

**Separate Combined
Non-financial
Report 2019**
for Aareal Bank AG

Separate Combined Non-financial Report 2019 for Aareal Bank AG

About this report

This separate combined non-financial report for Aareal Bank AG and Aareal Bank Group relates to the 2019 financial year. It was prepared in accordance with section 340a (1a) of the German Commercial Code (Handelsgesetzbuch – HGB) in conjunction with sections 289b (3) and 340i (5) of the HGB in conjunction with section 315b (3) of the HGB in the versions as amended by the German CSR Directive Implementing Act (CSR-Richtlinie-Umsetzungsgesetz – CSR-RLUG), and was published separately from the Group Management Report. Additional environmental, social and governance information and indicators are published, among other places, in the article entitled "Sustainable economic activity: Transparency is key" in the image section of our online annual report and in the "Responsibility" section of Aareal Bank Group's website¹⁾.

Section 171 (1) sentence 4 of the German Public Limited Companies Act (Aktiengesetz – AktG) requires the Supervisory Board to review the non-financial report. This review by the Supervisory Board covers the reporting's compliance with the law, propriety and fitness for purpose. As a supporting measure, the Supervisory Board commissioned a limited assurance review in accordance with ISAE 3000 (Revised) from audit firm PricewaterhouseCoopers GmbH. In addition to the reporting and the non-financial performance indicators, the review by the auditors comprised the materiality analysis, the policies and the due diligence processes. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft issued an unqualified limited assurance opinion (see page 25ff.).

The core topics identified in the course of the materiality analysis were used to select the contents to be disclosed in the report on each of the five aspects required (anti-corruption and bribery matters, employee-related matters, social matters, respect for human rights and environmental matters). The non-financial report was prepared on the basis of the requirements of the HGB. In addition, our description of the management approaches and the implementation of the materiality analysis is guided by the Global Reporting Initiative Standards ("GRI-referenced") and also takes into account the principles set out in the UN Global Compact and the UN Sustainable Development Goals. Cross-references to disclosures other than in the Group Management Report and the consolidated financial statements represent additional information and do not constitute part of the separate combined non-financial report.

Description of the business model²⁾

The strategic business segments of Aareal Bank Group are commercial property financing and services, software products and digital solutions for the property sector and related industries.

Aareal Bank Group finances commercial property, and in particular office buildings, hotels and shopping centres, as well as logistics facilities, residential properties and student housing. The focus is on complex, large-volume medium-to long-term finance for completed buildings. Consequently, the ability of properties to retain their value for the long term and selecting business partners extremely carefully are very much in the Company's own interests.

¹⁾ www.aareal-bank.com/en/responsibility/reporting-on-our-progress/performance-indicators/

²⁾ See also the "Fundamental Information about the Group" section of the Group Management Report in Aareal Bank Group's Annual Report 2019 for a description of the business model.

In addition, Aareal Bank Group advises companies in the housing and property industries on how to optimise their business processes and payments systems, and on the efficient design and integration of IT systems with related sectors, such as the energy industry. Our software solutions and digital products for property administration, management and digitalisation enable our clients to improve their own sustainability performance.

Group enterprises are managed at Group level, i.e. the descriptions of the management approaches for the five aspects apply both to the Group and to the parent company. Where specific sustainability management issues exist, we draw attention to these in the relevant places.

Determining materiality

We define materiality as encompassing everything that helps to ensure Aareal Bank Group's long-term business success in a dynamic market environment – and hence its future viability. Our continuous dialogue with representatives of widely different stakeholder groups is extremely important for our assessment.

As a result – and also because the requirements of our various stakeholder groups can change over time – we regularly update our materiality analysis. For example, we again held discussions with internal and external stakeholders and with the members of the Group-wide Sustainability Committee, and interviewed a wide range of partners (clients, investors, analysts and media representatives) in the year under review to validate the relevance of our action areas and the topics allocated to them. Our review focused on material issues within the meaning of section 289c (3) of the HGB, i.e. all information necessary for an understanding of the Group's course of business, results and position, and of the impact of its business activities on the five aspects.

As a result, our sustainability management operations now focus on eight action areas that are depicted in the materiality matrix published in the image section of the online annual report and in the "Responsibility" section of Aareal Bank Group's website¹⁾ and that are key to securing the Company's long-term success.

Critical to our business success are a future-proof business model, successful risk management, strict client orientation, our ethical business approach and our attractiveness as an employer. Another important factor is how – i.e. with what products and services – we contribute to the sustainable growth of business and society as a whole with our two business segments of Structured Property Financing and Consulting/Services. Examples are green lending and digital solutions to the challenges facing society. The transparency with which we disclose relevant aspects of our business activities and include them in our corporate reporting is critical here.

¹⁾ www.aareal-bank.com/en/responsibility/managing-sustainability/materiality-matrix/

Reconciliation of action areas with material aspects as defined by section 315c (2) of the HGB

We have assigned the material issues as defined by section 315c (2) of the HGB that underlie our action areas to the statutory aspects at a content level. The above-average positive scores received in established sustainability ratings confirm that we are addressing the topics that are relevant to our sector and our business model.

Action areas	Material issues	Aspects
Future-proof business model	Economic performance	3. Social matters
	Strategy implementation	3. Social matters
Risk management	ESG risk management	(Risk reporting section)
Client focus	Client relationship management	3. Social matters
Corporate integrity	Instruments, processes and rule books (CoC for employees/suppliers, property compliance)	1. Anti-corruption and bribery matters/ 4. Respect for human rights
	Human Rights Guidelines	4. Respect for human rights
Attractive employer	Workforce structure	2. Employee-related matters
	Remuneration	2. Employee-related matters
	Training and education	2. Employee-related matters
	Staff development (including succession planning)	2. Employee-related matters
	Company benefits and flexibility	2. Employee-related matters
	Employee surveys	2. Employee-related matters
Transparency	Ratings	3. Social matters
	Improving transparency at property and portfolio level	5. Environmental matters
Digital solutions	Digital solutions to the challenges facing society	3. Social matters/5. Environmental matters
	Smart buildings	5. Environmental matters
	Data security and data protection	3. Social matters
Green lending	Environmental/sustainable property quality	5. Environmental matters
	Green lending	5. Environmental matters

Risk reporting

The Risk Report that forms part of our Group Management Report¹⁾ provides comprehensive information on our risk management system and the material risks associated with our business activities and relationships, products and services that have been identified for Aareal Bank Group.

The focus is not only on the potential impact of ESG issues on the banking business but also on influencing sustainable development through how we do business. ESG risks were captured during the risk inventory and assigned to the material risk types. In line with this, they are included implicitly in the risk types under which they are classified. At the end of 2019, the Management Board authorised the launch of the "ESG@Aareal" project, which aims to systematically capture and assess material ESG opportunities and risks at Group level (planned for Q2 2020). After that, a roadmap will be developed to adapt the processes and structures concerned, including the reporting (e.g. to reflect the recommendations of the Task Force on climate-related Financial Disclosures (TCFD)).

We do not see any reportable risks pursuant to the HGB in the version as amended by the CSR-RLUG whose potential adverse impacts on the five aspects are or could be severe, or whose occurrence is highly probable. We provide more detail on topics that are of particular importance to sustainability-conscious stakeholders in the overview of risks and opportunities given at the beginning of each aspect.

1. Anti-corruption and bribery matters

Combating all forms of corruption, bribery and bribability is especially important in view of the complex challenges in our international business. In addition to financial losses, failure to comply with the law, government regulations or internal guidelines is a significant source of reputational risk and exposes the Company to the risk of supervisory measures.

In the anti-corruption and bribery area, sound risk and compliance management offers the opportunity to gain and maintain the trust of our shareholders, clients and business partners, and of supervisory authorities and other stakeholders in society. This therefore ultimately helps to maintain long-term client loyalty and ensure continuous economic growth for the Company.

The goal: To use a robust compliance management system to raise awareness among employees, managers, Management Board members and governing bodies, to identify risks associated with any breaches of duty in a timely manner, and to avoid the rules being infringed as far as possible. Another aim is to prevent any involvement in incidents of bribery and corruption.

The key priorities here are to maintain Aareal Bank Group's strong reputation and to protect it against financial loss.

¹⁾ See the Risk Report that forms part of the Group Management Report in Aareal Bank Group's Annual Report 2019.

The Group Compliance Officer, who is responsible for continuous optimisation of Group-wide compliance processes, answers and reports directly to the Bank's senior management.

The compliance management system, which is aligned with Aareal Bank Group's risk position, takes all relevant legal and regulatory requirements into account and is based on the corporate governance principles recommended in the German Corporate Governance Code ("the Code"), among other things. It comprises a Group-wide Code of Conduct, which was extensively revised most recently in 2019 and which sets out binding rules for all employees, managers, Management Board members and governing bodies on how to act in a lawful and ethical manner towards clients, business partners and colleagues.

Instruments, processes and rule books

Group-wide anti-corruption guidelines, guidelines for preventing white-collar crime, and measures to prevent fraud and avoid and/or manage conflicts of interests as far as possible serve as the baseline for raising awareness among our employees, while also providing a benchmark for acting correctly. They serve to prevent the danger of corruption before it occurs. In addition, all employees receive training on the Company's compliance and fraud prevention requirements and on the potential consequences of any breaches. A confidential whistle-blower system also exists that can be used to report actual or potential breaches of the rules to the Compliance division. The employee reporting the issue is guaranteed confidentiality.

We systematically apply the "know your customer" rule and gather information on our clients and, where appropriate, other economic beneficiaries, their ownership and control structure, their business models and the source of their funds before we enter into business relationships with them. This allows us to perform a risk-driven assessment of relevant duties of care when establishing and monitoring client relationships.

The Property Compliance rule book, which applies to all Aareal Bank staff, sets out how to handle confidential and sensitive information, and how to avoid conflicts of interest with clients

New suppliers and service providers with an order volume in excess of € 100,000 are checked using commercial credit agency reports. Primary suppliers are examined regularly using a supplier evaluation system that assesses their reliability and compliance with the terms and conditions of their contracts, among other things. Enterprises and equity interests are only acquired following a positive review headed by Group Strategy.

If (material) functions are outsourced, the division performing the outsourcing must ensure service provider suitability as part of its selection and assessment procedure. Factors that must be examined during due diligence are defined in detail in the Group-wide "Outsourcing Service Provider Assessment" procedural guidelines; additional requirements apply where material functions are outsourced.

We are convinced that we must have a risk culture appropriate to our long-term business model as a core component of our corporate culture. This is why "risk culture" was included as a key element in the 2019 Group Strategy – as well as in the targets to be met by all Management Board members. As a result, it is also reviewed by the Supervisory Board.

RESULTS

- ✔ Publication of compliance alerts on Aareal’s intranet to raise employee awareness and draw attention to topical issues (e.g. social hacking/fraud prevention) or refresh employees’ knowledge (e.g. updates to procedural guidelines on preventing white-collar crime).
- ✔ The Group Compliance Officer reports at least annually and on an ad hoc basis to the Management Board and Supervisory Board on the results of the risk analyses performed to assess the appropriateness and effectiveness of the preventive measures taken, as well as on any incidents of corruption and the measures taken.
- ✔ In addition, Internal Audit assesses the effectiveness and efficiency of the internal control system during regular audits and informs the Management Board and Supervisory Board of the audit findings.
- ✔ The revised Code of Conduct (Version 3.0) was published in April 2019. This is based on the requirements of the EBA Guidelines on Internal Governance and international industry standards such as the Universal Declaration of Human Rights, the conventions drawn up by the International Labour Organization (ILO), the OECD Guidelines for Multinational Enterprises and the UN Global Compact’s Ten Principles. It also contains dos and don’ts – including examples and practical tips – to help implement the rules in practice.
- ✔ The Risk Appetite Framework was also completely revised in April 2019. In addition to adapting it to reflect new ICAAP/ILAAP guidelines, a chapter on managing NF and ESG risks was included for the first time.
- ✔ The revision of the “Outsourcing and Other Third-party Procurement“ Framework Directive to comply with the EBA’s Outsourcing Guidelines, which describes and sets out the tasks and responsibilities of all units involved in the outsourcing or third-party procurement of activities and processes, was published in October 2019.

Breaches and sanctions

		2019	2018	2017
Number				
GRI Indicator	Subject matter			
GRI 205-3	Confirmed incidents of corruption and actions taken	0	0	0
GRI 419-1	Fines and non-monetary sanctions for non-compliance with laws and/or regulations	0	0	0
GRI 206-1	Legal actions for anti-competitive behaviour	0	0	0

Compliance management

		2019	2018	2017
Number				
GRI Indicator	Subject matter			
GRI 205-1	Operations included in the compliance concept	100 %	100 %	100 %
GRI 205-2	New employees who have received training on compliance requirements	100 %	100 %	100 %
GRI 205-2	Existing employees who have received refresher training on content already taught	100 %	100 %	100 %

2. Employee-related matters

Aareal Bank Group's vision is to have employees who think and act in an entrepreneurial manner, take responsibility and develop innovative solutions. Such staff are decisive for the Group's economic performance and competitiveness.

This is all the more true in our complex and widely varying business, which in many cases is based on trust-driven client relationships built up over many years. At the same time, we need to adapt even more to market changes and client requirements. This requires designing digital transformation processes for our products, clients and employees, which in turn entails greater use of agile, flexible solutions.

Given these enormous challenges, a decline in employees' willingness to face these new challenges, an associated deterioration in performance, and a loss of talented staff and hence of knowledge, represent risks for the Group. Another medium- to long-term challenge for Aareal Bank Group as an employer is demographic change, which is leading to a shortage of specialist staff. As a result, Aareal Bank Group knows it must offer talented staff – for whom it competes on a global scale – real benefits by addressing employee-related matters.

The goal: We must preserve our image as an attractive, modern employer for the long term so as to continue to recruit and retain talented staff. To do this, our human resources activities focus both on recruiting new staff and on promoting a corporate culture that is aligned with our needs in a wide variety of ways, such as appropriate, performance-based remuneration, needs-driven training and education, attractive company benefits, and highly flexible working times and locations.

A strong feedback culture is critical if Aareal Bank Group is to enhance and extend its culture in the way it wants to. This is why Aareon staff have been polled every year since 2001 on how satisfied they are. The classic employee survey performed in 2019 at the Bank to supplement the previously used formats (employee reviews and events, etc.) will be repeated every two years going forward.

The HR departments in the individual Group companies coordinate human resources management at Aareal Bank Group and support managers in operational staff management issues. Aareal Bank performs the HR function for a number of subsidiaries, while in the Aareon subgroup Aareon AG is responsible for this. Human resources strategy tasks are addressed by the Managing Director (MD) Human Resources function at Aareal Bank and by equivalent functions at the subsidiaries. In addition, Group-wide guidelines (on the remuneration strategy, financial control for human resources and occupational retirement provision, among other things) have been issued to ensure the Group is managed using uniform principles that comply with the ILO's core labour standards and with substantially stricter national labour and social standards.

Workforce structure

At the end of 2019, Aareal Bank Group employed 2,788 people from more than 35 countries on three continents. Employee-initiated staff turnover amounted to 4.6 % in 2019. New hires rose from 11 % to 13.9 %. A large majority of these were in Germany. Employees' average length of service (11.3 years) is proof of Aareal Bank's interest in long-term relationships. The average age of our employees is 44.7 years. At 85.5 %, the proportion of employees covered by collective bargaining agreements was up slightly year-on-year (82.9 %).

Remuneration

Our remuneration systems are based on specific remuneration principles. In addition to their fixed remuneration, all permanent Bank employees receive performance-related variable remuneration. As required by the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – InstitutsvergV), the variable remuneration for a small number of employees (senior executives and so-called risk takers) comprises a short-term and a long-term component, part of which is paid in cash and part in the form of virtual shares. The objective is to avoid creating negative incentives to take inappropriately high risks and also to align remuneration with the Bank's long-term success by structuring the remuneration systems in line with this, and by capping variable payments and lengthening the period over which they are disbursed.

In line with section 25d (12) of the German Banking Act (Kreditwesengesetz – KWG), the Supervisory Board has established a Remuneration Control Committee, which ensures that the remuneration systems for senior management and employees are appropriately structured. The remuneration systems and the underlying remuneration inputs are reviewed for appropriateness at least once a year with the assistance of Human Resources, the Remuneration Officer and other relevant control units involved in the review.

Aareal Bank offers its employees a wide range of social benefits in addition to their remuneration, with its employer-funded corporate retirement plan being particularly important here. In addition, Aareal Bank not only pays the regular employer pension contributions but also offers employees a deferred compensation scheme that allows them to shift taxable income to the period after they have retired, and hence to make personal provision for their retirement. The Bank also takes advantage of rebates, for example for its group accident insurance and other insurance benefits.

Training and education

Aareal Bank Group invests continuously in developing its employees' professional, business and interpersonal skills on an individual, needs-driven basis. Aareal Bank's focus in 2019 was on professional and methodology training. Among other things, we continued our emphasis on (agile and conventional) project management and stepped up activities relating to topics such as cybersecurity. Division-specific organisational and team development measures are used to promote the internal change process here.

Aareon's training activities focused on management development and included training, diagnostic and consulting offerings, coaching, digital leadership training, and classic and agile project management. As in the past, professional knowledge about Aareon Smart World is provided using the WebEx-based WodisSigma University.

In light of the continuing process of internationalisation, both Aareal Bank and Aareon also attached great importance to expanding language and communications skills: A digital language learning portal was introduced that offers opportunities to learn not only English but five other European languages as well.

Platforms and dialogue formats for internal networking and the Group-wide Cross-mentoring Programme promote knowledge sharing and transfer. The Bank's Junior Training Programme ensures young staff are developed for future roles by offering a combination of various vocational traineeships, dual study courses, and trainee programmes. Besides its internal trainee programmes, Aareon offers two dual degree courses – "Business information systems" and "Media, IT and management" – plus vocational training opportunities for office managers, IT applications developers and IT systems integrators. In addition, the "Qualified Residential and Real Estate Specialist (EBZ)" training course was offered for the first time in its current form in the year under review. As at the end of 2019, Aareal Bank Group employed 53 vocational trainees plus one management trainee.

Human resources development (including succession planning)

All Group managers discuss their employees' performance with them at least once a year plus – if desired – their individual development and specific development measures, as part of the regular Structured Appraisal and Target-setting Dialogue that is mandatory for all levels. Dialogues can also be held during the year if a new manager is appointed for an employee, if it is necessary to establish that an employee's performance is inadequate or if their responsibilities change significantly.

As in previous years, the Management Board, with the support of Human Resources, discussed the pool of potential candidates for positions and succession options as part of the Bank's human resources planning, so as to be able to adequately fill key specialist and management positions in the Company without significant delays.

The dialogues and succession planning are core tools for facilitating and planning employee development.

Company benefits and flexibility

Comprehensive programmes promoting flexible working times and locations (flexible working time models, part-time working, and our mobile working and teleworking offerings where operational requirements permit), plus a broad range of support measures to help employees achieve a positive work-family and work-care balance make it easier for our staff to organise their activities. In addition, Aareal Bank Group's comprehensive range of health-promoting measures – which cover information, risk prevention, exercise and ergonomics, nutrition, mental health and relaxation, and which are based on employees' current needs in all cases – increases our attractiveness as an employer.

Aareal Bank Group regularly undergoes recognised audits of its human resources work and the quality of its processes and measures; these also act as an early warning system.

Employee surveys

The goal of the employee surveys we perform in our Group is to obtain direct and honest feedback. We can then be able to derive targeted measures that will make us even better as a company. Employee surveys were performed almost simultaneously at Aareal Bank and Aareon in 2019, with the results becoming available within the companies in mid-December.

RESULTS:

- ✓ The remuneration systems at all levels of the Bank's hierarchy were harmonised. Due to the introduction of the additive model for non-risk takers, the period under review saw a consistent approach for the first time to remuneration for everyone from the members of the Management Board to pay-scale employees.
- ✓ From the 2019 appraisal period onwards, the assessment basis for all employees' variable remuneration has been split into an individual component and a Group component. Target achievement for the Group component is determined centrally, approved by the full Management Board and communicated to the employees. Introduction of the Group component means that all employees now share directly in the benefits when Group targets are achieved – something that is also intended by the Code of Conduct.

- ✓ General works agreements for mobile working were introduced throughout the Group in 2018; under them, personalised technical solutions give staff flexibility regarding where and when they work.
- ✓ The Managing Director Human Resources regularly reported to the plenary meeting of the Management Board on human resources development, the human resources policy and the range of employee programmes, social benefits and other support that the Company offers. Reporting for the period under review focused on the progress made, and staff-related measures taken, in connection with our Aareal 2020 programme for the future and on the process of cultural change that has been launched.
- ✓ A summarised version of this reporting – the annual Human Resources and Social Report – is submitted to the Works Councils every year; this happened most recently in December 2019.
- ✓ A number of external initiatives confirm the effectiveness and success of the measures taken. For example, in 2019 the CRF Institute named Aareal Bank as a "top employer" for the twelfth time in total.
- ✓ In September 2019, Aareal Bank performed a full employee survey. The extremely high response rate of 88 per cent and the large number of constructive, high-quality comments received demonstrates employees' desire to actively help shape the Bank's development. We are using these answers to develop highly focused measures for the five areas of "Work and Health", "Risk Culture", "Management Board", "Managing Director level" and "Aareal Bank as an employer", with the aim of confirming these strong results and improving the critical issues in the follow-up survey planned for 2021.
- ✓ In 2019, as in the past, employees were offered a variety of dialogue formats for working together on successfully enhancing the Group and strengthening its market position, promoting the sharing of information and ideas, and facilitating networking across the Group. Examples of this included:

 - A Management Board roadshow by Aareal Bank and Aareon Board members plus the heads of division concerned for all Group divisions (18 meetings in Q1 2019)
 - Annual Staff Information Meeting for all Aareal Bank Group employees (3 April 2019)
 - Aareal works meetings for all Aareal Bank employees (14 May 2019 and 27 November 2019)
 - Group Leadership Meeting for Aareal Bank Group's top management (26 June 2019)
 - Aareon Annual Management Meeting 2019, attended by roughly 100 Aareon managers (17 September 2019)
- ✓ Yammer, the collaborative working tool that was introduced at Aareon during the past fiscal year, now links more than 1,500 internal users and simplifies international cooperation.

Workforce structure

		2019	2018	2017
GRI Indicator	Subject matter			
GRI 102-8	Number of employees in Germany	1,964	1,962	2,014
GRI 102-8	Number of employees in Europe excluding Germany	784	745	745
GRI 102-8	Number of employees in Asia and North America	40	41	41
GRI 102-8	Employees worldwide	2,788	2,748	2,800
GRI 102-8	of whom outside Germany	824	786	786
GRI 102-8	of whom female	1,027	1,035	1,046
GRI 102-8	Percentage of female employees worldwide	36.8%	37.7%	37.4%
GRI 102-8	Percentage of part-time employees	19.9%	21.1%	19.4%
GRI 102-8	Number of full-time employees	2,232	2,168	2,256
GRI 102-8	Female part-time employees	377	399	386
GRI 102-8	Percentage of female part-time employees	67.8%	68.8%	71.0%
GRI 102-8	Male part-time employees	179	181	158
GRI 102-8	Percentage of male part-time employees	32.2%	31.2%	29.0%

Changes in workforce structure

		2019	2018	2017
GRI Indicator	Subject matter			
GRI 401-1	New hires	387	303	233
GRI 401-1	Employee turnover	4.6%	5.8%	3.9%

Regular employee reviews

		2019	2018	2017
Figures in percent				
GRI-Indikator	Subject matter			
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	100%	100%	100%

>

Participant days training and education

		2019	2018*	2017
Number of days				
GRI Indicator	Subject matter			
GRI 404-1	Average days training and education per year and employee**	2.7	2.8	3.8
GRI 404-1	Total training days**	7,284	7,290	9,855

*As from 2018, the figures do not include lessons for vocational trainees.

**Not including Mercadea Srl., Aareon Norge AS, Aareon Sverige AB or Aareon Finland Oy.

3. Social matters

Banks play an important role in the business cycle. To start with, they ensure payment transactions are executed, allowing society and the economy to function smoothly despite the substantial division of labour needed for material wealth. In addition, by granting credit and managing the related risks they facilitate investments that help promote companies' economic development and hence strengthen the overall economy in a dynamic and innovative growth process. In other words, an efficient, flexible finance system is a prerequisite for the sustainable development of society as a whole.

This means that Aareal Bank Group can add most value to society by constantly ensuring its own economic performance. In our Structured Property Financing business segment, we help create value by adopting a flexible yet conservative business strategy, which builds on our sound capital base and funding activities.

Many social risks that are typical for the property sector, such as a lack of transparency in the construction business or negative impacts on local communities, do not affect Aareal Bank, which mainly provides financing for buildings that have already been completed. Since we focus on office buildings, hotels, shopping centres, logistics facilities, residential properties and student housing, our portfolio does not contain any potentially controversial industrial plant or other facilities that may be considered problematic by the public.

In our Consulting and Services business, our success is based on the stable long-term contractual and client relationships that underpin deployment of our tailor-made IT and banking solutions. Our software solutions also have an impact on society: in many cases, our clients' customers also benefit from the time, cost and efficiency savings generated. For us, ensuring failsafe information security and data protection is part of another core social duty that goes without saying.

The goal: To ensure we can add value to society by expanding our position as the leading provider of smart financing, software products and digital solutions for the property sector and related industries.

We monitor core impacts, risks and opportunities associated with our business activities (such as the importance of information security and data protection) in the process.

Strategy implementation

Aareal Bank Group's strategy focuses on sustainable business success. In line with this, Aareal Bank has substantially increased the flexibility of its Structured Property Financing segment in terms of regions, asset classes, structures and exit channels while simultaneously driving forward the expansion of its business along the value chain.

The Consulting/Services segment, in the meantime, is clearly focused on growth. This applies in particular to our subsidiary Aareon, whose international business has been significantly strengthened by acquisitions made as part of our "Aareal 2020" programme, among other things.

We have driven forward initiatives involving start-ups in both Group segments and invested significantly in IT. The Bank is one of the first institutions to have migrated its core system to S/4 Hana – a milestone on the way to becoming a highly efficient organisation. This initiative was flanked by a clear improvement in structural and process efficiency and a project to enhance our corporate culture.

We laid the foundations for continuing our solid growth in the coming years with our strategic review process during the year under review. Under the "Aareal Next Level" motto, the Group will maintain its fundamental strategic orientation, which comprises large-volume international commercial property finance on the one hand and consulting/services for the institutional housing industry in Europe and related sectors on the other.

Economic performance

The use of specific quantitative and qualitative criteria and the risk minimisation and mitigation checks that form part of our loan approval process ensure the high quality, and hence the long-term value, of the Property Financing portfolio. Complying with targets for individual countries and property types within our portfolio leads to a high level of diversification and mitigates concentration risk at Bank level – something that we achieve not only by managing our new business but also through our active syndication policy. Comprehensive market, property and risk analyses give us an overview of the profitability of the financing, the value and profitability of the property concerned and the credit quality as well as integrity and property-specific experience of the borrower. The functional separation between our Sales units and Credit Management, which extends all the way up to senior management, avoids conflicts of interest. Implementation of the "three lines of defence" model has clearly defined the different roles needed for effective risk management and ensures a systematic approach to identifying and dealing with enterprise risk throughout the Group.

Aareon and the Bank's banking and software solutions and digital services provide the housing and utilities sector with key business process management tools. They allow them to do business extremely leanly and efficiently, helping clients to cut administrative expenses and making useful contributions to the economy as a whole. For example, cost-efficient processes allow municipal and cooperative housing associations to offer affordable housing.

Client relationship management

We are strictly client-driven and this focus underpins our product and service range, our structures and processes, and our innovations. We integrate our clients closely with our operational processes so as to understand their needs and wishes as well as possible, and to align our solutions with them.

In the area of commercial property finance, we leverage our local knowledge and the expertise offered by our sector specialists to focus on direct client relationships based on our decades of experience. In-depth cooperation during product development has proved its value when developing our digital consulting solutions and services: here, too, we aim for direct dialogue to allow us to identify requirements while also anticipating trends, developments and risks at an early stage. Equally, we integrate clients in our innovation activities using methods such as Design Thinking, among other things.

This also applies to our equity and debt investors, who value our employees' many years of capital market experience and the high level of continuity in their contacts with the Bank.

Information security and data protection

Handling client data responsibly and taking effective measures to ensure information security and data protection are a top priority at Aareal Bank Group. We observe banking secrecy obligations and comply with the provisions of the EU General Data Protection Regulation (GDPR), the provisions of the German Data Protection Act (Bundesdatenschutzgesetz – BDSG) and specific pieces of legislation, as well as the data protection regulations applicable in the other countries in which we are active. Internal guidelines, instructions and training courses are used to inform employees of the legal requirements in relation to data protection, and to raise their awareness of them. We also undergo voluntary external audits and certification processes.

Ratings

The standards and quality that Aareal Bank Group achieves in its sustainability performance are documented in a series of specialised sustainability ratings. Internally, the results of these assessments serve as a benchmark for improving our activities and our work, since the ratings are updated in line with analysts' and investors' increasingly strict requirements. Consequently, they are good indications of what our stakeholders are likely to focus on, and the expectations we shall have to meet, in future.

In 2019, financial rating agencies agencies Moody's and Fitch included ESG aspects in their financial ratings questions for the first time, and took the answers into account in their ranking process.

ERGEBNISSE:

- ✓ Aareal Bank Group's sound financial position is demonstrated by its consistently positive quarterly results during the reporting period, see the "Key Indicators" tables in the Group's quarterly reports for 2019.
- ✓ Since 2018, active support has been provided in selected countries for student housing as an additional property type. In July 2019, Aareal Bank provided AUD 57 million in finance for student housing in Melbourne, expanding its market share in Australia and further diversifying its portfolio.
- ✓ Risk-driven reduction in exposure and changes to country limits (e.g. reduction in the volume of finance provided in Turkey, Russia and Italy, as well as finance for office buildings in the UK and shopping malls in the US).
- ✓ Successful implementation of the de-risking strategy: risk exposures in Italy (securities and loans) were reduced by around one-third or € 1.3 billion during the year under review, to € 2.7 billion.
- ✓ The Bank reduced its volume of non-performing loans (NPLs) as of the 2019 year-end by around 40 % (or € 0.8 billion) compared to the mid-year point, to € 1.1 billion.
- ✓ The sustained value of the Property Financing portfolio is reflected in its consistently low credit risk indicator: whereas allowances for credit losses for the portfolio as a whole amounted to 65 basis points in 2009, at the height of the financial crisis, the figure for financial year 2019 was around 34 points only.
- ✓ Aareal Bank came second in the 2019 sustainability ranking for bank bonds conducted as part of imug's "Sustainability stress test – how good are Germany's 25 largest banks?".
- ✓ Numerous housing associations throughout Germany that are responsible for a total of roughly 7 million residential units use our solutions for administrative purposes.
- ✓ The two international hackathons for Aareon staff held in the reporting period focused on developing new software technologies and exploring innovative areas.
- ✓ Aareon uses its captive venture company Ampolon Ventures to test new ideas in close collaboration with the start-up community. Ophigo – a start-up which offers an AI-based rental platform for the office sector – was the first venture to emerge from this.
- ✓ Cybersecurity tips were published on Aareal's intranet to raise employee awareness/ draw attention to current topics using practical hints (e.g. Cyber advent calendar: 24 valuable security tips).

- ✓ There were no notifiable data protection breaches at the Bank or at Aareon in 2019.
- ✓ Our subsidiary Aareon AG has been awarded the TÜV data protection management quality seal, while its information security management system has been certified under the ISO/IEC 27001 standard. The certifications were confirmed in the course of the annual GDPR follow-up audit.
- ✓ Aareal Bank Group was again awarded ISS ESG Prime Status in August 2019; with a C+ rating, the Bank ranks among the top 15 per cent of the "Financials/Mortgage & Public Sector Finance" category. (For further rating results, please see: Link to Key Indicators in AR 2019 (page 2) and: <http://www.aareal-bank.com/en/responsibility/reporting-on-our-progress/ratings/>)

4. Respect for human rights

We consider respect for human rights to be an inalienable part of our responsibility as a global enterprise. This is why we have undertaken not only to strictly comply with all applicable legal requirements but also to uphold human rights within our sphere of influence.

At the level of the workforce, potential issues could include infringements of the General Equal Treatment Act (Allgemeines Gleichstellungsgesetz – AGG) or of the ban on discrimination (e.g. treating staff differently on the basis of diversity aspects, or inappropriate or unfair remuneration). Unethical behaviour of this kind would damage teamwork and hence results, lead to inefficient working processes, demotivate talented employees and cause economic damage as a result. Contractual rules for the Code of Conduct for suppliers were introduced in order to combat the risk of human rights violations among our suppliers.

The goal: Aareal Bank Group's declared goal is to promote the protection of human rights in its national and international operations. We committed to this when we signed up to the UN Global Compact. We define it as valuing and respecting the unique characteristics and differences of each and every employee, and as unequivocally ensuring equal treatment and equal opportunities at all levels.

We have also undertaken to avoid any form of discrimination and to actively hold and live the belief that diversity not only enriches our corporate culture but also represents a success factor in reaching our strategic goals.

Group-wide Code of Conduct

We have taken precautions throughout the Group to ensure that we respect and uphold human rights in our business processes, both at the level of the workforce and in our supply chain.

We address anti-discrimination issues within the Group using our Code of Conduct for employees. This covers the topics of diversity, fairness, and the prevention and resolution of conflicts in the workplace together with employees and their representatives.

Workforce diversity and ensuring a wide range of viewpoints are represented on governing bodies and other corporate committees are also critical long-term success factors: generally speaking, the more diverse the backgrounds of the people involved, the more creative the approaches taken to solving problems are and the lower the danger of "group-think" becomes. Diversity also has clear benefits when dealing with our international clients, e.g. in the form of language skills or an understanding of other cultures and values.

When setting the remuneration of employees, we do not differentiate by gender but focus exclusively on aspects such as qualification, professional experience and training. Regular analyses of the base salary and remuneration ratios for women and men in comparable positions ensure the necessary transparency. Variable remuneration is paid exclusively on a performance basis, as measured by reviews and the extent to which predefined targets have been reached.

Code of Conduct for Suppliers and Business Partners

In the area of purchasing and procurement, the Code of Conduct for Suppliers and Business Partners that was implemented in 2016 underlines our commitment to observing certain standards. This mandatory policy forms the basis for the business relationships between Group companies and suppliers/service providers. It protects us against potential risks in the supply chain arising from failures to comply with environmental or social standards that would reflect negatively on Aareal Bank Group. We report on respect for human rights both in our annual "Communication on Progress" (COP), which is published on the UN Global Compact website and – in relation to the prevention of modern slavery – in our UK Modern Slavery Act declaration, which can be accessed on our website. In accordance with the German Transparency of Remuneration Act (Entgelttransparenzgesetz – EntgTranspG), Aareal Bank AG's Annual Report provides a breakdown of our employee figures by gender, plus data on diversity and equal remuneration.

Human Rights Guidelines

The overarching Human Rights Guidelines resolved by the Management Board detail how Aareal Bank Group lives up to its duty to protect human rights by summarising the requirements and principles that apply throughout the Group. The guidelines serve as a benchmark for measuring what we do and are intended to help promote global human rights above and beyond the Company as well.

RESULTS:

- ✓ The Management Board has expressly undertaken to respect human rights in the Code of Conduct, which applies to the entire Group, and has also committed to observing the principles of diversity and equal treatment by signing the Diversity Charter (Charta der Vielfalt). Our human rights reporting is used to inform the Management Board of the measures implemented, their effectiveness, any infringements and the actions taken to penalise them.
- ✓ No cases of discrimination came to light at Aareal Bank Group during the year under review (GRI 406-1). Equally, no significant indications of human rights violations were reported in the supply chain (GRI 414-2).
- ✓ When employees are recruited, the employee representative bodies involved regularly use their co-determination rights to check that positions are filled on the basis of applicants' qualifications (GRI 405-2).
- ✓ In addition, we had our remuneration structures analysed externally as part of a study (Logib-D) sponsored by the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth. The results showed that there are no significant differences in remuneration within Aareal Bank between men and women in comparable positions.ibt.
- ✓ 1 August 2019 saw the publication of the Group-wide Human Rights Guidelines, which detail our responsibilities as an employer and a global enterprise.

Percentage of women in management positions

		2019	2018	2017
Figures in per cent				
GRI Indicator	Subject matter			
GRI 405-1	Percentage of women in management positions	23.8 %	25.2 %	21.5 %*
GRI 102-8	Percentage of female employees worldwide	36.8 %	37.7 %	37.4 %

* Figure adjusted by -0.6 percentage points

Human rights abuses

		2019	2018	2017
Number				
GRI Indicator	Subject matter			
GRI 406-1	Reported/identified incidents of discrimination	0	0	0
GRI 414-2	Reports of significant human rights impacts in the supply chain	0	0	0

5. Environmental matters

We aim to help achieve the 1.5/2 degrees goal set by the international community in order to combat climate change and global warming. Although, as is the case with most financial institutions, the environmental impact of our activities is largely indirect, we are convinced that we need to do this in order to ensure that our business model remains viable in the future. Additionally, we aim to prevent potential losses of clients and investors due to our failure to observe environmental matters, not to mention the associated reputational risk.

The property sector accounts for a significant proportion of global energy consumption and the resulting greenhouse gas emissions,¹⁾ and substantial potential savings can therefore be made in this area. Since Aareal Bank nearly always finances existing properties, we are only able to influence these areas indirectly; this can be done e.g. by ensuring transparency in, among other things, the property valuations used as a basis for decisions.

In the Consulting/Services segment, our products and services enable our clients to reduce negative environmental impacts, e.g. by using digital and mobile solutions, by networking systems and by using Aareon’s green consulting services. This leads, for example, to a drop in the number of kilometres travelled and hence to lower CO₂ emissions, as well as to less paper being used.

The goal: Taking a responsible approach to natural resources and environmental protection are part of our corporate responsibility. We aim to make a measurable contribution to protecting the climate and the environment, and take environmental aspects into account in our business decisions.

Creating or improving transparency – e.g. with respect to property certifications, energy efficiency, the visualisation of consumption data for operators and tenants, or the environmental impact of new products and services – is a precondition for this.

¹⁾ Source: www.unenvironment.org/resources/publication/2019-global-status-report-buildings-and-construction-sector

Implementation is performed on a topic-specific basis by the Valuation & Research department when preparing market and mortgage lending value appraisals and analyses or, in the case of IT products, by the Bank's Housing Industry division or by Aareon.

Environmental/sustainable property quality

We finance properties of lasting value that live up to our strict quality requirements. When performing property valuations, we not only focus on the buildings' fair values but also determine the mortgage lending value using a lifecycle analysis that regularly includes environmental aspects such as the buildings' technical, functional and environmental quality. When looking at sustainable property use we also always take marketability and third-party usability into account.

Green lending

We identified green lending as an opportunity for Aareal Bank Group in the course of the "ESG@Aareal" project that was launched in December 2019. The first step is to develop a green building definition that uses clear, transparent criteria – based on our valuation expertise, many years of experience and property market knowledge, plus existing market standards – to define environmentally sustainable commercial properties.

Improving transparency at property and portfolio level

In view of the Paris Agreement on climate change and the goal of limited global warming to significantly less than 2 degrees, higher requirements for transparency and the contributions to be made by enterprises can be expected in the short to medium term. Equally, institutional investors are becoming increasingly interested in the climate change risks posed by their investments. We want to be ready for this, since a future climate impact reporting requirement at portfolio level is likely. With effect from mid-2020, our systems will capture data on energy efficiency, green building certificates and the background to energy upgrades that have been performed or are planned, allowing us to evaluate the KPIs used in the lending business more precisely. The availability of data is the greatest challenge here, which is why we shall start by capturing this information, where our clients have it, for our new business (not including loan extensions) with the goal of successively extending these data fields to the existing portfolio as well.

We are active in the Long-term Sustainable Value Network and use the insights obtained from the knowledge shared there. This network aims to promote the use of a sustainable value as the basis for lending valuations, and to develop an internationally applicable method for calculating the mortgage lending value. Here, too, the goal is to improve transparency and comparability.

Digital solutions to the challenges facing society



The digital solutions we are developing focus not only on generating time, cost and efficiency savings, but also on improving our clients' environmental footprint and contributing to their climate protection efforts. The systematic expansion of our BK 01 product series is steadily creating a new, cross-sector range of offerings that automate processes in the energy utilities and housing industries. These include BK 01 immoconnect/BK 01 Operating Cost Management (payment of and accounting for service charges) and BK 01 eConnect/BK 01 Invoice Data Processing (generation and capture of electronic invoice data). The Aareal Portal, our banking portal for housing industry clients, is based on end-to-end digitalisation of client communications, reducing negative impacts on the environment.

Automated processes, a consistent data pool and user-friendly services are becoming more and more important as the integration of housing enterprises with clients, business partners and technical facilities increases. Aareon has set a standard for digital networking in the property industry and related sectors for several years now with its Aareon Smart World digital ecosystem. Examples of services include digitalised leasing, digital customer relationship management and a digitalised maintenance process.

Smart buildings

Buildings are becoming more and more "intelligent" thanks to digital technologies. Our Consulting/ Services segment examines forward-looking topics and technical innovations – including in relation to building management – on an ongoing basis, assessing their potential to enhance efficiency and optimise processes, as well as to develop new property sector solutions. Aareon Smart World's digital ecosystem allows processes to be re-engineered and optimised. One area where this plays a key role is maintenance, which is a significant cost factor in the property and housing industry.

RESULTS:

- 
Quality defects such as inadequate energy efficiency negatively impact property valuations. Depending on how severe they are and how relevant for the overall rating (which comprises a comprehensive market, property and risk analysis), they may impact loan structuring or lead to requests for finance being rejected (see the information on the long-term value of the Property Financing portfolio given on p. 15).
- 
Aareon's invoicing service, the Mareon service portal, the Aareon CRM portal for tenants and property owners, the Aareon Immoblie Pro and Immomio property agencies, the Aareon Wechselmanagement occupant change management solution for utilities and Aareon's mobile solutions (mobile traffic safety, mobile portfolio data management and mobile handback/acceptance procedures for residential accommodation, etc.) facilitate lean, efficient processing by digitalising what were previously manual or paper-based processes. The same also applies to the tried-and-trusted

BK01 product series and many other consulting and services solutions that our clients can use to leverage process and sales advantages, and improve their environmental footprint.

- ✓ In November 2019, Aareon demonstrated its innovative ability by launching the Aareon Smart Platform – an open, integrated platform for property and housing industry clients and partners. This concept allows us to develop software solutions for managing residential and other forms of property, such as smart building systems, and to integrate them with the Aareon Smart World digital ecosystem.
- ✓ The theme of the 12th Aareal Energy Forum was "Restructuring the energy sector" and the opportunities arising from changing client needs and technological developments.
- ✓ Green consulting: 3,751 online consulting days in 2019 reduced project costs and carbon emissions at clients and Aareon alike.
- ✓ The series of events launched in 2018 together with the Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e. V. (VfU) to examine the impact of the EU's Action Plan on the property sector, was successfully continued in 2019.
- ✓ In 2018 and 2019, we monitored the proportion of total new business (not including loan extensions) that was accounted for by properties certified under national/ international standards. We observed that the number of certified existing buildings is steadily rising, as is the relevance of green building certificates: one in four new business deals in 2019 involved certified properties.
- ✓ We started implementing additional mandatory fields in our CMS system in December 2019 to track buildings' energy efficiency, energy-saving renovations and certification status; these will be available at the latest in mid-2020 and will allow us to systematically capture this information.
- ✓ A "climate value at risk" was calculated in a pilot project together with the MSCI Climate Risk Center, in order to be able to forecast climate change risk and the future cost of any renovations that may be necessary to meet statutory environmental requirements for our new business in 2018 and 2019. Compatibility with the 2-degree target was assumed in both cases.

Independent Practitioner's Report

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting¹⁾

To Aareal Bank AG, Wiesbaden

We have performed a limited assurance engagement on the combined separate non-financial report (hereinafter the "Non-financial Report") pursuant to §§ (Articles) 340a Abs. (paragraph) 1a and 340i Abs. 5 in conjunction with 289b Abs.3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Aareal Bank AG, Wiesbaden, (hereinafter the "Company") for the period from 1 January to 31 December 2019.

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control I published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard I: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS I) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed. Within the scope of our engagement, we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assur-

¹⁾ PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the combined separate non-financial report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

ance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement, the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the updated materiality assessment
- Inquiries of personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the (consolidated) financial statements and in the (group) management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Munich, 3 March 2020

**PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft**

**Hendrik Fink
Wirtschaftsprüfer
(German public auditor)**

ppa. Benedikt Tschinkl

Imprint

Responsible for the content:

Aareal Bank AG

Julia Taeschner · Group Sustainability Officer

Paulinenstrasse 15 · 65189 Wiesbaden, Germany

Phone: +49 611 348 3424

E-mail: sustainability@aareal-bank.com

Design/Layout:

S/COMPANY · Die Markenagentur GmbH, Fulda, Germany

This report is also available in German language.



**Aareal Bank
Group**

Aareal
YOUR COMPETITIVE ADVANTAGE.