



## Rating\_Action: Moody's assigns (P)Baa2 junior senior unsecured MTN ratings to Aareal Bank's debt issuance program

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Frankfurt am Main, March 20, 2023 -- Moody's Investors Service (Moody's) has today assigned long-term junior senior unsecured MTN ratings of (P)Baa2 to Aareal Bank AG's (Aareal) €20 billion multi-currency debt issuance program.

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

### RATINGS RATIONALE

#### -- ASSIGNMENT OF JUNIOR SENIOR UNSECURED PROGRAM RATINGS

The assigned (P)Baa2 junior senior unsecured program 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 incorporates the relative loss severity of a liability class. Aareal's junior senior unsecured rating class benefits from risk protection related to outstanding volumes of lower ranking capital instruments, including Additional Tier 1 and Tier 2, which in combination with the outstanding volume of junior senior unsecured debt results in a low loss given failure and one notch of rating uplift.

Moody's assumes only a low likelihood of government support for this rating class that is designed to absorb losses in bank resolution, which does not result in any further rating uplift.

Aareal's baa3 BCA reflects the resilience of the bank's fundamental credit profile, despite the challenging economic outlook amid geopolitical tensions. Being an internationally active commercial real estate (CRE) specialist, Aareal is exposed to severe concentration risks in highly cyclical 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 junior senior unsecured program ratings could result from an upgrade of its BCA, though unlikely at the current stage as reflected in the negative outlook. Upward pressure on these ratings could also result following a sizable increase in either its respective issuance volume or in that of the lower-ranking liabilities within Aareal's liability structure.

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 junior 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.

## 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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