



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

Autumn 2020

Aareal
YOUR COMPETITIVE ADVANTAGE.

Agenda

- *(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 next year’s AGM (p. 18 ff.)*
- *(04) Focus topic: Sustainability*

Aareal Bank and its corporate governance bodies at a glance



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
- 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

100% member attendance at plenary meetings in 2019

Independent Supervisory Board and committee chairs

Excerpt from 2019 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

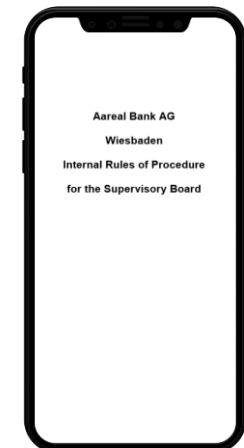
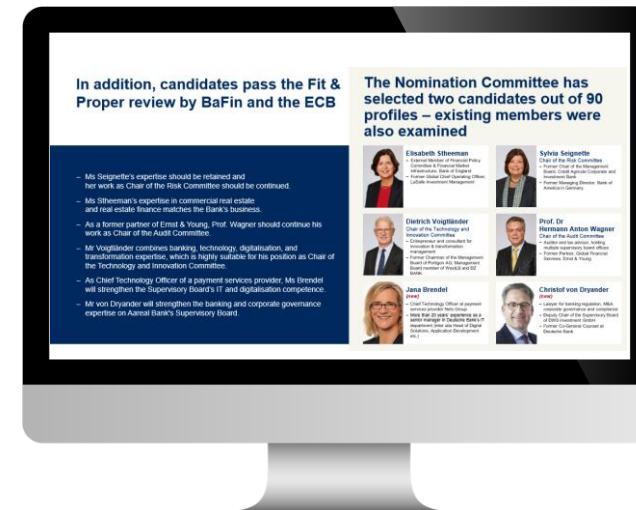
- Adjustments to term of office; to be reduced to four years in principle
- Introduction of staggered election dates to allow the Supervisory Board to flexibly adjust its composition if necessary at least every three years
- Next regular election dates: AGMs in 2023 & 2024

- 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”

- 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
- The Supervisory Board is supporting the Management Board in its implementation of Aareal Next Level

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.
- The dividend decision for the 2021 AGM depends on the ECB’s assessment of the situation in spring 2021

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 13 plenary meetings in the first half of 2020
- In 2019 it held five meetings in H1 and 10 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 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 next year’s AGM



Aareal

**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 have done recently:

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

What we still have to do:

- Determine the maximum remuneration
- Clearly differentiate between the remuneration system and its implementation

Aareal

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
Fixed remuneration components		
Fixed annual salary	<ul style="list-style-type: none"> - Fixed contractually agreed remuneration, paid monthly, amounting to 45% of the target total remuneration for Management Board members - Chairman of the Management Board: € 1,425,000 - Ordinary Board members: € 900,000 - Members of the Management Board to whom the “newcomer rule” applies: 80% of an ordinary Management Board member’s fixed annual salary 	<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"> - Company car, which can also be used for private purposes, or flat rate payment if no company car is desired - Group accident insurance - Specific costs of security measures 	
Pension obligations	<ul style="list-style-type: none"> - Defined contribution commitment - Annual contribution of 15% of overall target remuneration for Management Board members - Management Board members who were appointed prior to 1 January 2013 are entitled to claim pension benefits when they turn 60 - Management Board members who were appointed after 1 January 2013 are entitled to claim pension benefits when they turn 62 - In the event of permanent disability, Management Board members are entitled to claim benefits prior to turning 60 or 62, as appropriate 	

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>Variable remuneration components</p>	<ul style="list-style-type: none"> - 40% of Management Board members' total target remuneration - The reference amount for full target achievement is € 1,250,000 for the CEO and € 780,000 for ordinary Management Board members - 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 - Mix of Group (70%), divisional (15%) and individual (15%) targets - Performance is measured using criteria that are determined over a three-year period - No discretionary components in addition to the targets derived from the Bank's strategy - Payment of 80% of the variable remuneration is deferred (60% must be retained for five years; 50% of all deferred and non-deferred components are converted into virtual shares, to be held for a further year) - The maximum overall target achievement level is capped at 150% of the target value - The maximum variable remuneration must not exceed the fixed remuneration 	<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>

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"> - The Supervisory Board reviews the variable remuneration before disbursement for compatibility with the risk-bearing capacity 	<p>Disbursing variable remuneration is not meant to threaten Aareal Bank's financial solidity.</p>
Penalty and clawback	<ul style="list-style-type: none"> - All variable remuneration components are subject to penalty and clawback provisions - Adjustments to outstanding remuneration and/or clawbacks of remuneration already disbursed are possible in the case of clawback events 	<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>

For further information please see our remuneration report

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%.

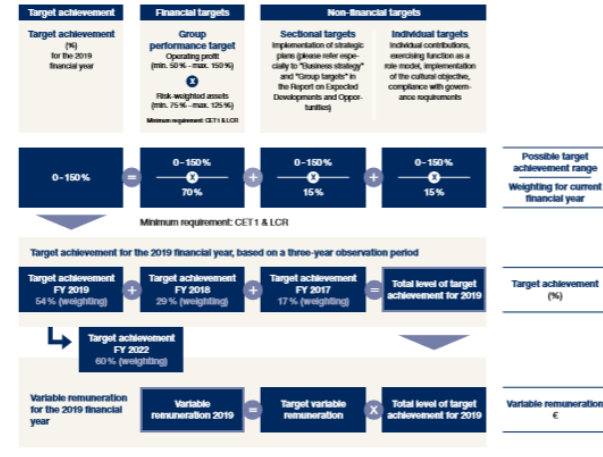
Sectional targets are related to the respective Management Board member's area of responsibility pursuant to the schedule of responsibilities. Accordingly, the Supervisory Board sets targets which the organisational units assigned to the respective Management Board members need to fulfil in order to 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



Focus topic: Sustainability

04

Aareal

Actions are the bottom line ...

ESG milestones on the path to implementing “Aareal Next Level“

1 We are investing in transparency to accentuate importance of ESG informed investment decisions

Structured
property
financing



ACTIVATE!

- Contributing by focusing financing on
 - high-quality, environment certified properties
 - properties well located for communities
 - properties well planned for staff and purpose
 - Support customers to deal with Covid-19

2 Our IT and banking services enable our clients to improve their own sustainability performance

Housing &
adjacent
industries



ELEVATE!

- Digitisation enhances service and upgrades potential for efficient use of resources
- Support affordable housing through our cost-efficient IT-payment solutions

3 Digitization offers multiple strategic advantages for a more sustainable economic growth

Aareon



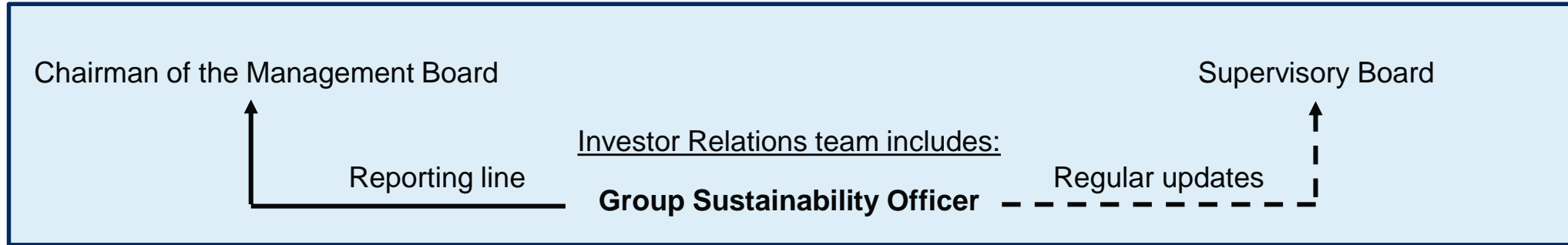
ACCELERATE!

- Further invest in digital ecosystems connecting sectors to meet today’s challenges (e.g. virtual assistance, digitalised maintenance, mobile services)

Aareal

Managing sustainability – "tone from the top"

Core to corporate philosophy



Reporting line

- underlines strategic importance of sustainability to our corporate philosophy
- steers practical implementation at the highest level
- ensures material ESG information is incorporated in communications with all our stakeholders

Management board variable remuneration includes ESG targets

Groupwide Sustainability Committee (*below Management Board Level*)

- established in 2012, meets regularly, coordinates all divisions and functions
- reviews trends and requirements, implements measures
- monitors achievements against targets
- continually develops measures to enhance sustainability mission

Our environmental and social ambitions

Short, medium and long-term

Transparency		Portfolio transparency on ESG aspects	→ by 2022
Green Offering		Launch of green / ESG product offering e.g. lending, funding	→ by 2021
Information Security & Data protection		Handling client data responsibly	→ zero breaches (cont')
Human Capital Management		Frequent employee surveys	→ every second year
Covid-19 Support		Solutions for clients, Flexibility for employees	→ ongoing

Aareal – Partner in business, Partner in Covid-19 crisis

Finding solutions, supporting where necessary

Structured Property Financing

We rely on continuity and reliability...

... in new business

- we finance properties of sustainable value, and we are adhering to this strategy

... in the search for common solutions during the crisis

- our local contact persons/specialists actively approached all customers worldwide within three weeks.
- We discussed business plans with our costumers and developed customised solutions.
- the principle of accommodation applies, i.e. both sides make their contribution. Currently, generally via a liquidity line for the pre-financing of interest/redemption

Digital Solutions

Enhanced importance through the Corona crisis with emergency aid ...

- 1000 days Aareon Green Consulting from home offices in April 2020 (April 2019: 200 days).

Support services offered by Aareon with regard to corona, such as

- free Corona chatbot for tenant communication
- free add-on to the wodis sigma rental accounting module for corona-related payment delays
- option of virtual walk-through during flat inspections for mobile services

Investing in the transition to a low-carbon economy and a more sustainable future

Our contribution towards increasing sustainability

ESG supportive regulation – facilitating energy-efficient modernisation / renovation loans

Aareal supports an ESG-based regulation of refurbishments

"I believe that fundamental renovations aimed at improving the life cycle assessment of a building should be supported by the regulatory authorities and not penalized. Of course, one can subsume renovations under "risky" property development and then attach correspondingly high capital requirements to them. On the other hand, if you don't completely renovate a building you will hardly be able to immediately meet the next climate standard. ..."

"I am not talking about reducing capital adequacy requirements at all. But we would have gained a lot if refurbishment didn't necessarily trigger an increase. ..."

Hermann J. Merckens, BÖZ, 19. Juni 2020



UN Sustainable Development Goals – our contribution

- Gender Equality (SDG 5)
- Decent Work and Economic Growth (SDG 8)
- Industry Innovation and Infrastructure (SDG 9)
- Sustainable Cities and Communities (SDG 11)
- Climate Action (SDG 13)
- Partnerships for the Goals (SDG 17)



Aareal

We are fostering the transition in Real Estate – to a more sustainable, digitized and connected future

Sustainability initiatives underway

Structured Property Financing

Helping to achieve 1.5/2 degree goal

- Influencing through value enhancement potential and pressure for transparency
- energy consumption and resulting greenhouse gas emissions
- green building certificates

Developing green lending

- developing a definition of environmentally sustainable commercial properties.
- clear, transparent criteria based on experience, market knowledge and market standards

Consulting/Services Bank

Broadening payment routes and connections

- Extending processing between housing and energy industry
- establishing platform to communicate with existing solutions
- enabling intelligent data exchange without additional manual effort

Developing new payment solutions

- Moving to innovative approaches and away from cash and direct debits systems

Introducing new digital solutions

- Mobile app and portal for digital meter reading
- Solution for the settlement of fees between public utilities

Aareon

Increasing green consulting

- Extending online consulting offering
- reducing project costs and carbon emissions at clients and Aareon alike
- environmentally friendly remote contact

Acquisitions

- integrating CalCon - market leading process for assessing structural condition of properties in Germany and Austria
- structural care and maintenance saves resources
- assessing M&A opportunities

Aareal stands for integrity, reliability and predictability

Reviewing our status

Doing business sustainably

Development of Return on Equity¹⁾ demonstrates financial strength



19.8% Common Equity Tier 1 ratio²⁾, significantly exceeding the statutory requirements



€ 26.3 bn Valuable Real Estate Finance Portfolio³⁾



Digital solutions boost our client's sustainability records



Above average results in sustainability ratings



Covered Bonds⁴⁾ with best possible ratings – also attractive from an ESG



Aareal Bank awarded as top employer for the 13th time in succession



Preparations for future disclosure requirements (EU Action Plan)



- 1) Pre-tax RoE of 8.7% as at 31.12.2019
- 2) Basel 3, as at 30.06.2020
- 3) REF-portfolio includes private client business (€ 0.4 bn) and WIB's public sector loans (€ 0.3 bn)
- 4) Mortgage Pfandbriefe rated Aaa by Moody's
- 5) imug classified mortgage Pfandbriefe as recommendable investments with regard to ESG aspects (BBB), without DHB

Above average ESG-Ratings

Overview

	Environment	Social	Governance
Within core business	<ul style="list-style-type: none">▪ Environmental financing criteria within property valuation▪ Transparency initiatives on portfolio level▪ Set-up of ESG-opportunity & risk management	<ul style="list-style-type: none">▪ Strong economic performance▪ Contribution to affordable housing▪ Failsafe information security	<ul style="list-style-type: none">▪ Transparent reporting on remuneration model/details▪ High quality ESG-disclosure▪ Structure, composition and diversity of governing bodies▪ Governance Roadshow
On corporate level	<ul style="list-style-type: none">▪ Environmental disclosure▪ Expansion of green electricity▪ CO₂ compensation	<ul style="list-style-type: none">▪ Fair, performance-oriented remuneration schemes▪ Employee surveys▪ Management of social matters▪ Covid-19 Support (e.g. flexibility / remote working)	<ul style="list-style-type: none">▪ CEO-responsibility for ESG matters▪ ESG-targets for Management Board▪ Sustainability regularly discussed in Board Meetings▪ Groupwide Sustainability Committee

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Aareal



Thank you very much!

Aareal
YOUR COMPETITIVE ADVANTAGE.