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Jochen Klösges

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

**Speech at the
Ordinary Annual General Meeting
on 10 August 2023**

- 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 to welcome you to Aareal Bank AG's Annual General Meeting 2023 – in our anniversary year!

A few weeks ago, on 20 July, we celebrated the 100th anniversary of our predecessor institution "Deutsche Wohnstätten Bank AG" –

100 eventful years during which our Bank has seen various name changes. It has endured periods of upheaval, weathered crises, and permanently faced up to new challenges – especially during recent years.

Through all of this, it has adapted and evolved, remaining true to itself, always following a holistic, long-term and client-first philosophy. One hundred years after its foundation, Aareal Bank continues to be a reliable partner to its clients.

We stand for growth AND responsible risk management.

For a down-to-earth approach AND a cosmopolitan spirit.

For the willingness to change AND for continuity.

We are always looking ahead – with confidence, but also with humility. With a clear view of opportunities, but also of challenges.

This is how we are embarking upon our second century, which very fittingly begins with a significant milestone in our corporate history – the majority takeover by Atlantic BidCo.

II. Takeover

Atlantic BidCo, backed by a group of financial investors led by Advent International and Centerbridge Partners, has owned around 90 per cent of Aareal Bank AG since 7 June.

Our new majority owners appreciate our expertise and entrepreneurial success. They refused to give up and even increased their offer when the political and economic environment had already started to deteriorate last year, clearly demonstrating their confidence in us and our business model.

Just as we do, these investors see the potential of all three Aareal Bank Group segments. This applies expressly while maintaining a conservative risk policy. But they also realise – as we do – that the markets and our overall environment have undergone extensive changes recently. To jointly find answers to these developments is an ongoing task for everyone involved.

Our "Aareal Next Level" strategy forms the common basis of this collaboration. It entails the clear ambition of strengthening our position as a leading international provider of property financings on the one hand and software, digital solutions and payment services on the other. Specifically:

- by investing in future products and services,
- by taking measures which further strengthen our operational resilience,
- by bringing together our investors' vast common experiences and networks,
- and not least by safeguarding our strong financial base.

The latter is already reflected in today's agenda. In line with our communication on the takeover so far, today the Management Board and Supervisory Board will propose to you that distributable profit for the 2022 financial year be fully retained.

Since Professor Wagner will explain the agenda in detail during the course of this Annual General Meeting, I will not discuss the other items in detail.

III. Current environment

Ladies and gentlemen,

There's no doubt: rarely have a robust capital base and a strong funding mix been as valuable as they are today. That's because rarely have companies across all sectors, and banks in particular, had to tackle such a wide range of challenges all at once.

- Russia's ongoing war of aggression in Ukraine has pushed geopolitical uncertainty to levels we haven't seen in a long time.
- From an economic point of view, the war has shattered hopes for a strong recovery following the pandemic.
- The German economy is expected to shrink slightly this year, and unfortunately, the picture is not much better elsewhere.
- At the same time, it is becoming more and more apparent that the lack of skilled labour is hampering growth, putting many sectors under increasing pressure.
- Inflation remains far too high.
- To curb these price increases, central banks have raised interest rates at a rapid pace rarely seen before. This sharp interest rate increase has further dampened economic activity, with the construction sector being no exception. Property markets, too, are experiencing revaluations.

After a decade of a steady upward trajectory, we now see the long-awaited correction in the property markets. For many market participants, it is the first reminder in many

years that property markets, too, are subject to cycles – as is the business of providing financings for these markets.

IV. Business review

Ladies and gentlemen,

Trust is precious in turbulent times like these.

The best way to gain trust is through reliability and transparency, mainly based on a proven solid economic performance and long-term success.

This is our way exactly.

Aareal Bank Group did a respectable job, given the circumstances in the recent past, and has developed well.

We proved that our strategy is viable even under very challenging conditions.

Our figures for the 2022 financial year are testament to that. But since that lies well behind us, I'll only touch briefly upon these figures.

Driven by strong operating performance, we closed the past year with a very good result and met our key targets.

- Consolidated operating profit increased by more than 50 per cent to 239 million euros, even though we had to deal with significant charges from the remaining exposure to Russia, which I will get back to later, and despite transaction costs incurred by the takeover process.
- Earnings have increased significantly, in particular net interest income. This rise was driven by continued portfolio growth, with new business originated at

risk/return parameters which continue to be attractive. We also benefited from the net positive impact of the turnaround in interest rates.

- At the same time, we have kept our costs under control. We keep investing heavily into Aareon's expansion. In the Bank, we already exceeded our medium-term target of lowering the cost/income ratio to 40 per cent last year, demonstrating that we are highly efficient, even by international standards.
- As at the 2022 reporting date, key risk indicators of our loan portfolio were better than before the pandemic, and we significantly reduced the volume of non-performing loans, despite Russia.
- The good result has enabled us to further strengthen what had already been very solid capital ratios.
- We also strengthened our funding base further, for example with the very successful introduction of fixed-interest deposit offers for retail investors.

In short, during the 2022 financial year, we further improved the groundwork for a continuation of Aareal Bank Group's sustained positive performance. And we once again significantly strengthened our Company's financial basis, its resilience and its ability to withstand crises.

V. Performance 2023

Ladies and gentlemen,

This is clearly evident in the current financial year 2023 – especially in the figures for the second quarter and the first half of the year, which we published this morning.

Whilst the various signs of crisis still had a relatively mild impact on our first quarter of 2023, the very challenging environment has now started to become more noticeable.

First and foremost, the cyclical downturn on property markets is also having an effect on our risk situation, as I had indicated recently. This is due in particular to the tense situation in the US office property segment.

But our strong operating profitability – which has increased significantly over the past years – and the performance of all other property finance portfolios, which has remained stable, has helped us to cope with this challenge to date.

We have been able to manage the headwinds in our operating business resulting from the current situation on the US office property market. On top of this, we terminated the Bank's last remaining exposure in Russia, also absorbing the associated burdens.

At the same time, we've been able to execute the additional investments in our Company's future viability that we had announced at the beginning of the year, at the expense of our operating results.

- Firstly, these involved burdens to Aareon's net income due to extensive measures to enhance efficiency, and the streamlining of the product portfolio. We have meanwhile increased the originally planned amount of 35 million euros to around 60 million euros; the amount has already been almost fully absorbed. These are deliberate investments into Aareon's business model which will pay off over the next years.
- Secondly, we invested another approximately 60 million euros into additional loss allowance to facilitate the swift reduction of non-performing loans. This has also been fully absorbed in the first half of the year.

In addition to these two non-recurring factors which burdened our results for the first half of the year by around 120 million euros, we markedly increased loss allowance for loans in the US office property segment by around 100 million euros.

Despite these significant burdens, we have posted consolidated operating profit of 87 million euros for the first half of the year, which was almost on a par with the previous year's level. Likewise, operating profit for the second quarter, when the majority of charges was posted, was positive at 25 million euros.

We managed this thanks to the continued marked increase in profitability.

Aareal Bank's net interest income of 240 million euros has never been higher in a single quarter than between April and June 2023, and it has never been higher in a half-year period than in the first six months of this year – 462 million euros. In this context, we benefit from the portfolio growth in recent years as well as from the impact of markedly higher interest rates on our deposit-taking business.

Net commission income is also developing favourably, with double-digit growth rates both in the second quarter and the first half of the year, thanks in particular to Aareon's continued strong revenue performance.

Against this background, it is positive to note that the risk situation remained stable across all parts of our commercial property financing portfolio outside the US office segment.

Measures in this respect, as already mentioned, required a 50 per cent increase in loss allowance for the first half of the year, to 160 million euros. The second quarter alone accounted for 128 million euros. Another 33 million euros of loss allowance was recognised in net gain or loss from financial instruments (fvpl) due to fair value

measurement adjustments. So, loss allowance in the second quarter totalled around 160 million euros.

We keep our costs under control: non-recurring expenses at Aareon were the main driver of the increase in administrative expenses in the first half of the year.

We succeeded in keeping costs stable at the Bank. Together with the strong income growth, this led to a very encouraging cost/income ratio of only 32 per cent for the first six months and 30 per cent for the second quarter. You will agree with me that these are excellent figures compared to our competitors.

Ladies and gentlemen,

Aareal Bank Group remains well on track in its operating business. We are responding to the changed environment with extensive loss allowance, and with targeted measures to further enhance efficiency and strengthen resilience.

And we keep growing, in a controlled and risk-conscious manner.

New property finance business has clearly picked up during the second quarter, compared to the subdued start to the year. We have originated 4.1 billion euros in new business during the first half of the year.

We are strictly adhering to our conservative risk standards.

This can be seen in the average loan-to-value ratio of 53 per cent for newly-originated loans, which was another 4 percentage points lower than in the first half of 2022. At around 290 basis points, this year's average gross margins were both ahead of the previous year and our planning.

Thanks to the flourishing new business, our portfolio volume – and thus our interest-bearing business – has grown further, to 32.1 billion euros as at 30 June. This means

we have now already reached our target range for the financial year of between 32 and 33 billion euros.

With all this, we are operating from a position of financial strength.

Our funding remains broadly diversified. We benefit from the initiatives we have undertaken over the past years, to attract new investors for our issues and to tap new funding sources – through retail deposits, for example, or the launch of a Commercial Paper programme.

The volume of retail deposits raised via Raisin and Weltsparen has grown to more than 1.7 billion euros. For us this is a big success, since we only commenced activities in this market segment in the middle of last year.

On the capital markets, our activities focused on Pfandbrief issues in the first half of the year. Most recently in July, we successfully placed a three-year, 500 million euro Pfandbrief with an order book of around 3 billion euros – the biggest in Aareal Bank's history, by the way –, the issue was six times oversubscribed.

We continue to perform very well in terms of capitalisation: despite our portfolio growth, we managed to even slightly increase our CET1 ratio compared to the year-end level, to 19.4 per cent at the end of June.

Aareal Bank has also proven its resilience at this year's ECB stress test, where we achieved a good result. The adverse stress test scenario provided for a simultaneous price decline of close to 30 per cent across global commercial property markets, and in this scenario our stressed CET1 ratio remained in a range between 11 per cent and 14 per cent. Now this is a scenario that I have never seen. And yet our stressed CET1 ratio remained well above our current minimum requirements imposed by

banking regulators. In fact, the ratio even improved significantly compared to the last ECB stress test conducted in 2021.

All this shows that we are not immune to overall market weakness either. But thanks to our sound capitalisation and our profitability, we are well prepared for any market weakness, and we know how to handle the cyclical nature of our business.

This is thanks to our profound knowledge of the markets and close collaboration with our clients.

We also benefit from the broad diversification of our portfolio across sectors and geographies.

What's more, we have strengthened our profitability over recent years to a level where we can afford to digest higher risks, as our figures have impressively shown.

At the same time, we are continuing to invest in preparing our Bank for the future and in improving its competitiveness.

For me, this is today's key message: at the half-year mark of a very challenging financial year, Aareal Bank Group presents itself in robust condition. We strike a balance between risks and opportunities in the operating business and continue along the path of risk-conscious growth in this environment. Thanks to our strong profitability, we succeeded in maintaining largely stable half-year results – despite higher investments, substantial impairments recognised for our US office property finance portfolio, and the full run-down of our Russian exposure. This demonstrates our operational resilience, even in difficult markets.

VI. Outlook

What's the outlook for the markets and for us this year?

The economic environment is unlikely to substantially improve in the short term, with no upswing expected before next year. Inflation, which is proving stubbornly high (yet has recently declined in Europe and in the US), will probably also not ease markedly before 2024. And whilst we should be approaching the interest rate peak, we are not quite there yet.

Property markets have not yet fully absorbed the impact of the immense rise in interest rates. A new balance, from which fresh momentum might emerge, is yet to be found. Uncertainty remains high for the time being.

With our measures taken in the second quarter, we've recognised adequate loss allowance for all risks identifiable today. From today's perspective, it is impossible to make any conclusive statement as to whether we will be facing further burdens from the US office property finance portfolio during the remainder of the year. As of today, we feel well-prepared with the loss allowance recognised.

In the past, remaining active when others withdrew has served us well. And this is what we will do this time, too.

Hence, we will remain on course for the full year 2023, maintaining our earnings forecast – with shifts in the various parameters. Consolidated operating profit, however, should come in at the lower end of the communicated range of between 240 and 280 million euros, owing to the additional investments at Aareon.

On an adjusted basis – that is, excluding the 120 million euros we have deliberately invested in the reduction of legacy risks and in the future of Aareon – we would still be in the 350 million euro range we had originally targeted for operating profit for this

financial year. And this despite markedly higher loss allowance, which we were able to offset with our operating income.

Ladies and gentlemen,

Aareal Bank Group has proven often enough that it can be successful even in challenging conditions – just as we are sure to be successful this time.

We remain basically optimistic beyond the year 2023. Why is that?

- Because our strategy pays off, as our considerable earnings momentum demonstrates.
- Because we hold excellent market positions, and will continue to expand them across all three segments.
- Because we keep investing in the efficiency of our platform and the continued resilience of our business model.
- Because our financials are sound, and we can set the course for the coming years from a position of strength.

But rest assured that we remain committed to all our investors – both our shareholders and our fixed-income investors. We will continue to provide the transparency that you need and expect from us. And we will not ease to do everything in our power to serve our stakeholders and make the Company a long-term success story.

In its 100th year of existence, Aareal Bank Group is in a robust position – strategically, operationally and financially. So we enter the next phase of our development with confidence and a clear view on risks and opportunities.

Thank you for your attention.