

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

## Dear shareholders,

Aareal Bank has confronted the various challenges in the financial year 2019 and can look back at another successful financial year in which the Bank not only generated good results, but also set the strategic course for the future. All targets were achieved in the past financial year, whilst further improving the foundations for a continuation of its positive performance over the past years. 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 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, and was involved in all material decisions of Aareal Bank Group. 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.

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, 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. The Chairman of the Supervisory Board then proceeded to inform the other Supervisory Board members of these discussions at the following Supervisory Board meetings.

## Activities of the Plenary Meeting of the Supervisory Board

Nine plenary meetings of the Supervisory Board were held in 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. Market developments, also considering the persistent geopolitical changes, the large number of regulatory adjustments that are yet required and further progress in implementing the "Aareal 2020" programme for the future as well as designing the successor programme "Aareal Next Level" 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 division. 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. 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.

During its January meeting, the Supervisory Board dealt with the Bank's dividend policy, the individual Management Board members' target achievement in the past financial year, and target setting for the new financial year. The dividend policy discussion was continued at a meeting in February, during which different scenarios of a potential dividend distribution were presented to the Supervisory Board, and were subsequently reviewed and assessed by the Supervisory Board.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2018 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. Furthermore, the Supervisory Board discussed the non-financial report 2018 and the results of the audit going hand in hand with it, to obtain limited assurance. Another issue covered during the March meeting included preparations for the Annual General Meeting in May 2019. 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. 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. In addition, the Supervisory Board resolved the revised Code of Conduct which also applies to the executive bodies, and concerned itself with the remuneration systems for the employees and the Management Board members; it came to the conclusion that the Company's remuneration systems are adequate.

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. This meeting also discussed the annual report submitted by the Compliance Officer. The Supervisory Board also agreed with the Audit Committee's proposal regarding the focal audit points set by the Supervisory Board for the audit of the financial statements for the 2019 financial year.

The two-day Supervisory Board meeting in June was held to comprehensively discuss Aareal Bank Group's current strategy implementation and refinements thereon, as well as to hear the Management Board's regular reporting. The Supervisory Board talked about the presented strategic initiatives and options with the Management Board in considerable depth and detail. Within this context, adjustments made to material risk documents were also presented and discussed.

During the September meeting, current questions concerning strategic initiatives were presented and discussed, in addition to the regular reports. This meeting took place at Aareon AG's headquarters in Mainz, which is why Aareon Group's further development was the main topic. On the one hand, the Supervisory Board discussed Aareon AG's new Management Board structure and its assignment of responsibilities with the Management Boards of Aareal Bank AG and Aareon AG. Strategic targets and growth areas at Aareon Group were also presented and discussed. On the other hand, the Supervisory Board of Aareal Bank AG was informed about the planned acquisition of CalCon Group, the purchase of which it agreed to after an in-depth review.

Furthermore, the company retirement provision system for Management Board members was adjusted based on a recommendation made by the Remuneration Control Committee (for details, please refer to the Remuneration Report › Remuneration of the Management Board 2019). Since this was only a harmonisation of the company retirement provisions, the Supervisory Board assessed this amendment as non-material, hence deeming a submission to the Annual General Meeting (by means of a so-called say-on-pay resolution) to be unnecessary for this purpose. The resolution on the remuneration system for the Management Board and the Supervisory Board is planned to be proposed to the Annual General Meeting in the year 2021. Until that time, various questions need to be addressed as regards the interpretation and compatibility of the new recommendations of the German Corporate Governance Code with the very strict German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – InstVergV).

At two meetings in October and November, the Supervisory Board asked the Management Board to report on the initiative of an investor regarding the disposal of the subsidiary Aareon. The further development of Aareon Group, and particularly the various opportunities to enhance its growth, was the topic of discussion at numerous Supervisory Board meetings, both within the Executive and Nomination Committee and in the plenary meeting of the Supervisory Board. The Supervisory Board supports the respective details communicated by the Management Board and its initiatives.

At the December meeting, the Management Board presented the strategies pursuant to the Minimum Requirements for Risk Management ("MaRisk") and the Group's corporate planning in detail. According to their respective responsibilities, the strategies had previously been presented to the Executive and Nomination Committee, the Risk Committee, and the Audit Committee, and finally to the Supervisory Board, to subsequently be discussed with the Management Board in depth. Another issue to be discussed was preparing the Corporate Governance Report, 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 its work. The Supervisory Board also concerned itself with the Management Board's preliminary target achievement 2019 and with deriving the Management Board targets for 2020 in accordance with the strategy presented. At its December meeting, the Supervisory Board also discussed the Audit Committee's proposal for new external auditors, which the Committee had submitted based on the selection procedure carried out for the change in external auditors from the 2021 financial year. After intensive discussions, the Supervisory Board followed the Audit Committee's proposal and will propose to the Annual General Meeting 2020 that either KPMG AG Wirtschaftsprüfungsgesellschaft or Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft be appointed as external auditors to review, if applicable, any additional financial information required, within the meaning of section 115 (7) of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"), during the 2021 financial year, until the next Annual General Meeting. Furthermore, it is also planned to propose to the Annual General Meeting that either KPMG AG Wirtschaftsprüfungsgesellschaft or Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft be appointed external auditors of the annual and consolidated financial statements for the 2021 financial year. In line with the recommendation of the Audit Committee, the Supervisory Board has a preference for KPMG AG Wirtschaftsprüfungsgesellschaft in each case.

At its December meeting, the Supervisory Board also resolved – based on the Executive and Nomination Committee's recommendation – to renew the term of office of Marc Hess as member of the

Management Board for a period of five years, after he had resigned from his position in agreement with the Supervisory Board. The Supervisory Board mainly based its decision on the fact that Mr Hess had become acquainted with his tasks extraordinarily quickly, providing valuable impetus for Aareal Bank's further strategic and financial development already in the first year of his term of office. Especially against the backdrop of the challenges lying ahead, such as the demanding market and competitive environment, it is of utmost importance for Aareal Bank to attract qualified leaders like Mr Hess, and to retain them for the long term, thus assuring continuity in the Management Board team.

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 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 six meetings in the year under review. The Committee prepared the plenary meetings of the Supervisory Board in all its 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.

In the January 2019 meeting, the Executive and Nomination Committee concerned itself with the Company's dividend policy.

The March meeting was held in order to prepare for the Annual General Meeting in May 2019. This comprised the decision proposals regarding the agenda of the Annual General Meeting. The Committee also concerned itself with the annual potential Management Board and Supervisory Board appointments in the next financial year, and thus with the topic of succession planning. Another meeting held in March was focused on personnel issues below the Management Board.

The June 2019 meeting was used to prepare for the Supervisory Board's strategy meeting, and an intense discussion as regards succession planning for the Management Board. Another topic handled was the resolution of the Supervisory Board's Rules of Information in the internal framework, which governs Management Board reporting to the committees and the Supervisory Board plenary. In conjunction with this matter, the Rules of Procedure of Management Board and Supervisory Board were amended.

The Executive and Nomination Committee meeting in September 2019 was held to prepare

for this year's evaluation and the selection of external auditors to this end. In addition, the strategy dialogue for the second half of the year 2019 was discussed. Other issues in the meeting's focus were the current corporate governance developments, including implementation of the new German Corporate Governance Code ("GCGC") and of the Bill to Implement the Second EU Shareholder Rights Directive ("ARUG II"). As proposed by the GCGC, the Chairman of the Supervisory Board held an appropriate number of talks with investors in the year under review, exchanging views on Aareal Bank's corporate governance and informing Board members concerning the contents of these talks in subsequent meetings (see "Shareholder communication" below for details on the topics).

At the December 2019 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 query 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 German Corporate Governance Code arose during the financial year under review.

In addition, the Executive and Nomination Committee proposed to recommend to the Supervisory Board the re-appointment of Marc Hess for five years after his amicable resignation (please refer to the Activities of the Plenary Meeting of the Supervisory Board above).

#### **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. 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 a report on recovery planning and other risk management measures, which included preparations for the UK's exit from the EU and corresponding reactions to the current developments. 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 Risk Committee meeting held in March 2019 dealt with the results of the risk management system review performed by the external auditors, with focused market reporting, and the supervisory authorities' focus in the 2019 financial year.

In May 2019, the Risk Committee mainly addressed the implementation of regulatory requirements, determining that six meetings per annum would

be held in future, so as to allow enough time (especially for regulatory developments) per topic.

In June 2019, individual sub-risk strategies, amended to take account of regulatory requirements, were submitted to the Risk Committee for discussion.

At the September meeting, the Management Board informed the Risk Committee about current recovery planning.

At its December meeting, the Risk Committee discussed all of the Bank's business and risk strategies. The Committee monitored the terms in the client business, based on the business model and risk structure of the Bank, supported the Remuneration Control Committee in evaluating the effects of the remuneration systems on the Bank's risk, capital and liquidity situation, and checked whether the remuneration systems are aligned with the Bank's sustainable development and business strategy. Within this context, the Risk Committee also ensured that the derived risk strategies and the remuneration strategy are in line.

At another meeting in December, the Committee dealt with Aareal Bank AG's IT strategy and IT security strategy as well as with all aspects of the Bank's security management. The Technology and Innovation Committee had been invited to this end. The regulatory requirements for IT security were also discussed.

The Committee also concerned itself 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 had yielded, and the authorities' recommendations on risk-related topics.

#### **Audit Committee:**

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

In accordance with the requirements of the German Corporate Governance Code, during its meetings in May, August and November 2019, the Audit Committee discussed with the Management Board the quarterly results to be published. Furthermore, the current status and planning 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 Compliance Report, 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. The Committee dealt with the measures the Management Board had taken to address the shortcomings identified by external auditors, Internal Audit, and supervisory authorities, and had the Management Board report on the status and progress of the rectification of findings. External auditor representatives, too, attended all meetings, excluding the agenda items regarding the rotation of external auditors, the assessment of financial statements auditing, and the proposal for new external auditors. A regular update on the status of already approved and expected non-auditing services provided by the external auditors was given at all meetings. In anticipation of the 70 % limit of approved non-audit services in relation to planned audit services (applicable as of 2020), the Audit Committee had already voluntarily resolved to adhere to this threshold in 2018 and 2019. It was neither reached nor exceeded at any time.

At its February 2019 meeting, the preliminary figures for the 2018 financial year were submitted to the Audit Committee, and the dividend policy was discussed. In addition, the annual report 2018 and the audit planning of Internal Audit were presented.

In March 2019, the Committee received the external auditors' report on the audit of the financial and consolidated financial statements for the 2018 financial year, and discussed the results with the auditors in detail. The Committee members dis-

cussed 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 auditors 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 auditors for the 2019 financial year. The Committee also concerned itself with Aareal Bank Group's Sustainability Report and the audit undertaken to obtain limited assurance for this report.

At its meeting in May 2019, the Audit Committee discussed the key points of the Supervisory Board's audit for the 2019 financial year.

At the August 2019 meeting, the Audit Committee concentrated on regulatory developments in sustainable finance, the results of the review of the half-yearly financial report as at 30 June 2019, and on the approach for the audit of the financial and consolidated financial statements.

At its November meeting, the Audit Committee focused on the change in external auditors provisioned by the German Audit Reform Act (Abschlussprüfungsreformgesetz – "AReG"). Furthermore, the Committee prepared the Supervisory Board's informational meeting in December and discussed the risks related to implementing the benchmark guideline. The Audit Committee also resolved that the quarterly planning and forecast calculation in conjunction with quarterly earnings management would take place in the form of plenary meetings in March, June, September and December as of the next financial year. The Management Board had proposed such a change. The meetings held in May, August and November concentrate on the quarterly figures and can be carried out via conference calls.

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 2019 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.

#### **Rotation of external auditors:**

To comply with the provisions set out in Regulation (EU) No. 537/2014 on the obligation to rotate external auditors, Aareal Bank published the procedure for the selection of new external auditors for Aareal Bank AG and Aareal Bank Group for the 2021 financial year via the German Federal Gazette at the beginning of the 2019 financial year. An internal project team at Aareal Bank AG, set up by the Audit Committee, will carry out the selection process. The Audit Committee also resolved the material process steps, selection criteria, and material decisions. It received regular progress reports concerning the procedure, discussing, and if applicable, deciding upon any further steps. The project team comprised the Chairman of the Audit Committee, the Chief Financial Officer, Chief Risk Officer, the member of the Management Board responsible for Credit Management and executives of the divisions primarily concerned. In line with EU provisions, the entire process was designed in a fair, transparent, and non-discriminatory manner. Following the announcement in the German Federal Gazette, auditors were prompted to voice their interest in participating in the selection process. In a next step, the interested parties received comprehensive documentation, enabling them to hand in a substantiated written tender. Following the expression of interest, the candidates were given the opportunity to resolve unanswered questions in the next phase. The project team and the Chairman of the Audit Committee then analysed and assessed the tenders subsequently submitted in writing, selected the four candidates fulfilling most of the criteria determined by the Audit Committee, and invited these contenders to present their tender and introduce the most important team members in person. All members of the project team attended these

presentations. Based on assessment of the presentations, the team narrowed the selection to two candidates, KPMG AG Wirtschaftsprüfungsgesellschaft and Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, voicing a preference for KPMG AG Wirtschaftsprüfungsgesellschaft, and stating the reasons. This final report was submitted to the Audit Committee at its November 2019 meeting, which the two final applicants also attended to introduce themselves personally. Based on this comprehensive reporting, the Audit Committee recommended to the Supervisory Board to propose that KPMG AG Wirtschaftsprüfungsgesellschaft be appointed to review, if applicable, any additional financial information required, within the meaning of section 115 (7) of the WpHG, during the 2021 financial year, until the next Annual General Meeting. They will then be appointed as external auditors for the financial and consolidated financial statements 2021 by the 2021 Annual General Meeting. The Supervisory Board has resolved to follow the preferential recommendation made by the Audit Committee.

#### Remuneration Control Committee:

The Remuneration Control Committee held six meetings during 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. In the 2019 financial year, the Remuneration Control Committee held four meetings without the Management Board, and two with it.

During its six 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 beginning of the year under review, the Committee dealt with the Management Board's target achievement for the 2018 financial year and with determining the Management Board targets for 2019.

In March 2019, the Committee finalised the 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 InstitutsVergV.

The Remuneration Control Committee meeting in June 2019 focused on the completed implementation of the comments which the supervisory authorities had made regarding the remuneration system.

At the two September meetings, the Committee concerned itself with adjusting the remuneration systems for employees after the bonus model for all employees had been harmonised, and with the succession process for the Remuneration Officer. In addition, current corporate governance developments were discussed – including implementation of the new German Corporate Governance Code and ARUG II, as well as the corresponding scheduled adjustments to remuneration reporting with the aim of increasing transparency. In September, the Remuneration Control Committee also dealt with the Management Board members' company retirement provisions, recommending to the Supervisory Board to standardise the employment contracts regarding this issue – in agreement with the individual Management Board members (please also



refer to Reporting on remuneration for the Management Board › Measures in the 2019 financial year).

In the meeting at the end of the year, the Remuneration Control Committee dealt with the Management Board's preliminary target achievement for 2019 and determined the Management Board targets for 2020.

#### 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 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 respective subsidiaries responsible for the development, among others.

Further key aspects of regular discussions were issues related to the security and flexibility of IT systems provided and used within the Bank, as well as the general realignment of banking systems and related adjustments to the new requirements in the areas of accounting, regulation, and cybersecurity. The IT strategy, budget planning and monitoring of important IT projects were also discussed.

The Committee invited external experts to discuss current developments concerning selected topics.

#### 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 table below.

#### 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 2019, 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.

| Member of the Supervisory Board         | Plenary meetings attended | Quote | Committee meetings attended | Quote | Number of meetings attended / number of meetings* |
|---|---------------------------|-------|-----------------------------|-------|---|
| Marija Korsch                           | 9 / 9                     | 100%  | 28 / 28                     | 100%  | 37 / 37   |
| Prof. Dr Stephan Schüller               | 9 / 9                     | 100%  | 14 / 18                     | 85%   | 23 / 27   |
| Klaus Novatius (since 1 January 2019)** | 9 / 9                     | 100%  | 12 / 12                     | 100%  | 21 / 21   |
| Thomas Hawel**                          | 9 / 9                     | 100%  | 4 / 4                       | 100%  | 13 / 13   |
| Petra Heinemann-Specht**                | 9 / 9                     | 100%  | 6 / 6                       | 100%  | 15 / 15   |
| Richard Peters                          | 9 / 9                     | 100%  | 16 / 16                     | 100%  | 25 / 25   |
| Dr Hans-Werner Rhein                    | 9 / 9                     | 100%  | 12 / 12                     | 100%  | 21 / 21   |
| Sylvia Seignette                        | 9 / 9                     | 100%  | 6 / 6                       | 100%  | 15 / 15   |
| Elisabeth Stheeman                      | 9 / 9                     | 100%  | 10 / 10                     | 100%  | 19 / 19   |
| Hans-Dietrich Voigtländer               | 9 / 9                     | 100%  | 16 / 16                     | 100%  | 25 / 25   |
| Prof. Dr Hermann Wagner                 | 9 / 9                     | 100%  | 12 / 12                     | 100%  | 21 / 21   |
| Beate Wollmann**                        | 9 / 9                     | 100%  | 6 / 6                       | 100%  | 15 / 15   |

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

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 PricewaterhouseCoopers GmbH 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. In its meeting on 24 March 2020, 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.

### Non-financial Report

The Audit Committee and the Supervisory Board concerned themselves with sustainability issues and related reporting during their meetings on 21 and 26 March 2019, and on 5 and 12 December 2019.

Moreover, during its meeting on 19 March 2020, the Audit Committee of the Supervisory Board discussed the summarised, separate non-financial report for 2019 and the result of PricewaterhouseCoopers'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 PricewaterhouseCoopers, and presented its assessment of the non-financial report (and its analysis of PricewaterhouseCoopers'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 PricewaterhouseCoopers. The Supervisory Board followed this recommendation; in its meeting on 24 March 2020, it summarised its examination by stating that it had no objections concerning the non-financial report and the results of the audit conducted by PricewaterhouseCoopers.

### Communication with Shareholders

In her function as Chairman of the Supervisory Board, Ms Korsch held discussions with shareholder representatives concerning corporate governance at Aareal Bank. Ms Korsch 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 involvement in environmental, social and governance (ESG) matters, the election of the auditor and succession planning.

## 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. Introductory programmes, specifically aligned with the needs of the members who had only recently joined the Supervisory Board in the previous year or at the beginning of the year under review, were carried out, and external training courses offered, with the objective of helping the new members to familiarise themselves with their new office.

Aareal Bank's onboarding process for new members of the Company's executive bodies aims to impart deeper knowledge of the business specifics, the strategy, risk management, accounting, and material legal provisions of Aareal Bank. For this purpose, external training and continuous professional measures were offered and discussions with the heads of division of the internal control units, of Finance & Controlling, Group Strategy, and with the Management Board members and chairmen of the Supervisory Board committees were held.

Furthermore, continuous professional development measures take place on a regular basis within the course of Supervisory Board meetings. In 2019, this included two Risk Committee meetings with an in-depth analysis of current regulatory developments and a plenary meeting of the Supervisory Board assessing the risks and opportunities of digitalisation (particularly cyber, ICT, and IT risks with a focus on the platform business and the application of cloud services). To this end, the Supervisory Board meeting in September in the premises of Aareon AG was used for this purpose. The range of topics to be discussed was also extended accordingly.

In addition to its regular meetings, the Supervisory Board convened for a separate informational meeting, during which auditors PricewaterhouseCoopers provided detailed information on current

changes and deliberations within the regulatory and legal framework, as well as on the potential impact of such trends upon Aareal Bank.

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 2019 financial year. With their enormous continued commitment – and strong motivation – all Group employees have contributed to the Company overcoming all the challenges it faced extremely well, once again making the Company's success possible.

Frankfurt/Main, March 2020

For the Supervisory Board



**Marija Korsch (Chairman)**