

Combined Separate
Non-financial Report 2017
for Aareal Bank AG



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About this Report

The combined separate non-financial report for Aareal Bank AG and Aareal Bank Group relates to the 2017 financial year. It was prepared in accordance with section 340a (1a) of the German Commercial Code (Handelsgesetzbuch – HGB) in conjunction with sections 289b (3) and 340i (5) of the HGB in conjunction with section 315b (3) of the HGB in the versions as amended by the German CSR Directive Implementing Act (CSR-Richtlinie-Umsetzungsgesetz – CSR-RLUG), and was published separately from the Group Management Report. It is supplemented by the online Sustainability Report 2017: "Think Future. Create Now."

Section 171 (1) sentence 4 of the German Public Limited Companies Act (Aktiengesetz – AktG) requires the Supervisory Board to review the non-financial report. This review by the Supervisory Board covers the reporting's compliance with the law, propriety and fitness for purpose. As a supporting measure, the Supervisory Board commissioned a limited assurance review in accordance with ISAE 3000 (Revised) from audit firm PricewaterhouseCoopers GmbH. The review by the auditor covered the description of the business model, the materiality analysis, the policies and their outcomes, including the material risks and due diligence processes and the non-financial key performance indicators disclosed. PWC issued an unqualified review opinion (see page 17ff.).

The core topics identified in the course of the materiality analysis were used to select the contents to be disclosed on each of the five aspects required (anti-corruption and bribery matters, employee-related matters, social matters, respect for human rights and environmental matters).

The non-financial report was prepared on the basis of the GRI G4 Sustainability Reporting Guidelines published by the Global Reporting Initiative (for the materiality analysis and the descriptions of the concepts), the UN Global Compact's Ten Principles and the UN Sustainable Development Goals. Cross-references to disclosures other than in the Group Management Report and the consolidated financial statements represent additional information and do not constitute part of the combined separate non-financial report.

Description of the Business Model¹⁾

Aareal Bank Group finances commercial property, and in particular office buildings, hotels and shopping centres, as well as logistics facilities and residential properties. We focus on complex, large-volume finance for completed buildings with an average term of five to eight years. This means that ensuring properties will retain their value for the long term and selecting business partners extremely carefully are very much in the Company's own interests.

In addition, Aareal Bank Group offers digital solutions such as automated mass payment transactions for the commercial property and housing industries, and the energy and utilities sectors. These enable our clients to improve their own sustainability performance.

Group enterprises are managed at Group level, i.e. the descriptions of the concepts apply to both the Group and the parent company. Where specific sustainability management issues exist we draw attention to these in the relevant places.

¹⁾ See also the "Fundamental Information about the Group" section of the Group management report in Aareal Bank Group's Annual Report 2017 for a description of the business model.

Determining Materiality

Continuous dialogue with our stakeholders has a very high priority for us. It helps to ensure we are driving forward the core topics material to a sustainable focus on the future, despite the dynamic market environment.

As a result – and also because the requirements of the different stakeholder groups can change – we continuously review the results of the materiality analysis we conducted at the end of 2015/beginning of 2016. For example, we conducted 10 expert interviews of approximately an hour in the reporting period with members of the Supervisory Board, Housing Industry clients, an appraiser, a broker and an NGO, among others, and validated the relevance of our action areas throughout the Group. Our review focused on material issues within the meaning of section 289c (3) of the HGB, i.e. all information necessary for an understanding of the Group’s development, performance and position, and of the impact of its business activities on the five aspects.

As a result, our sustainability management operations remain focused on the twelve action areas that are depicted in the materiality matrix¹⁾ and that are key to securing the Company’s long-term success (GRI definition). The Profitable business model, Risk management and Client relationship action areas are critical here. However, the Attractive employer, Corporate integrity and Know-how management areas are also particularly relevant, especially in light of the change processes occurring as we implement our Aareal 2020 programme for the future. We assigned the material issues underlying the action areas in accordance with section 315c (2) of the HGB to the statutory aspects. The above-average positive scores we have received in established sustainability ratings confirm that we are addressing the topics that are relevant to our sector and our business model.

Material aspects conformable to § 315c (2) of the German Commercial Code (Handelsgesetzbuch – HGB)

Aspect	Subject	
1	Anti-corruption and bribery matters	Tools and processes
2	Employee-related matters	Remuneration Education and training Benefits and flexibility Optimisation of structures and processes
3	Social matters	Economic performance Information security and data protection
4	Respect for human rights	Code of Conduct for employees Code of Conduct for suppliers and business partners
5	Environmental matters	Ecological quality of objects Digital solutions

¹⁾ Link to materiality analysis: www.aareal-bank.com/en/responsibility/managing-sustainability/materiality-matrix/

Risk Reporting

The risk report that forms part of our Group Management Report¹⁾ provides comprehensive information on our risk management system and the material risks associated with our business activities, products and services, and business relationships that have been identified for Aareal Bank Group. We do not see any other reportable risks pursuant to the CSR-RLUG whose potential adverse impacts on the aspects are or could be severe or whose occurrence is highly probable. We provide more detail on topics that are of particular importance to stakeholders who are interested in sustainability in the overview of risks and opportunities given at the beginning of each aspect.

The aspects are addressed in their order of priority for us as a financial institution and service provider – i.e. anti-corruption and bribery matters and employee-related matters are addressed before social matters, respect for human rights and environmental matters. More detailed information and indicators – including on other aspects that may be of interest to stakeholders focusing on sustainability – are given on our website.²⁾

1. Anti-corruption and bribery matters

Combating all forms of corruption, bribery and corruptibility is especially important in view of the complex challenges in our international business. In addition to financial losses, failure to comply with the law, government regulations or internal guidelines is a significant source of reputational risk.

In the anti-corruption and bribery area, sound risk and compliance management offers the opportunity to gain and maintain the trust of our shareholders, clients and business partners, and of supervisory authorities and other stakeholders in society. Risk management therefore ultimately helps to secure long-term customer loyalty and continuous economic growth for the Company.

The goal: To use an effective compliance management system to raise employee awareness and prevent any involvement in incidents of corruption and bribery, to identify and manage risks of any breaches of duty in a timely manner, and hence to avoid the rules being infringed.

The key objectives are to maintain Aareal Bank Group's strong reputation and to protect it against financial loss.

The Group Compliance Officer, who is responsible for continuous optimisation of Group-wide compliance processes, is attached directly to the Bank's senior management and reports to them.

The compliance management system is aligned with Aareal Bank Group's risk position, meets all legal requirements and is based on the corporate governance principles recommended in the German Corporate Governance Code (GCGC), among other things. It comprises a Group-wide Code of Conduct, which

¹⁾ See the risk report that forms part of the Group Management Report of Aareal Bank Group's Annual Report 2017.

²⁾ www.aareal-bank.com/en/responsibility/reporting-on-our-progress/performance-indicators/

defines binding rules for all employees on how to act in a lawful and ethical manner towards clients, business partners and colleagues.

Group-wide anti-corruption guidelines, guidelines for preventing white-collar crime and measures to prevent fraud and to avoid and/or manage conflicts of interests serve as the baseline for raising awareness among our employees, while also providing orientation on how to act correctly. They serve to prevent the danger of corruption before it occurs. In addition, all employees receive training on the Company’s compliance and fraud prevention requirements and on the potential consequences of any breaches, including under labour law. A confidential whistle-blower system also exists and must be used to report actual or potential breaches of the rules to the Compliance division. The employee reporting the issue is guaranteed confidentiality.

We use standardised “know your customer” procedures to gather information on our clients and, where appropriate, other economic beneficiaries, their ownership and control structure, their business models and the source of their funds – before we enter into a business relationship with them. This enables us to evaluate the level of risk associated with the business relationship and to define the scope of the due diligence required.

New suppliers and service providers with an order volume in excess of € 10,000 are checked using commercial credit agency reports. Primary suppliers are examined regularly using a supplier evaluation system that assesses their reliability and compliance with the terms and conditions of their contracts, among other things. Undertakings and equity interests in them are only acquired following a positive review by Group Strategy. In addition, regular monitoring is performed throughout the Group.

RESULTS:

- ✓ **The Group Compliance Officer reports at least annually and on an ad hoc basis to the Management Board and Supervisory Board on the results of the risk analyses performed to assess the appropriateness and effectiveness of the preventive measures taken, as well as on any incidents of corruption and the measures taken.**
- ✓ **In addition, Internal Audit assesses the effectiveness and efficiency of the internal control system as part of regular audits and informs the Management Board and Supervisory Board of the audit findings.**

Breaches and Sanctions

		2017	2016	2015
Number				
GRI-Indicator	Subject			
G4-SO5	Reported incidents of corruption	0	0	0
G4-SO8	Fines and sanctions for non-compliance with laws and regulations	0	0	0
G4-SO7	Legal actions due to anti-competitive behaviour	0	0	0

Compliance Management

		2017	2016	2015
Share in percent				
GRI-Indicator	Subject			
G4-SO3	Operations which were included in the compliance concept	100 %	100 %	100 %
G4-SO4	Newly hired employees, who were informed about the compliance-requirements in the course of training programmes	100 %	100 %	100 %
G4-SO4	Employees, who conducted training programmes to refresh the mediated content	100 %	100 %	100 %

2. Employee-related matters

Aareal Bank Group's vision for its employees is that they should think and act in an entrepreneurial manner, take responsibility and develop pioneering solutions. They are decisive for the Group's economic performance and competitiveness.

This is all the more true since our business is based on complex client relationships, which vary widely and are often based on trust that has been built up over many years. At the same time, we need to adapt even more to market changes and client requirements. We are doing this by designing digital transformation processes at the levels of our products, clients and employees. This entails greater use of flexible, responsive solutions.

Given these enormous challenges, a decline in employees' motivation or ability to fulfil these new requirements, and the loss of talented staff and hence of knowledge, represent risks for the Group. Another medium- to long-term challenge for Aareal Bank Group as an employer is demographic change, which is leading to a shortage of specialist staff. As a result, Aareal Bank Group knows it must offer talented employees – for whom it competes on a global scale – real advantages by addressing their needs.

The goal: We must ensure we are seen as an attractive, modern employer both now and in the future in order to continue to recruit and retain talented staff. To do this, our human resources activities focus both on recruiting new staff and on promoting a corporate culture that is aligned with our needs in a wide variety of ways, such as appropriate, performance-based remuneration, needs-driven training and education, and attractive company benefits and flexibility.

The main thrusts of our enterprise-wide reorganisation project designed to optimise our internal structures and processes in the period up to 2020 are on designing an employee-centric digital working environment, know-how management, and active support for managers and employees during the change process.

The HR departments in the individual Group companies are responsible for human resources activities within Aareal Bank Group. In addition, Aareal Bank AG performs HR functions for a number of subsidiaries, while in the Aareon subgroup Aareon AG is responsible for managing this. Human resources strategy issues are addressed at Group level by the Group Managing Director (GMD) Human Resources. Furthermore, Group-wide guidelines (on the remuneration strategy, financial control for human resources and occupational retirement provision, among other things) have been issued to ensure the Group is being managed using uniform principles that comply with the ILO's core standards and with substantially stricter national labour and social standards.

Remuneration

Our remuneration systems are based on specific remuneration principles. In addition to their fixed remuneration, all employees receive performance-related variable remuneration. The variable remuneration for a small number of employees (senior executives and so-called risk takers) comprises a short-term and a long-term component, part of which is also paid in the form of virtual shares. We avoid creating negative incentives to take inappropriately high risks by capping the variable payments and making them over a period of time.

In addition, Aareal Bank Group offers employees a deferred compensation scheme that allows them to shift taxable income to the period after they have retired, and hence to make personal provision for their retirement. Staff can also take advantage of Group discounts such as for group accident insurance cover, and can optimise their tax position in the areas of retirement provision and insurance, for example.

Section 25d (12) of the German Banking Act (Kreditwesengesetz – KWG) requires the Supervisory Board to oversee that the remuneration systems for senior management and employees are appropriately structured. This is done via an annual review of the remuneration systems carried out by the Supervisory Board and the Management Board. This exercise brings together representatives of Human Resources, the internal control units and the Remuneration Officer, as well as external legal advisors and remuneration consultants. The aim is to assess the appropriateness of the Group's remuneration strategy, the remuneration systems developed on this basis, and the remuneration paid to the members of the Management Board and the employees.

Training and education

Aareal Bank Group invests continuously in developing its employees' professional, business and interpersonal skills on an individual, needs-driven basis. In 2017, Aareal Bank focused among other things on expanding agile project management methodologies, stakeholder management, and structuring and solving problems effectively. At Aareon, the main emphasis was on enhancing employees' language and cultural skills. Platforms and dialogue formats for internal networking and the Group-wide Cross Mentoring Programme promote knowledge sharing and transfer. The Junior Training Programme is used to develop talented young staff.

All managers discuss the performance and individual development of their employees with them at least once a year and agree specific development measures, as part of the regular Structured Appraisal and Target-setting Dialogues. In addition, a dialogue must be held if the manager notices problems with an employee's performance during the course of the year. The dialogues and succession planning are core tools for promoting and planning employee development.

Company benefits & flexibility

Comprehensive programmes designed to promote the flexibility of working times and locations (flexible working time models, part-time working, and our mobile working and teleworking offerings where operational requirements permit), plus a broad range of support measures to help employees achieve a positive work-family and work-care balance, and our health management activities, make it easier for our staff to organise their work and increase our attractiveness as an employer.

Aareal Bank Group regularly undergoes recognised audits to assess its human resources work and the quality of its processes and measures; these also act as an early warning system.

Optimising structures and processes

Team and organisational development measures, including in the area of human resources¹⁾, are one of the key components of our Aareal 2020 programme for the future. By 2020, this will create the pre-conditions we need to continue our success in a rapidly changing market and competitive environment. First-level management has a core role to play in this process. They must be able to actively shape developments and to encourage and motivate their teams to do this as well. In this context, the Management Board launched an evaluation process at Aareal Bank in October 2017 for first-level management and the Management Board itself, in order to develop their strengths and potential and to be able to deploy them even more effectively in the future.

The Management Board played an active role in developing the Bank's cultural blueprint and in the process of honing the roles played by managers and experts by taking part in dialogue workshops.

RESULTS:

- ✓ At the December meeting of the Supervisory Board, the Remuneration Officer confirmed the appropriateness of the remuneration systems for the employees and the Management Board.
- ✓ The GMD Human Resources regularly reported to the plenary meeting of the Management Board on the structure and development of the workforce, the human resources policy and the range of employee programmes, social benefits and other support that the Company offers employees. Reporting for the period under review focused on progress made and measures taken in connection with our Aareal 2020 programme for the future.
- ✓ A summarised version – the annual Human Resources and Social Report – is submitted to the Works Councils every year; this happened most recently in December 2017.
- ✓ A number of external initiatives confirm the effectiveness and success of the measures that have been initiated. For example, in 2017 Aareal Bank was named a

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¹⁾ We have recognised appropriate provisions for optimising our internal structures and processes; see note (34) "Administrative expenses" in the Group management report section of Aareal Bank Group's Annual Report 2017.

”top employer“ by the CRF Institute for the tenth time in total, while in 2016 it was awarded its second Corporate Health Award¹⁾ for above-average commitment to employee health. In 2016, Aareon AG was a finalist in the ”Success Factor Family – Germany’s Most Family-friendly Companies“ competition for companies, which is run by Germany’s Federal Ministry for the Family, Senior Citizens, Women and Young People (BFSFJ). In addition, Aareon AG has been certified as a family-friendly company by berufundfamilie Service GmbH since 2008 and achieved recertification in 2017.

Changes in the employee structure

		2017	2016	2015
GRI-Indicator	Subject			
G4-LA1	Number of new employee hires	233	240	na
G4-LA1	Employee turnover rate	3.9 %	3.9 %	2.8 %

Participant days of Continuing Professional Development

		2017	2016	2015
Nuner of days				
GRI-Indicator	Subject			
G4-LA9	Average days of training per employee	3.9	3.5	3.2
G4-LA9	Total participant days across the group	9,855	9,416	9,160

Regular employee assessmentsr

		2017	2016	2015
Share in percent				
GRI-Indicator	Subject			
G4-LA11	Employees receiving regular performance and career development reviews	100 %	100 %	100 %

3. Social matters

Banks play an important role in the business cycle. To start with, they ensure payment transactions are executed and by so doing allow a smooth functioning of the society and the economy. They are based on the substantial division of labour and essential for material wealth. In addition, by granting credit and managing the related risks they facilitate investments that help promote companies’ economic develop-

¹⁾ The Corporate Health seals of quality are awarded to companies every two years by EuPD Research Sustainable Management, Handelsblatt, TÜV SÜD Academy and ias Group.

ment and hence strengthen the overall economy as part of a dynamic and innovative growth process. In other words, an efficient, flexible finance system is a prerequisite for the sustainable development of society as a whole.

This means that Aareal Bank Group can add most value to society by constantly ensuring its economic performance. In our Structured Property Financing business segment, we help create value by adopting a flexible yet conservative business strategy, which builds on our sound capital base and funding activities. Many social risks that are typical for the property sector, such as a lack of transparency in the construction business or negative impacts on local communities, are not actually material for us, since we mainly provide financing for buildings that have already been completed. Since we focus on office buildings, hotels, shopping centres, logistics facilities and residential properties, our portfolio does not contain any potentially controversial industrial plant or other facilities that may be considered problematic by the public.

Where we receive information that business partners potentially could be or are infringing socially accepted principles, we investigate the findings using our compliance management system.

In our Consulting and Services business, our success is based on the stable long-term contractual and customer relationships that underpin deployment of our tailor-made IT and banking solutions. Our software solutions also have an impact on society: in many cases, our customers' customers also benefit from the time, cost and efficiency savings generated. For us, ensuring failsafe information security and data protection is part of another core social duty that goes without saying.

The goal: To ensure we can add value to society by expanding our position as the leading provider of smart financing, software products and digital solutions for the property sector and related industries.

The Aareal 2020 programme for the future that was unveiled by the Management Board in February 2016 and its implementation in practice give us a strategic framework for ensuring that Aareal Bank Group can maintain its economic performance in a rapidly changing market and competitive environment. We monitor core impacts, risks and opportunities associated with our business activities (such as the importance of information security and data protection) as part of this process.

Management of social matters affects both the Structured Property Financing and the Consulting/Services segments equally. Social matters affecting employees are addressed in the "Employee-related matters" section.

Economic performance

The use of specific quantitative and qualitative criteria and the risk mitigation checks that form part of our loan approval process ensure the high quality, and hence the sustainable value, of the Property Financing portfolio. Complying with targets for individual countries and property types within our portfolio leads to a high level of diversification and mitigates concentration risk – something that we implement not only by steering our new business but also by using an active syndication policy. Comprehensive market, property and risk analyses give us an overview of the profitability of the financing, the value and profitability of the property concerned and the borrower's credit quality, as well as the sponsor's integrity and property-specific experience. The functional division of Sales units and Credit Management, which extends all the way up to senior management, avoids conflicts of interest.

Our banking and software solutions and digital services provide the housing and utilities sector with key business process management tools. They allow them to do business extremely leanly and efficiently, helping to cut clients' administrative costs and making useful contributions to the economy as a whole. For example, cost-efficient processes allow municipal and cooperative housing associations to offer affordable housing.

Information security and data protection

Handling client data responsibly and taking effective measures to ensure information security and data protection are a top priority at Aareal Bank Group. We observe banking secrecy and comply with the provisions of the German Data Protection Act (Bundesdatenschutzgesetz – BDSG) and specific pieces of legislation, as well as the data protection regulations applicable in the other countries in which we are active. Internal guidelines and instructions are used to inform employees of the legal requirements in relation to data protection. We also undergo voluntary external data protection audits and certification processes.

RESULTS:

- ✓ Aareal Bank Group's sound financial position is demonstrated by its consistently positive quarterly results even during the financial crisis and the strong business performance recorded by both segments in the reporting period, see the "Key Indicators" section of the Annual Report.
- ✓ The sustained value of the Property Financing portfolio is reflected in its consistently low credit risk indicator: whereas allowances for credit losses for the portfolio as a whole amounted to 65 basis points in 2009, at the height of the financial crisis, the figure as at 31 December 2017 was a mere 29 basis points.
- ✓ Numerous housing associations throughout Germany that are responsible for a total of roughly 7 million residential units use our solutions to perform their social mandate.
- ✓ The information security management system at our subsidiary Aareon AG has been awarded the TÜV data protection quality seal and is certified under the ISO/IEC 27001 standard. As in previous years, there were no reportable data protection infringements in 2017 (G4-PR8).
- ✓ As part of the ongoing work on implementing the European Union's General Data Protection Regulation (GDPR), we took measures throughout the Group to ensure that the requirements relating to personal data processing, data security and responsibility for protecting data against misuse will have been implemented by the deadline of 25 May 2018.

4. Respect for human rights

We consider respect for human rights to be an inalienable part of our responsibility as a global undertaking. This is why we have undertaken not only to strictly comply with all applicable legal requirements but also to robustly uphold human rights within our sphere of influence. However, since Aareal Bank Group largely does business in countries in which human rights seem to be protected by the legal systems concerned, we consider the danger of their being endangered in connection with our operations to be small. In the area of purchasing and procurement, there is a risk that suppliers may violate human rights. This is the background to why we introduced a Code of Conduct for Suppliers.

At the level of the workforce, potential issues could include infringements of the General Equal Treatment Act (Allgemeines Gleichstellungsgesetz – AGG) or of the ban on discrimination (e.g. treating staff differently on the basis of diversity aspects or inappropriate or unfair remuneration). Unethical behaviour of this kind would damage teamwork and hence results, lead to inefficient working processes, demotivate talented employees and cause economic harm as a result.

The goal: Aareal Bank Group's declared goal is to promote the protection of human rights in its national and its international operations. We committed to this when we signed up to the UN Global Compact. We define it as valuing and respecting the unique characteristics and differences of each and every employee and as unequivocally ensuring equal treatment and equal opportunities at all levels.

We have also undertaken to avoid any form of discrimination and to actively represent and live the belief that diversity not only enriches our corporate culture but also represents a success factor in reaching strategic goals.

Each and every individual is responsible for this; a set of rules has been drawn up that requires both actual and suspected infringements to be reported. We have taken precautions throughout the Group to ensure that we respect and uphold human rights in our business processes, both at the level of the workforce and in our supply chain.

We address anti-discrimination issues within the Group using our Code of Conduct for employees. This relates to the topics of diversity, fairness, and the prevention and resolution of conflicts in the workplace together with employees and their representatives.

Workforce diversity and ensuring a wide range of viewpoints are represented on governing bodies and other corporate committees are also critical long-term success factors: generally speaking, the more diverse the backgrounds of the people involved, the more creative the approaches taken to solving problems are and the lower the danger of "group-think" becomes. Diversity also has clear benefits when dealing with our international clients, e.g. in the form of language skills or an understanding of other cultures and values.

When setting the remuneration paid to employees, we do not differentiate by irrelevant criteria such as gender but rely exclusively on aspects such as qualification, professional experience or training. Regular analyses of the base salary and remuneration ratios for women and men in comparable positions ensure

the necessary transparency. Variable remuneration is paid exclusively on a performance basis, as measured by reviews and the extent to which predefined targets have been reached.

In the area of purchasing and procurement, the Code of Conduct for suppliers and business partners that we have implemented in the period since 2016 underlines our commitment to the human rights principles set out in the UN Global Compact. This mandatory, Group-wide policy forms the basis for our business relationships with suppliers. It protects us against potential risks in the supply chain arising from failures to comply with environmental or social standards that would reflect negatively on Aareal Bank Group. This also explicitly covers the issue of forced labour, as set out in the UK's Modern Slavery Act. The systematic compliance checks performed by our Purchasing department also take all forms of irregular or unusual occurrences at our business partners into account.

We report on respect for human rights both in our annual "Communication on Progress" (COP), which is published on the UN Global Compact website and – in relation to the prevention of modern slavery – in our UK Modern Slavery Act declaration, which can be accessed on our website. In accordance with the German Transparency of Remuneration Act (Entgelttransparenzgesetz), Aareal Bank AG's Annual Report 2017 also provides a breakdown of our employee figures by women and men for the first time.

RESULTS:

- ✓ The Management Board has expressly undertaken to respect human rights in the Code of Conduct, which applies to the entire Group, and has also committed itself to observing the principles of diversity and equal treatment by signing the Diversity Charter (Charta der Vielfalt). The human rights reporting is used to inform the Management Board of the measures implemented, their effectiveness, and any infringements and the actions taken to penalise them.
- ✓ No incidents of discrimination came to light at Aareal Bank Group during the year under review (G4-HR3). Equally, no significant human rights impacts were reported for the supply chain (G4-HR11).
- ✓ When employees are recruited, the employee representative bodies involved regularly use their co-determination rights to check that positions are filled on the basis of applicants' qualifications (G4-LA13).
- ✓ In addition, we had our remuneration structures analysed externally as part of a study (Logib-D) sponsored by the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth. The results showed that there are no significant differences in remuneration within Aareal Bank Group between men and women in comparable positions (G4-LA13).

5. Environmental matters

We aim to help achieve the 1.5°C or 2°C goal set by the international community in order to combat climate change and global warming. Although, as is the case with most financial institutions, the ecological impact of our activities is largely indirect, we are convinced that we need to do this in order to ensure that our business model remains viable in the future. Additionally, we aim to prevent potential losses of clients and investors due to our failure to observe environmental matters, not to mention the associated reputational risk.

The property sector¹⁾ accounts for a significant proportion of global energy consumption and the resulting greenhouse gas emissions, and substantial savings can potentially be made in this area. Since in almost all cases we finance existing properties, we are only able to influence these areas indirectly; this can be done, for example, by ensuring transparency in, among other things, the property valuations that our clients use as a basis for their decisions.

In the Consulting/Services segment, our products and services enable our clients to reduce negative environmental impacts, e.g. by using digital and mobile solutions, by networking systems and by making consumption data available via portals. This leads, for example, to a drop in the number of kilometres travelled and hence to lower CO₂ emissions, as well as to less paper being used.

The goal: A responsible approach to natural resources and environmental protection are part of our corporate responsibility. We wish to make a measurable contribution to protecting the climate and the environment, and take environmental aspects into account in our business decisions.

Creating or improving transparency – e.g. with respect to properties' energy efficiency and to visualising consumption data for operators and tenants, or the environmental impact of new products and services – is a precondition for this.

This is done on a topic-specific basis, e.g. by our subsidiary Aareal Valuation or, in the case of IT products, by the Bank's Housing Industry division or Aareon.

We finance properties that will keep their value and which live up to our strict quality requirements. When performing property valuations, we do not only focus on the buildings' fair values but also determine the mortgage lending value using a lifecycle analysis that includes environmental aspects such as their technical, functional and ecological quality as standard criteria. When looking at sustainable property use we also always take marketability and third-party usability into account.

We are active in the Long-term Sustainable Value Network and use the insights obtained from the knowledge shared there. This network aims to promote the use of a sustainable value as the basis for valuations for lending purposes, and to develop an internationally applicable method for calculating the mortgage lending value.

¹⁾ Source: web.unep.org/10yfp/programmes/sustainable-buildings-and-construction-programme

Our Housing Industry division provides modernisation grants to municipal and co-operative housing associations and brokers property development loans extended by Kreditanstalt für Wiederaufbau (KfW) that are designed to finance energy-saving measures for residential property; this includes the implementation of standalone measures to improve energy efficiency under the federal government's "CO₂ Building Rehabilitation Programme" and "Energy Efficiency Incentive Programme". In relation to KfW we act as the on-lending bank and bear the primary liability.

The digital solutions we are developing focus not only on generating time, costs and efficiency savings but also on improving our clients' environmental footprint and contributing to their climate protection efforts. The systematic expansion of our BK 01 product series is steadily creating a new, cross-sector range of offerings designed to automate processes in the energy utilities and housing industries. These include BK 01 immoconnect / BK 01 Operating Cost Management (payment of and accounting for service charges) and BK 01 eConnect / BK 01 Invoice Data Processing (generation and capture of electronic invoice data).

For example, we also try to improve resource conservation by enhancing transparency for consumers, introducing intelligent information systems and making consumption data available ("smart metering"). We obtain valuable benchmark information and insights from our participation in environmental programmes and the information sharing that takes place there, as well as from our discussions with stakeholders. Internally, we address environmental topics and trends in our Sustainability Working Group, which meets every quarter, and use the input obtained from divisional representatives to enhance our Group-wide Sustainability Programme.

RESULTS:

- ✓ Quality defects such as inadequate energy efficiency negatively impact property valuations and – depending on how severe they are and how relevant for the overall rating (which comprises a comprehensive market, property and risk analysis) – may lead to requests for finance being rejected (see the information on the long-term value of the Property Financing portfolio given on p. 10).
- ✓ Since December 2017, profitability analyses for new products in the Consulting / Services segment explicitly document the relevant contribution, if any, that these make to sustainability (e.g. lower paper, printing and production costs, avoiding travel, etc.), allowing this to be taken into consideration appropriately by management when they are deciding whether to introduce a specific product.
- ✓ Aareon's invoicing service, the Mareon service portal, the Aareon CRM portal for tenants and property owners, the Aareon ImmoBlue Pro property agency, the Aareon Wechselmanagement occupant change management solution for utilities and Aareon's mobile solutions (mobile traffic safety, mobile portfolio data management and mobile handback/acceptance procedures for residential accommodation, etc.) along with many other Consulting / Services offerings facilitate lean, efficient processing by digitalising what were previously manual or paper-based processes. They generate process and sales advantages and improve our clients' environmental footprint.

Our website documents direct negative environmental impacts from our business activities resulting among other things from energy and resource consumption (e.g. for operating data centres, for building management and for business trips) and to a lesser extent also from the consumption of materials and water and the resulting emissions.¹⁾

¹⁾ www.aareal-bank.com/en/responsibility/reporting-on-our-progress/performance-indicators/

Independent Practitioner's Report

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting¹⁾

To Aareal Bank AG, Wiesbaden

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 340a Abs. (paragraph) 1a in conjunction with (hereinafter "icw") 289b Abs. 3 and 340i Abs. 5 icw 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Aareal Bank AG, Wiesbaden, (hereinafter the "Company") for the period from 1 January 2017 to 31 December 2017 (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 340a Abs. 1a icw 289b Abs. 3 and 340i Abs. 5 icw 315b Abs. 3 HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control I published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard I: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS I) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical

¹⁾ PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the Non-financial Report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January 2017 to 31 December 2017 has not been prepared, in all material aspects, in accordance with §§ 340a Abs. 1a icw 289b Abs. 3 and 340i Abs. 5 icw 315b Abs. 3 HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the (consolidated) financial statements and in the (group) management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January 2017 to 31 December 2017 has not been prepared, in all material aspects, in accordance with §§ 340a Abs. 1a icw 289b Abs. 3 and 340i Abs. 5 icw 315b Abs. 3 HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Munich, 9 March 2018

**PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft**

**Hendrik Fink ppa. Axel Faupel
Wirtschaftsprüfer
(German Public Auditor)**

Imprint

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This report is also available in German language.



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**Aareal Bank
Group**