

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

Once again, the financial year 2016 under review was a very eventful one for Aareal Bank – whose activities in a persistently volatile environment were accompanied by historically low interest rates and continued regulatory uncertainty. In this context, Aareal Bank not only generated very good results. The Bank also broke new ground in order to find answers to the issues raised by the fundamental changes associated with digitalisation proceeding at high speed.

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, both orally and in writing, upon 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 also received comprehensive reports on the development of the business segments, and on operative and strategic planning, and was involved in all important decisions. 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 and a decision taken. In cases where resolutions needed to be passed in between scheduled Supervisory Board meetings, such resolutions

were passed by way of circulation or via conference calls.

Furthermore, between the meetings of the Supervisory Board, the Chairman of the Management Board kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, both orally and in writing, on all material developments of the Company. The Chairman of the Management Board maintained regular close contact with the Chairman of the Supervisory Board, in order to discuss key issues and important decisions personally.

Moreover, the Supervisory Board was informed, in detail, about the "Aareal 2020 – Adjust. Advance. Achieve." programme for the future, which was presented in February 2016. The Supervisory Board supports the related objectives set out by the Management Board. Given an unchanged basic strategic orientation, this development of the strategy aims to protect the Group's strong base in an increasingly demanding environment, and to unlock new revenue potential.

Activities of the Plenary Meeting of the Supervisory Board

Nine plenary meetings of the Supervisory Board were held during the year under review. During the meetings, the members of the Supervisory Board received reports and explanations from the members of the Management Board, and discussed these in detail. One of the focal working and reporting aspects during all scheduled meetings was the approach to be taken by the Bank towards the persistently challenging market environment.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory framework, in great detail.

Throughout the financial year, in the course of all meetings as well as during the periods between meetings, the Management Board informed the Supervisory Board about economic and market developments and their potential impact on Aareal Bank Group, in a timely, complete and comprehensible manner. This included detailed explanations of the appropriate measures taken in response to the challenges arising from general market developments, in particular the prevailing low interest rate environment.

During the plenary meetings of the Supervisory Board, the Management Board reported to the Supervisory Board regularly and comprehensively; these reports also covered the development of the Structured Property Financing and Consulting/ Services segments, focusing on current economic developments. At regular intervals, the Supervisory Board was informed of the Bank's liquidity status and the related steps taken by the Bank's Treasury. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group. The Management Board also reported regularly on the quality of the property financing portfolio, against the background of general market trends and expected changes on the various property markets.

The focal points of the individual meetings are outlined below.

During its meetings in January and February, the Supervisory Board carried out the scheduled reviews of remuneration systems, including a detailed discussion of all related issues concerning the system and amount of remuneration. The Supervisory Board also discussed the establishment of a Chief Risk Officer, as a new Management Board position. As part of this task, based upon a proposal by the Executive and Nomination Committee, the Supervisory Board also discussed and determined the requirements profile for this role. The newly-established function of Chief Risk Officer was filled with the appointment of Ms Christiane Kunisch-Wolff to the Management Board of Aareal Bank. Throughout the appointment process, the Supervisory Board discussed, in great detail, which candidates meet this profile. With Ms Kunisch-Wolff, a renowned expert with relevant qualifications was appointed for this role. The Supervisory Board also debated the Bank's future dividend policy.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2015 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. In addition, the proposal regarding the selection and subsequent appointment of the external auditor for the Annual General Meeting was discussed. This also included the scope and focal points of the audit for the 2016 financial year, as defined by the Supervisory Board. Other issues covered during the March meeting included the preparations for the Annual General Meeting in May 2016. This meeting also discussed the annual reports submitted by Internal Audit and by the Compliance Officer.

During its April meeting, the Supervisory Board resolved on the process for the appointment of Mr Christof Winkelmann to Aareal Bank's Management Board. Mr Winkelmann was appointed in consideration of his proven market and banking expertise, and his long track record of successful work for Aareal Bank, which make him especially suitable for the position of the Management Board member responsible for Sales units.

The May meeting commenced with a detailed review of the Annual General Meeting of Aareal Bank AG, which preceded the meeting. Furthermore, the Management Board presented its regular reporting on business developments, which the Supervisory Board discussed in great detail.

The meeting in July exclusively comprised an extensive presentation and discussion of Aareal Bank Group's strategy, during which the Supervisory Board intensely discussed strategic initiatives with the Management Board, passing the necessary resolutions.

Besides receiving regular reports, during its September meeting, the Supervisory Board discussed new rules imposed by an EU Regulation pursuant to which the Supervisory Board Audit Committee will have greater importance from the 2017 financial year onwards. In order to support the Supervisory Board in monitoring the audit of the financial statements – especially with regard to the independence of external auditors, and the services rendered by them – the Audit Committee will in future decide upon the approval of so-called non-audit services provided by the external auditors.

In the December meeting, the Management Board reported on the Group's corporate planning. The Management Board submitted and explained the corporate planning in detail to the Supervisory Board. Corporate governance issues were discussed as well. The requisite resolutions were passed and implemented. Furthermore, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the German Public Limited Companies Act (Aktiengesetz – "AktG"), which was subsequently published on the Bank's website.

In accordance with sections 25c and d of the German Banking Act (Kreditwesengesetz – "KWG"), the results of the evaluations carried out in November and December 2016 have been discussed in detail by the Supervisory Board during its meeting in March 2017. The Supervisory Board will incorporate these findings into its work.

Strategy documents were regularly submitted to, and discussed by the Supervisory Board, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk). The Company's remuneration systems were also subjected to a scheduled review, with the reports submitted to the Supervisory Board. The Supervisory Board determined that the Company's remuneration systems are appropriate.

The Chairmen of Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions submitted by the plenary meeting in detail.

To the extent that any Supervisory Board decisions were taken by way of circulation, the related issues were discussed in detail at the subsequent Supervisory Board meeting, including a report by the Management Board on the implementation of such decisions taken previously.

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. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

In addition to its regular meetings, the Supervisory Board convened for a separate informational meeting, during which auditors PricewaterhouseCoopers provided very detailed information on current changes and deliberations in the regulatory and legal framework, as well as on the potential impact of such trends upon Aareal Bank.

Activities of Supervisory Board Committees

The Supervisory Board has established six committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Risk Committee, the Committee for Urgent Decisions (as a sub-committee of the Risk Committee), the Audit Committee, the Remuneration Control Committee, and the Technology and Innovation Committee.

The Executive and Nomination Committee of the Supervisory Board convened for four scheduled meetings, during which the committee prepared the plenary meetings of the Supervisory Board. During the financial year under review, the Executive and Nomination Committee concerned itself with the establishment of a Chief Risk Officer, as a new Management Board position. As part of this process, the Committee discussed the necessary questions regarding the job description, as well as candidates' required qualifications, in great detail. The appointment process for this position was carried out subsequently, and concluded with the appointment of Ms Kunisch-Wolff. Furthermore, the Committee carried out the appointment process for the position of Management Board member responsible for Sales units, and prepared the corresponding proposals for resolutions to be adopted by the plenary meeting, together with a recommendation to appoint Mr Winkelmann.

Furthermore, the Executive and Nomination Committee concerned itself with the efficiency of the Supervisory Board and its committees, as well as with corporate governance rules; within the scope of a regular dialogue with the Management Board, the Committee informed itself on the strategic development of Aareal Bank Group.

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the 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; the committee also concerned itself with the banking and regulatory environment, and dealt with both loans requiring approval and transactions subject to reporting requirements on a regular basis. The committee discussed individual exposures of material importance to the Bank, which were presented and explained by the Management Board. In addition, reports on current developments and related market responses were provided to the committee. Also, detailed reports were given 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 committee regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. 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. The committee also concerned itself with Aareal Bank's risk-bearing capacity and capital ratios, as well as the Bank's cooperation with regulators, within the scope of the Single Supervisory Mechanism (SSM) under the auspices of the ECB. The committee also decided on any other transactions requiring the Supervisory Board's approval pursuant to the Company's Memorandum and Articles of Association or the internal rules of procedure.

The Committee for Urgent Decisions is a sub-committee of the Risk Committee. It approves loans subject to approval requirements by way of circulation. For this reason, it did not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were presented again at the subsequent meeting, whereby the Management Board provided supplementary information on current implementation progress.

The Audit Committee held six meetings during the year under review. During its meeting in February 2016, the Audit Committee received and discussed the preliminary results for the 2015 financial year. During its March meeting, the committee received

the external auditors' report on the 2015 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. In accordance with its duties under the Memorandum and Articles of Association, the Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2016 during the same meeting.

During its meeting in May 2016, the Audit Committee considered the contents and further development of sustainability reporting for Aareal Bank Group. In addition, the committee discussed the initial audit for achieving limited assurance for this report, including an examination of selected qualitative and quantitative information in the Sustainability Report 2015 by PwC, the results of which were discussed in the presence of PwC representatives.

In accordance with the requirements of the German Corporate Governance Code, during its meetings in May, August and November 2016, the Audit Committee discussed with the Management Board the quarterly results to be published.

Proceedings at the meetings in August and November also included supplementary topics, such as amendments under the EU Audit Regulation and Directive, according to which external auditors are no longer permitted to provide certain non-audit services. With effect from 1 January 2017, permitted non-audit services to be rendered by the external auditors must be approved by the Audit Committee. Said regulation has extended the Audit Committee's oversight duties in the context of monitoring the Bank's procurement of services from the external audit firm elected by the Annual General Meeting. In order to fulfil these oversight duties in an efficient manner, the Audit Committee adopted a process for approving and monitoring non-audit services rendered by the external auditors during its November meeting. Furthermore, the committee was informed about the review of the Internal

Control System, in accordance with legal requirements; it duly acknowledged the report, following discussion. In addition to a report on the audit progress, the Management Board presented and explained the updated Group planning to the committee during its December meeting. The committee also received reports submitted by Internal Audit, and the Compliance Report, requesting and receiving detailed explanations, and duly noting both reports.

During its six meetings, the Remuneration Control Committee discussed issues related to the Bank's remuneration systems and all related matters, fulfilling its original assignment. In addition to topics to be dealt with on a regular basis, the Remuneration Control Committee concerned itself with necessary adjustments of the remuneration systems due to amendments to the German Regulation on Remuneration in Financial Institutions ("Institutsvergütungsverordnung – InstVergV"). Moreover, the Remuneration Control Committee supported the Supervisory Board with all issues related to the remuneration of the Management Board. In particular, the committee provided support for determining the Management Board's targets for the current year, and for assessing target achievement by the Management Board, as a basis for determining variable remuneration for the members of the Management Board for the year 2016. As a rule, support was provided to the Supervisory Board by preparing the corresponding recommended resolutions.

The Technology and Innovation Committee convened for four meetings, during which the committee discussed market trends, technological developments and innovation trends in detail, especially with a view to clients of the Consulting/Services segment. Discussion topics included potential business opportunities arising from the growing digitalisation of business processes, and how Aareal Bank Group could turn such opportunities into benefits for clients. In this connection, the committee also discussed measures in detail which are required for an optimal design of change processes, and which create an innovation-friendly environment. Such topics also include considerations to further develop talent management meas-

ures. Another key aspect of regular discussions was how to support the Bank in realigning its banking systems, against the background of numerous new requirements in terms of accounting, regulation, and IT security.

Where members of the Supervisory Board were unable to attend a meeting, they had announced their absence in advance, giving reasons. Attendance of Supervisory Board members at meetings is shown in the table below.

Member of the Supervisory Board	Number of meetings attended / number of meetings (plenary and committee meetings)
Marija Korsch	33 of 33
Prof. Dr Stephan Schüller	24 of 25
York-Detlef Bülow*	23 of 25
Thomas Hawel*	13 of 13
Dieter Kirsch*	18 of 19
Richard Peters	21 of 23
Dr Hans-Werner Rhein	17 of 17
Sylvia Seignette	13 of 13
Elisabeth T. Stheeman	16 of 17
Hans-Dietrich Voigtländer	25 of 25
Prof. Dr Hermann Wagner	19 of 19
Beate Wollmann*	9 of 9

* Employee representative

Financial Statements and Consolidated Financial Statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main (from 1 March 2017: PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft), who were elected as auditors by the Annual General Meeting 2016, with the audit of the financial statements and the consolidated financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory

Board, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports, including all annexes thereto, in good time before the meeting during which the financial statements and the consolidated financial statements were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditor participated in the meeting of the Supervisory Board, during which the financial statements and consolidated financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft were 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, and the consolidated financial statements and the Group management report prepared in accordance with IFRSs, and the proposal of the Management Board regarding the appropriation of profit, and the audit reports, were all examined in detail. No objections were raised to the audit results. In its meeting on 23 March 2017, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with IFRSs, and thus confirmed the financial statements of Aareal Bank AG. The Supervisory Board examined

and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Special transactions

Aareal Bank Group was able to conclude material litigation concerning former Corealcredit Bank, with rulings in the Bank's favour. Even though the resulting non-recurring effect only had a relatively minor impact on the Bank's results after taxes, the conclusion of these proceedings was a positive outcome.

Personnel matters

At its meeting held on 19 February 2016, the Supervisory Board appointed Ms Christiane Kunisch-Wolff as a member of the Management Board of Aareal Bank, effective 15 March 2016. To date, Ms Kunisch-Wolff was a member of the Management Board of Westdeutsche ImmobilienBank AG, where her responsibilities included accounting and financial reporting as well as anti-money laundering and Compliance. The Supervisory Board is delighted to have won another Management Board member from within the Group, and wishes Ms Kunisch-Wolff every success for her mandate.

In its meeting on 20 April 2016, the Supervisory Board appointed Mr Christof Winkelmann as a member of the Management Board of Aareal Bank, effective 1 July 2016. Mr Winkelmann first worked for Aareal Bank from 2000 to 2006, being responsible for the Bank's hotel financing business. Having worked for another bank, he returned to Aareal Bank in 2008 as Managing Director, Special Property Finance. He has been responsible for the Bank's Special Property Finance business – covering financings for hotels, retail and logistics properties – ever since.

During the same meeting, the Supervisory Board adopted a new distribution of responsibilities

amongst the members of the Management Board. Mr Winkelmann assumed responsibility for the Sales units in the Structured Property Financing segment, a position previously held by Ms Dagmar Knopek, with effect from 1 July 2016. Mr Winkelmann is thus particularly responsible for all of the segment's new business activities. Ms Knopek, who has been a member of the Management Board since 2013, assumed the function of Chief Credit Officer on the Management Board on the same date. In her new function, she is responsible for Credit Management (encompassing loan administration and management), Operations, and the Workout portfolio. These duties were previously within the portfolio of Hermann J. Merkens, the Chairman of the Management Board of Aareal Bank AG.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for their strong commitment during the 2016 financial year, which was once again characterised by a challenging environment. That commitment – and strong motivation – from all employees of Aareal Bank Group made the Company's success possible.

Frankfurt, March 2017

For the Supervisory Board



Marija Korsch (Chairman)