MOODY'S INVESTORS SERVICE

CREDIT OPINION
2 December 2021

Update

Rate this Research

Aareal Bank AG

Update after Assignment of Commercial Paper Rating

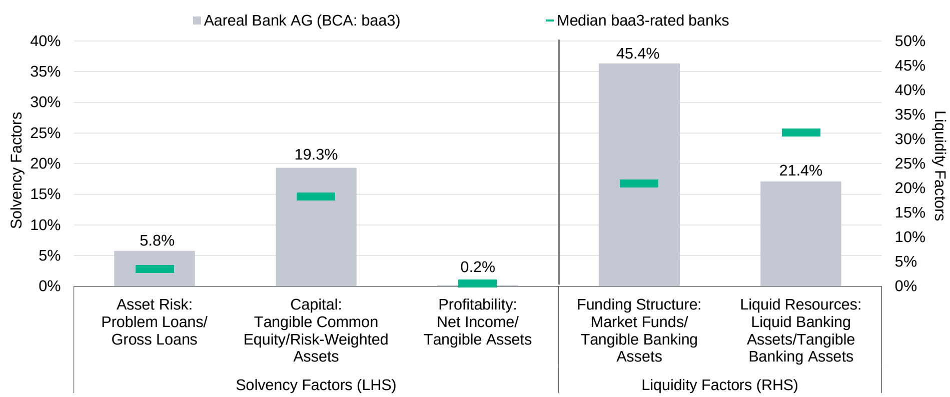
Summary

On 17th of November 2021, we assigned a new P-2 short-term rating to the bank's Euro Commercial Paper Program. We rate Aareal Bank AG (Aareal)'s) deposit and issuer ratings A3(negative, its Counterparty Risk Ratings (CRRs) A3/P-2, and its Baseline Credit Assessment (BCA) and Adjusted BCA baa3.

Aareal Bank AG (Aareal)'s A3 deposit and issuer ratings reflect its baa3 Baseline Credit Assessment (BCA) and Adjusted BCA; and the application of our 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.

The assigned baa3 BCA reflects Aareal's resilient intrinsic financial strength, despite its exceptionally high focus on commercial real estate as a specialized lender to that sector. The bank's strong capitalization largely mitigates the limited diversification benefits from its other businesses and elevated asset risks, enabling the bank to cope with a deterioration in its asset quality. The BCA also reflects a sound track record of low through-the-cycle credit losses. Aareal Bank's sound liquidity management and funding profile are additional risk mitigant.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics™

RATINGS

Aareal Bank AG

Domicile	Wiesbaden, Germany
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Dom Curr
Outlook	Not Assigned
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

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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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Credit strengths

» Strong and high-quality capitalisation

» Sound liquidity metrics and stable funding from the housing industry sector

» Earnings diversification from real estate software and services business

Credit challenges

» High and concentrated exposures to commercial real estate (CRE) lending, which could exert pressure on the bank's asset quality during a global property downturn

» Significant exposures to hotel and retail CRE portfolios that are severely affected by the pandemic-induced economic downturn

» Above-average nonperforming loans (NPLs)

» Limited diversification benefits from other businesses (monoliner)

Outlook

The negative outlook reflects the downward pressure on the bank's BCA from the deteriorating operating environment as a result of the pandemic.

Factors that could lead to an upgrade

» As indicated by the negative outlook, upward pressure on the ratings is currently unlikely.

» An upgrade of Aareal's ratings could follow an upgrade of its BCA, which would require a substantially more diversified business model, such that it eliminates the existing high concentration risks in its CRE lending.

Factors that could lead to a downgrade

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

» Downward pressure on Aareal's BCA could develop as a result of a significant deterioration in its asset quality, a significant and sustained drop in its profitability or an overall weakening of the bank's combined liquidity.

Key indicators

Exhibit 2
Aareal Bank AG (Consolidated Financials) [1]

	06-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	45.9	44.4	40.1	41.6	40.8	3.4[4]
Total Assets (USD Billion)	54.5	54.3	45.0	47.6	49.0	3.1[4]
Tangible Common Equity (EUR Billion)	2.3	2.4	2.7	2.7	2.8	(4.9)[4]
Tangible Common Equity (USD Billion)	2.7	2.9	3.0	3.1	3.3	(5.2)[4]
Problem Loans / Gross Loans (%)	5.8	5.7	3.6	5.8	4.6	5.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	19.3	19.8	24.1	21.0	23.4	21.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	57.9	51.8	30.4	47.2	37.0	44.9[5]
Net Interest Margin (%)	1.2	1.2	1.3	1.3	1.4	1.3[5]
PPI / Average RWA (%)	2.0	2.2	2.8	3.0	3.1	2.6[6]
Net Income / Tangible Assets (%)	0.2	-0.2	0.4	0.4	0.5	0.3[5]
Cost / Income Ratio (%)	70.6	68.1	60.6	61.0	59.3	63.9[5]
Market Funds / Tangible Banking Assets (%)	44.9	45.4	40.8	37.9	37.1	41.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	23.8	21.4	15.7	16.2	20.2	19.5[5]
Gross Loans / Due to Customers (%)	192.9	198.9	208.3	187.7	188.2	195.2[5]

[-] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these 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 Investors Service and company filings

Further to the publication of our revised methodology in July 2021, for issuer that have "high-trigger" Additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments.

Profile

Aareal, headquartered in Wiesbaden, Germany, is a CRE lending specialist, active in Europe, North America and, to a limited degree, in Asia. The bank focuses on corporate real estate clients, with no direct retail business either in its lending or funding activities.

Additionally, the group offers consultancy, IT/digital services and transaction banking activities to clients in the housing and commercial property industries. As of year-end 2020, the group's reported total assets amounted to €46.6 billion and it employed around 3,036 people.

Recent developments

Aareal reported an improved net income of €56 million as of September 2021, up from €17 million for the same time period in 2020. Key drivers were a €62 million higher net interest income of €435 million, lower risk costs of €79 million (vs €167 million), an almost stable net commission income of €174 million. Costs, however, did rise by €41 million to €393, limiting the rise in pre-tax profit to €123 million (significantly up from €24, though). The bank's capital ratios improved, to 21.5% for Common Equity Tier 1 (CET1) and to 28.1% for total capital (up from 19.2% and 25.4%, respectively, as of half-year 2021). Drivers were both the recovery in profitability, but also lower risk weighted assets, driven by an improved asset quality and a retroactive recognition of of collaterals.

On 07th of October 2021, Aareal announced a potential acquisition of a majority share in the bank by a group of group of private equity investors. A public tender offer is planned from mid-December 2021, depending on the finalisation of the regulatory review. In case of anacceptance by the current shareholders, closing is targeted for mid-2022. For now, the bank's general strategy remains broadly in place, though the dividend policy may be adjusted to support a stronger growth path.

Weighted Macro Profile of Strong+

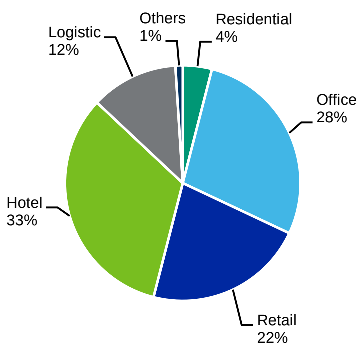
Because of Aareal's international CRE finance activities, the bank's assigned Strong+ Weighted Macro Profile is reflective of its worldwide activities, primarily focused on the United States of America (Aaa stable), which displays a Very Strong- Macro Profile, as well as other countries with a less benign operating environment, in particular the United Kingdom (Aa3 stable) and Italy (Baa3 stable).

Detailed credit considerations

High and concentrated exposures to CRE lending may strain the bank's asset quality because of the pandemic, particularly with risks related to the tourism and nonfood retail sectors

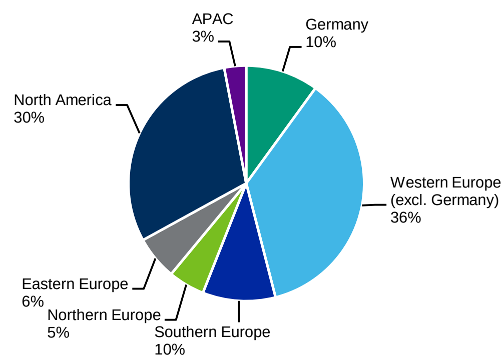
We position Aareal's ba2 Asset Risk score three notches below our baa2 initial score, taking into account the bank's high sector, single-name and single-location concentrations. The bank's €27.9 billion CRE lending book is particularly exposed to high-risk subsectors, which are identified as the most affected by the economic contraction caused by the pandemic, with 33% of its loan book invested in hotel, 22% in retail and 28% in the office sector as of June 2021[1].

Exhibit 3
Aareal's CRE portfolio by subsegment
As of June 2021



Sources: Company reports and Moody's Investors Service

Exhibit 4
Aareal's CRE portfolio by country
As of June 2021



Sources: Company reports and Moody's Investors Service

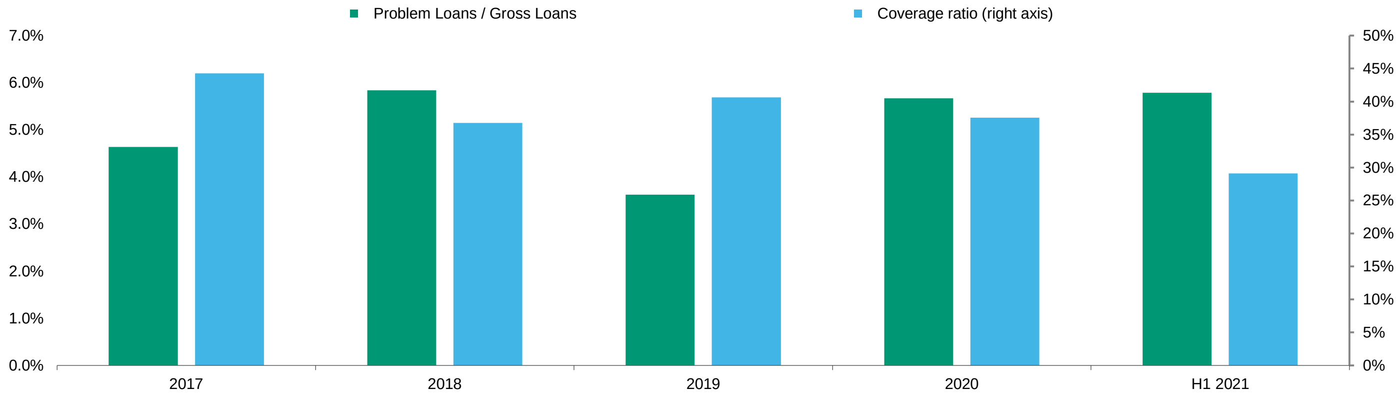
Consequently, Aareal's sound history of relatively low credit losses will be challenged, despite the bank's efforts to work out the existing NPLs and its diversified portfolio.

Aareal's average loan-to-value ratio of 59% as of June 2021 indicates a solid structure of the total CRE lending book and provides a buffer against potential property price decreases, which have started to materialise at least for retail properties. The pressure within the loan book is further reflected in a significant yield-on-debt[2] deterioration in the hotel portfolio, which fell to 3.0% as of year-end 2020 from 9.6% as of year-end 2019, reflecting the decline in income generation by the underlying assets.

The bank's problem loan ratio slightly increased to 5.8% as of June 2021 from 5.7% as of year-end 2020 and is high compared with that of its closest domestic peers. Aareal's initiated measures to effectively and significantly reduce the risks resulting from its legacy portfolios in Italy supported a stabilisation; however, the economic impact of the pandemic is particularly visible on the UK retail exposures. With regards to sectors, retail and hotel financings have been Aareal's most vulnerable areas as these represent 61% and 25% of the bank's non performing loans.

Exhibit 5

Aareal's problem loan ratio remains high



Source: Company reports and Moody's Investors Service

Strong and high-quality capitalisation is a key risk mitigant

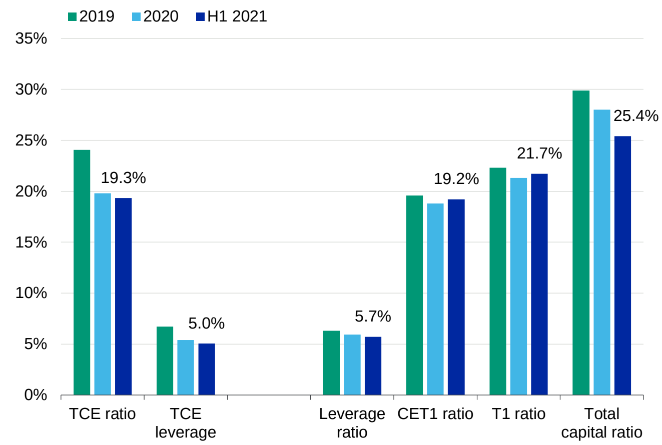
We assign a Capital score of a1 to Aareal, reflecting our expectation that the bank will maintain its strong capitalisation metrics, despite the expected strain from the impact of the pandemic and the upcoming revisions to the Basel framework for measuring credit risks (the so-called constrained internal ratings-based approach). We have captured the expected decline in the bank's capital ratio, in particular our tangible common equity (TCE) ratio, by positioning the bank's Capital score two notches below the aa2 initial score.

Aareal reported a strong TCE ratio of 19.3% and a fully loaded Tier 1 leverage ratio of 5.7% as of June 2021, significantly higher than those of its closest peers. TCE comprises the bank's Common Equity Tier 1 (CET1) capital, but no longer of the €300 million in high-trigger Additional Tier 1 (AT1) instruments after our recent bank's methodology update, which excludes such instruments from TCE and includes them in our Advanced LGF analysis.

Given its good capitalisation, Aareal is able to digest risk-weighted asset (RWA) increases originating from deteriorations in asset quality following the economic downswing in 2020 and early 2021 as well as a larger increase in regulatory RWA. We expect the bank to be able to maintain and retain a capital ratio of close to 14% despite the aforementioned strain, and taking into account high future dividend payouts, with a communicated medium-term target payout ratio of 70%-80% (thereof 50% base dividend and 20-30% supplementary dividend). For 2020 and 2021, management has already decided to refrain from calling its €300 million high-trigger AT1 instrument and has postponed a decision on the dividend payout because of the economic crisis. Both factors and the bank's sale of its Aareon minority stake to Advent International supported its capital position in 2020.

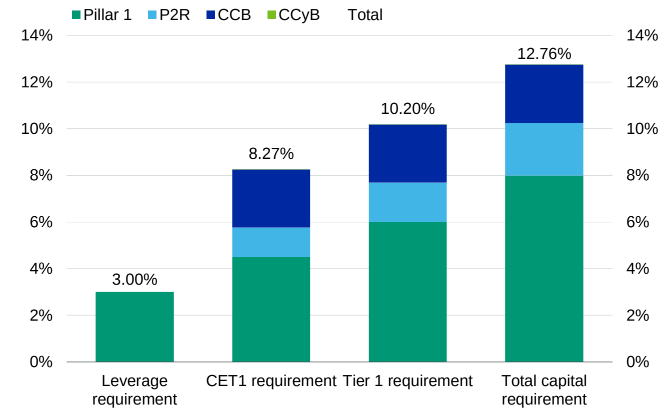
As of June 2021, the bank's CET1 ratio increased to 19.2% from 18.8% at year-end 2020. However, the banks total capital ratio of 25.4% is lower than year-end 2020's ratio of 28.0%. Despite the decrease in Aareal's total capital ratio, regulatory requirements , determined by ECB's Supervisory Review and Evaluation Process, of 8.27% for CET1 and 12.8% for total capital are comfortably met.

Exhibit 6
Aareal comfortably exceeds its CET1 requirements



TCE = Tangible Common Equity (Moody's calculation; excludes high-trigger Additional Tier 1 instruments for all periods); CET1 = Common Equity Tier 1 capital; T1 ratio = Tier 1 Ratio.
Source: Company reports and Moody's Investors Service

Exhibit 7
Aareal's Capital requirements



P2R = Pillar 2 requirement; CCB = Capital conservation buffer requirement; CCYB = Countercyclical capital buffer requirement)
Source: Company reports

However, Aareal's risk density, that is, the bank's RWA calculated as a percentage of total assets, amounted to only 25.7% as of June 2021. In light of the revisions to the Basel framework and because Aareal calculates its RWA according to the advanced internal ratings-based approach for most of its exposures, we expect its risk density to continue to rise significantly, leading to a significant increase in RWA from the current levels.

Stable funding from the housing industry sector mitigates the bank's remaining wholesale funding dependence

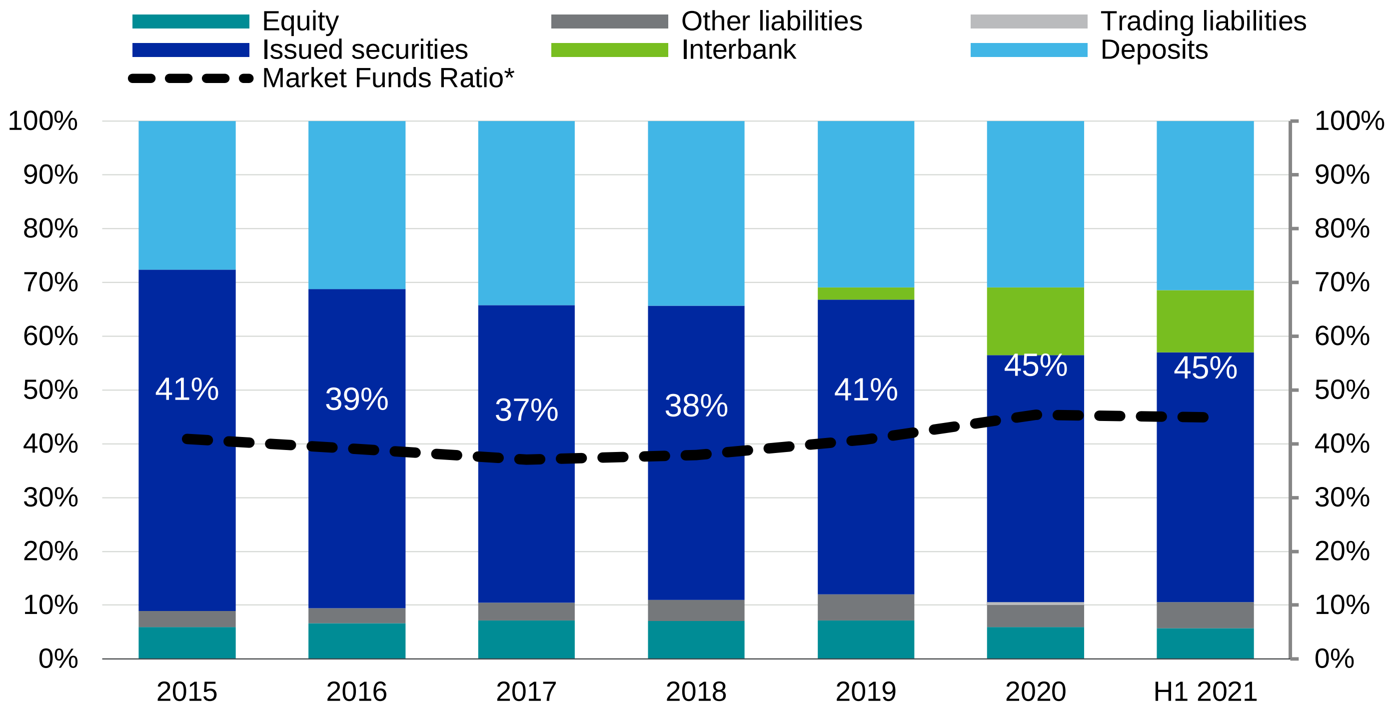
We assign a ba1 Funding Structure score to Aareal, three notches above its initial score, reflecting its favourable term structure, and limited refinancing and interest rate risks.

The assigned score further reflects the bank's temporary recourse to the ECB's TLTRO, reflecting the deduction in a portion of the TLTRO III borrowed funds that are used to take advantage of favourable terms offered by the ECB and depositing back at the central bank rather than using them for lending and/or investment purposes, thereby temporarily inflating Aareal's balance sheet.

The bank's funding structure comprises less confidence-sensitive covered bonds (Pfandbriefe, €13.1 billion as of June 2021), a sizeable amount of corporate and housing industry deposits (€11.0 billion), senior unsecured debt of €2.9 billion, junior senior debt of €4.4 billion and subordinated debt (€0.9 billion). Within its unsecured debt proportion, Aareal is a strong issuer of smaller promissory note loans to the market, benefiting from its strong and proven access to the institutional private placement market. The bank's recourse to nonsensitive TLTRO / central bank funding of €5.3 billion as of June 2021, which increased from €4.3 billion at year-end 2020, accomplishes its funding profile.

The bank's funding composition is further supported by its three-pillar business model, attracting sizeable and rather sticky housing industry deposits (€11.0 billion as of June 2021) because of its IT and banking services, which it provides to the German housing industry. Most of these deposits are either tenant security deposits or operating deposits of the respective housing companies, constituting a reliable and stable source of funding, which is a key credit strength compared with that of the bank's other wholesale-funded CRE lending peers. In addition, Aareal's senior debt and covered bond investor base is diversified, granular and largely driven by a domestic private placement backbone, providing further funding stability.

Exhibit 8
Aareal's funding mix is well diversified



*Market funding ratio = Market funds/tangible banking assets.
Sources: Company reports and Moody's Investors Service

Sound liquidity metrics

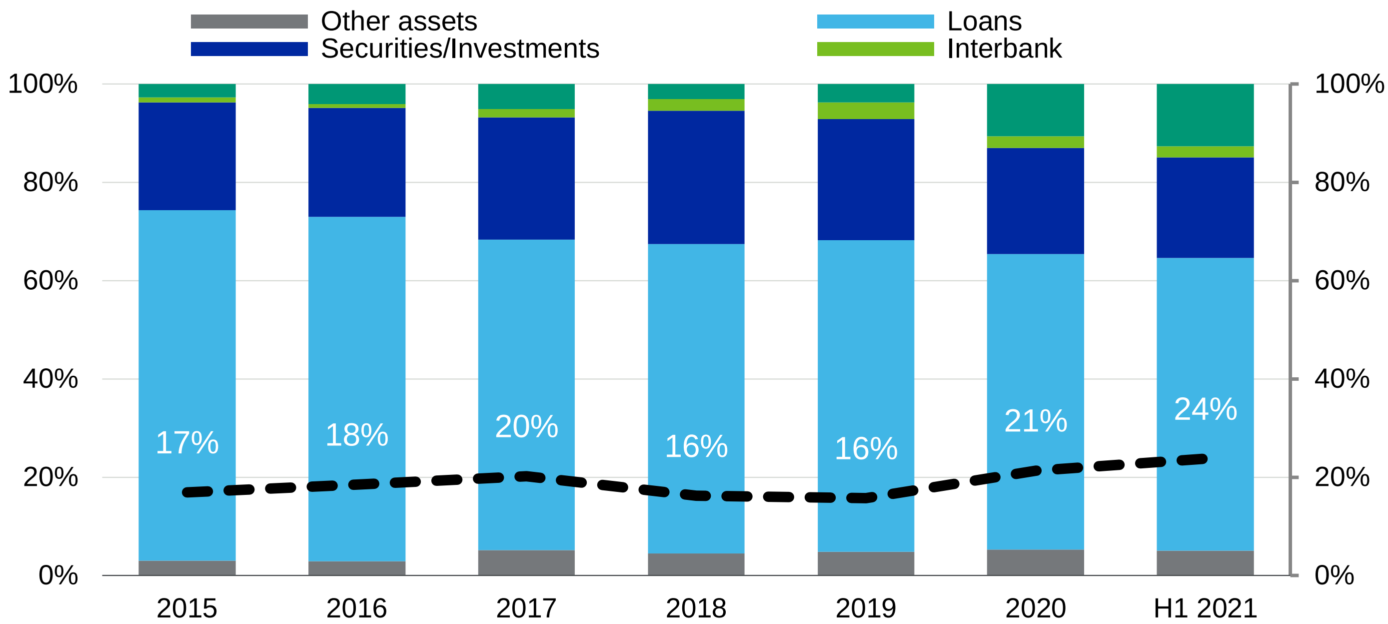
We capture Aareal's balanced liquidity profile in its baa2 Liquid Resources score, one notch below its baa1 initial score. The assigned score incorporates our expectation that liquidity will return to historical levels after the ECB's measures run out. Currently, liquid resources include cash deposits at the ECB, from the TLTRO takeup, which we expect to fall again in line with the corresponding interbank liability resulting from the takeup.

The assigned score incorporates the bank's cash position and liquid interbank assets (€5.8 billion as of June 2021), as well as its high-quality treasury portfolio (€7.6 billion), which mainly consists of public-sector debtors and covered bonds, all of which are investment grade. It further takes into account the bank's more significant encumbrance of liquid assets related to stronger repo activities.

Moreover, additional liquidity could be generated through the issuance of covered bonds. As of June 2021, and based on an outstanding issuance of €10.6 billion, the over-collateralisation in Aareal's mortgage cover pool was 18.2% on an unstressed present value basis. Because the minimum over-collateralisation level, consistent with a Aaa covered bond rating, was 18.0% as of the same date, Aareal has some leeway for using its existing cover pool to generate fresh liquidity through the issuance of covered bonds.

Together with the bank's diversified funding mix, its liquidity reserves constitute a very balanced profile, offering the bank significant flexibility in a more adverse market environment.

Exhibit 9
Aareal's balance-sheet liquidity remains comfortable



*Liquid banking assets ratio = Liquid assets/tangible banking assets.
Sources: Company reports and Moody's Investors Service

Adequate level of risk-weighted profitability

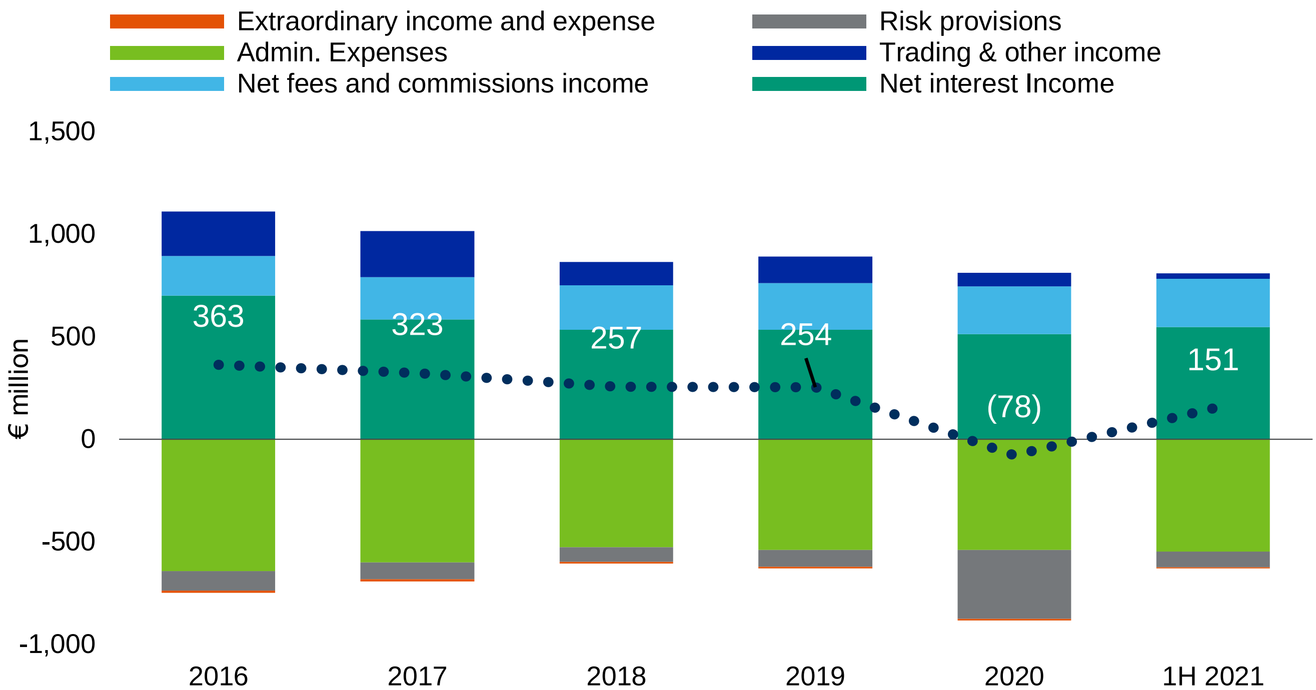
We assign a ba2 Profitability score to Aareal, two notches above the initial score. While we expect earnings to remain below the previous years' levels for 2021, they should improve compared with 2020 to a level that is in line with a ba2 Profitability score (0.25%-0.375% of tangible banking assets).

The key drivers for the substantial drop in Aareal's profitability in 2020 were the risk provision of around 125 basis points (annualised), which was a high level considering the bank's secured lending portfolio, but not uncommon for a CRE portfolio in an adverse economic environment. Similar to many of its peers, Aareal booked loan-loss provisions in advance of problem loans materialising, providing the bank with a buffer to deal with a deteriorating economic environment, a factor that should stabilise profitability, at least partially.

Nevertheless, a generally increased level of loan-loss provisions and the persistently low interest rate environment will continue to strain Aareal's lending business margins, despite the bank's broader international presence than that of its closest Germany-focused peers, while fee and commission income remains still limited. Despite a high reliance on interest earnings, Aareons acquisitions highlight the institution's intent to generate more sustainable non-interest earnings. Since June 2017, Aareal has increased its net commission earnings from €97 million to € 118 million, an improvement of around 22%. The bank's cost-to-income ratio has already been on a slightly rising trend (72.3% as of June 2021, up from 59.3% in 2017), and we therefore do not expect Aareal's profitability to recover to the historic 0.375%-0.49% level, in line with a ba1 initial score.

The bank reported a net income of 33 million for the first half of 2021, up from its net income of €16 million in the first half of 2020. Net interest income increased to €280 million, while net commission income, largely generated by its service and IT entity Aareon, increased to €118 million. Higher administrative expenses of €268 million (up from €238 million), caused by Aareon's business expansion initiatives, were more than balanced by a lower derecognition gain and significantly lower loan-loss provisions (€38 million, down from €101 million in H1 2020).

Exhibit 10
Lower provisioning improved profitability in H1 2021



Source: Company reports, Moody's Financial Metrics™ and Moody's Investors Service estimates

Qualitative adjustment captures limited business diversification

We reduce the weighted average outcome of Aareal's assigned Financial Profile factor score by one notch to an assigned BCA of baa3. This adjustment reflects Aareal's low revenue and negligible income diversification outside of the commercial mortgage-lending businesses.

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.

Being a 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 CRE lender benefits its sector-specific risk management know-how, but at the same time, it naturally limits the potential for (earnings) diversification within the bank. Because CRE exposures can cause high losses in times of financial market stress, Aareal's high reliability on CRE-related earnings streams exposes it to unexpected shocks that are likely to hurt its income statement in an adverse scenario. As a result, we classify Aareal as a monoline bank according to our approach for business diversification.

ESG considerations

In line with our general view on the banking sector, Aareal has a low exposure to environmental risks (for further information, see our environmental risk heat map [3]).

For social risks, we also place Aareal in line with our general view for the banking sector, which indicates a moderate exposure. However, Aareal has a high share of lending to sectors such as tourism and nonfood retail that are particularly exposed to the rapid and widening spread of the pandemic given the substantial implications for public health and safety, and a deteriorating global economic outlook creating a severe and extensive credit shock across many sectors, regions and markets (for further information, see our social risk heat map [4]).

Governance is highly relevant for Aareal, as it is to all participants in the banking industry. Governance risks are largely internal rather than externally driven, and, for Aareal, we do not have any particular governance concern[5]. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

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. We, therefore, 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.

In line with our standard assumptions, we assume that equity and asset losses are 3% and 8%, respectively, of tangible banking assets in a failure scenario. We also assume a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits. Moreover, we assign a 25% probability to junior deposits being preferred to senior unsecured debt. We apply a standard assumption for European banks that 26% of deposits are junior.

For Aareal's deposit and issuer ratings, our LGF analysis indicates an extremely low loss given failure, leading to a three-notch uplift from the bank's baa3 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.

Counterparty Risk Ratings (CRRs)

Aareal's CRRs are A3/P-2

The bank's CRRs are three notches above the baa3 Adjusted BCA, based on the high buffer against default provided by subordinated instruments to the more senior CRR liabilities.

Counterparty Risk (CR) Assessment

Aareal's CR Assessment is A3(cr)/P-2(cr)

Aareal's CR Assessment is three notches above the bank's baa3 Adjusted BCA, based on the substantial buffer against default provided to the senior counterparty obligations by more junior instruments, such as senior unsecured debt and dated subordinated debt. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal rating methodology we used in rating Aareal was the Banks Methodology, published in July 2021.

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 11

Aareal Bank AG

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	5.8%	baa2	↔	ba2	Sector concentration	Single name concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19.3%	aa2	↓↓	a1	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	0.2%	b1	↑	ba2	Return on assets	Expected trend
Combined Solvency Score		baa1		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	45.4%	b1	↔	ba1	Term structure	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	21.4%	baa1	↔	baa2	Additional liquidity resources	Stock of liquid assets
Combined Liquidity Score		ba1		baa3		
Financial Profile				baa2		
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				baa2 - ba1		
Assigned BCA				baa3		
Affiliate Support notching				0		
Adjusted BCA				baa3		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	25,112	55.1%	26,230	57.5%
Deposits	10,957	24.0%	9,839	21.6%
Preferred deposits	8,108	17.8%	7,703	16.9%
Junior deposits	2,849	6.2%	2,137	4.7%
Senior unsecured bank debt	2,865	6.3%	2,865	6.3%
Junior senior unsecured bank debt	4,393	9.6%	4,393	9.6%
Dated subordinated bank debt	613	1.3%	613	1.3%
Preference shares (bank)	300	0.7%	300	0.7%
Equity	1,368	3.0%	1,368	3.0%
Total Tangible Banking Assets	45,608	100.0%	45,608	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	25.6%	25.6%	25.6%	25.6%	3	3	3	3	0	a3
Counterparty Risk Assessment	25.6%	25.6%	25.6%	25.6%	3	3	3	3	0	a3 (cr)
Deposits	25.6%	14.6%	25.6%	20.9%	3	3	3	3	0	a3
Senior unsecured bank debt	25.6%	14.6%	20.9%	14.6%	3	3	3	3	0	a3

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	a3	0	A3	A3
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3(cr)	
Deposits	3	0	a3	0	A3	A3
Senior unsecured bank debt	3	0	a3	0	A3	A3

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

Ratings

Exhibit 12

Category	Moody's Rating
AAREAL BANK AG	
Outlook	Negative
Counterparty Risk Rating	A3/P-2
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	A3
Commercial Paper -Dom Curr	P-2

Source: Moody's Investors Service

Endnotes

1 Coronavirus exacerbates difficult operating environment, weighing on credit quality.

2 Yield-on-debt = net operating income of the relevant property/total loan amount (in %).

3 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages and natural and human-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

4 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

5 Corporate governance is a well-established key driver for banks, and related risks are typically included in our evaluation of the banks' financial profile. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Further factors like specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA.

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