

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and is considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board.

Transparency

Setting milestones. Creating prospects.

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Corporate Governance Statement pursuant to Sections 289f and 315d of the German Commercial Code (HGB) / Corporate Governance Report

Declaration of Compliance in accordance with Section 161 of the AktG

Aareal Bank AG has complied with the recommendations of the Government Commission "German Corporate Governance Code" (as amended and published in the German Federal Gazette on 24 April 2017) – except for the two restrictions set out below – since the last Declaration of Compliance was issued in December 2017; and will continue to do so, subject to the same restrictions.

Pursuant to section 25d of the German Banking Act (Kreditwesengesetz – "KWG"), the Executive and Nomination Committee of Aareal Bank AG's Supervisory Board is required to assume additional tasks which are not supposed to be prepared by shareholder representatives on the Supervisory Board alone. Hence, the Executive and Nomination Committee also includes employee representative members, in contravention of the recommendation in section 5.3.3 of the German Corporate Governance Code (the "Code"). However, the Committee will ensure that the nomination of candidates for election by the Annual General Meeting will be determined exclusively by shareholder representatives on the Committee.

So far, Aareal Bank has declared an exception to section 4.2.3 (2) sentence (6) of the Code, according to which the amount of Management Board compensation shall not exceed a maximum amount ("cap"), both overall and for variable remuneration components. In March 2014, against the background of changed regulatory requirements, and based upon a proposal by the Remuneration Control Committee, the Supervisory Board approved a new remuneration system for members of the Management Board, with effect from 1 January 2014. The new remuneration system complies with the recommendation in section 4.2.3 (2) sentence 6 of the Code. In this connection, a cap was resolved for the variable, performance-related remuneration component of the Management Board – for the 2013 financial year, and for subsequent financial years. As the only exception, no cap applies to virtual shares granted for the 2012 financial year or earlier financial years. Such virtual shares were automatically settled and disbursed for the last time in 2018, after expiry of the retention period and any applicable holding or blocking periods, based on the weighted average price (Xetra®) of the five exchange trading days following expiry of the period. As a consequence, Aareal Bank will no longer declare an exception to section 4.2.3 (2) sentence (6) of the Code.

Wiesbaden, December 2018

The Management Board



Hermann J. Merkens



Marc Hess



Dagmar Knopek



Christiane Kunisch-Wolff



Thomas Ortman



Christof Winkelmann

For the Supervisory Board



Marija Korsch (Chairman)

Corporate Governance at Aareal Bank Group

Aareal Bank Group is managed by the parent company Aareal Bank AG. Aareal Bank is a listed bank, which by virtue of being classified as "significant", is supervised directly by the European Central Bank. Although we, the Management Board and the Supervisory Board of Aareal Bank AG, are required to observe a large number of specific corporate governance rules, our common understanding does not end with our compliance with these rules. We also discuss on a regular basis the application of voluntary standards that are recommended by the Code, the supervisory authorities, our shareholders or due to international best practice, or that arise for the Supervisory Board and the Management Board in their day-to-day work.

Our top priority is to act in the interests of the Company and hence to meet our responsibility to the employees, customers, shareholders, the public and the environment alike.

Disclosures regarding Corporate Governance standards

To discharge its responsibility, the corporate governance is guided by legal and regulatory rules, as well as by a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the Bank's business, in line with our ethical responsibility. All members of staff have access to these documents, via common internal communications channels such as the Bank's Intranet.

Sustainability approach

Contributing to sustainable economic development is a priority for Aareal Bank Group. As a partner to the property industry, Aareal Bank Group is thus pursuing a business strategy appropriate to the requirements of the sector and the stakeholders. The Group is aware of the responsibility associated with its sustainability mission statement and

the need to focus on the needs of society, and aims to preserve the foundations on which future generations can live and shape their lives.

The sustainability mission statement, which is supported by an integrated sustainability management system, underpins our sustainable corporate strategy, providing a summary of the corporate responsibility principles of Aareal Bank Group that are aligned with our objective of doing business sustainably:

- We think with a view to the future taking ethical, societal and ecological topics into account.
- We analyse trends holistically, evaluate the resulting opportunities and risks, and align our forward-looking sustainability programme with this.
- We focus on all relevant stakeholder groups, seek to engage in active dialogue with them in a variety of ways and show how we make use of the insights we have gained.
- We make sure that business decisions take account of ecological, social and governance factors, and communicate our progress and the challenges we face transparently and credibly.
- We set priorities and implement our decisions, thereby reinforcing corporate sustainability values such as reliability, innovative ability, integrity and compliance, our appeal as an employer, and an emphasis on building and maintaining high-trust client relationships.

We orient ourselves on national and international frameworks, commit to initiatives or have joined organisations that represent generally accepted ethical standards and whose values we share. Relevant organisations here include:

- United Nations Global Compact
- International Labor Organization
- German Corporate Governance Code
- Diversity Charter
- Work-Care Balance Charter

At an organisational level, Aareal Bank Group has assigned responsibility for sustainability management to the Chairman of the Management Board. In this way, Aareal Bank Group emphasises the strategic importance of sustainability for its corporate philosophy and steers its practical implementation at the highest level. Established already in 2012, the Sustainability Committee supports the Management Board in the ongoing development of the sustainability programme and in coordinating the Group-wide sustainability activities. It includes representatives from all key divisions.

Further details can be found in the latest Sustainability Report: www.aareal-bank.com/en/responsibility/reporting-on-our-progress/sustainability-reporting/

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by the members of the Management Board and the Supervisory Board, and by all our employees across the Company, regardless of their functions and duties. Our internal Code of Conduct therefore contains binding rules governing the legal and ethical conduct of employees vis-à-vis clients, business partners, and colleagues. Aareal Bank Group's efforts in this context are also motivated by the desire to affirm and further strengthen the confidence placed by stakeholders – our clients, investors, and staff: www.aareal-bank.com/fileadmin/DAM_Content/Konzern/dokumente/Code_of_Conduct_en.pdf.

Principles of diversity

The Management Board and the Supervisory Board are openly committed to diversity throughout the entire Aareal Bank Group.

Aareal Bank defines diversity as:

- An appreciation for the uniqueness of every individual and respect for their differences
- Equal opportunities at all levels

- The prevention of discrimination of any kind
- The belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals.

The goals are to promote Aareal Bank Group's image as a modern employer, to strengthen employee commitment and increase employee motivation, to ensure skills and competencies are fostered individually in a way that promotes employee performance, to react to demographic change and an ageing workforce, and to take into account individual circumstances and stages of life.

In order to highlight the significance of diversity and document the fact that the concept of diversity is very important to Aareal Bank Group, the Bank signed the Charter of Diversity (an initiative launched by the German industry in 2006) in 2013.

Aareal Bank employs people from more than 30 different countries. At Aareal Bank's foreign locations, we take care to ensure that positions are primarily filled by local staff if possible. Aareal Bank Group attaches great importance to the equal treatment of women and men, whether in the context of filling vacant positions, with regard to continuous professional development, or in terms of remuneration. Specifically, any vacancies below senior executive level are generally published throughout the Company, in the form of job advertisements that all members of staff – male or female – may apply for. When setting the remuneration of employees, we do not differentiate by gender but rely exclusively on aspects such as qualification, professional experience or training.

In accordance with the German Act on Equal Participation of Men and Women in Executive Positions in the Private and Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst), the Management Board sets specific targets – including concrete implementation deadlines – for the share of women holding executive positions on the first two management levels below the Management Board of Aareal Bank AG. On the first management level

below the Management Board, by 30 June 2022 at least 13.5 % of executive positions are to be held by women; On 31 December 2018, the share of female managers on this level was 22.6 %. On the second management level below the Management Board, by 30 June 2022 at least 21.1 % of executive positions are to be held by women; On 31 December 2018, the share of female managers on this level was 25.9 %.

Across Aareal Bank Group, the share of women in executive positions stood at 25.2 % (Aareal Bank AG: 25.2 %; Aareon: 24.3 %) as at 31 December 2017, with women accounting for 37.7 % of Aareal Bank Group's entire workforce (Aareal Bank AG: 44.4 %; Aareon: 32.6 %).

Severely disabled persons made up 4.8 % of Aareal Bank's staff base in 2018. This employee group is represented in the Group's German entities by a disability representative.

In Germany, Aareal Bank and Aareon apply the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – "AGG"), with specially-appointed AGG Officers overseeing compliance. At the same time, AGG training is held for all employees. In the US, the employee manual contains rules designed to avoid harassment at the workplace ("Anti-Harassment Rules").

Working practices of the Management Board and the Supervisory Board

Management Board

The Management Board is responsible for managing the Company and for its strategic orientation, material transactions and proper organisation. This also includes the implementation of effective monitoring systems. It focuses its business operations on the sustainable development of the Company. Its decisions incorporate the long-term consequences of its actions and are guided by the ethical principles of Aareal Bank Group (see relevant corporate governance principles).

Supervisory Board

The Supervisory Board exercises its control using different instruments. On the one hand, it sets out the reporting requirements of the Management Board in its internal Rules of Procedure, to ensure comprehensive and prompt reporting. These reports include the financial reports prior to being published, the reports of Internal Audit, Risk Controlling and Compliance, as well as the external auditor's reports. It also determines the transactions of the Management Board in its internal Rules of Procedure, where its approval is required.

Furthermore, the Supervisory Board contributes to the sustainable success of Aareal Bank Group – in the interest of investors, clients, staff, and the general public – by selecting suitable Management Board members (as set out in the Guidelines for the Selection of Members of the Supervisory Board and Management Board), a Management Board remuneration system which is aligned with the Company's sustainable interests (as set out in the Remuneration Report), and the effective supervision of this remuneration system.

The Supervisory Board has established six (since 1 January 2019: five) committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Remuneration Control Committee, the Risk Committee, the Committee for Urgent Decisions (only until the end of 2018), the Audit Committee, and the Technology and Innovation Committee. An overview of the respective committee members can be found in the Notes: www.aareal-bank.com/en/investors-portal/finance-information/financial-reports/archiv/2018/.

Executive and Nomination Committee

The Executive and Nomination Committee prepares the plenary meetings of the Supervisory Board, together with proposed resolutions. The committee's area of responsibility also includes assessing the internal condition of the Group, and issues concerning personnel planning for the Management Board (also regarding the contracts

with individual Management Board members, based on the remuneration system prepared by the Remuneration Control Committee and adopted by the plenary meeting of the Supervisory Board). The Executive and Nomination Committee compiles profiles defining the requirements for members of the Management Board and the Supervisory Board and supports the Supervisory Board in selecting suitable candidates. Based on an annual evaluation, it determines the extent to which the members of the Management Board or Supervisory Board have a need for further training, or whether other adjustments are required. Furthermore, the Executive and Nomination Committee discusses decision proposals regarding connected-party loans as well as other transactions between members of administrative, management and supervisory bodies and the Company or its subsidiaries.

The Executive and Nomination Committee, excluding the employee representatives, discusses the nomination of shareholder representatives for election by the Annual General Meeting.

Remuneration Control Committee

The Remuneration Control Committee monitors whether the structure of the remuneration systems for Management Board members and employees is appropriate, taking into account the impact of remuneration systems on Aareal Bank's overall risk profile. The Remuneration Control Committee prepares corresponding proposals concerning remuneration (including for members of the Management Board) for the plenary meeting of the Supervisory Board. The Remuneration Control Committee receives the information provided by Aareal Bank's Remuneration Officer, as well as the information on the remuneration system intended for disclosure. For further details, please refer to the section on remuneration governance in the Remuneration Report.

Risk Committee

The Risk Committee deals with all material types of risk Aareal Bank is exposed to in its business activities. In addition to the plenary Supervisory

Board, it is also the recipient of the risk reports (please refer to the Risk Report). The committee is also responsible for reviewing the contents of the risk strategies in accordance with the MaRisk and preparing the corresponding resolutions of the Supervisory Board.

Committee for Urgent Decisions (until the end of 2018)

The Committee for Urgent Decisions was a sub-committee of the Risk Committee up until the end of 2018. Members were elected from amongst the parent committee. The Committee for Urgent Decisions took lending decisions which, pursuant to the internal rules of procedure for the Management Board, required Supervisory Board approval, and which were particularly urgent. Since the Committee passed its resolutions by way of circulation, it did not hold any meetings. Any decisions taken between meetings of the Risk Committee were discussed at the subsequent meeting.

Audit Committee

The Audit Committee is concerned with all accounting issues, as well as regarding the audit of Aareal Bank AG and Aareal Bank Group. The committee is responsible for the preparation and conduct of the audit of the financial statements and the consolidated financial statements; it prepares the decisions to be taken by the Supervisory Board on the basis of the committee's analysis of the external auditors' reports. For this purpose, the committee reports to the plenary meeting of the Supervisory Board on the results of its analysis and the assessments derived. Preparing the audit of the financial statements also comprises the preparations for instructing the external auditors (by virtue of the corresponding resolution passed by the Annual General Meeting), verifying the independence of the external auditors, including the approval of permissible non-audit services, negotiating the auditors' fees, and determining focal points of the audit. The Audit Committee also discusses quarterly and half-yearly financial reports with the Management Board, and obtains the external auditors' report on their review of the

half-yearly report. Furthermore, the Audit Committee is responsible for examining the projections submitted by the Management Board; the reports by Compliance and Internal Audit are addressed to the committee. The committee is also responsible for monitoring the effectiveness of the internal control and monitoring system.

Technology and Innovation Committee

The committee deals with issues concerning information technology used within the Company, and with issues related to IT products created and distributed by Aareal Bank Group entities.

Communication

Aareal Bank assigns great importance to extensive communications with all of the Bank's stakeholders. It has set itself the target of actively, transparently and openly communicating with all stakeholders, taking into account the interests of all stakeholders.

All press releases, ad-hoc disclosures, corporate presentations, as well as annual, sustainability and quarterly reports published by Aareal Bank are available on the Bank's website to any interested person, and may be downloaded from there. In addition, the financial calendar is updated regularly, and provides information about upcoming events.

Aareal Bank publishes details on the financial position and performance five times annually. On these occasions, the Management Board gives a personal account of results, within the scope of press and analysts' conferences, as well as issuing press releases.

All information can be found on Aareal Bank's website: www.aareal-bank.com/en/investors-portal/.

Relationship to shareholders

To facilitate direct communication, Aareal Bank has set up a separate division within its organisation, which serves as a first point of contact for

shareholders, other investors and analysts. The contact persons in Investor Relations can be found on the Aareal Bank website www.aareal-bank.com/en/investors-portal/equity-investors/contact/.

The Bank also holds an Annual General Meeting once a year. Shareholders are thus given the opportunity to actively participate in the development of the Company.

At the Annual General Meeting, the shareholders decide, in particular, on the formal approval for the members of the Supervisory Board and Management Board for the financial year under review, on the appropriation of any net retained profit, amendments to the Memorandum and Articles of Association, and authorisations on capital adjustments. The Annual General Meeting also elects the auditor for the Company.

The Company's shareholders may submit statements or proposals in writing, by fax or e-mail, to the Company. They may also request to speak at the Annual General Meeting. The shareholders may also submit counter or supplemental motions to the agenda items at the Annual General Meeting, so that they participate in structuring and influencing the meeting. The Management Board and the Supervisory Board refer to shareholders' comments made during the general debate, or to motions submitted by shareholders in advance, to respond to questions, or to comment on other contributions.

We are not currently broadcasting parts of the Annual General Meeting on the internet, nor is it currently possible to give instructions or cast votes online. This is because, given the low level of acceptance of such a service amongst our shareholders, the related efforts and costs would have been excessive. Aareal Bank will continue to review demand for such a service on a regular basis.

Guidelines regarding the selection of members of the Management Board and the Supervisory Board

The Supervisory Board of Aareal Bank AG is satisfied that the Management Board and the Supervisory Board are adequately staffed, if all members are in a position to perform their duties (professional qualification), commit the time necessary to perform these and possess the integrity to be guided by the ethical principles of Aareal Bank when performing their duties (with respect to personal reliability, conflicts of interest, and independence). The composition of the Supervisory Board, in its entirety, shall facilitate cooperation and the widest possible diversity of opinions and knowledge (the concept of diversity). The Supervisory Board has defined concrete requirements and processes to incorporate these criteria for the evaluation of Management Board and Supervisory Board members, as well as when selecting candidates for appointment to the Management Board, or for shareholder representatives to the Supervisory Board. When establishing these processes, it has taken into account the legal requirements of the German Public Limited Companies Act (Aktengesetz – "AktG"), the German Banking Act (Kreditwesengesetz – "KWG") and of the German Corporate Governance Code. The regulatory guidelines of the European Central Bank and the European banking supervision on adequacy and internal governance are also incorporated, as well as the corporate governance guidelines for the consultants on voting rights that are relevant for Aareal Bank and key shareholders. Besides the Supervisory Board, the European Central Bank also reviews the suitability of the respective candidates prior to taking up their duties, using the so-called "fit & proper" approach.

Personal reliability

The principles of personal reliability apply equally for all members of the Management Board and the Supervisory Board. All members of the Management Board and the Supervisory Board should demonstrate honesty, integrity and independence

of mind. They should live by the ethical principles of Aareal Bank, as set out in the Code of Conduct, and commit sufficient time to perform their duties. The Supervisory Board calculates the time commitment of every member of the Management Board and the Supervisory Board, and reviews on an annual basis whether they also dedicate sufficient time to exercising the mandate. In this connection, the Supervisory Board takes care to ensure compliance with the requirements for the maximum number of additional offices, pursuant to sections 25c (2) and 25d (3) of the KWG.

Conflicts of interest & independence

Acting in the interests of the Company means being able to make significant judgements unbiased by considerations irrelevant to the matter at hand. The Supervisory Board therefore attaches particular importance to the handling and disclosure of conflicts of interest or potential conflicts of interest that could, for example, call into question the independence of the Supervisory Board.

In its Conflicts of Interest Policy, the Supervisory Board has laid down procedures on how to prevent or handle potential conflicts of interest affecting members of the Management Board or the Supervisory Board. Specifically, the Policy provides that individual Management Board and Supervisory Board members must establish transparency even where there is only a potential conflict of interest. The members of the Supervisory Board and the Management Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Code arose during the financial year under review. Any individual whose circumstances may give rise to a material conflict of interest cannot be considered as a candidate.

The Supervisory Board also determines when the independence of one of its members is not ensured and carries out an annual review of whether the independence of individual members is no longer ensured, or may be compromised. This could be the case, for example, if the general limitation to members' maximum three terms of office on the Supervisory Board is soon to be exceeded. Each

term of office starts with the election (or re-election) by the Annual General Meeting. The Supervisory Board aims for a scenario whereby at least 50 % of the employee representatives and each chairman of a committee and the Supervisory Board should be independent. At present, the Supervisory Board believes that all employee representatives (Marija Korsch, Richard Peters, Dr Hans Werner Rhein, Prof. Dr Stephan Schüller, Sylvia Seignette, Elisabeth Stheeman, Dietrich Voigtländer and Prof. Dr Hermann Wagner) are independent.

Professional qualification

Every member of an executive body must possess the knowledge, ability and experience to properly perform their duties. This means that they must at least be able to understand and assess the Company's material business activities and the associated material risks, the control and monitoring system established in this regard, as well as the corresponding accounting and financial reporting systems. This also requires being familiar with the underlying material legal requirements. The members of the Management Board are responsible for the duties of the entire Management Board as well as those of the sections assigned to them. Each member of the Supervisory Board must be in a position to perform the duties incumbent on the Supervisory Board in its entirety. If they chair a committee, they should have extensive expertise in the topics covered by the committee. The Chairman of the Audit Committee, for example, must be an expert on financial reporting issues and internal control and monitoring systems, while the Chairman of the Risk Committee must be an expert in managing and monitoring risks. Both committee chairmen may not hold the position of Chairman of the Supervisory Board.

The curricula vitae of the members of the Management Board: www.aareal-bank.com/en/about-us/company-profile/the-management-board/ and the members of the Supervisory Board: www.aareal-bank.com/en/about-us/company-profile/supervisory-board/ can be found on the website.

Concept of diversity

In principle, the Management Board and the Supervisory Board pursue the objective in their bodies of ensuring maximum variety with regard to gender, age, internationality and professional diversity. Where there are several suitable candidates, further selection takes these aspects into account, to draw together the broadest possible spectrum of different perceptions in the interest of making the best possible decision for Aareal Bank. The Management Board ensures that these aspects of diversity are also taken into consideration at the management levels it controls, to facilitate succession that is oriented on this concept of diversity (please refer to relevant management duties/diversity). The Supervisory Board has set individual objectives for the aforementioned diversity aspects, for both itself and the Management Board, the implementation of which it presents annually. It understands these objectives as being minimum objectives; there is no reason why they cannot be exceeded.

Gender diversity

In accordance with the German Act on Equal Participation of Men and Women in Executive Positions in the Private and Public Sector, the Supervisory Board sets specific targets – including concrete implementation deadlines – for the share of female members on the Supervisory Board and the Management Board. Likewise, the Management Board defines such targets for the first two management levels below the Board. On the Supervisory Board, by 30 June 2022 at least 25 % of positions are to be held by women. The status quo is 41.66 % (2017: 33.33 %). On the Management Board, by 30 June 2022 at least 20 % of positions are to be held by women. The status quo is 33.33 %, following the expansion of the Management Board (2017: 40 %).

Age diversity

The Supervisory Board has set out targets for the age structure of the Management Board and the Supervisory Board, in order to safeguard the con-

tinuous development of both executive bodies. At the time of (re)election to the Supervisory Board, candidates should therefore be less than 70 years old. Furthermore, the Supervisory Board should not consist exclusively of members who are older than 60 years. Members of the Management Board should not exceed the upper age limit of 65 years while serving on the Board. These objectives are currently met.

International profile

In addition, given Aareal Bank's international business activities, the Supervisory Board has set itself and the Management Board the goal of having the broadest possible international experience, which can be proven by foreign nationality or considerable professional experience gained in another country. Following the enlargement of the Management Board, the corresponding share of members is currently 33 % (2017: 40 %). For the Supervisory Board, the figure is 25 %, and has remained unchanged from the previous year.

Diversity of professional skills

The Supervisory Board pursues the objective of maximum professional diversity when selecting the members of the Management Board and the Supervisory Board. However, the demanding professional requirements for members of the management board and the supervisory board of so-called "significant credit institutions" limit the opportunities for achieving this objective: for instance, regulatory rules require in principle that the members of the Management Board have extensive experience in the lending business and in risk management. In accordance with section 100 (5) of the AktG, the Management Board members in their entirety shall be familiar with the sector in which the Company operates. However, the Supervisory Board itself pursues the objective whereby not all members have gained the main part of their professional experience in a bank.

Annual evaluation of the suitability and performance

Compliance with the aforementioned guidelines is reviewed at least once a year or on an event-driven basis. The Executive and Nomination Committee is regularly supported by external experts.

The Executive and Nomination Committee assesses the suitability of the Management Board and the Supervisory Board in their entirety, as well as with regard to their individual members, and evaluates the structure, size, composition and performance of both bodies. Finally, the Committee advises on any recommendations made to the Supervisory Board in order to leverage the potential for improvement that has been identified.

In accordance with section 25d (4) of the KWG and section 5.4.5 of the Code, the Supervisory Board members regularly attend continuous professional development measures, and are supported to this effect by the Company. In its annual evaluation, the Executive and Nomination Committee evaluates, among other things, if further training will be required to meet future challenges or new provisions.

Composition of the Management Board and Supervisory Board

The members of the Supervisory Board and its committees, the respective Chairmen and members of the Management Board and their relevant areas of responsibility are presented in the Notes (88). As per the Supervisory Board's decision, the Management Board is comprised of six members. The Supervisory Board appoints one of the members to Chairman of the Management Board. In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairman and two Deputy Chairmen from amongst them, for the duration of their term of office. In the financial year 2010, employee representatives were elected

by the special negotiating body, a body representing employees following the merger of Aareal Bank France S.A. into its parent company Aareal Bank AG.

The committees typically comprise five members, while the Audit Committee and the Risk Committee comprise six members. The Chairman of the Supervisory Board belongs to every committee and assumes the position of risk management expert in the Remuneration Control Committee. According to the provisions of section 5.3.2 of the Code as well as Aareal Bank's Guidelines for the selection of members of the Management Board and the Supervisory Board, the position of Chairman of the Audit Committee and the Risk Committee is held by independent experts. Additionally, care is also taken to avoid any interlinking of the committee members' positions, to ensure the mutual exchange of information.

Purchase or sale of the Company's shares

In 2018, members of the Company's executive bodies did not carry out any transactions involving the Company's shares, which would have required publication in accordance with the requirements of Article 19 of the EU Market Abuse Regulation (596/2014/EU), in conjunction with section 26 of the WpHG. At the end of the financial year, aggregate shareholdings of members of executive bodies in the Company's shares were less than 1 % of the issued share capital of Aareal Bank AG.

Accounting policies

Aareal Bank AG prepares the Group's accounts in accordance with International Financial Reporting Standards (IFRSs). The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The Management Board prepares the financial statements and management reports of Aareal Bank AG and Aareal Bank Group. The external auditors submit their report on the audit of the financial

statements and the consolidated financial statements to the Supervisory Board, which monitors its independence at the same time. The fees paid to the external auditors are shown in Note (35) to the financial statements. Permissible non-audit services provided by the external auditors must be approved beforehand by the Audit Committee of the Supervisory Board.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), the auditors of the 2018 financial statements – as elected by the Annual General Meeting 2018 and instructed accordingly by the Supervisory Board – have exercised their audit activities under the management of Messrs Ralf Schmitz and Lukas Sierleja. In accordance with internal regulations, all employees of the external auditors, including the responsible partners and lead auditors, rotate their assignment to specific audit assignments on a regular basis – in this case, every five years.

Mr Schmitz, PwC's responsible partner, has audited Aareal Bank since 2018; Mr Sierleja, the responsible lead auditor, since 2016.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

Aareal Bank Group remained on its positive trajectory in 2018, thus following on seamlessly from the previous successful years. In an environment that was shaped by numerous challenging developments, this involved taking further important steps on our way to a sustainable and successful future. The Supervisory Board believes that Aareal Bank remains in very good shape today and is ideally equipped to meet the challenges that lie ahead.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of the Company. The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, upon all the issues important to the Bank. The Management Board reported on the Group's situation, business development, key financial indicators and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and on risk control and risk management measures taken within the Group. The Supervisory Board also received comprehensive reports on the development of the business segments, and on operative and strategic planning, and was involved in all important decisions. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board and a decision taken. In cases where resolutions needed to be passed in between scheduled Supervisory Board meetings, such resolutions were passed by way of circulation or via conference calls.

Furthermore, between the meetings of the Supervisory Board, the Chairman of the Management Board kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, both orally and in writing, on all material developments of the Company. The Chairman of the Management Board maintained close contact with the Chairman of the Supervisory Board, in order to discuss key issues and important decisions personally.

Activities of the Plenary Meeting of the Supervisory Board

Eight plenary meetings of the Supervisory Board were held during the year under review. During these meetings, the members of the Supervisory Board received reports and explanations from the members of the Management Board, and discussed these in detail. Dynamic changes in the markets, also considering the geopolitical developments, the large number of regulatory adjustments that are yet required and further progress in implementing the "Aareal 2020" programme for the future were focal points of the work and reporting in all scheduled meetings.

Throughout the financial year, in the course of all meetings as well as during the periods between meetings, the Management Board informed the Supervisory Board about economic and market developments and their potential impact on Aareal Bank Group, in a timely, complete and comprehensible manner. This also included the measures the Bank had taken in response to the general market developments and the conditions prescribed by monetary policy. During the plenary meetings of the Supervisory Board, the Management Board reported to the Supervisory Board regularly and comprehensively; these reports also covered the development of the Structured Property Financing and Consulting/Services segments, focusing on current economic developments. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group. At regular intervals, the Supervisory Board was informed of the Bank's liquidity status and the related steps taken by the Bank's Treasury. The Management Board also reported regularly on the quality of the property financing portfolio, against the background of general market trends and expected changes on the various property markets.

The focal points of the individual meetings are outlined below.

During the January meeting, the Supervisory Board concerned itself with the target achievement level of the individual Management Board members and the impact of the amended German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstutsVergV"), as well as the discussion of core areas for the lending business.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2017 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. In addition, the proposal regarding the selection and subsequent appointment of the external auditor for the Annual General Meeting was discussed. This also included the scope and focal points of the

audit for the 2018 financial year, as defined by the Supervisory Board. Upon recommendation of the Audit Committee, the Supervisory Board also agreed to subject the non-financial report for 2018 to an audit, to obtain limited assurance. Other issues covered during the March meeting included the preparations for the Annual General Meeting in May 2018. This meeting also discussed the annual reports submitted by Internal Audit and by the Compliance Officer. Remuneration issues were also dealt with at the meeting, and the necessary advice provided on preparing for the adjustments required in the Supervisory Board following the resignation of York-Detlef Bülow as employee representative.

The May meeting commenced with a detailed review of the Annual General Meeting of Aareal Bank AG, which preceded the meeting. Furthermore, the Management Board presented its regular detailed reporting on current and expected business developments, which the Supervisory Board discussed.

The meeting in June exclusively comprised an extensive discussion of Aareal Bank Group's strategy, during which the Supervisory Board intensely discussed strategic initiatives with the Management Board.

The appointment of Marc Hess as Member of the Management Board was discussed and agreed on in two meetings held in June and August. Furthermore, at the first of these meetings, the Supervisory Board discussed the re-appointment of Mr Winkelmann, which was resolved in July.

During the September meeting, current questions concerning strategic initiatives and the latest changes to the regulatory requirements were presented and discussed, in addition to the regular reports.

In the December meeting, the Management Board reported on the Group's corporate planning, and submitted and explained the corporate planning in detail to the Supervisory Board. Corporate governance issues were discussed as well. The requisite

resolutions were passed and implemented. Furthermore, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the German Public Limited Companies Act (Aktengesetz – "AktG"), which was subsequently published on the Bank's website. Following the regulations of section 25c and d of the German Banking Act (Kreditwesengesetz – "KWG"), the Supervisory Board carried out the required evaluations. The Supervisory Board discussed the results of the evaluations in detail, and will incorporate these findings into its work.

Strategy documents were regularly discussed, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk). The Company's remuneration systems were also subjected to a scheduled review, with the reports submitted to the Supervisory Board. The Supervisory Board determined that the Company's remuneration systems are appropriate.

The Chairmen of Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions submitted by the plenary meeting in detail.

To the extent that any Supervisory Board decisions were taken by way of circulation, the Supervisory Board received a report by the Management Board on the implementation of such decisions taken previously, at the subsequent Supervisory Board meeting.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

In addition to its regular meetings, the Supervisory Board convened for a separate informational meeting, during which auditors Pricewaterhouse-

Coopers provided very detailed information on current changes and deliberations in the regulatory and legal framework, as well as on the potential impact of such trends upon Aareal Bank.

Activities of Supervisory Board Committees

The Supervisory Board has established six committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Committee for Urgent Decisions (as a sub-committee of the Risk Committee), the Audit Committee, the Remuneration Control Committee, and the Technology and Innovation Committee. At its December meeting, the Supervisory Board resolved to adjust its Internal Rules of Procedure as well as its organisational structure to changed requirements. The adjusted structure no longer provides for a Committee for Urgent Decisions.

The Executive and Nomination Committee of the Supervisory Board convened for five meetings. During its meetings, the Executive and Nomination Committee prepared the plenary meetings of the Supervisory Board, concerned itself with the efficiency of the Supervisory Board and its committees, as well as with corporate governance issues. Within the scope of a regular dialogue with the Management Board, the Committee informed itself on the strategic development of Aareal Bank Group. The resolutions that were necessary upon the resignation of York-Detlef Bülow as employee representative and the appointment of Petra Heine-mann-Specht as his successor were also prepared.

The Risk Committee held five meetings during the year under review. The committee regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the committee. Besides credit and country risks, the committee concerned itself with market risks, liquidity risks, and operational risks. The committee was also

engaged with the analysis of Aareal Bank's risk-bearing capacity and its capital ratios. Also, detailed reports were given regarding the Bank's liquidity status and management as well as its funding. Risks from existing investments, as well as all additional material risks were also presented.

The Management Board also submitted detailed reports to the Risk Committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The committee members discussed these reports and market views in detail, and also concerned themselves with the banking and regulatory environment.

The Committee for Urgent Decisions was a sub-committee of the Risk Committee, which approved loans subject to approval requirements by way of circulation. For this reason, it did not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were presented again at the subsequent meeting, whereby the Management Board provided supplementary information on current implementation progress.

The Audit Committee held six meetings during the year under review. During its meeting in February 2018, the Audit Committee received and discussed the preliminary results for the 2017 financial year. During its March meeting, the committee received the external auditors' report on the 2017 financial year and discussed the results with the auditors in detail. The committee members discussed the contents of the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of meetings held with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2018 during the same meeting.

During its meeting in May 2018, the Audit Committee also concerned itself with Aareal Bank Group's Sustainability Report and the audit undertaken to obtain limited assurance for this report.

In accordance with the requirements of the German Corporate Governance Code, during its meetings in May, August and November 2018, the Audit Committee discussed with the Management Board the quarterly results to be published.

The meetings also allowed the committee to deal with additional topics, such as a current overview of the services of the external auditors requiring approval in accordance with the EU Audit Regulation and Directive. It approved such services where necessary. Furthermore, the committee was informed about the review of the Internal Control System, in accordance with legal requirements; it duly acknowledged the report, following discussion. In addition to a report on the audit progress, the Management Board presented and explained the updated Group planning to the committee during its December meeting. The Audit Committee was also informed by the Management Board about the structure of sustainability reporting for the 2018 financial year. Furthermore, the Audit Committee initiated the requisite tender process for the change in external auditors for the 2021 financial year.

In its meetings, the committee also received reports submitted by Internal Audit, and the Compliance Report, requesting and receiving detailed explanations, and duly noting both reports.

During its eight meetings, the Remuneration Control Committee discussed issues related to the Bank's remuneration systems and all related matters, fulfilling its original assignment. For this purpose, and to the extent considered necessary, external legal and remuneration advisors were retained to provide support. Moreover, the Remuneration Control Committee supported the Supervisory Board with all issues related to the remuneration of the Management Board. In particular, the committee provided support for determining the Management Board's targets for the current year, and for assessing target achievement by the Management Board, as a basis for determining variable remuneration for the members of the Management Board for the year 2018. As a rule, support was provided to the Supervisory Board by preparing the corresponding recommendations.

The Technology and Innovation Committee convened for four scheduled meetings, during which the committee discussed market trends, technological developments and innovation trends in detail, especially with a view to clients of the Consulting/Services segment. Potential business opportunities arising from the growing digitalisation of business processes – and how these can be put to use by Aareal Bank Group, and especially for its clients – were explained by the employees of the Bank and its subsidiaries responsible for the development, among other things. Further key aspects of the regular discussions were issues related to the security and flexibility of IT systems provided and used within the Bank, as well as the realignment of the banking systems, against the background of numerous new requirements in terms of accounting, regulation, and cybersecurity. The Committee invited external experts to discuss current developments concerning selected topics.

Where members of the Supervisory Board were unable to attend a meeting, they had announced their absence in advance, giving reasons. Attendance of Supervisory Board members at meetings is shown in the table below.

Member of the Supervisory Board	Number of meetings attended / number of meetings (plenary and committee meetings)
Marija Korsch	36 of 36
Prof. Dr Stephan Schüller	27 of 27
York-Detlef Bülow* (until 1 April 2018)	9 of 9
Thomas Hawel*	12 of 12
Petra Heinemann-Specht* (since 1 April 2018)	10 of 10
Dieter Kirsch*	20 of 20
Richard Peters	23 of 23
Dr Hans-Werner Rhein	16 of 18
Sylvia Seignette	13 of 13
Elisabeth Stheeman	17 of 17
Hans-Dietrich Voigtländer	26 of 26
Prof. Dr Hermann Wagner	19 of 19
Beate Wollmann*	12 of 12

* Employee representative

Financial Statements and Consolidated Financial Statements

The Supervisory Board instructed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were elected as auditors by the Annual General Meeting 2018, with the audit of the financial statements and the consolidated financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports, including all annexes thereto, in good time before the meeting during which the financial statements and the consolidated financial statements were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditor participated in the meeting of the Supervisory Board, during which the financial statements and consolidated financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft were available to the Supervisory Board to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB, and the consolidated financial statements

prepared in accordance with IFRSs, and the proposal of the Management Board regarding the appropriation of profit, and the audit reports, were all examined in detail. No objections were raised to the audit results. In its meeting on 26 March 2019, the Supervisory Board approved the results of the audit. The Supervisory Board thus confirmed the annual financial statements of Aareal Bank AG (in accordance with the HGB), and approved the consolidated financial statements (in accordance with IFRSs). The Supervisory Board examined and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Non-financial Report

The Audit Committee and the Supervisory Board concerned themselves with sustainability issues and related reporting during their meetings on 21 and 22 March 2018, and 5 and 12 December 2018.

Moreover, during its meeting on 21 March 2019, the Audit Committee of the Supervisory Board discussed the Combined Separate Non-financial Report for 2018 and the result of PwC's audit of that report. Representatives of the external auditors attended this Audit Committee meeting and reported on material results of their commercial review in accordance with ISAE 3000 (revised), undertaken to obtain limited assurance for this report. They answered supplementary questions from Committee members. The Audit Committee conducted a plausibility check of PwC's audit results, and presented its assessment of the non-financial report (and its analysis of PwC's audit results) to the Supervisory Board. The Audit Committee also issued a recommendation to the Supervisory Board to concur with the results of PwC's audit. The Supervisory Board followed this recommendation; in its meeting on 26 March 2019, it summarised its examination by stating that it had no objections against the non-financial report and the results of PwC's audit.

Special transactions

In September, Aareal Bank Group reached an agreement with the Association of German Banks (Bundesverband Deutscher Banken e.V. – "BdB") on the acquisition of all shares in Düsseldorf Hypothekenbank AG. The Supervisory Board approved this transaction, as it represents the successful continuation of an approach that creates added value for our shareholders. This approach enables us to examine opportunities, as well as using the expertise gained in the orderly, value-preserving run-down and the swift, responsible integration of Düsseldorf Hypothekenbank AG. The transaction was finalised at year-end 2018.

Aareal Bank continued to make advances in its digitalisation campaign; in this context, it acquired a stake in BrickVest, one of the leading European online platforms for commercial property investment, in December 2018. This transaction was also approved by the Supervisory Board. The Supervisory Board is convinced that by participating in a company that pursues a digital model of the future, Aareal Bank is strengthening and promoting a key aspect of the "Aareal 2020" programme for the future.

Personnel matters

Various changes were made to both the Management Board and the Supervisory Board in the past financial year. These are reported on once again below.

York-Detlef Bülow, who served for many years on the Supervisory Board as employee representative, retired as at 31 March 2018. Mr Bülow, who joined Aareal Bank 40 years ago, was the long-standing Chairman of the Group Works Council and Deputy Chairman of the Supervisory Board during this period. He always served his role dutifully and with great commitment, where he provided both critical and constructive advice to the Management Board. In doing so, he made an important contribution to the Bank's efforts in dealing with the changes it encounters in the banking environment. The Super-

visory Board would like to thank York-Detlef Bülow for his long-standing commitment and for the outstanding work he carried out in this context.

The Supervisory Board is pleased to welcome Petra Heinemann-Specht as successor to the employee representative. Petra Heinemann-Specht has been with Aareal Bank for nearly 20 years and has held various positions in this time, including in Credit Management and in Treasury. The Supervisory Board is certain that she will also play an active role on the Supervisory Board as employee representative.

Moreover, Mr Kirsch, who had represented employees on the Supervisory Board, retired from his office, effective at the year-end, since he will enter retirement during the first half of 2019. Having worked for Aareal Bank since 1983, he represented employee interests as a full-time Works Council member since 2002, and was appointed as an employee representative to the Supervisory Board in 2010. Most recently, he succeeded Mr Bülow as Deputy Chairman of the Supervisory Board. Through his commitment and his experience in the banking business, Mr Kirsch contributed to a dialogue between employee representatives and the Management Board which was always constructive and critical, supporting the manifold changes the Bank has seen in recent years. The Supervisory Board would like to thank Mr Kirsch for his long-standing commitment and for the outstanding work he carried out in this context.

The Supervisory Board welcomes Klaus Novatius who will succeed Dieter Kirsch as employee representative as well as Deputy Chairman of the Supervisory Board. The members of the Supervisory Board are certain that these members' long-standing service and activities in the Works Council will ensure a good changeover of staff in the Supervisory Board.

The Supervisory Board wishes the two new members every success in their new roles.

The Supervisory Board extended the contracts of three members of the Management Board in the

past financial year and made one new appointment. It first extended the Management Board contract of Hermann J. Merkens ahead of schedule and appointed him as Chairman of the Management Board for a further five years, one year before his contract was due to expire. The ordinary re-appointment will be effective 2 April 2019, with his new term of office running until 1 April 2024.

Besides the re-appointment of the CEO, the Supervisory Board also extended the contract of Christiane Kunisch-Wolff. Her ordinary re-appointment will be effective 15 March 2019, with her new term of office running until 14 March 2024. Christiane Kunisch-Wolff has been a member of the Management Board since 2016; as Chief Risk Officer, she is responsible for risk controlling and for the Compliance, Regulatory Affairs and Information Security and Data Protection divisions.

The Supervisory Board also agreed to extend Christof Winkelmann's contract with effect from 1 July 2019 up to 30 June 2024. Mr Winkelmann has been a member of the Management Board since 1 July 2016; he is responsible for the Sales units in the Structured Property Financing business segment.

The Supervisory Board believes the renewed appointments will commit the three successful members of the Management Board to Aareal Bank Group for a further term of office.

It also appointed Marc Hess to the Management Board, with effect from 01 October 2018. Mr Hess assumes the position of Chief Financial Officer, which had been covered to date by Herman J. Merkens in his dual role of Chief Executive Officer and Chief Financial Officer. He will additionally assume responsibility for the Treasury division; going forward, he will thus also maintain relationships with debt investors. Marc Hess previously held the position of Chief Financial Officer of Deutsche Postbank AG.

The Supervisory Board of Aareal Bank is pleased to have attracted a very experienced Chief Financial Officer for the Bank. It is convinced that his exper-

tise will provide a key contribution to maintaining Aareal Bank Group's perfectly healthy financial basis over the long term – in a challenging environment.

At the same time, the Supervisory Board would like to express its thanks to Hermann J. Merkens for having covered the dual roles of Chief Executive Officer and Chief Financial Officer throughout a phase of profound change and fundamental decisions for the future of our Company.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for the strong commitment they have shown during the past 2018 financial year. All the employees have contributed to the Company's decisive success in overcoming the many challenges it faced. That enormous continued commitment – and strong motivation – demonstrated by all employees of Aareal Bank Group have once again made the Company's success possible.

Frankfurt/Main, March 2019

For the Supervisory Board



Marija Korsch (Chairman)

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Glossary

Ad-hoc disclosure

Pursuant to Article 17 of the MAR (Market Abuse Regulation), issuers of financial instruments are obliged to publish any information that may have an impact on the price of these instruments without delay. This obligation is discharged using so-called "ad-hoc" disclosures which may relate to the issuer's financial position and performance, or to its general business operations. The ad-hoc disclosure obligation applies in Germany as well as in other major financial centres; it is designed to prevent insider trading.

Advanced Internal Ratings-Based Approach (AIRBA)

Under the "Advanced Approach", banks are allowed to use their internal rating procedures to gain an assessment of the credit quality for the supervisory measurement of risk-weighted assets (RWAs).

Associated Enterprise (associate)

An enterprise which is accounted for in the consolidated financial statements using the equity method (as opposed to full or partial consolidation), over whose business or financial policies an entity included in the consolidated financial statements exercises significant influence.

Basel III/IV

"Basel III" denotes the regulatory framework for banks, promulgated by the Basel Committee on Banking Supervision at the Bank for International Settlements (BIS) with the objective of stabilising the banking sector. The Basel III regulations, finalised in December 2017, are to be implemented by 2022, and are generally known as "Basel IV".

Bonds

Generic term for fixed-income securities or debt securities.

Capital ratios

Common Equity Tier 1 ratio (CET 1 ratio) =

$$\frac{\text{Common Equity Tier 1 (CET 1)}}{\text{Total risk exposure amount (RWAs)}} \times 100\%$$

Tier 1 ratio (T1 ratio) =

$$\frac{\text{Tier 1 capital (T1)}}{\text{Total risk exposure amount (RWAs)}} \times 100\%$$

Total capital ratio (TC ratio) =

$$\frac{\text{Total capital (TC)}}{\text{Total risk exposure amount (RWAs)}} \times 100\%$$

Commercial Mortgage Backed Securities (CMBS)

Bonds backed by loans collateralised by commercial and multi-family properties.

Consolidated statement of cash flows

Statement showing the cash flows an enterprise has generated and used during a financial year, from its operating, investment and financing activities, together with the cash and cash equivalents at the beginning and end of the financial year.

Corporate Governance

Corporate Governance denotes the legal and factual framework for the management and governance of enterprises. The recommendations of the German Corporate Governance Code safeguard transparency and are designed to strengthen confidence in good and responsible corporate governance. They predominantly serve to protect shareholders' interests.

Cost/income ratio (CIR)

Financial indicator expressing the ratio of expenses to income within a given reporting period.

CIR =

$$\frac{\text{Administrative expenses}}{\text{Net interest income + net commission income + net derecognition gain/loss + net gain/loss from financial instruments fvpl + net gain/loss from hedge accounting + net gain/loss from investments accounted for using the equity method + net other operating income/expenses}}$$

Covered bonds

"Covered" bonds is a generic term for debt securities covered by collateral. In Germany, covered bonds are mainly issued in the form of "Pfandbriefe" pursuant to the German Pfandbrief Act (PfandBG), which provides a legal framework for collateralisation (assets eligible for Pfandbrief cover include mortgages and public-sector loans).

Credit Risk Standard Approach (CRSA)

The CRSA is applied, provided no advanced approach (AIRBA) to assess the credit risk exposure exists, or has been approved.

Deferred taxes

Income taxes payable or receivable in the future, due to temporary differences between the carrying amounts of assets and liabilities in the IFRS statement of financial position and the tax accounts. At the time of recognition, deferred tax assets or liabilities do not yet constitute any actual claims on, or liabilities to the tax authorities.

Derivatives

Derivatives – which include all types of forwards, futures, options and swaps – are financial instruments whose value is derived from the price (and/or the price fluctuations) of an underlying instrument, such as equities, bonds or currencies.

Earnings per share (EpS)

Earnings per ordinary share: financial indicator expressing the ratio of net income after non-controlling interest income to the average number of common shares outstanding.

Earnings per share =

Operating profit/loss ./. income taxes ./. consolidated net income attributable to non-controlling interests ./. AT1 coupon (net)

Number of common shares

EBIT margin

EBIT margin =

EBIT (operating profit before interests)

Sales revenues

Effective interest method

Method for amortising the mark-up/mark-down between cost and the nominal value (premium/discount), using the effective yield of a financial asset or liability.

Equity method

Method for measuring shareholdings in enterprises on whose business policy the reporting entity has significant influence ("associates"). When applying

the equity method, the associate's pro-rata net income/loss is recognised in the carrying amount of the shareholding;

EURIBOR

European Interbank Offered Rate – the interest rate at which prime European banks offer euro deposits (with fixed terms of one week, and between one and twelve months) to one another.

Fair value

The fair value is the amount for which an asset can be exchanged (or a liability settled) between knowledgeable, willing parties in an arm's length transaction; this is often identical to the market price.

Fair value hedge

Using a swap to hedge the market risk of a balance sheet item with a fixed interest rate (e.g. a receivable or a security); this is measured at fair value.

Financial assets (fvoci)

Financial assets measured at fair value, whose change in value is recognised directly in equity via other reserves (fvoci = fair value through other comprehensive income).

Financial assets/liabilities (ac)

Financial instruments measured by applying the effective interest method at amortised cost (ac = amortised cost). The financial instrument is measured at the amount at which it was initially recognised, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any reduction for impairment or non-collectability. The effective interest method amortises the mark-up/mark-down between cost and nominal value (premium/discount) over a residual term.

Financial assets/liabilities (fvpl)

Financial instruments measured at fair value, whose change in value is recognised in income (fvpl = fair value through profit or loss).

Financial instruments

Generic term for loans extended and other receivables, fixed-income securities, equities, shareholdings, liabilities, and derivatives.

FX

Abbreviation for foreign exchange.

Goodwill

The amount which the buyer of an enterprise pays over the fair value of assets less liabilities (the net asset value), taking expected future income into account (the fully-capitalised earnings value).

Hedge accounting

Concept describing the recognition (or other form of accounting) of two or more financial instruments, which together form a hedging relationship. In this context, the relationship between these contracts is based on the equal and opposite specification of contractual elements giving rise to risks (usually financial risks). Given these specifications, such agreements can be used to partially or fully offset and neutralise risks. In the context of hedge accounting, one of the contracts involved (specifically, the contract establishing the risk(s) concerned) is referred to as the "underlying transaction", and the other contract (the one entered into to hedge the risk(s) of the underlying transaction) as the "hedge transaction" or just "hedge".

Impairment

An impairment within the scope of determining loss allowance.

International Financial Reporting Standards (IASs/IFRSs)

IFRSs comprise International Accounting Standards (IASs) and interpretations issued by the Standing Interpretations Committee, as well as International Financial Reporting Standards (IFRSs) and related interpretations published by the International Accounting Standards Board (IASB).

LIBOR

London Interbank Offered Rate; the interest rate at which prime London banks offer deposits to one another.

Liquidity Coverage Ratio (LCR)

A Basel III indicator designed to assess liquidity risk.

Loan-to-value ratio (LTV)

The ratio of loan amount to property value, in the context of property loans.

MDAX

The MDAX® mid-cap index comprises the shares of 60 companies from traditional sectors listed in Deutsche Börse's Prime Standard segment that, in terms of exchange turnover and market capitalisation, rank immediately below the companies included in the DAX® blue-chip index.

Minimum Requirements for Risk Management (MaRisk)

The Minimum Requirements for Risk Management in Banks (MaRisk) are binding requirements for the structure of risk management in German banks, as promulgated by the German Federal Financial Supervisory Authority (BaFin).

Money and capital markets

Markets for short, medium- and long-term investments and borrowing in different forms, such as debt securities or promissory note loans.

Mortgage Pfandbrief

Debt securities issued by Pfandbrief issuers (Pfandbrief banks), which are collateralised by mortgages with a maximum mortgage lending value ratio of 60 %.

Present value

The present value of a future cash flow, determined by discounting all future cash flows (inflows and outflows) to today's date.

Profit-participation rights

Profit-participation rights are a hybrid of equity and debt. Their creditors' rights are subordinated to those of other creditors, whilst their interest claim takes precedence over the profit entitlements of shareholders.

Public-Sector Pfandbriefe

Debt securities issued by Pfandbrief issuers (Pfandbrief banks), which are collateralised by claims against the public sector.

Purchased or originated credit impaired (POCI)

Financial assets which had already defaulted at the time of acquisition.

Option

The right to buy or sell a specific asset.

Other comprehensive income (OCI)

Other reserves. Equity sub-item, in which the following effects are recognised directly: the reserve from re-measurements of defined benefit plans, the reserve from the measurement of equity and debt instruments at fair value through other comprehensive income, the hedging reserves, the reserve from changes in the value of foreign currency basis spreads, and currency translation reserve.

Over the counter (OTC)

Financial markets term for off-exchange trading between market participants.

Repo or reverse repo transaction (repurchase transaction)

Short-term money-market transaction collateralised by securities.

Return on equity (RoE)

Financial indicator expressing the ratio of net income (or pre-tax profit, for example) to average equity over the period. RoE expresses the return on the capital employed by the company (and its owners/shareholders).

RoE before taxes =

Operating profit/loss /. consolidated net income attributable to non-controlling interests /. AT1 coupon

Average equity (IFRS) excluding non-controlling interests, other reserves, AT1 bond and dividends

RoE after taxes =

Operating profit/loss /. income taxes /. consolidated net income attributable to non-controlling interests /. AT1 coupon (net)

Average equity (IFRS) excluding non-controlling interests, other reserves, AT1 bond and dividends

Risk weighted assets (RWAs)

Risk-weighted assets are determined by multiplying the exposure value of a counterparty credit risk position with the risk weight assigned to the borrower.

Segment reporting

Shows financial information of segments which are material for management, and their contribution to the consolidated net income.

Swap

Generic term for contracts to exchange cash flows, such as the exchange of fixed-rate and variable rate cash flows in the same currency (interest rate swap), or the exchange of cash flows and/or nominal amounts in different currencies (cross-currency swap).

Swaption

Option to enter into a swap agreement: the right to enter into a swap at a specific point in time, at interest rates and terms agreed upon at the outset.

Value-at-risk (VaR)

Method to quantify risks: it measures the maximum potential future loss which will not be exceeded within a defined period, and given a certain probability.

Financial Calendar

9 May 2019	Publication of results as at 31 March 2019
22 May 2019	Annual General Meeting – Kurhaus, Wiesbaden
13 August 2019	Publication of results as at 30 June 2019
12 November 2019	Publication of results as at 30 September 2019

Imprint

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