

# Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

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## Dear shareholders,

This annual report reflects the different ways in which the events of last year concern us all and led to diverse restrictions and new situations for you, dear shareholders, and for the companies and hence for Aareal Bank. In addition, Aareal Bank finds itself in a special situation due to the ill health of Hermann Merkens, our Chairman of the Management Board. Nonetheless, Aareal Bank can be proud of how superbly its management and employees have mastered these changes. This allowed the Bank to continue its operating business activities unrestricted during the lockdown in spring 2020, with virtually all of its staff working from home. The Management Board and the Works Council ensured well in advance that the Bank's workforce was sufficiently mobile. Regardless of this development, Aareal Bank has continued to operate successfully in its markets. It also conducted the sale of a partial stake in Aareon, among other things.

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. Against the backdrop of the Covid-19 pandemic, the scope of reporting and the frequency with which we held meetings were intensified significantly. The Supervisory Board was involved in all material decisions made by Aareal Bank Group,

also – and in particular – in monitoring the Aareal Next Level strategic framework and the event-driven review against the background of the Covid-19 pandemic and the process for the sale of a minority stake in Aareon AG. 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 or video calls.

Furthermore, between the individual meetings of the Supervisory Board, the Chairman of the Management Board, or his deputies, 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, or his deputies, 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. Due to Hermann Merkens's absence due to illness, discussions have since been held with his deputies on the Management Board, Marc Hess and Thomas Ortmanns.

Discussions were also held – on a weekly basis initially, then every two weeks and now monthly – between Aareal Bank's management and the Chairman of the Supervisory Board, the Risk Committee and the Audit Committee about the impact of the Covid-19 pandemic and how Aareal Bank was dealing with it. The chairmen of the Supervisory Board, and of the Risk Committee and the Audit Committee, also held various talks with the banking regulator's Joint Supervisory Team and presented the Supervisory Board's intensified corporate governance. The chairmen reported on the aforementioned discussions in their respective committees, in line with their respective areas of responsibility.

## Activities of the Plenary Meeting of the Supervisory Board

Eighteen plenary meetings of the Supervisory Board were held in the year under review, also due to the developments arising from the global Covid-19 pandemic. During these meetings, the members of the Supervisory Board received the submitted reports and documents, as well as oral explanations, which were discussed in detail. Economic and market developments, also in view of and particularly against the background of the Covid-19 pandemic, the still large number of related adjustments to regulatory requirements, and the ongoing progress made in implementing the Aareal Next Level strategic programme were focal points of the work and reporting in all scheduled meetings.

This also included the measures taken by the Bank to counter these market developments. 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, Consulting/Services Bank and Aareon segments, focusing in particular 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 market trends in the various property markets, with a particular emphasis placed on the effects of the Covid-19 pandemic. 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.

- In two meetings in **January 2020**, the Supervisory Board addressed strategic questions and associated communications. It discussed the Aareal Next Level strategic programme, which was subsequently approved by the Management Board and communicated to the capital market.
- During its meeting at the **beginning of the year**, the Supervisory Board dealt with the Bank's dividend policy, the individual Management Board members' target achievement in the past financial year, and the setting of targets for the new financial year. Preparations were also made for the election of members to the Supervisory Board at the Annual General Meeting in May. Deliberations on the Supervisory Board elections continued during another meeting in March, together with the feedback and implementation proposals from the corporate governance roadshow. The Management Board members' targets were also dealt with.
- In the **March 2020** meeting, the Supervisory Board dealt in detail with the financial statements and consolidated financial statements presented for the 2019 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 2019 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 2020. This comprised resolution proposals for the agenda of the Annual General Meeting, including the proposal for the appropriation of profit and the proposal regarding the selection of external auditors and election of Supervisory Board members. At the March meeting, the Management Board also presented the strategies pursuant to Minimum Requirements for Risk Management ("MaRisk") applicable to the Group 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. 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. The Supervisory Board also concerned itself with the internal governance and the remuneration systems for employees and Management Board members; it came to the conclusion that the Company's remuneration systems are appropriate.

- During three meetings in **April 2020**, alongside discussions concerning Aareal Bank's first virtual Annual General Meeting, the Supervisory Board addressed in particular the agenda items of the Annual General Meeting, including the final proposal for candidates to be elected to the Supervisory Board, the introduction of different terms of office for Supervisory Board members, the handling of the supervisory authorities' recommendation on dividend policy, and the proposal on the appointment of the external auditors. External legal advisors were consulted, in particular with regard to the moratorium on dividend payments. The Supervisory Board agreed to permanently reduce the terms of office of Supervisory Board members to four years, and at the same time to introduce elections at different points in time. The Supervisory Board candidates especially strengthened the digitalisation and banking expertise on the Supervisory Board. As reported in the previous year, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, was proposed for the last time for the audit of the 2020 financial statements and the consolidated financial statements, due to the rotation requirements that are in place. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was proposed for any review of additional financial information after 31 December 2020 and up to the 2021 Annual General Meeting. In addition, the meeting in April also dealt with the already extended reporting on the effects of the Covid-19 pandemic.
- The launch of a process to sell a minority stake in Aareon was on the agenda of the Supervisory Board's first meeting in **May 2020**. The Supervisory Board's second meeting in May, which was held immediately after the Annual General Meeting, started with a review of the Annual General Meeting of Aareal Bank AG preceding the meeting. Following the conclusion of the Supervisory Board elections, the meeting also covered the election of the Chairman and Deputy Chairman of the Supervisory Board and its committees.
- Two Supervisory Board meetings were held in **June 2020**. These addressed the impact of the Covid-19 pandemic on Group planning and the intra-year forecast, including the assumed scenarios, and the Supervisory Board's governance. Organisational issues were also covered.
- The two-day Supervisory Board meeting in **July 2020** was held to comprehensively discuss Aareal Bank Group's strategy and refinements thereon, as well as to receive the Management Board's regular report. Issues concerning coping with the situation surrounding the Covid-19 pandemic were also added to this year's agenda. 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.
- The meeting in **August 2020** dealt exclusively with the sale of a minority stake in Aareon AG. During the **September 2020** meeting, current questions concerning strategic initiatives, including a progress report on their implementation, were presented and discussed, in addition to the regular reports. Besides an update on Covid-19, these questions dealt with Aareon and Advent subsequent to the signing of the sale of a minority stake in August 2020, with the share price and shareholder structure, M&A and capital management, as well as with ESG topics. In this context, the event-driven review of the business and risk strategies, including the Risk Appetite Framework, were also discussed with the Supervisory Board.

- In the two meetings convened in **November 2020**, the Supervisory Board addressed the illness of the Chairman of the Management Board, Hermann J. Merkens. Based on consultations, all measures were agreed upon that would allow his responsibilities to be continued without interruption during the substitution phase. Since his absence as Chairman of the Management Board, the Supervisory Board convened on a weekly basis until year-end and, in coordination with Marc Hess and Thomas Ortmanns, is convinced of the Management Board's capacity to act. The Supervisory Board also dealt with the proposal to appoint a new Compliance Officer and approved the proposal.
- In the **December 2020** meeting, the Management Board prepared and presented 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 2020 and approved the targets for 2021.

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 eleven 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. Consultations were also held in the year under review on the shareholder representatives nominated for election to the Supervisory Board. The Management Board was not present at these meetings. As provided for in the Supervisory Board's Rules of Procedure, the employee representatives on the committee had no right to vote on this issue.

- At the meeting in **February 2020**, the Executive and Nomination Committee dealt with the Company's dividend policy and the selection of candidates for election to the Supervisory Board.

- The meetings in **March 2020** were used to continue selecting candidates and hence to prepare for the Annual General Meeting in May 2020. Information was also provided on the corporate governance roadshow held by the Chairman of the Supervisory Board. This comprised the resolution proposals for the agenda of the Annual General Meeting plus the introduction of different terms of office for Supervisory Board members. The meetings also dealt with any pending appointments to the Management Board in the next financial year, and thus with the topic of succession planning.
- The meetings in **April 2020** were also concerned with further preparations for the Annual General Meeting and corporate governance topics, including in particular discussions regarding the ECB's recommendation on the dividend policy. In **May 2020**, the Executive and Nomination Committee discussed in detail with the Management Board the current plans in relation to Aareon.
- The **June 2020** meeting was used to prepare for the Supervisory Board's strategy meeting. An intense discussion as regards the processes for the Management Board's general succession planning was also held. The Supervisory Board also advised on regulatory changes and the regular changes in the German Corporate Governance Code (GCGC) and their relevance for Aareal Bank.
- In **August 2020**, the sale of a minority stake in Aareon was discussed in detail with the Executive and Nomination Committee.
- The Executive and Nomination Committee meeting in **September 2020** 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 2020 was discussed. Current corporate governance developments and the implementation of the relevant changes in the GCGC were also advised on. 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 with them 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 2020** 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 survey 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 GCGC arose during the financial year under review.

#### 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. The risk reporting structure and frequency was extended with supplementary reports, relating specifically to the impact of the Covid-19 pandemic. 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 after the end of the transition period on 31 December 2020 and the related ongoing consultations about an agreement between the UK and the European Union. 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 impact of current Covid-19 pandemic-related developments on the individual types of risk were examined in all meetings since March 2020.

- The Risk Committee meeting held in **March 2020** dealt with the results of the risk management system review performed by the external auditors, the supervisory authorities' focus in the 2020 financial year and other regulatory publications and amendments.
- In **April 2020**, the Risk Committee mainly addressed the non-financial risks of Aareal Bank Group, the risk culture report and specific credit risk management aspects.
- In **June 2020**, it dealt with the regular reporting as well as with the yearly reports of the individual risk management functions.
- At the **September 2020** meeting, the Management Board informed the Risk Committee about

current recovery planning. Another focal point was the event-driven review of the business and risk strategies, in light of the Covid-19 pandemic.

- At the meeting in **October 2020**, individual aspects of the event-driven review of the risk strategies were dealt with in more detail, including the specific emphasis on the credit processes due to the Covid-19 pandemic. Issues concerning data and information security were also addressed.
- In its meeting in **December 2020**, the Risk Committee discussed the results of the Bank's annual risk inventory. 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. The meeting in December also served to comprehensively review ESG risks, and the measures that are in place to manage these risks.

The Committee also concerned itself in all meetings 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 yielded, and the authorities' recommendations on risk-related topics in all meetings.

#### **Audit Committee:**

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

In accordance with the requirements of the GCGC, during its meetings in May, August and November 2020, 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 Bank's Compliance Officer, 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, unless these were exclusively for the purpose of presenting the preliminary quarterly figures. The Committee dealt with the measures the Management Board had taken to address the findings identified by external auditors, Internal Audit and supervisory authorities, and had the Management Board report on the status and progress of their rectification. External auditor representatives, too, attended all meetings, excluding the agenda items regarding 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-audit services provided by the external auditors was given at all meetings. The 70 % limit of approved non-audit services in relation to planned audit services was neither reached nor exceeded at any time. The latest impact of the Covid-19 pandemic on Aareal Bank Group's figures, including the underlying scenarios, have been discussed at all meetings since March 2020. The external auditor's assessment of this was also sought on several occasions.

- At its **February 2020** meeting, the preliminary figures for the 2019 financial year were submitted to the Audit Committee, and the dividend policy was discussed, among other things. In addition, the annual report 2019 and the audit planning of Internal Audit were presented.
- In **March 2020**, the Committee received the external auditors' report on the audit of the financial and consolidated financial statements for the 2019 financial year, and discussed the results with the auditors in detail. The Committee members discussed the contents of the

audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of meetings held with the external auditors. 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 2020 financial year. As reported in the previous year, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, was proposed for the last time for the audit of the 2020 financial statements and the consolidated financial statements. The Committee also concerned itself with Aareal Bank Group's Sustainability Report and the audit undertaken to obtain limited assurance for this report. The report on compliance-related issues was also discussed.

- At its meeting in **May 2020**, the Audit Committee discussed the focal audit points determined by the Supervisory Board for the 2020 financial year.
- The compliance-related reporting, including the annual review of the Code of Conduct, was continued at the meeting in **June 2020**.
- In **August 2020**, the Audit Committee meeting focused on the interim financial report as at 30 June 2020, including the results of its review, and the approach for the audit of the financial statements and consolidated financial statements.
- The meeting in **September 2020** focused on the discussion of the impact of the Covid-19 pandemic on Group planning and the intra-year forecast, including the assumed scenarios, as well as the progress in preparing for the implementation of the requirements of the benchmark reform.
- At its **November 2020** meeting, the Audit Committee dealt with the preliminary figures for the financial year as at 30 September 2020.

- In its meeting in **December 2020**, the Audit Committee discussed the medium-term Group planning in detail with the Management Board. The external auditors also informed the committee about the results of the audit of the organisation of the lending business. The Audit Committee was also informed by the Management Board about the structure of sustainability reporting for the 2020 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.

#### Remuneration Control Committee:

The Remuneration Control Committee held eight meetings during the year under review. The Remuneration Officer, who attended every meeting, supported the Supervisory Board and the Remuneration Control Committee throughout 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 2020 financial year, the Remuneration Control Committee held four meetings without the Management Board, and four 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 2019 financial year and with determining the Management Board targets for 2020.
- In **March 2020**, 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 InstVergV.
- The Remuneration Control Committee meeting in **June 2020** focused on the completed implementation of the comments which the supervisory authorities had made regarding the remuneration system, as well as on how Covid-19 impacted on the remuneration of the Management Board and employees.
- The Remuneration Control Committee continued its deliberations about the impact of Covid-19 on the remuneration of the Management Board and employees in **September 2020** and **November 2020**.
- In the two meetings in **December 2020**, the Remuneration Control Committee dealt with the Management Board's preliminary target achievement for 2020 and determined the Management Board targets for 2021. Regulatory issues were also discussed.

#### 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 Bank and Aareon segments. 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 relating to the security and flexibility of IT systems provided and used within the Bank, as well as the current realignment of banking systems and successes already achieved here, such as the introduction of S4/HANA and the associated adjustments to the new requirements in the areas of accounting, regulation, and cybersecurity. The IT strategy, budget planning and the monitoring and progress of important IT projects were also discussed.

External experts were invited to the meetings for selected topics, to present current developments from an independent perspective, and to discuss their potential impact on Aareal Bank, or how they can be taken on board by the Bank.

#### 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 below.

#### 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 2020, with the audit of the financial statements and the consolidated financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code ("HGB") and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports, including all annexes thereto, in good time before the meeting during which the financial statements and the consolidated financial statements were discussed. Having examined the documents provided, the Supervisory Board mem-

Member of the Supervisory Board	Participation in plenary meetings	Quota	Participation in committee meetings	Quota	Number of meetings attended/ number of meetings*
Marija Korsch	18/18	100%	37/37	100%	55/55
Richard Peters	18/18	100%	26/26	100%	44/44
Klaus Novatius*	18/18	100%	19/19	100%	37/37
Jana Brendel	8/9	89%	6/7	86%	14/16
Thomas Hawel*	18/18	100%	4/4	100%	22/22
Petra Heinemann-Specht*	18/18	100%	11/11	100%	29/29
Jan Lehmann*	9/9	100%	3/3	100%	12/12
Dr Hans-Werner Rhein	9/9	100%	8/8	100%	17/17
Prof. Dr Stephan Schüller	9/9	100%	10/11	91%	19/20
Sylvia Seignette	18/18	100%	6/6	100%	24/24
Elisabeth Stheeman	18/18	100%	10/10	100%	28/28
Hans-Dietrich Voigtländer	18/18	100%	20/20	100%	38/38
Christof von Dryander	9/9	100%	16/16	100%	25/25
Prof. Dr Hermann Wagner	18/18	100%	19/19	100%	37/37
Beate Wollmann*	9/9	100%	3/3	100%	12/12

\* Plenary and committee meetings; \*\* Employee representative

bers 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 25 March 2021, 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, which is oriented on the ECB's recommendations.

## Non-financial Report

The Audit Committee and the Supervisory Board concerned themselves with sustainability issues and related reporting during their meetings on 19 and 24 March 2020, 23 September 2020 and on 10 and 16 December 2020.

Moreover, during its meeting on 23 March 2021, the Audit Committee of the Supervisory Board discussed the separate combined non-financial report for 2020 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 25 March 2021, 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.

## Personnel matters

The following personnel changes were made to the Supervisory Board during the reporting period: Six shareholder representatives – Elisabeth Stheeman, Sylvia Seignette, Dietrich Voigtländer, Prof. Dr Hermann Wagner, Jana Brendel and Christof von Dryander – were elected to the Supervisory Board. Prof. Dr Stephan Schüller and Dr Hans Werner

Rhein resigned from the Supervisory Board at the Annual General Meeting.

We would like to thank Prof. Dr Stephan Schüller and Dr Hans Werner Rhein for their enriching and constructive cooperation on the Supervisory Board of Aareal Bank.

Employee representative Ms Beate Wollmann resigned from the Supervisory Board at the Annual General Meeting. The Supervisory Board would also like to express its thanks for her outstanding commitment and constructive work. She is succeeded by Jan Lehmann, who was appointed by Aareon as employee representative to the Supervisory Board.

No personnel changes were made with regard to the Management Board in 2020.

Due to the illness of the Chairman of the Management Board, Hermann J. Merkens, the Executive and Nomination Committee and the plenary meeting convened to discuss the situation and take measures to ensure the management's operational capacity. Taking the situation into account, the already communicated substitutional regulations were put into effect.

The Supervisory Board sincerely regrets that Mr Merkens is currently unable to perform his duties for health-related reasons, and wish him a swift recovery.

On 12 March 2021, Mr Merkens announced that his absence due to ill health will last longer than originally expected and communicated on 8 November 2020. Whether and when Mr Merkens will be able to return to his duties cannot be reliably predicted at this point. The substitution regulations described will remain in force. Due to the uncertainties surrounding the recovery of Mr Merkens, the Supervisory Board has decided to expedite the search for a successor, which it has initiated as a precautionary measure, alongside an analysis of the size and composition of the Management Board, as communicated during the annual press conference on 24 February 2021.

## **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. An internal introductory programme, specifically aligned to the members newly elected to the Supervisory Board by the Annual General Meeting 2020, was conducted and external training measures structured and provided, to familiarise them with their new role and hence with the mandate. These measures included individual continuous professional development and information events organised by the external auditor elected by the Annual General Meeting.

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. Alongside external training and continuous professional development measures, more than 20 internal discussions were held with the heads of division of the internal control units, of Finance & Controlling, Group Strategy, the business divisions, the Chairman of the Management Board of Aareon AG, and with the Management Board members and chairmen of the Supervisory Board committees. To ensure the transition to the Supervisory Board work runs as seamlessly as possible, this onboarding process started already before the candidates were elected by the Annual General Meeting, while respecting confidentiality measures. Comprehensive knowledge about Aareal Bank was imparted before the candidates elected by the Annual General Meeting attended their first committee meetings.

Furthermore, continuous professional development measures take place on a regular basis within the course of Supervisory Board meetings. This is typically a two-stage process. In a first meeting, trends or legal or regulatory changes in particular are reported on in the abstract, and their impact on Aareal Bank Group outlined. The specific implementation is presented in a next meeting. Adjust-

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ments made during the year are referred to in later reports. The committees also address relevant topics in more depth in their own meetings. In 2020, these included for example two meetings of the Risk Committee with an in-depth analysis of current regulatory developments and of reporting and monitoring instruments that were expanded specifically due to the Covid-19 pandemic. The requirements for addressing non-financial risks and their treatment at Aareal Bank Group represented another focal point.

In addition to its regular meetings, the Supervisory Board convened for a separate informational meeting, during which auditors Pricewaterhouse-Coopers 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 dedication, tremendous commitment and flexibility they have shown during the past 2020 financial year. With this continued commitment, strong motivation and persistence, all Group employees have not only contributed to the Company's seamless transition to working from home, allowing day-to-day operations to continue unrestricted. They have also successfully handled the special challenges, while at the same time setting the course for the future, for example, with the important work carried out on the IT infrastructure under special circumstances. This visibly demonstrated the great team spirit that defines Aareal Bank.

Frankfurt/Main, March 2021

For the Supervisory Board



Marija Korsch (Chairman)