Separate Combined Non-financial Report 2020
for Aareal Bank AG

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Separate Combined Non-financial Report 2020 for Aareal Bank AG

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About this Report

This separate combined non-financial report for Aareal Bank AG and Aareal Bank Group relates to the 2020 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 version as amended by the German CSR Directive Implementing Act (CSR-Richtlinie-Umsetzungsgesetz – CSR-RLUG), and was published separately from the Group Management Report. Additional environmental, social and governance information and indicators are published in the image section of the annual report, which is structured in line with the materiality matrix, in the online annual report and in the "Responsibility" section of Aareal Bank Group's website[1].

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, along with its 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. In addition to the reporting and the non-financial performance indicators, the review by the auditors covered the materiality analysis, the policies and the due diligence processes. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft issued an unqualified limited assurance opinion (see page 35ff.).

The core topics identified in the materiality analysis were used to select the contents to be disclosed in the report on each of the five aspects required (environmental matters, employee matters, social matters, respect for human rights and anti-corruption and bribery matters). The non-financial report was prepared on the basis of the requirements of the HGB. In addition, our description of the management approaches and the implementation of the materiality analysis is based on the Global Reporting Initiative Standards ("GRI-referenced") and also takes into account the principles set out in the UN Global Compact.

We disclose selected GRI indicators[2] in the individual chapters so as to make our performance in the various aspects visible and comparable.

In addition, we have taken the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD) into account for the first time and have integrated the recommended content of the four-pillar structure with the structure of this non-financial report. In line with this, we report relevant content on our strategy, governance, risk management, and indicators and target in a consistent structure for each aspect, and ensure the content is transparent and easily accessible. As part of this process, we also reported standardised environmental indicators showing the resource efficiency of our operations in the environmental matters chapter of our non-financial report for the first time in the 2020 financial year.

This allows us to accommodate the growing transparency requirements of investors and other stakeholders while continuing to comply with the requirements of the HGB and also expanding and extending our reporting processes. The subchapters replicated across the different chapters on the individual matters aggregate these as follows:

[1] www.aareal-bank.com/en/responsibility/reporting-on-our-progress/performance-indicators/
[2] GRI 101, 102, 103, 205, 206, 302, 305, 401, 404, 405, 406, 414, 419

a) Importance for our sector and our Company
Description of the importance of the matter in question for us as a Company and our business environment, and of the resulting strategic implications for us

b) Our management approach and how we have positioned ourselves
Description of how we have positioned ourselves with respect to governance and opportunity and risk management for the individual matters, to the extent that this is applicable and considered relevant

c) Performance indicators and progress made in the reporting period
This is used to disclose relevant results and indicators including progress reporting, showing how we are proceeding towards our 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 separate combined non-financial report.

Description of the Business Model[1)]

Aareal Bank Group's strategic business lines are commercial property financing, and services, software products, digital solutions and payment transaction applications for the property sector and related industries.

Our goal is to provide clients with forward-looking solutions that offer them competitive advantages and enable their long-term business success. Our portfolio goes beyond the traditional banking business and can be broken down into three business segments: Structured Property Financing, Banking & Digital Solutions (formerly Consulting/Services Bank) and Aareon.

Aareal Bank Group finances commercial property, and in particular office buildings, hotels and shopping centres, as well as logistics facilities, residential properties and student housing. The focus is on complex, large-volume medium- to long-term finance for completed buildings. Consequently, it is very much in the Company's own interests to ensure that properties retain their value for the long term and to select business partners extremely carefully. In the Banking & Digital Solutions segment, we are a digitalisation partner for businesses from the housing, property and energy industries, combining extensive advisory services and product solutions with traditional corporate banking services and deposit-taking. Connecting the housing and property industries with related sectors is an important part of what we do. In addition, we offer end-to-end solutions for tenancy bond management and supply clients with optimised, efficient business processes and payment systems.

Aareon – our subsidiary and a leading supplier of ERP software and digital solutions for the European property industry and its partners – forms our third business segment. Aareon offers innovative, secure solutions in the fields of consulting, software and services to optimise IT-based business processes, and to extend clients' business models. Its international research and development and cross-border knowledge

[1)] See also the "Fundamental Information about the Group" section of the Group Management Report in Aareal Bank Group's Annual Report 2020 for a description of the business model.

transfer mean that clients benefit from the entire Group's expertise. The Aareon Smart World portfolio connects property companies and their employees with customers, business partners and technical devices in homes and buildings. At the heart of this digital ecosystem are Aareon's ERP systems, which can be combined seamlessly with additional digital solutions to meet individual companies' needs.

In the 2020 reporting period, we agreed a long-term partnership with financial investor Advent International ("Advent") to further enhance Aareon's growth. To achieve this, Advent acquired a 30 % minority stake in Aareon.

Group enterprises are managed at Group level, i.e. the descriptions of the management approaches for the five aspects apply both to the parent company and to subsidiaries. Where specific sustainability management issues exist, we draw attention to these in the relevant places. In 2020, we used our ESG@Aareal initiative to accelerate ESG integration – i. e. ramping up the inclusion of ESG aspects in our decision-making and management processes – even further. This aims to raise awareness of ESG issues throughout the entire Group, prepare the latter for the global shift towards doing business sustainably and hence make a significant contribution to Aareal Bank Group's future viability

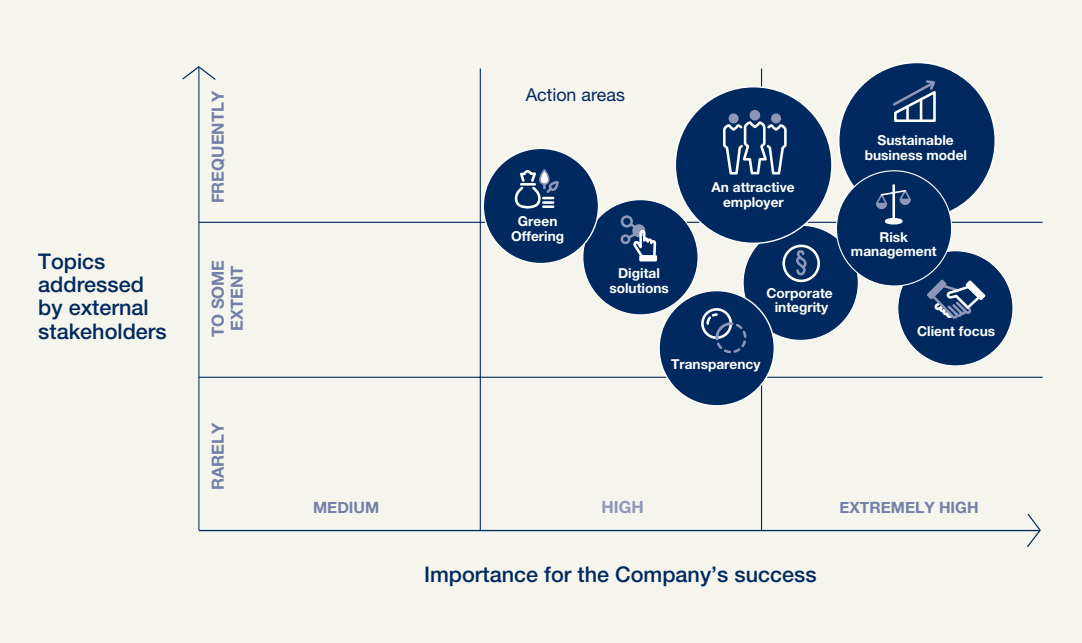
Determining Materiality

Financial year 2020, which saw the Covid-19 pandemic, was an exceptional year in many ways. The shift in perspectives means that the importance of certain topics has changed. Among other things, the pandemic impacted the following action areas: "Attractive employer" (e. g. focus on employee protection and safety), "Client focus" (e. g. developing solutions together to overcome the crisis) and "Digital solutions" (e. g. expanding our digital functionality so as to respond adequately to new challenges). In some cases, sustainability issues have become more important in this context. We engaged in a range of stakeholder discussions to verify the ongoing importance for the 2020 reporting period of the action areas in our materiality matrix, which was modified in financial year 2019.

We define materiality as encompassing everything that helps ensure Aareal Bank Group's long-term business success in a dynamic market environment – and hence its ability to survive and thrive in the future. At the same time, we keep sight of the impact that our own business activities have (see chapter 1. Environmental matters). The last comprehensive update to the action areas that were identified as material was performed in 2019. Our continuous dialogue with representatives of widely different stakeholder groups is extremely important for our assessment.

As a result – and also because the requirements of our various stakeholder groups can change over time – we regularly update our materiality analysis; for example, we again held discussions with internal and external stakeholders in the reporting period to validate the relevance of our action areas and the topics allocated to them. This work focused on material issues within the meaning of section 289c (3) of the HGB, i. e. all information needed for an understanding of the Group's course of business, results and position, and of the impact of its business activities on the five aspects.

Our sustainability management operations focus on eight action areas that are depicted in the following GRI-referenced materiality matrix (page 6) and that are key to securing the Company's long-term success.



A sustainable business model, successful risk management, a strict client focus, our ethical business approach and our attractiveness as an employer are critical to our business success. Another important factor is how – i. e. with what products and services – we contribute to the sustainable development of the economy and society in our three business segments, Structured Property Financing, Banking & Digital Solutions and Aareon. Examples here are green products and digital solutions to the challenges facing society. The transparency with which we disclose relevant aspects of our business activities and include them in our corporate reporting is critical here.

Reconciliation of action areas to material aspects as defined by section 315c (2) of the HGB

We have assigned the material issues as defined by section 315c (2) of the HGB that underlie our action areas to the statutory aspects at a content level.

Action areas	Material issues	Section of non-financial report
Sustainable business model	Economic performance	3. Social matters
	Strategy implementation	3. Social matters
Risk management	ESG risk management	(Risk reporting section)
Client focus	Client relationship management	3. Social matters
Corporate integrity	Tools, processes and rule books	5. Anti-corruption and bribery matters/ 4. Respect for human rights
	Human rights guidelines	4. Respect for human rights

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Action areas	Material issues	Section of non-financial report
Attractive employer	Workforce structure	2. Employee matters
	Remuneration	2. Employee matters
	Training and education	2. Employee matters
	Staff development (including succession planning)	2. Employee matters
	Company benefits and flexibility	2. Employee matters
	Internal dialogue formats	2. Employee matters
	Employee health and safety	2. Employee matters
Transparency	Ratings	3. Social matters
	Environmental/sustainable property quality	1. Environmental matters
	Efficient use of resources in our operations	1. Environmental matters
Digital solutions	Digital solutions to social challenges	1. Environmental matters/ 3. Social matters
	Smart buildings	1. Environmental matters
	Data security and data protection	5. Anti-corruption and bribery matters
Green products	Green lending	1. Environmental matters

Risk Reporting

The Risk Report that forms part of our Group Management Report[1] provides comprehensive information on our risk management system and the risks associated with our business activities, products, services and business relationships that have been identified for Aareal Bank Group.

The increasing role played by ESG topics in the financial and property industries offers a wide range of opportunities, but also involves risks. New laws, regulations and administrative requirements, along with market and technology trends, have contributed to a significant rise in the demands made of banks' risk management operations in recent years. In line with this, banks have to take a comprehensive approach to ESG risks and to integrate these with their risk management framework. We define ESG risks in this context as drivers of supervisory risk that trigger or intensify existing risks in our business. This is why we are currently establishing a highly efficient ESG risk management system. The goal of our work here is to systematically integrate ESG aspects with our risk strategy, processes, methods, and tools, and to develop an ESG risk management framework. To do this we analysed the status quo over the past financial year, defined ambition levels and derived measures to be taken from these. We are currently working to develop a risk governance policy defining the relevant responsibilities, as well as transitioning to the implementation phase and documenting the results in our ESG risk manual. We determined the relevant ESG risk factors for Aareal Bank Group back in 2019 in a Group-wide initiative that used a combination of a bottom-up and a top-down approach. After that, we compared the results of these two perspectives so as ensure that we have identified all ESG risk factors impacting our existing risk types as comprehensively as possible.

[1] See the Risk Report that forms part of the Group Management Report in Aareal Bank Group's Annual Report 2020.

We consider the relevant ESG risk categories to be (physical) climate risks, changes in stakeholder requirements, competitive and market pressure, business ethics and compliance, and uncertainty regarding ESG regulations relating to Aareal Bank Group. These primarily impact our credit risk, and strategic and operational risks. One result of the ESG@Aareal initiative will be to develop stress test scenarios, e.g. in order to analyse climate impacts (physical risks) in our property financing portfolio.

We do not see any reportable risks pursuant to the HGB in the version as amended by the CSR-RLUG whose potential adverse impacts on the five aspects are or could be severe, or whose occurrence is highly probable. We provide more detail on topics that are of particular importance to sustainability-conscious stakeholders in the overview of risks and opportunities given at the beginning of each aspect.

1. Environmental Matters

a) Importance for our sector and our Company

Aareal Bank Group started preparing for the sustainable transformation of the economy and society years ago by adopting a systematic approach to sustainability. We aim, to the extent of our abilities, to help achieve the 1.5/2 degrees goal set by the international community in order to combat climate change and global warming. As is the case with most financial institutions, the environmental impacts of our activities are largely indirect. However, we are convinced that we need to systematically align our activities and our work with sustainability requirements in order to meet our responsibility to society and ensure that our business model remains viable in the future. This is because, as a bank and a partner for the property industry, we are active in two sectors that will be highly significant for transforming the economy. The financial sector will play a major role in promoting sustainable development through the funding it provides. In addition, the property industry offers a powerful lever for achieving the climate targets set by the EU.

The property sector accounts for a significant proportion of global energy consumption and the resulting greenhouse gas emissions , and substantial potential savings can therefore be made in this area. Since Aareal Bank finances existing property stock in almost all cases, we feel that we can support international climate protection efforts by creating transparency on property valuations, for example, or by using our diverse portfolio of digital products. In addition, our funding activities and securities business can have an active impact on the market.

In the Banking & Digital Solutions and Aareon segments, 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 using Aareon's green consulting services. This leads, for example, to a drop in the number of kilometres travelled and hence to lower carbon emissions, and to less paper being used.

We are aware of our corporate responsibility and aim to help shape developments in our market when it comes to implementing ESG (environmental, social and governance) criteria. This is also reflected in our business strategy: with Aareal Next Level, we have formulated a sustainable strategy that specifically addresses and integrates ESG requirements.

[1] According to the International Energy Agency (IEA), almost 40 % of global emissions are caused by the building sector.

The Aareal Bank Group ESG risk profile that was developed in 2020 confirms the importance of environmental and climate risks for our business. This is in line with the supervisory expectations voiced by the ECB and BaFin for the institutions they supervise.

OBJECTIVES:

- **A responsible approach to natural resources and environmental protection** are part of our corporate responsibility. We are already helping transition to a lower-emissions economy today with each energy-efficient property and each energy-efficient renovation project that we finance. We aim to expand this contribution further going forward. We are developing ESG KPIs for both our sustainability performance at enterprise level and our funding and product portfolios; these will make our performance visible and measurable in various divisions.
- **To create and improve transparency,** e.g. with respect to property certifications, buildings' energy efficiency, the visualisation of consumption data for operators and tenants, or the environmental impact of new products and services.
- **Conserving natural resources and protecting the environment** are part of our corporate responsibility. Continuously cutting energy usage and reducing carbon emissions play an important role in our internal planning and optimisation measures.

b) Our management approach and how we have positioned ourselves

Environmental matters are managed centrally by Aareal Bank's Sustainability Management; however, more responsibilities are being successively transferred to the individual divisions, and the relevant expertise established there. This is the only way to comprehensively depict this area and to take it adequately into account. Topics affected include property valuation and, in particular, product development in all three segments. The following gives examples of some initiatives and processes we have launched that illustrate how we are implementing environmental matters at enterprise level:

Environmental/sustainable property quality

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

Quality defects such as inadequate energy efficiency negatively impact property valuations. Depending on how severe they are and how relevant for the overall rating (which comprises a comprehensive market, property and risk analysis), they may impact loan structuring or lead to requests for finance being rejected.

We are closely tracking new international and national regulatory requirements such as the EU Taxonomy and are contributing our expertise through consultations. In this context we are already capturing relevant environmental property criteria, and base our activities here on the Taxonomy Regulation.

In view of the Paris Agreement on climate change and its goal of limiting global warming to significantly less than 2 degrees, higher requirements for transparency and the contributions to be made by enterprises to climate protection can be expected in the short to medium term. Institutional investors are also increasingly taking climate and environmental risks into account, while supervisory authorities are requiring that these are identified and managed. We aim to do justice to this, since a future climate impact reporting obligation at portfolio level is likely. To prepare for this, we adapted our systems during the reporting period to enable us to collect data on energy efficiency, green building certificates and energy-efficient renovation projects. This will allow us in future to specifically evaluate relevant KPIs in our lending business. In a first step, we used client information and our own research in the reporting period to gather indicative information on a number of ESG aspects for roughly 80 % of our portfolio. This exercise revealed that, based on the data currently available, more than half of the properties financed by us have been awarded a certificate[1].

Green lending

Green lending was identified as an opportunity for Aareal Bank Group in the 2019 financial year. The first step – based on our valuation expertise, our many years of experience and property market knowledge, and existing market standards – was to define criteria for ecologically valuable commercial property. These will serve as the basis for our future green lending offering, which Aareal Bank aims to launch in 2021. During this process, we ensured that EU Taxonomy-compliant buildings will also meet our evaluation criteria.

Digital solutions and smart buildings

The digital solutions we are developing focus not only on generating time, cost and efficiency savings, but also on improving our clients' environmental footprint and contributing to their climate protection efforts. We are systematically enhancing our digital product portfolio in line with these goals. Examples include our BK 01 product series, Aareal Meter, Connected Payments and our new Aareal Exchange & Payment Platform. Aareal Meter, a digital meter management system, allows both housing enterprises and utilities to optimise their meter reading processes. Developed as an invoicing system for B2B platforms, Connected Payments automates multiparty payment settlement and invoicing for platform users' complex payments processes. Aareal Exchange & Payment Platform (AEPP) is a digital service platform that is directly integrated with clients' ERP systems and that can be used to offer a wide range of payment options such as cash/viacash, PayPal and credit cards for housing industry payments processes. In addition, the Aareal Portal – our banking portal for housing industry clients, which was enhanced in 2020 – focuses on end-to-end digitalisation of client communications, reducing negative impacts on the environment.

[1] Including building certificates (e. g. DGNB, BREEAM, HQE, LEED, NABERS) and energy certificates; information supplied by customers or collated through research in external databasesn

Automated processes, a consistent data pool and user-friendly services are becoming more and more important as the integration of housing enterprises with clients, business partners and technical facilities increases. Aareon has set a standard for digital networking in the property sector and related industries for several years now with its Aareon Smart World digital ecosystem. Examples of services include digitalised leasing, digital customer relationship management and a digitalised maintenance process.

In 2020, we screened the digital products in our Banking & Digital Solutions segment for compliance with ESG criteria. The objective was to identify the ESG criteria impacting our stakeholders (clients, investors, employees) directly or indirectly and to analyse how large the impact is in each case. The universe of ESG topics (including internationally recognised ESG standards such as the Global Reporting Initiative (GRI) and ESG topics specific to the environment for our product range) was narrowed down to reveal those topics relevant to Aareal Bank. A longlist was discussed with the product managers and investigated for common product characteristics. This shows how certain product variants can have as positive an effect as possible in certain areas of life that have been defined by the United Nations Sustainable Development Goals (SDGs) as being relevant to ESG. Our solutions enable our clients to cut their carbon emissions and save energy. For example, additional meter-reading trips by technicians can be avoided using the digital Aareal Meter solution.

Buildings are becoming more and more ”intelligent” thanks to digital technologies. The Banking & Digital Solutions and Aareon segments constantly examine forward-looking topics and technical innovations (including for building management), so as to assess their potential to enhance efficiency and optimise processes, and to develop new property sector solutions. Aareon Smart World’s digital ecosystem allows processes to be re-engineered and optimised. One area where this plays a key role is maintenance, which is a significant cost factor in the property and housing industry.

Resource efficiency in operations

In addition to taking environmental aspects into account in our business decisions, we work continuously within our organisation to conserve natural resources and reduce our own carbon footprint. We make a valuable contribution to climate protection at our two headquarters in Wiesbaden and Mainz by only sourcing green energy and by using climate-friendly geothermal heating and district heating.

We document the entire Group’s energy and resource usage in full every year to make our own impact transparent and to identify additional optimisation potential. We then use the data to calculate our carbon footprint in accordance with the Greenhouse Gas Protocol standards.

This report presents direct and indirect energy consumption and the resulting carbon emissions at our two headquarters in Wiesbaden and Mainz. The environmental indicators given below account for just under 68 % of Group energy consumption[1]. The carbon emissions at our two headquarters also made a significant contribution to the Group’s overall carbon footprint, accounting for approximately 60 % of Scope 1 and Scope 2 emissions (calculated using the market-based method). We also publish our Group-wide data on energy consumption and emissions annually in the environmental performance indicator data sheets on our website.

[1] Based on 2019 consumption figure

c) Performance indicators and progress made in the reporting period

Total energy consumption at our two headquarters fell by roughly 22 % year-on-year, due in particular to lower use of company cars as a result of the pandemic. Equally, the resulting (market-based) Scope 1 and Scope 2 carbon emissions declined by more than 40 % compared to the previous year. Apart from the decreased use of company cars, this was due to lower electricity consumption at our locations, since staff were temporarily working from home. In addition, we were able for the first time to document the high proportion of heat generated from CHP plants and renewable energy sources for the district heating sourced for our Wiesbaden location. This led to a drop in the factors used to calculate our carbon emissions.

Total energy consumption at our Wiesbaden and Mainz headquarters* (GRI 302-1)

in gigajoules (GJ)	2020	2019	2018
Direct energy consumption			
Petrol	5,013	5,635	3,208
Diesel	9,403	18,325	22,087
Heating oil	210	204	204
Total	**14,626**	**24,164**	**25,499**
Indirect energy consumption			
District heating	11,069	11,298	11,356
Electricity	23,398	27,557	28,008
Proportion attributable to green electricity	100 %	100 %	100 %
Total	**34,467**	**38,855**	**39,364**
Total energy consumption	**49,093**	**63,019**	**64,863**

* The 2018 and 2019 financial years were not included in the limited assurance review

Carbon emissions at our Wiesbaden and Mainz headquarters in tonnes (market-based method)*

In tonnes (t)		2020	2019	2018
GRI 305-1	Scope 1	1,017	1,847	1,945
GRI 305-2	Scope 2	297	449	451
Total		**1,314**	**2,296**	**2,396**

* The 2018 and 2019 financial years were not included in the limited assurance review

RESULTS:

- We took a first step in the reporting period by obtaining transparency on a number of ESG aspects for 80 % of our property finance portfolio. This revealed that, based on the data currently available, more than 50 % of the properties financed by us have already been awarded a certificate[1]. We will continue to expand the transparency of, and continuously improve, our reporting going forward by taking new regulatory frameworks (e. g. the EU Taxonomy) into account and by taking part in initiatives (e. g. PCAF).

- Aareon's invoicing portal, the Mareon service portal, the Aareon CRM landlord and tenant portals and apps, the Aareon Immoblue Pro and Immomio property agencies, the Aareon Wechselmanagement occupant change management solution for utilities, and Aareon's mobile solutions (e. g. for mobile traffic safety, mobile housing stock data management and mobile handback/acceptance procedures for residential accommodation) facilitate lean, efficient processing by digitalising what were previously manual and/or paper-based processes. The same also applies to the tried-and-trusted BK 01 product series and many other consulting and services solutions that our clients can use to leverage process and sales advantages, and improve their environmental footprint.

- Environmental aspects are taken into account during the lending decision-making process; new, mandatory data collection fields were implemented in the collateral management system for this in the 2020 financial year. This enables standardised queries to be made regarding energy data, environmental certificates and renovation projects at the level of individual properties.

- An automated billing procedure for electric charging stations was developed for the market in the reporting period in collaboration with electromobility provider smartlab.

- The importance of green consulting offerings increased significantly in financial year 2020. Apart from making a valuable contribution to ensuring ongoing operations during the pandemic period, we succeeded in significantly reducing carbon emissions and project costs both at clients and at Aareon. Overall, online consulting throughout Aareon Group almost doubled year-on-year, at well over 31,000 days.

- Total energy usage at our two headquarters in Wiesbaden and Mainz amounted to approximately 49,000 GJ in financial year 2020. We calculated this from our electricity, heating energy and fuel consumption figures.

- Nearly half of total energy consumption at our two headquarters is attributable to electric power requirements. Electricity consumption last year here was approximately 6.5 million kWh overall. Roughly 4.4 million kWh of this figure was attributable to our Wiesbaden location and 2.1 million kWh to Mainz. Assuming an average annual con-

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[1] Including building certificates (e.g. DGNB, BREEAM, HQE, LEED, NABERS) and energy certificates; information supplied by customers or collated through research in external databases

sumption of 3,200 kWh, this amount of energy would have been enough to power more than 2,000 households. As in the past, we used green power for all our electricity requirements during the reporting period, benefiting both the environment and the climate.

Our use of resources and company cars led to total emissions of 1,314 t of CO_2 at our two headquarters in financial year 2020[1]. With respect to Scope 1, the use of fossil fuels for company cars and heating led to a total of 1,017 t of CO_2 being emitted. Scope 2 carbon emissions were calculated using the electricity and district heating consumed. They amounted to 297 t for the two headquarters using the market based method.

[1] Scope 1 + Scope 2 (market-based method)

2. Employee Matters

a) Importance for our sector and our Company

Employees who think and act in an entrepreneurial manner, take responsibility and develop innovative solutions are critical to ensuring the Group's business performance and competitive ability.

This is all the more true in our complex business, which in many cases is based on trust-driven client relationships built up over many years. At the same time, we need to adapt even more to changes in the market and client requirements. This involves designing digital transformation processes for our products, clients and employees, which in turn entails greater use of agile, flexible solutions.

Given these constantly growing requirements, demographic developments are a particular challenge. Aareal Bank Group is aware of the risk of a skills shortage, which is why its attractiveness as an employer is a decisive factor in retaining highly skilled staff and acquiring talent in the face of global competition. An internal survey on mobile working and a workshop entitled "Corporate Identity in Times of Hybrid Cooperation" are helping to ensure that we can identify the action areas needed to ensure our Company's continued development in the future, too.

The Covid-19 pandemic meant that 2020 was a challenging year in many ways. Protecting the health of our staff and our clients, and helping stop the spread of the virus, were top priorities. Our works agreements on mobile working meant that our employees already had the technical equipment needed and the necessary IT infrastructure had already been established. As a result, almost all staff throughout the Group were able to work from home from one day to the next when the social distancing measures came into effect.

OBJECTIVE:

- **Workforce health and safety** are our top priority. Since March 2020, large proportions of our employees around the globe have been working remotely, protecting both themselves and the health of the public as a whole.
- **Ensuring our long-term appeal as a leading-edge employer** in order to be able to continue to attract and retain talented staff. To do this, our human resources activities focus both on recruiting new staff and on facilitating a corporate culture that is aligned with our needs; this is done in a wide variety of ways, such as appropriate, performance-based remuneration, needs-driven training and education, attractive company benefits, and highly flexible working times and locations.
- **Continuous two-way communication with the workforce:** A strong feedback culture is critical if Aareal Bank Group is to enhance and extend its culture in the way it wants to. This is why Aareon staff have been polled every year since 2001 on how satisfied they are. The classic employee survey performed in 2019 at the Bank to supplement the previously used formats (employee reviews and events, etc.) will also be repeated in 2021, as part of a regular two-year cycle. We also use suitable ad hoc formats such as surveys and workshops, to allow our employees to have a say in the development of our strategy.

b) Our management approach and how we have positioned ourselves

The HR departments in the individual companies coordinate human resources management at Aareal Bank Group and support managers in operational staff management issues. Aareal Bank performs the HR function for a number of subsidiaries, while in the Aareon subgroup Aareon AG is responsible for this. Human resources strategy tasks are addressed by the Managing Director (MD) Group Human Resources & Infrastructure function at Aareal Bank and by equivalent functions at the subsidiaries. Our guidelines (on e.g. the remuneration strategy, financial control for human resources and occupational retirement provision) are based among other things on the ILO's core labour standards and on substantially stricter national labour and social standards.

In addition, Aareal Bank Group regularly commissions recognised audits of its human resources work and the quality of its processes and measures; these also act as an early warning system.

We ensure our strategy is implemented by addressing the following topic areas:

Remuneration

Our remuneration systems are based on specific remuneration principles. In addition to their fixed remuneration, all permanent Bank employees receive performance-related variable remuneration. As required

by the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – InstitutsvergV), the variable remuneration for a limited number of Aareal Bank employees is not paid out immediately and directly, but is retained in tranches for several years and granted partly as virtual shares. The objective is to avoid creating negative incentives to take inappropriately high risks and also to align remuneration with the Bank's long-term success by structuring the remuneration systems in line with this, and by capping variable payments and lengthening the period over which they are disbursed.

The remuneration system was harmonised at all levels of Aareal Bank's hierarchy in 2019. Since then, there has been a consistent approach to remuneration for everyone from the members of the Management Board to pay-scale employees thanks to the introduction of the additive model for non-risk takers. The basis of measurement for all employees' variable remuneration is split into an individual component and a Group component; in the case of risk-takers, an organisational unit component also applies. Target achievement for the Group component is determined centrally, approved by the full Management Board and communicated to employees. Introduction of the Group component means that all employees now share directly in the benefits when Group targets are achieved – something that is also intended by the Code of Conduct.

In line with section 25d (12) of the German Banking Act (Kreditwesengesetz – KWG), the Supervisory Board has established a Remuneration Control Committee, which ensures that the remuneration systems for the Management Board and employees are appropriately structured. The remuneration systems and the underlying remuneration inputs are reviewed for appropriateness at least once a year with the assistance of Group Human Resources & Infrastructure, the Remuneration Officer and other relevant control instances.

Aareal Bank offers its employees a wide range of social benefits in addition to their remuneration, with its employer-funded corporate retirement plan being particularly important here. What is more, Aareal Bank not only pays the regular employer pension contributions but also offers employees a deferred compensation scheme that allows them to shift part of their taxable income to the period after they have retired, and hence to make personal provision for their retirement. The Bank also takes advantage of rebates, for example for its group accident insurance and other insurance benefits.

Training and education

Aareal Bank Group invests continuously in developing its employees' professional, business and interpersonal skills on an individual, needs-driven basis. The main thrust of continuing education at Aareal Bank in 2020 was on methods, tools, and instruments for digital cooperation. The focus on project management (both agile and classic) was continued using virtual learning formats on internal project management. Initial pilot events designed to develop managers taking on new management positions and the expansion of digital learning offerings for both regular employees and experts on the expert career path laid the foundations for Learning@Aareal – the revised training and education offering planned for 2021 onwards. Organisational and team development measures supported the internal change process and were continued in digital form, among other things, in 2020. This also includes the existing platforms and dialogue formats for internal networking, and knowledge sharing and transfer. The Group-wide cross-mentoring programme was expanded in 2020 to include the perspectives of other companies.

Employee development at Aareon continued in digital form during the Covid-19 pandemic. The Cornerstone learning management system that was introduced in December 2019 was used to offer training modules on housing industry topics from the EBZ Business School in Bochum, while Pink University

covered management, agile project management, soft skills, communication and health issues. Other training measures included an IT security boot camp and special consulting training courses. In light of the continuing process of internationalisation, both Aareal Bank and Aareon also attached great importance to expanding language and communications skills.

Besides its internal trainee programmes, Aareon offers two twin-track degree courses – ”Business information systems” and ”Media, IT and management” – plus vocational training opportunities for office managers, IT applications developers and IT systems integrators.

Aareal Bank’s talent development programme comprises not only trainee programmes, but also two twin-track degree courses – business information systems and business administration – in cooperation with DHBW Mannheim and RheinMain University, as well as the on-the-job Bachelor’s degree in business administration in cooperation with the University of Applied Sciences in Mainz. 2020 was also the first time in which Aareal Bank offered vocational training as IT specialists in cooperation with other companies from the region. Expanding our next-generation talent development programmes allows us to underpin our succession planning using a variety of cooperative initiatives with universities and other tertiary learning institutions in the Rhine-Main region.

The trend towards shorter training courses and digital formats was reinforced by the Covid-19 pandemic. This led overall to a year-on-year decline in the number of days training and education recorded.

Staff development (including succession planning)

All Group managers discuss their employees’ performance with them at least once a year plus – if desired – their individual development and specific development measures, as part of the regular Structured Appraisal and Target-setting Dialogue that is mandatory for all levels. Dialogues can also be held if a new manager is appointed for an employee during the year, if an employee’s performance is found to be inadequate, if their responsibilities change significantly, or ad hoc if requested by the employee.

As in previous years, the Management Board, with the support of Human Resources, discussed the pool of potential candidates for positions and succession options as part of the Bank’s human resources planning in the reporting period, so as to be able to adequately fill key specialist and management positions in the Company without significant delays.

The Structured Appraisal and Target-Setting Dialogue, the next-generation talent development programme and succession planning are core tools for facilitating and planning employee development.

Company benefits and flexibility

Comprehensive programmes promoting flexible 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 make it easier for our staff to organise their activities. The ability to implement flexible working hours also became an important factor during the Covid-19 pandemic, for example in organising home schooling. We assist our employees by providing a range of health promotion offerings comprising a mix of information, risk prevention measures, exercise and ergonomics, nutrition, mental health and relaxation, that are consistently tailored to employees’ current needs.

Internal dialogue formats

The goal of the employee surveys we perform in our Group is to obtain direct and honest feedback. This aspect of our corporate culture can be used to derive specific measures to support us as an enterprise during our transformation process.

In the reporting period, as in the past, we offered employees dialogue formats enabling us to work together on successfully enhancing the Group, to promote information sharing, and to facilitate networking across individual divisions and levels in the hierarchy. The Covid-19 pandemic meant that even greater use was made than before of digital formats.

Employee surveys are regularly performed at our two Group companies, Aareal Bank and Aareon. The extremely high response rate and the constructive feedback given in the various dialogue formats, which in our opinion is of a high quality, demonstrate employees' wish to play an active role in shaping Aareal Bank Group's ongoing development. In the reporting period, this could be seen among other things from the 2020 Aareon employee survey and the results of the pulse check performed in spring 2020 at Aareal Bank, which were designed to gauge experience of working from home. At Aareon, multiple surveys on mobile working led to a "New Work" project being set up, which will start in 2021.

Working from home

We took care throughout the pandemic to accommodate employees facing particular challenges due to the need to care for children or relatives, and to do justice to employees' need for safety. This was achieved by substantially extending the opportunities for mobile working, and by giving preference to virtual dialogue formats wherever possible and sensible. Other measures taken included establishing a rolling system for office attendance, rearranging our business premises to implement the maximum possible safety measures, offering voluntary coronavirus tests before returning to the premises and equipping workstations for working at home. This substantial extension of mobile working was accompanied by the increased use of Group-wide conference calls, in which the Chairman of the Management Board reported on the current situation and internal management of the challenges posed by the pandemic, and the Aareal Bank Pandemic Committee provided information on current developments. This committee was established in 2020, closely tracks current developments during the pandemic and uses these to derive measures for employees' physical presence or opportunities for voluntary coronavirus testing together with the Management Board.

The successful development of the new digital formats described in the subsection entitled "Training and education" helps promote internal networking even when staff are working from home. Training about the new digital workplaces has helped ensure that employees can work both efficiently and safely from home. The situation for new colleagues is particularly challenging. The new digital onboarding procedure and digital welcome workshops are designed to ensure they feel part of Aareal Bank Group right from the start.

c) Performance indicators and progress made in the reporting period

RESULTS:

- Responsible reaction to the pandemic so as to protect employees

  - Substantial increase in mobile working
  - Help in dealing with difficult situations, such as the need to provide childcare
  - Frequent provision of information on current developments (Pandemic Committee)
  - Free coronavirus tests offered to Aareal Bank employees before their return to the office
  - Protective measures taken on the premises in response to the pandemic
  - Equipping of home office workstations
  - Offerings such as ergonomic advice for staff working from home
  - Company Health Management initiatives such as tips for working from home

- During the reporting period, the existing general works agreements on mobile working helped almost all staff in the Group to start working from home without delay at the start of the Covid-19 pandemic. This was possible because the technical equipment and IT infrastructure had already been put in place early on. This contributed significantly to our employees' health and safety, and helped stop the virus from spreading.

- A number of external initiatives confirm the effectiveness and success of the measures taken. For example, in 2020 the CRF Institute named Aareal Bank as a "top employer" for the 13th time.

- After originally obtaining certification in 2008, Aareon's German operations have now been awarded the "Beruf und Familie" certificate for a strong work-family balance for a fifth time. The certification underscores Aareon's successful family-friendly and life-phase-based human resources policy.

- A large number of digital dialogue formats designed to promote and ensure information sharing among staff were offered during the reporting period, including:

  - Two fully digital annual staff information meetings for all Aareal Bank Group employees (23 June 2020 and 17 November 2020)
  - Virtual Aareal works meeting for all Aareal Bank employees (18 November 2020)
  - Aareon Annual Management Meeting comprising numerous interactive elements, attended by roughly 100 Aareon executives (September 2020)
  - Fully digital onboarding and two-day digital welcome workshop for new Aareal Bank employees
  - Preparation for additional digital formats to promote internal networking at Aareal Bank ("Digital Coffee Bar")

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- Aareal Bank received a commendation from Boston Consulting Group (BCG) as a diverse MDAX company in the latter's Gender Diversity Index 2020; the Bank took second place in the overall ranking.
- A number of corporate workshops were held in the 2020 financial year with the goal of including key employee matters in the design of our ESG strategy
- Aareal Bank was included in Bloomberg's Gender Equality Index for the first time in 2020; the index comprises only 325 companies from around the world.

Workforce structure

At the end of 2020, Aareal Bank Group employed 2,982 people from more than 35 countries on three continents. The employee-initiated staff turnover rate was 4.5 % in 2020. New hires rose from 13.9 % to 14.8 %. A large majority of these appointments were made in Europe, with 60 % being in Germany. The average number of of employees' years of service with the company fell from 11.3 to 10.8. The average employee age also fell again, to 44.2. This demonstrates both Aareal Bank's continuing strong interest in long-term working relationships and the success of our measures to rejuvenate the workforce. At 83.9 %, the proportion of payscale employees was down slightly year-on-year (85.5 %).

Workforce structure

		2020	2019	2018
GRI Indicator	**Subject matter**			
GRI 102-8	Number of employees in Germany	2,105	1,964	1,962
GRI 102-8	Number of employees in Europe excluding Germany	835	784	745
GRI 102-8	Number of employees in Asia and North America	42	40	41
GRI 102-8	Employees worldwide	2,982	2,788	2,748
GRI 102-8	of whom outside Germany	877	824	786
GRI 102-8	of whom female	1,122	1,027	1,035
GRI 102-8	Percentage of female employees worldwide	37.6 %	36.8	37.7 %
GRI 102-8	Percentage of part-time employees	19.6 %	19.9 %	21.1 %
GRI 102-8	Number of full-time employees	2,398	2,232	2,168
GRI 102-8	Female part-time employees	398	377	399
GRI 102-8	Percentage of female part-time employees	68.2 %	67.8 %	68.8 %
GRI 102-8	Male part-time employees	186	179	181
GRI 102-8	Percentage of male part-time employees	31.8 %	32.2 %	31.2 %

Changes in workforce structure

GRI Indicator	Subject matter	2020	2019	2018
GRI 401-1	New hires	412	387	303
GRI 401-1	Employee turnover	4.5 %	4.6 %	5.8 %

Regular employee reviews

Figures in %

GRI Indicator	Subject matter	2020	2019	2018
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	100 %	100 %	100 %

Participant days training and education

Number of days

GRI Indicator	Subject matter	2020	2019	2018[1]
GRI 404-1	Average days training and education per year and employee[2]	2.0	2.7	2.8
GRI 404-1	Total training days[2]	5,652	7,284	7,290

[1] As from 2018, the figures do not include lessons for vocational trainees.
[2] Not including Mercadea Srl., Aareon Norge AS, Aareon Sverige AB and Aareon Finland Oy.

3. Social Matters

a) Importance for our sector and our Company

The property industry contributes significantly to the strength and growth of the economy and provides society with places to live and work. In addition, it has close links to the financial sector due to the substantial volumes of loans required for constructing, purchasing and renovating buildings.

Aareal Bank Group is an international player in the financial services sector, and its financing solutions and digital products add considerable value and enhance economic development and innovative strength. As a participant in this sector, we help ensure the stability of the property banking market and the financial market in general by doing business responsibly and successfully.

This means that Aareal Bank Group can add most value to society by constantly ensuring its own economic performance. In our Structured Property Financing business segment, we safeguard value creation by adopting a flexible yet conservative business strategy, which builds on our sound capital base and funding activities.

In our Banking & Digital Solutions and Aareon segments, our business success is based on the stable long-term contractual and client relationships that underpin the use of our tailor-made IT and banking solutions. Our software solutions also have an impact on society: in many cases, our clients' customers also benefit from the time, cost and efficiency savings generated. For us, ensuring failsafe information security and data protection is another contribution to a core social duty, and one that goes without saying.

OBJECTIVES:

- **To ensure we add value to society** by expanding our position as one of the leading providers of smart financing, software solutions and services for the property sector and related industries.
- To monitor and manage **core impacts, risks and opportunities** associated with our business activities (such as the importance of information security and data protection).
- **Good rating results** ensure our success on the capital markets. The standards and quality that Aareal Bank Group achieves in its sustainability performance are documented in a series of specialised sustainability ratings. Among other things, these assess the future sustainability and performance of our business model, our risk management and the systematic implementation of our corporate strategy.
- **To strengthen our innovative ability** using a structured process for selecting start-ups. This is designed to add value for our clients through integration and partnerships.

b) Our management approach and how we have positioned ourselves

Social matters that have been classified as particularly relevant for our business are taken into account directly by Group Strategy in its development and management of our business strategy, and by the Management Board in its business decisions. Our goal in relation to our clients is to provide them with forward-looking solutions that offer them competitive advantages and enable their long-term business success. The fact that we look beyond the traditional banking business allows us to accurately assess significant developments, opportunities and risks at an early stage, and to act quickly on our insights for our clients' benefit.

Risk management

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 irrelevant to Aareal Bank, which mainly provides financing for buildings that have already been completed. Since we focus on office buildings, hotels, shopping centres, logistics facilities, residential properties and student housing, our portfolio does not contain any potentially controversial industrial plant or other facilities that the public might consider problematic from a social perspective.

An Aareal ESG risk profile has been developed as part of the closer integration of ESG matters with our corporate strategy, including the 360° review of our Aareal Next Level strategy. The goal is to help identify, assess and adequately manage not only environmental, but also social and governance risks. We ensure social and client matters are adequately taken into account at Group level as follows:

Strategy implementation

Aareal Bank Group's business strategy focuses on sustainable business success. In line with this, Aareal Bank has substantially increased the flexibility of its Structured Property Financing segment in recent years in terms of regions, asset classes, structures and exit channels, while simultaneously driving forward the expansion of its business along the value chain.

We can look back positively on developments over the last four years, during which we successfully implemented our "Strategy 2020". As a result, we have improved our performance and are more powerful, robust, efficient and agile than before.

Now our "Aareal Next Level" concept defines the strategic thrusts for the period following "Aareal 2020". In the coming years, we want to fully unlock our operational business potential across the entire Group. At the same time, though, we are staying true to our general strategic orientation – high-volume international commercial property financing on the one hand, and our business with the European housing and property sector and related industries on the other. We shall use Aareal Next Level to specifically enhance our individual business activities with the goal of strengthening their independent profiles in order to accelerate the Group's overall growth and hence also create value – for our shareholders, our workforce, our clients and society – in a market, competitive and regulatory environment that poses ever-growing challenges. Aareal Next Level will serve as a future strategic framework and will be visible for all internal and external Aareal Bank Group stakeholders thanks to a new brand positioning and an enhanced brand image.

Ensuring a strong economic performance

The use of specific quantitative and qualitative criteria and the risk minimisation and mitigation checks that form part of our loan approval process ensure the high quality, and hence the long-term 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 at Bank level – something that we achieve not only by managing our new business but also through our active syndication policy.

The 2020 reporting period was dominated by the Covid-19 pandemic. Our long-term, trusting client partnerships proved their value in this situation: our local account managers and specialists quickly con-

tacted our clients, discussed their business plans and drew up tailor-made solutions. In addition, we are well-capitalised and have both a strong liquidity position and highly diversified sources of funding. Besides the strategic initiatives and measures forming part of "Aareal Next Level", Aareal Bank Group will continue to focus on coping with the impact of the Covid-19 pandemic in the best way possible above and beyond the end of the reporting period.

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 separation between Sales units and Credit Management, which extends all the way up to senior management, avoids conflicts of interest. Implementation of the "three lines of defence" model has clearly defined the different roles needed for effective risk management and ensures a systematic approach to identifying and dealing with enterprise risk throughout the Group.

Aareon and Aareal Bank's banking and software solutions and digital services provide the property, housing and utilities sectors with key business process management tools. They allow them to do business extremely leanly and efficiently, helping clients to cut administrative expenses and making useful contributions to the economy as a whole. For example, cost-efficient processes allow municipal and co-operative housing associations to offer affordable housing.

Client relationship management

We are strictly client-driven and this focus underpins our product and service range, our structures and processes, and our innovations. We integrate our clients closely with our operational processes so as to understand their needs and wishes as well as possible, and to align our solutions with them.

In the area of commercial property finance, we leverage our local knowledge and the expertise offered by our sector specialists to focus on direct client relationships based on our decades of experience. In-depth cooperation during product development has proved its value when developing our digital consulting solutions and services: here, too, we aim for direct dialogue to allow us to identify requirements while also anticipating trends, developments and risks at an early stage. Equally, we integrate clients in our innovation activities using methods such as Design Thinking, among other things. For example, the new generation of the Wodis Yuneo ERP system was developed in close cooperation with our clients.

This also applies to our equity and debt investors, who value our employees' many years of capital market experience and the high level of continuity in their contacts with the Bank.

c) Performance indicators and progress made in the reporting period

RESULTS:

- Aareal Bank continues to be strongly capitalised despite the ongoing Covid-19 pandemic and the extraordinary impact that this has had. LTVs have risen only moderately to date in response – an indication of the high quality of the loan portfolio.

- New property financing business showed a marked recovery following the lockdowns during April and May. High gross margins, coupled with extremely strong LTVs, more than offset the higher market-driven funding costs.

- We are working in partnership with our clients to master the crisis as optimally as possible. As part of this, the Bank reviewed its exposures across the board, amending contractual agreements where necessary to reflect clients' updated business plans. Clients and sponsors provided a significant portion of the required liquidity from their own resources. Concrete support measures were also agreed with clients to a limited extent.

- Ampolon Ventures – Aareon's venture capital company, which was founded in 2018 – has excellent contacts to the start-up community and investigates promising digital, user-centric solutions. Following the formation of Ofi Group GmbH with its Ophigo digital office search platform, this led in the reporting period to the formation of Refurbio GmbH with its foxxbee digital interior design consultancy and of Ecaria GmbH. Ecaria provides digital assistance for relatives in a carer role who need to plan and organise elder care.

- Aareal Bank took an equity interest in financial year 2020 in PropTech1 Ventures, a venture capital fund specialising in start-ups.

- Aareon focused more on digital dialogue formats in the reporting period, so as to ensure information sharing with clients and external stakeholders:

  - Aareon launched the new generation of its ERP product, Aareon Wodis Yuneo, in Germany at its first digital client congress. Aareon Live was attended by over 1,500 participants. As a result, Aareon can supply property companies with an ERP system that allows the use of new technologies such as business intelligence, artificial intelligence, big data and robotics. Wodis Yuneo already has nearly 300 clients.
  - More than 1,600 participants registered for the online Aareon Live event that was held under the motto of "Pioneering Spirit". The live-stream participants followed the strategy with which Aareon intends to provide even greater support to the property industry and its partners, helping them embrace the digital transformation process and leverage additional performance potential. Well-known thought leaders from both the public and private sectors offered a wide range of takes on current topics affecting society and the sector.

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- 118 webinars with nearly 4,000 participants were held in Germany, Austria and Switzerland alone.
- Equally, a number of webinars were organised in France and the UK, and a digital strategy forum was held featuring discussions with selected clients on a variety of current topics relating to the impact of the pandemic.

✓ The ”WE.thinkfuture” series of digital events for the housing and energy sectors, which was held under the motto of “The client as a driver of innovation in the housing and energy industries” (26 – 30 October 2020). (Three topics: (1) The new customer power as a driver of innovation?; (2) City of the future – Smart cities: the housing and energy industries as ”future shapers”; and (3) Different. Together. How established companies and start-ups benefit from each other.)

✓ Aareon announced Neela, an AI-based virtual assistant, in the reporting period. Neela supports property companies’ relationships with their customers; the first phase of its development uses chats. Marketing activities took place in all countries during the reporting period. France and Germany have their first pilot clients, and the plan is to launch the product in the UK, the Netherlands, and the Nordic countries as well in the course of 2021.

✓ #OneAareon campaign: A large number of internal initiatives were implemented in the reporting period to strengthen our corporate culture, especially during the Covid-19 pandemic.

✓ Aareon’s Customer Care @ Corona Crisis. Aareon is a reliable partner for its clients – including in the current crisis – and supports them with tailored solutions. These include the following:

- In France, the ”Livre Blanc” initiative proved to be a great success. This white paper helps French clients implement the measures recommended by the authorities for the social housing sector.
- In the Nordic countries, help was provided to clients that were applying for government assistance during the coronavirus crisis.

✓ Aareon UK laid the foundations for a volunteering programme that will start in January 2021. This will allow staff to work one day a year on social or environmental projects supported by the local Group company.

4. Respect for Human Rights

a) Importance for our sector and our Company

We consider respect for human rights to be an inalienable part of our responsibility as a global enterprise. This is why we have undertaken not only to strictly comply with all applicable legal requirements but also to uphold human rights within our sphere of influence.

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 damage as a result. Contractual rules relating to the Code of Conduct for Suppliers were introduced in order to combat the risk of human rights violations among our suppliers.

Protecting and strengthening human rights is one of Aareal Bank Group's stated goals. To do this, we also included ESG criteria in the investment criteria used for our securities portfolios. Among other things, we take social criteria such as the freedom of the press into account. In addition, in the reporting period the independent Non-Financial Risks (NFR) division, which was established in 2020, expanded the processes for reviewing the financial sanctions in force at Aareal Bank AG.

OBJECTIVES:

- **Aareal Bank Group's declared goal is to promote the protection of human rights in its national and 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 ensuring unequivocally equal treatment and equal opportunities at all levels.
- **We have also undertaken to avoid any form of discrimination** and to actively hold and live the belief that diversity not only enriches our corporate culture but also represents a success factor in reaching our strategic goals.

b) Our management approach and how we have positioned ourselves

Breaches of human rights – including along our value chain – must be prevented for humanitarian reasons in the first instance. Above and beyond this, though, infringements could have far-reaching economic consequences for the Company. Reputational damage and financial penalties can lead to long-term risks for the company involved that should not be underestimated. Managing these risks comprehensively

and responsibly is a particular responsibility. This is why we have established guidelines and mandatory codes of conduct that apply throughout the Group, so as to uphold and strengthen human rights in our international business to the best of our ability.

The Management Board has expressly undertaken to respect human rights in our Code of Conduct, which applies to the entire Group, and has also committed to observing the principles of diversity and equal treatment by signing the Diversity Charter (Charta der Vielfalt). Our human rights reporting is used to inform the Management Board of the measures implemented, their effectiveness, any infringements and the actions taken to penalise them.

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. In addition, we report annually on the proportion of women in management positions and in the workforce throughout the world.

Group-wide Code of Conduct

The Management Board has 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 covers 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 approaches taken to solving problems become more creative and the risk of "group-think" declines. 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 employee remuneration, we do not differentiate by gender but focus exclusively on aspects such as qualifications, professional experience and 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.

Code of Conduct for Suppliers and Business Partners

In the area of purchasing and procurement, the Code of Conduct for Suppliers and Business Partners that was implemented in 2016 underlines our commitment to observing certain standards. This mandatory policy forms the basis for the business relationships between Group companies and suppliers/service providers. It ensures on the one hand that our business partners respect human rights, while on the other 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. 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 combating 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 – EntgTranspG), Aareal Bank AG's Annual Report provides a breakdown of our employee figures by gender, plus data on gender equality and equal pay.

Human rights guidelines

In financial year 2019, the Management Board resolved and published the Group-wide Human Rights Guidelines, which detail our responsibilities as an employer and a global enterprise. This overarching document sets out how Aareal Bank Group lives up to its duty to protect human rights by summarising the requirements and principles that apply throughout the Group. The guidelines serve as a benchmark for measuring what we do and are intended to help promote global human rights above and beyond the Company as well.

c) Performance indicators and progress made in the reporting period

RESULTS:

- No cases of discrimination came to light at Aareal Bank Group during the year under review (GRI 406-1). Equally, no significant indications of human rights violations were reported in the supply chain (GRI 414-2).
- 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 during the reporting period. The results showed that there were no significant differences in remuneration within Aareal Bank between men and women in comparable positions.
- Annual external comparison of remuneration for non-pay scale employees at Aareal Bank.
- Both the percentage of women in management positions and the percentage of women in the global workforce rose in the reporting period.

Percentage of women in management positions

		2020	2019	2018
GRI Indicator	**Subject matter**			
GRI 405-1	Percentage of women in management positions	24.6 %	23.8 %	25.2 %
GRI 102-8	Percentage of female employees worldwide	37.6 %	36.8 %	37.7 %

Human rights abuses

GRI Indicator	Subject matter	2020	2019	2018
GRI 406-1	Reported/identified incidents of discrimination	0	0	0
GRI 414-2	Number of reports of significant human rights impacts in the supply chain	0	0	0

5. Anti-corruption and Bribery Matters

a) Importance for our sector and our Company

Combating all forms of corruption, bribery and bribability 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 and exposes the Company to the risk of supervisory measures.

Sound risk and compliance management in the anti-corruption and bribery area 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. These ultimately help to strengthen long-term client relationships and ensure the Company's continuous economic growth.

As an integral part of an active compliance culture, our anti-corruption and bribery tools, processes and rule books help to protect the Bank and make a lasting contribution to our success. Any association with misconduct, whether intentional or unintentional, could impact the Bank's reputation and cause considerable financial losses. This means it is very much in our own interests to transparently and systematically combat bribery and corruption while protecting our employees.

OBJECTIVE:

- **To ensure effective risk identification, management and minimisation.** This depends on having an appropriate risk culture that is lived by all staff. The aim is to use a robust compliance management system to raise awareness among employees, managers, Management Board members and supervisory bodies with respect to their various roles, to identify risks associated with any breaches of duty in a timely manner and, as far as possible, to avoid breaches of the rules. Equally, we aim to prevent any involvement in incidents of bribery and corruption.

- The key priorities here are to **maintain Aareal Bank Group's strong reputation** and to protect it against financial loss.

b) Our management approach and how we have positioned ourselves

The Group Compliance Officer, who is also the Group Money Laundering Reporting Officer, is responsible for the ongoing optimisation of Group-wide compliance processes. He answers directly to, and reports to, to the Bank's senior management. The functions' responsibility for the Group is derived directly from the provisions of the KWG and the German Money Laundering Act (Geldwäschegesetz – GwG). In combination with the compliance officers at the subsidiaries, Aareal Bank AG's Compliance function forms a system of multi-level responsibilities that is underpinned by common values and standards, such as the Code of Conduct. This is necessary not least because of the different business models involved.

The compliance management system, which is aligned with Aareal Bank Group's risk position, takes all relevant legal and regulatory requirements into account and is based on the corporate governance principles recommended in the German Corporate Governance Code (Deutscher Corporate Governance Kodex), among other things. The declaration of compliance, which is updated each year, can be found on Aareal Bank's website. One major part of compliance management is our Group-wide Code of Conduct, which was extensively revised most recently in 2019 and which sets out binding rules for all employees, managers, Management Board members and supervisory bodies on how to act in a lawful and ethical manner towards clients, business partners and colleagues. The key points contained in the Code of Conduct are reviewed regularly for NFR compliance and updated as necessary. In addition, mandatory training courses are held to raise employee awareness of the Code of Conduct and help ensure it is complied with.

As of 1 January 2020, the former Compliance division was integrated with the newly formed Non-Financial Risks (NFR) division, making it an integral component of Aareal Bank AG's end-to-end management of non-financial risks. At the same time, the Anti-Financial Crime (NFR-AFC) department, which identifies, monitors and manages the Bank's risks in the areas of money laundering, terrorist financing, fraud, corruption, financial sanctions and embargoes, was also integrated. The reorganised Compliance department focuses on compliance governance, the German Securities Trade Act (Wertpapierhandelsgesetz – WpHG) and MaRisk compliance, and is responsible for the whistle-blowing system, which was revamped in 2020.

Combining the compliance agendas and established operational risk management methods at an organisational level in the NFR division ensures the efficient use of risk-related information. In addition, the creation of an overarching coordination role further enhances the effectiveness of our controls.

What is more, the areas of NFR and ESG risks were integrated with the risk management process in the course of the regular updates made to the Risk Appetite Framework in 2020.

Having a risk culture that fits our long-term business model is a core component of our corporate culture. This is why risk culture was included as a key element in our Group Strategy, and in the targets to be met by all Management Board members. In addition, it is reviewed by the Supervisory Board.

Tools, processes and rule books

At Group level, anti-corruption guidelines and guidelines for preventing white-collar crime serve as the basis for raising awareness among our employees and provide a benchmark for acting correctly. They are supplemented by fraud prevention measures and Aareal Bank AG's whistle-blowing procedure. This should help avoid and manage any conflicts of interest as far as possible.

All these measures 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. A confidential (and anonymous) whistle-blowing channel also exists that can be used to report suspected breaches of the rules, fraudulent behaviour, or white-collar crime to the Compliance department. This guarantees whistle-blowers confidentiality and protection. In addition, an externally run whistle-blower system was established as a separate process for Aareal Bank in 2020. Employees can use this voluntary, confidential reporting system to raise concerns online or by phone – including anonymously, if desired.

We systematically apply the "know your customer" rule and gather information on our clients and, where appropriate, other economic beneficiaries, their ownership and control structures, their business models and the source of their assets. We do this both before we enter into business relationships with them and ad hoc/at defined intervals thereafter. This allows us to perform a risk-driven assessment of the duties of care to be observed when making investments and to monitor client relationships on an ongoing basis, as required by law.

New suppliers and service providers with an order volume in excess of € 100,000 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. Companies and equity interests are only acquired following a positive review headed by Group Strategy.

If functions (particularly material ones) are outsourced, the division performing the outsourcing must ensure the service provider's suitability as part of its selection and assessment procedure, and must review this regularly. Factors that must be examined during due diligence are defined in detail in Group-wide procedural guidelines; additional requirements apply where material functions are outsourced.

Our Code of Conduct was comprehensively revised most recently in 2019 and reviewed in 2020; it remains unchanged. It is based on the requirements of the EBA Guidelines on Internal Governance and international industry standards such as the Universal Declaration of Human Rights, the conventions drawn up by the International Labour Organization (ILO), the OECD Guidelines for Multinational Enterprises and the UN Global Compact's Ten Principles. Concrete examples and tips help implement the rules in practice.

Ensuring 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 obligations and comply with the provisions of the EU General Data Protection Regulation (GDPR), the German Data Protection Act (Bundesdatenschutzgesetz – BDSG) and specific pieces of legislation, as well as the regulations applicable in the other countries in which we are active. Internal guidelines, instructions and training courses are used to inform employees of the legal requirements in relation to data protection, and to raise their awareness of them. We also undergo voluntary external audits and certification processes.

c) Performance indicators and progress made in the reporting period

Performance indicators for breaches and sanctions

Number		2020	2019	2018
GRI Indicator	**Subject matter**			
GRI 205-3	Confirmed incidents of corruption and actions taken	0	0	0
GRI 419-1	Fines and non-monetary sanctions for non-compliance with laws and/or regulations	0	0	0
GRI 206-1	Legal actions for anti-competitive behaviour	0	0	0

Compliance management

Percentage		2020	2019	2018
GRI Indicator	**Subject matter**			
GRI 205-1	Operations included in the compliance concept	100 %	100 %	100 %
GRI 205-2	New employees who have received training on compliance requirements	100 %	100 %	100 %
GRI 205-2	Existing employees who have received refresher training on content already taught	100 %	100 %	100 %

RESULTS:

- Publication of compliance tips and alerts on Aareal's intranet to raise employee awareness and draw attention to topical issues (e. g. fraud prevention) or refresh employees' knowledge.
- 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, Group Audit assesses the effectiveness and efficiency of the internal control system (ICS) as part of regular audits, and informs the Management Board and Supervisory Board of the audit findings. For example, in 2020 the process for incorporating new regulatory requirements relating to sustainability risks into the Bank's processes was audited as part of the audit of the financial risk model.

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- Introduction of new guidelines on the whistle-blowing system and implementation of an externally supported whistle-blower system at Aareal Bank AG.
- Aareal Bank took first place among MDAX companies in the DVFA Scorecard ranking. Aareal Bank AG was also rated as ”very good” and took third place in the overall ranking for the DAX and MDAX. The governance rating for institutional investors is designed as a starting point for in-depth dialogue on corporate governance issues at the companies concerned and aims to enable serious discussions on their quality that goes beyond checklists.
- Introduction of a new compulsory training course on the Code of Conduct, which was comprehensively revised in 2019.
- The risk assessment methodologies were harmonised by NFR in its roll as a coordinator. This improves transparency, comparability, risks assessments and not least the end-to-end management of non-financial risks.
- There were no reportable breaches of data protection regulations at Aareal Bank AG in 2020; at Aareon one internal event led to a report being submitted to the authority without any resulting supervisory consequences. This led to the employees being retrained to raise their awareness of the issue involved.
- Publication of cybersecurity tips and alerts on Aareal’s intranet to raise employee awareness and draw attention to topical issues. Given the substantial increase in staff working from home in the reporting period, the focus was on issues relating to cybercrime. Practical tips and internal campaigns at the Bank were used to raise employees’ awareness of the topic.

Independent Practitioner's Report

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting[1)]

To Aareal Bank AG, Wiesbaden

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 340a Abs. 1a and 340i Abs. 5 in conjunction with 289b Abs. 3 HGB and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Aareal Bank AG, Wiesbaden, (hereinafter the "Company") for the period from 1 January to 31 December 2020 (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 §§ 315c in conjunction with 289c to 289e 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 controls 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 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – 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 information in 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.

[1)] PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the combined separate non-financial group report and issued an independent practitioner's report in German language, which is authoritative. The following text is a translation of the independent practitioner's 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 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 to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e 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 the Company's management and 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 to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e 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, 3 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink	**ppa. Urata Biqkaj**
Wirtschaftsprüfer	**Wirtschaftsprüferin**
(German public auditor)	**(German public auditor)**

Imprint

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This report is also available in German language.

Aareal Bank Group

03/2021

Aareal

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