

## Remuneration Report

Remuneration is a key element of managing the business, and of managing risk. The remuneration strategy at Aareal Bank Group forms part of the Company's efforts to ensure that employees' remuneration is in line with market conditions and the performance achieved. At the same time, it helps to align the Group's remuneration intentions with current regulatory requirements. When setting remuneration, Aareal Bank Group therefore pays attention to ensuring that the proposed remuneration motivates employees to achieve the Group's strategic business and earnings targets whilst remaining within the boundaries set by the Group's risk appetite and corporate values. Whilst good performance is remunerated accordingly (through a bonus), any breaches of internal or external rules are penalised through sanctions (penalties).

The Chairman of the Supervisory Board and Aareal Bank AG's shareholders discuss remuneration transparency and the remuneration system on a regular basis. To increase the transparency, the current Remuneration Report was revised. The Supervisory Board will continue to address potential adjustments to the remuneration system for the Management Board and related reporting, discussing it with major stakeholders.

### Remuneration system for the Management Board

#### Overview

The Supervisory Board of Aareal Bank AG designs a remuneration system which provides incentives to Management Board members for achieving the Bank's strategic goals and targets, within the framework of the defined risk appetite, risk strategies and in line with the corporate and risk culture, and the values determined in the Code of Conduct. As a "significant institution" which is subject to direct supervision by the European Central Bank, Aareal Bank's scope in setting remuneration is subject to tight restrictions, pursuant to the specific regulatory requirements for banks, pursuant to the

EU Capital Requirements Regulation (2013/575/EU), the German Banking Act (Kreditwesengesetz – KWG), and the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – InstVergV).

#### Remuneration structure

Total target remuneration comprises a fixed component (including ancillary benefits and contributions to retirement provisions) and a variable component, the structure of which is governed by law.

The amount of variable remuneration is based on previously agreed targets. The assessment period for target achievement must be at least three years long, adding a five-year deferral period for at least 60% of variable remuneration, and – pursuant to section 20 (5) of the InstitutsVergV – 50% of variable remuneration shall be disbursed into financial instruments used by companies, i. e., especially shares or share-based instruments to be held for a minimum period of one year. Aareal Bank uses virtual shares as such an instrument. This way, members of the Management Board participate in the Bank's development for up to six years. Performance of virtual shares is capped at 300%.

Due to the target determination period of at least three years, all Aareal Bank's remuneration targets qualify as long-term incentives (LTIs). 50% of the entire variable remuneration is paid in form of share-based instruments.

Aareal Bank cannot merely provision for a holding period for shares after the targets have been achieved – as the German Corporate Governance Code for instance recommends. Regulatory requirements mandate that 60% of variable remuneration is retained. Taking the target determination period together with the deferral and holding periods, the actual amount of variable remuneration for a given financial year is determined over an aggregate period of nine years. Given this very long period, which is prescribed by regulations, the Supervisory Board has refrained from imposing any further conditions or disbursement modalities.

Remuneration element	Description	Reference to strategy and long-term development
<b>Fixed remuneration elements</b>		
Fixed annual salary	<ul style="list-style-type: none"> <li>– Fixed contractually agreed remuneration, paid monthly in the amount of 45 % of the target total remuneration of the Management Board members</li> <li>– Chairman of the Management Board: € 1,425,000</li> <li>– Ordinary Management Board members € 900,000</li> <li>– Members of the Management Board for whom the so-called "newcomer rule" applies: 80 % of an ordinary Management Board member's fixed annual salary</li> </ul>	Guaranteeing the fixed income in the form of a fixed annual salary and ancillary benefits equivalent to scope and complexity of the business and the role and responsibility of the individual members of the Management Board, and competitive on the market.
Ancillary benefits	<ul style="list-style-type: none"> <li>– Company car, which may also be used for private purposes or a flat rate payment if a company car is not opted for</li> <li>– Group accident insurance</li> <li>– Specific costs for security measures</li> </ul>	
Pension obligations	<ul style="list-style-type: none"> <li>– Defined contribution commitment</li> <li>– Annual contributions of 15 % of overall target remuneration of the Management Board members</li> <li>– Members of the Management Board who were appointed prior to 1 January 2013 entitled to claim pension benefits as of the time at which they turn 60</li> <li>– For members of the Management Board who were appointed after 1 January 2013: entitled to claim pension benefits as of the time at which they turn 62</li> <li>– In the event of permanent disability, a Management Board member is entitled to claim benefits prior to turning 60 or 62, respectively</li> </ul>	Granting of pension commitments for financial security in retirement and protection in case of death and disability that are in line with market requirements.
<b>Variable remuneration elements</b>		
	<ul style="list-style-type: none"> <li>– 40 % of the Management Board members' total target remuneration</li> <li>– The reference value for 100 % target achievement amounts to € 1,250,000 for the CEO, and to € 780,000 for ordinary Management Board members</li> <li>– Variable remuneration is determined via the achievement of targets strictly derived from the business and risk strategies (incl. ESG), and which are in line with Aareal Bank's corporate and risk culture</li> <li>– Group (70 %), sectional (15 %) and individual (15 %) targets</li> <li>– Performance measurement based on criteria whose performance is determined over a three-year period</li> <li>– No discretionary components besides the targets derived from the strategy</li> <li>– 80 % of the variable remuneration is paid out on a deferred basis (60 % must be retained for five years; 50 % each of deferred and non-deferred components are converted into virtual shares, to be held additionally for one year)</li> <li>– Maximum overall target achievement level is capped at 150 % of the target value</li> <li>– Maximum variable remuneration cannot exceed fixed remuneration</li> </ul>	<p>Provision of a variable remuneration on the basis of annual financial and non-financial performance criteria that are relevant for Aareal Bank AG's strategy.</p> <p>Provides incentives to Management Board members for implementing the business priorities of Aareal Bank and to act in the interest of the long-term and sustainable positive business development. Group performance targets account for 70 % of overall target achievement, hence prioritising the entire Company's interest, including shareholder expectations.</p> <p>By granting the variable remuneration, Aareal Bank meets the regulatory requirements to which it is subject.</p>
<b>Other rules</b>		
Risk-bearing capacity	Before disbursing the variable remuneration, the Supervisory Board reviews it regarding its compatibility with the risk-bearing capacity.	Disbursing variable remuneration is not meant to threaten Aareal Bank's financial solidity.
Penalty and clawback	<ul style="list-style-type: none"> <li>– All components of the variable remuneration are subject to penalty and clawback provisions.</li> <li>– Admission of an adjustment to outstanding remuneration and/or clawback of remuneration already disbursed in case of clawback events.</li> </ul>	Within the meaning of responsible and sustainable corporate governance, and for the purpose of implementing the regulatory requirements, penalty and clawback rules are a mandatory part of good corporate governance, which in turn is firmly enshrined in Aareal Bank's strategy.

There is no need for an agreement requiring Management Board members to enter into any proprietary investments in Aareal Bank shares, since the Supervisory Board believes that the existing system meets the purpose of such an investment. By granting 50 % of variable remuneration in the form of virtual shares, together with the fact that variable remuneration – assuming a target achievement level of 100 % – is nearly equivalent to the fixed annual salary, Management Board members will have regularly earned virtual shares equivalent to a fixed annual salary level after three years. Given the long deferral periods and the holding periods, this is a value which they usually retain until the end of their term on the Management Board (cf. section "(Virtual) shareholdings of Management Board members (**share ownership**) and share-based remuneration").

Achievement of initial targets is regularly reviewed during the deferral period (**back-testing**), and the level of target achievement originally agreed upon and, as a result, the amount of the variable remuneration is adjusted ex-post if necessary. Variable remuneration for a given financial year may be reduced in the event of inappropriate behaviour, or behaviour in breach of duties – in other words especially due to wilful breaches of internal or external rules, including Aareal Bank Group's Code of Conduct and the values determined therein. In the case of negative performance contributions, as defined in detail by the Supervisory Board, in

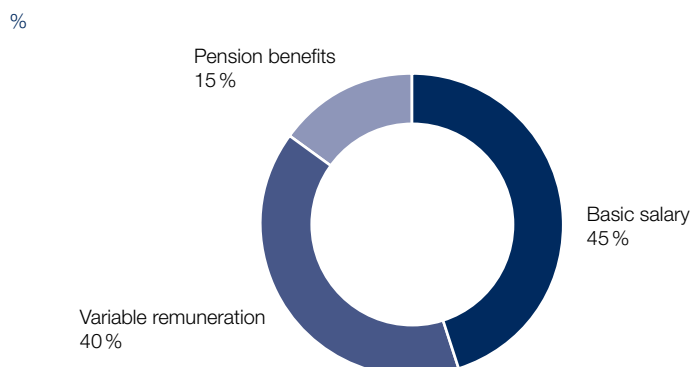
the form of significant losses or material regulatory sanctions, variable remuneration must be reduced to zero (**penalty review**). Where a portion of variable remuneration for such financial year has already been disbursed, this portion may be reclaimed on the basis of corresponding provisions in Management Board contracts (**clawback**). Variable remuneration will no longer be paid in the event of any threats to the Bank's risk-bearing capacity, sufficient capitalisation or liquidity, or if certain minimum profitability indicators are not achieved.

Pursuant to section 25a (5) of the German Banking Act (KWG), the variable remuneration must not exceed the fixed remuneration component for Management Board members, even in the event of maximum target achievement. The option of allowing the Annual General Meeting to approve higher variable remuneration corresponding to up to 200 % of the fixed remuneration component, as set out in section 25a (5) sentence 5 KWG, has not been used for the Management Board members.

The maximum overall target achievement level for determining performance-related, variable remuneration is additionally capped at 150 %. Hence, variable remuneration determined cannot exceed 150 % of the reference level.

The diagram below illustrates the ratio between the fixed and variable components of the remuneration of all members of the Management Board since the 2019 reporting year:

### Management Board remuneration structure



### Fixed remuneration component

The fixed remuneration component of a Management Board member consists of three components – the fixed annual salary, ancillary benefits, and contributions to retirement provisions.

#### Fixed annual salary

Within Aareal Bank AG's corporate governance system, the members of the Bank's Management Board discharge operative functions in addition to their managerial duties. They prepare and implement strategic objectives in cooperation with their em-

ployees. Management Board members are remunerated in line with this comprehensive set of duties.

In order to prevent any motivation for Management Board members to enter into inappropriate risks, in accordance with Aareal Bank Group’s risk culture, fixed remuneration accounts for a significant portion of the total remuneration package, which amounts to € 1,425,000 for the Chairman of the Management Board and to € 900,000 for ordinary Management Board members.

**Ancillary benefits**

Aareal Bank AG provides a company car to Management Board members, which may also be used for private purposes. Management Board members are covered by group accident insurance in case of death or invalidity. In addition, Aareal Bank AG bears the costs incurred for certain security expenses.

**Pensions and retirement benefits**

The benefit regulations as agreed in the service contract apply to the members of the Management Board. All members of the Management Board are granted a defined contribution commitment:

This amounts to € 464,000 p.a. for the Chairman of the Management Board, € 293,000 p.a. in general for ordinary members of the Management Board and thus accounts for 15 % of the target remuneration structure of the Management Board members.

Management Board members who were appointed prior to 1 January 2013 are entitled to claim pension benefits as of the time at which they turn 60. For members of the Management Board who were appointed on or after 1 January 2013, claims arise as of the time at which they turn 62. In the event of permanent disability, a Management Board member is entitled to claim benefits prior to turning 60 or 62, respectively.

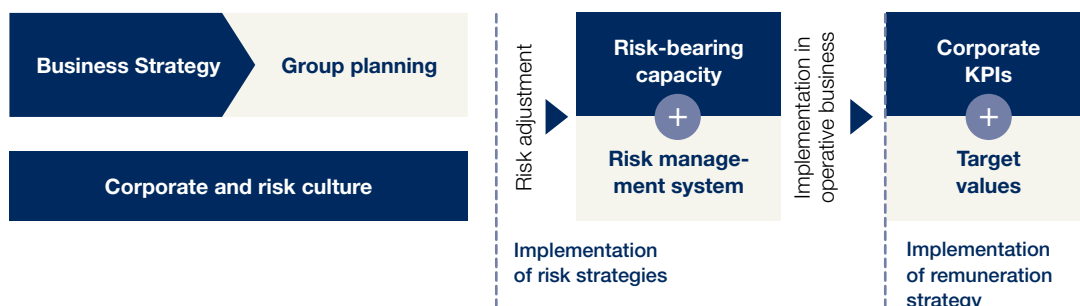
The amounts are subject to a guarantee adjustment of 1 % p.a. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to half-orphans and orphans amount to 10 % and not more than 25 %, respectively.

**Performance-related variable remuneration**

**Remuneration and target derivation system**

As a matter of principle, Aareal Bank derives remuneration targets from its strategic planning for the following years, which was already verified as to its compatibility with the corporate and risk culture, as well as with the Bank’s risk strategies, and adjusted if necessary. Hence, the target parameters (KPIs) derived from the strategy are therefore geared towards the long-term and sustainable development of Aareal Bank Group – as opposed to short-term successes – and are thus aligned with the interests of shareholders, employees and other stakeholders.

**Derivation of remuneration strategy, indicators, and target values**



### Remuneration parameters (ex-ante risk adjustment)

A significant part of Aareal Bank's variable remuneration is governed by law: besides the general requirement – pursuant to the German Public Limited Companies Act (Aktengesetz – "AktG") – that the remuneration system be focused on a sustainable company development, sections 19 and 20 of the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstVergV") require that target achievement be determined on the basis of at least three target levels, and over a minimum assessment period of three years. Accordingly, Aareal Bank AG's remuneration system for the Management Board provides for three target levels of:

- Group performance;
- sectional performance; and
- individual performance.

Target achievement for each target level is determined on the basis of a three-year assessment period.

All targets for Management Board members are geared towards achieving the long-term and sustainable objectives set out in the Bank's business and risk strategies (**pay-for-performance principle**). To measure and monitor target achievement, KPIs are determined annually for the long-term and sustainable targets, and their degree of achievement is assessed at the end of the financial year. The target achievement level for each target level is thus determined by the respective KPI achievement of the past financial year and by the degrees of KPI achievement of the two previous financial years (**three-year assessment basis**).

When setting targets, the Supervisory Board pays attention to defining ambitious yet realistic targets, which are in line with Aareal Bank's risk appetite as well as the corporate and risk culture. The targets comprise quantitative and qualitative components, which are also related to non-financial parameters. Annual target achievement is reported on an ex-post basis (cf. Remuneration of the Management Board, subsection Target achievement).

Amongst other things, the Company's interests are duly taken into account by the fact that **Group targets** are geared towards the KPIs used for corporate management purposes. Consolidated operating profit before taxes is generally chosen as an income target, whereas risk-weighted assets (RWAs) are used as a risk-adjusted target. Specific values are determined annually for both target components, which correspond to a 100 per cent target achievement. These targets at least complied with the corporate objectives communicated to the capital markets in the past, and will continue to do so in the future. The maximum achievement level for target consolidated operating profit is 150 %; for the RWA target, it is 125 %. The overall target achievement level is calculated by multiplying both target values; it is capped at a target achievement level of 150 %.

**Sectional targets** are related to the respective Management Board member's area of responsibility pursuant to the schedule of responsibilities. Accordingly, the Supervisory Board sets targets which the organisational units assigned to the respective Management Board members need to fulfil in order to achieve the strategic objectives of the Company as a whole. These targets may comprise income and budget targets, target values for specific risk indicators, or for implementation of key strategic projects. In line with Aareal Bank Group's management system, sectional targets for Management Board members responsible for Sales units comprise growth enhancement and development of main strategic fields of business and are measured, for example, by the level of specific property portfolio increases or the revenue generated with digital products. In accordance with Aareal Bank Group's risk management system, these income parameters must not exceed the risk appetite as determined by reference to certain limits; hence, there is no incentive to enter into inappropriate risks. Sectional targets for Management Board members responsible for central staff functions or control units are based on other indicators, such as the amount of the administrative expenses. Moreover, within the framework of sectional targets, all members of the Management Board are required to fulfil specific projects in order to implement the Company's

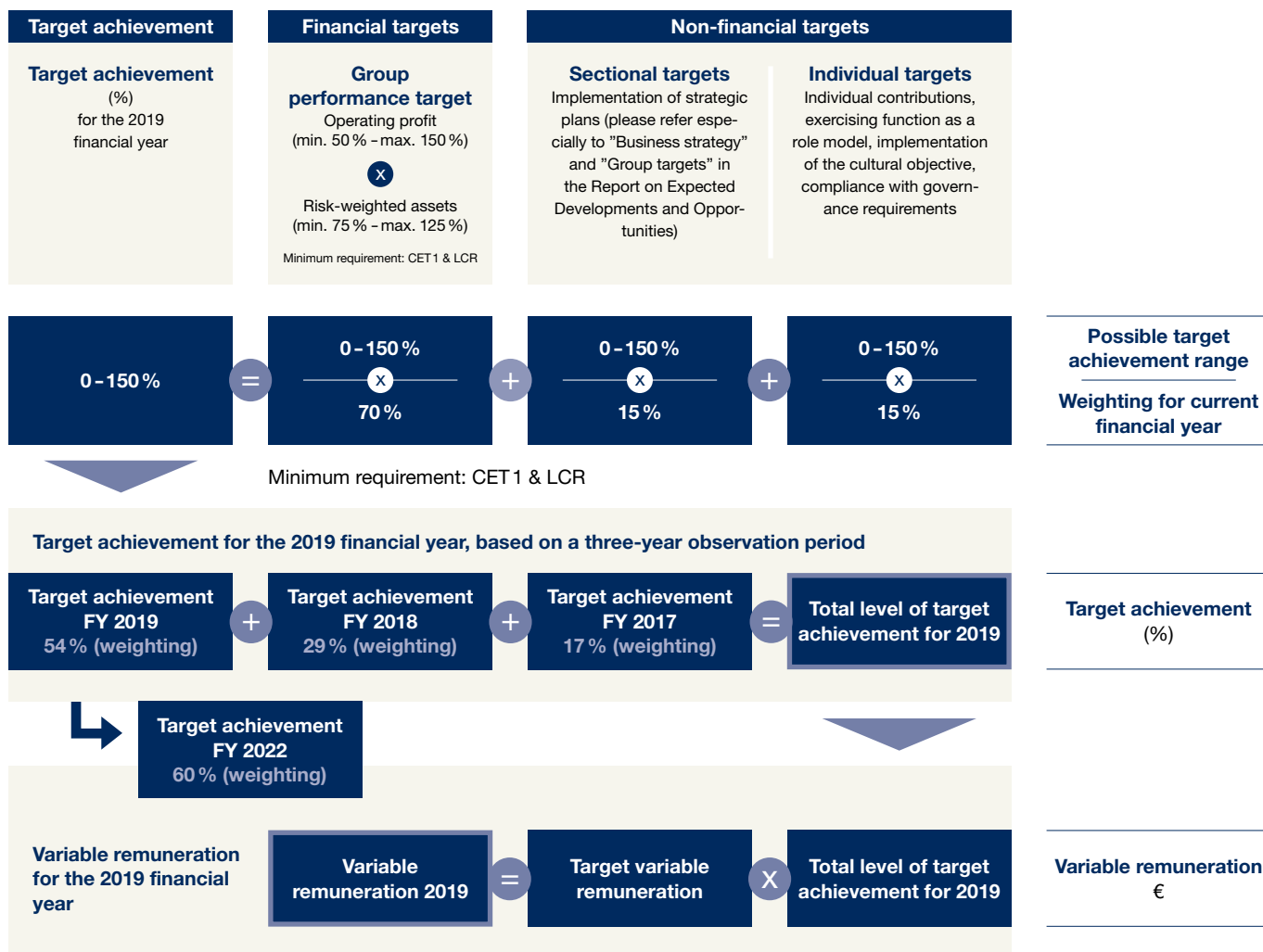
strategy – such as projects for the digitalisation of processes and products, and other targets described in the (Group) Management Report (cf. Report on Expected Developments and Opportunities, chapters Business strategy and Group targets).

**Individual targets** refer to the Management Board members’ individual performance; in this respect, Management Board members are required in particular to exercise their function as role models vis-à-vis staff and the general public (tone from the top). They also need to achieve material sus-

tainability aspects, including organisational and cultural measures, contributing to more cooperation and thus to Aareal Bank’s efficiency.

The business and risk strategies reflect the sustainability approach pursued by Aareal Bank with specific measures which the Supervisory Board requires the Management Board to implement. Hence, sectional as well as individual targets also include **ESG targets** (environmental, social, governance), which includes taking ESG opportunities, managing and reporting on corresponding risks,

**Target achievement and variable remuneration for the 2019 financial year under review**



and developing specific ESG criteria to be considered in the core business. In its targets, Aareal Bank does not separately reflect compliance with statutory regulations, since adherence to internal and external provisions is deemed to be a necessary condition for confidential cooperation; as such, separate target-setting within the scope of variable remuneration is obsolete. Wilful breaches of internal and external rules may rather trigger a so-called penalty-triggering event which in turn can lead to variable remuneration no longer being paid at all, or even to an ex-post reduction or clawback of already granted deferred remuneration components.

#### Performance measurement on individual target levels for the last financial year

The members of the Management Board are responsible – and epitomise – the Company's success. This is also reflected in the **weighting of the target levels**. Accordingly, achieving Group per-

formance targets accounts for the clear majority (70 %) of target achievement. This target level is determined solely on a quantitative basis; performance is therefore calculated based on whether the target value specified by the Supervisory Board for the two components consolidated operating profit before taxes and risk-weighted assets has been achieved.

The other two target levels, the sectional and individual target levels, are weighted at 15% each. Three to four targets are determined per level. As previously described, they are mainly measured against qualitative KPIs, and additional quantitative KPIs only implemented for the Management Board member responsible for Sales units. When assessing the respective KPI, the Supervisory Board does not only simply evaluate whether the target has been achieved, but also whether the performance rendered is in line with the defined

#### Performance measurement on individual target levels

Target	KPI (FY)	Actual achievement	Assessment	Target achievement level (FY)
<b>Group performance target level</b>				
▶ Cons. operating profit before taxes	quantitative	X %		X %
▶ Risk-weighted assets	quantitative	X %		
<b>Divisional target level (exemplary)</b>				
▶ Growth target	quantitative	X %	Performance in line with the defined corporate and risk culture ☑	X %
▶ ESG target	qualitative	X %		
▶ Strategic project	qualitative	X %		
<b>Individual target (exemplary)</b>				
▶ ESG target	qualitative	X %	Performance in line with the defined corporate and risk culture ☑	X %
▶ Efficiency target	qualitative	X %		

corporate and risk culture. In the event that this aspect has a positive or negative influence, the Supervisory Board would disclose it accordingly to the shareholders when talking about target achievement (cf. Remuneration of the Management Board › Target achievement). The diagram on page 7 gives a concise overview of performance measurement.

### Overall target achievement (3-year measurement)

The principle of multiple-year assessment was applied only to the Group performance targets until 2018, and initially extended to remuneration determined at all target levels for the 2019 financial year. To set ambitious targets and a strong incentive for successful Management Board work, target achievement levels are incorporated at different levels over time. Following a transition period, the most recent reporting year will be weighted at 60%, the preceding one at 30%, and the oldest year in the assessment period at 10%. The transition phase ends with the variable remuneration for the 2021 financial year. With regard to the variable remuneration for the year under review, reporting year 2019 is weighted at 54%, financial year 2018 with 29% and financial year 2017 with 17%.

### Deferred disbursement, through retention of variable remuneration components and virtual shares

To ensure that the remuneration system provides long-term incentives, the initial value for variable remuneration – as determined according to the principles set out above – is awarded at the end of the financial year, according to the following principles:

- After confirmation of the total target achievement level by the Supervisory Board, 20% of the variable remuneration are disbursed in cash (**cash bonus**).
- After confirmation of the total target achievement level by the Supervisory Board, a further 20% of the variable remuneration is granted in the form of virtual shares (**share bonus with holding period**) and forms part of the share bonus plan.

- 30% of the variable remuneration is retained (**cash deferral**), and disbursed in cash – pro rata temporis – over a five-year deferral period.
- The remaining 30% of the variable remuneration is credited, as a cash amount, to a virtual account maintained on behalf of each Management Board member, and forms part of the Share Deferral Plan (**share deferral with holding period**).

This means that deferred disbursement applies to 80% of variable remuneration determined, for up to six years.

### Five-year retention period

For the portion of performance-related remuneration that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one fifth of the amount in the five years following the determination of the performance-related remuneration (cf. "Ex-post review of target achievement and behaviour of the Management Board").

Until the end of each respective deferral period, there is no right to the relevant remuneration components. No interest or dividends will accrue. Once the deferred remuneration components for Management Board members are vested, the cash deferral is paid out in cash and the share deferral is converted into virtual shares, subject to a one-year holding period.

### Share bonus with holding period

The portion of the performance-related remuneration which is subject to the share bonus plan will be converted into an equivalent number of virtual shares. The calculation of the number of virtual shares is based on the weighted average price on the basis of five (Xetra®) exchange trading days after publication of the preliminary results for the financial year for which the share bonus is granted (subscription price). The date of publication of the preliminary results is used as the reference date.

The virtual shares so determined are posted to a virtual account and are held for one year. They



will be converted, automatically and without delay, into a cash amount and disbursed immediately after the Supervisory Board meeting which passes the resolution on the adoption of the annual financial statements for the first financial year following the financial year for which the virtual shares were granted (“holding period”). The conversion will be effected using the weighted average price calculated on the basis of the five (Xetra®) exchange trading days following the publication of the preliminary results for the year preceding the payout.

The payout amount of the share bonus of a given financial year may vary depending on the share price development and has been limited to a maximum of 300 % of the agreed initial value (ceiling).

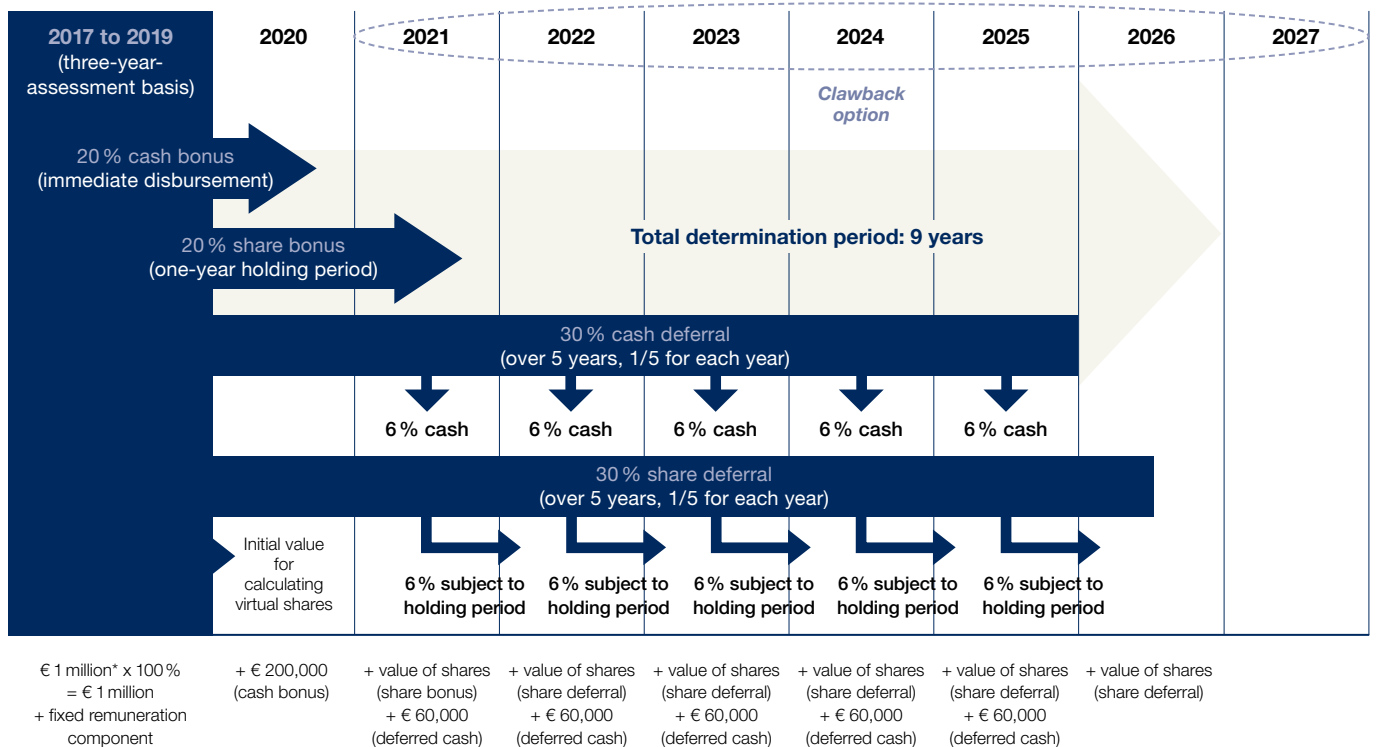
**Share Deferral Plan**

In the five years following determination of performance-related remuneration (deferral period), the Supervisory Board decides whether in each case a fifth of the share deferral should be converted into virtual shares.

The rules of the Share Bonus Plan are applicable to the calculation of the number of virtual shares, subject to the proviso that the weighted average price calculated on the basis of the five (Xetra®) exchange trading days following the publication of the preliminary results for the financial year in respect of which variable remuneration was determined. This is designed to preserve the reference to the original assessment period.

**Sample disbursement methodology, based on 100 % target achievement for the 2019 financial year**

The Supervisory Board regularly examines, at the beginning of each year and prior to disbursement or conversion into virtual shares, whether the original target achievement still applies, and whether a penalty-triggering event has occurred which requires reduction or clawback of variable remuneration.



\*For the sake of simplicity of this sample presentation, variable remuneration for a 100 % target achievement level was set to a notional value of € 1 million.

The ceiling value is applicable for the conversion of the virtual shares, with the proviso that the pay-out amount following the conversion of the virtual shares of a tranche into a cash payment must not exceed 300 % of the share deferral (30 % of the initial value of performance-related remuneration) set for the financial year in question (which may have been reduced following the application of a penalty rule or as a result of an instruction by BaFin).

### Ex-post review of target achievement and behaviour of the Management Board

#### Backtesting regarding retained remuneration components

Before the Supervisory Board decides on conversion or disbursement of retained remuneration components, it reviews whether the target achievement level originally agreed upon is still held to be correctly determined, based on current knowledge. For example, where an indicator used to determine remuneration needs to be adjusted ex-post, this can also reduce the variable remuneration determined – and hence, result in a reduction in the amount retained. If it turns out, at a later date, that a project did not achieve the objectives on which the original remuneration calculation was based, then the variable remuneration can also be reduced ex-post.

#### Penalty review

When determining variable remuneration, as well as prior to every disbursement of cash components or conversion into virtual shares, the Supervisory Board verifies whether there are any reasons, besides the achievement of targets, for reducing variable remuneration, possibly to zero.

Such **penalty-triggering events** include inappropriate behaviour, behaviour in breach of duties, or negative performance contributions of Management Board members, which cannot be offset through positive performance contributions at other levels. For example, wilful breaches of the Code of Conduct, the corporate values determined therein and/or internal and/or external rules, conduct that damages the Bank's reputation, or other misconduct may give rise to a penalty. If any retained performance-related remuneration components are

not awarded, or only in part, the remaining sum is forfeited, i.e. it is not carried forward into subsequent years. In the case of **negative performance** contributions in the form of significant losses or material regulatory sanctions, variable remuneration must be reduced to zero.

#### Clawbacks

Starting with variable remuneration for the 2018 financial year, agreements with Management Board members ensure that any variable remuneration already disbursed must be reclaimed in the event of negative performance contributions (penalty review).

#### Restrictions and additional provisions

##### Impact of special external conditions (modifiers)

The Supervisory Board is entitled to increase or decrease the level of target achievement for the Group component by up to 20 percentage points (a so-called modifier) in the event of unforeseeable changes to the economic environment which are beyond the Management Board's influence or control (i.e. only on the basis of external conditions). This will not affect the restrictions set out below, especially the 150 % cap, which cannot be circumvented by the modifier.

##### Hedging ban

The contracts of Management Board members prohibit them from undertaking to limit or override the risk orientation of their remuneration by initiating personal protection or countermeasures (hedging ban).

##### Additional constraints regarding target achievement

For the purpose of additional risk adjustment, for each financial year, the Supervisory Board sets lower thresholds in order to secure adherence of the regulatory capital adequacy and liquidity (Liquidity Coverage Ratio – LCR). For capital adequacy, this comprises a target ratio for Common Equity Tier I capital (CET I ratio), for liquidity the adherence to the statutory Liquidity Coverage Ratio (LCR). No variable remuneration will be determined for any

financial year where any of these two targets has not been achieved.

#### Risk-bearing capacity and parallel interest with shareholders

To preserve the Company's continued survival (and hence, shareholders' investment), variable remuneration is generally subject to a review performed by the Supervisory Board pursuant to section 7 of the InstVergV. This review is based on the Recovery Plan (which is mandatory for Aareal Bank as a significant institution) and the thresholds defined therein. These thresholds include achieving minimum profitability indicators such as the return on equity. In the event of these so-called "early warning thresholds" being reached, the Supervisory Board will decide, in its reasonable discretion, whether variable remuneration for the Management Board needs to be reduced. The total amount of variable remuneration is set to zero if Aareal Bank's risk-bearing capacity is no longer sufficiently ensured. In addition, pursuant to section 45 (2) sentence 1 no. 5a KWG, the German Federal Financial Supervisory Authority (BaFin) may impose further conditions or restrictions, or may instruct that the total amount of variable remuneration be cancelled.

#### Rules governing severance pay

The agreements concluded with members of the Management Board do not include any obligation to make severance payments in cases involving the early termination of employment relationships (**rescission of the agreement without good cause**). However, severance payments may be included in individual termination agreements, provided that these are specified in accordance with regulatory requirements, in particular with the InstVergV. The agreements concluded with members of the Management Board state that, in the event of the premature termination of their term on the Management Board without good cause, payments, including ancillary benefits, made to the Management Board member in question must not exceed twice the annual remuneration (severance cap) and must not constitute remuneration for more than the remaining term of the employment contract.

In the case of a compulsory loss of a Management Board position (**change of control**), the Management Board members are to be paid the fixed remuneration component, the performance-based remuneration, as well as the contractually agreed benefits for the remainder of the term of the contract. The performance-related remuneration is subject to the above-mentioned conditions; that is, in particular the deferral periods, the holding periods and the penalty rules are applicable.

In addition, the extent to which sectional and individual targets were achieved on average during the last three years prior to the termination of the Management Board position will be used as a basis to determine the target achievement level for the remaining term of the contract. In the case of a voluntary termination of the Management Board position following a change of control, the members of the Management Board merely receive the fixed remuneration and the contractually agreed benefits for the remainder of the contractual term. In this case, there is no entitlement to the variable remuneration component.

The total amount of payments in the case of termination due to a change of control is limited to 150% of the severance cap of an employment contract.

#### Newcomer rule

The Supervisory Board intends to remunerate newly-appointed members who have not previously held a position on the Management Board of a comparable institution in line with an entry level of 80% of fixed and variable remuneration for ordinary members of the Management Board, reflecting lack of experience. If the Management Board member is re-appointed, the Supervisory Board will also decide upon the potential increase of remuneration to the normal level. However, since the Supervisory Board decided upon the specific selection as well as remuneration of individual Management Board members, within its reasonable discretion, and taking the Company's specific needs into account, it is possible to diverge from this rule.

When implementing the InstVergV, as amended on 3 July 2017, the Supervisory Board decided to

only gradually build up the three-year assessment period; in the Supervisory Board's view, newly-appointed members of the Management Board should not be held accountable for past developments. In accordance with the regulatory requirements pursuant to the InstVergV, the deferral period is extended for periods with a shortened assessment period. Hence, for the first year, the assessment period is only one year, with the deferral period extended from five to seven years. For the second year, the assessment period is extended to two years and the deferral period shortened to six years. The remuneration system for the Management Board will be applied, as provided, from the third year onwards.

#### Annual examination of appropriateness

The Supervisory Board regularly (at least annually) checks, whether Management Board and employee remuneration is appropriate (cf. remuneration governance). To evaluate whether the Management Board's specific total remuneration is in line with common practice/that of other companies, the Supervisory Board has set two comparison groups. The companies are selected based on Aareal Bank's market position (particularly sector, size, country). Therefore, the comparison groups are MDAX companies and banks of a similar size.

## Remuneration of the Management Board

### Measures in the 2019 financial year

#### Remuneration increase for two Management Board members

In the 2019 financial year, the two ordinary Management Board members Christiane Kunisch-Wolff and Christof Winkelmann began their second term of office as Management Board members. Since they had previously both been subject to the newcomers rule, their remuneration was correspondingly increased with effect from their second term of office.

#### Realignment of the total remuneration structure

As mentioned above, the Supervisory Board has decided to realign the remuneration structure for Management Board members as of 2019; as such, basic remuneration will account for 45 %, retirement benefits for 15 %, and variable remuneration for 40 % of total target remuneration. Within the scope of these changes, the fixed remuneration elements were increased for all members of the Management Board, whilst their target variable remuneration elements were lowered. No total target remuneration change was associated with these amendments.

	Hermann J. Merkens	Marc Hess <sup>1)</sup>	Dagmar Knopek	Christiane Kunisch-Wolff	Thomas Ortmanns	Christof Winkelmann
%						
<b>2019 Overall Bank performance</b>	<b>100.0</b>					
Sectional targets	100.0	100.0	100.0	100.0	100.0	100.0
Individual targets	110.0	110.0	100.0	100.0	100.0	110.0
<b>Overall target achievement for 2019, based on a three-year observation period</b>	<b>103.1</b>	<b>101.1</b>	<b>100.4</b>	<b>102.2</b>	<b>102.1</b>	<b>103.3</b>
<b>Amount of variable remuneration (€)</b>	<b>1,289,126</b>	<b>788,190</b>	<b>783,354</b>	<b>768,770</b>	<b>796,224</b>	<b>733,882</b>

<sup>1)</sup> Given that Mr Hess joined the Bank in 2018, no target achievement levels for the year 2017 are considered in his case.

## Target achievement in the 2019 financial year

### Target achievement

The assessment of the single targets regarding variable remuneration in the year under review yielded the following results.

### Group performance targets 2019

As mentioned, consolidated operating profit (as communicated to shareholders) and a target value for RWAs were chosen as income targets, both of which boasted 100 % target achievement.

### Sectional and individual targets 2019

Notwithstanding the Management Board's overall responsibility for the Bank's management, specific sectional and individual targets were agreed upon for each Management Board member. Whilst the individual targets reflect especially the individual contributions of each Management Board member, the sectional targets are meant to reflect the target achievement of the respective Management Board member's area of responsibility. Thus, the strategic initiatives and measures defined and implemented in the respective area of responsibility are the main basis for determining sectional targets. Furthermore, various ESG targets (derived from the business strategy) have been agreed upon on both levels.

Within the scope of their sectional and individual targets, all Management Board members were required to interlink the different processes in their areas of responsibility to an even greater extent (for Mr Merkens, e.g., the even more efficient interlinking of strategy and risk processes), to adhere to cost plans, and to promote the risk and corporate culture. The latter was reviewed within the course of a broad-based employee survey conducted in 2019, leading to measures aimed at promoting the Bank's risk and corporate culture. Implementation of these measures shall be reviewed within the scope of the individual targets 2020.

Apart from that, the following sectional and/or individual targets were defined for the individual Management Board members:

### Hermann-Josef Merkens

Mr Merkens' targets include: increasing flexibility and efficiency of the Group organisation, improving the statement of financial position and strengthening equity, whilst expanding the business along the strategic benchmark, strengthening and developing the Aareal 2020 strategy, and preparing the strategic programme following Aareal 2020. The latter was achieved through "Aareal Next Level".

### Marc Hess

Mr Hess' sectional and individual targets included integrating Düsseldorfer Hypothekenbank AG (now DHB Verwaltungs AG) – achieved during the year –, developing the concept for and implementing the process to select a new external auditor to be proposed to the Annual General Meeting (appointment to review, if applicable, the first-quarter interim financial information 2021), and adjusting the funding mix.

### Christiane Kunisch-Wolff

Ms Kunisch-Wolff's targets comprised achieving closer links with supervisory authorities, optimising risk management-related management impulses relevant to the Group, and setting up Aareal Bank to anticipate (and plan in a timely manner) future and existing requirements, including the implementation of core regulatory projects.

### Dagmar Knopek

Ms Knopek targeted the reduction of the NPL portfolio and the promotion of digitalisation initiatives in her area of responsibility.

### Thomas Ortmanns

Mr Ortmanns' targets concerned, among other things, implementing the digitalisation strategy, measures to expand the commission-based business in the housing industry, improving Aareon's results, and managing the implementation of various IT projects.

### Christof Winkelmann

Mr Winkelmann's sectional targets included implementing the business plan in the business division he is responsible for, and further improving the

syndication process. These targets were measured, among other things, by considering specific country or property type portfolio volumes.

### No penalty-triggering events

In addition, compliance with governance provisions, i. e., with internal and external rules, as well as with the corporate values determined in Aareal Bank Group's Code of Conduct, is assessed within the scope of the annual penalty review. However, no such penalty-triggering events were found.

### Total remuneration

In accordance with German commercial law in conjunction with GAS 17, the following table shows fixed and other remuneration for members of the Management Board, variable remuneration determined for the respective financial year (total amount, plus a breakdown into its components),

as well as the total target achievement levels, as determined by the Supervisory Board.

No benefits were granted to any member of the Management Board by third parties with respect to his/her Management Board activities during the year under review. Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 2 million (2018: € 3 million).

### (Virtual) shareholdings of Management Board members and share-based remuneration

Within Aareal Bank's remuneration system for Management Board members, the reference value for 100% target achievement is slightly below the respective basic salary. Given that 50% of variable remuneration is disbursed in the form of virtual shares, Management Board members typically earn

	Current year	Fixed remuneration	Cash component		Share-based component		Target achievement level <sup>2)</sup>	Total	Ancillary benefits	Total remuneration
			Cash bonus	Cash-deferral <sup>1)</sup>	Share bonus	Share deferral <sup>1)</sup>				
€										
Hermann J. Merkens	2019	1,425,000	257,825	386,738	257,825	386,738	103.1 %	1,289,126	36,079	2,750,205
	2018	1,300,000	304,248	456,372	304,248	456,372	108.7 %	1,521,240	34,024	2,855,264
Marc Hess <sup>3)</sup>	2019	900,000	157,638	236,457	157,638	236,457	101.1 %	788,190	39,855	1,728,045
	2018	220,000	40,329	60,493	40,329	60,493	100.0 %	201,644	3,244	424,888
Dagmar Knopek	2019	900,000	156,671	235,006	156,671	235,006	100.4 %	783,354	56,012	1,739,366
	2018	880,000	164,256	246,384	164,256	246,384	102.7 %	821,280	19,598	1,720,878
Christiane Kunisch-Wolff	2019	859,957	153,754	230,631	153,754	230,631	102.2 %	768,770	34,797	1,663,524
	2018	704,000	139,085	208,627	139,085	208,627	108.7 %	695,424	25,466	1,424,890
Thomas Ortmanns	2019	900,000	159,245	238,867	159,245	238,867	102.1 %	796,224	40,678	1,736,902
	2018	880,000	173,856	260,784	173,856	260,784	108.7 %	869,280	18,504	1,767,784
Christof Winkelmann	2019	802,000	146,776	220,165	146,776	220,165	103.3 %	733,882	38,245	1,574,127
	2018	704,000	139,085	208,627	139,085	208,627	108.7 %	695,424	70,329	1,469,753
<b>Total</b>	<b>2019</b>	<b>5,786,957</b>	<b>1,031,909</b>	<b>1,547,864</b>	<b>1,031,909</b>	<b>1,547,864</b>	<b>102.1 %</b>	<b>5,159,546</b>	<b>245,666</b>	<b>11,192,169</b>
	<b>2018</b>	<b>4,688,000</b>	<b>960,859</b>	<b>1,441,287</b>	<b>960,859</b>	<b>1,441,287</b>	<b>107.2 %</b>	<b>4,804,292</b>	<b>171,165</b>	<b>9,663,457</b>

<sup>1)</sup> The deferrals shown are subject to the criteria on retention of variable remuneration components and penalty criteria, as set out above.

<sup>2)</sup> 2018: excluding the positive non-recurring effect (negative goodwill) from the acquisition of former Düsseldorf

<sup>3)</sup> Marc Hess was appointed to the Management Board on 1 October 2018.

virtual shares amounting to more than 100 % of their fixed annual salary at the latest after three years of service, provided that they also earn variable remuneration in subsequent years, the equivalent value of the virtual shares will not fall below this 100 % threshold until the end of their term on the Management Board.

The following table shows the portion of the variable component attributable to share-based payment arrangements as well as the corresponding number of virtual shares granted in 2019 and 2018, respectively – as well as the number of virtual shares already held as at the reporting date.

	Year	Share-based payment		Total quantity of virtual shares held (31 December) Quantity (number)
		Value (€)	Quantity (number) <sup>1)</sup>	
Hermann J. Merkens	2019	644,563	21,308	58,753
	2018	760,620	28,182	55,340
Mark Hess <sup>2)</sup>	2019	394,095	13,028	1,405
	2018	100,822	3,736	–
Dagmar Knopek	2019	391,677	12,948	35,689
	2018	410,640	15,215	36,772
Christiane Kunisch-Wolff	2019	384,385	12,707	18,504
	2018	347,712	12,883	9,726
Thomas Ortmanns	2019	398,112	13,161	35,942
	2018	434,640	16,104	38,112
Christof Winkelmann	2019	366,941	12,130	15,751
	2018	347,712	12,883	7,659
<b>Gesamt</b>	<b>2019</b>			<b>166,044</b>
	<b>2018</b>			<b>147,609</b>

<sup>1)</sup> The stated number of virtual shares granted for 2019 is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2019 (€ 30.25). The final conversion rate may only be determined after publication of preliminary results for 2019. The stated number of virtual shares granted for 2018 differs slightly from the previous year's figure since the former was calculated using a final conversion rate of € 28.71.

<sup>2)</sup> Marc Hess was appointed to the Management Board on 1 October 2018.

## Target remuneration granted

The following table shows the target remuneration (fixed annual salary and variable remuneration based on a 100 % target achievement) for the year under review, in accordance with articles 4.2.4 and 4.2.5 of the German Corporate Governance Code:

Remuneration granted	Hermann J. Merkens – Chairman of the Management Board			
	2018	2019	2019 (min) <sup>1)</sup>	2019 (max) <sup>2)</sup>
€				
Fixed remuneration	1,300,000	1,425,000	1,425,000	1,425,000
Ancillary benefits	34,024	36,079	36,079	36,079
<b>Total</b>	<b>1,334,024</b>	<b>1,461,079</b>	<b>1,461,079</b>	<b>1,461,079</b>
One-year variable remuneration	280,000	250,000	–	375,000
Multi-year variable remuneration				
Cash deferral 2018 (March 2024)	420,000	–	–	–
Share bonus 2018 (March 2019)	280,000	–	–	–
Share deferral 2018 (March 2024)	420,000	–	–	–
Cash deferral 2019 (March 2025)	–	375,000	–	562,000
Share bonus 2019 (March 2020)	–	250,000	–	375,000
Share deferral 2019 (March 2025)	–	375,000	–	562,000
<b>Total</b>	<b>1,400,000</b>	<b>1,250,000</b>	<b>–</b>	<b>1,874,000</b>
Benefit expense	847,178	2,297,353	2,297,353	2,297,353
<b>Total remuneration</b>	<b>3,581,202</b>	<b>5,008,432</b>	<b>3,758,432</b>	<b>5,632,432</b>

Remuneration granted	Mark Hess <sup>3)</sup>			
	2018	2019	2019 (min) <sup>1)</sup>	2019 (max) <sup>2)</sup>
€				
Fixed remuneration	220,000	900,000	900,000	900,000
Ancillary benefits	3,244	39,855	39,855	39,855
<b>Total</b>	<b>223,244</b>	<b>939,855</b>	<b>939,855</b>	<b>939,855</b>
One-year variable remuneration	40,329	156,000	–	234,000
Multi-year variable remuneration				
Cash deferral 2018 (March 2026)	60,493	–	–	–
Share bonus 2018 (March 2019)	40,329	–	–	–
Share deferral 2018 (March 2026)	60,493	–	–	–
Cash deferral 2019 (March 2026)	–	234,000	–	351,000
Share bonus 2019 (March 2020)	–	156,000	–	234,000
Share deferral 2019 (March 2026)	–	234,000	–	351,000
<b>Total</b>	<b>201,644</b>	<b>780,000</b>	<b>–</b>	<b>1,170,000</b>
Benefit expense	148,056	754,139	754,139	754,139
<b>Total remuneration</b>	<b>572,944</b>	<b>2,473,994</b>	<b>1,693,994</b>	<b>2,863,994</b>

<sup>1)</sup> Minimum amount of the remuneration component granted in the year under review

<sup>2)</sup> Maximum amount of the remuneration component granted in the year under review

<sup>3)</sup> Marc Hess was appointed to the Management Board on 1 October 2018.



Remuneration granted	Dagmar Knopek			
	2018	2019	2019 (min) <sup>1)</sup>	2019 (max) <sup>2)</sup>
€				
Fixed remuneration	880,000	900,000	900,000	900,000
Ancillary benefits	19,598	56,012	56,012	56,012
<b>Total</b>	<b>899,598</b>	<b>956,012</b>	<b>956,012</b>	<b>956,012</b>
One-year variable remuneration	160,000	156,000	–	234,000
Multi-year variable remuneration				
Cash deferral 2018 (March 2024)	240,000	–	–	–
Share bonus 2018 (March 2019)	160,000	–	–	–
Share deferral 2018 (March 2024)	240,000	–	–	–
Cash deferral 2019 (March 2025)	–	234,000	–	351,000
Share bonus 2019 (March 2020)	–	156,000	–	234,000
Share deferral 2019 (March 2025)	–	234,000	–	351,000
<b>Total</b>	<b>800,000</b>	<b>780,000</b>	<b>–</b>	<b>1,170,000</b>
Benefit expense	488,691	780,217	780,217	780,217
<b>Total remuneration</b>	<b>2,188,289</b>	<b>2,516,229</b>	<b>1,736,229</b>	<b>2,906,229</b>

Remuneration granted	Christiane Kunisch-Wolff			
	2018	2019	2019 (min) <sup>1)</sup>	2019 (max) <sup>2)</sup>
€				
Fixed remuneration	704,000	859,957	859,957	859,957
Ancillary benefits	25,466	34,797	34,797	34,797
<b>Total</b>	<b>729,466</b>	<b>894,754</b>	<b>894,754</b>	<b>894,754</b>
One-year variable remuneration	128,000	150,400	–	225,600
Multi-year variable remuneration				
Cash deferral 2018 (March 2024)	192,000	–	–	–
Share bonus 2018 (March 2019)	128,000	–	–	–
Share deferral 2018 (March 2024)	192,000	–	–	–
Cash deferral 2019 (March 2025)	–	225,600	–	338,400
Share bonus 2019 (March 2020)	–	150,400	–	225,600
Share deferral 2019 (March 2025)	–	225,600	–	338,400
<b>Total</b>	<b>640,000</b>	<b>752,000</b>	<b>–</b>	<b>1,128,000</b>
Benefit expense	422,142	826,324	826,324	826,324
<b>Total remuneration</b>	<b>1,791,608</b>	<b>2,473,078</b>	<b>1,721,078</b>	<b>2,849,078</b>

<sup>1)</sup> Minimum amount of the remuneration component granted in the year under review

<sup>2)</sup> Maximum amount of the remuneration component granted in the year under review

Remuneration granted	Thomas Ortmanns			
	2018	2019	2019 (min) <sup>1)</sup>	2019 (max) <sup>2)</sup>
€				
Fixed remuneration	880,000	900,000	900,000	900,000
Ancillary benefits	18,504	40,678	40,678	40,678
<b>Total</b>	<b>898,504</b>	<b>940,678</b>	<b>940,678</b>	<b>940,678</b>
One-year variable remuneration	160,000	156,000	–	234,000
Multi-year variable remuneration				
Cash deferral 2018 (March 2024)	240,000	–	–	–
Share bonus 2018 (March 2019)	160,000	–	–	–
Share deferral 2018 (March 2024)	240,000	–	–	–
Cash deferral 2019 (March 2025)	–	234,000	–	351,000
Share bonus 2019 (March 2020)	–	156,000	–	234,000
Share deferral 2019 (March 2025)	–	234,000	–	351,000
<b>Total</b>	<b>800,000</b>	<b>780,000</b>	<b>–</b>	<b>1,170,000</b>
Benefit expense	621,605	1,610,588	1,610,588	1,610,588
<b>Total remuneration</b>	<b>2,320,109</b>	<b>3,331,266</b>	<b>2,551,266</b>	<b>3,721,266</b>

Remuneration granted	Christof Winkelmann			
	2018	2019	2019 (min) <sup>1)</sup>	2019 (max) <sup>2)</sup>
€				
Fixed remuneration	704,000	802,000	802,000	802,000
Ancillary benefits	70,329	38,245	38,245	38,245
<b>Total</b>	<b>774,329</b>	<b>840,245</b>	<b>840,245</b>	<b>840,245</b>
One-year variable remuneration	128,000	142,115	–	213,173
Multi-year variable remuneration				
Cash deferral 2018 (March 2024)	192,000	–	–	–
Share bonus 2018 (March 2019)	128,000	–	–	–
Share deferral 2018 (March 2024)	192,000	–	–	–
Cash deferral 2019 (March 2025)	–	213,173	–	319,759
Share bonus 2019 (March 2020)	–	142,115	–	213,173
Share deferral 2019 (March 2025)	–	213,173	–	319,759
<b>Total</b>	<b>640,000</b>	<b>710,576</b>	<b>–</b>	<b>1,065,864</b>
Benefit expense	498,191	1,435,786	1,435,786	1,435,786
<b>Total remuneration</b>	<b>1,912,520</b>	<b>2,986,607</b>	<b>2,276,031</b>	<b>3,341,895</b>

<sup>1)</sup> Minimum amount of the remuneration component granted in the year under review

<sup>2)</sup> Maximum amount of the remuneration component granted in the year under review

## Remuneration paid

The following table shows the remuneration disbursed in the year under review, as defined in sections 4.2.4 and 4.2.5 of the German Corporate Governance Code. It also outlines disbursements under variable remuneration components related to multiple years which expired during the year under review:

Remuneration paid	Hermann J. Merkens Chairman of the Management Board		Marc Hess <sup>1)</sup>		Dagmar Knopek		Christiane Kunisch-Wolff	
	2019	2018	2019	2018	2019	2018	2019	2018
€								
Fixed remuneration	1,425,000	1,300,000	900,000	220,000	900,000	880,000	859,957	704,000
Ancillary benefits	36,079	34,024	39,855	3,244	56,012	19,598	34,797	25,466
<b>Total</b>	<b>1,461,079</b>	<b>1,334,024</b>	<b>939,855</b>	<b>223,244</b>	<b>956,012</b>	<b>899,598</b>	<b>894,754</b>	<b>729,466</b>
One-year variable remuneration	304,248	343,994	40,329	–	164,256	196,568	139,085	157,254
Multi-year variable remuneration	–	–	–	–	–	–	–	–
Cash deferral 2014 (April 2018)	–	103,957	–	–	–	103,711	–	–
Cash deferral 2015 (April 2018)	–	151,605	–	–	–	107,621	–	–
Cash deferral 2016 (April 2018)	–	189,653	–	–	–	106,606	–	67,939
Share bonus 2014 (April 2018)	–	199,945	–	–	–	199,471	–	–
Share deferral 2012 (April 2018)	–	249,699	–	–	–	–	–	–
Share deferral 2013 (April 2018)	–	135,779	–	–	–	79,204	–	–
Share deferral 2014 (April 2018)	–	100,872	–	–	–	100,633	–	–
Cash deferral 2015 (April 2019)	152,530	–	–	–	108,278	–	–	–
Cash deferral 2016 (April 2019)	190,450	–	–	–	107,054	–	68,224	–
Cash deferral 2017 (April 2019)	172,613	–	–	–	98,638	–	78,910	–
Share bonus 2015 (April 2019)	312,384	–	–	–	221,754	–	–	–
Share deferral 2013 (April 2019)	101,264	–	–	–	59,071	–	–	–
Share deferral 2014 (April 2019)	74,734	–	–	–	74,557	–	–	–
Share deferral 2015 (April 2019)	157,145	–	–	–	111,553	–	–	–
Dividends	128,964	138,349	2,950	–	78,046	91,929	41,361	24,316
<b>Total</b>	<b>1,594,332</b>	<b>1,613,853</b>	<b>43,279</b>	<b>–</b>	<b>1,023,207</b>	<b>985,743</b>	<b>327,580</b>	<b>249,509</b>
Benefit expense	2,297,353	847,178	754,139	148,056	780,217	488,691	826,324	422,142
<b>Total remuneration</b>	<b>5,352,764</b>	<b>3,795,055</b>	<b>1,737,273</b>	<b>371,300</b>	<b>2,759,436</b>	<b>2,374,032</b>	<b>2,048,658</b>	<b>1,401,117</b>

Remuneration paid	Thomas Ortmanns		Christof Winkelmann		Dr Wolf Schumacher <sup>2)</sup>		Dirk Große Wördemann <sup>3)</sup>	
	2019	2018	2019	2018	2019	2018	2019	2018
€								
Fixed remuneration	900,000	880,000	802,000	704,000	–	–	–	–
Ancillary benefits	40,678	18,504	38,245	70,329	–	–	–	–
<b>Total</b>	<b>940,678</b>	<b>898,504</b>	<b>840,245</b>	<b>774,329</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
One-year variable remuneration	173,856	194,168	139,085	159,174	–	–	–	–
Multi-year variable remuneration	–	–	–	–	–	–	–	–
Cash deferral 2014 (April 2018)	–	103,135	–	–	–	181,493	–	–

<sup>1)</sup> Marc Hess was appointed to the Management Board on 1 October 2018.

<sup>2)</sup> Dr Wolf Schumacher resigned with effect from 30 September 2015.

<sup>3)</sup> Dirk Große Wördemann resigned with effect from 31 May 2013.

Remuneration paid	Thomas Ortmanns		Christof Winkelmann		Dr Wolf Schumacher <sup>2)</sup>		Dirk Große Wördemann <sup>3)</sup>	
	2019	2018	2019	2018	2019	2018	2019	2018
€								
Cash deferral 2015 (April 2018)	–	106,973	–	–	–	139,658	–	–
Cash deferral 2016 (April 2018)	–	107,249	–	42,739	–	–	–	–
Share bonus 2014 (April 2018)	–	198,365	–	–	–	349,075	–	–
Share deferral 2012 (April 2018)	–	249,699	–	–	–	421,271	–	202,720
Share deferral 2013 (April 2018)	–	135,779	–	–	–	229,075	–	–
Share deferral 2014 (April 2018)	–	100,075	–	–	–	176,108	–	–
Cash deferral 2015 (April 2019)	107,626	–	–	–	140,510	–	–	–
Cash deferral 2016 (April 2019)	107,669	–	42,918	–	–	–	–	–
Cash deferral 2017 (April 2019)	97,434	–	79,874	–	–	–	–	–
Share bonus 2015 (April 2019)	220,419	–	–	–	287,767	–	–	–
Share deferral 2013 (April 2019)	101,264	–	–	–	170,844	–	–	–
Share deferral 2014 (April 2019)	74,144	–	–	–	130,475	–	–	–
Share deferral 2015 (April 2019)	110,882	–	–	–	144,761	–	–	–
Dividends	78,565	95,279	35,240	19,149	31,001	88,048	–	–
<b>Total</b>	<b>1,071,859</b>	<b>1,290,722</b>	<b>297,117</b>	<b>221,062</b>	<b>905,358</b>	<b>1,584,728</b>	<b>–</b>	<b>202,720</b>
Benefit expense	1,610,588	621,605	1,435,786	498,191	–	–	–	–
<b>Total remuneration</b>	<b>3,623,125</b>	<b>2,810,831</b>	<b>2,573,148</b>	<b>1,493,582</b>	<b>905,358</b>	<b>1,584,728</b>	<b>–</b>	<b>202,720</b>

<sup>1)</sup> Marc Hess was appointed to the Management Board on 1 October 2018.

<sup>2)</sup> Dr Wolf Schumacher resigned with effect from 30 September 2015.

<sup>3)</sup> Dirk Große Wördemann resigned with effect from 31 May 2013.

## Pensions

	2019			2018		
	Pension claims p. a. <sup>1)</sup>	Balance of pension obligations (IFRS) as at 31 Dec 2019	Increase of pension obligations (IFRS) in 2019	Pension claims p. a. <sup>1)</sup>	Balance of pension obligations (IFRS) as at 31 Dec 2018	Increase of pension obligations (IFRS) in 2018
€ 000's						
Hermann J. Merkens	371	9,567	2,297	345	7,270	847
Marc Hess <sup>2)</sup>	35	902	754	7	148	148
Dagmar Knopek	127	3,290	780	110	2,510	489
Christiane Kunisch-Wolff	75	1,998	826	54	1,172	422
Thomas Ortmanns	294	7,967	1,610	284	6,357	622
Christof Winkelmann	92	2,664	1,436	65	1,228	498
<b>Total</b>	<b>994</b>	<b>26,388</b>	<b>7,703</b>	<b>865</b>	<b>18,685</b>	<b>3,026</b>

<sup>1)</sup> The pension claims mentioned refer to old-age pension earned as at 31 December of the year under review, based on the Company's contributions, if retired at the pertinent retirement age. To enhance comparability with other disclosures, the overview in the year under review and the previous-year figures were adjusted.

<sup>2)</sup> Marc Hess was appointed to the Management Board on 1 October 2018.

Service cost (in accordance with IFRSs) incurred in the 2019 financial year in connection with the pension claims of members of the Management Board totalled € 3.6 million (2018: € 2.7 million). The pension obligations for current members of the Management Board as well as for former members of the Management Board and their surviving dependants increased by € 10.3 million in the year under review (2018: € 2.8 million). The stronger increase in pension obligations year-on-year is mainly due to the significantly lower imputed rate of interest. The total amount of pension obligations was € 61.8 million (2018: € 51.5 million). Of that amount, € 35.4 million related to former members of the Management Board and their surviving dependants (2018: € 32.8 million).

### Remuneration system for members of the Supervisory Board

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. Remuneration for the services of the Supervisory Board members comprises exclusively fixed remuneration, plus an attendance fee. Where membership in the Supervisory Board falls short of an entire financial year, said remuneration shall be paid on a pro rata temporis basis. Furthermore, the Supervisory Board members will be reimbursed for their expenses. Any value-added tax invoiced will also be deemed to be a refundable expense.

Remuneration of the Supervisory Board comprises the following.

The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

Remuneration element	Description	Structure
Fixed remuneration	Remuneration for activities in the Supervisory Board; Depending on the role of the respective Supervisory Board member (e.g. Chairman)	– € 50,000 p. a. per Supervisory Board member – € 150,000 p. a. for the Chairman – € 75,000 p. a. for the Deputy Chairman
Committee remuneration	Remuneration for activities and duties on the Supervisory Board committees also depends on the role of the respective Supervisory Board member in the respective committee (e.g. a committee chairman)	– € 20,000 p. a. each for membership in the Risk Committee and/or the Audit Committee – € 40,000 p. a. each for the chairmanship in the two committees – € 15,000 p. a. each for membership in other committees – € 30,000 p. a. each for the chairmanship in other committees
Attendance fees	Remuneration for participation in Supervisory Board meetings and on the committees of the Supervisory Board	– € 1,000 per meeting

## Supervisory Board remuneration

€	Year	Fixed remuneration	Attendance fees	Total remuneration
Marija Korsch Chairman	2019	265,000	37,000	302,000
	2018	265,000	36,000	301,000
Prof. Dr Stephan Schüller Deputy Chairman	2019	125,000	23,000	148,000
	2018	125,000	27,000	152,000
Klaus Novatius Deputy Chairman (since 1 January 2019)	2019	105,000	21,000	126,000
	2018	–	–	–
Dieter Kirsch, Deputy Chairman (31 March to 31 December 2018)	2019	–	–	–
	2018	100,000	20,000	120,000
York-Detlef Bülow Deputy Chairman (until 31 March 2018)	2019	–	–	–
	2018	31,250	9,000	40,250
Thomas Hawel	2019	65,000	13,000	78,000
	2018	65,000	12,000	77,000
Petra Heinemann-Specht (since 1 April 2018)	2019	70,000	15,000	85,000
	2018	52,500	10,000	62,500
Richard Peters	2019	100,000	25,000	125,000
	2018	100,000	23,000	123,000
Dr Hans-Werner Rhein	2019	85,000	21,000	106,000
	2018	85,000	16,000	101,000
Sylvia Seignette	2019	90,000	15,000	105,000
	2018	90,000	13,000	103,000
Elisabeth Stheeman <sup>1)</sup>	2019	85,000	19,000	104,000
	2018	85,000	17,000	102,000
Hans-Dietrich Voigtländer	2019	115,000	25,000	140,000
	2018	115,000	26,000	141,000
Prof. Dr Hermann Wagner	2019	110,000	21,000	131,000
	2018	110,000	19,000	129,000
Beate Wollmann	2019	70,000	15,000	85,000
	2018	65,000	12,000	77,000
<b>Total</b>	<b>2019</b>	<b>1,285,000</b>	<b>250,000</b>	<b>1,535,000</b>
	<b>2018</b>	<b>1,288,750</b>	<b>240,000</b>	<b>1,528,750</b>

<sup>1)</sup> Income tax plus solidarity surcharge for the Supervisory Board member subject to limited tax liability was declared pursuant to section 50a (1) no. 4 of the German Income Tax Act (Einkommensteuergesetz – "EStG"), and paid to the German Central Tax Office (Bundeszentralamt für Steuern, BZSt).

## Remuneration system for employees

When it comes to the structure of the remuneration system for employees, a general distinction is made between three groups of employees. First of all, Aareal Bank has employees whose remuneration is governed by collective agreements. Then, there are employees whose remuneration is not governed

by collective agreements. These employees who are not covered by collective agreements are then split into two further groups. First, there are those employees whose duties have a material impact on the overall risk profile of Aareal Bank (risk takers) or of Aareal Bank Group (Group risk takers). The variable remuneration paid to these "risk takers" is subject to very stringent regulatory requirements.

The other employees who are not covered by collective agreements and are not risk takers either are not subject to these provisions and make up the third group.

The report below starts by explaining the remuneration system for risk takers and then addresses the differences compared with the other groups.

### Remuneration system for risk takers

In order to identify those employees who are classed as "risk takers", Aareal Bank carries out an annual independent risk analysis, identifying the employees in question based on a uniform set of criteria whilst taking regulatory requirements into account.

The remuneration system for risk takers is subject to the same basic conditions as the remuneration system for Management Board members, and is also aligned with the business and risk strategy of Aareal Bank AG and Aareal Bank Group respectively. As is the case with the Management Board remuneration, risk takers receive both fixed and variable remuneration. The fixed component comprises a fixed annual salary and ancillary benefits.

### Performance-related variable remuneration Remuneration parameters and target level weighting

As with the Management Board members, the variable remuneration is measured based on targets derived from the corporate strategy. One difference compared with the Management Board system is that the assessment period for the target achievement is one year. The targets set for risk takers are split into three components that are added together, as is the case for the remuneration paid to the Management Board: a Group component, an organisational unit component (referring to the organisational unit that the risk taker works for) and an individual component (individual target achievement). The performance of the organisational unit for divisions allocated to Sales is measured using the Structured Property Financing segment operating result, as well as in terms of risk weighted assets. The performance of the Housing Industry division is measured by reference to the segment operating

result of the Consulting/Services segment. The other organisational units, i.e. in particular central staff functions and control units, as well as the Treasury division, are measured based on their cost target. The remuneration system also takes account of the risk taker's position in the organisation's hierarchy, reflecting the influence that he/she can exert over the Group's/Bank's success. This results in differences in the weighting attached to the three additive components depending on an individual's responsibility within the Company: The Group component payable to risk takers assigned to the management level below the Management Board (Managing Directors) is 35%. By contrast, it is 25% for the other risk takers. For further information on the individual targets and possible resulting KPIs, we refer to the information on Management Board remuneration.

### Deferred disbursement, through retention of variable remuneration components and virtual shares

To ensure that the remuneration system provides long-term incentives, the initial value for variable remuneration – as determined according to the principles set out above – is generally paid out on a deferred basis after the end of the financial year. The payout terms are based on those that apply to the Management Board remuneration system but once again vary depending on the risk taker's position within the organisational structure.

60% of the variable remuneration paid to risk takers on the Managing Director level is subject to a five-year deferral period. As with the variable Management Board remuneration, 50% each of deferred and non-deferred components are converted into virtual shares that are held for a minimum period of one year. Unlike with the Management Board remuneration system, risk takers can, however, opt to select when they want their virtual shares to be converted into cash after the end of the one-year holding period, selecting a conversion date that falls within a period of up to three years.

By contrast, 40% of the variable remuneration paid to the other risk takers is subject to deferral over a period of three years.

All other aspects relating to the calculation of virtual shares are explained in the section on the Management Board remuneration system.

#### **Ex-post review of target achievement and behaviour of the risk takers**

As in the Management Board remuneration system, the original target achievement level is back-tested and, where appropriate, reduced before virtual shares are paid out/granted. Penalty-triggering events can also result in reductions or in the forfeiture of the variable remuneration entitlement in full and, as a result, also in variable remuneration that has already been paid out being clawed back. Details can be found in the information on the Management Board remuneration system.

#### **Remuneration system for employees who are not classed as risk takers**

Aareal Bank AG is a member in Germany of the Arbeitgeberverband des privaten Bankgewerbes e.V. (association of employers in private banking) and bound by the collective agreements for private banks. As of the 2019 financial year, variable remuneration for employees not classified as risk takers has been split into two components, too: the Group component (25 % of target variable remuneration) and the individual component (75 % of target variable remuneration). As a result, the variable remuneration of all employees is directly linked to Aareal Bank Group's performance, and the employees are directly involved in reaching the communicated targets. The individual component paid to those employees whose remuneration is governed by a collective agreement is based on an annual appraisal. The initial value for measuring the variable remuneration corresponds to 0.75 gross monthly salaries for employees covered by a collective agreement. The individual component paid to those employees who are not covered by a collective agreement is based on contractually agreed target-variable remuneration and is measured based on an annual overall appraisal that also takes the target achievement level for the individual targets that have been set for the employee in question into account.

#### **Restrictions and link to risk-bearing capacity for all employee remuneration systems**

All employee remuneration systems feature provisions corresponding to those found in the Management Board remuneration system regarding the impact of special external conditions (modifiers). In cases involving risk takers, the ban on hedging also applies. There are, however, differences with regard to the caps and the safeguarding of the risk-bearing capacity. The contracts of employment with those employees below Management Board level do not include contractual provisions on severance pay.

#### **Caps and proportion of variable remuneration**

The core components and – for risk takers – the organisational components are capped at 150 % in the target achievement level. The individual targets are capped at a target achievement level of 200 %. If the individual target achievement level is 0 %, no variable remuneration is paid at all. Performance of virtual shares is capped at 300 %.

In order to comply with the requirements set out in section 25a (5) KWG, the reference value for the variable remuneration in cases involving a target achievement level of 100 % generally corresponds to a maximum of 50 % of the fixed remuneration. This means that, even if an employee achieves the maximum target achievement level, the variable remuneration does not exceed the fixed remuneration. Consequently, if an employee receives fixed annual remuneration of € 80,000, for example, the reference value for the variable remuneration paid out if that employee achieves 100 % target achievement is limited to a maximum of € 40,000. It is very common, however, for variable remuneration to account for a smaller proportion of an employee's total remuneration. Furthermore, it has been ensured in line with regulatory requirements that the variable remuneration for control unit employees amounts to no more than one-third of total remuneration.

In 2014, the Annual General Meeting of Aareal Bank AG approved exemptions from this 1:1 rule for certain groups of employees. In order to ensure that the remuneration paid by Aareal Bank AG and its international subsidiaries is competitive in



an international comparison, employees working in international sales at Aareal Bank AG, as well as executives and employees working for the subsidiaries Aareal Capital Corporation, New York, and Aareal Bank Asia Ltd., Singapore, have to be paid remuneration in line with local market standards. This applies to fewer than 25 positions.

### Material amendments to the remuneration systems last year

The material amendment to the remuneration systems for employees in the financial year under review concerned the aforementioned introduction of a Group component for the employees that were not identified as risk takers. In addition, this had the effect of reorganising the managing director level, whereby previously different positions were combined to create a uniform Managing Directors' level. This was accompanied by a standardisation in relation to the composition of the individual components of the target variable remuneration.

### Reporting on quantitative disclosure requirements

This report only covers the qualitative disclosure requirements regarding employee remuneration set out in Article 450 of the EU's Capital Requirements Regulation 2013/575 (CRR) and section 16 InstVergV. The quantitative disclosure requirements relating to the provisions set out above are published in a separate report entitled "Disclosure of

Remuneration Indicators", which can be found on the website of Aareal Bank AG. This report will be made available within six months of the end of the financial year: [www.aareal-bank.com/en/investors-portal/finance-information/regulatory-disclosures/archive/2019/](http://www.aareal-bank.com/en/investors-portal/finance-information/regulatory-disclosures/archive/2019/)

## Remuneration governance

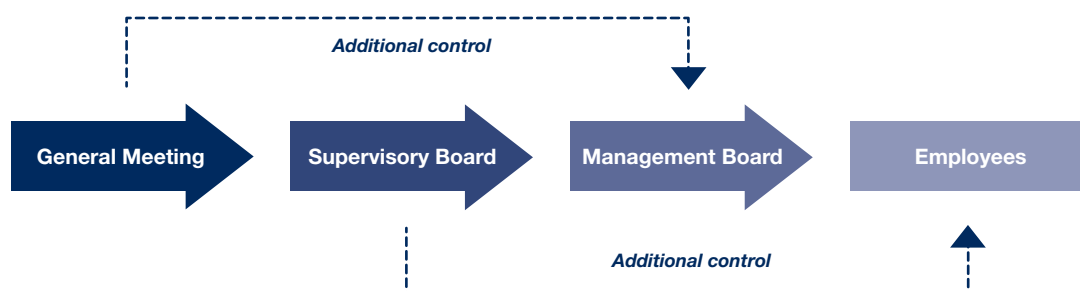
### Governance of Supervisory Board remuneration

#### The role of the Annual General Meeting

Given the Supervisory Board's role as a supervisory body, remuneration for its members must not provide any incentives which would counter this surveillance function. The Annual General Meeting (AGM) determines the remuneration of the Supervisory Board, in Aareal Bank AG's Memorandum and Articles of Association; the AGM therefore also resolves on any adjustments to Supervisory Board remuneration (cf. Article 9 (4) and (5) of the Memorandum and Articles of Association).

In the implementation of the Second Shareholder Rights Directive in the German Public Limited Companies Act (AktG), as of the first ordinary Annual General Meeting following the 2020 financial year, the AGM will need to discuss Supervisory Board remuneration at least every four years, even without any concrete proposals for amendments, and will need to resolve whether it still approves it.

### Determination and control of remuneration systems



### The role of the Supervisory Board

The Supervisory Board shall review the appropriateness of remuneration for its members at least once a year. Every four years, it shall retain an external remuneration advisor to obtain an opinion as to the appropriateness of its remuneration – and especially, on whether remuneration is in line with common practice and comparable. The Supervisory Board shall present the results of this review as part of its report to the AGM. Where appropriate, the Supervisory Board will prepare recommendations for adjustments to its remuneration, and will submit them to shareholders at the next AGM.

### Governance of Management Board remuneration

#### The role of the Supervisory Board

The Supervisory Board shall act in the Company's interests; accordingly, it shall ensure that Management Board remuneration is geared towards the Company's sustainable development (cf. section 87 of the AktG). The Supervisory Board decides on Management Board remuneration, monitors appropriateness, defines targets for determining variable remuneration, and decides on target achievement. During the years following determination of variable remuneration], the Supervisory Board shall review, within the framework of backtesting/penalty reviews, whether variable remuneration determined originally must be adjusted or reclaimed (clawback).

As part of examining appropriateness of Management Board remuneration, the Supervisory Board shall review whether the remuneration system for the Management Board (as well as the corresponding targets for Management Board members derived therefrom) is consistent with the Company's business and risk strategies, the objectives derived from these strategies, the corresponding risk management, as well as with the defined risk appetite and the corporate values. As further elements of this examination of appropriateness, a vertical comparison with the average remuneration of relevant employees and the top management level below the Management Board is to be carried out, as well as a horizontal comparison with the remuneration of management board members of

comparable enterprises. These components reflect the orientation of Management Board remuneration towards sustainable Company development, meaning that remuneration is aligned with the long-term interests of Aareal Bank's stakeholders.

When taking decisions concerning the structure of the remuneration system for the Management Board, the Supervisory Board shall take the views of Aareal Bank AG's relevant shareholders and of proxy advisors into account.

#### The role of the Remuneration Control Committee

The Remuneration Control Committee supports the Supervisory Board in its monitoring duties and prepares the plenary meeting's resolutions concerning remuneration. The Committee monitors the appropriateness of the structure of Management Board remuneration, proposes targets for variable remuneration and for target achievement at the end of the year, and also monitors the levels of target achievement during the course of each year. Moreover, the Committee assesses the effects of the remuneration systems on the Group's risk, capital and liquidity management. In the run-up to determining remuneration, in cooperation with the Audit Committee, it reviews whether there are any backtesting or penalty-triggering events which may result in a reduction of variable remuneration.

#### The role of the Risk Committee

The duties of the Risk Committee with regard to remuneration are unaffected by the assessment by the Remuneration Control Committee, as set out above. The Risk Committee verifies whether the incentives created by the remuneration system take the Company's risk, capital and liquidity structure into account, as well as the probability and timing of income.

#### The role of the Audit Committee

Circumstances where variable remuneration may be reduced may occur where Management Board members fail to fulfil any of their duties, or where they breach external or internal requirements. To the extent that any such events have occurred, these are identified in the reports prepared by

Compliance, addressed to the Audit Committee as well as to the plenary meeting of the Supervisory Board. Internal conduct rules are also defined in a Code of Conduct which must be presented to the Audit Committee at least once a year.

#### **The role of the Annual General Meeting**

Under current legislation, Management Board remuneration may be submitted to the AGM for approval. Implementing the Second Shareholder Rights Directive in the German Public Limited Companies Act (AktG), as of the first ordinary Annual General Meeting following the 2020 financial year the AGM will address Management Board remuneration at least every four years as well as in the event of any material change to Management Board remuneration (say-on-pay).

#### **Governance of staff remuneration**

##### **The role of the Management Board**

The Management Board is responsible for structuring the remuneration system for employees. As an element of appropriate and effective risk management, staff remuneration is monitored as to whether it is consistent with the corporate and risk culture, and with Aareal Bank's risk appetite. Especially with respect to the remuneration of material risk takers, the Management Board will take care to adjust remuneration parameters to such employees' influence on the Bank's risk exposure.

##### **The role of the Supervisory Board/ the Remuneration Control Committee/ the Risk Committee**

The Supervisory Board and its Remuneration Control Committee monitor the structure of staff remuneration. In this context, the Remuneration Control Committee also assesses the criteria for, and the actual selection of, Aareal Bank Group's material risk takers. Together with the Risk Committee, and in line with the rules for Management Board remuneration, the Remuneration Control Committee monitors whether the remuneration system for employees is consistent with the Company's business and risk strategies, the objectives derived from these strategies, its risk appetite and the risk management.

#### **Further information on the Supervisory Board and its committees**

The composition and responsibilities of the Supervisory Board committees, and of the plenary meeting, are described in the Corporate Governance Statement/the Corporate Governance Report and in the Notes.

The Supervisory Board presents the remuneration-related activities of its plenary meetings and of its committees as part of its report to the AGM. This report also provides details regarding the number of meetings, and on the participation of the members of the committees and the Supervisory Board.

#### **The role of the Remuneration Officer**

Following consultation of the Supervisory Board, the Management Board of Aareal Bank AG shall appoint a Remuneration Officer in order to ensure appropriate, sustained and effective monitoring of staff remuneration. Aareal Bank has appointed a Remuneration Officer, to carry out duties in accordance with section 24 of the InstVergV. These duties include supporting the Supervisory Board and the Remuneration Control Committee in structuring and monitoring the remuneration system. The Remuneration Officer is obliged to respond to queries of the Remuneration Control Committee's Chairman.

The Remuneration Officer reports on the appropriate structure of the remuneration systems for employees in the form of a Remuneration Report at least once a year. Due to the responsibility of monitoring the appropriateness of the remuneration systems on a continuing basis, the Remuneration Officer is being included in the conceptual new drafting (and future development), as well as in the application of the remuneration systems. In particular, the Remuneration Officer plays an active part in the process for the determination of the total amount available for variable remuneration, the annual review of penalty rules, the regular (at least spot checks) review of appropriate compliance structures, the monitoring of the hedging ban (and potential violations), the drafting of the annual

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remuneration report (pursuant to section 16 of the InstVergV in connection with Article 450 of the CRR) as well as the review of the risk taker analysis.

#### **Involvement of external remuneration advisors**

As a matter of principle, the executive bodies of Aareal Bank decide upon remuneration themselves; they also come to an independent assessment of appropriateness. Especially for the purpose of examining whether remuneration is in line with common practice, compared with other companies, Aareal Bank retains external remuneration advisors.