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Aareal Bank AG („Aareal“)
Paulinenstraße 15
65189 Wiesbaden

London, 20 December 2021

Dear Aareal Supervisory Board, dear Aareal Management Board,

Aareal's past has lacked both strategy and direction. Its voting out reflects the unprecedented anger of your shareholders after years of value destruction. We hope you accept the new tides and change direction.

After due consideration, our proxy advisors believe that substantial errors occurred at the December EGM voting or the counting of votes. The actual result of the vote was most likely even more decisive. We therefore call on you to do everything in your power to ensure that any errors in the vote are clarified transparently. In view of the precarious situation in which you are recommending a sale of Aareal to Advent and Centerbridge (together with CPPIB and unnamed minority shareholders the "**Bidders**") at an extremely low valuation of €29 per share, we believe it is even more imperative to introduce decency, common sense, and transparency as the new guideline of your actions at Aareal.

It is also decency, common sense and transparency in respect of the takeover bid that we are demanding. Plus, we expect prompt answers to the following questions:

(1) Shift of ownership to unnamed minority shareholders

The Offer Document of Atlantic BidCo GmbH ("**Bidco**") dated 17 December 2021 ("**Offer Document**") refers to a value shift of 5% of the shareholding in Aareal to unnamed minority shareholders. Those unnamed minority shareholders will increase their shareholding in Atlantic Lux HoldCo S.à.r.l. and thus indirectly in Bidco from 4.90% to 9.90%. The implied value assuming a full takeover at €29 per share (n.b.: the clearly stated objective of Bidco per the Offer Document is a squeeze-out and thus the 100% takeover of Aareal) is €86.8 million.

- a) Who are the unnamed minority shareholders?
- b) How is it possible that the minority shareholders are not acting in concert with respect to the acquisition of shares by Bidco per item 5.3 and Annex 1 of the Offer Document?
- c) What is the exact background of the 5%?

(2) Management incentive systems / remuneration

- a) Have Advent / Centerbridge addressed or discussed a management incentive plan, which is common in private equity, with any members of the Management Board and/or the Supervisory Board of Aareal or Aareon? If so, which parameters have been discussed?
- b) Have any binding or non-binding commitments made by the Bidders to any member of the Management Board, other employees and/or Aareal Supervisory Board members regarding an incentive scheme that goes beyond Aareal's current remuneration system?
- c) Have any binding or non-binding commitments been made to any members of the Management Board regarding their respective future employment with Aareal and, if so, which ones and to what extent do these commitments go beyond any existing contract?

d) Does Aareal plan to develop a revised remuneration system, as decided by an overwhelming majority of 63.3% at the Annual General Meeting on 18 May 2021? If not, please provide a justification for your course of action. For reasons of fairness and transparency, the justification should address any conflicts of interest arising from the proposed takeover in relation to the remuneration structure at Aareal - which an overwhelming majority of shareholders have condemned as indecent.

e) Has an improved remuneration system been developed by Aareal's Remuneration Control Committee?

If yes, what are the proposed changed parameters compared to the current remuneration system, which has been rejected by an overwhelming majority of shareholders?

If yes, has a draft of the improved remuneration system been discussed with the Supervisory Board?

If so, has an improved remuneration system been approved by a majority of the Supervisory Board?

(3) Declaration of intent by Advent and Centerbridge

a) Pursuant to Section 2.3 of the Offer Document, Advent and Centerbridge may amend the declarations of intent made at any time. These declarations of intent are thus effectively worthless. Why have the Supervisory Board and Management Board not negotiated any binding commitments by Advent and Centerbridge, in particular regarding a separation of Aareon from Aareal Group?

b) Item 7.3.1 of the Offer Document states that Advent / Centerbridge have committed to continue Aareal Group in its existing structure. To what extent is this commitment binding and for how long?

c) Section 7.2.3 of the Offer Document describes a 3-year lock-up for the Bidder, which grants Aareal the right to prevent a resale of its stake in Aareal (n.b.: Aareal may not unreasonably refuse). Is this lock-up legally binding?

(4) Support from Advent and Centerbridge

a) The Offer Document refers in several places to the know-how of Advent and Centerbridge, which will accelerate / improve the development of Aareal. Why has the Supervisory Board or the Management Board so far failed to build up similar know-how?

b) Item 7.2.3 of the Offer Document refers to future cooperation on NPL issues. Please confirm that this does not mean that Advent / Centerbridge intend to purchase NPLs from Aareal? If so, how will it be ensured that there cannot be any conflicts of interest – especially against the background of the planned reshuffle of the Supervisory Board with Advent / Centerbridge representatives and the planned establishment of an Advisory Board?

c) Item 7.2.3 of the Offer Document refers to a Relationship Agreement under which Advent and Centerbridge are granted the right to establish an Advisory Board in addition to the pro rata composition of the Supervisory Board (ergo at least 5 -7 members). This Advisory Board will provide Advent / Centerbridge with even more information flow than they will already have via their minimum 5-7 representatives on the Supervisory Board. How can this blatant preferred treatment of a majority shareholder over minority shareholders be brought in line with the German Governance Code?

d) What are the expected costs for setting up and operating the planned Advisory Board?

e) How can minority shareholders assess the quality of the Advisory Board's work? How can possible violations of applicable law by the Advisory Board be monitored?

(5) Domination and profit and loss transfer agreement

a) Point 7.3.6 of the Offer Document states that no conclusion of a domination and profit and loss transfer agreement is planned because this would lead to regulatory violations. Point 14 d) explicitly refers to the possible conclusion of a domination and profit and loss transfer agreement. Can you clarify this contradiction?

(6) Offer support

Pursuant to section 7.2.2 of the Offer Document, Aareal Bank has agreed not to take any action to encourage any form of public offer for Aareal shares or a similar transaction by a third party.

The explicit requirement to 'not encourage' an alternative offer is tantamount to sabotaging possible alternative offers.

- a) How does Aareal justify this biased preferred treatment of Advent and Centerbridge?
- b) How high does Aareal assess the value of this commitment in the context of the current takeover discussions?
- c) How high do Aareal's advising investment banks quantify the value of this commitment?
- d) Has Aareal received any monetary benefits from Advent / Centerbridge in return for this commitment?
- e) Have there been any alternative expressions of interest within the past 12 months? If so, when exactly? If so, by whom, in what structure and at what price?
- f) Has any other interested party been granted access to the data room?

(7) Fairness opinions

- a) What is Aareal's valuation range as determined by the advising investment banks (i.e., the valuation range in the fairness opinion)?
- b) What value did the investment banks determine for Aareon and Aareal Bank (i.e. Aareal Group ex. Aareon) in this regard?

(8) Data room access

The Offer Document shows that the Bidders had full access to Aareal and important data over a period of approximately 6 1/2 weeks. The Bidders are therefore in an incomparably superior position to assess the value of Aareal and, in particular, Aareon. As a major shareholder with a long-term investment horizon, we also request access to the same data that the Bidders have received. Of course, we are happy to sign an appropriate confidentiality agreement concerning commercially sensitive data. We request access to the relevant data still this week. We also demand that you confirm that no insider information (material non-public information) has been passed to the Bidders by Aareal.

Ladies and Gentlemen, instead of working out a sustainable strategy you have manoeuvred Aareal into a takeover situation that we shareholders do not welcome. You have succeeded in turning a clear majority of shareholders against you. Your reaction of hastily flogging Aareal to private equity investors who plan to generate 20-30% return per year on their Aareal investment is not a fair solution. The Bidders' idea to exploit the funds on Aareal Bank's balance sheet to provide cheap growth capital for Aareon while stopping dividends payments – which are essential to retail investors – is extremely unfair. The lack of fairness is compounded by the fact that the Management Board, which has for years failed to perform while being paid handsomely by the Supervisory Board, is apparently trying to enrich themselves as part of this transaction. As is so often the case at Aareal, conflicts of interest prevail and sound governance falls by the wayside.

We urge you to respond to our questions by 23 December and reserve the right to take legal action against you.

Sincerely,



Klaus Umek
Managing Partner



Till Hufnagel
Partner