

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

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## Dear shareholders,

The past financial year was yet another remarkable year, in many ways. Apart from the ongoing challenges of the Covid-19 pandemic, which Aareal Bank mastered well over the course of the year, we look back on a year that saw far-reaching changes to Aareal Bank's corporate bodies. One of these changes is the fact that this Supervisory Board report is no longer being signed by our previous Supervisory Board Chairman, Marija Korsch.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of the Company. The Management Board informed the Supervisory Board regularly, without delay and comprehensively about all the issues important to the Bank. The Management Board reported on the Group's situation, business development, key financial indicators and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and on risk control and risk management measures taken within the Group. The Supervisory Board was also informed about compliance within the Company on a regular basis, and it received the reports prepared by Internal Audit. The Supervisory Board also received comprehensive reports on the development of the business segments, and on operative and strategic planning. Against the backdrop of the Covid-19 pandemic, the scope of reporting and the frequency with which we held meetings were intensified significantly. The search for a successor for CEO Hermann J. Merkens, who retired due to ill health, as well as the in-depth discussions surrounding the takeover offer for Aareal Bank by a bidder consortium also brought about a marked increase in the frequency of meetings.

The Supervisory Board was involved in all material decisions made by Aareal Bank Group, also – and in particular – in the monitoring of the Aareal Next Level strategic framework. All material events

were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board in due time, and a decision taken. In cases where resolutions needed to be passed in periods between scheduled Supervisory Board meetings, such resolutions were passed by way of circulation or via conference calls or video calls.

Furthermore, between the individual meetings of the Supervisory Board, the Chairman of the Management Board, or his deputies, kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, regarding all material developments of the Company. The Chairman of the Management Board, or his deputies, maintained close contact with the Chairman of the Supervisory Board, in order to personally discuss key issues and important decisions. The Chairman of the Supervisory Board then proceeded to inform the other Supervisory Board members of these discussions at the following Supervisory Board meetings. During Hermann J. Merkens' absence due to illness, and before Jochen Klösge joined as the new CEO, such discussions were held with his deputies on the Management Board, Marc Hess and Thomas Ortmanns.

Discussions were also held on a monthly basis between Aareal Bank's management and the Chairmen of the Supervisory Board, the Risk Committee and the Audit Committee regarding the impact of the Covid-19 pandemic and how Aareal Bank was dealing with it. The Chairmen of the Supervisory Board, the Risk Committee and the Audit Committee also held various talks with the banking regulator's Joint Supervisory Team and presented the Supervisory Board's intensified corporate governance. The Chairmen reported on the aforementioned discussions to their respective committees in line with their respective areas of responsibility.

## Activities of the Plenary Meeting of the Supervisory Board

Due to the above-mentioned factors, the Supervisory Board held 26 plenary meetings over the course of the previous financial year. During these meetings, the members of the Supervisory Board received the submitted reports and documents, as well as oral explanations, which were then discussed in detail. Economic and market developments, also in view of and particularly against the background of the Covid-19 pandemic, the ongoing large number of adjustments to regulatory requirements, and the ongoing progress made in implementing the Aareal Next Level strategic programme after its review against the background of the Covid-19 pandemic were focal points of the work and reporting at all scheduled meetings.

This also included the measures taken by the Bank to counter these market developments. During the plenary meetings of the Supervisory Board, the Management Board regularly and comprehensively reported to the Supervisory Board; these reports also covered the development of the Structured Property Financing, the Banking and Digital Solutions and Aareon segments, focusing in particular on current developments. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group. At regular intervals, the Supervisory Board was informed of the Bank's liquidity status and the related steps taken by the Bank's Treasury division. The Management Board also regularly reported on the quality of the property financing portfolio against the background of market trends in the various property markets, with an ongoing particular focus on the effects of the Covid-19 pandemic. Within the scope of reporting, the regular reports prepared by the control functions – including Risk Controlling, Compliance, Internal Audit, Information Security & Data Protection, the Remuneration Officer, and Human Resources – were presented and discussed. At each plenary meeting of the Supervisory Board, the committee chairmen reported on the committee meetings that had taken place in the meantime.

The focal points of the individual meetings are outlined below.

- At a meeting in **January 2021**, the Supervisory Board addressed strategic questions. A further meeting related to governance and remuneration issues.
- At two meetings in **February**, the Supervisory Board deliberated on remuneration issues and shareholder letters.
- At the **March 2021** meetings, the Supervisory Board addressed the further development, given the continued absence of the CEO due to ill health, and, in detail, the financial statements and consolidated financial statements presented for the 2020 financial year as well as the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. Furthermore, the Supervisory Board discussed the 2020 non-financial report and the results of the associated audit to obtain limited assurance. Another issue covered at a meeting in March was the preparations for the Annual General Meeting in May 2021. This comprised the decision proposals regarding the agenda of the Annual General Meeting, including the proposal for the appropriation of profit and the proposal regarding the selection of external auditors. At the same meeting in March, the Management Board also provided a detailed presentation of the strategies pursuant to the Minimum Requirements for Risk Management ("MaRisk") that are applicable to the Group. In line with their respective responsibilities, the strategies had previously been presented to the Executive and Nomination Committee and the Risk Committee, and finally to the Supervisory Board, to be subsequently discussed in depth with the Management Board. The annual report submitted by Internal Audit, and their audit planning for the upcoming financial year as well as their mid-term plans were also discussed during the meeting. The Supervisory Board also involved itself with the internal governance and the remuneration systems for both

employees and Management Board members; it arrived at the conclusion that the Company's remuneration systems are appropriate.

- Several meetings in **April 2021** focused on the resignation of the CEO Hermann J. Merkens as a result of ill health and the finalisation of the search for a successor, which had already been launched as a precaution, as well as the holding of Aareal Bank's virtual Annual General Meeting and the request for an extension of the agenda, which had been received from a shareholder in this context.
  - The Supervisory Board's meetings in **May 2021** addressed both the preparation for and the review of Aareal Bank AG's Annual General Meeting.
  - Two Supervisory Board meetings took place in **June 2021**. At the first of these meetings, it was resolved that Jochen Klösge be appointed Aareal Bank's new CEO. The second meeting was devoted to the regular quarterly report as well as an in-depth discussion of Aareal Bank Group's strategy and its further development. The Supervisory Board talked about the presented strategic initiatives and options with the Management Board in considerable depth and detail. As a result of the appointment of a new CEO, a further discussion of strategic issues was scheduled for December to give Mr Klösge an opportunity to participate in this discussion on the basis of his observations during the first three months of his tenure at Aareal Bank.
  - During the **September 2021** meeting, current questions concerning strategic initiatives, including a progress report on their implementation, were presented and discussed, in addition to the regular reports. In addition, the event-driven review of the business and risk strategies, including the Risk Appetite Framework, were also discussed with the Supervisory Board.
  - At two meetings in **October 2021**, the Supervisory Board deliberated on the talks with a bidder consortium that had approached Aareal Bank with a view to opening discussions about tendering an offer for Aareal Bank's shares.
  - This discussion continued during all five meetings in **November 2021**. One November meeting also dealt with Marija Korsch's resignation from her duties as the Supervisory Board Chairman.
  - The Supervisory Board convened for a total of four meetings during **December 2021**. For the most part, these meetings related to discussions in connection with the enquiry submitted by investors. In addition, the Supervisory Board addressed the preparations for, and subsequently the proceedings of, the extraordinary General Meeting. As a consequence of three Supervisory Board members having been removed by shareholders at said General Meeting, the Supervisory Board also deliberated on the search for new members to fill these vacancies by way of judicial appointment. Furthermore, the Supervisory Board discussed pending issues at its regular meeting, such as the preparation of the corporate governance report presented by the Management Board, including the Corporate Governance Statement and the Declaration of Compliance. The latter was resolved and subsequently published on Aareal Bank AG's website. Furthermore, the annual review was carried out concerning Rules of Procedure for the Management Board and Supervisory Board, the individual and collective suitability and efficiency of the Management Board and Supervisory Board (annual evaluation), the review processes, and the Conflict of Interest Policy for members of the Company's executive bodies. The Supervisory Board discussed the results of the evaluation in detail and will incorporate the findings into the committee work. The Supervisory Board also concerned itself with the Management Board's preliminary target achievement 2021 and approved the targets for 2022.
- The chairmen of the Supervisory Board committees regularly gave account of the work in the commit-

tees to the plenary meeting, answering all related questions submitted by the members of the plenary meeting in detail.

To the extent that any Supervisory Board decisions were taken by way of circulation, the Supervisory Board received a report by the Management Board on the implementation of such decisions taken previously, at the subsequent Supervisory Board meeting.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review.

### Activities of Supervisory Board Committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Audit Committee, the Remuneration Control Committee, and the Technology and Innovation Committee.

#### Executive and Nomination Committee:

The Executive and Nomination Committee of the Supervisory Board convened for 20 meetings in the financial year under review. The Committee prepared, for the most part, the plenary meetings of the Supervisory Board during these meetings and discussed Aareal Bank Group's strategic development with the Management Board at regular intervals. Regarding the agenda items within the responsibility of the Supervisory Board, the Committee convened without the Management Board. These meetings particularly included discussions regarding suitability requirements for Management Board and Supervisory Board members, the processes for reviewing these requirements, the targets for the composition of both executive bodies, and the

results of the annual evaluation of Management Board and Supervisory Board. Moreover, deliberations concerning the search for a successor for the ailing CEO Hermann J. Merkens also took place during the financial year under review, with the selection of Jochen Klösge as his successor being discussed and resolved upon towards the end of this process. In addition, deliberations took place regarding the discussions with investors about the tender offer for the acquisition of Aareal Bank's shares, and the delivery of the requisite reasoned statement was prepared.

- At its meetings in **January and February 2021**, the Executive and Nomination Committee addressed the measures relating to Hermann J. Merkens' ill health and the Company's dividend policy.
- These discussions continued at the meetings in **March 2021**, along with the deliberation of strategic issues. In addition, these meetings served for the deliberation of changes to the composition of the Management Board.
- The **April 2021** meeting served for the further discussion of the steps to be taken as a result of Hermann J. Merkens' retirement from the Management Board.
- At the **June 2021** meetings, preparations were made for the appointment of Jochen Klösge as Aareal Bank AG's CEO and the further deliberations of the Management Board's restructuring. The July meeting saw a comprehensive discussion of regulatory and supervisory issues.
- Four meetings of the Executive and Nomination Committee took place in **September 2021**. The periodic meeting served for the preparation of this year's evaluation and the selection of the external auditor for this purpose. In addition, the strategy dialogue for the second half of the year 2021 was discussed. Other topics discussed included the long-term succession planning for the Supervisory Board and a decision on the next steps to be taken. In addition, the work on

the remuneration system for the Management Board was discussed in conjunction with the Remuneration Control Committee. The other meetings related to talks with investors. These deliberations continued over the five meetings in **October 2021** and the two meetings in **November 2021**.

- At the **December 2021** meeting, the Executive and Nomination Committee carried out the annual review of the Rules of Procedure for the Management Board and Supervisory Board, the individual and collective suitability and efficiency of the Management Board and Supervisory Board (annual evaluation), the respective review processes, and the Conflict of Interest Policy for members of the Company's executive bodies – also considering the results of the written survey directed at all Management Board and Supervisory Board members regarding potential conflicts of interest in the past financial year. The members of the Management Board and Supervisory Board have declared in writing that no conflicts of interest within the meaning of the GCGC arose during the financial year under review. Another topic discussed related to filling those Supervisory Board positions that remained vacant as a consequence of the resolutions adopted at the extraordinary General Meeting held on 9 December 2021. Moreover, the long-term succession planning was also discussed.

#### Risk Committee:

The Risk Committee held six meetings during the year under review. It regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. The risk reporting structure and frequency, which had been adjusted in view of the Covid-19 pandemic, was retained. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the Committee. Besides credit and country risks, the Committee concerned itself with market risks, liquidity risks, and operational risks, as well as reputational and IT risks. The Committee was also engaged with

the analysis of Aareal Bank's risk-bearing capacity and its capital ratios. Also, detailed reports were provided regarding the Bank's liquidity status and management as well as its funding. Risks from existing investments, as well as all additional material risks were also presented.

The Risk Committee concerned itself with Aareal Bank's strategies and the derived sub-risk strategies, as well as with the risk management system. The Management Board also submitted detailed reports to the Risk Committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The Committee members discussed these reports and market views in detail. Within the scope of risk reporting, significant exposures were discussed in detail, and measures for the reduction of high-risk exposures presented and consulted within the Committee. The Risk Committee received reports on recovery planning and other risk management measures. The Management Board also informed the Risk Committee about all completed, ongoing and scheduled audits by the supervisory authorities at each Risk Committee meeting. In addition to regular reporting on the risk situation at each meeting, the following meetings had additional focal points on certain topics: The impact of current Covid-19 pandemic-related developments on the individual types of risk was examined at all meetings.

- The Risk Committee meeting held in **March 2021** dealt with the results of the risk management system review performed by the external auditors, the supervisory authorities' focus during the 2021 financial year and other regulatory publications and amendments.
- In **April 2021**, the Risk Committee focused on those exposures in Aareal Bank Group's credit portfolio that entail a particularly high risk as well as the requirements of this year's supervisory stress tests along with issues relating to the recovery planning required by supervisory and regulatory specifications. In addition, various

supervisory and regulatory issues were also addressed.

- In **June 2021**, the Risk Committee dealt with the regular reporting as well as the yearly reports of the individual risk management functions.
- At the **September 2021** meeting, the Management Board informed the Risk Committee about the current recovery planning. The event-driven review of business and risk strategies as well as various issues centring on IT risks were other focal points.
- The **October 2021** meeting focused primarily on the specific risks of the property classes financed by Aareal Bank.
- At its meeting in **December 2021**, the Risk Committee discussed the results of the Bank's annual risk inventory. The Committee monitored the terms in the client business, based on the business model and risk structure of the Bank. The meeting in December also served to comprehensively review Aareal Bank's existing risks and the measures that are in place to manage these risks.

The Committee also concerned itself at all meetings with the banking and regulatory environment, focusing on current topics, such as individual risk types, during individual meetings. Furthermore, the Risk Committee dealt with the audits performed by the supervisory authorities, the findings these audits yielded and the authorities' recommendations on risk-related topics in all meetings.

#### **Audit Committee:**

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

In accordance with the requirements of the GCGC, during its meetings in May, August and November 2021, the Audit Committee discussed with the Management Board the quarterly results to be published. Furthermore, the current status and plan-

ning of key management indicators in the financial year, and current reviews and projects at Aareal Bank were reported upon at the Audit Committee meetings. In its meetings, the Committee received reports submitted by Internal Audit and the Bank's Compliance Officer, requesting and receiving detailed explanations, and duly noting both reports. The Committee was also informed about the work carried out by Internal Audit and of the audit planning. The Head of Internal Audit attended all meetings, unless these were exclusively for the purpose of presenting the preliminary quarterly figures. The Committee dealt with the measures the Management Board had taken to address the findings identified by the external auditor, Internal Audit and supervisory authorities, and had the Management Board regularly report on the status and progress of their rectification. External auditor representatives were also present at all meetings, with the exception of the discussion of those agenda items that relate to the assessment of the financial statements audit and the proposal for the appointment of the external auditors. A regular update on the status of already approved and anticipated non-audit services provided by the external auditors was presented at all meetings. The 70 % limit of approved non-audit services in relation to planned audit services was neither reached nor exceeded at any time. The latest impact of the Covid-19 pandemic on Aareal Bank Group's figures as well as the underlying scenarios were discussed at all meetings. The external auditors' assessment of this was also sought on several occasions.

- At its **February 2021** meeting, the preliminary figures for the 2020 financial year were submitted to the Audit Committee, and the dividend policy was discussed, among other things. In addition, the Annual Report 2020 and the audit planning of Internal Audit were presented.
- In **March 2021**, the Committee received the external auditors' report on the audit of the financial and consolidated financial statements for the 2020 financial year, and discussed the results with the auditors in detail. The Committee members discussed the contents of the audit



reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of meetings held with the external auditors. Furthermore, the Chairman of the Audit Committee informed the meeting about his discussions with the external auditor outside the meetings. Without the external auditors being present, the Audit Committee discussed the agenda items regarding the assessment of financial statements auditing and the proposal for the external auditor for the 2020 financial year. As previously reported, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was proposed for the first time to carry out the audit of the 2021 financial statements and the consolidated financial statements. The Committee also concerned itself with Aareal Bank Group's Sustainability Report and the audit undertaken to obtain limited assurance for this report. The report on compliance-related issues was also discussed.

- At its **May 2021** meeting, the Audit Committee discussed the business figures for the first quarter 2021 and deliberated on the focal audit points determined by the Supervisory Board for the 2021 financial year.
- The compliance-related reporting, including the annual review of the Code of Conduct, was continued at the meeting of **June 2021**.
- In **August 2021**, the Audit Committee meeting focused on the interim financial report as at 30 June 2021, including the results of its review, and the approach for the audit of the financial statements and consolidated financial statements for 2021.
- In **September 2021**, the focus was, inter alia, on the implementation of major projects.
- At its **November 2021** meeting, the Audit Committee dealt with the quarterly figures as at 30 September 2021.
- At its meeting in **December 2021**, the Audit Committee discussed the medium-term Group

planning in detail with the Management Board. Moreover, the Committee was informed about the status quo and the progress of the audit. In addition, the Audit Committee was informed about the structure of sustainability reporting for the 2021 financial year. Furthermore, the Committee was regularly informed about the risk management system and the review of the Internal Control System, in accordance with legal requirements; it duly acknowledged the reports, following discussion.

#### Remuneration Control Committee:

The Remuneration Control Committee held 12 meetings during the year under review. The Remuneration Officer, who attended every meeting, supported the Supervisory Board and the Remuneration Control Committee throughout the year under review.

Pursuant to the requirement set out in section 25d (12) of the KWG, which is reflected in the Rules of Procedure of Aareal Bank's Supervisory Board, the Management Board does not attend Remuneration Control Committee meetings which deal with Management Board remuneration. During the 2021 financial year, the Remuneration Control Committee convened eight times without any member of the Management Board being present and held four meetings, where not all Management Board members were present the entire time.

During its meetings, the Remuneration Control Committee discussed issues concerning the Bank's remuneration systems and all related matters, fulfilling its original assignment. For this purpose, and to the extent considered necessary, external legal and remuneration advisors were retained to provide support. The Committee supported the plenary meeting of the Supervisory Board in monitoring the inclusion of internal control units and of all other material divisions in designing the remuneration systems, and assessed the effects of the remuneration systems on the Bank's risk, capital and liquidity situation. Moreover, the Remuneration Control Committee supported the Supervisory

Board with all issues related to the remuneration of the Management Board. As a rule, support was provided to the Supervisory Board by preparing the corresponding recommendations.

- At the commencement of the year under review, the Committee deliberated on the Management Board's target achievement during the 2020 financial year, the measures taken in connection with the ill health of the CEO Hermann J. Merkens, the measures in connection with the departure of Management Board members due to retirement and the determination of target variable remuneration for the financial year under review.
- In **March 2021**, the Committee finalised its assessment of the appropriate structure of the remuneration systems for the Management Board and employees. The results of the penalty review for employees and the Management Board were also presented, as was the review of the overall amount of variable remuneration as to legal permissibility, pursuant, inter alia, to section 7 of the InstVergV. In addition, the so-called say-on-pay resolution was drafted with a view to presenting it at the Annual General Meeting in May 2021. In light of the results of voting on the say-on-pay resolution at the Annual General Meeting, a discussion regarding the restructuring of the remuneration system for the Management Board commenced in June 2021.
- At the first meeting of the Remuneration Committee in **June 2021**, the Committee deliberated on the remuneration of the new CEO. At the second meeting, the necessary steps in connection with any changes to the composition of the Management Board over the course of the year were discussed and the deliberations regarding adjustments to the remuneration system for the Management Board were continued.
- The Remuneration Control Committee continued its deliberations on the future Management Board remuneration system during **August, September and October 2021**.
- The meeting in **December 2021** discussed the Management Board's preliminary target achievement for 2021 as well as the determination of the Management Board targets for 2022 and continued the discussion concerning the restructuring of the Management Board remuneration system. Regulatory issues were also discussed.

#### Technology and Innovation Committee:

The Technology and Innovation Committee convened for four scheduled meetings in the year under review, during which the Committee discussed the implementation and further development of the digitalisation strategy, market trends, technological developments and innovation trends in detail, especially with a view to clients of the Banking and Digital Solutions and Aareon segments. Potential business opportunities arising from the growing digitalisation of business processes – and how these can be put to use by Aareal Bank Group, and especially for its clients – were explained by the employees of the Bank and respective subsidiaries responsible for the development, among others.

Further key aspects of regular discussions were issues related to the security and flexibility of the IT systems provided and used within the Bank, as well as the ongoing realignment of banking systems and the successes achieved in this regard so far, as well as the adjustments to the new requirements in the areas of reporting, regulation and cybersecurity. The IT strategy, budget planning and the monitoring and progress of major IT projects were also discussed.

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

#### Attendance of Supervisory Board members at plenary and committee meetings:

Where members of the Supervisory Board were unable to attend a meeting, they announced their



absence in advance, giving reasons. Attendance of Supervisory Board members at meetings is shown in the following table.

Member of the Supervisory Board	Participation in plenary meetings	Quote	Participation in committee meetings	Quote	Number of meetings attended / number of meetings*
Prof. Dr Hermann Wagner	26/26	100%	35/35	100%	61/61
Marija Korsch	23/23	100%	45/45	100%	68/68
Richard Peters	22/26	85%	35/40	88%	57/66
Klaus Novatius**	26/26	100%	31/32	97%	57/58
Jana Brendel	24/26	92%	11/11	100%	35/37
Thomas Hawel**	26/26	100%	4/4	100%	30/30
Petra Heinemann-Specht **	26/26	100%	15/15	100%	41/41
Jan Lehmann**	26/26	100%	5/5	100%	31/31
Sylvia Seignette	26/26	100%	8/8	100%	34/34
Elisabeth Stheeman	25/26	96%	12/12	100%	37/38
Hans-Dietrich Voigtländer	23/23	100%	21/21	100%	44/44
Christof von Dryander	23/23	100%	37/37	100%	60/60

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

of their audit, KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports, including all annexes thereto, in good time before the meeting during which the financial statements and the consolidated financial statements were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of the audit results. The external auditor representatives attended the meeting of the Supervisory Board, during which the financial statements and consolidated financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of KPMG AG Wirtschaftsprüfungsgesellschaft were then available to the Supervisory Board to answer further questions and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB, the consolidated financial statements as well as the Group Management Report prepared in accordance with IFRSs, the proposal of the Management Board regarding the appropriation of profit, and the audit reports, were all examined in detail. No objections were raised to the audit results. At its meeting on 14 March 2021, the Supervisory Board approved the results of the audit. The Supervisory Board thus confirmed the financial statements of Aareal Bank AG (in accordance with the HGB), and approved the consolidated financial statements (in accordance with IFRSs). The Supervisory Board examined and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of this discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board, which dovetails the ECB's recommendations.

## Financial Statements and Consolidated Financial Statements

The Supervisory Board instructed KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, who were elected as auditors by the 2021 Annual General Meeting, with the audit of the financial statements and the consolidated financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, KPMG AG Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code ("HGB") and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results

## Non-financial Report

The Audit Committee and the Supervisory Board concerned themselves with sustainability issues and related reporting during their meetings on 23 and 25 March 2021, and on 10 and 15 December 2021.

Moreover, during its meeting on 11 March 2022, the Audit Committee of the Supervisory Board discussed the separate combined non-financial report for 2021 and the result of KPMG's audit of that report. Representatives of the external auditors attended this Audit Committee meeting and reported on material results of their commercial review in accordance with ISAE 3000 (revised), undertaken to obtain limited assurance for this report. They answered supplementary questions from Committee members. The Audit Committee conducted a plausibility check of the audit results submitted by KPMG and presented its assessment of the non-financial report (and its analysis of KPMG's audit results) to the Supervisory Board. The Audit Committee also issued a recommendation to the Supervisory Board to concur with the results of the audit conducted by KPMG. The Supervisory Board followed this recommendation; at its meeting on 14 March 2022, it summarised its examination by stating that it had no objections concerning the non-financial report and the results of the audit conducted by KPMG.

## Communication with Shareholders

In their role as Chairman of the Supervisory Board, Marija Korsch and, from 23 November 2021 onwards, Professor Hermann Wagner held talks with shareholder representatives as regards corporate governance within Aareal Bank. Both presented the topics within the responsibility of the Supervisory Board, such as the composition of the Management Board and the Supervisory Board, the remuneration systems for Management Board and Supervisory Board members, the role of the Supervisory Board in the strategy development and implementation process as well as its involve-

ment in environmental, social and governance (ESG) matters, the election of the external auditor and the succession planning.

## Personnel matters

The following changes to the composition of the Management Board and the Supervisory Board arose during the year under review.

### Management Board:

On 20 April 2021, Hermann J. Merkens informed the Supervisory Board that, contrary to initial expectations and from a medical perspective, he would not be able to resume his work as member and Chairman of the Management Board for the foreseeable future. In accordance with contractual agreements, Mr Merkens therefore resigned from the Management Board with effect from 30 April 2021. The Supervisory Board greatly regrets that Hermann J. Merkens was not able to resume his duties at Aareal Bank. He has made an enormous contribution to Aareal Bank over the course of two decades of service on the Management Board; thanks to his immense commitment, his outstanding expertise, his level-headed approach and his strategic far-sightedness, he has played a decisive role in shaping what Aareal Bank Group is today, with activities reaching far beyond purely banking business. On behalf of the entire Supervisory Board, I would like to thank Mr Merkens for his exceptional contribution. Both the Supervisory Board and the staff hope he has a swift and full recovery and wish him all the best for the future.

On 15 June 2021, i.e. after only two months, the Supervisory Board appointed Jochen Klösches as successor to fill the vacant position on the Management Board. Mr Klösches combines an entrepreneurial spirit, client orientation and strategic thinking with broad-based and vast experience across all major aspects of the property finance and banking business. The Supervisory Board believes that Aareal Bank Group will sustain its successful development under his leadership and continue

to find the right strategic answers at a time of profound change.

Dagmar Knopek, who has been a member of the Management Board since 2013 and, in her capacity as Chief Lending Officer, was responsible for Credit Management, Operations and the Workout portfolio, opted not to renew her contract, which expired on 31 May 2021. Ms Knopek chose to retire. The Supervisory Board thanks Ms Knopek for her outstanding commitment and valuable contributions to the development of Aareal Bank over the past years. As a result of her strong expertise, she ensured the high quality of the Bank's credit portfolio for many years – a safeguard that also benefited Aareal Bank during the coronavirus pandemic. The Supervisory Board wishes Dagmar Knopek all the best for her future.

On 30 September 2021, Thomas Ortmanns resigned from the Management Board in accordance with his personal plans for the future. The Supervisory Board respects his wish to pursue a different direction. For over 15 years, Mr Ortmanns – in his role as Management Board member – was instrumental in shaping Aareal Bank Group and contributed significantly to Aareal Bank being able to consistently expand its position as a reliable banking partner to the institutional housing industry. The fact that Aareon has become the company it is today is largely due, to Mr Ortmanns' achievements. The Supervisory Board wishes Thomas Ortmanns all the best for his future.

#### **Supervisory Board:**

On 23 November 2021, the Supervisory Board Chairman, Marija Korsch, announced that she would resign with immediate effect from her office, which she had held since 2013, in light of the fundamental changes to the Company's future strategic course, which were realised over the preceding days and weeks. Marija Korsch stated that it was the right time to pass the Chair of the Supervisory Board on to a successor. Most recently, the successful appointment of Jochen Klösge as the new CEO and the conclusion of an Investment Agree-

ment with a bidder company that pursued a long-term strategy for Aareal Bank took place under the aegis of Ms Korsch. As the Supervisory Board Chairman, Ms Korsch worked tirelessly for our Company. The Supervisory Board regrets that Marija Korsch has resigned from her office but respects her decision. At a plenary meeting of the Supervisory Board that took place the same day, Professor Dr Hermann Wagner was elected as the new Chairman of the Supervisory Board.

At the extraordinary General Meeting held on 9 December 2021, a shareholder majority supported Petrus Advisers Investments Fund L.P.'s request for an extension of the agenda and voted Supervisory Board members Marija Korsch, Christoph von Dryander and Dietrich Voigtländer out of office. The Supervisory Board regrets, but respects, this decision and sincerely thanks Marija Korsch, Christof von Dryander and Dietrich Voigtländer for their valuable contributions to Aareal Bank Group's success, which they achieved through their dedicated work on the Supervisory Board, and wishes them all the best for their respective futures.

The replacement candidates proposed by Petrus Advisers Investments Fund L.P. were rejected by a majority of the capital present. The Bank then applied for the appointment of Supervisory Board members by the court in order to restore the Supervisory Board's composition in line with the requirements set out in the Memorandum and Articles of Association. The Frankfurt/Main Higher Regional Court approved this application on 14 January 2022 and appointed Holger Giese, Friedrich Munsberg and Dr Ulrich Theileis as members of Aareal Bank's Supervisory Board with immediate effect. Previously, the Wiesbaden Local Court had rejected the Bank's application for judicial appointment of Supervisory Board members, stating that it did not recognise the need for urgency. Aareal Bank had lodged an appeal against this decision. The Bank's Supervisory Board welcomed the decision of the Higher Regional Court because, in the Supervisory Board's view, it is important to have a fully-staffed Supervisory Board. The Supervisory Board is looking forward to the future cooperation with its new

colleagues, who will be a very good match for Aareal Bank's Supervisory Board, thanks to their expertise and experience.

### Training and Continuous Professional Development

The Supervisory Board members made use of the training and continuous professional development measures offered and required for their task at their own account. Aareal Bank AG supported them in an appropriate manner. These measures included individual continuous professional development and information events organised by the external auditor elected by the Annual General Meeting.

Furthermore, continuous professional development measures take place on a regular basis within the course of Supervisory Board meetings. This is typically a two-stage process. At a first meeting, trends or legal or regulatory changes in particular are reported on in the abstract, and their impact on Aareal Bank Group outlined. The specific implementation is presented at a subsequent meeting. Adjustments made during the year are referred to in later reports. The committees also address relevant topics in more depth at their own meetings. In 2021, these included, for example, two meetings of the Risk Committee involving an in-depth analysis. The requirements for addressing non-financial risks and their treatment at Aareal Bank Group represented another focal point. One further focal point was the thorough analysis of the property types financed and the impact of the Covid-19 pandemic.

In addition to its regular meetings, the Supervisory Board convened for a separate informational meeting in January 2022 during which the auditor KPMG provided detailed information on current changes and considerations within the regulatory and legal framework as well as on the potential impact of such trends on Aareal Bank.

### Atlantic BidCo GmbH offer

On 23 November 2021, the financial investors Advent International Corporation and Centerbridge Partners, L.P., along with other co-investors, announced their intention to make an offer for the takeover of the majority of shares in Aareal Bank AG. The offer document was published on 17 December 2021. On 27 December 2021, the Management Board and the Supervisory Board issued a reasoned statement. Essentially, the Investment Agreement concluded with Atlantic BidCo GmbH, on which the offer was based, aimed at further accelerating growth across Aareal Bank Group's three segments over the next few years, in line with the Aareal Next Level strategy.

Having examined the offer separately and independently of each other, the Management Board and the Supervisory Board recommended that shareholders accept the offer, which was, in the opinion of both Management Board and Supervisory Board, in the best interest of the Company and its stakeholders from a strategic perspective. On 18 January 2022, Atlantic BidCo released an amendment to its public offer.

On 4 February 2022, Atlantic BidCo GmbH ("BidCo" – the "Bidder") notified Aareal Bank that its voluntary public takeover offer for shares in Aareal Bank AG was not successful: according to information provided by the Bidder, the minimum acceptance level of 60% was not achieved by the end of the acceptance period on 2 February 2022, 24:00 CET. The offer therefore lapsed.

Aareal Bank sees this development as a decision by its shareholders to continue supporting the Bank on its path of sustainable value creation. Aareal Bank will continue along this path, driving its growth initiatives forward from its own strength. Therefore, Aareal Bank plans to continue the growth path already expedited in the past financial year, and to exploit available opportunities for attractive new property finance business to an even stronger extent than originally communicated in early 2021.

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Growth initiatives are also set to be expedited in the Group's other segments:

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for the dedication, tremendous commitment and flexibility they have shown during the past 2021 financial year. With their continued commitment, strong motivation and perseverance, all Group employees have not only contributed to the Company's ability to successfully handle the ever-changing challenges brought about by the Covid-19 pandemic and the endeavours to overcome it, but have also continued their work on numerous projects under difficult circumstances, which have set the course for the future. This once again emphatically demonstrated the great team spirit that defines Aareal Bank.

Frankfurt/Main, March 2022

For the Supervisory Board

A handwritten signature in blue ink, consisting of a stylized 'H' followed by a cursive 'W'.

Prof. Dr Hermann Wagner (Chairman)