

Supervisory Board and Management Board  
Aareal Bank AG („Aareal“)  
Paulinenstraße 15  
65189 Wiesbaden

London, 28 December 2021

Dear members of the Supervisory Board and Management Board,

yesterday, we received Mr. Klösger's belated incomplete and vague answers to our letter dated 20 December 2021. Meanwhile, there have been press articles about decisive voting errors at the Extraordinary General Meeting of 9 December 2021 (the "EGM"), which have prevented the independent candidates proposed by us from being elected to the Supervisory Board. These errors have apparently been communicated to you in writing by one of your major shareholders together with the demand for you to request the appointment by the district court of Mr. Heinz Laber, Ms. Marion Khüny as well as Mr. Joachim Sonne to the Supervisory Board in order to establish the will of the majority of your shareholders.

Embracing transparency and working for your shareholders would see the following actions taken by you:

- (1) Judicial appointment of candidates Laber, Khüny and Sonne to the Supervisory Board;
- (2) Transparent and complete answers to our questions;
- (3) Proactive communication regarding the "mistake" apparently attributable to Morgan Stanley ("MS"). In light of MS's conflict of interest as advisor to Advent / Centerbridge, who have issued the financing confirmation for Advent / Centerbridge and have been appointed the central settlement agent for the offering, there is no alternative to creating full transparency;
- (4) Constructive and proactive communication with Petrus Advisers as your largest shareholder. This is particularly relevant as we asked in our letter of 1 June 2021 for the opportunity to personally present our arguments to the entire Supervisory Board of Aareal. Ms. Korsch responded in her letter dated 10 June 2021 that this was not desired, which is one of reasons for her ejection by the shareholders;
- (5) Neutrality and equidistance of the Supervisory Board and the Management Board with regard to the takeover offer.

Your actions raise many questions about your understanding of how public companies should be governed:

- (1) Shortly before the vote at the EGM, the Management Board apparently tried to convince shareholders to change their vote in favour of the discredited Supervisory Board;
- (2) Our understandable and urgent questions about the offer and its background have only been partially addressed with numerous relevant questions unanswered;
- (3) Despite written notification of MS's serious error in the EGM vote, you have tried to conceal this highly relevant information – only through investigative press work has this situation now come to light;
- (4) Instead of implementing the will of the majority of your shareholders and proposing the highly qualified and independent candidates Laber, Khüny and Sonne, you seem to have in a frenzy proposed to the district court three completely new candidates. Naturally, this hurried selection of candidates took place without adequate diligence – there was simply no time for a structured and well-prepared process. It can be assumed that you were looking for candidates who as a condition for their nomination must support your refusal to do good work as well as your idea to sell Aareal at an unattractive price;

- (5) Mr. Wagner's role in the Adler/Consus/Corestate scandals raises many questions and we reserve the right to take legal action for putting a bank in the hands of Supervisory Board members with such blind eyes and deaf ears. So far, Mr. Wagner has not seen the need to seek a dialogue with Petrus Advisers. At the same time, he has been very proactively talking to other shareholders to convince them of the benefits of the Advent / Centerbridge takeover bid, which is inconsistent with his role as an impartial successor to the discredited Ms. Korsch;
- (6) Despite the decisive outcome of the EGM vote, the Supervisory Board and Management Board have endorsed the takeover bid in their statement of 27 December 2021.

#### **Unanswered questions from your response to our letter dated 20 December 2021:**

##### **(1) Shift of ownership to unnamed minority shareholders**

In the response letter of Jochen Klösger dated 27 December 2021 (lacking the signature of Marc Hess, who according to our information crowns his overstrain since the departure of Mr. Merkens and the resulting non-progress of the bank with a 3-week vacation until 10 January, or by members of the Supervisory Board, the "**Klösger letter**"), no clear answers have been provided regarding the minority shareholders, who are originally to hold 4.90% and are to receive a further 5.0% upon completion of the takeover.

What exactly are you and Advent / Centerbridge hiding?

Why has our set of questions on this topic not been answered?

Why are some Centerbridge vehicles invested in the minority shareholder structure?

##### **(2) Management incentive systems / remuneration**

According to the Klösger letter, no discussions regarding the future incentive systems for the Management Board or Supervisory Board have taken place. This seems hard to believe, assuming the typical approach by private equity.

Can it be ruled out that, after a successful takeover, a management incentive plan will be set up that is customary for private equity and which would differ significantly from the current remunerations structure?

Furthermore, the Klösger letter states that the schedule for the presentation of a new remuneration system has been postponed. While Aareal's Investor Relations communicated back in September that Aareal was planning to hold a vote on a new remuneration system at another extraordinary general meeting to be held in January 2022, the Klösger letter has made clear you now want to wait until the annual general meeting in May 2022.

Our questions as to whether a new remuneration proposal had already been drawn up and/or adopted by the Supervisory Board remains unanswered. Why?

Why has the original plan to have a revised compensation system voted on in January 2022 changed?

Is the bank's unethical compensation structure currently being continued under a different title?

##### **(3) Declaration of intent by Advent and Centerbridge**

The Klösger letter has not addressed any of our questions.

Are the commitments made by Advent / Centerbridge in the Investment Agreement binding?

If not, why not and what 'protection' do they offer at all?

In particular, the question remains open whether the 3-year exit lock-up is binding for Advent / Centerbridge?

##### **(4) Support from Advent and Centerbridge**

Here, too, the Klösger letter leaves a number of points unanswered.

Why have the Supervisory Board and the Management Board failed to build up the expertise that Advent and Centerbridge are supposed to contribute as shareholders and that supposedly is so relevant for the success of Aareal?

What is the expected cost for the advisory board ('Beirat')?

Who will bear this cost?

How can minority shareholders assess the quality of the advisory board's work?

What independent body will oversee the work of the advisory board?

Is it planned that Advent / Centerbridge, or companies affiliated with Advent / Centerbridge or any of their employees, will receive financial benefits for certain services provided to Aareal?

If yes, which financial benefits?

If no, is it contractually regulated that there will not/cannot be any such financial benefits?

#### **(5) Domination and profit and loss transfer agreement**

Again, the Klösger letter does not address our questions, but responds with generic fluff.

Why does item 14 d) of the Offer Document refer to the possible conclusion of a domination and profit and loss transfer agreement?

Is the intention of Advent / Centerbridge not to conclude a domination and profit and loss transfer agreement binding for the term of the investment agreement?

#### **(6) Offer support**

Despite Aareal's commitment not to promote other bids, which represents a high hurdle for other interested parties, have any alternative expressions of interest been made and/or have other interested parties been in the data room?

#### **(7) Fairness opinions**

The fairness opinions presented are testament to the way in which own interests dominate the actions of Management Board and Supervisory Board. The investment banks were given very narrow guidelines that will undoubtedly not show Aareal's full value potential:

**(i) Conservative planning figures:** It is evident that despite the expensive support by McKinsey in 2020 and 2021, the Management Board provided the investment banks with very conservative and arguably divergent planning figures. Moreover, projections were only provided for 2021-2023. This is particularly relevant because the plan for Aareon provides for massive earnings increases in 2024 and 2025. For as soon as 2021, we expect a significant out-performance compared to the assumptions underlying the fairness opinions.

Why did you provide projections only for the years 2021-2023 despite having provided clear guidance for Aareon until 2025? How do the figures used for the fairness opinions differ from the McKinsey plan already announced publicly?

How has Aareon's strong planned revenue and, above all, EBITDA growth for the years 2024-2025 been considered?

**(ii) No separate valuation of Aareon:** The investment banks were told that Aareon had to be valued as part of Aareal Group. The value potential from a separation of Aareon, which we have been pointing out since more than a year, has apparently not been taken into account.

Why has no typical sum-of-the-parts valuation been prepared by Perella Weinberg and Deutsche Bank?

Why were the investment banks not instructed to consider the value potential of alternative structures, in particular a spin-off of the 70% in Aareon that Aareal still owns?

Has Aareon been compared to RealPage in the valuation?

If not, why not?

Which other peer companies have been used for the valuation?

Why were only the 'dissynergies' of a spin-off of Aareon taken into account by Deutsche Bank, but not the significant synergies, such as the extra costs related to Aareal Bank's using Aareon's data warehouse, which results in Aareon having to meet excessive security specifications resulting from European banking regulation, while not bringing any benefit to the software business?

What are the valuation ranges in the Perella Weinberg and Deutsche Bank fairness opinions?

**(8) Data room access**

Firstly, we do not share the opinion expressed in the Klösger letter that access to the data room for Petrus Advisers would be legally impermissible despite the signing of a confidentiality agreement. In the end, you have allowed access to the minority shareholder Advent, even though Advent does not own a single share in the company.

Further, we demand an urgent answer to our question whether Advent / Centerbridge have received any insider information as part of their due diligence?

**Further questions arising from the joint reasoned opinion of the Supervisory Board and the Management Board dated 27 December 2021 (the "Reasoned Opinion"):**

**(9) Tax disadvantages caused by proposed takeover offer**

The Reasoned Opinion indicates that in the event of a successful takeover bid, tax loss carry forwards in an amount of Euro 155.5 million would be forgone and real estate transfer taxes of Euro 6 million would be incurred.

Why are these facts only being communicated now?

Were Perella Weinberg and Deutsche Bank in possession of these facts when preparing the fairness opinions?

How will minority shareholders be compensated for this financial damage caused by Advent / Centerbridge?

**(10) Change-of-control clauses of the Management Board**

According to Reasoned Opinion, all Management Board members except Mr. Klösger have change of control ("CoC") clauses in their contracts.

Since you have claimed in your Reasoned Opinion that there is no conflict of interest arising from the CoC clauses, we believe it is very important that you disclose the maximum potential claims arising from a CoC for the Management Board. What are the maximum claims by the Management Board that can result from a CoC?

Should Advent / Centerbridge comply with the communicated intention to keep the current Management Board members in their jobs, could the CoC clauses nevertheless result in any financial claims for the Management Board members (except Mr. Klösger)? If yes, what amounts would those claims represent?

**(11) Independence of Richard Peters**

According to the Reasoned Opinion, Richard Peters, while being the President of VBL, has not been involved in any way in VBL's decision-making regarding the offer. According to communications from Aareal and VBL, VBL has delegated the voting of their 6.5% stake in Aareal to Deko.

To what extent has VBL been directly involved in discussions about the takeover offer?

Have there been any direct exchanges between Aareal and the VBL Management Board, and if so, when and on what topics?

Can VBL exercise votes on Aareal itself?

Is Mr. Peters allowed to communicate with representatives of Deka regarding the offer and has any such communication taken place?

To what extent are there affidavits from Mr. Peters regarding the issues / questions above?

Why is Richard Peters referred to as an independent member of the Supervisory Board? The clarifications in the Reasoned Opinion make it clear that he is not to be considered independent.

Since your intention to continue the value-destroying and discredited Korsch era is reflected in the idea of pushing through new and hastily selected candidates at the district court, we have proposed Mr. Laber, Ms. Khüny as well as Mr. Sonne at the district court ourselves.

The biased and opaque actions of Aareal's leadership clearly indicate that you are trying to navigate Aareal into a safe private equity haven. It seems that the lucrative incentives of private equity trump the mandate of ethical corporate governance. As is so often the case, it seems that weak leadership can be bought easily. We therefore reiterate our call for transparency and fairness. Let the candidates supported by the majority of your shareholders be appointed to the Supervisory Board; answer our questions; investigate MS's 'mistake' in full transparency; do not prematurely switch to the private equity side. It would be good if you were to finally understand why Aareal has destroyed so much value and realise that it has been actors like you who have been responsible.

Sincerely,



Klaus Umek  
Managing Partner



Till Hufnagel  
Partner