

Transparency

Prepared for tomorrow

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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 restriction set out below – since the last Declaration of Compliance was issued in December 2018; and will continue to do so, subject to the same restriction.

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.

Wiesbaden, December 2019

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 and the public alike.

Disclosures regarding Corporate Governance standards

To discharge its responsibility, senior management aligns corporate governance with legal and regulatory rules, as well as 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:

- The appreciation that every individual is unique, and the respect for this uniqueness
- 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 2019, the share of female managers on this level was 16.2 %. 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 2019, the share of female managers on this level was 23.7 %.

Across Aareal Bank Group, the share of women in executive positions stood at 23.8 % (Aareal Bank AG: 21.9 %; Aareon: 24.1 %), with women accounting for 36.8 % of Aareal Bank Group's entire workforce (Aareal Bank AG: 41.9 %; Aareon GmbH: 33.1 %).

Severely disabled persons made up 4.8 % of Aareal Bank's staff base in 2019. 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 activities upon the Company's long-term and sustainable development. 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 long-term and sustainable interests (as set out in the Remuneration Report), and the effective supervision of this remuneration system.

The Supervisory Board has established 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 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/2019/.

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 monitors, and resolves if necessary, decision proposals regarding loans to senior managers and other related party transactions.

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.

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, determining focal points of the audit, and regularly selecting new external auditors. 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. As part

of these duties, the committee monitors the implementation of Aareal Bank Group's digitalisation strategy.

Communications

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 external auditors for the Company and decides who joins the Supervisory Board as shareholder representative.

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.

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 and the Management Board, respectively, shall facilitate, in its entirety, 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 con-

flicts 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 that cannot be mitigated will be ineligible 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. In the event of the following circumstances, the Supervisory Board generally assumes that independence is not ensured:

- At the commencement of the fourth term of office as a member of the Supervisory Board of Aareal Bank AG. The term of office begins with the election by the Annual General Meeting, excluding any judicial appointments.
- The period between membership in Aareal Bank AG's Management Board and membership in the Supervisory Board is less than five years.
- The period between being a senior manager at the first management level below the Management Board and membership in the Supervisory Board of Aareal Bank AG is less than three years.
- The period between working as or on behalf of a material consultant, auditor, or other service provider or client of Aareal Bank and member-

ship in the Supervisory Board of Aareal Bank AG is less than three years.

- A Supervisory Board member is simultaneously associated with a major competitor, as a staff member, member of the Management or Supervisory Board; consultants to major competitors may also not be considered independent.

Furthermore, all Supervisory Board members are subject to the statutory limitations laid out in Section 100 (2) nos. 2 to 4 of the AktG. Unlike the criteria listed above, the statutory limitations are mandatory, which means that they prevent the nomination of a potential candidate, or require the resignation of the affected board member.

Effective 31 December 2019, the Supervisory Board believes, taking the above criteria into account, 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. Prof. Dr Stephan Schüller's term of office exceeds 12 years. However, Aareal Bank's independence assessment is not based on time limits alone, but also takes election periods into account. This was considered necessary because otherwise individual Supervisory Board members may not have been considered independent anymore in the course of their term of office – which could even affect committee chairs or the chairperson of the Supervisory Board.

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 monitoring risks. Both committee chairmen may not hold the position of Chairman of the Supervisory Board.

Overall, with regard to its collective composition, the Supervisory Board further decided that the following additional expertise be adequately represented:

- experience in sectors and financial markets which are material to Aareal Bank Group;
- digitalisation and transformation;
- strategic planning;
- designing and monitoring risk management systems, internal control systems, as well as corporate governance frameworks;
- accounting and auditing financial statements.

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 differ-

ent 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 %, unchanged from the previous year. 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 % (unchanged from the previous year), following the expansion of the Management Board in 2018.

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 continuous development of both executive bodies. At the time of (re)election to the Supervisory Board, candidates should 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. The status quo is 33 % for the Management Board and 25 % for the Supervisory Board, both 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, e.g., if further training will be required to meet future challenges or new provisions.

Succession planning

The Executive and Nomination Committee is responsible for the succession planning of the Management Board and the shareholder representatives on the Supervisory Board. On an annual basis, the Committee reviews the established competence profile, and whether this is compatible with Aareal Bank's business and risk strategies, proposing any necessary adjustments. Furthermore, the Committee reviews, as part of the annual evaluation, whether the current members of the Management and Supervisory Boards fulfil the presently applicable criteria, taking the latest amendments into account. If this is not the case, the committee suggests measures to the Supervisory Board to ensure that all criteria are fulfilled going forward. Such measures may include continuing education courses for individual or multiple Management or Supervisory Board members as well as changes in the composition of the Management or Supervisory Board.

Furthermore, at the beginning of every year, the Executive and Nomination Committee discusses personnel decisions due within the next two years, such as projected retirements, potential re-appointments, etc. Therefore, if the re-appointment of a Management or Supervisory Board member is not taken into consideration, the Executive and Nomination Committee concerns itself with a suitable successor more than one year in advance.

If changes in the composition of the Management or Supervisory Board have to be made, the Execu-

tive and Nomination Committee aims to fulfil the personal criteria, while at the same time promoting the fulfilment of the goals established in terms of board composition (collective competence profile and diversity). Succession planning for the Management Board is made in close cooperation with the chairman of the Management Board. The Executive and Nomination Committee considers both internal and external candidates.

Aareal Bank has taken various measures to be able to respond to short-term personnel fluctuations (for example, due to resignation for personal reasons), and to identify suitable internal successors. For instance, the Bank can provide tailor-made development measures to senior managers in order to fundamentally prepare them to become a member of the Management Board. This includes, in particular, business development, risk management and accounting know how as well as leadership skills. In addition, all Management Board members have first- and second-level responsibilities. This means that if the Management Board member with first-level responsibility is not available, his duties will be assumed by the respective Management Board member with second-level responsibility.

As a general rule, every competence required for the activities of Aareal Bank's Supervisory Board and its committees is represented by at least two Supervisory Board members. Hence, the Audit Committee comprises not only the respective chair as a financial expert, but also at least one other person holding the same qualifications. In addition, in order to make sure there is a quorum even in the event of short-term changes in the composition of the respective committee, every committee comprises more than three members.

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 Note (88). As per the Supervisory Board's decision, the Manage-

ment 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. Eight members are elected by shareholders at the Annual General Meeting. Four members are elected by employees, through the Group Works Council.

The committees comprise at least four 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 2019, 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 according to the International Financial Reporting Standards (IFRSs) as applicable in the European Union. 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 (38) 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 2019 financial statements – as elected by the Annual General Meeting 2019 and instructed accordingly by the Supervisory Board – have exercised their audit activities under the management of Messrs Ralf Schmitz and Christian Rabeling. In line with the audit firm's internal regulations, their staff members rotate their audit mandates periodically – every five years in this case.

Mr Schmitz has audited Aareal Bank since 2018; Mr Rabeling, the responsible auditor, since 2019.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

Aareal Bank has confronted the various challenges in the financial year 2019 and can look back at another successful financial year in which the Bank not only generated good results, but also set the strategic course for the future. All targets were achieved in the past financial year, whilst further improving the foundations for a continuation of its positive performance over the past years. 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 about 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 was also informed about compliance within the Company on a regular basis, and it received the reports prepared by Internal Audit. 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 material decisions of Aareal Bank Group. 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 in due time, and a decision taken. In cases where resolutions needed to be passed in periods 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, 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. The Chairman of the Supervisory Board then proceeded to inform the other Supervisory Board members of these discussions at the following Supervisory Board meetings.

Activities of the Plenary Meeting of the Supervisory Board

Nine plenary meetings of the Supervisory Board were held in 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. Market developments, also considering the persistent geopolitical changes, the large number of regulatory adjustments that are yet required and further progress in implementing the "Aareal 2020" programme for the future as well as designing the successor programme "Aareal Next Level" 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 division. 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. Within the scope of reporting, the regular reports prepared by the control functions – including Risk Controlling, Compliance, Internal Audit, Information Security & Data Protection, the Remuneration Officer, and Human Resources – were presented and discussed. At each plenary meeting of the Supervisory Board, the committee chairmen reported on the committee meetings that had taken place in the meantime.

The focal points of the individual meetings are outlined below.

During its January meeting, the Supervisory Board dealt with the Bank's dividend policy, the individual Management Board members' target achievement in the past financial year, and target setting for the new financial year. The dividend policy discussion was continued at a meeting in February, during which different scenarios of a potential dividend distribution were presented to the Supervisory Board, and were subsequently reviewed and assessed by the Supervisory Board.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2018 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. Furthermore, the Supervisory Board discussed the non-financial report 2018 and the results of the audit going hand in hand with it, to obtain limited assurance. Another issue covered during the March meeting included preparations for the Annual General Meeting in May 2019. This comprised the decision proposals regarding the agenda of the Annual General Meeting, including the proposal for the appropriation of profit and the proposal regarding the selection of external auditors. The annual report submitted by Internal Audit, and their audit planning for the upcoming financial year as well as their mid-term plans were also discussed

during the meeting. In addition, the Supervisory Board resolved the revised Code of Conduct which also applies to the executive bodies, and concerned itself with the remuneration systems for the employees and the Management Board members; it came to the conclusion that the Company's remuneration systems are adequate.

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. This meeting also discussed the annual report submitted by the Compliance Officer. The Supervisory Board also agreed with the Audit Committee's proposal regarding the focal audit points set by the Supervisory Board for the audit of the financial statements for the 2019 financial year.

The two-day Supervisory Board meeting in June was held to comprehensively discuss Aareal Bank Group's current strategy implementation and refinements thereon, as well as to hear the Management Board's regular reporting. The Supervisory Board talked about the presented strategic initiatives and options with the Management Board in considerable depth and detail. Within this context, adjustments made to material risk documents were also presented and discussed.

During the September meeting, current questions concerning strategic initiatives were presented and discussed, in addition to the regular reports. This meeting took place at Aareon AG's headquarters in Mainz, which is why Aareon Group's further development was the main topic. On the one hand, the Supervisory Board discussed Aareon AG's new Management Board structure and its assignment of responsibilities with the Management Boards of Aareal Bank AG and Aareon AG. Strategic targets and growth areas at Aareon Group were also presented and discussed. On the other hand, the Supervisory Board of Aareal Bank AG was informed about the planned acquisition of CalCon Group, the purchase of which it agreed to after an in-depth review.

Furthermore, the company retirement provision system for Management Board members was adjusted based on a recommendation made by the Remuneration Control Committee (for details, please refer to the Remuneration Report › Remuneration of the Management Board 2019). Since this was only a harmonisation of the company retirement provisions, the Supervisory Board assessed this amendment as non-material, hence deeming a submission to the Annual General Meeting (by means of a so-called say-on-pay resolution) to be unnecessary for this purpose. The resolution on the remuneration system for the Management Board and the Supervisory Board is planned to be proposed to the Annual General Meeting in the year 2021. Until that time, various questions need to be addressed as regards the interpretation and compatibility of the new recommendations of the German Corporate Governance Code with the very strict German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – InstVergV).

At two meetings in October and November, the Supervisory Board asked the Management Board to report on the initiative of an investor regarding the disposal of the subsidiary Aareon. The further development of Aareon Group, and particularly the various opportunities to enhance its growth, was the topic of discussion at numerous Supervisory Board meetings, both within the Executive and Nomination Committee and in the plenary meeting of the Supervisory Board. The Supervisory Board supports the respective details communicated by the Management Board and its initiatives.

At the December meeting, the Management Board presented the strategies pursuant to the Minimum Requirements for Risk Management ("MaRisk") and the Group's corporate planning in detail. According to their respective responsibilities, the strategies had previously been presented to the Executive and Nomination Committee, the Risk Committee, and the Audit Committee, and finally to the Supervisory Board, to subsequently be discussed with the Management Board in depth. Another issue to be discussed was preparing the Corporate Governance Report, including the Corporate Governance

Statement and the Declaration of Compliance.

The latter was resolved and subsequently published on Aareal Bank AG's website. Furthermore, the annual review was carried out concerning Rules of Procedure for the Management Board and Supervisory Board, the individual and collective suitability and efficiency of the Management Board and Supervisory Board (annual evaluation), the review processes, and the Conflict of Interest Policy for members of the Company's executive bodies. The Supervisory Board discussed the results of the evaluation in detail and will incorporate the findings into its work. The Supervisory Board also concerned itself with the Management Board's preliminary target achievement 2019 and with deriving the Management Board targets for 2020 in accordance with the strategy presented. At its December meeting, the Supervisory Board also discussed the Audit Committee's proposal for new external auditors, which the Committee had submitted based on the selection procedure carried out for the change in external auditors from the 2021 financial year. After intensive discussions, the Supervisory Board followed the Audit Committee's proposal and will propose to the Annual General Meeting 2020 that either KPMG AG Wirtschaftsprüfungsgesellschaft or Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft be appointed as external auditors to review, if applicable, any additional financial information required, within the meaning of section 115 (7) of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"), during the 2021 financial year, until the next Annual General Meeting. Furthermore, it is also planned to propose to the Annual General Meeting that either KPMG AG Wirtschaftsprüfungsgesellschaft or Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft be appointed external auditors of the annual and consolidated financial statements for the 2021 financial year. In line with the recommendation of the Audit Committee, the Supervisory Board has a preference for KPMG AG Wirtschaftsprüfungsgesellschaft in each case.

At its December meeting, the Supervisory Board also resolved – based on the Executive and Nomination Committee's recommendation – to renew the term of office of Marc Hess as member of the

Management Board for a period of five years, after he had resigned from his position in agreement with the Supervisory Board. The Supervisory Board mainly based its decision on the fact that Mr Hess had become acquainted with his tasks extraordinarily quickly, providing valuable impetus for Aareal Bank's further strategic and financial development already in the first year of his term of office. Especially against the backdrop of the challenges lying ahead, such as the demanding market and competitive environment, it is of utmost importance for Aareal Bank to attract qualified leaders like Mr Hess, and to retain them for the long term, thus assuring continuity in the Management Board team.

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 members of 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.

Activities of Supervisory Board Committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Audit Committee, the Remuneration Control Committee, and the Technology and Innovation Committee.

Executive and Nomination Committee:

The Executive and Nomination Committee of the Supervisory Board convened for six meetings in the year under review. The Committee prepared the plenary meetings of the Supervisory Board in all its meetings and discussed Aareal Bank Group's strategic development with the Management Board at regular intervals. Regarding the agenda items within the responsibility of the Supervisory Board, the Committee convened without the Management Board. These meetings particularly included discussions regarding suitability requirements for Management Board and Supervisory Board members, the processes for reviewing these requirements, the targets for the composition of both executive bodies, and the results of the annual evaluation of Management Board and Supervisory Board.

In the January 2019 meeting, the Executive and Nomination Committee concerned itself with the Company's dividend policy.

The March meeting was held in order to prepare for the Annual General Meeting in May 2019. This comprised the decision proposals regarding the agenda of the Annual General Meeting. The Committee also concerned itself with the annual potential Management Board and Supervisory Board appointments in the next financial year, and thus with the topic of succession planning. Another meeting held in March was focused on personnel issues below the Management Board.

The June 2019 meeting was used to prepare for the Supervisory Board's strategy meeting, and an intense discussion as regards succession planning for the Management Board. Another topic handled was the resolution of the Supervisory Board's Rules of Information in the internal framework, which governs Management Board reporting to the committees and the Supervisory Board plenary. In conjunction with this matter, the Rules of Procedure of Management Board and Supervisory Board were amended.

The Executive and Nomination Committee meeting in September 2019 was held to prepare

for this year's evaluation and the selection of external auditors to this end. In addition, the strategy dialogue for the second half of the year 2019 was discussed. Other issues in the meeting's focus were the current corporate governance developments, including implementation of the new German Corporate Governance Code ("GCGC") and of the Bill to Implement the Second EU Shareholder Rights Directive ("ARUG II"). As proposed by the GCGC, the Chairman of the Supervisory Board held an appropriate number of talks with investors in the year under review, exchanging views on Aareal Bank's corporate governance and informing Board members concerning the contents of these talks in subsequent meetings (see "Shareholder communication" below for details on the topics).

At the December 2019 meeting, the Executive and Nomination Committee carried out the annual review of the Rules of Procedure for the Management Board and Supervisory Board, the individual and collective suitability and efficiency of the Management Board and Supervisory Board (annual evaluation), the respective review processes, and the Conflict of Interest Policy for members of the Company's executive bodies. also considering the results of the written query directed at all Management Board and Supervisory Board members regarding potential conflicts of interest in the past financial year. The members of the Management Board and Supervisory Board have declared in writing that no conflicts of interest within the meaning of the German Corporate Governance Code arose during the financial year under review.

In addition, the Executive and Nomination Committee proposed to recommend to the Supervisory Board the re-appointment of Marc Hess for five years after his amicable resignation (please refer to the Activities of the Plenary Meeting of the Supervisory Board above).

Risk Committee:

The Risk Committee held six meetings during the year under review. It 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, as well as reputational and IT risks. The Committee was also engaged with the analysis of Aareal Bank's risk-bearing capacity and its capital ratios. Also, detailed reports were provided 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 Risk Committee concerned itself with Aareal Bank's strategies and the derived sub-risk strategies, as well as with the risk management system. 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. Within the scope of risk reporting, significant exposures were discussed in detail, and measures for the reduction of high-risk exposures presented and consulted within the Committee. The Risk Committee received a report on recovery planning and other risk management measures, which included preparations for the UK's exit from the EU and corresponding reactions to the current developments. The Management Board also informed the Risk Committee about all completed, ongoing and scheduled audits by the supervisory authorities at each Risk Committee meeting. In addition to regular reporting on the risk situation at each meeting, the following meetings had additional focal points on certain topics:

The Risk Committee meeting held in March 2019 dealt with the results of the risk management system review performed by the external auditors, with focused market reporting, and the supervisory authorities' focus in the 2019 financial year.

In May 2019, the Risk Committee mainly addressed the implementation of regulatory requirements, determining that six meetings per annum would

be held in future, so as to allow enough time (especially for regulatory developments) per topic.

In June 2019, individual sub-risk strategies, amended to take account of regulatory requirements, were submitted to the Risk Committee for discussion.

At the September meeting, the Management Board informed the Risk Committee about current recovery planning.

At its December meeting, the Risk Committee discussed all of the Bank's business and risk strategies. The Committee monitored the terms in the client business, based on the business model and risk structure of the Bank, supported the Remuneration Control Committee in evaluating the effects of the remuneration systems on the Bank's risk, capital and liquidity situation, and checked whether the remuneration systems are aligned with the Bank's sustainable development and business strategy. Within this context, the Risk Committee also ensured that the derived risk strategies and the remuneration strategy are in line.

At another meeting in December, the Committee dealt with Aareal Bank AG's IT strategy and IT security strategy as well as with all aspects of the Bank's security management. The Technology and Innovation Committee had been invited to this end. The regulatory requirements for IT security were also discussed.

The Committee also concerned itself with the banking and regulatory environment, focusing on current topics such as individual risk types during individual meetings. Furthermore, the Risk Committee dealt with the audits performed by the supervisory authorities, the findings these audits had yielded, and the authorities' recommendations on risk-related topics.

Audit Committee:

The Audit Committee held six meetings during the year under review.

In accordance with the requirements of the German Corporate Governance Code, during its meetings in May, August and November 2019, the Audit Committee discussed with the Management Board the quarterly results to be published. Furthermore, the current status and planning of key management indicators in the financial year, and current reviews and projects at Aareal Bank were reported upon at the Audit Committee meetings. In its meetings, the Committee received reports submitted by Internal Audit, and the Compliance Report, requesting and receiving detailed explanations, and duly noting both reports. The Committee was also informed about the work carried out by Internal Audit and of the audit planning. The Head of Internal Audit attended all meetings. The Committee dealt with the measures the Management Board had taken to address the shortcomings identified by external auditors, Internal Audit, and supervisory authorities, and had the Management Board report on the status and progress of the rectification of findings. External auditor representatives, too, attended all meetings, excluding the agenda items regarding the rotation of external auditors, the assessment of financial statements auditing, and the proposal for new external auditors. A regular update on the status of already approved and expected non-auditing services provided by the external auditors was given at all meetings. In anticipation of the 70 % limit of approved non-audit services in relation to planned audit services (applicable as of 2020), the Audit Committee had already voluntarily resolved to adhere to this threshold in 2018 and 2019. It was neither reached nor exceeded at any time.

At its February 2019 meeting, the preliminary figures for the 2018 financial year were submitted to the Audit Committee, and the dividend policy was discussed. In addition, the annual report 2018 and the audit planning of Internal Audit were presented.

In March 2019, the Committee received the external auditors' report on the audit of the financial and consolidated financial statements for the 2018 financial year, and discussed the results with the auditors in detail. The Committee members dis-

cussed 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. Furthermore, the Chairman of the Audit Committee informed the meeting about his discussions with the external auditors outside the meetings. Without the external auditors being present, the Audit Committee discussed the agenda items regarding the assessment of financial statements auditing and the proposal for the external auditors for the 2019 financial year. The Committee also concerned itself with Aareal Bank Group's Sustainability Report and the audit undertaken to obtain limited assurance for this report.

At its meeting in May 2019, the Audit Committee discussed the key points of the Supervisory Board's audit for the 2019 financial year.

At the August 2019 meeting, the Audit Committee concentrated on regulatory developments in sustainable finance, the results of the review of the half-yearly financial report as at 30 June 2019, and on the approach for the audit of the financial and consolidated financial statements.

At its November meeting, the Audit Committee focused on the change in external auditors provisioned by the German Audit Reform Act (Abschlussprüfungsreformgesetz – "AReG"). Furthermore, the Committee prepared the Supervisory Board's informational meeting in December and discussed the risks related to implementing the benchmark guideline. The Audit Committee also resolved that the quarterly planning and forecast calculation in conjunction with quarterly earnings management would take place in the form of plenary meetings in March, June, September and December as of the next financial year. The Management Board had proposed such a change. The meetings held in May, August and November concentrate on the quarterly figures and can be carried out via conference calls.

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 2019 financial year. Furthermore, the Committee was regularly informed about the risk management system and the review of the Internal Control System, in accordance with legal requirements; it duly acknowledged the reports, following discussion.

Rotation of external auditors:

To comply with the provisions set out in Regulation (EU) No. 537/2014 on the obligation to rotate external auditors, Aareal Bank published the procedure for the selection of new external auditors for Aareal Bank AG and Aareal Bank Group for the 2021 financial year via the German Federal Gazette at the beginning of the 2019 financial year. An internal project team at Aareal Bank AG, set up by the Audit Committee, will carry out the selection process. The Audit Committee also resolved the material process steps, selection criteria, and material decisions. It received regular progress reports concerning the procedure, discussing, and if applicable, deciding upon any further steps. The project team comprised the Chairman of the Audit Committee, the Chief Financial Officer, Chief Risk Officer, the member of the Management Board responsible for Credit Management and executives of the divisions primarily concerned. In line with EU provisions, the entire process was designed in a fair, transparent, and non-discriminatory manner. Following the announcement in the German Federal Gazette, auditors were prompted to voice their interest in participating in the selection process. In a next step, the interested parties received comprehensive documentation, enabling them to hand in a substantiated written tender. Following the expression of interest, the candidates were given the opportunity to resolve unanswered questions in the next phase. The project team and the Chairman of the Audit Committee then analysed and assessed the tenders subsequently submitted in writing, selected the four candidates fulfilling most of the criteria determined by the Audit Committee, and invited these contenders to present their tender and introduce the most important team members in person. All members of the project team attended these

presentations. Based on assessment of the presentations, the team narrowed the selection to two candidates, KPMG AG Wirtschaftsprüfungsgesellschaft and Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, voicing a preference for KPMG AG Wirtschaftsprüfungsgesellschaft, and stating the reasons. This final report was submitted to the Audit Committee at its November 2019 meeting, which the two final applicants also attended to introduce themselves personally. Based on this comprehensive reporting, the Audit Committee recommended to the Supervisory Board to propose that KPMG AG Wirtschaftsprüfungsgesellschaft be appointed to review, if applicable, any additional financial information required, within the meaning of section 115 (7) of the WpHG, during the 2021 financial year, until the next Annual General Meeting. They will then be appointed as external auditors for the financial and consolidated financial statements 2021 by the 2021 Annual General Meeting. The Supervisory Board has resolved to follow the preferential recommendation made by the Audit Committee.

Remuneration Control Committee:

The Remuneration Control Committee held six meetings during the year under review.

Pursuant to the requirement set out in section 25d (12) of the KWG, which is reflected in the Rules of Procedure of Aareal Bank's Supervisory Board, the Management Board does not attend Remuneration Control Committee meetings which deal with Management Board remuneration. In the 2019 financial year, the Remuneration Control Committee held four meetings without the Management Board, and two with it.

During its six meetings, the Remuneration Control Committee discussed issues concerning 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. The Committee supported the plenary meeting of the Supervisory Board in monitoring the inclusion of internal control units and

of all other material divisions in designing the remuneration systems, and assessed the effects of the remuneration systems on the Bank's risk, capital and liquidity situation. Moreover, the Remuneration Control Committee supported the Supervisory Board with all issues related to the remuneration of the Management Board. As a rule, support was provided to the Supervisory Board by preparing the corresponding recommendations.

At the beginning of the year under review, the Committee dealt with the Management Board's target achievement for the 2018 financial year and with determining the Management Board targets for 2019.

In March 2019, the Committee finalised the assessment of the appropriate structure of the remuneration systems for the Management Board and employees. The results of the penalty review for employees and the Management Board were also presented, as was the review of the overall amount of variable remuneration as to legal permissibility, pursuant, inter alia, to section 7 of the InstitutsVergV.

The Remuneration Control Committee meeting in June 2019 focused on the completed implementation of the comments which the supervisory authorities had made regarding the remuneration system.

At the two September meetings, the Committee concerned itself with adjusting the remuneration systems for employees after the bonus model for all employees had been harmonised, and with the succession process for the Remuneration Officer. In addition, current corporate governance developments were discussed – including implementation of the new German Corporate Governance Code and ARUG II, as well as the corresponding scheduled adjustments to remuneration reporting with the aim of increasing transparency. In September, the Remuneration Control Committee also dealt with the Management Board members' company retirement provisions, recommending to the Supervisory Board to standardise the employment contracts regarding this issue – in agreement with the individual Management Board members (please also

refer to Reporting on remuneration for the Management Board › Measures in the 2019 financial year).

In the meeting at the end of the year, the Remuneration Control Committee dealt with the Management Board's preliminary target achievement for 2019 and determined the Management Board targets for 2020.

Technology and Innovation Committee:

The Technology and Innovation Committee convened for four scheduled meetings in the year under review, during which the Committee discussed the implementation and further development of the digitalisation strategy, 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 respective subsidiaries responsible for the development, among others.

Further key aspects of regular discussions were issues related to the security and flexibility of IT systems provided and used within the Bank, as well as the general realignment of banking systems and related adjustments to the new requirements in the areas of accounting, regulation, and cybersecurity. The IT strategy, budget planning and monitoring of important IT projects were also discussed.

The Committee invited external experts to discuss current developments concerning selected topics.

Attendance of Supervisory Board members at plenary and committee meetings:

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

| Member of the Supervisory Board | Plenary meetings attended | Quote | Committee meetings attended | Quote | Number of meetings attended / number of meetings* |
|---|---------------------------|-------|-----------------------------|-------|---|
| Marija Korsch | 9 / 9 | 100 % | 28 / 28 | 100 % | 37 / 37 |
| Prof. Dr Stephan Schüller | 9 / 9 | 100 % | 14 / 18 | 85 % | 23 / 27 |
| Klaus Novatius (since 1 January 2019)** | 9 / 9 | 100 % | 12 / 12 | 100 % | 21 / 21 |
| Thomas Hawel** | 9 / 9 | 100 % | 4 / 4 | 100 % | 13 / 13 |
| Petra Heinemann-Specht** | 9 / 9 | 100 % | 6 / 6 | 100 % | 15 / 15 |
| Richard Peters | 9 / 9 | 100 % | 16 / 16 | 100 % | 25 / 25 |
| Dr Hans-Werner Rhein | 9 / 9 | 100 % | 12 / 12 | 100 % | 21 / 21 |
| Sylvia Seignette | 9 / 9 | 100 % | 6 / 6 | 100 % | 15 / 15 |
| Elisabeth Stheeman | 9 / 9 | 100 % | 10 / 10 | 100 % | 19 / 19 |
| Hans-Dietrich Voigtländer | 9 / 9 | 100 % | 16 / 16 | 100 % | 25 / 25 |
| Prof. Dr Hermann Wagner | 9 / 9 | 100 % | 12 / 12 | 100 % | 21 / 21 |
| Beate Wollmann** | 9 / 9 | 100 % | 6 / 6 | 100 % | 15 / 15 |

* Plenary and committee meetings; ** 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 2019, 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 unquali-

fied 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 the audit results. The external auditor representatives attended 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 then 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, the consolidated financial statements as well as the Group Management Report prepared in accordance with IFRSs, 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 24 March 2020, the Supervisory Board approved the results of the audit. The Supervisory Board thus confirmed the 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 this 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 26 March 2019, and on 5 and 12 December 2019.

Moreover, during its meeting on 19 March 2020, the Audit Committee of the Supervisory Board discussed the summarised, separate non-financial report for 2019 and the result of PricewaterhouseCoopers'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 the audit results submitted by PricewaterhouseCoopers, and presented its assessment of the non-financial report (and its analysis of PricewaterhouseCoopers's audit results) to the Supervisory Board. The Audit Committee also issued a recommendation to the Supervisory Board to concur with the results of the audit conducted by PricewaterhouseCoopers. The Supervisory Board followed this recommendation; in its meeting on 24 March 2020, it summarised its examination by stating that it had no objections concerning the non-financial report and the results of the audit conducted by PricewaterhouseCoopers.

Communication with Shareholders

In her function as Chairman of the Supervisory Board, Ms Korsch held discussions with shareholder representatives concerning corporate governance at Aareal Bank. Ms Korsch presented the topics within the responsibility of the Supervisory Board, such as the composition of the Management Board and the Supervisory Board, the remuneration systems for Management Board and Supervisory Board members, the role of the Supervisory Board in the strategy development and implementation process as well as its involvement in environmental, social and governance (ESG) matters, the election of the auditor and succession planning.

Training and Continuous Professional Development

The Supervisory Board members made use of the training and continuous professional development measures offered and required for their task at their own account. Aareal Bank AG supported them in an appropriate manner. Introductory programmes, specifically aligned with the needs of the members who had only recently joined the Supervisory Board in the previous year or at the beginning of the year under review, were carried out, and external training courses offered, with the objective of helping the new members to familiarise themselves with their new office.

Aareal Bank's onboarding process for new members of the Company's executive bodies aims to impart deeper knowledge of the business specifics, the strategy, risk management, accounting, and material legal provisions of Aareal Bank. For this purpose, external training and continuous professional measures were offered and discussions with the heads of division of the internal control units, of Finance & Controlling, Group Strategy, and with the Management Board members and chairmen of the Supervisory Board committees were held.

Furthermore, continuous professional development measures take place on a regular basis within the course of Supervisory Board meetings. In 2019, this included two Risk Committee meetings with an in-depth analysis of current regulatory developments and a plenary meeting of the Supervisory Board assessing the risks and opportunities of digitalisation (particularly cyber, ICT, and IT risks with a focus on the platform business and the application of cloud services). To this end, the Supervisory Board meeting in September in the premises of Aareon AG was used for this purpose. The range of topics to be discussed was also extended accordingly.

In addition to its regular meetings, the Supervisory Board convened for a separate informational meeting, during which auditors PricewaterhouseCoopers provided detailed information on current changes and deliberations within the regulatory

and legal framework, as well as on the potential impact of such trends upon Aareal Bank.

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 2019 financial year. With their enormous continued commitment – and strong motivation – all Group employees have contributed to the Company overcoming all the challenges it faced extremely well, once again making the Company's success possible.

Frankfurt/Main, March 2020

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 expected 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

BIT 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; any distributions are recognised via a corresponding pro-rata reduction in the carrying amount.

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 Pfandbriefe

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

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 remeasurements of defined benefit plans, the reserve from the measurement of equity and debt instruments at fair value through other comprehensive income, the hedging reserve, the reserve from changes in the value of foreign currency basis spreads, and the currency translation reserve.

Over the counter (OTC)

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

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.

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 ./ 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 ./ 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

| | |
|------------------|--|
| 12 May 2020 | Publication of results as at 31 March 2020 |
| 27 May 2020 | Annual General Meeting – Kurhaus, Wiesbaden |
| 13 August 2020 | Publication of results as at 30 June 2020 |
| 12 November 2020 | Publication of results as at 30 September 2020 |

Imprint

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