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Jochen Klösges

**Chairman of the Management Board
of Aareal Bank AG**

**Speech at the
Ordinary Annual General Meeting
on 3 May 2024**

- The spoken text will prevail in the event
of any differences –

I. Welcome and introduction

Ladies and Gentlemen, dear shareholders,

On behalf of the entire Management Board, it is my pleasure, too, to welcome you to Aareal Bank AG's ordinary Annual General Meeting!

I will be informing you today about Aareal Bank Group's performance during the 2023 financial year.

I'll also be talking about how we assess the current situation and how we are meeting the many challenges in what is currently a very demanding economic environment.

As you will know, I am speaking to you today for the final time as Chairman of the Management Board of Aareal Bank after almost three very eventful years. Today's Annual General Meeting is not only a special day for me personally. It also marks a turning point in the recent history of our Company.

Following the majority takeover of Aareal Bank AG by Atlantic BidCo GmbH in June 2023 and the subsequent delisting in November, today's Annual General Meeting will resolve on the exclusion of the remaining minority shareholders of our Company. The AGM's decision on this so-called squeeze-out under company law will be made upon the request of our main shareholder.

If the Annual General Meeting approves the transfer of shares to our main shareholder, we will move into the next phase of our development as a private company. However, due to our substantial presence on the fixed-income markets we shall maintain our strong capital markets focus and high level of transparency.

I will revert to the squeeze-out later under agenda item 6.

Let me start by going into some detail on Aareal Bank Group's economic environment and business performance.

II. Current economic environment and business performance

There's no doubt that the political and economic climate is challenging – and will remain so for the foreseeable future.

This affects us as citizens and businesses alike. We have all had to learn in the more recent past that nothing is certain anymore; nor can anything be taken for granted. Neither peace nor freedom are guaranteed.

We have been finding ourselves affected by the unbearable suffering the war has brought to the people of Ukraine. In addition, last year another war erupted in the Middle East which shocked us deeply and brought even more uncertainty to the global political situation.

Ladies and Gentlemen,

Times are challenging, both from a political and an economic perspective.

The German economy is fighting its way out of recession. In terms of growth, we are the worst-performing major economy in the industrialised world – which has caused great tension in our society.

What we need now is a positive vision, investment, and an agenda for the future – to improve sentiment and bring about the necessary changes.

The same holds true for the commercial property market. The situation is better than proclaimed by many, but it's being overshadowed by an undeniably difficult situation on the US office property market. The reasons for the downturn over there are

manifold; including the higher relevance of the working-from-home trend in the US, sharp and rapid interest rate hikes, and overcapacity – an issue that has in fact existed prior to the current crisis.

Aareal Bank has been addressing the resulting challenges since the spring of last year. We have been working with our clients and partners on resolving every individual case that has run into trouble, which has led us to restructuring our exposures in the US office property market and recognising extensive loss allowance in 2023.

360 million euros of loss allowance were attributable to US office properties alone, representing more than two-thirds of our aggregate loss allowance of 510 million euros booked in 2023. This figure comprises expenses for the reduction of legacy exposures as well as loss allowance booked in the fourth quarter, which we set aside as a basis for the restructuring of non-performing loans during 2024. In this way, we have already been able to reduce our NPL portfolio by around half a billion euros as at the end of the first quarter. We announced this goal at our Annual Press Conference in February, and we've been true to our plan by achieving this goal during the first quarter of this year.

This strategic decision resulted in lower annual results than we had forecast. But we wanted to be well-prepared for further challenges, and able to significantly reduce the share of non-performing loans – not least for our fixed-income investors.

We have also boosted Aareal Bank Group's profitability. In the current environment, further strengthening our Company's solidity and being prepared for all eventualities is just as important, if not more important to us.

Even though market pressure for commercial property financing was undoubtedly substantial in the past year, there is no reason for us to call this some sort of swan song on commercial property.

Why is that? First of all, there are clear differences between the office markets in the US and in Europe, both in terms of indicators such as vacancy rates or average investment terms, and regarding the relevance of the working from home trend and the usual contractual arrangements on the investment and rental markets. We saw just one single loan in Europe which needed to be restructured in the past year, and that involved a retail, not an office property. That case has already been resolved. It is fair to say that we are currently seeing no signs that developments in the US are directly spilling over to Europe.

This commercial property business has always been cyclical – something that participants tend to forget in the current market phase. A downturn will always be followed by a recovery, sooner or later. What is crucial is that investors and providers of finance know how to deal with these cycles.

Aareal Bank has proven time and again that it is very capable in this respect, the past financial year being a good example. We addressed issues diligently and were able to absorb the associated heavy burdens through our ongoing business performance.

How was this possible? First, because we boosted our operating profitability in recent years: aggregate net interest and net commission income crossed the 1-billion-euro threshold for the first time in the 2023 financial year; this equals an increase of 31 per cent compared to the previous year.

Second, because the vast majority of our broadly diversified portfolio is stable and healthy. The US office property market is certainly an important segment in our business, but it's far from being the only major segment.

And third, because we can count on an excellent team that knows how to implement tailor-made solutions for each individual case. I would like to take this moment to extend my heartfelt thanks to all Bank, Aareon and Group employees for their outstanding work and commitment in these very trying times!

Ladies and Gentlemen,

Our Group's performance in the 2023 financial year was not only characterised by the extremely dynamic revenue development that allowed us to compensate for the high loss allowance; we also continue to have costs fully under control. Our cost/income ratio for 2023 stood at 32 per cent, which is excellent by comparison with our peers. Despite considerable headwinds in the US market and active investment in the reduction of non-performing loans, the Bank generated operating profit of 221 million euros, which is only marginally below the previous year's level and original projections. This is evidence of the Bank's strong operating profitability and resilience.

And talking of resilience: despite our planned portfolio growth to 32.9 billion euros and significant market turbulence, our CET 1 ratio continued to rise slightly, reaching 19.4 per cent as at the end of 2023.

The funding picture is also extremely solid. Our liquidity ratios are well above regulatory requirements, despite strong portfolio growth and the challenging economic and capital markets environment. Another important fact is that our long-term funding has significantly longer residual terms than our property financings.

Throughout 2023 we have made further good progress towards our strategic goal of further diversifying the funding mix and broadening the investor base. We have also gained more independence from the capital markets, and our cooperation with Raisin has been a contributory factor here. Also, we were able to significantly expand the volume of fixed-interest retail deposits, which amounted to approximately 2.6 billion euros as at year-end 2023, more than quadrupling within one year. In the meantime, we have exceeded the 3-billion-euro threshold.

III. Segments

The positive overall picture becomes even clearer when taking a closer look at our segment performance.

In our **Structured Property Financing** segment, we weathered the difficult conditions on the international property markets and took advantage of the opportunities presented during the year for high-margin new business. New business totalled around 10 billion euros and was exactly in line with our expectations. In doing so, we have grown across all asset classes, especially in hotels, and especially in Western Europe – furthermore, we did in fact originate some selective new business in the US.

We have also grown in new asset classes. Last September we formed a specialised team to finance alternative living properties. Business in this growth segment comprises student housing, micro-apartments, and co-living. We are already one of the leading providers in this field, and our goal is to expand this position.

In addition, the Bank entered the New Zealand market in 2023 which is a good complement to our presence in Australia. This enables us to serve clients who are

active in both markets from a single source. In principle, financings in New Zealand are eligible for inclusion in Pfandbrief cover, offering attractive financing options, especially in hotels and in the alternative living sector.

Green finance remains an important growth driver. Our green loan portfolio grew to 4.8 billion euros as at the end of 2023, and has now exceeded the 5-billion-euro mark. We aim to expand it to between 6 and 7 billion euros by 2026. Our total lending volume classified as green rose to 9 billion euros as at the reporting date 2023 and now accounts for 28 per cent of our portfolio. And the figure keeps rising.

Ladies and Gentlemen,

I would now like to turn to our **Banking & Digital Solutions** segment which developed very favourably during the past year.

The average volume of client deposits from the housing industry rose to 13.6 billion euros, thus exceeding the target level of around 13 billion euros envisaged for 2023. Our solutions are used to handle the payment transactions of more than 4,000 clients in the housing and commercial property sectors, who manage more than nine million rental units between them. The deposit business this generates is granular and very stable, as we are deeply integrated into our clients' payment processes.

Today, we are benefiting not only in terms of funding, but also on the earnings side: at 238 million euros, net interest income for the segment was more than one-and-a-half times the previous year's figure. The segment's net commission income also developed favourably, rising to 33 million euros in past year.

The Banking & Digital Solutions segment has evolved into a second stable and profitable pillar for the Bank. This differentiates us from other specialist providers in our market, who have to rely exclusively on property financing.

Aareal Bank Group's third segment is our high-growth software subsidiary **Aareon**.

Further substantial investments into Aareon totalled around 100 million euros in 2023, a good 60 million euros more than originally planned. We have deployed these funds to optimise the product range, to invest in sales and processes, and also to conduct efficiency enhancements.

Aareon has continued to perform very well indeed in its operating business, with sales revenues up 12 per cent to 344 million euros. The share of recurring revenues has continued to increase, from 74 to 81 per cent.

Adjusted EBITDA, the key earnings indicator for high-growth IT companies, increased by 33 per cent to 100 million euros last year; accordingly, the EBITDA margin climbed from 25 per cent to 29 per cent. This has enabled us to evolve Aareon into a "Rule of 40" company, faster than originally planned. This key performance indicator for software companies refers to the point where the percentage sum of EBITDA margin and revenue growth exceeds 40. Aareon has now passed this threshold.

Moreover, we have succeeded in refinancing our subsidiary through external finance providers: the facility provided by Aareal Bank to date has been replaced with external long-term debt, and we have also strengthened Aareon's capitalisation via a capital increase.

To summarise: as a result of these measures and a sustained positive operating performance, Aareon has achieved capital markets readiness far sooner than planned.

As in previous years, Aareon will continue to examine M&A opportunities on an ongoing basis. As the company currently has an attractive pipeline, more activities are expected in the course of the year.

We also want to exploit further growth potential, for example by further sustainably strengthening the partnership between the Bank and Aareon. We have placed cooperation between both these parts of the Group on a new footing. The key element here is First Financial, which is at the core of a new joint venture between Aareon and Aareal Bank. Together, the Bank and Aareon will offer even better solutions for the housing and commercial property industries in Germany and Europe, and realise significant efficiency potential for our clients.

By taking the partnership between the Bank and Aareon to a new level, we are creating an important prerequisite for continued profitable growth of both parts of our Group. At the same time, we have established new strategic options for our Group.

Ladies and Gentlemen,

To summarise: 2023 was not only the year in which we celebrated our Company's 100th anniversary, it was also a year of targeted further development. In light of the circumstances, our business performance was remarkable.

Not only did we invest considerable sums, we also managed to address strong headwinds in the US – whilst generating respectable consolidated operating profit of around 150 million euros – proving our ability to actively and successfully manage the current challenges. In addition, we have sustainably strengthened the solidity of Aareal Bank Group, supported in no small part by our decision announced last year to not distribute a dividend for the 2023 financial year.

All of this has allowed us to significantly strengthen the foundation for profitable growth – both for the Bank and for Aareon – in the years to come.

IV. Outlook and conclusion

What's the outlook for the markets and for our Group?

Both the political and the macro-economic situation remain challenging. Interest rate-related tailwinds should ease. And a strong recovery of the commercial property markets is unlikely in the short term, although there are first cautious indicators of a stabilisation. However, it is too early today to make a detailed forecast of when the market will bottom out and the trend will reverse.

In other words: 2024 will be another challenging financial year. Despite the still unfavourable environment, we are confident that we will significantly improve our performance on the previous year and be able to more than double consolidated operating profit. The start into the new financial year underlines this general confidence: figures will be published on the 15th of May.

We continue to seize the opportunities that arise even in such an environment in many of our markets. In the Bank, we want to expand our credit portfolio to between 33 and 34 billion euros. To achieve this target, new business in a range between 8 and 9 billion euros, slightly below the previous year's figure, should suffice. We continue to expect a stable volume of deposits from the housing industry of around 13 billion euros.

Overall, the Bank is expected to increase its operating profit to between 250 and 300 million euros, despite an envisaged above-average loss allowance of approximately 350 million euros.

Aareon will also continue growing. We anticipate a marked increase in sales revenues to between 440 and 460 million euros, with adjusted EBITDA also projected to rise significantly, reaching 160 to 170 million euros. We expect Aareon to make a positive contribution of around 50 million euros to consolidated net income in 2024.

For Aareal Bank Group's consolidated operating profit this means an overall increase to between 300 and 350 million euros for the current financial year, more than double the previous year's figure.

We firmly believe that the investments we have made in recent years will increasingly pay off over time. Aareal Bank Group is a stable, healthy company with very good prospects. We are pursuing long-term goals and are continuously working on improving our business models – in the interest of all our stakeholders. That was, is and remains our ambition!

Ladies and Gentlemen,

Allow me to conclude by saying a few personal words: as you know, I will hand over my office to Dr Christian Ricken on 1 August, who was appointed as my successor by the Supervisory Board in April.

I have had the privilege to lead Aareal Bank Group through a period of profound change and major challenges over nearly three years. In a few weeks I will be leaving our Company, knowing that together, we successfully navigated these stormy waters and built the foundation for a sustainable, strong performance of Aareal Bank Group.

This is a good opportunity to say thank you – to you, dear shareholders of Aareal Bank AG, for your continued support of our work in recent years; to my colleagues on the Management Board for the always trusting cooperation; and not least to all employees of Aareal Bank Group for their trust and great commitment, even in troubled times. Working with you was an honour. We accomplished so much together, and in all honesty, serving this Group was also a lot of fun. I'm wishing Aareal Bank Group every success in the future. There will always be a special bond that connects me to our team.

Thank you very much for your attention.