

Remuneration Report

Review

Aareal Bank AG's Management Board remuneration system proved to be balanced in the exceptional environment created by the Covid-19 pandemic. One key component of the Management Board remuneration system is the definition of ambitious quantitative and qualitative targets and corresponding robust measurement criteria in advance. The calculation of the variable remuneration is then based on the established target achievement level, which largely prevents any leeway for purely discretionary decisions in accordance with the regulatory requirements

In the Supervisory Board's opinion, the Management Board achieved excellent performance in the reporting year and steered Aareal Bank safely through the Covid-19 pandemic. From the Supervisory Board's perspective, the Bank did not lose sight of its strategic objectives at any point in time, key objectives of the Bank were met despite the challenging overall environment, and the sale of a minority stake in Aareon also served to significantly strengthen Aareal Bank's equity resources.

Notwithstanding these achievements, however, the effects that the pandemic has had on the Bank's operating profit have a significant impact on the variable remuneration payable to Management Board members and employees, due to the close links between the overall target achievement level of the Management Board members and the overall performance of Aareal Bank Group.

The operating profit for 2020, which was impacted to a considerable degree by the Covid-19 pandemic, means, in terms of remuneration for Management Board members and employees, that the target achievement level for the Group component in 2020, which accounts for what is by far the largest share of the overall target achievement level, was set at only 20%. As a result, the annual target achievement level of each individual Management Board member, which also comprises the achieve-

ment levels for the sectional and individual targets, is approx. 50% for the 2020 financial year. Since the previous years are included in the Management Board remuneration due to the three-year observation period, this leads to an overall target achievement level of around 70% for each Management Board member in 2020. What proves to be a positive aspect for the overall target achievement level in 2020 will turn into a negative one in the years that follow, as the significantly reduced annual target achievement level for 2020 will also have a negative impact on any variable remuneration for 2021 and 2022.

In addition, the large proportion of share-based remuneration means that the Management Board members have been affected by the drop in the share price during the Covid-19 crisis. Specifically, the value of more than 250,000 virtual shares held by the members of the Management Board which are subject to deferral/holding periods, was down year-on-year in line with share price performance.

Outlook

Various adjustments to the remuneration system were adopted by the Supervisory Board in 2020 following intensive discussions with Aareal Bank's shareholders in order to achieve an increased focus on the sustainable development of Aareal Bank Group in the long run. For the variable remuneration from the 2021 financial year onwards, this will, in particular, include establishing the systematic requirement for at least 15% of the targets set to be based on quantifiable ESG criteria in the future. In addition, the proportion of share-based remuneration was already increased to 55% for the 2020 variable remuneration (with the exception of the Chairman of the Management Board, Hermann Merkens, who was released from his duties at the end of the reporting year). There is still no need for any agreement requiring Management Board members to enter into any proprietary investments in Aareal Bank shares, since the existing system meets the purpose of such an investment. By granting 55% 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 and share-based remuneration”).

Remuneration system for the Management Board

| Remuneration element | Description | Reference to strategy and long-term development |
|---|--|--|
| Fixed remuneration elements | | |
| Fixed annual salary + ancillary benefits = basic remuneration | <ul style="list-style-type: none"> – Fixed contractually agreed remuneration in line with standard market conditions, paid monthly – Ancillary benefits in line with standard market conditions, in particular a company car that can also be used for private purposes or a lump-sum payment for members who decide against a company car; certain costs for security expenses, including the taxes and social security contributions payable on these amounts; (substitute) social security contribution corresponding to 50 % of the contributions due under the statutory social security scheme – The resulting basic remuneration accounts for around 45 % of the total target remuneration for Management Board members | 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. |
| Pension obligations | <ul style="list-style-type: none"> – Defined contribution commitment with guaranteed interest – Annual contributions of around 15 % of the total target remuneration for Management Board members – Management Board members are entitled to pension payments when they reach a defined age – In the event of permanent disability, Management Board members are entitled to invalidity benefits even before they reach this defined age | Granting of pension commitments for financial security in retirement and protection in case of death and disability that are in line with market requirements. |
| Variable remuneration elements | | |
| | <ul style="list-style-type: none"> – The target variable remuneration corresponds to around 40 % of the Management Board members' total target remuneration – Variable remuneration is determined via the achievement of targets derived from the business and risk strategies, and which are in line with Aareal Bank's corporate and risk culture – Group (70 %), sectional (15 %) and individual (15 %) targets – Group targets usually correspond to the financial KPIs used in the management system, while sectional and individual targets can include both financial and non-financial KPIs. At least 15 % of the target achievement will be based on quantitative ESG targets from the 2021 financial year onwards. – Performance measurement based on criteria whose achievement is determined over a three-year period – No discretionary components besides the targets derived from the strategy – Breakdown of variable remuneration via four components (as per regulatory requirements) – At least 55 % of variable remuneration is share-based – At least 80 % of the variable remuneration is paid out on a deferred basis (20 % as a share bonus with one-year retention period, plus 60 % cash and share deferral) – Maximum overall target achievement level is capped at 150 % of the target value – Maximum variable remuneration cannot exceed fixed remuneration – No compensation is granted in the form of special bonuses extending over and above the components referred to above. | <p>Calculation of variable remuneration on the basis of annual financial and non-financial performance criteria that promote the achievement of the strategic objectives.</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.</p> <p>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> |

| Remuneration element | Description | Reference to strategy and long-term development |
|--|---|---|
| Other rules | | |
| 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 | – All components of the variable remuneration are subject to penalty and clawback provisions. – Admission of an adjustment to outstanding remuneration and/or clawback of remuneration already disbursed in case of clawback events. | 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. |
| Consideration of extraordinary developments | – (Modifier) adjustment of Group target achievement level by 20 percentage points possible in cases involving exogenous circumstances. – In principle, no subsequent adjustments to remuneration targets, unless extraordinary developments result in the business strategy being adjusted during the year. | In order to ensure that the remuneration system provides incentives for the actual performance of the Management Board member with regard to the sustainable and long-term development of Aareal Bank Group, adjustments can be made subject to pre-defined and very restrictive conditions. |
| From the 2021 reporting year onwards: Maximum remuneration of € 5.5 million per Management Board member (within the meaning of section 87a of the German Public Limited Companies Act (Aktengesetz – "AktG") | – Maximum expense amount for the financial year which includes the fixed annual salary, variable remuneration elements (incl. the development of the virtual shares over the next six years), ancillary benefits and pension obligations (service cost). Severance payments are excluded from this amount as a non-standard remuneration component. – The maximum remuneration is stated individually for each member of the Management Board and applies until the next proposal is made to the Annual General Meeting. It is calculated based on the maximum possible values for the abovementioned remuneration components, plus a buffer for fluctuations in the share price, for example. | In order to define absolute values to ensure the proportionality of the amount of Management Board remuneration, the maximum remuneration sets a specific upper limit. This theoretical maximum value is based on a maximum possible target achievement level over the entire three-year assessment period and maximum share price performance. This means that the maximum remuneration can be clearly distinguished from the total target remuneration. |

The enhanced Management Board remuneration system will be put to the vote at this year's Annual General Meeting, the aim being for it to apply as of the 2021 reporting year.

Remuneration structure

Total target remuneration comprises a fixed component (fixed annual salary plus ancillary benefits (= "basic remuneration") and annual retirement benefits) and a variable component, the structure of which is subject to regulatory requirements.

The fixed annual salary plus ancillary benefits accounts for approximately 45 % of the total target remuneration, with the fixed annual salary determining the vast majority. The ancillary benefits generally amount to a share of between one and two percentage points. In order to be able to report a proportion of retirement benefits that is as stable as possible, the information presented is based on the annual pension contributions, which, unlike the IAS 19 disclosures, do not differ depending on the member's age and length of service on the Management Board. The maximum remuneration

is still based on the expenses according to IAS 19, which are also shown in the corresponding remuneration tables. The target variable, performance-related remuneration comprises approx. 40 % of the total target remuneration.

In line with the "1:1 rule" that applies to credit institutions, the maximum variable remuneration must not exceed the fixed remuneration component. In order to allow target overfilling in the first place, the share of total target remuneration attributable to the target variable remuneration must be below the fixed remuneration share. In order not to motivate Management Board members to take inappropriate risks in line with Aareal Bank Group's risk culture, no use was made of the option to adjust the 1:1 rule via the Annual General Meeting.

The relative shares referred to above can shift by a few percentage points due to fluctuating ancillary benefits.

The Supervisory Board can adjust the reference values for the fixed and variable remuneration components in the context of the defined maximum remuneration while maintaining the relative proportions of fixed and variable components provided for in this remuneration system. Until further notice, however, the reference values for fixed and variable, performance-related remuneration components set out below apply.

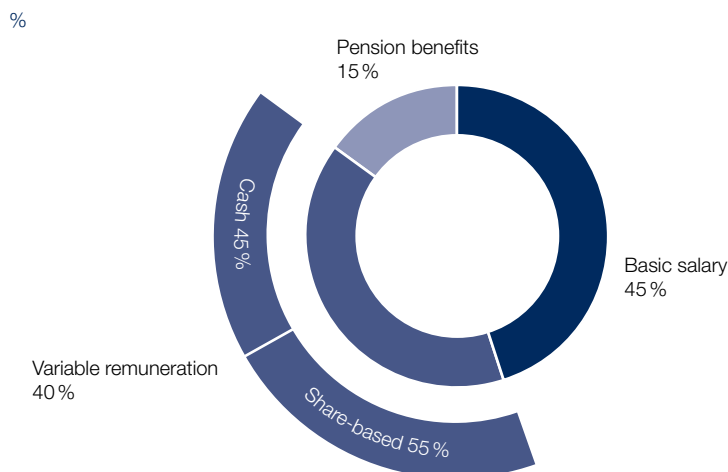
Fixed remuneration component

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

Management Board remuneration structure



The fixed annual salary currently amounts to € 1,425,000 for the Chairman of the Management Board and to € 900,000 for ordinary Management Board members.

Ancillary benefits

As well as paying a fixed annual salary, Aareal Bank grants the members of the Management Board ancillary benefits in line with standard market conditions.

For example, Aareal Bank provides a company car to Management Board members, which may also be used for private purposes. If Management Board members decide against a company car, they receive a lump-sum compensation payment instead.

Management Board members also receive an amount equivalent to up to 50 % of the contributions to the statutory social security system.

They also receive certain insurance benefits/ insurance compensation benefits. In addition, Aareal Bank bears the costs incurred for certain security expenses.

The members of the Management Board are also granted insurance cover in line with standard market conditions, such as D&O insurance (subject

to the statutory deductible), group accident insurance or health insurance for travel abroad.

The Supervisory Board can grant other or additional ancillary benefits that are customary on the market, such as the assumption of costs for trips home to see family.

In principle, all members of the Management Board are equally entitled to the ancillary benefits. The benefits can, however, vary in terms of their type and amount depending on the member's personal situation. They can also fluctuate considerably from year to year. This is particularly true with regard to security expenses, which are not usually incurred in similar amounts every year.

Pensions and retirement benefits

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

This currently amounts to a total of € 464,000 p.a. for the Chairman of the Management Board and € 293,000 p.a. for ordinary members of the Management Board, and thus accounts for around 15 % of the target remuneration structure of the Management Board members. The contributions bear interest at a guaranteed rate of 4 %. In addition, members of the Management Board can make use of a deferred compensation system.

Members of the Management Board are entitled to pension payments when they reach a defined age. This is age 60 for members appointed before 1 January 2013 and currently age 62 for all other members. In the event of permanent disability, Management Board members are entitled to invalidity benefits even before they reach this defined age.

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

Long-term and sustainable focus of the targets

The structure of the variable remuneration system is subject to detailed requirements set out in the bank regulatory provisions. The calculation of the variable remuneration is generally split into two phases. In the first phase, the achievement of targets derived from the strategy is determined over a period of three years at three levels: Group, sectional and individual. The target achievement level is multiplied by the reference value and produces the amount calculated (e.g. for an ordinary member of the Management Board: 780,000 x 90% = € 702,000). The amount calculated is then paid out in the second phase in four different components, including 80 % that is paid out on a deferred basis and at least 55 % paid out in virtual shares over a period spanning several years (see "Deferred disbursement, through retention of variable remuneration components and virtual shares (phase 2)").

Among other things, the fact that the targets are geared towards the strategy and the subsequent adjustment based on share price performance over the next six years promotes sustainable and long-term company development while at the same time taking the interests of the shareholders into account. This is also achieved through the penalty, clawback, modifier rules and the check to ensure compatibility with sufficient risk-bearing capacity.

Multi-year performance measurement across different target levels (phase 1)

A significant part of Aareal Bank's variable remuneration is governed by law: besides the general requirement – pursuant to the 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's remuneration

ation system for the Management Board provides for three target levels of:

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

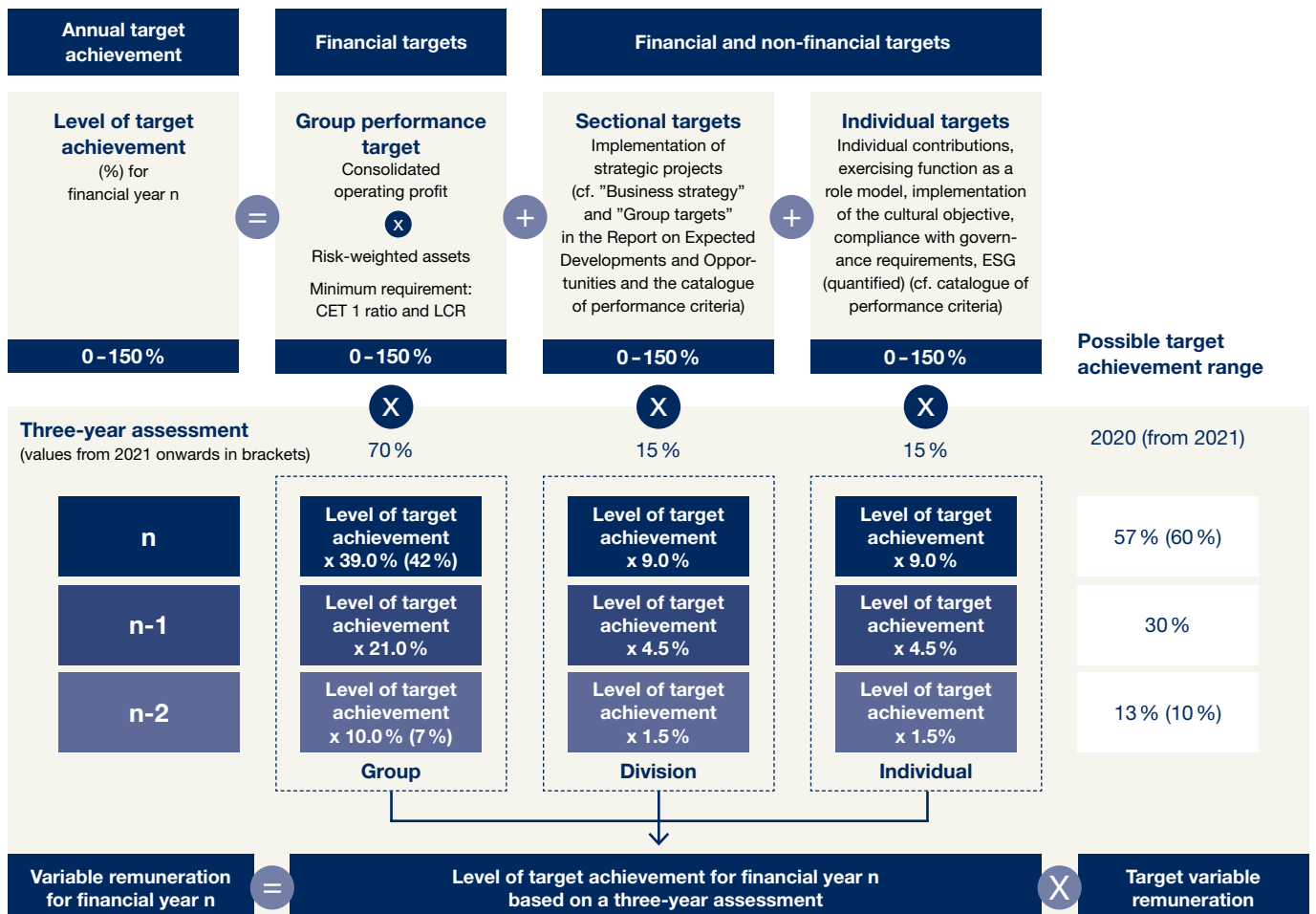
Target achievement for each target level is determined on the basis of a three-year assessment period.

The targets set at all three levels are focused on sustainable and long-term growth and are designed to be forward-looking. To measure and monitor

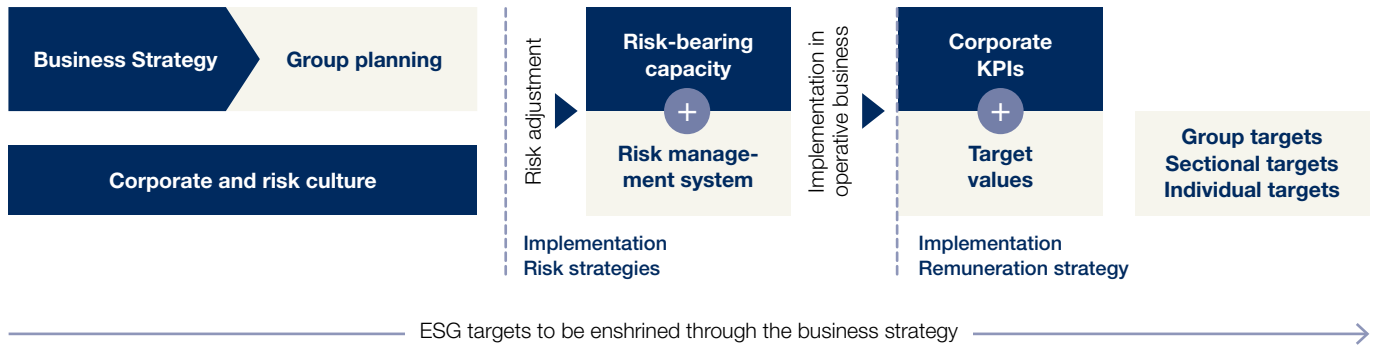
target achievement, various KPIs are determined annually for targets, and their degree of achievement is assessed at the end of the financial year. The target achievement level for each target level is thus determined by the respective KPI achievement of the past financial year and by the degrees of KPI achievement of the two previous financial years (**three-year assessment basis**).

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 performance targets accounts for the clear majority

Target achievement and variable remuneration for financial year n



System for defining targets



(generally 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 components consolidated operating profit and RWA, or for other corporate financial indicators defined annually by the Supervisory Board, has been achieved. The other two target levels, the sectional and individual target levels, are generally weighted at 15 % each. The Supervisory Board reserves the right to adjust the weightings attached to the performance levels annually.

To set ambitious targets and a strong incentive for successful Management Board work, target achievement levels are incorporated at different levels over time. The target achievement level is calculated by looking at performance in more than one year at all target levels. This means that, generally speaking, the most recent reporting year is weighted at 60 %, the preceding one at 30 %, and the oldest year in the assessment period at 10 %. A transitional rule applies for the 2020 reporting period, whereby the reporting years 2020, 2019 and 2018 are weighted at 57 %, 30 % and 13 %, respectively.

Pursuant to section 25c (4a) of the German Banking Act (Kreditwesengesetz – "KWG"), the strategy is to be geared towards the Bank's sustainable development. As early on as during the development process, the business strategy is reviewed as to its compatibility with the corporate and risk culture, the risk strategies and the Bank's sustain-

ability approach, and is adjusted if necessary. This means that the remuneration targets and KPIs derived from the strategy do not promote short-term successes, but rather support the Company in its long-term and sustainable development (**pay-for-performance principle**). As a result, they serve the interests of the shareholders, employees and other stakeholders of Aareal Bank Group.

Remuneration parameters (ex-ante risk adjustment)

The targets are made up of quantitative and qualitative components. A target value for 100 per cent target achievement, a minimum ambition level and a maximum achievable value are set for quantitative criteria. Qualitative values are measured using different formats that suit the corresponding target parameters. These can include comparisons with project targets, internal and external studies, section-specific reports, as well as statistics on how the Bank is perceived by its employees or clients. Specific target achievement is reported on an ex-post basis (cf. "Target achievement" section).

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. These KPIs are generally based directly on the Group's performance indicators, which are defined in the Group Management Report. In order to reduce the influence of one-off effects and to ensure that the KPIs fulfil their purpose in terms of measuring the actual performance

of Management Board members, certain effects are already excluded from target achievement when the targets are set, e.g. changes due to external regulatory requirements, M&A transactions, or comparable effects. The Supervisory Board sets target values for the Group on the basis of the consolidated operating profit, risk-weighted assets (RWAs) and/or other indicators that it defines based on the performance indicators (cf. the "Management system" section of the Group Management Report), and determines the result that constitutes achievement of each target. Consolidated operating profit is chosen as the income target, whereas RWA is used as a risk-adjusted target. The 100 % targets set for the target parameters complied with the corporate objectives communicated to the capital markets in the past, and will continue to do so in the future, too. 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 all 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. Between two and four targets are determined for each Management Board member. The Supervisory Board uses the sectional component to measure the contribution to the implementation of the strategy made by the units for which the individual Management Board member is responsible. Based on the strategic framework (currently "Aareal Next Level"), the Supervisory Board selects certain initiatives and assigns those initiatives to the individual members of the Management Board. The KPIs used by the Supervisory Board typically include qualitative and quantitative criteria, as shown in the catalogue of performance criteria. In line with Aareal Bank Group's management system, sectional targets for Management Board members responsible for Sales units comprise growth and development of main strategic

Catalogue of possible performance criteria (financial/non-financial, quantitative as well as qualitative)

| | |
|--|--|
| Key performance indicators used in the Group management system | Strategic project (Aareal Next Level) |
| Increasing flexibility | Sustainability of the organisation |
| Increase in growth | Establishing sustainability in the core business |
| Capital market target | Expansion of sustainable products |
| Market expansion | Innovative power |
| Budget target | Client satisfaction |
| Efficiency enhancement | Dialogue with employees |
| Liquidity planning | Empowering the next generation |
| Targets for risk indicators | Safeguarding expertise |
| Effectiveness of the organisation | Transparency |
| Scaling client relationships | |

fields of business and are measured, for example, by the level of specific property portfolio increases or the revenue generated with digital products.

Individual targets refer to the Management Board members' individual performance as role models for the organisation ("tone from the top"). A maximum of two individual targets are determined for each Management Board member. As with the other targets, the individual Management Board member is set targets that promote the implementation of Aareal Bank Group's strategic objectives, but are primarily to be fulfilled by him/her.

ESG targets can be established at both sectional and individual level. The specific ESG target parameters are disclosed as part of the reporting process (annual report for the year concerned) together with the other parameters used. In order to ensure that the increased importance of ESG aspects in Aareal Bank's strategy are adequately reflected in the remuneration system, quantifiable ESG targets will be included in the overall target calculation with a minimum weighting of 15 % from the 2021 financial year onwards, and are covered, in particular, by the individual component. The use of quantitative ESG targets allows for a high level of transparency regarding Aareal Bank AG's ESG focal areas and at the same time creates targeted incentives for a long-term sustainable strategy. In

In addition to the individual level, the sectional level can also include ESG targets to add more weight to ESG aspects.

In its ESG 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 to retained remuneration components being reduced ex post, and can even result in the **clawback** of remuneration components that have already been granted.

Deferred disbursement, through retention of variable remuneration components and virtual shares (phase 2)

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.
- 25 % of the variable remuneration is retained (**cash deferral**), and disbursed in cash – pro rata temporis – over a five-year deferral period.
- The remaining 35 % of the variable remuneration forms part of the Share Deferral Plan (**share deferral with holding period**).

Consequently, 60 % of the variable remuneration is granted on a deferred basis, supporting the long-

term focus of the variable remuneration system. This means that deferred disbursement applies to a total of 80 % of variable remuneration determined, for up to six years. 55 % of the variable remuneration is granted as share-based remuneration and has a holding period of one year, which applies to both the share bonus and the individual tranches of the share deferral. The fact that the variable component is predominantly share-based helps to ensure the sustainability, as well as the long-term focus, of the remuneration system and promotes alignment with shareholder interests.

Five-year retention period

For the portion of performance-related remuneration that is deferred initially as a cash deferral or a share deferral (60 %), 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. the sub-section "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, in line with regulatory requirements.

Share bonus with holding period (20 %)

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 (35 %)

In the five years following determination of performance-related remuneration (deferral period),

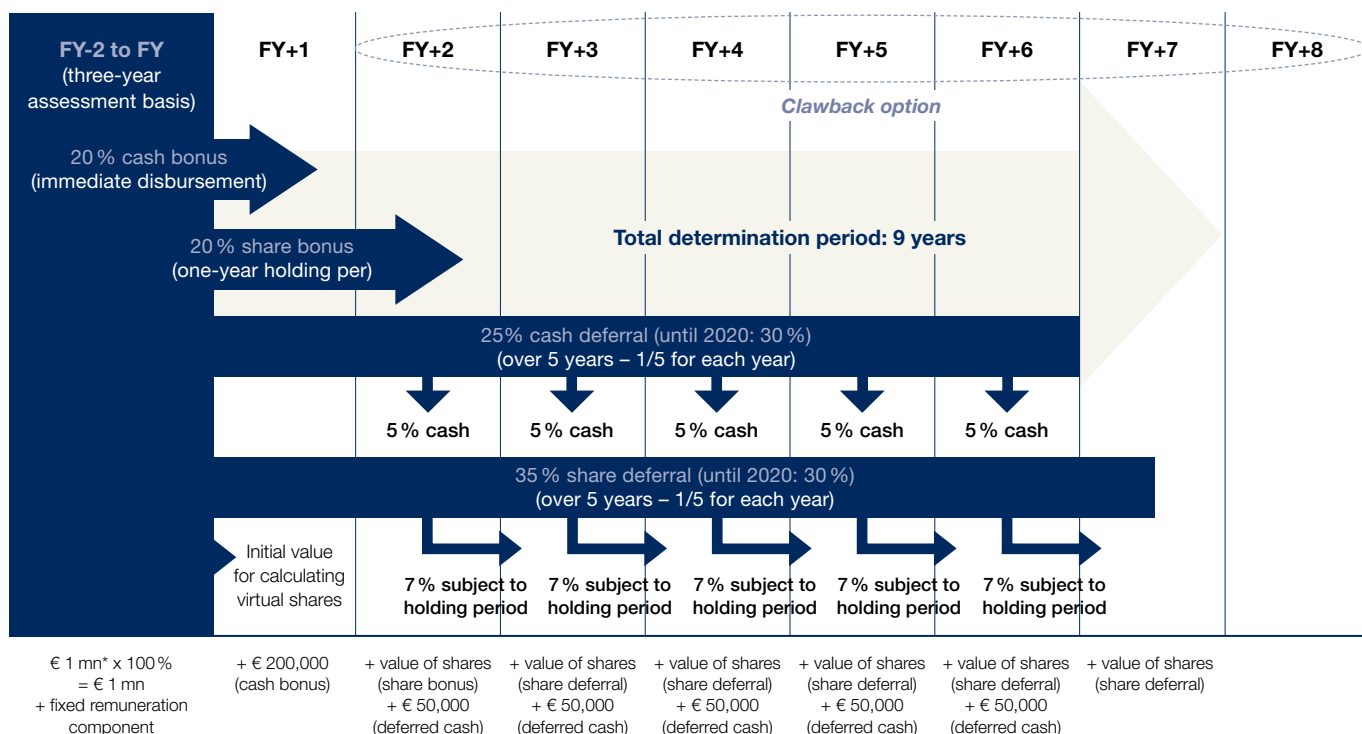
the Supervisory Board decides whether in each case a fifth of the share deferral should be converted into virtual shares.

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.

The ceiling value is applicable for the conversion of the virtual shares, with the proviso that the payout amount following the conversion of the virtual shares of a tranche into a cash payment must not

Sample disbursement methodology, based on 100% target achievement for the 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.

exceed 300 % of the share deferral (35 % 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).

With regard to the deviation from the recommendation set out in the German Corporate Governance Code regarding the four-year holding period that we have declared as a precaution, we refer to our Declaration of Compliance with the German Corporate Governance Code at www.aareal-bank.com/en/about-us/corporate-governance/declaration-of-compliance/

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 target was not achieved or if the assessment of qualitative targets shows a negative deviation when the target achievement measurement is repeated as part of a retrospective review, 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, justifying a reduction in, or even the loss of, variable remuneration.

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. They include, for example, wilful breaches of the Code of Conduct and/or internal and/or external rules, conduct that damages the Bank's reputation, or other misconduct. 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. The variable remuneration must be reduced to zero in the event of **negative performance** contributions. In accordance with the regulatory requirements governing remuneration, negative performance contributions refer to a scenario in which the Management Board member was significantly involved in, or responsible for, any behaviour which led to considerable losses, or material regulatory sanctions, for the Bank.

Clawback

Agreements reached with the Management Board members ensure that variable remuneration already paid out has to be clawed back in the event of negative performance contributions (see Penalty review). The amounts can be clawed back until two years have expired since the end of the last retention period for the variable remuneration paid for the financial year in question.

Allocation to appropriate periods

The penalty review and backtesting processes are applied to the appropriate periods. Missed targets/penalty-triggering events defined as part of the penalty review are allocated to a particular assessment period. They are allocated to the year in which the target was missed/the penalty-triggering event occurred, meaning that the variable remuneration is also adjusted for the corresponding year.

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 con-

ditions). This will not affect the 150% cap, which cannot be circumvented by the modifier.

Subsequent adjustments to targets and target values (KPIs) are generally not permitted. Such adjustments may be made as an exception if extraordinary developments require adjustments to be made to the business strategy and the remuneration targets or parameters have to be adjusted accordingly in order to maintain the long-term and sustainable focus.

Maximum remuneration

Pursuant to section 87a (1) sentence 2 no. 1 of the AktG, the Supervisory Board has set an upper limit for the total amount of all remuneration elements in a given year, i.e. currently consisting of the fixed annual salary, ancillary benefits, the annual pension expenses pursuant to IAS 19, and variable remuneration (maximum remuneration). The maximum remuneration limits the maximum total remuneration (sum of the individual components based on maximum target achievement) that can be granted for one year. The maximum remuneration amounts to € 5.5 million (gross) for each Management Board member.

This upper limit refers to the total benefits granted to a member of the Management Board for his/her work on the Management Board in the financial year in question. Payments of long-term variable remuneration components, i.e. those that are paid out on a deferred basis, are attributed to the year of vesting. Ancillary benefits are recognised based on the non-cash benefit amount used for tax purposes. The maximum remuneration defined in this remuneration system does not release the Supervisory Board from its obligation to review the appropriateness of the specific upper remuneration limits when determining individual remuneration.

In contrast to remuneration systems featuring what are known as share ownership rules, in which Management Board members commit to holding a certain proportion of physical shares, the share price performance of virtual shares has to be included in the maximum remuneration. Standard practice in the market involves accounting for expenses for pension commitments in accordance

with IAS 19. This figure is not, however, based on the annual contribution, but is largely determined by the age of the Management Board members and their length of service, and is subject to fluctuations.

Any severance payments paid in the event of premature termination of Management Board activities are not included in the maximum remuneration. The regulatory requirements that apply to severance payments remain unaffected.

Remuneration when positions in executive bodies are assumed

The assumption of paid or unpaid forms of secondary employment, honorary positions, supervisory board, advisory board or similar mandates, as well as work on expert opinions, require the prior written consent of the Supervisory Board's Executive and Nomination Committee. If and to the extent that the paid forms of secondary employment are directly related to the Bank (e.g. in cases involving mandates within the Group), the remuneration paid for these activities is offset against the individual's fixed annual salary. In the event that members of the Management Board assume positions in executive bodies outside of the Group, the Supervisory Board is responsible for deciding whether to offset the remuneration earned by the Management Board member in question against the total remuneration from his or her Management Board position.

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).

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) nos. 10 and 11 of the 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.

The provisions enacted by the German Risk Reduction Act (Risikoreduzierungs-gesetz – "RiG") (section 45 (2) and (7) of the KWG) allow the competent supervisory authority to prohibit the payment of variable remuneration if state support measures are used or if the remuneration system is assessed as being inappropriate. The Supervisory Board will observe any corresponding regulatory restrictions.

Additional conditions for achievement of Group targets

In addition to ensuring sufficient risk-bearing capacity, the Supervisory Board defines additional conditions that would lead to the forfeiture of the Group component in the event of non-fulfilment. These additional conditions are set via specific indicators of sufficient capital and liquidity resources, and usually relate to CET1 and LC ratios that exceed the minimum thresholds.

Benefits paid in the event of temporary, non-permanent incapacity for work

In the event of temporary, non-permanent incapacity for work, members continue to receive their fixed annual salary for a period of up to six months. The Supervisory Board can decide at its own discretion whether the variable remuneration components are also granted in full or in part for the periods in which continued salary payments are made.

Contractual terms; permanent disability; death

The Management Board employment contracts are concluded for the duration of the appointment

period in each case. This is usually three years for an initial appointment and five years for each subsequent appointment. In accordance with the German Public Limited Companies Act, the employment contracts do not provide for any option for termination for convenience; the right of both parties to terminate the employment contract without notice for good cause remains unaffected.

The Management Board employment contract ends automatically if the member becomes permanently incapacitated for work. In such cases, the Management Board employment contracts provide for the continued payment of the fixed annual salary (plus (substitute) social security contributions) from the beginning of the permanent disability and for a period of up to six months (taking into account the periods for which continued salary payments were already made), but not extending beyond the point in time at which the employment contract would have ended normally.

The contracts of employment may state that, if a member of the Management Board dies during the term of his/her contract, widows, widowers or civil partners and legitimate children (provided they have not yet turned 27 and are still in vocational training/further education) are entitled, as joint and several creditors, to continued fixed salary payments for the month of death and the following six months, but until the contract ends at the latest. In such cases, the variable remuneration is calculated pro rata for the period leading up to the member's death.

Rules governing severance pay

The Management Board employment contracts do not (with the exception of the provisions that apply in the event of a change of control) 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 and must not constitute remuneration for more than the remaining term of the employment contract (severance cap).

In the event of the loss of a Management Board position due to a **change of control** (i.e. essentially in cases of involuntary loss), the Management Board employment contracts may state that the members are to be paid the fixed remuneration component, the performance-related remuneration as well as the contractually agreed ancillary benefits for the remainder of the term of the contract. In such cases, 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 cases like these, the extent to which sectional and individual targets were achieved on average during the last three financing years prior to the termination of the Management Board position is used as a basis to determine the target achievement level for the individual and sectional targets for the remaining term of the contract.

In the event of resignation from the Management Board within a certain period after a change of control, the Management Board employment contracts may state that the members are only to receive the fixed remuneration and the contractually agreed ancillary benefits for the remainder of the term of the contract. In this case, the contracts do not provide for any entitlement to the variable remuneration component.

The total amount of the payments made to a member who has left due to a change of control is also limited to the severance cap of a maximum of two years' remuneration/remuneration for the remaining term of the contract.

Newcomer rule

The Supervisory Board can 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 decides upon the specific selection as well as remuneration of individual Management Board members, within its reasonable discretion, and taking the Company's specific needs and the general appropriateness review into account, it is possible to diverge from this rule.

The Supervisory Board has decided to only gradually build up the three-year period for measuring remuneration targets (phase I) for newly appointed Management Board members. 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 correspondingly for periods with a shortened assessment period. Hence, for the first year, the assessment period is only one year, with the deferral period being 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.

Post-contractual non-compete clause

The Supervisory Board can agree a post-contractual non-compete clause for a period of up to 24 months. For this period, appropriate compensation to be determined on a case-by-case basis is agreed. Furthermore, if such a non-compete clause is agreed, the employment contracts generally state that the compensation is to be paid in monthly instalments, offsetting any severance payments.

Appropriateness review

In accordance with section 12 of the German Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung – InstVergV), the Supervisory Board regularly (at least annually) checks

whether Management Board and employee remuneration is appropriate.

The appropriateness of the remuneration paid to the Management Board is assessed in particular in view of the remit and performance of the Management Board member, as well as the Bank's situation. The function, area of responsibility and experience of the individual Management Board members are taken into account when determining the amount of the total target remuneration. As a result, the Supervisory Board can set different remuneration levels for different Management Board members at its own due discretion, taking into account criteria such as standard market practice, the experience of the Management Board member, his/her length of service on the Management Board and the Management Board members area of responsibility.

When assessing whether the Management Board remuneration is in line with standard market practice, both vertical compatibility with peer group companies and horizontal compatibility with the remuneration structures for the employees of Aareal Bank AG in Germany are taken into account.

The vertical comparison involves looking at how the Management Board remuneration relates to the remuneration paid to the senior management team, and how it relates to the remuneration paid to the workforce as a whole. For the purposes of the vertical comparison, the workforce as a whole refers to all employees of Aareal Bank AG and its German Group companies working in Germany. As well as looking at how the remuneration paid to the two comparison groups currently relates to the remuneration paid to the Management Board, the Supervisory Board also looks at the development of the remuneration paid to the groups described over time.

When setting the Management Board remuneration, the Supervisory Board also ensures that the remuneration system for Management Board members is compatible with the system used for employees who are not covered by a collective agreement. This is achieved, among other things, by ensuring that the structure of the variable remuneration

system – apart from regulatory requirements – is essentially the same for the Management Board and the Bank's employees: the incentives set for the Management Board and employees are focused on the Group's performance, and individual employee targets are developed based on the Management Board's sectional targets, which are, as a result, also closely linked to the corporate strategy. The pension benefits for employees are also aligned with the system that applies to the Management Board members, which is reflected, by way of example, in the fact that the same interest rate applies.

In addition, a full review is conducted at least every four years and at the latest before the remuneration system is resubmitted to the Annual General Meeting for approval. In addition to reviewing the amount of remuneration paid to the Management Board members, this review also takes into account employees' remuneration and employment conditions.

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 horizontal comparison groups. The comparison group companies are selected based on Aareal Bank's market position (in particular: sector, size, country). Therefore, the comparison groups are companies listed in the relevant stock exchange indices (currently the DAX, MDAX und SDAX), as well as banks of a similar size. The composition of the peer groups is reviewed on a regular basis as part of the full appropriateness review process.

Right to allow temporary deviations from the remuneration system

The Supervisory Board is entitled to temporarily deviate from the remuneration system for Management Board members pursuant to section 87a (2) of the AktG if it is necessary for the sake of the Company's long-term wellbeing.

This can prove necessary, for example, in the event of far-reaching and extraordinary changes in the economic situation, such as the occurrence of a severe economic crisis. Similarly, a significant change in corporate strategy may require a deviation from

this remuneration system in order to ensure that appropriate incentives are set.

Deviations from the remuneration system are only possible by way of a corresponding Supervisory Board resolution based on a proposal put forward by the Remuneration Control Committee confirming the need for the deviation.

The option of deviating from the remuneration system for the Management Board temporarily is limited to the following components: the amount of the fixed maximum remuneration, the performance criteria for variable remuneration, ranges for possible target achievement levels for the variable remuneration parameters, the specific remuneration components and the relative shares of fixed and variable remuneration components. Deviations can also be made by temporarily granting additional remuneration components, for example in the form of extraordinary ancillary and special benefits.

Remuneration of the Management Board

Measures in the 2020 financial year

Absence of Hermann J. Merkens due to ill health

The Chairman of the Management Board of Aareal Bank AG, Hermann J. Merkens, informed the Supervisory Board and the other members of the Management Board on 8 November 2020 that for health reasons, he would not be able to perform his duties as member and Chairman of the Management Board for an expected period of three to four months. The other members of the Management Board assumed Mr Merkens' portfolio of responsibilities based on the substitution regulations in place with immediate effect. This relates primarily to Marc Hess, who, in addition to his role as Chief Financial Officer, assumed responsibility for Group Strategy, Group Communications and Governmental Affairs and Investor Relations/Sustainability, and Thomas Ortmanns, who, in addition to his role as Chief Digitalisation Officer, assumed responsibility for Group Human Resources & Infrastructure and Corporate Affairs, including the Legal department.

Increase in share deferral

For the ordinary members of the Management Board, the share deferral portion of the variable remuneration has been increased from 30 % to 35 %. The share of cash deferral has been reduced from 30 % to 25 % in turn. This increases the proportion of variable remuneration attributable to share-based payment to a total of 55 %, which already takes effect for the 2020 financial year. This adjustment has not yet been made for Mr Merkens due to his leave of absence.

Target achievement in the 2020 financial year

Target achievement

Due to the Covid-19-related low level of Group target achievement for the reporting year 2020, target achievement for individual Management Board members was significantly reduced, to approximately 50 %. Given the three-year target measurement period, this will also have a negative impact upon variable remuneration for the two subsequent years. Likewise, the overall target achievement level for 2020 – on a three-year basis – also comprises target achievement levels for the two previous years, leading to a level of approximately 70 % for each member of the Management Board.

Group performance targets 2020

Group performance is calculated by multiplying the target achievement level for an earnings target with a risk-adjusting indicator. At the beginning of the year, consolidated operating profit before taxes of € 215 million and a target RWA level of € 17.2 billion based on Basel IV (fully phased-in) – as a risk-adjusting indicator – were set as the earnings target for 100 % target achievement. The target RWA level was achieved. However, the Covid-19 pandemic – and the precautionary measures taken in response – resulted in the Group reporting negative consolidated operating profit. The Supervisory Board has made allowances for these extraordinary developments by applying the "modifier", using the maximum adjustment level of 20 percentage points to ensure appropriate recognition of the Management Board's actual performance despite the Covid-19 pandemic, which was outside of their control.

| | Hermann J. Merkens | Marc Hess | Dagmar Knopek | Christiane Kunisch-Wolff | Thomas Ortmanns | Christof Winkelmann |
|--|--------------------|----------------|----------------|--------------------------|-----------------|---------------------|
| % | | | | | | |
| 2020 Group targets | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Sectional targets | 110.0 | 110.0 | 110.0 | 110.0 | 110.0 | 110.0 |
| Individual targets | 120.0 | 130.0 | 120.0 | 120.0 | 130.0 | 120.0 |
| Target achievement for 2020 | 50.0 | 51.6 | 50.0 | 50.0 | 51.6 | 50.0 |
| Overall target achievement for 2020, based on a three-year observation period | 71.7 | 72.9 | 70.6 | 71.2 | 72.1 | 71.7 |
| Amount of variable remuneration (€) | 895,626 | 568,231 | 550,680 | 555,360 | 562,380 | 558,871 |

Sectional and individual targets 2020

Specific sectional and individual targets were defined for each Management Board member. Whilst the individual targets reflect 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 overall 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. The measurement of the individual contribution is based, among other things, on the "risk culture report", which assesses the supervisory authorities' expectations regarding managers as role models, the personal responsibility of employees, the benefits of open, critical and constructive communication spanning all hierarchical levels and divisions, and the appropriate incentive effect of monetary and non-monetary instruments.

The target achievement levels for the sectional and individual contributions made by the individual members of the Management Board resulted from the following main reasons:

Hermann-Josef Merkens

Aareal Bank's effectiveness was strengthened through the further process-oriented alignment of the Bank's organisational structure and processes,

as well as measures to optimise the integrated Group management approach. The results of the employee survey conducted in 2019 were implemented systematically and, in particular, progress was made in rejuvenating Aareal Bank by recruiting more young professionals. Cross-sectional ESG opportunity and risk management was established, and Aareal Bank's ESG measures initiated were positioned in the capital markets, which was reflected in positive external ESG ratings.

With regard to Hermann J. Merkens's individual contribution, the Supervisory Board recognised the fact that the projects and tasks assigned to him as part of the Aareal Next Level strategic framework were implemented despite the Covid-19 pandemic, while at the same time, the culture of discussion was promoted as a key outcome of the employee survey, and the sale of a minority stake in Aareon was successfully executed with his intensive involvement.

Even though Mr Merkens was unable to contribute to achievement of his targets during his time of absence, given the temporary nature of his absence during 2020, this only had a minor impact on target measurement.

Marc Hess

Aareal Bank's funding structure was optimised, allowing the Bank to maintain sufficient liquidity and capital resources at all times, even in the face

of increased lending and the Covid-19 pandemic. In addition, Aareal Bank shaped its ESG profile, allowing the Bank to exploit more favourable funding terms, and to achieve higher allocations for bond issues of public-sector entities in some cases. The organisation's cost control and effectiveness have also been strengthened.

The projects and tasks assigned to him as part of the Aareal Next Level strategic framework were implemented despite the Covid-19 pandemic and the culture of discussion was promoted at the same time as a key outcome of the employee survey. Hermann Merkens's responsibilities for Group Strategy, Group Communications and Governmental Affairs and Investor Relations/Sustainability were continued successfully by Marc Hess in Mr Merkens's absence – in particular, the review of the strategic programme (which had been commenced) against the backdrop of the Covid-19 pandemic (the so-called 360-degree review) was completed.

Dagmar Knopek

The reduction in the Bank's non-core assets exceeded the planned level. In order to make lending more effective, Dagmar Knopek ensured, in particular, that processes were digitalised further. Transparency was enhanced in the property portfolio with regard to various ESG criteria, and this was reflected in lending processes.

The credit portfolio and the NPL portfolio were managed appropriately in the context of the Covid-19 pandemic, in particular thanks to co-operation between different divisions as promoted by Dagmar Knopek.

Christiane Kunisch-Wolff

The frequent adoption of new regulatory requirements, which were introduced even more frequently due to the Covid-19 pandemic, was anticipated and implemented at an early stage. In particular, this strengthened the adequacy and effectiveness of the risk management and internal control systems with regard to information security risks, cyber resilience, ESG, IT stability, sanctions as well as money laundering within the limits of the cost budget earmarked for this purpose.

Christiane Kunisch-Wolff ensured that immediate changes were made to risk and monitoring systems to deal with the Covid-19 pandemic, while intensively promoting their ongoing digital development. Thanks to increased transparency, the management of the Bank by the Management Board was optimised. She served as a role model regarding the benefits of a positive and constructive discussion culture in her direct contact with managers and non-managers alike. Ms Kunisch-Wolff successfully assumed Mr Merkens's responsibility for Group Audit during his absence.

Thomas Ortmanns

When it comes to responsibility for business divisions, the sectional contribution is measured primarily based on key operating figures. Even though Aareon's planned adjusted EBITDA for 2020 was not fully achieved, due to Covid-19, significant strategic product enhancements (including Virtual Assistant, Predictive Maintenance, Smart Platform) were implemented whilst clearly remaining below the cost budget that had been set. This is reflected, among other things, in increased revenue generated with digital products, despite Covid-19.

The projects and tasks assigned to him as part of the Aareal Next Level strategic framework were implemented despite the Covid-19 pandemic and the culture of discussion was promoted at the same time as a key outcome of the employee survey. The partial sale of Aareon AG was successfully supported. Hermann Merkens's responsibilities for Group Human Resources & Infrastructure and Corporate Affairs, including the Legal department, were continued successfully during his absence. Mr Ortmanns ensured that sufficient IT stability was ascertained at all times, despite a large number of employees working from home, and the availability of IT capacities for the digital further development of Aareal Bank Group's products and processes thanks to his intensive personal commitment. In addition, Thomas Ortmanns very successfully chaired the Pandemic Committee, which managed the internal response to the Covid-19 pandemic efficiently and, in doing so, made a significant contribution to protecting the workforce.

Christof Winkelmann

The portfolio targets were all achieved or exceeded. In particular, growth in those property markets that are relevant to Aareal Bank was achieved in spite of the Covid-19 pandemic, while the syndication ratio was increased as planned and new products, such as green lending products, were developed at the same time.

The increased flexibility in business activities already achieved in recent years allowed the portfolio to be readjusted during the year, in particular to increase the logistics property type. With his intensive involvement, contact with Aareal Bank's clients was intensified and they were supported in their response to the Covid-19 pandemic. Christof Winkelmann played a key role in promoting the close coordination between Aareal Bank Group employees that is necessary for management purposes. He assumed the function of membership on the Supervisory Board of Aareal Estate AG in Mr Merkens's absence, as well as various communications tasks.

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. No penalty-triggering events were found.

Other information

No severance payments were agreed with Management Board members in the last financial year.

What is more, the annual backtesting of past target achievement did not reveal any indications requiring a decision on a subsequent adjustment to the variable remuneration and a possible clawback via clawback provisions agreed in the service contract.

Total remuneration

In accordance with German commercial law in conjunction with GAS 17, the following table shows fixed and other remuneration for members

| | Year | Fixed remuneration | Variable remuneration | | | | Target achievement level | Total | Ancillary benefits | Total remuneration |
|--------------------------|-------------|--------------------|-----------------------|-----------------------------|------------------|------------------------------|--------------------------|------------------|--------------------|--------------------|
| | | | Cash component | Share-based component | | | | | | |
| | | | Cash bonus | Cash deferral ¹⁾ | Share bonus | Share deferral ¹⁾ | | | | |
| € | | | | | | | | | | |
| Hermann J. Merkens | 2020 | 1,425,000 | 179,125 | 268,688 | 179,125 | 268,688 | 71.7 % | 895,626 | 69,680 | 2,390,306 |
| | 2019 | 1,425,000 | 257,825 | 386,738 | 257,825 | 386,738 | 103.1 % | 1,289,126 | 36,079 | 2,750,205 |
| Marc Hess ²⁾ | 2020 | 900,000 | 113,646 | 142,058 | 113,646 | 198,881 | 72.9 % | 568,231 | 100,791 | 1,569,022 |
| | 2019 | 900,000 | 157,638 | 236,457 | 157,638 | 236,457 | 101.1 % | 788,190 | 39,855 | 1,728,045 |
| Dagmar Knopek | 2020 | 900,000 | 110,136 | 137,670 | 110,136 | 192,738 | 70.6 % | 550,680 | 38,959 | 1,489,639 |
| | 2019 | 900,000 | 156,671 | 235,006 | 156,671 | 235,006 | 100.4 % | 783,354 | 56,012 | 1,739,366 |
| Christiane Kunisch-Wolff | 2020 | 900,000 | 111,072 | 138,840 | 111,072 | 194,376 | 71.2 % | 555,360 | 38,965 | 1,494,325 |
| | 2019 | 859,957 | 153,754 | 230,631 | 153,754 | 230,631 | 102.2 % | 768,770 | 34,797 | 1,663,524 |
| Thomas Ortmanns | 2020 | 900,000 | 112,476 | 140,595 | 112,476 | 196,833 | 72.1 % | 562,380 | 38,598 | 1,500,978 |
| | 2019 | 900,000 | 159,245 | 238,867 | 159,245 | 238,867 | 102.1 % | 796,224 | 40,678 | 1,736,902 |
| Christof Winkelmann | 2020 | 900,000 | 111,774 | 139,718 | 111,774 | 195,605 | 71.7 % | 558,871 | 34,886 | 1,493,757 |
| | 2019 | 802,000 | 146,776 | 220,165 | 146,776 | 220,165 | 103.3 % | 733,882 | 38,245 | 1,574,127 |
| Total | 2020 | 5,925,000 | 738,229 | 967,569 | 738,229 | 1,247,121 | 71.7 % | 3,691,148 | 321,879 | 9,938,027 |
| | 2019 | 5,786,957 | 1,031,909 | 1,547,864 | 1,031,909 | 1,547,864 | 102.1 % | 5,159,546 | 245,666 | 11,192,169 |

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

²⁾ The increase in ancillary benefits for Marc Hess in 2020 is mainly due to the one-off effect of security expenses incurred in the 2020 reporting year.

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 € 1.7 million (2019: € 2.3 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 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 remuneration arrangements as well as the corresponding number of virtual shares granted in 2020 and 2019, respectively – as well as the number of virtual shares already held as at the reporting date.

| | Year | Share-based remuneration | | Total quantity of virtual shares held (31 Dec) |
|--------------------------|-------------|--------------------------|---------------------------------|--|
| | | Value (€) | Quantity (number) ¹⁾ | Quantity (number) |
| Hermann J. Merkens | 2020 | 447,813 | 22,906 | 47,218 |
| | 2019 | 644,563 | 25,357 | 58,753 |
| Mark Hess | 2020 | 312,527 | 15,986 | 6,502 |
| | 2019 | 394,095 | 15,503 | 1,405 |
| Dagmar Knopek | 2020 | 302,874 | 15,492 | 27,916 |
| | 2019 | 391,677 | 15,408 | 35,689 |
| Christiane Kunisch-Wolff | 2020 | 305,448 | 15,624 | 19,405 |
| | 2019 | 384,385 | 15,121 | 18,504 |
| Thomas Ortmanns | 2020 | 309,309 | 15,821 | 28,007 |
| | 2019 | 398,112 | 15,661 | 35,942 |
| Christof Winkelmann | 2020 | 307,379 | 15,723 | 17,805 |
| | 2019 | 366,941 | 14,435 | 15,751 |
| Total | 2020 | 1,985,350 | 101,552 | 146,853 |
| | 2019 | 2,579,773 | 101,485 | 166,044 |

¹⁾ The stated number of virtual shares granted for 2020 is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2020 (€ 19.55). The final conversion rate may only be determined after publication of preliminary results for 2020. The stated number of virtual shares granted for 2019 differs from the previous year's figure since the former was calculated using a final conversion rate of € 25.42.

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 sections 4.2.4 and 4.2.5 of the German Corporate Governance Code in the version dated 7 February 2017. In addition, the defined maximum remuneration is shown as an absolute upper limit pursuant to section 87a (1) I of the AktG.

| Remuneration granted | Hermann J. Merkens – Chairman of the Management Board | | | |
|----------------------------------|---|------------------|--------------------------|--------------------------|
| | 2019 | 2020 | 2020 (min) ¹⁾ | 2020 (max) ²⁾ |
| € | | | | |
| Fixed remuneration | 1,425,000 | 1,425,000 | 1,425,000 | 1,425,000 |
| Ancillary benefits | 36,079 | 69,680 | 69,680 | 69,680 |
| Total | 1,461,079 | 1,494,680 | 1,494,680 | 1,494,680 |
| One-year variable remuneration | 250,000 | 179,125 | – | 375,000 |
| Multi-year variable remuneration | | | | |
| Cash deferral 2020 (March 2026) | – | 268,688 | – | 562,500 |
| Share bonus 2020 (March 2021) | – | 179,125 | – | 375,000 |
| Share deferral 2020 (March 2026) | – | 268,688 | – | 562,500 |
| Cash deferral 2019 (March 2025) | 375,000 | – | – | – |
| Share bonus 2019 (March 2020) | 250,000 | – | – | – |
| Share deferral 2019 (March 2025) | 375,000 | – | – | – |
| Total | 1,250,000 | 895,626 | – | 1,875,000 |
| Benefit expense ³⁾ | 788,303 | 864,322 | 864,322 | 864,322 |
| Total remuneration | 3,499,382 | 3,254,628 | 2,359,002 | 4,234,002 |

| Remuneration granted | Mark Hess | | | |
|----------------------------------|------------------|------------------|--------------------------|--------------------------|
| | 2019 | 2020 | 2020 (min) ¹⁾ | 2020 (max) ²⁾ |
| € | | | | |
| Fixed remuneration | 900,000 | 900,000 | 900,000 | 900,000 |
| Ancillary benefits | 39,855 | 100,791 | 100,791 | 100,791 |
| Total | 939,855 | 1,000,791 | 1,000,791 | 1,000,791 |
| One-year variable remuneration | 156,000 | 113,646 | – | 234,000 |
| Multi-year variable remuneration | | | | |
| Cash deferral 2020 (March 2026) | – | 142,058 | – | 292,500 |
| Share bonus 2020 (March 2021) | – | 113,646 | – | 234,000 |
| Share deferral 2020 (March 2026) | – | 198,881 | – | 409,500 |
| Cash deferral 2019 (March 2026) | 234,000 | – | – | – |
| Share bonus 2019 (March 2020) | 156,000 | – | – | – |
| Share deferral 2019 (March 2026) | 234,000 | – | – | – |
| Total | 780,000 | 568,231 | – | 1,170,000 |
| Benefit expense ³⁾ | 519,026 | 637,516 | 637,516 | 637,516 |
| Total remuneration | 2,238,881 | 2,206,538 | 1,638,307 | 2,808,307 |

¹⁾ Minimum amount of the remuneration component granted in the year under review

²⁾ Maximum amount of the remuneration component granted in the year under review

³⁾ Benefit expense refers to the service cost pursuant to IAS 19. The figures for 2019 were adjusted accordingly to reflect the service cost pursuant to IAS 19 for 2019.

| Remuneration granted | Dagmar Knopek | | | |
|----------------------------------|------------------|------------------|--------------------------|--------------------------|
| | 2019 | 2020 | 2020 (min) ¹⁾ | 2020 (max) ²⁾ |
| € | | | | |
| Fixed remuneration | 900,000 | 900,000 | 900,000 | 900,000 |
| Ancillary benefits | 56,012 | 38,959 | 38,959 | 38,959 |
| Total | 956,012 | 938,959 | 938,959 | 938,959 |
| One-year variable remuneration | 156,000 | 110,136 | – | 234,000 |
| Multi-year variable remuneration | | | | |
| Cash deferral 2020 (March 2026) | – | 137,670 | – | 292,500 |
| Share bonus 2020 (March 2021) | – | 110,136 | – | 234,000 |
| Share deferral 2020 (March 2026) | – | 192,738 | – | 409,500 |
| Cash deferral 2019 (March 2025) | 234,000 | – | – | – |
| Share bonus 2019 (March 2020) | 156,000 | – | – | – |
| Share deferral 2019 (March 2025) | 234,000 | – | – | – |
| Total | 780,000 | 550,680 | – | 1,170,000 |
| Benefit expense ³⁾ | 395,582 | 429,474 | 429,474 | 429,474 |
| Total remuneration | 2,131,594 | 1,919,113 | 1,368,433 | 2,538,433 |

| Remuneration granted | Christiane Kunisch-Wolff | | | |
|----------------------------------|--------------------------|------------------|--------------------------|--------------------------|
| | 2019 | 2020 | 2020 (min) ¹⁾ | 2020 (max) ²⁾ |
| € | | | | |
| Fixed remuneration | 859,957 | 900,000 | 900,000 | 900,000 |
| Ancillary benefits | 34,797 | 38,965 | 38,965 | 38,965 |
| Total | 894,754 | 938,965 | 938,965 | 938,965 |
| One-year variable remuneration | 150,400 | 111,072 | – | 234,000 |
| Multi-year variable remuneration | | | | |
| Cash deferral 2020 (March 2026) | – | 138,840 | – | 292,500 |
| Share bonus 2020 (March 2021) | – | 111,072 | – | 234,000 |
| Share deferral 2020 (March 2026) | – | 194,376 | – | 409,500 |
| Cash deferral 2019 (March 2025) | 225,600 | – | – | – |
| Share bonus 2019 (March 2020) | 150,400 | – | – | – |
| Share deferral 2019 (March 2025) | 225,600 | – | – | – |
| Total | 752,000 | 555,360 | – | 1,170,000 |
| Benefit expense ³⁾ | 460,018 | 557,884 | 557,884 | 557,884 |
| Total remuneration | 2,106,772 | 2,052,209 | 1,496,849 | 2,666,849 |

¹⁾ Minimum amount of the remuneration component granted in the year under review

²⁾ Maximum amount of the remuneration component granted in the year under review

³⁾ Benefit expense refers to the service cost pursuant to IAS 19. The figures for 2019 were adjusted accordingly to reflect the service cost pursuant to IAS 19 for 2019.

| Remuneration granted | Thomas Ortmanns | | | |
|----------------------------------|------------------|------------------|--------------------------|--------------------------|
| | 2019 | 2020 | 2020 (Min) ¹⁾ | 2020 (Max) ²⁾ |
| € | | | | |
| Fixed remuneration | 900,000 | 900,000 | 900,000 | 900,000 |
| Ancillary benefits | 40,678 | 38,598 | 38,598 | 38,598 |
| Total | 940,678 | 938,598 | 938,598 | 938,598 |
| One-year variable remuneration | 156,000 | 112,476 | – | 234,000 |
| Multi-year variable remuneration | | | | |
| Cash deferral 2020 (March 2026) | – | 140,595 | – | 292,500 |
| Share bonus 2020 (March 2021) | – | 112,476 | – | 234,000 |
| Share deferral 2020 (March 2026) | – | 196,833 | – | 409,500 |
| Cash deferral 2019 (March 2025) | 234,000 | – | – | – |
| Share bonus 2019 (March 2020) | 156,000 | – | – | – |
| Share deferral 2019 (March 2025) | 234,000 | – | – | – |
| Total | 780,000 | 562,380 | – | 1,170,000 |
| Benefit expense ³⁾ | 574,053 | 431,854 | 431,854 | 431,854 |
| Total remuneration | 2,294,731 | 1,932,832 | 1,370,452 | 2,540,452 |

| Remuneration granted | Christof Winkelmann | | | |
|----------------------------------|---------------------|------------------|--------------------------|--------------------------|
| | 2019 | 2020 | 2020 (Min) ¹⁾ | 2020 (Max) ²⁾ |
| € | | | | |
| Fixed remuneration | 802,000 | 900,000 | 900,000 | 900,000 |
| Ancillary benefits | 38,245 | 34,886 | 34,886 | 34,886 |
| Total | 840,245 | 934,886 | 934,886 | 934,886 |
| One-year variable remuneration | 142,115 | 111,774 | – | 234,000 |
| Multi-year variable remuneration | | | | |
| Cash deferral 2020 (March 2026) | – | 139,718 | – | 292,500 |
| Share bonus 2020 (March 2021) | – | 111,774 | – | 234,000 |
| Share deferral 2020 (March 2026) | – | 195,605 | – | 409,500 |
| Cash deferral 2019 (March 2025) | 213,173 | – | – | – |
| Share bonus 2019 (March 2020) | 142,115 | – | – | – |
| Share deferral 2019 (March 2025) | 213,173 | – | – | – |
| Total | 710,576 | 558,871 | – | 1,170,000 |
| Benefit expense ³⁾ | 509,514 | 720,696 | 720,696 | 720,696 |
| Total remuneration | 2,060,335 | 2,214,453 | 1,655,582 | 2,825,582 |

¹⁾ Minimum amount of the remuneration component granted in the year under review

²⁾ Maximum amount of the remuneration component granted in the year under review

³⁾ Benefit expense refers to the service cost pursuant to IAS 19. The figures for 2019 were adjusted accordingly to reflect the service cost pursuant to IAS 19 for 2019.

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 in the version dated 7 February 2017. 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 | | Dagmar Knopek | | Christiane Kunisch-Wolff | |
|----------------------------------|---|------------------|------------------|------------------|------------------|------------------|-----------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| € | | | | | | | | |
| Fixed remuneration | 1,425,000 | 1,425,000 | 900,000 | 900,000 | 900,000 | 900,000 | 900,000 | 859,957 |
| Ancillary benefits | 69,680 | 36,079 | 100,791 | 39,855 | 38,959 | 56,012 | 38,965 | 34,797 |
| Total | 1,494,680 | 1,461,079 | 1,000,791 | 939,855 | 938,959 | 956,012 | 938,965 | 894,754 |
| One-year variable remuneration | 257,825 | 304,248 | 157,638 | 40,329 | 156,671 | 164,256 | 153,754 | 139,085 |
| Multi-year variable remuneration | – | – | – | – | – | – | – | – |
| Cash deferral 2016 (April 2020) | 191,250 | – | – | – | 107,503 | – | 68,511 | – |
| Cash deferral 2017 (April 2020) | 173,238 | – | – | – | 98,993 | – | 79,194 | – |
| Cash deferral 2018 (April 2020) | 91,274 | – | 8,642 | – | 49,277 | – | 41,725 | – |
| Share bonus 2016 (April 2020) | 269,482 | – | – | – | 151,478 | – | 96,536 | – |
| Share bonus 2018 (April 2020) | 269,383 | – | 35,707 | – | 145,433 | – | 123,146 | – |
| Share deferral 2014 (April 2020) | 66,766 | – | – | – | 66,607 | – | – | – |
| Share deferral 2015 (April 2020) | 139,985 | – | – | – | 99,373 | – | – | – |
| Share deferral 2016 (April 2020) | 135,307 | – | – | – | 76,057 | – | 48,470 | – |
| 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 | – | 2,950 | – | 78,046 | – | 41,361 |
| Total | 1,594,510 | 1,594,332 | 201,987 | 43,279 | 951,392 | 1,023,207 | 611,336 | 327,580 |
| Benefit expense ¹⁾ | 864,322 | 788,303 | 637,516 | 519,026 | 429,474 | 395,582 | 557,884 | 460,018 |
| Total remuneration | 3,953,512 | 3,843,714 | 1,840,294 | 1,502,160 | 2,319,825 | 2,374,801 | 2,108,185 | 1,682,352 |

¹⁾ Benefit expense refers to the service cost pursuant to IAS 19. The figures for 2019 were adjusted accordingly to reflect the service cost pursuant to IAS 19 for 2019.

| Remuneration paid | Thomas Ortmanns | | Christof Winkelmann | | Dr Wolf Schumacher ²⁾ | |
|----------------------------------|------------------|------------------|---------------------|------------------|----------------------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| € | | | | | | |
| Fixed remuneration | 900,000 | 900,000 | 900,000 | 802,000 | – | – |
| Ancillary benefits | 38,598 | 40,678 | 34,886 | 38,245 | – | – |
| Total | 938,598 | 940,678 | 934,886 | 840,245 | – | – |
| One-year variable remuneration | 159,245 | 173,856 | 146,776 | 139,085 | – | – |
| Multi-year variable remuneration | – | – | – | – | – | – |
| Cash deferral 2016 (April 2020) | 108,151 | – | 43,099 | – | – | – |
| Cash deferral 2017 (April 2020) | 97,784 | – | 80,161 | – | – | – |
| Cash deferral 2018 (April 2020) | 52,157 | – | 41,725 | – | – | – |
| Share bonus 2016 (April 2020) | 152,392 | – | 60,728 | – | – | – |
| Share bonus 2018 (April 2020) | 153,933 | – | 123,146 | – | – | – |
| Share deferral 2014 (April 2020) | 66,238 | – | – | – | 116,563 | – |
| Share deferral 2015 (April 2020) | 98,774 | – | – | – | 128,954 | – |
| Share deferral 2016 (April 2020) | 76,516 | – | 30,492 | – | – | – |
| 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 | – | 35,240 | – | 31,001 |
| Total | 965,190 | 1,071,859 | 526,127 | 297,117 | 245,517 | 905,358 |
| Benefit expense ¹⁾ | 431,854 | 574,053 | 720,696 | 509,514 | – | – |
| Total remuneration | 2,335,642 | 2,586,590 | 2,181,709 | 1,646,876 | 245,517 | 905,358 |

¹⁾ Benefit expense refers to the service cost pursuant to IAS 19. The figures for 2019 were adjusted accordingly to reflect the service cost pursuant to IAS 19 for 2019.

²⁾ Dr Wolf Schumacher resigned with effect from 30 September 2015.

Pensions

| | 2020 | | | 2019 | | |
|--------------------------|------------------------------------|---|--|------------------------------------|---|--|
| | Pension claims p. a. ¹⁾ | Balance of pension obligations (IFRS) as at 31 Dec 2020 | Increase of pension obligations (IFRS) in 2020 | Pension claims p. a. ¹⁾ | Balance of pension obligations (IFRS) as at 31 Dec 2019 | Increase of pension obligations (IFRS) in 2019 |
| 000's € | | | | | | |
| Hermann J. Merkens | 396 | 11,426 | 1,859 | 371 | 9,567 | 2,297 |
| Marc Hess | 62 | 1,776 | 873 | 35 | 902 | 754 |
| Dagmar Knopek | 145 | 3,992 | 702 | 127 | 3,290 | 780 |
| Christiane Kunisch-Wolff | 97 | 2,769 | 771 | 75 | 1,998 | 826 |
| Thomas Ortmanns | 308 | 9,237 | 1,270 | 294 | 7,967 | 1,610 |
| Christof Winkelmann | 121 | 4,314 | 1,649 | 92 | 2,664 | 1,436 |
| Total | 1,129 | 33,514 | 7,124 | 994 | 26,388 | 7,703 |

¹⁾ The pension claims mentioned refer to old-age pension earned as at 31 December of the year under review, based on the grants made by the Bank, at the applicable retirement age.

Service cost (in accordance with IFRSs) incurred in the 2020 financial year in connection with the pension claims of members of the Management Board totalled € 4.0 million (2019: € 3.6 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 € 8.4 million in the year under review (2019: € 10.3 million). The total amount of pension obligations is € 70.1 million (2019: € 61.8 million). Of that amount, € 36.6 million relates to former members of the Management Board and their surviving dependants (2019: € 35.4 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. The members of the Supervisory Board are also included in a D&O (directors' and officers') liability insurance policy maintained by the Bank in an appropriate amount with a deductible of 10 %.

| Remuneration element | Description | Structure |
|------------------------|--|---|
| Fixed remuneration | Remuneration for activities on 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 | 2020 | 265,000 | 55,000 | 320,000 |
| | 2019 | 265,000 | 37,000 | 302,000 |
| Richard Peters Deputy Chairman (since 27 May 2020) | 2020 | 114,903 | 44,000 | 158,903 |
| | 2019 | 100,000 | 25,000 | 125,000 |
| Prof. Dr Stephan Schüller Deputy Chairman (until 27 May 2020) | 2020 | 51,042 | 19,000 | 70,042 |
| | 2019 | 125,000 | 23,000 | 148,000 |
| Klaus Novatius Deputy Chairman | 2020 | 105,000 | 37,000 | 142,000 |
| | 2019 | 105,000 | 21,000 | 126,000 |
| Jana Brendel (since 27 May 2020) | 2020 | 50,528 | 14,000 | 64,528 |
| | 2019 | – | – | – |
| Christof von Dryander (since 27 May 2020) | 2020 | 59,444 | 25,000 | 84,444 |
| | 2019 | – | – | – |
| Thomas Hawel | 2020 | 65,000 | 22,000 | 87,000 |
| | 2019 | 65,000 | 13,000 | 78,000 |
| Petra Heinemann-Specht | 2020 | 81,889 | 29,000 | 110,889 |
| | 2019 | 70,000 | 15,000 | 85,000 |
| Jan Lehmann (since 27 May 2020) | 2020 | 38,639 | 12,000 | 50,639 |
| | 2019 | – | – | – |
| Dr Hans-Werner Rhein (until 27 May 2020) | 2020 | 34,708 | 17,000 | 51,708 |
| | 2019 | 85,000 | 21,000 | 106,000 |
| Sylvia Seignette | 2020 | 90,000 | 24,000 | 114,000 |
| | 2019 | 90,000 | 15,000 | 105,000 |
| Elisabeth Stheeman ¹⁾ | 2020 | 85,000 | 28,000 | 113,000 |
| | 2019 | 85,000 | 19,000 | 104,000 |
| Hans-Dietrich Voigtländer | 2020 | 115,000 | 38,000 | 153,000 |
| | 2019 | 115,000 | 25,000 | 140,000 |
| Prof. Dr Hermann Wagner | 2020 | 118,917 | 37,000 | 155,917 |
| | 2019 | 110,000 | 21,000 | 131,000 |
| Beate Wollmann (until 27 May 2020) | 2020 | 28,583 | 12,000 | 40,583 |
| | 2019 | 70,000 | 15,000 | 85,000 |
| Total | 2020 | 1,303,653 | 413,000 | 1,716,653 |
| | 2019 | 1,285,000 | 250,000 | 1,535,000 |

¹⁾ 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 remuneration system for the Management Board and the remuneration system for employees are closely aligned, aside from regulatory requirements. Consistency between the systems is achieved, in particular, by using the Group component in the structure of the variable remuneration system, such that both the Management Board and employees (not covered by collective agreements) are set targets based on the Group performance criteria. In general, the targets set for the employees are derived from those set for the members of the Management Board, meaning that, as well as the structure of the two systems being consistent, the actual content of the targets set is also cascaded throughout the entire workforce from the strategic Group targets.

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 Bank (as of 1 January 2021: Banking & Digital Solutions) segment. The central staff functions and control units, as well as the Treasury division, are measured based on their respective 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 mostly 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. 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. Variable remuneration for employees not classified as risk takers is split into two components, too: the Group component (25 % of target variable remuneration) and the individual component (75 % of target variable remuneration). This means that 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 Group component and – for risk takers – the organisational component 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) of the 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.

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 is made available within six months of the end of the financial year: www.aareal-bank.com/en/investors-portal/finance-information/regulatory-disclosures/archive/2020/.

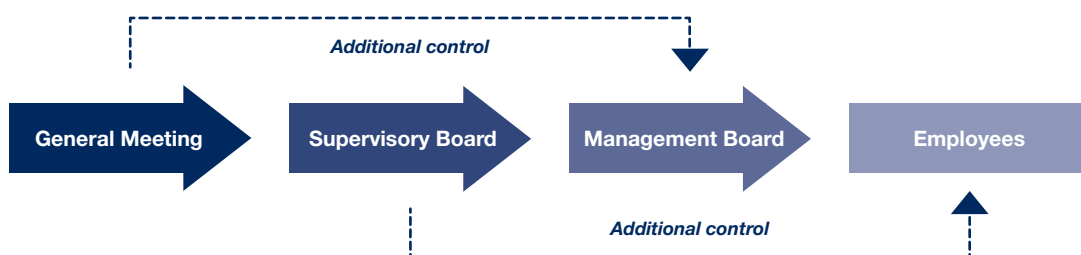
Remuneration governance

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

Determination and control of remuneration systems



(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.

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 following years, the Supervisory Board reviews, 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

In accordance with the German Act Implementing the Second Shareholder Rights Directive (ARUG II), the remuneration system for Management Board members is submitted to the Annual General Meeting for approval at least every four years and in the event of significant changes (Say-on-Pay). The remuneration system will be presented to the 2021 Annual General Meeting for the first time in line with these provisions.

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 to the consolidated financial statements.

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 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 advisors

In order to review the appropriateness of the Supervisory Board remuneration, an external remuneration advisor is engaged at least every four years to prepare an opinion as to the appropriateness of this remuneration – and especially, on whether this remuneration is in line with common practice and is comparable.

In addition, a horizontal comparison of the remuneration paid to Aareal Bank's Management Board members with suitable peer companies is carried out by an external remuneration advisor to review the appropriateness of the Management Board remuneration. The composition of the peer groups is reviewed on a regular basis by the remuneration advisor as part of the appropriateness review process.

The Remuneration Control Committee and the Supervisory Board are advised by hkp/// within this context. The Bank also seeks advice from the law firm Freshfields Bruckhaus Deringer on matters relating to remuneration law.