



# **Aareal Bank ESG Roadshow: “We are acting purposefully in our stakeholders’ best interests”**

Update February 2021

**Aareal**  
YOUR COMPETITIVE ADVANTAGE.

# Agenda

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- *(01) Aareal Bank and its corporate governance bodies at a glance (pp. 3–12)*
- *(02) Specific aspects of corporate governance (pp. 14–16)*
- *(03) Deep dive: The management remuneration system in the run-up to the “say on pay” resolution at this year’s AGM + Update on planned adjustments (p. 17 ff.)*
  - *Planned adjustments (p. 19 ff.)*
  - *Overview “adjusted” remuneration system (p. 25 ff)*

# Aareal Bank and its corporate governance bodies at a glance



**Aareal**

# Aareal Bank Group

## Aareal

YOUR COMPETITIVE ADVANTAGE.

### Structured Property Financing (SPF)

**Commercial Real Estate Financing**  
solutions on three continents:  
Europe, North America, Asia/Pacific

**A variety of property types**  
hotel, logistics, office, retail, residential,  
student housing;  
in-depth **industry expertise** in hotels,  
particular logistics and retail properties

**Investment finance**  
i.a. single asset, portfolio, value added

### Consulting/Services (C/S) Bank

**Integrated payment transaction system** for the housing industry (market leader) and the utility sector

#### Financial solutions

- Payment processing provider
- Deposit bank

#### Software solutions

- Intelligent solutions to improve connectivity and efficiency for bank and non-bank customers

### Aareon

**European leader for real estate software**, 60+ years on the market, with c.3,000 customers managing 10m+ property units. Aareon has 40 locations in D/A/CH, the Netherlands, France, the Nordics and the UK.

**Mission-critical ERP** and a broad set of **modular digital solutions** running on a **cloud-enabled PaaS platform**

**Sustainable, resilient business model** with **strong downside protection** has delivered **decades of consistent, profitable growth**

**Experienced leadership team** combining deep **software expertise** and longstanding **property experience** with a strong **M&A roll-up** track record; 675+ software engineers

A robust business  
in tough times

# Aareal

# Supervisory Board: A collegial body with international experience and substantial expertise in all relevant areas

## Supervisory Board (1/6)



### **Marija Korsch**

Chair of the Supervisory Board, Remuneration Control Committee, Executive Committee and Nomination Committee

Ms Korsch's expertise covers the fields of strategic planning, banking, succession planning, financial markets & M&A investments, and the design and evaluation of risk management systems (including remuneration), among other things.



### **Richard Peters**

Deputy Chair of the Supervisory Board

Mr Peters' expertise covers the fields of risk management systems (including remuneration), the management and control of trading activities, IT, digitalisation, and cyber risks, among other things.



### **Klaus Novatius\***

Deputy Chair of the Supervisory Board – employee representative

Mr Novatius' expertise covers the fields of structured property financing and credit management, among other things.



**Dietrich Voigtländer**  
Chair of the Technology and Innovation Committee

Mr Voigtländer's expertise covers the fields of IT, digitalisation, innovation management, digital transformation, cyber risks, banking, the design and evaluation of risk management systems (including remuneration) and accounting, among other things.



### **Sylvia Seignette**

Chair of the Risk Committee

Ms Seignette's expertise covers the fields of banking, strategic planning, the design and evaluation of risk management systems (including remuneration), accounting and succession planning, among other things.



**Prof. Dr Hermann Anton Wagner**  
Chair of the Audit Committee

Among other things, Prof. Wagner's expertise covers the fields of accounting, external reporting, and the design and evaluation of internal control and risk management systems, with particular reference to accounting processes.



**Christof von Dryander**  
*(new)*

Mr von Dryander's expertise covers the fields of banking, strategic planning, M&A, corporate governance, risk management systems (including remuneration), compliance, AML, accounting and external reporting, among other things.



**Thomas Hawel\***

Mr Hawel's expertise covers the fields of housing management software and digital solutions, among other things.



**Petra Heinemann-Specht\***

Ms Heinemann-Specht's expertise covers the fields of property financing, legal issues concerning the credit business and risk classification methods, among other things.



**Elisabeth Stheeman**

Ms Stheeman's expertise covers the fields of commercial property finance, banking strategic planning, the design and evaluation of risk management systems (including remuneration), IT and digitalisation, among other things.



**Jana Brendel**  
*(new)*

Ms Brendel's expertise covers the fields of digitalisation, innovation management, cyber risks, corporate IT, IT products and payment services, among other things.



**Jan Lehmann\***  
*(new)*

Mr Lehmann's expertise covers the fields of Aareon's and First Financial's digital products, and IT operations, among other things.

\*Employee representatives

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

## Supervisory Board (2/6)

**All Supervisory Board members must have the serious approach, expertise, ability and practical experience necessary to perform the duties incumbent on the Supervisory Board in its entirety**

To be able to critically review, assess, question and provide advice on reports from and proposals by the Management Board, the members of the Supervisory Board have to fully understand the Company's

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

**The Supervisory Board's expertise also has to extend to the following areas so as to ensure that it can effectively monitor, question and advise the Management Board:**



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



Digitalisation and transformation (IT and culture)



Financial markets & M&A investments



Strategic planning



Accounting and statutory audits

# Ambitious diversity targets have been met and are constantly reviewed

## Supervisory Board (3/6)

All diversity targets  
**met or exceeded**



*Aareal's average female participation according to Women-on-Board-Index: 32%*



International experience  
**Members who have lived and/or worked in foreign countries: current figure 42%**



Age limit **target: 70 at time of election**



... however, the Supervisory Board **targets do not** mean that members have to be more than **60** years old  
**current figure: 33.33% younger than 60**



Minimum female participation:  
**target: 25% current figure: 42%**



Banking experience (previous position with a bank)  
**target: min. 50% current figure: 58%**  
Members who did not hold a previous position with a bank  
**target: min. 8% current figure: 42%**



Independence  
– **target: Both the Supervisory Board and its committee chairs are independent current figure: 100%**  
– **target: At least half the members of the Supervisory Board and its committees are independent current figure: 100%**  
– Employee representatives are not counted



**One-third of Supervisory Board members are employee representatives**  
– **Professional staff** drawn from Aareal Bank and Aareon; no union representatives

# Aareal

# Five committees assist with the Supervisory Board's tasks

## Supervisory Board (4/6)

### Executive and Nomination Committee

- Preparation of plenary meetings
- Strategic dialogue with CEO
- Suitability assessments for current Management Board and Supervisory Board members and candidates before new appointments

### Risk Committee

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

### Audit Committee

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

### Remuneration Control Committee

- Assesses the appropriateness of the remuneration systems for Management Board members and employees
- Prepares the Supervisory Board's decisions on the remuneration of Management Board members
- Is advised by Aareal Bank's Remuneration Officer

### Technology and Innovation Committee

- Formed in 2015
- The first dedicated Technology and Innovation Committee in the German banking environment
- Provides advice on IT issues
- Provides advice on IT products (incl. Aareon as well as payment services products)
- Provides advices in respect of technological transformation
- Monitors the implementation of the Group's digital strategy

# Strong involvement of the Supervisory Board

## Supervisory Board (5/6)

### Collegial culture

- Plenary meetings normally follow on from committee meetings
- Half of each plenary meeting focuses on strategic issues
- In the other half, the committee chairs summarise the last committee meetings and make recommendations

### Supervisory Board often meets without Management Board

- Especially with regard to Management Board remuneration, personnel issues, succession planning, annual evaluations of individual and collective suitability, and the efficiency of the Management and Supervisory Boards and their members

### Direct contact

- Between the Supervisory Board and heads of functions below Management Board level
- Esp. heads of control functions such as Audit, Compliance, Risk Controlling, Group Human Resources, Corporate Affairs, Finance & Controlling, Group Strategy, Investor Relations, the Group Sustainability Officer, etc.

### Regular contact

- between the Supervisory Board/Audit Committee chair and the statutory auditor

**99,5% member attendance at plenary meetings in 2020**

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**Independent Supervisory Board and committee chairs**

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**Excerpt from 2020 evaluation results:**

Strong performance, including in comparison to other companies (confirmed by an external professional)

# The Supervisory Board acts in the best interests of the company and its stakeholders

## Supervisory Board (6/6)

### ESG targets are part of the Group's strategy and hence also of the remuneration system

- Establishment of an ESG opportunity & risk management system (coordinated by Group Sustainability Officer) is a defined target
- As is enhanced environmental disclosure (e.g. definition and disclosure of a green building label), among other things

### Regular reporting on sustainability topics

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

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

- Statutory auditor has performed limited assurance reviews in recent years
- Audit Committee critically reviews non-financial report and the results of the limited assurance review, provides advice and prepares the approvals to be issued by the Supervisory Board

### Supervisory Board has discussed

- Aareal's exposure to environmental changes
- and its ability to influence its environment

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

## Management Board (1/2)



**Hermann J. Merkens**  
Chief Executive Officer

Expertise in e.g. banking, housing management software & digital solutions, corporate IT, strategic planning, management of material risks, design and assessment of risk management systems, staff and succession planning, and remuneration  
*Board experience since 2003*



**Marc Hess**  
Chief Financial Officer

Expertise in e.g. banking, strategic planning, finance and accounting, corporate reporting, liquidity, IRRBB and participation risks, risk management systems and corporate IT  
*Board experience since 2007*



**Dagmar Knopek**  
Chief Lending Officer

Expertise in e.g. real estate structured finance, management of credit, real estate, market risks and NPLs  
*Board experience since 2013*



**Christiane Kunisch-Wolff**  
Chief Risk Officer

Expertise in e.g. banking, management of material risks (incl. IT and cyber risks, credit, liquidity and market risk, IRRBB, real estate risks, etc.), design and assessment of risk management systems  
*Board experience since 2006*



**Thomas Ortmanns**  
Chief Digitalization Officer

Expertise in e.g. banking, 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 in e.g. real estate structured finance, and the management of credit, real estate and market risks  
*Board experience since 2016*

- All Management Board members have strong backgrounds in real estate banking and IT
- Six different areas of responsibility ensure focused management and independent monitoring based on the Three Lines of Defence model
- All diversity targets have been met
  - Women members: target = at least 20%, current figure = 33.33%
  - All members have international experience; two were actually deployed in the USA
  - No members are older than 65
  - The diversity of members' professional backgrounds has been considered

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

# Organisation of the Management Board: The ECB requires strict segregation of duties between different executive directors

## Management Board (2/2)

### Market-facing departments

are not permitted to report to the Chief Lending Officer or the Chief Risk Office

### Chief Financial and Chief Digitalisation Office

must be separate from the Chief Risk Office

### Chief Executive and Chief Risk Office

must be two separate functions

### Operations Department

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

### Suitability

The ECB also examines the suitability of Management Board and Supervisory Board members using its system of fit and proper checks

# Specific aspects of corporate governance



# We took constructive feedback from shareholders/proxy advisors on board and have already enhanced the transparency of our corporate governance

## Enhancements to corporate governance in recent years

### Changes to Supervisory Board tenure

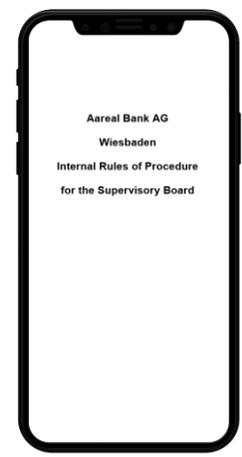
- Adjustments to term of office; to be reduced to four years in principle
- Introduction of staggered election dates to allow the Supervisory Board to flexibly adjust its composition if necessary at least every three years
- Next regular election dates: AGMs in 2023 & 2024

- Supervisory Board has taken a number of initiatives to strengthen ESG
  - Clear link between ESG and management remuneration targets (to improve discussion culture, among other things)
  - Independent control functions have direct access to Supervisory Board
  - Employee survey

### Enhanced links to ESG issues

### Increased transparency on corporate governance

- New AGM website, including summary of AGM agenda and material information, launched to encourage voting
- Rules of procedure for Supervisory Board published
- More informative Annual Report 2019 with detailed descriptions of
  - Succession planning and system
  - Selection process for Board members
  - Selection process for new auditor



# The Supervisory Board is closely involved with strategic development/key issues such as Aareal Next Level, the Aareon deal and dividend decisions

## Supervisory Board and strategy

01

### “Aareal Next Level and 360° review”

- Successful implementation of the Aareal 2020 initiative was monitored by the Supervisory Board
- The next strategic programme was discussed for roughly one year before it was published in January 2020 and was recently reviewed to reassess it against the background of the corona pandemic. Process, results and implementation were and will be discussed with Supervisory Board.

02

### Aareon deal

- Aareon’s development was agreed with the Supervisory Board back in 2016
- Whole plenary was involved in the preparation to introduce Aareon to the Capital Market in 2019 („Investor Seminar“)
- The Supervisory Board has satisfied itself that Aareon’s new partner was chosen based on objective, reasonable criteria

03

### Dividend decision and cancellation

- The approved financial statements included a proposal by the Management Board and Supervisory Board to distribute a dividend of €2.00 per share. In view of the express and unambiguous request made by the European Central Bank on 27 March 2020, the Management Board and the Supervisory Board resolved to propose that Aareal Bank AG's net retained profits be transferred in full to other retained earnings.
- Recent disclosure in regard of dividend distribution in 2021 in two steps in order to fulfil regulatory requirements is supported by Supervisory Board.

# The Supervisory Board has risen to the challenges posed by the Covid-19 pandemic and is determined to tackle its impact

## Covid-19 management

The Supervisory Board had held several meetings to ensure it is well informed and involved in pandemic management

- The Supervisory Board held 18 plenary meetings in 2020
- In 2019 it held 10 meetings in the full year
- In addition to Covid-19, the Supervisory Board has overseen the sale of a minority stake in Aareon, welcomed three new members and fulfilled all its other duties

### Changes to reporting

- Regular reporting on Covid-19 impact (started with weekly reports, followed by bi-weekly and meanwhile monthly)

### Regular contact

- Regular calls between the chairs of the Supervisory Board and the Risk and Audit Committees

### Key operational challenges

- Forecasts and financial planning scenarios to take account of the Covid-19 pandemic
- Review of business strategy, risk appetite framework, esp. appropriateness of key risk indicators and risk appetite
- Accounting processes, e.g. risk provisioning
- Suitability of Management and Supervisory Board members to handle pandemic situation

### > Supervisory Board perspective: Management Board has reacted fast and resolutely

- Pandemic Committee established immediately to ensure Aareal's continued operation
- Smooth switch to working from home because "laptop-only" strategy was already in place
- Stability of IT systems and information security were ensured right from the start
- 16 • Modified shareholder communication (virtual meetings and AGM)

# Deep dive: The management remuneration system in the run-up to the “say on pay” resolution at this year’s AGM + Update on planned adjustments



**Our philosophy is that outstanding performance deserves recognition.  
We rewarded it in the past and will do so in future.**

## Management remuneration system

*Three banks acquired and  
successfully integrated in the  
last six years*

*The Bank developed an IT subsidiary and sold  
a minority stake for an unexpected high sum*

*A decade of operating profit in the triple-digit  
millions demonstrates the sustainability of  
Aareal's business model and the outstanding  
performance by its management*

*Digital banking products developed  
and launched on the market*

*High client and employee satisfaction, high  
employee retention at Aareal group*

### **About the remuneration system...**

#### **What we had done before October '20 roadshow:**

- Enhanced transparency (targets disclosed ex post)
- More detailed remuneration report containing appropriate description of remuneration system

#### **What we still had to do at the time of October '20 roadshow:**

- s. page 20 ✓
- Increased transparency in remuneration report, s. p. 24 ✓

# 01

# PLANNED CHANGES IN REMUNERATION SYSTEM

# Update after October CG roadshow: We reflected all feedback and are planning adjustments towards higher transparency and sustainability

## Overview of planned adjustments

### Reflected feedback and expectations

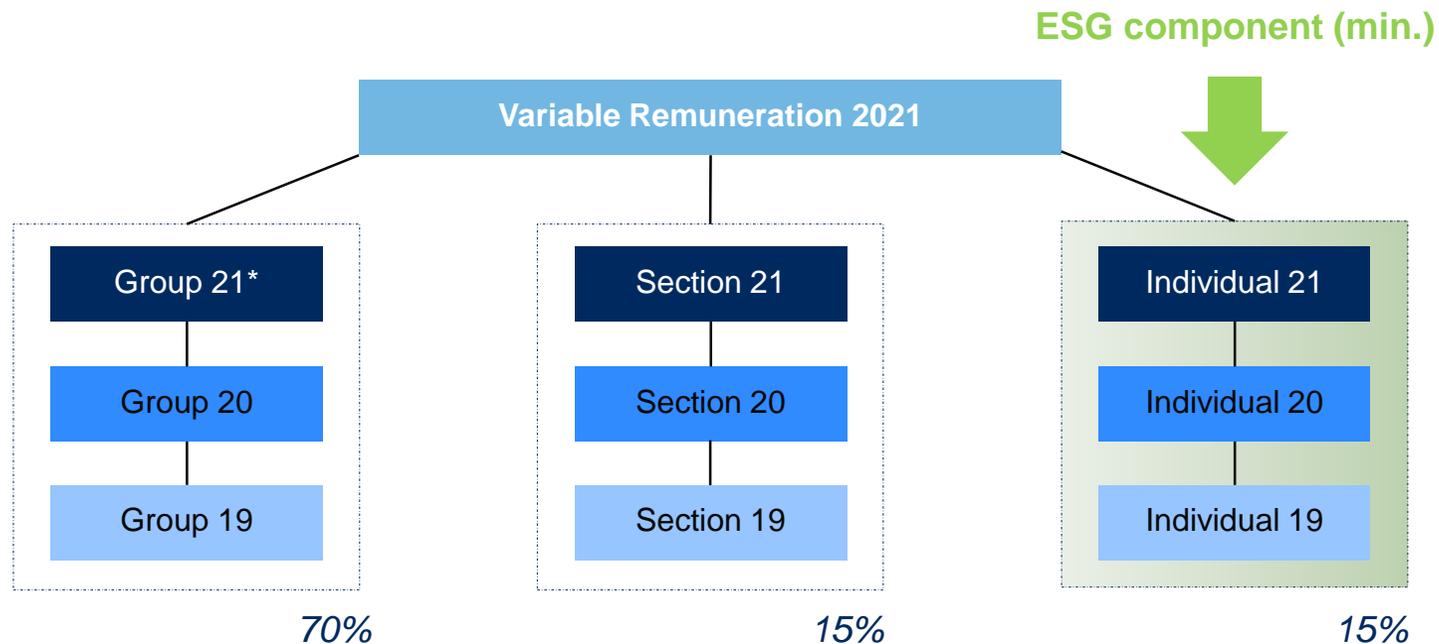
Feedback on remuneration mainly regarding transparency and sustainability & Recommendation from German Corporate Governance Codex



| Overview  |  |
|---|--|
| Maximum remuneration per individual                   | 5.5 Mio. EUR   |
| Integration of ESG target component                   | Min. 15% quantifiable  |
| Increased share-based remuneration                    | 55%  |
| Financial & non-financial target description improved | Implemented improved description in remuneration report  |
| Ex-ante and ex-post target achievement transparency   | Ex ante: Possible targets, calculation methodology / Ex-post: Selected targets and target achievements |

# Our management remuneration will depend on minimum 15% quantifiable ESG targets / linked to external and objective measurement

## Systemic implementation of quantifiable ESG targets



- The ESG targets will mainly be reflected in the individual target component (15% of variable remuneration)
- Possible ESG targets will be communicated ex-ante
- Selected ESG targets and metrics will be communicated ex-ante together with target achievement
- ESG targets reflect our long-term strategy and annual metrics reflect focus points
- ESG will further be reflected in sectional targets, e.g. based on ESG-projects

21 \* According to the three-year measurement of target achievement, the Group component 21 represents 42% of the target achievement.

# Financial & non-financial target description improved and to be implemented in remuneration report

## Remuneration report will include a catalogue of identified targets

- Group, Sectional- and Individual performance targets are always derived from strategy / targets can be financial or non-financial, quantitative or qualitative
- Sectional and individual targets each cover max. 2 targets, for market-facing executives min. 1 quantitative target
- Before the beginning of each year the concrete targets will be defined

### Catalogue of possible performance targets

Examples

Group management indicators (see group annual report)

Portfolio volume

Assets under Management

Strategic projects

Employee and client satisfaction

Cost targets

Increased efficiency

Strengthening governance

Employee training and qualification

Increased succession planning and talent pipeline

Integration of ESG criteria in products and processes

Increased innovative capacity

Expansion in select markets or products

Growth increase

Ecological impact

Improved risk management and monitoring

Increased external rating results

Transparency increase

Development of organisational culture

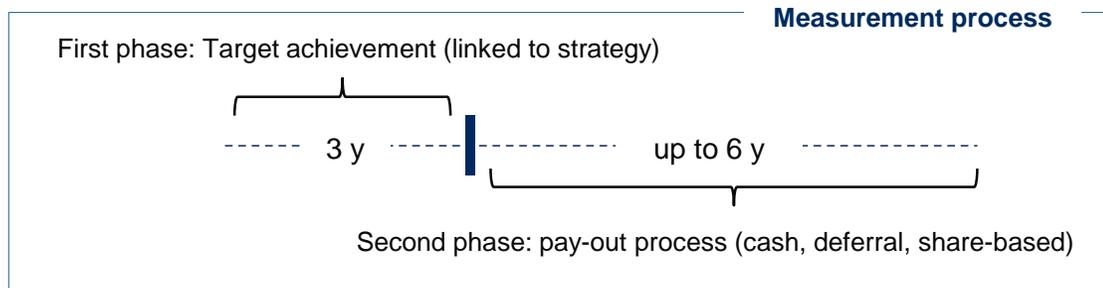
Increased diversity

Technical transformation and digitalisation

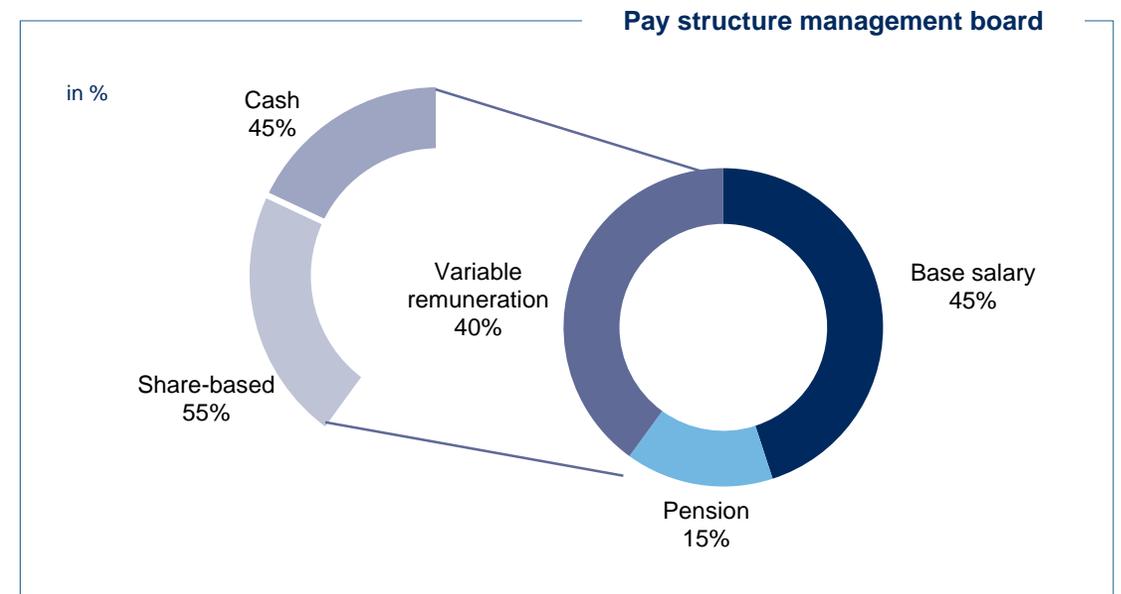
# For an even stronger alignment with shareholder interests, share-based variable remuneration will be increased to 55%

## Amount of shares refer to target achievement

### Pay-out structur



- Share-based remuneration is one component of variable remuneration, beside achievement of strategic and ESG targets as well as the 60% deferral
- Former remuneration system included 50% of variable remuneration as paid out in virtual shares
- This caters to regulatory requirements and already incentivised our management board to act aligned with shareholder interests and long-term sustainable performance
- An increase to 55% share-based variable remuneration is in the interest of all stakeholder; Planned to be implemented on 2020 remuneration already



# A further increase in transparency on remuneration system and target achievement is planned for remuneration report 2020

## Key changes against remuneration report 2019

01

Improved description of the calculation method in the system

02

More detailed publication of targets and metrics ex-post

03

Development with improved graphics and verbal descriptions enhances comprehensibility

04

Transparent peer group to assess appropriateness of remuneration

« DAX + MDAX + TecDAX + SDAX »



# 02

# OVERVIEW FULL SYSTEM WITH MARKED ADJUSTMENTS

# Regulatory requirement that the variable remuneration components for the Management Board must not exceed the fixed components

| Remuneration component               | Description   | Relevance for strategy and long-term development  |
|--------------------------------------|---|---|
| <b>Fixed remuneration components</b> |   |   |
| Fixed annual salary                  | <ul style="list-style-type: none"> <li>- Fixed contractually agreed remuneration, paid monthly, amounting to 45% of the target total remuneration for Management Board members</li> <li>- Chairman of the Management Board: € 1,425,000</li> <li>- Ordinary Board members: € 900,000</li> <li>- Members of the Management Board to whom the “newcomer rule” applies: 80% of an ordinary Management Board member’s fixed annual salary</li> </ul>  | <p>Guaranteeing a fixed income component in the form of a fixed annual salary and ancillary benefits is appropriate to the scope and complexity of the business, and the role and responsibility of the individual Management Board members, and is market-competitive.</p> <p>Grants pension commitments offering financial security in retirement and financial protection in the case of death or disability that are in line with market requirements</p> |
| Ancillary benefits                   | <ul style="list-style-type: none"> <li>- Company car, which can also be used for private purposes, or flat rate payment if no company car is desired</li> <li>- Group accident insurance</li> <li>- Specific costs of security measures</li> </ul>  |   |
| Pension obligations                  | <ul style="list-style-type: none"> <li>- Defined contribution commitment</li> <li>- Annual contribution of 15% of overall target remuneration for Management Board members</li> <li>- Management Board members who were appointed prior to 1 January 2013 are entitled to claim pension benefits when they turn 60</li> <li>- Management Board members who were appointed after 1 January 2013 are entitled to claim pension benefits when they turn 62</li> <li>- In the event of permanent disability, Management Board members are entitled to claim benefits prior to turning 60 or 62, as appropriate</li> </ul> |   |

# The variable remuneration components are based on the Bank's strategy, are performance-linked and are subject to strict regulatory requirements

| Remuneration component  | Description  | Relevance to strategy and long-term development  |
|---|--|--|
| <p><b>Variable remuneration components</b></p>  | <ul style="list-style-type: none"> <li>- 40% of Management Board members' total target remuneration</li> <li>- The reference amount for full target achievement is € 1,250,000 for the CEO and € 780,000 for ordinary Management Board members</li> <li>- Variable remuneration is based on the achievement of targets that are strictly derived from Aareal Bank's business and risk strategies (incl. ESG), in line with the Bank's corporate and risk culture                             <ul style="list-style-type: none"> <li>Mix of Group (70%), divisional (15%) and individual (15%) targets</li> </ul> </li> <li>- Performance is measured using criteria that are determined over a three-year period</li> <li>- No discretionary components in addition to the targets derived from the Bank's strategy</li> <li>- Payment of 80% of the variable remuneration is deferred (60% must be retained for five years; <b>55%</b> of all deferred and non-deferred components are converted into virtual shares, to be held for a further year)</li> <li>- The maximum overall target achievement level is capped at 150% of the target value</li> <li>- The maximum variable remuneration must not exceed the fixed remuneration</li> </ul> | <p>Bases variable remuneration on annual financial and non-financial performance criteria that are relevant to Aareal Bank AG's strategy. Provides incentives to Management Board members to implement Aareal Bank's business priorities and to act in the interests of the Bank's long-term, sustainable positive business development. Group performance targets account for 70% of overall target achievement, prioritising the focus on overall interests, including shareholder expectations. By granting variable remuneration, Aareal Bank complies with the regulatory requirements.</p> |
| <p>Performance criteria now include <b>at least 15 % quantifiable ESG targets</b> as part of individual component. Further ESG targets may be applied in sectional component.</p> |  |  |
| <p>Following German Corporate Governance Codex recommendation, we <b>increased share-based variable pay to 55 %</b>.</p>  |  |  |

# Variable remuneration can be adjusted or clawed back in cases of wilful breaches of internal or external rules

| Remuneration component  | Description  | Relevance for strategy and long-term development  |
|---|--|---|
| Other rules   |  |   |
| Risk-bearing capacity   | <ul style="list-style-type: none"> <li>- The Supervisory Board reviews the variable remuneration before disbursement for compatibility with the risk-bearing capacity</li> </ul>   | <p>Disbursing variable remuneration is not meant to threaten Aareal Bank's financial solidity.</p>  |
| Penalty and clawback  | <ul style="list-style-type: none"> <li>- All variable remuneration components are subject to penalty and clawback provisions</li> <li>- Adjustments to outstanding remuneration and/or clawbacks of remuneration already disbursed are possible in the case of clawback events</li> </ul>  | <p>Within the meaning of responsible and sustainable corporate governance, and for the purpose of implementing the regulatory requirements, penalty and clawback rules are a mandatory part of good corporate governance, which in turn is firmly enshrined on Aareal Bank's strategy</p> |
| Maximum remuneration <b>(NEW)</b> <div data-bbox="163 1100 657 1253" style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px; display: inline-block; margin-top: 10px;">             The maximum remuneration will be 5.5 million EUR for each management board member.           </div> | <ul style="list-style-type: none"> <li>- Maximum payout for the financial year, which includes the fixed annual salary, ancillary benefits, pension contributions (based on service cost), variable remuneration elements and special payments (e.g. sign-on bonus). Severance payments are excluded from this as a non-regular remuneration component.</li> <li>- The maximum remuneration is stated individually for each member of the Executive Board and is valid until the next presentation at the AGM. It is calculated on the basis of the maximum possible values of the remuneration components mentioned plus a buffer for fluctuations in value from e.g. the share price.</li> </ul> | <p>In order to ensure the proportionality of the level of executive board remuneration with absolute values, the maximum remuneration sets a concrete framework upwards. It is therefore to be clearly distinguished from the target total remuneration.</p>                              |

# For further information please see our 2019 remuneration report (adjustments to be reflected in 2020 report)

[https://www.aareal-bank.com/fileadmin/downloadlist/DAM\\_Content/IR/Finanzberichte/2019/191231\\_gb\\_en.pdf](https://www.aareal-bank.com/fileadmin/downloadlist/DAM_Content/IR/Finanzberichte/2019/191231_gb_en.pdf) (from page 89 ff.)

Limited Companies Act (Aktengesetz – "AktG") – that the remuneration system be focused on a sustainable company development, sections 19 and 20 of the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstVergV") require that target achievement be determined on the basis of at least three target levels, and over a minimum assessment period of three years. Accordingly, Aareal Bank AG's remuneration system for the Management Board provides for three target levels of:

- Group performance;
- sectional performance; and
- Individual performance.

Target achievement for each target level is determined on the basis of a three-year assessment period.

All targets for Management Board members are geared towards achieving the long-term and sustainable objectives set out in the Bank's business and risk strategies (**pay-for-performance principle**).

To measure and monitor target achievement, KPIs are determined annually for the long-term and sustainable targets, and their degree of achievement is assessed at the end of the financial year. The target achievement level for each target level is thus determined by the respective KPI achievement of the past financial year and by the degrees of KPI achievement of the two previous financial years (**three-year assessment basis**).

When setting targets, the Supervisory Board pays attention to defining ambitious yet realistic targets, which are in line with Aareal Bank's risk appetite as well as the corporate and risk culture. The targets comprise quantitative and qualitative components, which are also related to non-financial parameters. Annual target achievement is reported on an ex-post basis (cf. Remuneration of the Management Board, subsection Target achievement).

Amongst other things, the Company's interests are duly taken into account by the fact that Group targets are geared towards the KPIs used for corporate management purposes. Consolidated operating profit before taxes is generally chosen as

an income target, whereas risk-weighted assets (RWAs) are used as a risk-adjusted target. Specific values are determined annually for both target components, which correspond to a 100 per cent target achievement. These targets at least comply with the corporate objectives communicated to the capital markets in the past, and will continue to do so in the future. The maximum achievement level for target consolidated operating profit is 150% for the RWA target, it is 125%. The overall target achievement level is calculated by multiplying both target values; it is capped at a target achievement level of 150%.

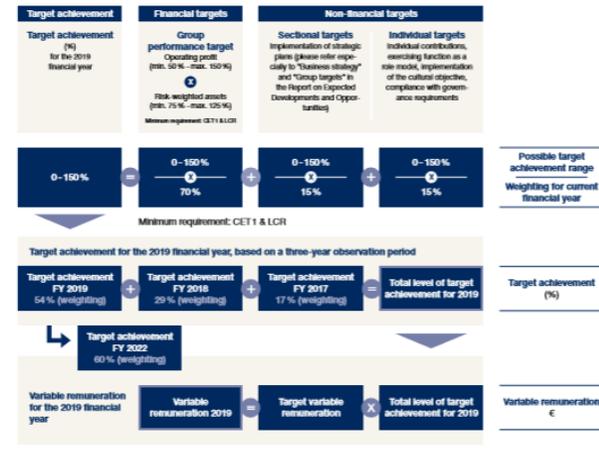
Sectional targets are related to the respective Management Board member's area of responsibility pursuant to the schedule of responsibilities. Accordingly, the Supervisory Board sets targets which the organisational units assigned to the respective Management Board members need to fulfil in order to achieve the strategic objectives of the Company as a whole. These targets may comprise income and budget targets, target values for specific risk indicators, or for implementation of key strategic projects. In line with Aareal Bank Group's management system, sectional targets for Management Board members responsible for Sales units comprise growth enhancement and development of main strategic fields of business and are measured, for example, by the level of specific property portfolio increases or the revenue generated with digital products. In accordance with Aareal Bank Group's risk management system, these income parameters must not exceed the risk appetite as determined by reference to certain limits; hence, there is no incentive to enter into inappropriate risks. Sectional targets for Management Board members responsible for central staff functions or control units are based on other indicators, such as the amount of the administrative expenses. Moreover, within the framework of sectional targets, all members of the Management Board are required to fulfil specific projects in order to implement the Company's strategy – such as projects for the digitalisation of processes and products, and other targets described in the (Group) Management Report (cf. Report on Expected Developments and Opportunities, chapters Business strategy and Group targets).

Individual targets refer to the Management Board members' individual performance; in this respect, Management Board members are required in particular to exercise their function as role models vis-à-vis staff and the general public (one from the top). They also need to achieve material sustainability aspects, including organisational and cultural measures, contributing to more cooperation and thus to Aareal Bank's efficiency.

The business and risk strategies reflect the sustainability approach pursued by Aareal Bank with specific measures which the Supervisory Board

requires the Management Board to implement. Hence, sectional as well as individual targets also include ESG targets (environmental, social, governance), which includes taking ESG opportunities, managing and reporting on corresponding risks, and developing specific ESG criteria to be considered in the core business. In its targets, Aareal Bank does not separately reflect compliance with statutory regulations, since adherence to internal and external provisions is deemed to be a necessary condition for confidential cooperation; as such, separate target-setting within the scope of variable remuneration is obsolete. Willful breaches of Internal

## Target achievement and variable remuneration for the 2019 financial year under review



# Contacts

## **Jürgen Junginger**

Investor Relations

T +49 611 348 2636

E [juergen.junginger@aareal-bank.com](mailto:juergen.junginger@aareal-bank.com)

## **Holger Lehnen**

Remuneration Officer

T +49 611 348 3702

E [holger.lehnen@aareal-bank.com](mailto:holger.lehnen@aareal-bank.com)



# Aareal



**Thank you very much!**

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