

30 Apr 2020 | Affirmation

Fitch Removes Aareal's Short-Term Senior Preferred and Deposit Ratings from RWN, Corrects Error

Fitch Ratings-Frankfurt am Main-30 April 2020:

Fitch Ratings has affirmed Aareal Bank AG's (Aareal) short-term senior preferred (SP) debt rating and short-term deposit rating at 'F2' and removed them from Rating Watch Negative (RWN). The bank's other ratings are unaffected by this rating action.

Fitch had placed Aareal's short-term SP debt and deposit ratings on RWN on 27 March 2020 ('Fitch Takes Actions on 6 German Banking Groups on Coronavirus Uncertainties') after downgrading it by one notch to 'F2'. At the same time, Fitch downgraded the bank's Long-Term Issuer Default Rating (IDR) by one notch to 'BBB+' and the long-term SP debt and deposit ratings to 'A-'. Both long-term ratings were also placed on RWN.

The short-term SP debt and deposit ratings were incorrectly placed on RWN because a one-notch downgrade of the long-term senior preferred debt and deposit ratings to 'BBB+' is not expected to result in negative rating action on the short-term SP and deposit ratings. Aareal's 'F2' short-term IDR is not on RWN and the bank's 'bbb+' funding and liquidity score has a stable trend, despite the RWN on the bank's Long-term IDRs.

Key Rating Drivers

Aareal's short-term SP debt and deposit ratings of 'F2' are the baseline option mapping to Aareal's long-term SP debt and deposit ratings of 'A-'. This is because Aareal's funding and liquidity score of 'bbb+' is not sufficient to achieve a higher short-term rating.

RATING SENSITIVITIES

The short-term deposit rating and short-term SP debt rating are primarily sensitive to changes in the bank's long-term deposit rating and long-term SP debt rating respectively as well as the bank's funding and liquidity score. In turn, the long-term deposit rating and long-term SP debt ratings are primarily sensitive to changes in Aareal's IDRs. They are also sensitive to changes in the buffer of junior and senior non-preferred (SNP) debt if we expect the bank to meet required resolution buffers by including SP liabilities, unless the bank's buffer of junior and SNP debt is sustainably

above 10% of its RWAs.

Factors that could individually or collectively lead to negative rating action/ downgrade:

- The ST debt and deposit ratings would be downgraded if Aareal's long-term deposit rating and the long-term SP debt ratings are downgraded to 'BBB' and if the funding and liquidity score falls to 'bbb' or lower, no longer warranting an 'F2'. We consider this unlikely at the moment as Fitch has not identified the bank's 'bbb+' funding and liquidity score as being under notable pressure.

Factors that could individually or collectively lead to positive rating action/ upgrade:

- The ratings would be upgraded if Aareal's long-term deposit rating and long-term SP debt rating were upgraded or if the bank's funding and liquidity score improved to 'a'.

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Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Aareal Bank AG

---short-term deposits; Short Term Rating; Affirmed; F2; RW: Off

---Senior preferred; Short Term Rating; Affirmed; F2; RW: Off

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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