate of residential and non-residential buildings by 2030. As part of this strategy, the EU plans to renovate approximately 35 million building units by 2030.⁴⁶

In this context, Sustainalytics is of the opinion that Aareal Bank's provision of Green Financing Instruments to acquire, renovate and construct green buildings and associated energy efficiency upgrades are expected to contribute to the decarbonization of the EU building stock while supporting the EU in meeting its long-term climate-related goals.

³⁶ China, Maldives and Singapore are not Designated Countries.

Equator Principles, "Designated & Non-Designated Countries", (2022), at: <https://equator-principles.com/about-the-equator-principles/#:~:text=Designated%20Countries%20are%20those%20countries,country%27s%20performance%20in%20these%20areas.>

³⁷ The International Energy Agency, "Buildings", (2022), at: <https://www.iea.org/reports/buildings>

³⁸ World Green Building Council, "New report: the building and construction sector can reach net zero carbon emissions by 2050", at: <https://worldgbc.org/article/new-report-the-building-and-construction-sector-can-reach-net-zero-carbon-emissions-by-2050/>

³⁹ UNEP, "Building Sector Emission hit record high, but low-carbon recovery can help transform sector-UN report", at: <https://www.unep.org/news-and-stories/press-release/building-sector-emissions-hit-record-high-low-carbon-pandemic>

⁴⁰ European Commission, "Energy efficiency in buildings", (2020), at: https://ec.europa.eu/info/news/focus-energy-efficiency-buildings-2020-lut-17_en

⁴¹ European Commission, "A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives", (2020), at: https://eur-lex.europa.eu/resource.html?uri=cellar:0638aa1d-0f02-11eb-bc07-01aa75ed71a1.0003.02/DOC_1&format=PDF

⁴² European Parliament, "Report on maximising energy efficiency potential of the EU building stock", (2020), at: https://www.europarl.europa.eu/doceo/document/A-9-2020-0134_EN.pdf

⁴³ European Commission, "Document on the energy performance of buildings in the European Union", at: https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings_en

⁴⁴ European Commission, "Energy performance of buildings directive", at: https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en

⁴⁵ European Commission, "Nearly zero-energy buildings", at: https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/nearly-zero-energy-buildings_en

⁴⁶ European Commission, "A Renovation Wave for Europe", (2020), at: https://ec.europa.eu/energy/sites/ener/files/eu_renovation_wave_strategy.pdf

Alignment with/contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The Green Financing Instruments provided under the Aareal Green Finance Framework are expected to advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Green Properties	11. Sustainable Cities and Communities	11.3 Ensure inclusive and sustainable urbanization, planning and management.
Energy Efficiency Upgrades	7. Affordable and Clean Energy	7.3 By 2030 double the global rate of improvement in energy efficiency.

Conclusion

Aareal Bank has developed the Aareal Green Finance Framework – Liabilities under which it intends to issue mortgage pfandbriefe, bonds, promissory notes (schuldscheindarlehen) and commercial papers (the “Green Financing Instruments”), and use the proceeds to finance and refinance green buildings and energy efficiency projects. Sustainalytics considers that the projects funded by the proceeds are expected to reduce the environmental footprint of buildings in Europe, North America and the Asia-Pacific region and contribute to climate change mitigation in these regions.

The Aareal Green Finance Framework – Liabilities outlines a process for tracking, allocating and managing proceeds, and makes commitments to report on their allocation and impact. Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the Bank and that the green use of proceeds categories are expected to contribute to the advancement of the UN Sustainable Development Goals 7 and 11. Additionally, Sustainalytics is of the opinion that Aareal Bank has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that Aareal Bank is well positioned to offer green mortgage pfandbriefe, bonds, promissory notes (schuldscheindarlehen) and commercial papers and that the Framework is robust, transparent and in alignment with the four core components of Green Bond Principles 2021.

Appendix 1: Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Aareal Bank
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Aareal Bank Green Finance Framework – Liabilities
Review provider's name:	Sustainalytics
Completion date of this form:	October 19, 2023
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
 - Use of Proceeds
 - Process for Project Evaluation and Selection
 - Management of Proceeds
 - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- Second Party Opinion
- Certification
- Verification
- Scoring/Rating
- Other (please specify):

Does the review include a sustainability quality score?

- Of the issuer
- Of the project
- Of the Framework
- Other (please specify):
- No scoring

ASSESSMENT OF THE PROJECT(S)

Does the review include:

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

CLIMATE TRANSITION STRATEGY

Does the review assess:

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

Overall comment on this section:

Section 3. Detailed review

1. USE OF PROCEEDS

Does the review assess:

- the environmental/social benefits of the project(s)?
- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

Does the review assess if the issuer provides clear information on:

- the estimated proceeds allocation per project category (in case of multiple projects)?
- the estimated share of financing vs. re-financing (and the related lookback period)?

Overall comment on this section: The eligible categories for the use of proceeds – Green Properties and Energy Efficiency Upgrade – are aligned with those recognized by the Green Bond Principles. Sustainability

considers that investments in the eligible category are expected to reduce the environmental footprint of buildings in Europe, North America and Asia Pacific and advance the UN Sustainable Development Goals, specifically SDGs 7 and 11.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Does the review assess:

- whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones. *Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.*
- whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Overall comment on this section: Aareal Bank's credit management function and Credit Management team is responsible for assessing and documenting the eligibility of assets under the Framework. The ESG-Expert-Group and Green Finance Committee, comprising experts in credit, valuation, portfolio management, treasury, legal and sustainability provides guidance on the sustainability criteria for financing and manages the green asset pool respectively. Aareal Bank has in place an environmental and social risk assessment as a part of its evaluation and due diligence processes that are applicable to all financing decisions. Eligible assets are subjected to Aareal Bank's standard lending process that involves an analysis of ESG risks and requirements. This is in line with market practice.

3. MANAGEMENT OF PROCEEDS

Does the review assess:

- the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- the intended types of temporary investment instruments for unallocated proceeds?
- Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Overall comment on this section: The Green Finance Committee will manage the net proceeds on a portfolio basis. Proceeds will be deposited in a general account and earmarked in internal IT systems for allocation to eligible assets. Aareal Bank intends to achieve full allocation within 24 months of the respective issuance date. Pending full allocation, net proceeds will be held in cash, cash equivalents or other liquid marketable instruments. Sustainalytics considers this process to be in line with market practice.

4. REPORTING

Does the review assess:

- the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- the frequency and the means of disclosure?
- the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

Overall comment on this section: Aareal Bank intends to report annually on the allocation and impact of proceeds on its website, on an annual basis until full allocation. Allocation reporting will include the total amount of outstanding Green Financing Instruments, the share of proceeds used for financing and refinancing purposes, the size of the eligible asset pool, a split by eligible asset categories, any shortfall or amount of assets unallocated, amount of covered bonds (Pfandbriefe) outstanding and the size of respective part within

the eligible asset pool (if any) and illustrative examples describing green eligible assets to which Green Financing Instruments' net proceeds have been allocated, subject to confidentiality commitments to clients. In addition, Aareal Bank commits to reporting on relevant impact indicators. Sustainalytics views Aareal Bank's allocation and impact reporting as aligned with market practice.

Section 4. Additional Information

Useful links (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:

The bond issued under the Digital Realty Green Finance Framework – DC 2023-DC CMBS advances the following SDG and target: SDG 7 and 7.3.

Additional assessment in relation to the issuer/bond framework/eligible project(s):

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-datedness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

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