Aareal Bank AG

Update

Key Rating Drivers

International CRE Lender: Aareal Bank AG's ratings reflect its focus on lending to the cyclical commercial real estate (CRE) sector, which resulted in a weakening of its asset quality in 2023 and 2024. The exposure to cyclical CRE markets is mitigated by the bank's broad geographical diversification and sound capitalisation. Aareal's leading domestic institutional housing deposits franchise adds funding stability and revenue diversification, underpinning its adequate funding and profitability.

Sound Workout Record: Aareal mainly finances properties in prime locations, and the credit standards of underwriting and the collateralisation of its loan book are broadly in line with market practice. The risk profile is also underpinned by its centralised, sophisticated risk-control framework and good workout record of its impaired loans, which Fitch Ratings views as crucial in navigating the cyclical conditions of real estate markets. Structural interest-rate and foreign-currency risks are modest.

Upside to Asset Quality: A significant deterioration in the bank's US office portfolio has driven Aareal's impaired loans and loan impairment charges (LICs) ratios sharply above the German banks' average in the past three years. Impaired loan workouts and sales have helped to reduce the impaired loans ratio to 2.6% at end-2025 (end-2024: 3.2%). We expect impaired loans inflows to decline further from their peak in 2023 and for the impaired loans ratio to remain below 3% in the medium term.

Adequate, Improving Profitability: The bank's operating profit was resilient in 2025, despite continuing challenges in the CRE market and declining margins on its institutional housing deposits, while loan impairment charges (LICs) fell. We expect the bank to continue to achieve an operating profit above 2% of its risk-weighted assets (RWAs) over the next two years, due to overall solid margins, lower LICs and efficient cost management.

Sound Capitalisation: Aareal's common equity Tier 1 (CET1) ratio of 22.2% at end-2025 provides an adequate cushion, considering the bank's cyclical business model with high single-borrower concentrations. We expect capital ratios to decline from 2027, alongside the phasing in of final Basel III rules, but to remain above the peer average.

Diversified Funding: The bank's funding profile is sound and benefits from its established covered bond franchise, which is its main funding source. It is supplemented by stable deposits from the institutional housing sector and retail term deposits collected through independent online platforms, which reduce the bank's reliance on unsecured debt market funding.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We could revise the Positive Outlook on the Long-Term IDR to Stable if a further deterioration in CRE markets prevented the bank from reducing its impaired loans and affected its operating profitability.

We would be likely to downgrade Aareal's ratings if the impaired loans ratio increased above 6% for an extended period with no credible reduction plan, or if heightened LICs weighed on its profitability, lowering its operating profit/RWAs ratio to below 0.5% over the long term.

A sharp increase in funding costs, which could be triggered by a material loss of deposits in the housing sector or signs of challenges in accessing the wholesale funding market, could also impair Aareal's profitability and funding and result in a downgrade.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

We would be likely to upgrade Aareal's ratings if the bank sustainably strengthened its profitability, generating an operating profit/RWAs ratio sustainably above 2%, combined with an impaired loans ratio of around 3%.

An upgrade would be contingent on the bank maintaining sound capitalisation and a disciplined risk appetite that mitigates the cyclical nature of its business model.

Other Debt and Issuer Ratings

Rating Level	Rating
Deposits: long term/short term	BBB+/F2
Senior preferred: long term/short term	BBB+/F2
Senior non-preferred	BBB
Subordinated: Tier 2 debt	BB+
Additional Tier 1 notes	BB-

Source: Fitch Ratings

Aareal's Derivative Counterparty Rating, and long-term deposit and senior preferred debt ratings are one notch above the Long-Term IDR, and the long-term senior non-preferred debt rating is aligned with the Long-Term IDR. This reflects the large and sustainable layer of senior non-preferred and junior debt that provides preferred creditors and counterparties with additional protection in a resolution.

The short-term senior preferred and deposit ratings are the lower of the two options mapping to the respective long-term ratings, reflecting Fitch's assessment of the bank's funding and liquidity.

The Tier 2 debt rating is two notches below the VR to reflect the poor recovery prospects of these instruments. The additional Tier 1 notes are rated four notches below the VR (two notches for loss severity and two for non-performance risk) to reflect our expectation that Aareal will maintain large capital buffers above the notes' mandatory coupon omission triggers.

Significant Changes from Last Review

Stable Performance in 2025

Aareal's 2025 operating profit remained broadly stable at EUR296 million. Net interest income declined by 12% to EUR934 million, mainly due to lower interest rates, which more than offset loan growth at sound margins. Administrative expenses declined by 7.5% to EUR346 million, including further transformation costs of EUR25 million (2024: EUR34 million) for efficiency measures and IT investments. The operating profit/RWAs ratio increased to 2.3%, in line with our expectations.

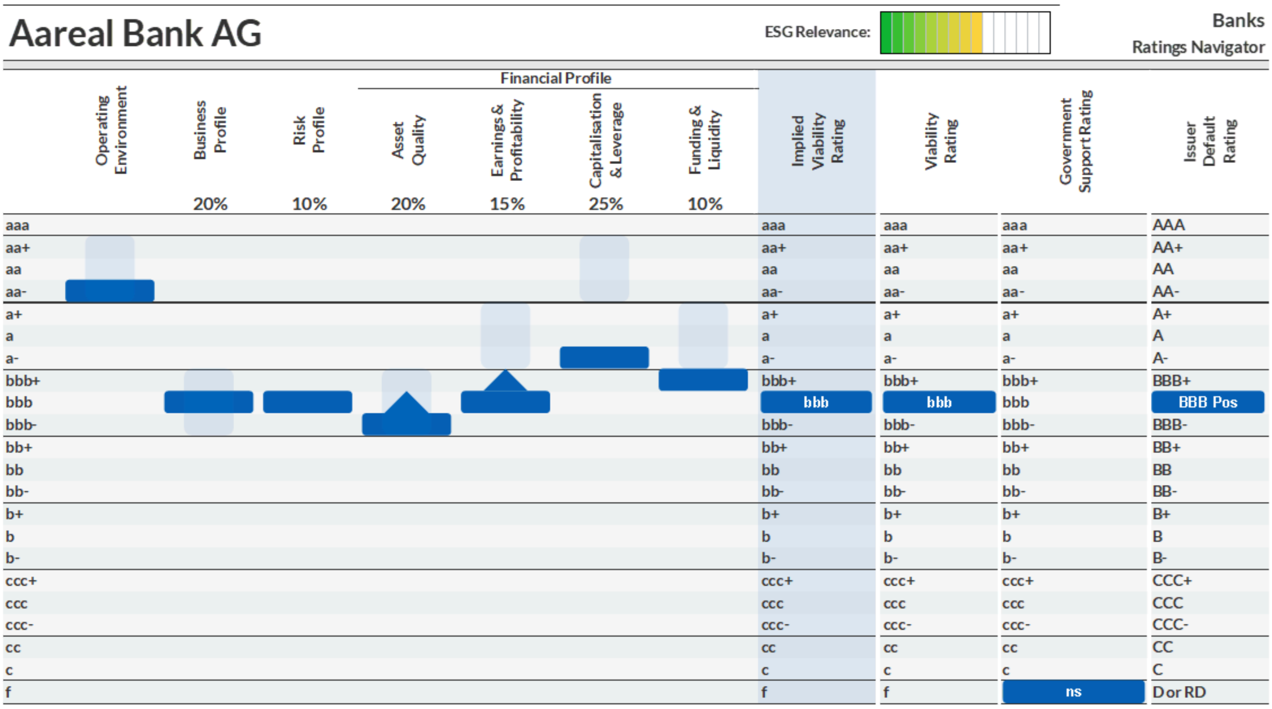
LICs declined by 15% to EUR314 million at end-2025 but remain heightened at 93bp of gross loans. They included an additional charge of EUR55 million to reduce impaired US office loans more quickly. The impaired loans ratio fell to 2.6% (end-2024: 3.2%), below our initial expectations, but the US office market remains challenging. More than half of the impaired loans as reported by the bank still relate to the US office market. We expect LICs to decline further over the next two years as property markets recover. Aareal has no direct exposure to the Middle East; therefore, we do not expect a significant direct effect on the bank's asset quality from the Iran conflict. Nevertheless, second-round effects related to higher energy prices and inflation could affect the markets in which the bank operates.

Aareal completed its first significant risk transfer transaction, with a volume of EUR2 billion and including a diversified portfolio of European loans, in October 2025. The bank aims to strengthen its capital efficiency and support its growth through this transaction.

Aareal amended some of its three-year strategy targets focusing on growth and efficiency measures. The bank achieved its target to increase its CRE loan book to about EUR34 billion, which was lowered from an initial target of EUR37 billion. Aareal amended its target for deposits to include retail deposits in addition to institutional housing deposits, and is aiming for deposits of above EUR18 billion by end-2027 (end-2025: EUR17 billion).

The bank is aiming for EUR40 million of cost savings by 2027 relative to 2024. It realised about EUR15 million in 2025. Aareal also aims to increase return on equity to about 13% by 2027 (post-tax, based on a standardised 13.5% CET1 ratio, Basel IV fully phased in, excluding one-offs), to have a cost/income ratio of about 30%, and to maintain a CET1 ratio above 13.5% on a Basel IV fully phased-in basis (end-2025: 15.5%). The bank targets a non-performing loans ratio below 3% (end-2025: 3.2%, which includes on- and off-balance-sheet and fair value impaired loans) and to lower its LICs/gross loans to about 45bp by 2027. We believe achievement of some of these targets remains contingent on recovery of the US CRE market.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The earnings and profitability score of 'bbb' is assigned below the 'a' implied category score due to the following adjustment reason: revenue diversification (negative).

The capitalisation and leverage score of 'a-' is assigned below the 'aa' implied category score due to the following adjustment reason: risk profile and business model (negative).

The funding and liquidity score of 'bbb+' is assigned below the 'a' implied category score due to the following adjustment reason: non-deposit funding (negative).

Financials

Financial Statements

	31 Dec 22	31 Dec 23	31 Dec 24	31 Dec 25	31 Dec 26F	31 Dec 27F
	12 months	12 months	12 months	12 months	12 months	12 months
	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
Summary income statement						
Net interest and dividend income	702	1,014	1,060	934	-	-
Net fees and commissions	277	39	-4	4	-	-
Other operating income	23	-62	-18	18	-	-
Total operating income	1,002	991	1,038	956	978	1,011
Operating costs	571	329	374	346	338	336
Pre-impairment operating profit	431	662	664	610	640	675
Loan and other impairment charges	192	441	370	314	266	211
Operating profit	239	221	294	296	373	464
Other non-operating items (net)	-	-79	2,062	0	-	-
Tax	86	94	82	118	-	-
Net income	153	48	2,274	178	261	325
Other comprehensive income	53	-46	19	-9	-	-
Fitch comprehensive income	206	2	2,293	169	-	-
Summary balance sheet						
Assets						
Gross loans	31,720	33,698	34,103	35,223	36,104	37,006
– of which impaired	985	1,470	1,095	931	-	-
Loan loss allowances	487	424	398	425	-	-
Net loans	31,233	33,274	33,705	34,798	-	-
Interbank	1,914	2,976	1,522	1,054	-	-
Derivatives	1,825	1,538	1,144	1,289	-	-
Other securities and earning assets	5,329	6,084	7,411	8,212	-	-
Total earning assets	40,301	43,872	43,782	45,353	-	-
Cash and due from banks	5,424	977	2,605	328	-	-
Other assets	1,606	1,984	1,427	1,172	-	-
Total assets	47,331	46,833	47,814	46,853	47,964	49,071
Liabilities						
Customer deposits	16,895	17,181	16,464	17,013	17,523	18,049
Interbank and other short-term funding	1,981	1,622	1,191	2,938	-	-
Other long-term funding	21,050	20,898	21,758	21,151	-	-
Trading liabilities and derivatives	3,514	2,683	2,566	1,705	-	-
Total funding and derivatives	43,440	42,384	41,979	42,807	-	-
Other liabilities	633	1,149	375	294	-	-
Preference shares and hybrid capital	300	300	300	407	-	-

Financial Statements

	31 Dec 22	31 Dec 23	31 Dec 24	31 Dec 25	31 Dec 26F	31 Dec 27F
	12 months	12 months	12 months	12 months	12 months	12 months
	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
Total equity	2,958	3,000	5,160	3,345	-	-
Total liabilities and equity	47,331	46,833	47,814	46,853	-	-
Exchange rate	USD1 = EUR0.9376	USD1 = EUR0.9127	USD1 = EUR0.9622	USD1 = EUR0.8511	-	-

Source: Fitch Ratings, Fitch Solutions, Aareal

Key Ratios

(%)	31 Dec 22	31 Dec 23	31 Dec 24	31 Dec 25	31 Dec 26F	31 Dec 27F
Profitability						
Operating profit/risk-weighted assets	1.9	1.6	2.1	2.3	2.7	3.1
Net interest income/average earning assets	1.7	2.4	2.5	2.1	2.1	2.2
Non-interest expense/gross revenue	56.9	33.3	36.1	36.3	34.6	33.2
Net income/average equity	5.3	1.6	66.0	4.8	-	-
Asset quality						
Impaired loans ratio	3.1	4.4	3.2	2.6	2.5	2.5
Growth in gross loans	0.0	6.2	1.2	3.3	2.5	2.5
Loan loss allowances/impaired loans	49.4	28.8	36.4	45.6	45.0	45.0
Loan impairment charges/average gross loans	0.6	1.4	1.1	0.9	0.7	0.6
Capitalisation						
Common equity Tier 1 ratio	19.3	19.4	20.2	22.2	22.1	21.2
Fully loaded common equity Tier 1 ratio	-	13.4	15.2	15.5	-	-
Tangible common equity/tangible assets	4.9	4.8	10.5	6.8	-	-
Basel leverage ratio	6.0	6.4	6.8	7.2	-	-
Net impaired loans/common equity Tier 1	20.2	39.3	24.2	17.5	-	-
Funding and liquidity						
Gross loans/customer deposits	187.8	196.1	207.1	207.0	-	-
Gross loans/customer deposits + covered bonds	109.3	112.1	114.2	115.2	116.1	117.0
Liquidity coverage ratio	207.4	203.7	230.0	-	-	-
Customer deposits/total non-equity funding	42.0	43.0	41.5	41.0	-	-
Net stable funding ratio	-	115.1	117.0	-	-	-

Source: Fitch Ratings, Fitch Solutions, Aareal

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

The colours indicate the influence of each support factor in our assessment.
Influence: Light blue = lower; Dark blue = moderate; Red = higher

Aareal's Government Support Rating of 'no support' (ns) reflects Fitch's view that senior creditors cannot rely on full extraordinary state support. This is driven by the EU's resolution framework that is likely to require senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving government support.

An upgrade of the Government Support Rating would require a higher propensity of sovereign support. While not impossible, the EU's resolution regime makes this highly unlikely, in Fitch's view.

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F2
Derivative Counterparty Rating	BBB+(dcr)
Viability Rating	bbb
Government Support Rating	ns
Sovereign Risk (Germany)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Positive
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2025)

Related Research

Fitch Revises Aareal's Outlook to Positive; Affirms at 'BBB' (September 2025)
Western European Banks Outlook 2026 (December 2025)
Aareal Bank AG (October 2025)
Global Economic Outlook (March 2026)

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