
Main features of the Management Board remuneration system

Remuneration report 2011 in accordance with the German Ordinance on Remuneration in Financial Institutions, part 1



Aareal Bank

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Against the background of the German Act on the Appropriateness of Management Board Compensation dated 31 July 2009 (Gesetz zur Angemessenheit der Vorstandsvergütung – "VorstAG") and the German Ordinance on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung – "InstitutsVergV") dated 6 October 2010, the remuneration system for members of the Management Board of Aareal Bank AG was examined, also using the support of external advisors, and adjusted with effect from 1 January 2012.¹⁾ The new remuneration system for Management Board members was structured as follows:

Remuneration structure

The remuneration structure comprises non-performance-related and performance-related components.

Non-performance-related remuneration

The non-performance-related remuneration component primarily comprises the **fixed annual salary**. The fixed gross annual salary of an ordinary member of the Management Board amounts to between € 650,000.00 and € 700,000.00 per annum; the Chairman of the Management Board receives a fixed gross annual salary of € 1,100,000.00. The fixed annual salary is disbursed in twelve monthly instalments, on the 15th day of each calendar month, less the legal deductions. Management Board members have no claim on payment for overtime, work on holidays, or other extra hours worked.

In addition to the fixed annual salary, Management Board members receive **other non-cash benefits**, which are not related to performance. Specifically, these include the provision of a company car (including driver), taking out D&O liability insurance with an appropriate deductible, inclusion of Management

Board members into the existing group accident insurance policy, reimbursement of travel expenses, and reimbursement of statutory social insurance contributions.

Performance-related remuneration

Besides their fixed annual salary, Management Board members receive a **performance-related bonus** (variable remuneration) that is determined using an assessment basis extending over several years.

The size of this performance-related bonus is fixed by reference to the **personal performance of each Management Board member**, measured by the degree to which targets set in advance by the Supervisory Board are achieved. The initial value for the performance-related bonus for the respective financial year (assuming 100 % target achievement) amounts to between € 794,000.00 and € 978,000.00 for an ordinary Management Board member and € 1,650,000.00 for the Chairman of the Management Board (gross amounts).

The targets which are relevant for performance-related bonuses include **annual targets** and **three-year targets**. The respective Management Board member's performance during a given financial year is decisive for achieving the annual target, whereas that member's performance over a three-year period (at the end of which the degree of target achievement is measured) is relevant with respect to the three-year target. This ensures that variable remuneration is determined using an **assessment basis extending over several years**. Where no three-year period has elapsed at the end of the financial year for which performance is measured (due to the change in the remuneration system), the Supervisory Board shall determine performance, in its reasonable discretion, on the basis of targets determined in line with sustainable company development. The weighting of annual to three-year targets is fixed for each financial year, in line with legal rules; with a 60 % / 40 % weighting taken as a guideline.

In terms of substance, annual and three-year targets are derived from the bank's overall strategy and medium-

¹⁾ The remuneration system for Management Board members which was in place until the change was published in the Annual Report 2011 (on pages 199-210), together with associated remuneration details.

term planning, each of which are agreed upon with the Supervisory Board. Annual targets comprise quantitative components (which can be determined by reference to numerical indicators), and qualitative components (which are also related to non-financial parameters). In this context, the **bank's overall performance**, the performance of the relevant **division**, and the **individual performance contributions** of the Management Board member concerned are all taken into consideration.

The size of the initial value of the performance-related bonus increases – depending on the Management Board member's degree of target achievement – up to a maximum of 200 %. Once the target achievement exceeds a level of 200 %, the initial value of the performance-related bonus will not increase any further (**cap**). If target achievement is 0 %, no performance-related bonus will be awarded for the financial year concerned. The initial value is fixed at 100 % for target achievement levels between 90 % and 110 %.

Long-term incentive effects

To ensure that the remuneration system provides long-term incentive effects, performance-related bonuses are awarded at the end of the financial year, according to the following principles:

20 % of the initial value of the performance-related bonus is disbursed directly as a **cash bonus** after the financial year has concluded.

A further 20 % of the initial value of the performance-related bonus is awarded directly as a **share bonus**, in the form of phantom shares.¹⁾ The phantom shares are subject to a three-year holding period during which the Management Board member is not authorised to exercise these shares. The Supervisory Board examines the length of the holding period regularly, to ensure that it is appropriate, in line with market practice and complies with legal requirements, making adjustments as necessary.

30 % of the initial value of the performance-related bonus is held in escrow as a **cash deferral**. The Supervisory Board only makes a decision regarding the

final amount over the course of subsequent financial years. Until that time, the amount accrues interest in line with standard market rates. Prior to any decision about the final bonus award, the Management Board member concerned has no claim to the corresponding amount or interest, nor are such amounts vested.

The remaining 30 % of the initial amount of the performance-related bonus is also held in escrow as a **share deferral**. Here too, the Supervisory Board determines the amount of the final award only over the course of subsequent financial years, and there is no claim to or vested interest in the amount during the interim period. Until it is awarded, the amount will accrue interest at standard market rates.

With regard to the portion of the performance-related bonus that is initially held in escrow as cash or share deferrals, the Supervisory Board makes a decision regarding one third of the amount as well as the associated interest in the three years following the determination of the performance-related bonus (**retention period**). If the award is made, the cash deferral is disbursed in cash, and the share deferral in phantom shares¹⁾, subject to a two-year holding period.

In making its determination about the amount to be awarded, the Supervisory Board particularly takes into account any negative aspects of the Management Board member's performance, his division as well as any weakness in the performance of Aareal Bank AG or the Group as a whole. The final amount may be awarded in full, partially, or not at all. If the full amount of the bonus is not awarded, the remaining sum is forfeited, i.e. it is not carried forward into subsequent years ("malus" arrangement). No bonus may be awarded if the Management Board member's overall level of target achievement is less than zero, or if BaFin makes an official ruling against the bank pursuant to section 45b (2) of the German Banking Act (KWG) due to shortcomings relating to capital adequacy or liquidity issues. Furthermore, the deferred cash and shares held in escrow for a financial year may not be

¹⁾ For information about the structure of the phantom shares plan, see below.

vested at all in the event of a serious personal failure on the part of the Management Board member that is discovered at a later date. Members of the Management Board may not undertake to limit or hedge the risk orientation of the performance-related bonus themselves (**hedging ban**).

Restrictions

Due to an **"ultima ratio" clause**, the performance-related bonus for a financial year may not be disbursed or credited to pending remuneration components at all if the Supervisory Board believes that the Management Board member's performance on the whole was so inadequate that it would make awarding performance-related remuneration inappropriate. Specifically, inadequate performance of this nature is deemed to occur with regard to breaches of internal policies, such as the Code of Conduct and/or Compliance guidelines, severe violations of Know Your Customer rules pursuant to section 93 of the German Public Limited Companies Act (AktG), or in the event of other serious misconduct which would constitute cause for immediate termination of the Management Board member's employment contract by the Company.

Benefits in the event of early termination of the employment relationship

On **termination of the Management Board member's employment contract**, the current retention and holding periods are neither interrupted nor shortened. The rules of the new remuneration system, including the "malus" arrangement and the "ultima ratio" clause, continue to apply until the end of the respective retention or holding period. To determine the awarded or expected phantom shares of the Management Board member who is leaving the bank, the share price is fixed using the weighted average Aareal Bank share price on the XETRA® trading system, as reported by Bloomberg, on the five exchange trading days following the member's last day (the "fixing price").

In the event that the Management Board member's employment relationship is terminated without material cause, severance payments to the Management Board

member, including fringe benefits from the Management Board member's employment contracts, may not exceed two year's remuneration (**severance cap**) and shall not exceed compensation for the remaining term of the employment contract. However, severance payments may be included in individual termination agreements.

If a member of the Management Board leaves the company in conjunction with a **change of control**, there are grounds under certain circumstances to enforce financial claims arising from the remaining contract term. In cases where the reason for the Management Board member's resignation falls within the ambit of the Company, an ordinary Management Board member is entitled to € 120,833.00 per month and the Chairman of the Management Board is entitled to € 141,667.00 per month for the remaining contract term. Should the reason for the resignation rest within the purview of the Management Board member, an ordinary Management Board member is entitled to € 54,167.00 per month and the Chairman of the Management Board is entitled to € 70,833.00 per month for the remaining contract term. Claims arising from early termination of the Management Board member's employment contract resulting from a change in control shall not exceed the equivalent of three years' remuneration.

During the term of a **SoFFin stabilisation measure**, Management Board members are not entitled to any severance in the event of resignation due to a change of control. The fulfilment of a Management Board member's contractual remuneration claims arising from the employment contract are not limited by the framework agreement entered into with SoFFin.

Phantom shares plan

Within the scope of the phantom shares plan, a portion of the variable remuneration is converted into an equivalent number of virtual shares. The conversion is executed using the weighted average Aareal Bank share price on the XETRA® trading system, as reported by Bloomberg, on the five exchange trading days following publication of the financial statements approved by the Supervisory Board by way of an ad-hoc dis-

closure. After the expiry of the holding period, the shares may be partially or fully exercised within five business days following the publication of each quarterly report. The reference price for exercising the shares is the weighted average price reported by Bloomberg on the day the shares are exercised. There are no barriers to exercising the shares, such as a minimum share price appreciation target or any other market or performance-driven conditions. Unexercised virtual shares carry full dividend rights, i.e. the persons entitled to subscribe receive a cash payment in the amount of the approved dividend for every unexercised virtual share. The term of the plan is unlimited.

Pension benefits

The pension benefit provisions set out in their respective employment contracts apply to the Management Board members of Aareal Bank AG. Pursuant to these provisions, membership to the Management Board entitles employees to claim pension benefits upon completion of their 60th year of age. In the event of permanent disability, a Management Board member may be entitled to claim benefits prior to completing his 60th year of age. For members of the Management Board who assumed their role after 1 November 2010, this applies only once the second term in office has begun.

The pension benefits of Management Board members who joined the Company prior to 1 November 2010 are vested.

Pursuant to their employment contracts, members of the Management Board are entitled to receive the following pension benefits:

Dr Wolf Schumacher	€ 350,000.00 p.a.
Hermann J. Merkens	€ 200,000.00 p.a.
Thomas Ortmanns	€ 200,000.00 p.a.

Dirk Große Wördemann's pension benefits will accrue over the course of his employment, to a maximum sum of € 200,000.00 p.a. For every full year of employment, he is entitled to a pension benefit of € 17,000.00 p.a. and a benefit of € 13,000.00 for the twelfth year of employment.

Once pension payments commence, pension benefits are governed by the pay scale increase of the private banking sector. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to orphans and half-orphans amount to 20 % and 10 % respectively.

In addition to the employment contracts, a further pension and survivor benefit as well as a disability benefit were agreed for Management Board members Dr Wolf Schumacher, Hermann J. Merkens and Thomas Ortmanns, effective 1 January 2012. During their service as Management Board members, the bank offers annual benefits that, for Dr Wolf Schumacher and Thomas Ortmanns, shall expire upon completion of their 60th year, and that shall last no longer than the end of July 2020 for Hermann J. Merkens. The annual benefit amount offered to the individual Management Board members amounts to:

Dr Wolf Schumacher	€ 273,600.00 p.a.
Hermann J. Merkens	€ 190,800.00 p.a.
Thomas Ortmanns	€ 190,800.00 p.a.

The total benefit amounts and any applicable converted remuneration components constitute the pension capital for the additional pension and survivor and permanent disability benefits, in the form of a monthly pension or a one-off payment. The entitlement to pension payments commences after the Management Board member's 60th year of age or, in the event of permanent disability, prior to completing his 60th year of age. Pensions are based on biometric calculation parameters and accrue interest at the rate of 4 % annually. The amount of the actual pension benefit depends on the length of service to the bank as well as the actual date the pension benefit is claimed. The current pension benefits are adjusted by 1.0 % on the first day of any year. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to orphans and half-orphans amount to 25 % and 10 % respectively. The acquired pension benefits are immediately vested.

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