CREDIT OPINION

18 June 2025

Update

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RATINGS

Aareal Bank AG

Domicile	Wiesbaden, Germany
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Aareal Bank AG

Update to credit analysis

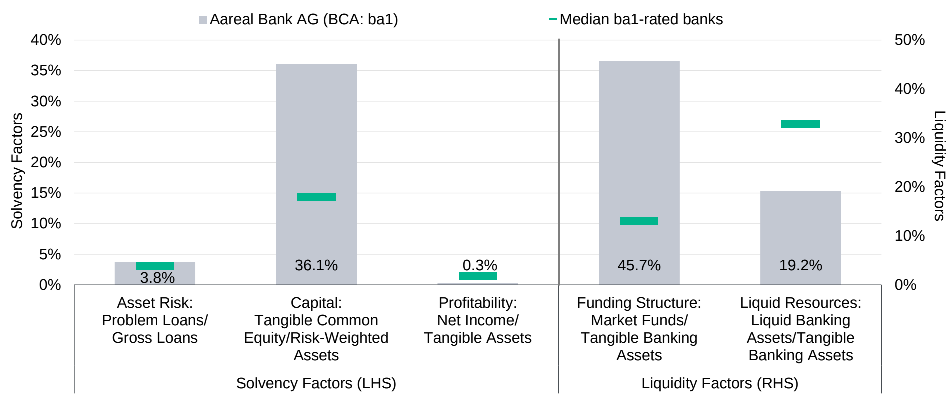
Summary

Aareal Bank AG's (Aareal) Baa1 deposits and senior unsecured debt ratings reflect the bank's ba1 Baseline Credit Assessment (BCA) and Adjusted BCA, and three notches of rating uplift from our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class. 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 ba1 BCA reflects its resilient financial profile in light of a focused business model as a commercial real estate (CRE) lender which exposes it to considerable concentration risk. The bank's BCA takes into account its stable combined solvency and liquidity profiles, despite persistent challenges for CRE lending from higher interest rates, which continues to challenge the bank's asset quality. Aareal's strong capitalization and improved profitability largely mitigate its concentration risks in highly cyclical CRE lending and limited business diversification.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Company reports, Moody's Ratings

Credit strengths

» Strong and improved risk-weighted capital with ample loss-absorption capacity

» Sound and stable liquidity

» Large and sticky deposits from the professional housing and commercial property industry which we expect to persist following the sale of Aareon and continue to mitigate Aareal's wholesale funding dependence

Credit challenges

» Aareal's credit profile is constrained by concentration risk to CRE exposure and limited earnings diversification from non-lending activities

» Ongoing asset quality challenges, balanced by Aareal's proactive measures to reduce problematic loans

» Moderate but improved profitability reflecting the balance of solid operating performance and elevated and volatile credit costs

Outlook

» The stable outlook on the long-term deposit, issuer and senior unsecured ratings reflects our expectation of Aareal's stable financial profile, balancing asset quality challenges for CRE exposures and solid operating performance and the benefit of increased risk protection due to higher capital.

» The stable outlook further incorporates our expectation of a broadly unchanged liability structure over the 12-18 months outlook horizon.

Factors that could lead to an upgrade

» Aareal's ratings could be upgraded in case of an upgrade of its BCA and Adjusted BCA. In addition, the bank's junior senior unsecured program rating may be upgraded following a significant increase in the volume of lower-ranking bail-in-able liabilities, relative to its tangible banking assets.

» Aareal's BCA could be upgraded if the bank maintains its materially higher capitalization, while not experiencing an unexpected deterioration of asset quality and evidencing funding stability.

Factors that could lead to a downgrade

» Aareal's ratings could be downgraded if its BCA is downgraded or if its loss-absorbing liabilities decline significantly and beyond our expectations, thereby resulting in fewer notches of rating uplift from our Advanced LGF analysis.

» Aareal's BCA could be downgraded if the bank fails to protect its resilient financial profile, for example because of higher than expected asset quality deterioration, or unexpected funding challenges, including deposit outflows.

Key indicators

Exhibit 2

Aareal Bank AG (Consolidated Financials) [1]

	12-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	46.7	44.1	43.9	46.7	44.4	1.3[4]
Total Assets (USD Billion)	48.4	48.7	46.9	52.9	54.3	(2.8)[4]
Tangible Common Equity (EUR Billion)	5.1	2.2	2.3	2.3	2.4	21.0[4]
Tangible Common Equity (USD Billion)	5.3	2.5	2.5	2.6	2.9	16.0[4]
Problem Loans / Gross Loans (%)	3.4	4.6	3.3	5.1	5.7	4.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	36.1	16.3	18.4	18.0	19.8	21.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.1	55.1	34.7	53.8	51.8	43.1[5]
Net Interest Margin (%)	2.4	2.2	1.5	1.3	1.2	1.7[5]
PPI / Average RWA (%)	5.0	4.8	3.3	2.3	2.2	3.5[6]
Net Income / Tangible Assets (%)	0.5	0.1	0.3	0.1	-0.2	0.2[5]
Cost / Income Ratio (%)	39.3	38.7	59.8	66.9	68.1	54.5[5]
Market Funds / Tangible Banking Assets (%)	45.7	47.1	47.6	53.0	52.5	49.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	19.2	19.2	25.1	25.8	21.4	22.1[5]
Gross Loans / Due to Customers (%)	267.0	254.3	228.3	251.2	257.5	251.7[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

Aareal Bank AG is one of Germany's (Aaa stable) largest CRE lending specialist, domiciled in Wiesbaden, with assets of €48 billion at the end of 2024. Aareal caters to international corporate real estate clients, with no retail lending activities, but the offering of retail deposits via online platforms. Aareal also offers consultancy and transaction banking to professional clients in the housing and commercial property industries.

Following a voluntary public takeover, started in November 2021 and the subsequent squeeze-out of minority shareholders, Aareal was taken private and delisted in November 2023. Today, Aareal is wholly-owned by Atlantic BidCo GmbH, which is indirectly held by private equity funds of Advent International and Centerbridge Partners, with individual stakes of around 39% each, as well as CPP Investments (<20% stake) and Goldman Sachs funds (<5%).

Weighted Macro Profile of Strong

Aareal's Strong Macro Profile reflects of its global lending activities which include exposures to countries with a Strong+ Macro Profile, like the United States of America (Aa1 stable, around 23% of the total as of year-end 2024), United Kingdom (Aa3 stable, 19%), France (Aa3 stable, 11%), and Germany (Aaa stable, 8%). Because of the bank's exposures to jurisdictions with lower macro profiles, including Spain (Baa1 positive), Poland (A2 stable), and Italy (Baa3 positive), Aareal's overall macro profile is one notch below that of Germany.

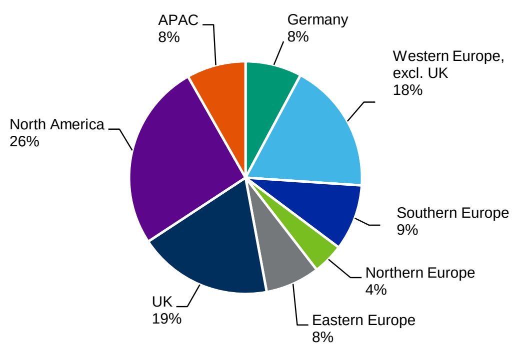
Detailed credit considerations

Ongoing asset quality challenges are balanced by proactive measures to reduce problematic loans

Aareal's ba2 Asset Risk score is four notches below its baa1 initial score. Our sizeable negative adjustment reflects the bank's cyclical CRE lending with single-name and single-location concentrations. The bank's US office exposure remains most at risk, for example because of declining tenant demand, while retail shopping centers and hotels are also challenged by rising prices and operating costs. Our assessment, however, also takes into account Aareal's proactive measures to improve its asset quality, which helps to reduce non-performing loans.

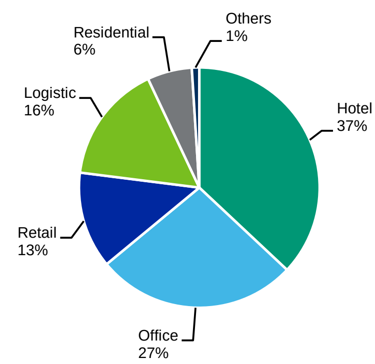
The sharp increase in interest rates since 2022 created challenges for CRE property markets globally, leading to declining values and makes refinancing more difficult. However, we expect that recent central bank rate cuts will stimulate a real estate investment recovery, with more transactions and recovering valuations. More stable funding costs will also improve the CRE sponsors' ability to refinance, although Aareal does not provide lending to real estate companies or development/project financing, which are financially most affected in the current environment.

Exhibit 3
Aareal's CRE exposure by region
Data as of December 2024



Source: Company reports, Moody's Ratings

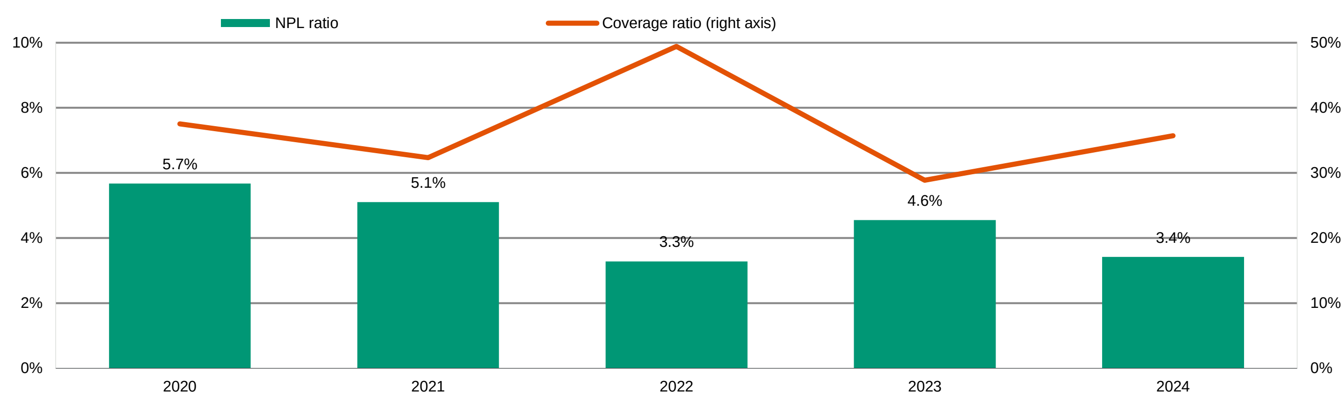
Exhibit 4
Aareal's CRE exposure by segment
Data as of December 2024



Source: Company reports, Moody's Ratings

During the pandemic and energy crisis, Aareal's non-performing loan (NPL) ratio improved to 3.3% in 2022, compared with 5.7% in 2020, reflecting broadly stable problem loans and rising gross loans. However, the ratio deteriorated to 4.6% in 2023, driven by mounting stress in the US. In 2024, the ratio improved to 3.4%, with around 81% of its problematic exposures concentrated in the US, compared with 67% in 2023.

Exhibit 5
Aareal's asset quality improved in 2024 and non-performing loans mainly relate to US lending
Data in percent



Source: Company reports, Moody's Ratings

During 2024, Aareal's CRE exposures outside the US office market showed broadly stable performance, supported by an average loan-to-value ratio of 54% and solid yield-on-debt of 9.6%[1] on income-producing properties, demonstrating CRE sponsor's ability to manage rising financing costs.

Strong and improved risk-weighted capital with ample loss absorption capacity

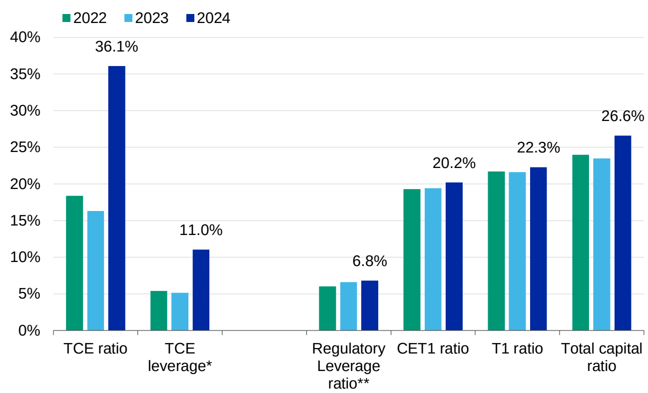
We assign a Capital score of a2 to Aareal, which is three notches below the aa2 initial score. Our negative adjustment reflects the expected decline in the bank's capital ratios because of the revisions to the Basel framework, which will lead to rising risk-weighted assets (RWA) for Aareal over time.[2]

Our assessment is balanced by the large increase of Aareal's equity, mainly as a result of last year's sale of Aareon, its software subsidiary. This triggered an increase of our Tangible Common Equity (TCE) ratio to 36.1% at the end of 2024, up from 16.3% in 2023. Considering the payout of an extraordinary dividend of €1.94 billion in March 2025, Aareal's pro forma year-end 2024 TCE ratio was 22.4%.

Exhibit 6

Aareal reports high capital ratios ...

Data in percent of risk-weighted assets, except leverage ratios*

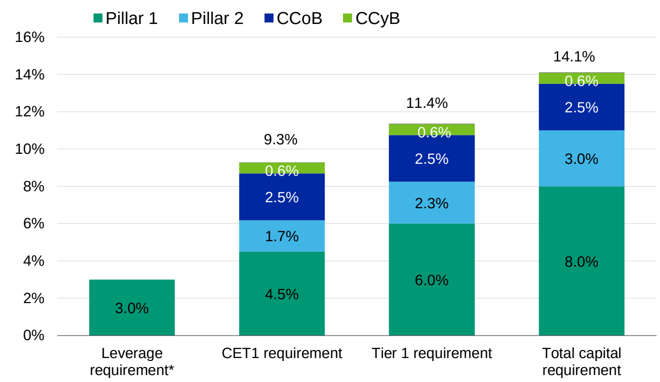


Note: TCE = Tangible Common Equity (excludes high-trigger AT1); CET1 = Common Equity Tier 1 capital; T1 ratio = Tier 1 Ratio. * Compares TCE to tangible banking assets. **Compares Tier 1 capital to exposure at default.
Source: Company reports, Moody's Ratings

Exhibit 7

... which exceed regulatory requirements by large margins

Year-end 2024 data in percent of risk-weighted assets, except leverage ratio*



Note: P2R = Pillar 2 Requirement; CCoB = Capital conservation buffer; CCyB = Countercyclical Buffer; *Compares Tier 1 capital to exposure at default.
Source: Company reports, Moody's Ratings

Solid and improved operating performance, balanced by elevated and volatile credit costs

We assign a ba2 Profitability score to Aareal, one notch above the initial score of ba3. The positive adjustment reflects our expectation that Aareal's earnings will recover from the subdued levels in 2022-23, which is still reflected in the initial score.

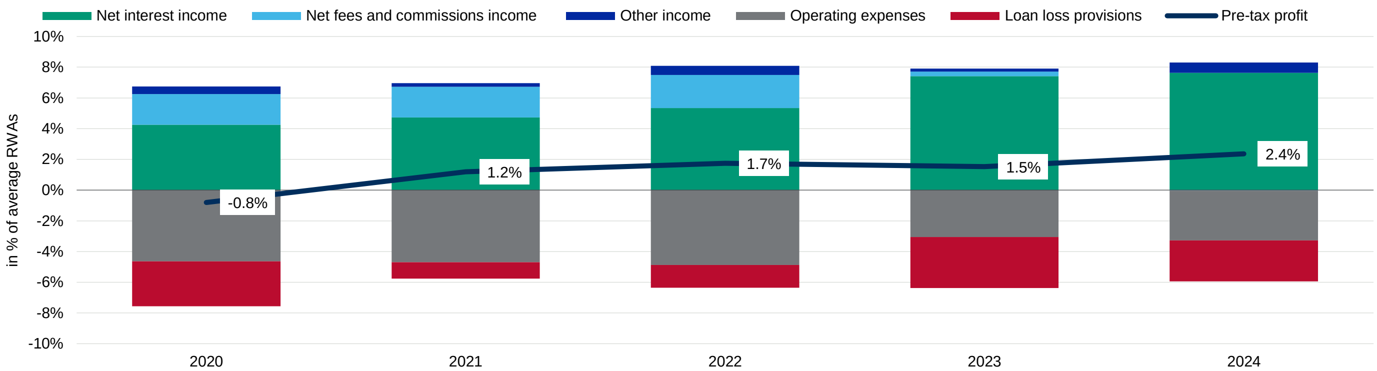
As a dedicated CRE lender, Aareal's profitability is strongly affected by the level of credit costs. Following solid years 2016-19, where Aareal exhibited an average annual return-on-assets (ROA) of around 50 basis points (bps), the bank faced high provisions in 2020 and reported a net loss. In 2021-23, Aareal returned to moderate net profits, ranging between 6 bps and 32 bps. Because of solid operating performance last year, driven by increased net interest income and stable operating expenses, Aareal's ROA improved again to level of 50 bps.

Aareal has ambitious medium-term targets which will face challenges to achieve. According to its updated strategic plan, termed AMBITION, the bank expects to improve the return on equity to more than 13% by 2027, compared with around 7% in 2024. Main drivers for the improvement are expected loan growth and the normalization of credit costs, as well as additional efficiency measures.

Exhibit 8

Aareal's rising net interest income mitigates elevated credit costs and provides financial flexibility to proactively reduce problematic loans

Data in % of average risk-weighted assets (RWA)



Source: Company reports, Moody's Ratings

Aareal's wholesale funding dependence is mitigated by large deposits from the housing industry

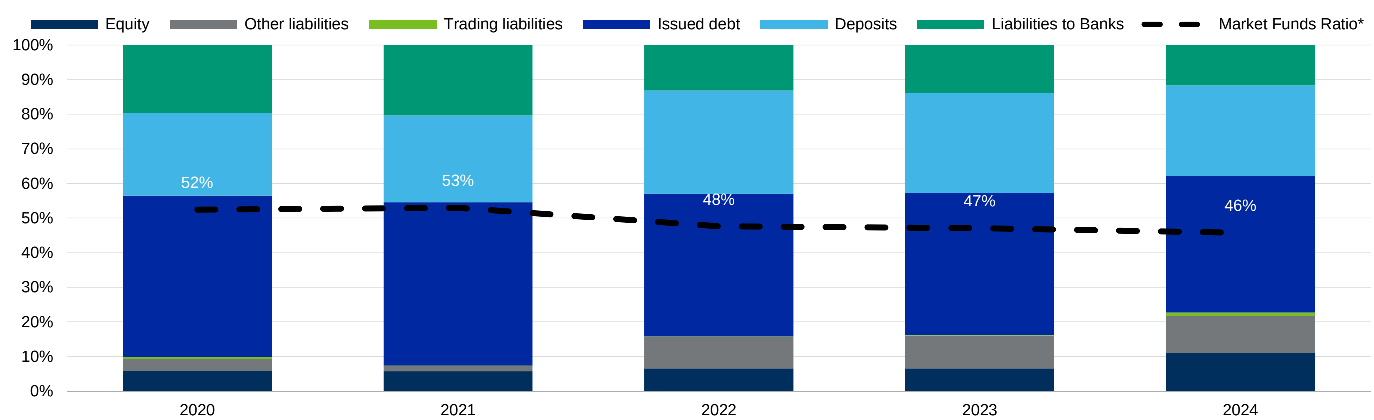
We assign a Funding Structure score of ba2, which is two notches above the b1 initial score. Our upward adjustment captures Aareal's favorable term structure with long-duration liabilities and ample buffers above regulatory MREL requirements, which reduces refinancing risks. We also take into account that the bank's large deposits which provide an additional funding source to its CRE lending activities.

Compared with other wholesale-funded CRE lenders, Aareal's funding mix benefits from the payment and cash management services, as reported under its Banking & Digital Solutions segment. These activities provide sizeable, granular and sticky deposits to the Wiesbaden-based bank, accounting for €13.7 billion or 29% of liabilities at end 2024. They arise from the professional housing and commercial property industry, mainly in Germany. Most of these deposits reflect tenant security deposits or operating deposits, constituting an attractive source of funding for Aareal, in particular as interest rates normalize. More recently, deposits also include a rising share of retail term deposits, which Aareal collects via internet platforms, mainly from German savers and since 1Q24 also in Austria and Netherlands. At around €3.5 billion as of 31 December 2024 (2023: €2.6 billion; 2022: €0.6 billion), we consider these less sticky and volatile because the deposits are very sensitive to the interest rate offered.

Exhibit 9

Aareal's market funding dependence mainly arises from covered bonds and senior unsecured debt and benefits from the established access to a broad and diversified investor base

Data in percent of tangible banking assets



*Market funding ratio = Market funds/tangible banking assets.
Source: Company reports, Moody's Ratings

Stable liquidity reflecting sizeable high-quality financial securities

Aareal's assigned Liquid Resources score is baa3, inline with the initial score. Our assessment takes into account Aareal's growth plans, which will lead to lower liquidity as the bank expands its lending activities.

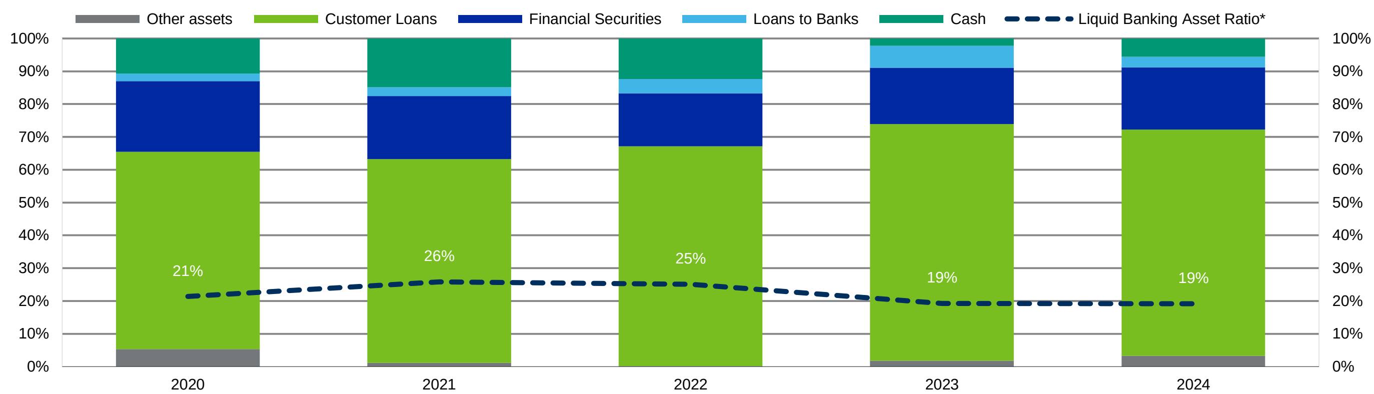
Aareal's liquidity buffers mainly originate from highly-rated €8.2 billion financial securities, including public sector issuers (69% of total) and covered bonds (31%). The bank's stable liquidity is also underpinned by its regulatory Liquidity Coverage Ratio (LCR), which was 230% for the fourth quarter of 2024, compared with 200% in 4Q 2023.

We believe that Aareal can generate additional liquidity through the issuance of retained covered bonds that can serve as collateral for additional central bank funding. As of 30 December 2024, the bank reported outstanding mortgage covered bonds of €15.3 billion against cover pool assets of €17.1 billion. The resulting over-collateralisation of around 12% gives Aareal leeway to generate fresh liquidity through covered bond issuance, if needed.

Exhibit 10

Aareal liquidity returned to previous years' level, following temporarily higher ratios in 2021 and 2022, when it participated in favorably priced central bank tender offers

Data in percent of tangible banking assets



*Liquid banking assets ratio = Liquid assets/tangible banking assets.

Source: Company reports, Moody's Ratings

Qualitative adjustment captures limited business diversification

We reduce the weighted average outcome of Aareal's assigned Financial Profile factor score by one notch. This adjustment reflects Aareal's low earnings and thus negligible diversification outside its CRE lending activities. The sale of its software service activities, housed in Aareon, has further cement Aareal's limited earnings diversification. We therefore continue to consider Aareal to operate a monoline business model.

Business diversification is an important gauge of a bank's sensitivity to stress in a single business line. It is related to earnings stability in the sense that earnings diversification across distinct and relatively uncorrelated lines of business increases the reliability of a bank's earnings streams and its potential to absorb shocks affecting a business line.

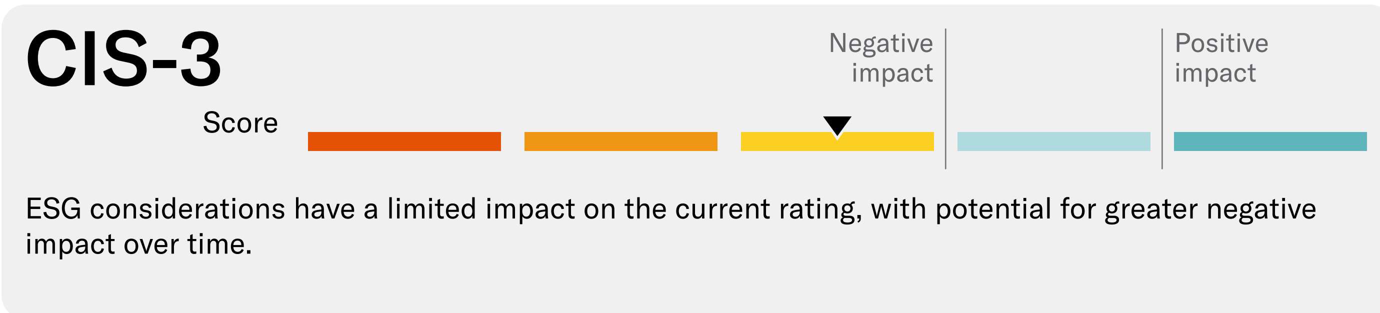
As a dedicated CRE lending specialist, Aareal is exposed to a rather volatile banking business through the cycle. We consider CRE lending highly cyclical and, therefore, a higher-risk sector exposure. The bank's position as a specialist lender benefits its sector-specific risk management know-how, but at the same time, it naturally limits the potential for (earnings) diversification.

Because CRE exposures can cause high losses in times of financial market stress, Aareal's high earnings dependence from these assets exposes the bank to unexpected shocks that are likely to hurt its income statement and solvency in an adverse scenario.

ESG considerations

Aareal Bank AG's ESG credit impact score is CIS-3

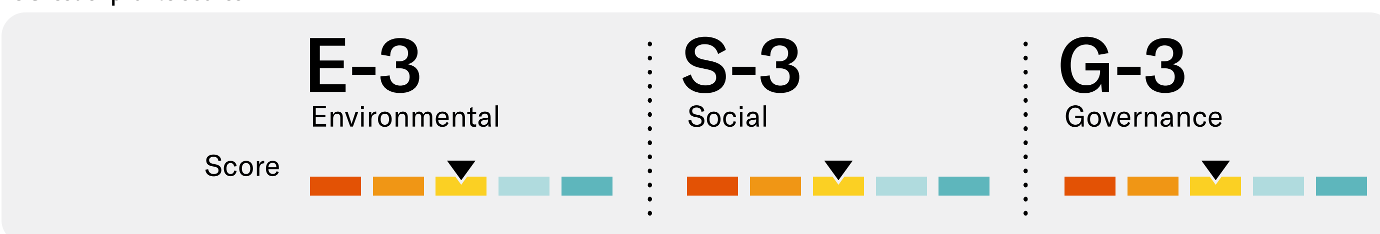
Exhibit 11
ESG credit impact score



Source: Moody's Ratings

Aareal Bank AG's (Aareal) **CIS-3** indicates the limited impact of ESG considerations on the current rating, with potential for greater impact over time, reflecting governance considerations related to concentration risks as well as a moderate track record to improve profitability and diversification. Environmental and social risks have a limited credit impact on the rating to date.

Exhibit 12
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Aareal faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risk as a large commercial real estate lender. In line with its peers, Aareal is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Aareal is engaging in transforming its lending book towards less carbon-intensive assets and has developed a comprehensive risk management and climate risk reporting frameworks.

Social

Aareal faces moderate social risks related to regulatory and litigation risks, requiring the bank to meet high compliance standards. Customer relations risks related to mis-selling and mis-representation are lower than industry average, supported by its client mix being geared towards professional clients. Data security and customer privacy risks are also mitigated by technology solutions and organizational measures to prevent data breaches. The bank is also adapting to changing customer preferences such as digitalisation.

Governance

Aareal's governance risks are moderate, reflecting higher risk appetite and concentration risks inherent in its business model as a commercial real estate lending specialist. Aareal needs to establish a management track record of improving profitability and diversification as it executes its strategic plans. The bank's track record with regards to the management of Aareal's highly cyclical exposures is reflected in above average non-performing loans, with risk costs only recovering more slowly from the pandemic related impact and remaining at a more elevated level than peers. Aareal's ownership by a small group of private equity firms results in governance risks related to concentrated ownership and potential outsized influence on the bank's management and board, partly mitigated by the presence of a large number of independent board members and Germany's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

Aareal is subject to the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution, using our standard assumptions

For Aareal's Baa1 deposit, senior unsecured and issuer ratings, our LGF analysis indicates an extremely low loss given failure, leading to a three-notch uplift from the bank's ba1 Adjusted BCA.

For Aareal's (P)Baa3 junior senior unsecured program rating, our LGF analysis indicates a low loss given failure, leading to one notch of rating uplift from the bank's ba1 Adjusted BCA.

Government support considerations

We do not assign any rating uplift for Aareal from government support, reflecting our unchanged assumption of a low probability of systemic support in the event of a stress scenario, given the bank's marginal importance to the domestic deposit-taking market and local payment systems.

Methodology and scorecard

Methodology

The principal rating methodology we used in rating Aareal was the Banks Methodology, published in November 2024.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 13
Rating Factors

Macro Factors							
Weighted Macro Profile	**Strong**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		3.8%	baa1	↔	ba2	Sector concentration	Single name concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		36.1%	aa2	↔	a2	Risk-weighted capitalisation	Expected trend
Profitability							
Net Income / Tangible Assets		0.3%	ba3	↔	ba2	Return on assets	Expected trend
Combined Solvency Score			a3		baa3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		45.7%	b1	↔	ba2	Term structure	Expected trend
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		19.2%	baa3	↔	baa3	Stock of liquid assets	Asset encumbrance
Combined Liquidity Score			ba2		ba1		
Financial Profile			baa2		baa3		
Qualitative Adjustments					Adjustment		
Business Diversification					-1		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					-1		
Sovereign or Affiliate constraint					Aaa		
BCA Scorecard-indicated Outcome - Range					baa3 - ba2		
Assigned BCA					ba1		
Affiliate Support notching					0		
Adjusted BCA					ba1		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	24,608	52.7%	25,854	55.3%
Deposits	12,216	26.2%	10,970	23.5%
Preferred deposits	9,040	19.4%	8,588	18.4%
Junior deposits	3,176	6.8%	2,382	5.1%
Senior unsecured bank debt	4,111	8.8%	4,111	8.8%
Junior senior unsecured bank debt	3,443	7.4%	3,443	7.4%
Dated subordinated bank debt	635	1.4%	635	1.4%
Preference shares (bank)	300	0.6%	300	0.6%
Equity	1,401	3.0%	1,401	3.0%
Total Tangible Banking Assets	46,714	100.0%	46,714	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	26.3%	26.3%	26.3%	26.3%	3	3	3	3	0	baa1
Counterparty Risk Assessment	26.3%	26.3%	26.3%	26.3%	3	3	3	3	0	baa1 (cr)
Deposits	26.3%	12.4%	26.3%	21.2%	3	3	3	3	0	baa1
Senior unsecured bank debt	26.3%	12.4%	21.2%	12.4%	3	3	3	3	0	baa1
Junior senior unsecured bank debt	12.4%	5.0%	12.4%	5.0%	1	1	1	1	0	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	baa1	0	Baa1	Baa1
Counterparty Risk Assessment	3	0	baa1 (cr)	0	Baa1(cr)	
Deposits	3	0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	3	0	baa1	0	Baa1	(P)Baa1
Junior senior unsecured bank debt	1	0	baa3	0	Baa3	(P)Baa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 14

Category	Moody's Rating
AAREAL BANK AG	
Outlook	Stable
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
Junior Senior Unsecured -Dom Curr	Baa3
Junior Senior Unsecured MTN	(P)Baa3
Commercial Paper -Dom Curr	P-2

Source: Moody's Ratings

Endnotes

1 This ratio compares the cash flow, i.e. mostly from rental income, to the outstanding debt financing provided. Because the ratio excludes debt financing costs, it is a measure to assess the ability to digest rising interest costs.

2 Aareal calculates RWAs as the higher of i) Advanced Internal Rating Based Approach (A-IRBA) or ii) Basel 4 revised Credit Risk Standard Approach with a 50% output floor.

REPORT NUMBER 1446188