

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

Aareal Bank Group remained on its positive trajectory in 2018, thus following on seamlessly from the previous successful years. In an environment that was shaped by numerous challenging developments, this involved taking further important steps on our way to a sustainable and successful future. The Supervisory Board believes that Aareal Bank remains in very good shape today and is ideally equipped to meet the challenges that lie ahead.

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 close contact with the Chairman of the Supervisory Board, in order to discuss key issues and important decisions personally.

Activities of the Plenary Meeting of the Supervisory Board

Eight plenary meetings of the Supervisory Board were held during the year under review. During these meetings, the members of the Supervisory Board received reports and explanations from the members of the Management Board, and discussed these in detail. Dynamic changes in the markets, also considering the geopolitical developments, the large number of regulatory adjustments that are yet required and further progress in implementing the "Aareal 2020" programme for the future were focal points of the work and reporting in all scheduled meetings.

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 also included the measures the Bank had taken in response to the general market developments and the conditions prescribed by monetary policy. 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. 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. 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 the January meeting, the Supervisory Board concerned itself with the target achievement level of the individual Management Board members and the impact of the amended German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstutsVergV"), as well as the discussion of core areas for the lending business.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2017 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 2018 financial year, as defined by the Supervisory Board. Upon recommendation of the Audit Committee, the Supervisory Board also agreed to subject the non-financial report for 2018 to an audit, to obtain limited assurance. Other issues covered during the March meeting included the preparations for the Annual General Meeting in May 2018. This meeting also discussed the annual reports submitted by Internal Audit and by the Compliance Officer. Remuneration issues were also dealt with at the meeting, and the necessary advice provided on preparing for the adjustments required in the Supervisory Board following the resignation of York-Detlef Bülow as employee representative.

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 detailed reporting on current and expected business developments, which the Supervisory Board discussed.

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

The appointment of Marc Hess as Member of the Management Board was discussed and agreed on in two meetings held in June and August. Furthermore, at the first of these meetings, the Supervisory Board discussed the re-appointment of Mr Winkelmann, which was resolved in July.

During the September meeting, current questions concerning strategic initiatives and the latest changes to the regulatory requirements were presented and discussed, in addition to the regular reports.

In the December meeting, the Management Board reported on the Group's corporate planning, and 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 (Aktengesetz – "AktG"), which was subsequently published on the Bank's website. Following the regulations of section 25c and d of the German Banking Act (Kreditwesengesetz – "KWG"), the Supervisory Board carried out the required evaluations. The Supervisory Board discussed the results of the evaluations in detail, and will incorporate these findings into its work.

Strategy documents were regularly discussed, 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 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. 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 Pricewaterhouse-

Coopers 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. At its December meeting, the Supervisory Board resolved to adjust its Internal Rules of Procedure as well as its organisational structure to changed requirements. The adjusted structure no longer provides for a Committee for Urgent Decisions.

The Executive and Nomination Committee of the Supervisory Board convened for five meetings. During its meetings, the Executive and Nomination Committee prepared the plenary meetings of the Supervisory Board, concerned itself with the efficiency of the Supervisory Board and its committees, as well as with corporate governance issues. Within the scope of a regular dialogue with the Management Board, the Committee informed itself on the strategic development of Aareal Bank Group. The resolutions that were necessary upon the resignation of York-Detlef Bülow as employee representative and the appointment of Petra Heine-mann-Specht as his successor were also prepared.

The Risk Committee held five meetings during the year under review. 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 was also

engaged with the analysis of Aareal Bank's risk-bearing capacity and its capital ratios. 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 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, and also concerned themselves with the banking and regulatory environment.

The Committee for Urgent Decisions was a sub-committee of the Risk Committee, which approved 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 2018, the Audit Committee received and discussed the preliminary results for the 2017 financial year. During its March meeting, the committee received the external auditors' report on the 2017 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 2018 during the same meeting.

During its meeting in May 2018, the Audit Committee also concerned itself with Aareal Bank Group's Sustainability Report and the audit undertaken to obtain limited assurance for this report.

In accordance with the requirements of the German Corporate Governance Code, during its meetings in May, August and November 2018, the Audit Committee discussed with the Management Board the quarterly results to be published.

The meetings also allowed the committee to deal with additional topics, such as a current overview of the services of the external auditors requiring approval in accordance with the EU Audit Regulation and Directive. It approved such services where necessary. 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 Audit Committee was also informed by the Management Board about the structure of sustainability reporting for the 2018 financial year. Furthermore, the Audit Committee initiated the requisite tender process for the change in external auditors for the 2021 financial year.

In its meetings, 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 eight meetings, the Remuneration Control Committee discussed issues related to 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. 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 2018. As a rule, support was provided to the Supervisory Board by preparing the corresponding recommendations.

The Technology and Innovation Committee convened for four scheduled 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. 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 its subsidiaries responsible for the development, among other things. Further key aspects of the regular discussions were issues related to the security and flexibility of IT systems provided and used within the Bank, as well as the realignment of the banking systems, against the background of numerous new requirements in terms of accounting, regulation, and cybersecurity. The Committee invited external experts to discuss current developments concerning selected topics.

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	36 of 36
Prof. Dr Stephan Schüller	27 of 27
York-Detlef Bülow* (until 1 April 2018)	9 of 9
Thomas Hawel*	12 of 12
Petra Heinemann-Specht* (since 1 April 2018)	10 of 10
Dieter Kirsch*	20 of 20
Richard Peters	23 of 23
Dr Hans-Werner Rhein	16 of 18
Sylvia Seignette	13 of 13
Elisabeth Stheeman	17 of 17
Hans-Dietrich Voigtländer	26 of 26
Prof. Dr Hermann Wagner	19 of 19
Beate Wollmann*	12 of 12

* Employee representative

Financial Statements and Consolidated Financial Statements

The Supervisory Board instructed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were elected as auditors by the Annual General Meeting 2018, 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

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 26 March 2019, the Supervisory Board approved the results of the audit. The Supervisory Board thus confirmed the annual 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 the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Non-financial Report

The Audit Committee and the Supervisory Board concerned themselves with sustainability issues and related reporting during their meetings on 21 and 22 March 2018, and 5 and 12 December 2018.

Moreover, during its meeting on 21 March 2019, the Audit Committee of the Supervisory Board discussed the Combined Separate Non-financial Report for 2018 and the result of PwC'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 PwC's audit results, and presented its assessment of the non-financial report (and its analysis of PwC's audit results) to the Supervisory Board. The Audit Committee also issued a recommendation to the Supervisory Board to concur with the results of PwC's audit. The Supervisory Board followed this recommendation; in its meeting on 26 March 2019, it summarised its examination by stating that it had no objections against the non-financial report and the results of PwC's audit.

Special transactions

In September, Aareal Bank Group reached an agreement with the Association of German Banks (Bundesverband Deutscher Banken e.V. – "BdB") on the acquisition of all shares in Düsseldorf Hypothekenbank AG. The Supervisory Board approved this transaction, as it represents the successful continuation of an approach that creates added value for our shareholders. This approach enables us to examine opportunities, as well as using the expertise gained in the orderly, value-preserving run-down and the swift, responsible integration of Düsseldorf Hypothekenbank AG. The transaction was finalised at year-end 2018.

Aareal Bank continued to make advances in its digitalisation campaign; in this context, it acquired a stake in BrickVest, one of the leading European online platforms for commercial property investment, in December 2018. This transaction was also approved by the Supervisory Board. The Supervisory Board is convinced that by participating in a company that pursues a digital model of the future, Aareal Bank is strengthening and promoting a key aspect of the "Aareal 2020" programme for the future.

Personnel matters

Various changes were made to both the Management Board and the Supervisory Board in the past financial year. These are reported on once again below.

York-Detlef Bülow, who served for many years on the Supervisory Board as employee representative, retired as at 31 March 2018. Mr Bülow, who joined Aareal Bank 40 years ago, was the long-standing Chairman of the Group Works Council and Deputy Chairman of the Supervisory Board during this period. He always served his role dutifully and with great commitment, where he provided both critical and constructive advice to the Management Board. In doing so, he made an important contribution to the Bank's efforts in dealing with the changes it encounters in the banking environment. The Super-

visory Board would like to thank York-Detlef Bülow for his long-standing commitment and for the outstanding work he carried out in this context.

The Supervisory Board is pleased to welcome Petra Heinemann-Specht as successor to the employee representative. Petra Heinemann-Specht has been with Aareal Bank for nearly 20 years and has held various positions in this time, including in Credit Management and in Treasury. The Supervisory Board is certain that she will also play an active role on the Supervisory Board as employee representative.

Moreover, Mr Kirsch, who had represented employees on the Supervisory Board, retired from his office, effective at the year-end, since he will enter retirement during the first half of 2019. Having worked for Aareal Bank since 1983, he represented employee interests as a full-time Works Council member since 2002, and was appointed as an employee representative to the Supervisory Board in 2010. Most recently, he succeeded Mr Bülow as Deputy Chairman of the Supervisory Board. Through his commitment and his experience in the banking business, Mr Kirsch contributed to a dialogue between employee representatives and the Management Board which was always constructive and critical, supporting the manifold changes the Bank has seen in recent years. The Supervisory Board would like to thank Mr Kirsch for his long-standing commitment and for the outstanding work he carried out in this context.

The Supervisory Board welcomes Klaus Novatius who will succeed Dieter Kirsch as employee representative as well as Deputy Chairman of the Supervisory Board. The members of the Supervisory Board are certain that these members' long-standing service and activities in the Works Council will ensure a good changeover of staff in the Supervisory Board.

The Supervisory Board wishes the two new members every success in their new roles.

The Supervisory Board extended the contracts of three members of the Management Board in the

past financial year and made one new appointment. It first extended the Management Board contract of Hermann J. Merkens ahead of schedule and appointed him as Chairman of the Management Board for a further five years, one year before his contract was due to expire. The ordinary re-appointment will be effective 2 April 2019, with his new term of office running until 1 April 2024.

Besides the re-appointment of the CEO, the Supervisory Board also extended the contract of Christiane Kunisch-Wolff. Her ordinary re-appointment will be effective 15 March 2019, with her new term of office running until 14 March 2024. Christiane Kunisch-Wolff has been a member of the Management Board since 2016; as Chief Risk Officer, she is responsible for risk controlling and for the Compliance, Regulatory Affairs and Information Security and Data Protection divisions.

The Supervisory Board also agreed to extend Christof Winkelmann's contract with effect from 1 July 2019 up to 30 June 2024. Mr Winkelmann has been a member of the Management Board since 1 July 2016; he is responsible for the Sales units in the Structured Property Financing business segment.

The Supervisory Board believes the renewed appointments will commit the three successful members of the Management Board to Aareal Bank Group for a further term of office.

It also appointed Marc Hess to the Management Board, with effect from 01 October 2018. Mr Hess assumes the position of Chief Financial Officer, which had been covered to date by Herman J. Merkens in his dual role of Chief Executive Officer and Chief Financial Officer. He will additionally assume responsibility for the Treasury division; going forward, he will thus also maintain relationships with debt investors. Marc Hess previously held the position of Chief Financial Officer of Deutsche Postbank AG.

The Supervisory Board of Aareal Bank is pleased to have attracted a very experienced Chief Financial Officer for the Bank. It is convinced that his exper-

tise will provide a key contribution to maintaining Aareal Bank Group's perfectly healthy financial basis over the long term – in a challenging environment.

At the same time, the Supervisory Board would like to express its thanks to Hermann J. Merkens for having covered the dual roles of Chief Executive Officer and Chief Financial Officer throughout a phase of profound change and fundamental decisions for the future of our Company.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for the strong commitment they have shown during the past 2018 financial year. All the employees have contributed to the Company's decisive success in overcoming the many challenges it faced. That enormous continued commitment – and strong motivation – demonstrated by all employees of Aareal Bank Group have once again made the Company's success possible.

Frankfurt/Main, March 2019

For the Supervisory Board



Marija Korsch (Chairman)