

LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Corporate Governance of Aareal Bank

Wiesbaden, February 2020

Aareal

Main topics for our discussion

Composition of Supervisory Board



(Individual and collective suitability, individual expertise of each member and appropriate skills and competencies)

Functioning of Supervisory Board



(Committees, SB's innerworkings as well as how it oversees the MB)

Level of Engagement



(Amount of meetings, individual and overall attendance levels for SB and committees)

Counseling | Monitoring of Management Board



(Strategic decisions, implementation of strategy, esp. digitalization, low interest rate environment, sustainability)

Composition of Management Board



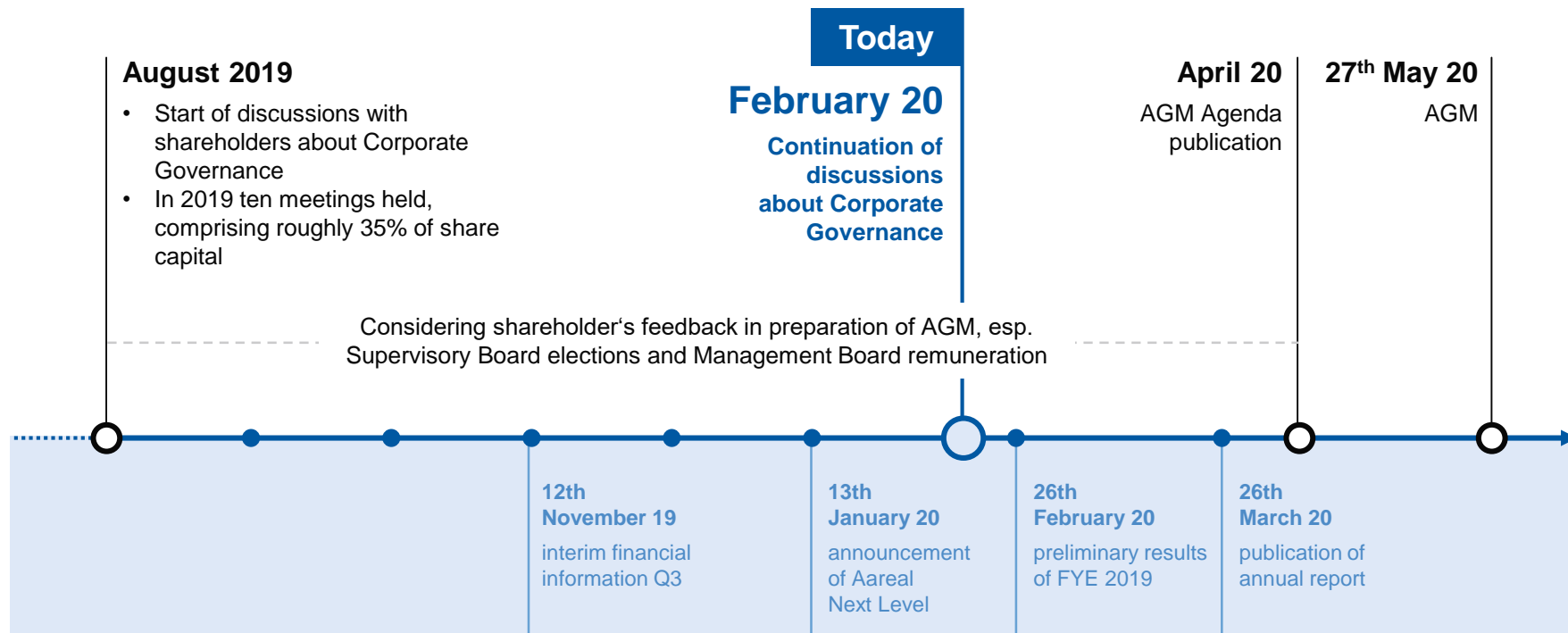
(Composition, expertise, segregation of duties, regulatory requirements in this regard)

Remuneration of Management Board



(Fixed and variable remuneration, clear derivation of targets from the strategy, link between remuneration and performance incl. ESG targets, deferral and retention period, malus and clawback)

Regular Interaction with Shareholders on Corporate Governance



Aareal's Supervisory Board has considered shareholders' feedback

- ✓ Enhanced ex-post transparency about remuneration target achievement
- ✓ Enhanced transparency about succession process
- ✓ Shareholders' feedback considered in selection of Supervisory Board candidates
- ✓ Disclosure of peer group used for "horizontal" remuneration comparison
- ✓ Detailed CVs of Supervisory Board members and related expertise on website
- ✓ Disclosure of by-laws of supervisory board on website
- ✓ Enhanced transparency which ESG targets are reflected in variable remuneration
- ✓ Disclosure of more detailed competency profile

Supervisory Board: Collegial body with international experience and high expertise in all relevant areas

Composition and Suitability (1/2)

12 Members

with expertise in banking, Commercial Real Estate, Enterprise-Resource-Planning, financial markets & M&A investments, IT, cyber security, digital transformation, risk management, and audit of financial statements

Please see <https://www.aareal-bank.com/en/about-us/company-profile/supervisory-board/> for more information



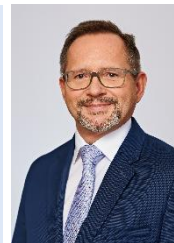
Marija Korsch
Chair of Supervisory Board

Expertise, e.g. in strategic planning, banking business, succession planning, financial markets & M&A investments, design and assessment of risk management (incl. remuneration)



Prof Dr Stephan Schüller
Deputy Chair of Supervisory Board

Expertise, e.g. in banking management, strategic planning, financial markets & M&A investments, risk management systems (incl. remuneration), accounting matters and corporate reporting



Klaus Novatius*
Deputy Chair of Supervisory Board and Employee Representative

Expertise in e.g. structured property financing, credit management



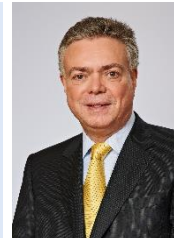
Dietrich Voigtländer
Chair of Technology and Innovation Committee

Expertise, e.g. in IT, digitalisation, innovation management, digital transformation, cyber risks, banking business, assessment and design of risk management systems (incl. remuneration), accounting matters



Sylvia Seignette
Chair of Risk Committee

Expertise, e.g. in banking business, strategic planning, design and assessment of risk management systems (incl. remuneration), accounting matters, staff and succession planning



Prof Dr Hermann Anton Wagner
Chair of Audit Committee

Expertise, e.g. in accounting matters, corporate reporting, assessment of internal control and risk management systems, particularly with regard to accounting processes

*Employee representative

Supervisory Board: Collegial body with international experience and high expertise in all relevant areas

Composition and Suitability (2/2)

12 Members

with expertise in banking, Commercial Real Estate, Enterprise-Resource-Planning, financial markets & M&A investments, IT, cyber security, digital transformation, risk management, and audit of financial statements

Please see <https://www.aareal-bank.com/en/about-us/company-profile/supervisory-board/> for more information



Richard Peters

Expertise, e.g. in risk management systems (incl. remuneration), managing and controlling of trading activities, IT, digitalisation, as well as cyber risks



Thomas Hawel*

Expertise, e.g. in Housing Management Software & Digital Solutions



Petra Heinemann-Specht*

Expertise, e.g. in property financing legal issues of credit business, risk classification



Elisabeth Stheeman

Expertise, e.g. in CRE and banking business, strategic planning, design and assessment of risk management systems (incl. remuneration), IT, digitalisation



Dr Hans Werner Rhein

Expertise, e.g. risk management systems (incl. remuneration), efficiency of governance frameworks, staff and succession planning



Beate Wollmann*

Expertise, e.g. in accounting and tax matters

*Employee representative

Supervisory Board's skills' matrix reflects Aareal's strategy

Skills' matrix

Each Supervisory Board member must possess the gravitas, knowledge, ability and practical experience to perform the duties incumbent on the Supervisory Board in its entirety.

To critical review and assess, to challenge, and to consult on reports as well as proposals of the Management Board, members of the Supervisory Board have to fully understand the Company's

- **material business activities**
- **strategy**
- **material current and future risks and opportunities**
- **risk control and monitoring systems**
- **accounting and financial reporting systems**
- **legal requirements.**

For an effective monitoring, challenging and consulting of the Management Board the Supervisory Board's skills and competences have also to encompass the following expertise:



Real Estate Finance, esp.
Commercial Real Estate



Design and monitoring of risk
management systems



Enterprise-Resource-
Planning Systems



Design and monitoring of Corporate
Governance Frameworks



Digitalization and
Transformation (IT and culture)



Financial Markets
& M&A Investments



Strategic
Planning



Accounting and
Statutory Audit

Ambitious diversity targets are achieved and constantly reviewed

Composition > Diversity

All diversity targets are
reached or exceeded



Female participation on average acc. to Women-on-Board-Index: 32%

international experience
✓ **members who lived and / or have worked in foreign countries**
status quo 42%

✓ age limit **target of 70 years at time of election**

✓ .. however, the Supervisory Board **targets do not** consist simply of members older than **60 years**
status quo 33,33% below 60

✓ minimum female participation
target 25%
status quo 42%

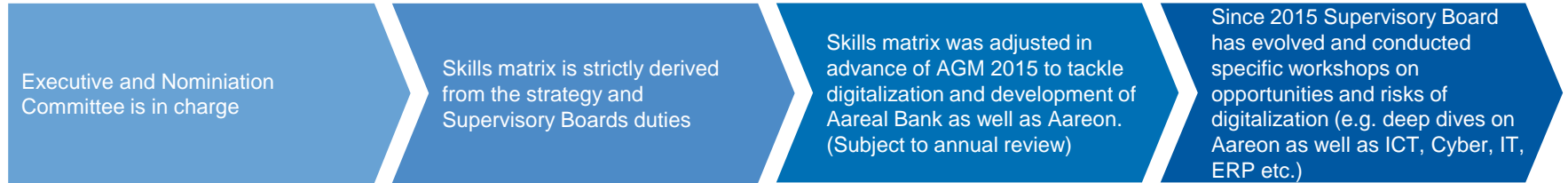
✓ bank experience (former position within a bank)
target min. 50% status quo 58%
members who had no position within a bank before
target min. 8% status quo 42%

✓ independence
– **target: both of the Supervisory Board and its chairs are independent**
status quo 100%
– **target: of at least half of Supervisory Board members and any of its committees are independent**
status quo 100%
– employee representatives are not counted

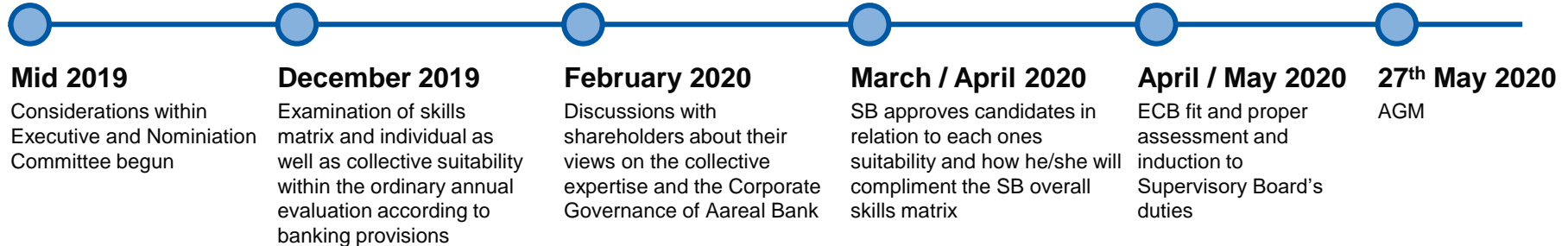
✓ **Supervisory Board consists of one third employee representatives**
– **practitioners** from Aareal Bank and Aareon with no union representatives

Executive and Nomination Committee's selection process ensures the SB's choice of suitable candidates with the right skills to face today's challenges

Governance



Timeline



Supervisory Board's tasks allocated across five committees

Committee structure

Executive and Nomination

Committee

- Preparation of plenary meetings
- Strategic dialogue with CEO
- Suitability assessments of current management board and Supervisory Board members and candidates in advance of personal changes

Audit

Committee

- Deals with all significant accounting issues
- Monitors the integrity of the accounting process
- Scrutinises the (consolidated) financial statements
- Monitors the statutory auditor and its independence

Technology and Innovation

Committee

- Constituted in 2015
- The first dedicated Technology and Innovation Committee in Germany's banking landscape
- Consults on information technology issues
- Consults on IT products and issues
- Monitors the implementation of the digital strategy

Risk

Committee

- Deals with all significant financial and non-financial risks Aareal Bank Group is exposed to, including ESG and Cyber / IT risks
- Monitors the implementation of risk appetite framework and risk strategies
- Receives and discusses risk reports

Remuneration

Committee

- Assesses the appropriateness of remuneration systems, both of management board members as well as employees
- Prepares the decisions of the Supervisory Board with regard to the remuneration of management board members
- Is advised by Aareal Bank's Remuneration Officer

9 plenary meetings

28 committee meetings

Strong involvement of the Supervisory Board

Overview and examples

Collegiate culture

- ordinarily plenary meetings follow committee meetings
- half of plenary meeting is focused on strategic issues
- in other half of plenary meetings committee chairs summarize last committee meetings and gives recommendations

Supervisory Board often meets without Management Board

- esp. in regard of Management Board remuneration, personalia, succession planning, annual evaluation of individual and collective suitability as well as efficiency of the Management and Supervisory Board and its members

Direct contact

- between Supervisory Board and heads of functions below Management Board level
- esp. heads of control function, inter alia Audit, Compliance, Risk Controlling, Group Human Resources, Corporate Affairs, Finance & Controlling, and Group Strategy, Investor Relations, Group Sustainability Officer, etc.

Regular contact

- between Supervisory Board / Audit Committee's chair and statutory auditor

100% Member attendance in 2019 to plenary meetings

Independent Supervisory Board and Committee chairs

Excerpts of evaluation process 2019

High performance, even in comparison to other companies (confirmed by external professional)

Supervisory Board consults, challenges and monitors the strategic development of Aareal, including the digitalization process

Involvement in Strategy Process

- Strategy topic on nearly every ordinary plenary meeting
- Role of the supervisory board is to consult and challenge the Management Board and take a critical view on their proposals
- Frequent dialog between CEO and Chair
- Quarterly strategic-dialogue between CEO and Executive and Nomination Committee
- Two-day strategic offsite in summer
- Supervisory Board takes group-wide responsibility. In particular, material M&A decisions of subsidiaries like Aareon have to be approved by Supervisory Board of Aareal

Examples of involvement of Supervisory Board's plenary



Digitalization is integrated in SB's work

- As first German bank, in the year 2015 Supervisory Board has founded the Technology and Innovation Committee
- The Committee deals with the digital transformation of the Aareal Bank and Aareon, which encompasses the change of corporate IT for more process efficiency, the development and distribution of digital products, the cultural transformation of management and employees, new governance models to tackle the challenges of a disruptive environment etc.
- Aareon-specific topic on every Technology and Innovation Committee agenda
- Aareal Bank's digital strategy is part of group strategy. This part is also discussed in the plenary meeting which is prepared by the Technology and Innovation Committee.
- This committee also monitors the implementation of the digital part of the strategy (in direct contact with Aareal and Aareon management)

Supervisory Board acts in the best interest of the company and its stakeholders

Supervisory Board consults and challenges within its review

ESG targets are part of group strategy and hence also of remuneration system

- Set-up of ESG-opportunity & risk management, coordinated by the Sustainability Officer, is a defined target
- In addition but among others also enhancement of environmental disclosure (e.g. definition and disclosure of green building label)

Regular Reporting on sustainability topics

- Stakeholder interviews on ESG topics with seven Supervisory Board members
- Group Sustainability Officer's updates on sustainable finance initiatives
- Systematic training on new material regulations and laws

Audit Committee and Supervisory Board have reviewed non-financial reports since 2016

- Statutory Auditor has given limited assurances in the past years
- Audit Committee challenges non-financial report as well as results of limited assurance, gives advice and prepares Supervisory Board for their approval

Supervisory Board has discussed exposure

- of Aareal Bank to environmental changes
- as well as Aareal's influence of environment

Aareal Bank's Management Board reflects expertise in both banking and digital transformation

Composition



Hermann J. Merkens

Chief Executive Officer

Expertise, e.g. in banking business, housing management software & digital solutions, corporate IT, strategic planning, management of material risks, design and assessment of risk management systems, staff and succession planning, remuneration

Board Experience since 2003

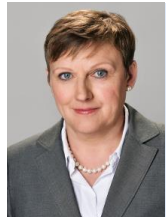


Marc Hess

Chief Financial Officer

Expertise, e.g. in banking business, strategic planning, financial and accounting matters, corporate reporting, liquidity, IRRBB and participation risks, risk management systems, corporate IT

Board Experience since 2007



Dagmar Knopek

Chief Lending Officer

Expertise, e.g. in real estate structured finance, management of credit, real estate, market risks and NPL

Board Experience since 2013



Christiane Kunisch-Wolff

Chief Risk Officer

Expertise, e.g. in banking business, management of material risks (incl. IT and cyber risks, credit, liquidity and market, IRRBB, real estate etc.), design and assessment of risk management systems

Board Experience since 2006



Thomas Ortmann

Chief Digitalization Officer

Expertise, e.g. in banking business, housing management software & digital solutions, corporate IT, payment services, management of material risks (incl. IT and cyber risks), risk management systems, facility and organisation management

Board Experience since 2005



Christof Winkelmann

Chief Market Officer

Expertise, e.g. in real estate structured finance, management of credit, real estate, and market risks

Board Experience since 2016

- All members have strong backgrounds in Real Estate Banking and IT
- Six different areas of responsibility for a focused management and an independent monitoring according to the Three Lines of Defense Model
- All diversity targets are met
 - participation of women: Target = at least 20%, status quo = 33.33%
 - all members with international experience, with two actually deployed in the USA
 - no member exceeds age limit of 65 years
 - Diversity in professional background is considered

Please see <https://www.aareal-bank.com/en/about-us/company-profile/the-management-board/> for more information

Organisation of Management Board

ECB requires strict segregation of duties between the different executive directors

Market departments

are not allowed to be part of Chief Lending or Chief Risk Office

Chief Financial and Chief Digitalisation Office

have to be separated from Chief Risk Office

Chief Executive and Chief Risk Office

have to be separated

Operations Department

has to be separated from Treasury, which is why the posts of Chief Lending Officer and Chief Financial Officer must be separated

Suitability

Moreover ECB scrutinises the suitability of Management and Supervisory Board members through its system of fit and proper checks.

Fixed remuneration: based on ECB regulations and designed to attract the best candidates

Remuneration element	Description
Fixed remuneration	
<i>Fixed annual salary</i>	<ul style="list-style-type: none"> • CEOs fixed salary: 1,425,000 EUR • Other Management Board members: 900,000 EUR
<i>Ancillary benefits</i>	<ul style="list-style-type: none"> • Company car, which may also be used for private purpose • Group accident insurance • Costs incurred for certain security expenses
<i>Contributions to retirement provision</i>	<ul style="list-style-type: none"> • Defined contribution commitment • Total target remuneration of the Management Board of 15% p.a. • Management Board members who were appointed prior to 1 January 2013 are entitled to claim pension benefits as of the time at which they turn 60 • For Management Board members who were appointed on or after 1 January 2013, claims arise as of the time at which they turn 62 • In the event of permanent disability, a Management Board member may be entitled to claim benefits prior to turning 60 or 62, respectively

The variable remuneration is only determined by LTI targets, strictly derived from the strategy which includes digitalization and ESG

Remuneration element	Description
Variable remuneration (1/2)	
<i>Amount of variable remuneration</i>	<ul style="list-style-type: none"> • 40% of the target total remuneration of the Management Board • The reference value for 100% target achievement amounts to 1,25 million for the Chairman of the Management Board, and to 780,000 EUR for ordinary Management Board members
<i>Components of target achievement</i>	<ul style="list-style-type: none"> • According to regulatory requirements, targets are separated in three components and have to be measured over 3 years (i.e. all targets are LTIs) • For alignment with shareholders 70% of variable remuneration is determined by group performance (consolidated operating profit before taxes and risk-weighted assets) • Sectional targets 15% • Individual targets 15%
<i>Targets derived from strategy and assessment of target achievement</i>	<ul style="list-style-type: none"> • Variable remuneration is determined by the achievements of targets that are strictly derived from business and risk strategies and are in line with Aareal Bank's corporate and risk culture • Accordingly, achieving Group performance targets account for the clear majority of target achievements, with the other two section targets and individual targets weighted at 15% each • Receive variable remuneration, the amount of which depends upon achievement of pre-determined three-years targets derived from the strategy (incl. ESG since it is part of group strategy) • No discretionary component besides targets derived from the strategy

80% of variable remuneration is deferred up to six years | Variable remuneration is capped (150% and to amount of fix rem.)

Remuneration element	Description
Variable remuneration (2/2)	
<i>Examples for targets in 2020</i>	<ul style="list-style-type: none"> • Expansion of syndication business, sourcing and deal structuring, structure types, asset classes etc. • Specific quantitative targets for the development of Aareon, digital products as well as Assets under Management • Adherence to determined cost base • Development of Green-Lending-Offerings • Development of an ESG chances and risk management system • ...
<i>Disbursement</i>	<ul style="list-style-type: none"> • 80% of the variable remuneration is deferred (50% disbursed as virtual shares / 60% deferred) that means <ul style="list-style-type: none"> • 20% cash • 20% virtual shares with holding period of 1 year • 60% deferred over 5 years (half cash / half virtual shares with additional holding period)
<i>Caps</i>	<ul style="list-style-type: none"> • Variable remuneration is capped at 150% of target achievement and • the maximum variable remuneration cannot exceed the fixed remuneration (incl. ancillary benefits and contributions to retirement provision)

Variable remuneration is subject to back-testing and Malus or Clawback rules

Remuneration element	Description
Other regulations	
<i>Risk capacity</i>	<ul style="list-style-type: none"> • Before the Supervisory Board decides on disbursement the variable remuneration they will check against the risk-bearing capacity
<i>Malus & Clawback</i>	<ul style="list-style-type: none"> • All components of the variable remuneration are subjects to backtesting and might be subject to malus and clawback provisions • Such penalty-triggered events include inappropriate behaviour in breach of duties, including breaches of the code of conduct of Aareal Bank • In the event of certain cases of negative performance there will be a claim back of remuneration already paid
<i>Modifier (under external conditions only)</i>	<ul style="list-style-type: none"> • Supervisory Board is entitled to increase or decrease the level of target achievement for the Group component by up to 20 percentage points • In the event of unforeseeable changes to the economic environment which are beyond Management Board's influence or control (i.e. only on the basis of external conditions)
<i>Hedging Ban</i>	<ul style="list-style-type: none"> • Contract of Management Board members prohibit them from undertaking to limit or override the risk orientation of their remuneration by initiating personal protection or countermeasures