FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Aareal at 'A-'; Outlook Positive

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Fitch Ratings - Frankfurt am Main - 15 Sep 2026: Fitch Ratings has affirmed Aareal Bank AG's Long-Term Issuer Default Rating (IDR) at 'A-' and Viability Rating (VR) at 'bbb'. The Outlook on the Long-Term IDR is Positive. A full list of rating actions is below.

The Positive Outlook primarily reflects Fitch's expectations that the bank's asset quality and profitability will structurally improve following Aareal's strong record of working out its impaired loans in the past two years. The Positive Outlook also considers Fitch's expectations that commercial real estate (CRE) markets will stabilise and loan impairment charges (LICs) will gradually decline. This should result in an operating profit/ risk-weighted assets (RWAs) ratio sustainably above 2% and an impaired loans ratio below 3%.

KEY RATING DRIVERS

International CRE Lender: Aareal's ratings reflect its focus on lending to the cyclical CRE sector, which has resulted in a deterioration 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 deposit franchise adds funding stability and revenue diversification, underpinning its adequate funding and profitability.

The IDR is two notches above the VR to reflect the bank's very large resolution debt buffer and Fitch's forecast that it will remain sustainably above 15% of RWAs.

Sound Workout Record: Aareal mainly finances properties in prime locations globally, 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 views as crucial in navigating the cyclical conditions of real estate markets and mitigating high single-name concentration risks. Structural interest-rate and foreign-currency risks are modest.

Improving Asset Quality: Impaired loan workouts and sales have helped to decrease the impaired loans ratio to 2.5% at end-1H26, after a significant deterioration in the bank's US office portfolio drove its impaired loans and LICs ratios sharply above the German banks' average in the past three years. We expect impaired loans inflows to remain moderate in the coming quarters and below the peak of 2023. This, together with active impaired loans reductions, should stabilise the impaired loans ratio below 3% in the medium term. Impaired loans could rise if interest rates increase more than we expect.

Adequate Profitability: The bank's operating profit was resilient in 1H26 at 2.8% of RWAs, despite continuing challenges in the US office market and lower average interest rate levels than in 1H25. We expect the bank to continue achieving an operating profit above 2% of its 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 20.8% at end-1H26 provides an adequate cushion, considering the bank's cyclical business model and its risk appetite, which leads to high single-borrower concentrations. We expect the CET1 ratio to decline towards the Basel III final fully phased CET1 ratio of 15.6% following a review of the bank's internal models.

Diversified Funding: The gross-loan-to-deposit ratio (including covered bonds) was 114% at end-1H26. The bank's reliance on capital markets funding is mitigated by its established covered bond franchise, stable deposits from the institutional housing sector and retail term deposits collected through independent online platforms.

RATING SENSITIVITIES

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

We could revise the Outlook to Stable if further deterioration in CRE markets affects its asset quality and operating profitability.

We would likely 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 challenges to accessing the wholesale funding market, could also impair Aareal's profitability and funding and result in a downgrade.

We could downgrade Aareal's Long-Term IDR if its resolution debt buffer falls below 15% of RWAs, all else being equal.

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

We would likely upgrade Aareal's ratings if the bank structurally strengthened its profitability, generating an operating profit/ RWAs ratio sustainably above 2%, combined with an impaired loans ratio of about 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: KEY RATING DRIVERS

The bank's Derivative Counterparty Rating (DCR), long-term senior preferred debt and deposit ratings are two notches above the VR, which is the anchor rating. This reflects the reduced probability of default on these obligations compared with the VR, due to the bank's very large resolution debt buffer. At end-1H26, this buffer was 24% of RWAs and we expect it to remain sustainably above 15%. For the same reason, we rate the bank's senior non-preferred debt in line with the VR.

The short-term senior preferred and deposit ratings of 'F2' are the lower of the two options mapping to their respective long-term ratings, reflecting Fitch's assessment of the bank's funding and liquidity.

The Tier 2 debt rating is rated two notches below the VR to reflect their poor recovery prospects. 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.

Aareal's Government Support Rating of 'no support' 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 to participate in losses, ahead of a bank receiving government support.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The deposit ratings, senior preferred and non-preferred debt ratings and DCR are sensitive to changes to the VR and the resolution debt buffer. They could be downgraded if the resolution debt buffer falls below 15% of RWAs for an extended period.

The Tier 2 and AT1 instruments' ratings are primarily sensitive to Aareal's VR. The AT1 ratings are also sensitive to the bank's capital management and distance to mandatory coupon omission points.

Aareal's Government Support Rating is at the bottom of Fitch's rating scale and therefore cannot be downgraded.

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.

VR ADJUSTMENTS

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

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

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

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.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING TYPE	RATING	RATING ACTION	PRIOR
Aareal Bank AG	LT IDR	A- Rating Outlook Positive	Affirmed	A- Rating Outlook Positive
	ST IDR	F2	Affirmed	F2
	Viability	bbb	Affirmed	bbb
	DCR	A-(dcr)	Affirmed	A-(dcr)
	Government Support	ns	Affirmed	ns
subordinated	LT	BB-	Affirmed	BB-
long-term deposits	LT	A-	Affirmed	A-

Senior preferred	LT	A-	Affirmed	A-
subordinated	LT	BB+	Affirmed	BB+
Senior non-preferred	LT	BBB	Affirmed	BBB
short-term deposits	ST	F2	Affirmed	F2
Senior preferred	ST	F2	Affirmed	F2

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 08 May 2026) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Aareal Bank AG	EU Issued, UK Endorsed

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