

RATING ACTION COMMENTARY

Fitch Revises Aareal's Outlook to Positive; Affirms at 'BBB'

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Fitch Ratings - Frankfurt am Main - 26 Sep 2025: Fitch Ratings has revised Aareal Bank AG's Outlook to Positive from Stable, while affirming its Long-Term Issuer Default Rating (IDR) at 'BBB' and Viability Rating (VR) at 'bbb'. A full list of rating actions is below.

The Positive Outlook reflects the bank's strong record of working out its impaired loans over the past two years. We expect the bank's asset quality and profitability to continue to improve as commercial real estate (CRE) markets stabilise and loan impairment charges (LICs) gradually decline. This should result in an operating profit/risk-weighted assets (RWAs) ratio sustainably above 2% and an impaired loans ratio of about 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 the past two years. 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 we view 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 LICs ratios sharply above the German banks' average in the past two years. Impaired loan workouts and sales have helped stabilise the impaired loans ratio at end-1H25. We expect impaired loans inflows to decline in the coming quarters from their peak in 2023. This, together with active impaired loans reductions, should decrease the impaired loans ratio to below 3% in the medium term.

Adequate, Improving Profitability: The bank's operating profit was resilient in 1H25, despite continuing challenges in the CRE market and declining margins on its institutional housing deposits. We expect the bank to continue to achieve 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 21.8% at end-1H25 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 peers' 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 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 to 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: KEY RATING DRIVERS

Aareal's Derivative Counterparty Rating (DCR), 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 (AT1) 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 DCR, long-term senior preferred and senior non-preferred debt and deposit ratings are sensitive to changes in the IDRs. We could also downgrade these ratings if the bank no longer retained a senior non-preferred and junior debt buffer large enough to cover its total resolution buffer requirement, and if at the same time the senior non-preferred and junior debt buffer declined below 10% of RWAs.

The Tier 2 and AT1 debt ratings are sensitive to a change in the VR. The ratings of AT1 notes could also be downgraded if we perceived a heightened risk that the bank's capital cushion above the maximum distributable amount trigger points could fall below 100bp.

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 assigned below the 'a' implied category scores due to the following adjustment reason: revenue diversification (negative).

The capitalisation and leverage score of 'a-' is 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 below the 'a' implied category score due to the following adjustment reason: 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 <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Aareal Bank AG	LT IDR	BBB Rating Outlook Positive	Affirmed	BBB Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
	Viability	bbb	Affirmed	bbb
	DCR	BBB+(dcr)	Affirmed	BBB+(dcr)
	Government Support	ns	Affirmed	ns
subordinated	LT	BB-	Affirmed	BB-

subordinated	LT	BB+	Affirmed	BB+
long-term deposits	LT	BBB+	Affirmed	BBB+
Senior preferred	LT	BBB+	Affirmed	BBB+
Senior non-preferred	LT	BBB	Affirmed	BBB

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 21 Mar 2025\) \(including rating assumption sensitivity\)](#)

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Aareal Bank AG

EU Issued, UK Endorsed

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