

Rating Action: Moody's assigns (P)A3 senior unsecured ratings to Aareal Bank's debt issuance program

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Frankfurt am Main, July 08, 2022 -- Moody's Investors Service (Moody's) has today assigned long-term senior unsecured ratings of (P)A3 to Aareal Bank AG's (Aareal) €20 billion multi-currency debt issuance program. The ratings reflect Moody's view that the terms and conditions of the final documents will not differ materially from the draft documents it has already reviewed.

All other ratings of Aareal were unaffected by today's rating action.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

-- ASSIGNMENT OF (P)A3 SENIOR UNSECURED PROGRAM RATINGS

The assigned (P)A3 senior unsecured ratings reflect Aareal's baa3 Baseline Credit Assessment (BCA) and Adjusted BCA, and the application of Moody's Advanced Loss Given Failure (LGF) analysis to its liabilities, which indicates an extremely low loss given failure and results in three notches of rating uplift.

Aareal's ratings do not benefit from government support uplift because of its small size in the context of the German banking sector.

Aareal's baa3 BCA reflects the resilience in the bank's fundamental credit profile, despite the more challenging economic outlook amid geopolitical tensions and considering the bank's results during the pandemic. Being an internationally active commercial real estate (CRE) lending specialist Aareal is exposed to severe concentration risks in highly cyclical CRE lending; absent meaningful earnings diversification Moody's considers Aareal to operate a monoline business model.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Aareal's senior unsecured program ratings could result from an upgrade of its BCA, though unlikely at the current stage as reflected in the negative issuer outlook.

An upgrade of the bank's BCA would require a more diversified business model, such that it provides a sustainable and visible buffer relative to the existing strong concentration risks in CRE lending.

A downgrade of Aareal's senior unsecured program ratings could be prompted by a downgrade of its BCA or if its loss-absorbing liabilities decline significantly and beyond the rating agency's expectations, thereby resulting in fewer notches of rating uplift from Moody's Advanced LGF analysis.

Downward pressure on Aareal's BCA could develop in case the bank fails to sustainably restore its profitability to levels more in line with the performance observed ahead of the pandemic, or if a deterioration in its asset quality negatively affects its current good capitalisation levels. Further, a stronger recourse to market funding, or an overall lower level of liquid reserves, both in relation to its balance sheet, could exert downward rating pressure.

LIST OF AFFECTED RATINGS

Issuer: Aareal Bank AG

..Assignments:

...Senior Unsecured Medium-Term Note Program (Local and Foreign Currency), assigned (P)A3

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997> . Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions> .

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235 .

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