

**Separate Combined
Non-financial
Report 2022**
for Aareal Bank AG

Separate Combined Non-financial Report 2022 for Aareal Bank AG

3	About this report
4	Description of our business model and strategy
5	Sustainability management at Aareal Bank Group
6	Determining materiality
7	Risk reporting
8	1. Environmental matters
14	2. Employee matters
21	3. Social matters
24	4. Respect for human rights
27	5. Compliance
32	EU-Taxonomy
36	Limited Assurance Report of the Independent Auditor
39	Imprint

About this report

This Separate Combined Non-financial Report for Aareal Bank AG and Aareal Bank Group relates to the 2022 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-RUG), and was published separately from the Group Management Report. Additional information and performance indicators for environmental, social and governance aspects are published on Aareal Bank Group’s website. In addition, the Bank intends to disclose information on ESG risks for the first time as part of its supervisory disclosures, in keeping with Article 449a of the Capital Requirements Regulation (CRR) and Commission Implementing Regulation (EU) 2022/2453. The Regulatory Disclosure Report as at 31 December 2022 is scheduled to be published on Aareal Bank Group’s website¹⁾ at the end of April 2023.

Section 171 (1) sentence 4 of the German Public Limited Companies Act (Aktiengesetz – AktG) requires the Supervisory Board to review the Non-financial Report. As a supporting measure, the Supervisory Board commissioned a limited assurance review in accordance with ISAE 3000 (Revised) from audit firm KPMG AG. In addition to the reporting and the non-financial performance indicators, this review covered the materiality analysis, the policies and the due diligence processes. KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified report on a limited assurance engagement (see page 36).

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-related 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 set out in the HGB. The content of the anti-corruption and bribery matters has been combined with the information security and data protection groups of topics in the Compliance chapter. Information that Aareal Bank AG is required to publish in its non-financial reporting pursuant to Article 8 of Regulation (EU) 2020/8521 (the “Taxonomy Regulation”) is presented in a separate chapter following the five matters. In addition, our description of the management approaches and of the implementation of the materiality analysis is based on the Global Reporting Initiative Standards “with reference to the GRI Standards”) and also takes into account the principles set out in the UN Global Compact.

The information we provide in the individual chapters is aligned with selected GRI indicators²⁾ so as to make our performance in the various aspects comparable. GRI indicators 101 and 103 have been incorporated into the reporting texts.

In addition, we have followed the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD) since the 2020 financial year and have again integrated the recommended content for the four-pillar structure with the structure of this Non-financial Report. In line with this, we use a uniform structure to report relevant content on our strategy, governance, risk management, and metrics and targets for each aspect, ensuring that the content is transparent and easily accessible. We have disclosed the environmental, social and governance (ESG) targets that have been resolved by the Management Board since 2022. We measure the progress we make towards achieving our targets constantly using appropriate interim targets and associated KPIs. The subchapters, which are replicated across the different matters, group the TCFD recommendations together as follows:

a) Importance for our sector and our Company

A 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

A description of how we have positioned ourselves with respect to governance and opportunity and risk management for the matter in question, to the extent that this is applicable and considered relevant.

¹⁾ <https://www.aareal-bank.com/>

²⁾ GRI 101, 102, 103, 205, 206, 302, 305, 401, 404, 405, 406, 414, 419

c) Performance indicators and progress made in the reporting period

This is used to disclose relevant results and indicators, including progress reporting.

A number of places in this report refer to information not contained in the Group Management Report and to the Corporate Governance Statement. This additional information does not constitute part of this Separate Combined Non-financial Report.

Description of our business model and strategy¹⁾

Aareal Bank Group provides financing, software products, and digital solutions for the property sector and related industries, and is present across three continents: Europe, North America and Asia/Pacific. Its business strategy focuses on sustainable business success, with environmental, social and governance aspects being integral parts of this strategy. The medium-term strategic development is being pursued under the guiding principle of “Aareal Next Level”. This strategy aims to continue the positive development of recent years whilst exploring new growth potential. Aareal Bank AG comprises the business segments Structured Property Financing, Banking & Digital Solutions and Aareon.

The Structured Property Financing segment encompasses all of Aareal Bank Group’s property financing and funding activities. In this area, the Bank supports its clients in making commercial property investments. The investment properties concerned mostly comprise office buildings, hotels, shopping centres, logistics and residential property, and student housing. As in the past, the segment’s business strategy focuses on the controlled, risk-conscious expansion of its portfolio volume within its target range, taking ESG requirements into account and taking advantage of its flexible approach with regard to countries, property types and financing structures.

In the Banking & Digital Solutions segment, Aareal Bank Group supports businesses from the housing, property and energy industries as a digitalisation partner, combining extensive advisory services and product solutions with traditional corporate banking services and deposit-taking. The goal for the coming years is to expand this equity-light business and hence increase net commission income. This will be done by expanding the product range based on the Bank’s USPs in the areas of payment transactions and digital solutions, and by announcing additional strategic partnerships. Another goal is to maintain the average volume of deposits from the housing industry at a high level.

Aareal Bank’s subsidiary Aareon, the leading supplier of software-as-a-service (SaaS) solutions for the European property industry, comprises the third business segment. It is digitalising property management by offering user-oriented software solutions that simplify and automate operations, support sustainability and energy efficiency, and link all process participants. Aareon’s position as a provider of SaaS solutions for the European property industry is set to be expanded further – with the clear objective of developing the company into a “Rule of 40” enterprise. Together with its partner Advent International, the Group is aiming to continue the pace of Aareon’s growth and to further boost its profitability.

Group enterprises are managed at Group level. Consequently, the descriptions of the management approaches for the five aspects apply both to the parent company and to the subsidiaries. Where specific sustainability management issues exist, we draw attention to these in the relevant places.

The ESG@Aareal initiative, which was launched in 2020, was successfully completed during the reporting period. Activities are now being continued by the divisions responsible, in close cooperation with the central Sustainability Management function. The initiative achieved its goal of incorporating ESG aspects into its decision-making and management processes to a much greater extent (“ESG integration”). Environmental, social and governance topics have now been anchored in almost all divisions of Aareal Bank AG and its subsidiaries and range from risk management through communications and regulatory affairs down to asset and liability

¹⁾ See also the “Fundamental Information about the Group” section of the Group Management Report in Aareal Bank Group’s Annual Report 2022 for a description of the business model.

products and processes, and the digital solutions produced by Aareon and the Bank. The many strategic and implementing measures taken included the development and formal resolution of quantitative and qualitative ESG goals at Group level, the increased inclusion of ESG aspects within risk management, and the provision on both the asset and the liability areas of the business of green product offerings that are aligned with certain published sustainability criteria (also referred to in this report as “green”; see 1) Environmental matters – Green lending and green funding). Awareness of ESG issues has been enhanced throughout the Group thanks to our in-depth examination of regulatory requirements and to the opportunities and risks identified in the course of the “ESG@Aareal” initiative. The various activities undertaken during the ESG integration process are discussed in greater detail under the individual matters. The results and relevant processes are presented in the relevant places.

On 30 May 2022, Atlantic BidCo GmbH¹⁾ announced that it had secured 74.62 % of Aareal Bank shares after the end of the acceptance period, exceeding the minimum acceptance level of 60 % set out in the course of the voluntary public takeover offer. On 16 June 2022, the bidder also announced that it had secured a total of 83.8 % of Aareal Bank shares after the end of the statutory additional acceptance period. Closing of the takeover offer is subject to regulatory approvals and is expected to take place in the spring of 2023.

Future cooperation will be based on the Investment Agreement concluded between Aareal Bank and Atlantic BidCo GmbH in conjunction with the transaction. In the Investment Agreement, the bidder commits to supporting Aareal Bank Group’s strategic ambitions to strengthen its position as a leading international provider of property financing, as well as of software, digital solutions and payments services – based on the “Aareal Next Level” strategy – and to expedite growth in all of the Group’s segments.

Sustainability management at Aareal Bank Group

Aareal Bank Group’s sustainability management activities are directed by the Group parent, Aareal Bank AG. The team responsible has been charged with enhancing and progressing sustainability activities throughout the Group. It serves as the central contact point for internal and external stakeholders and ensures that Aareal Bank Group’s sustainability credentials are presented transparently in its reporting for clients, investors and other stakeholder groups. In addition, the team represents Aareal Bank Group on and in external bodies and working groups.

The Group Sustainability Officer is responsible for centrally coordinating sustainability management activities. He reports directly to the Chairman of the Management Board, who has overall responsibility for Aareal Bank Group’s sustainability strategy. In addition, ESG topics are a fixed component of the regular Management Board and Supervisory Board meetings.

In the reporting period the Sustainability Management team, like the Innovation Management team, were integrated with the Group Strategy division. This organisational assignment is designed to reflect the high and still increasing strategic importance of ESG and innovation to Aareal Bank Group’s sustainable corporate success. The newly established ESG & Innovation team is supported in its work by contacts in different divisions. In addition, Aareon – as the Group’s largest subsidiary – has its own contacts who are responsible for progressing the topic area together with the Sustainability team.

The Sustainability Committee, which meets at regular intervals, and the Green Finance Committee are responsible for ensuring internal coordination and liaison. The two bodies play different roles:

- The Sustainability Committee met regularly once a quarter and on an ad hoc basis in special cases during the reporting period. Its main role is to coordinate overarching sustainability activities and to enhance the sustainability mission statement and sustainability management within the Group. In addition, its meetings are used to discuss relevant sustainability trends and stakeholder queries/expectations, plus the results of the regular materiality analysis.

¹⁾ Atlantic BidCo GmbH is a bidder company indirectly held by funds managed and advised by Advent International Corporation and Centerbridge Partners, plus CPP Investment Board Europe S.à.r.l. (a wholly-owned subsidiary of Canada Pension Plan Investment Board), and other co-investors.

- The Green Finance Committee (GFC) focuses on (further) enhancements to Aareal Bank AG’s green product offering, generally on a monthly basis but also ad hoc. It discusses sustainability criteria for financing, regularly reviews the Green Finance Framework to ensure it is up to date, appropriate and market-driven, and is responsible for managing the pool of green assets underlying the issuance of green financial instruments.

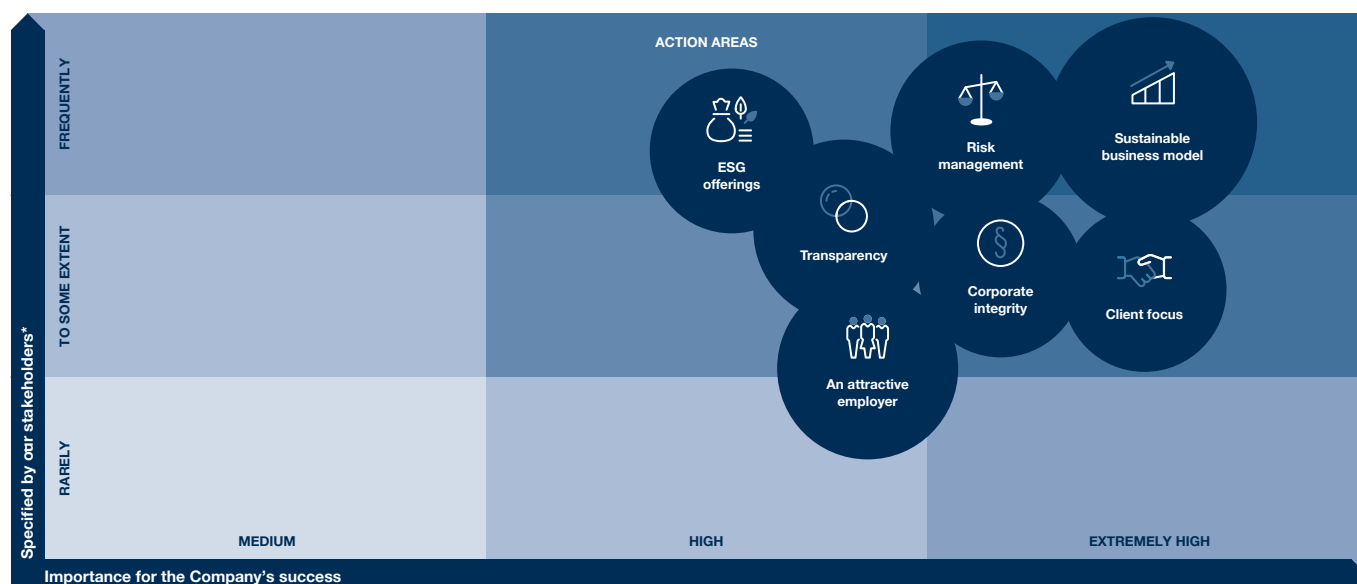
Determining materiality

We review the results of our materiality analysis every year, so as to accommodate the effects of external events and changing requirements on the part of our stakeholder groups (including clients, investors, employees, analysts, rating agencies, supervisory authorities, political entities, associations, etc.) appropriately and at an early stage. To do this, we again evaluated information from the media, events (such as client and investor meetings) and other sources in the 2022 reporting period, and held numerous discussions with internal and external stakeholders. The updates 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 mentioned in the HGB (environmental matters, employee-related matters, social matters, respect for human rights, and anti-corruption and bribery matters).

Key external events in the 2022 financial year that had a significant impact on our sustainability management action areas included the outbreak of the war in Ukraine, the easing of the Covid-19 pandemic, the increasing social and political importance of ESG topics, more intense discussion within society of how to mitigate climate change, and changes in attitudes to sustainability on the part of the stakeholder groups that are relevant to us. In addition, we took new and existing regulatory and supervisory requirements into account when reviewing and updating our materiality analysis.

The evaluation of the aspects and documents above concluded that our seven sustainability management action areas can still be considered to be material (see the following graphic). The existing positioning of the seven action areas on the materiality matrix was also confirmed for the 2022 financial year.

In other words, a forward-looking, profitable business model, proactive risk management and a keen client focus continue to be material. The importance of our “Corporate integrity”, “Transparency”, “ESG offerings” and “Attractive employer” groups of topics for our sustainability management activities were also confirmed. We consider it highly probable that our “Transparency” and “ESG offerings” action areas may become even more relevant for our stakeholders and the supervisory and regulatory authorities going forward. We attribute this to the expected increasing importance of ESG topics and products. As a result, we shall examine in the coming year whether we need to adjust these two action areas in our materiality matrix.



* Clients, investors, employees, analysts, rating agencies, supervisory authorities, political entities, associations, etc.

Reconciliation of action areas to relevant issues

We have assigned the relevant issues as defined by section 315c (2) of the HGB in conjunction with section 289c (2) of the HGB that underlie our action areas to the statutory aspects at a content level as follows.

Key action areas	Material issues	Section of non-financial report
Future-proof 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
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	ESG Ratings	1. Environmental matters/ 3. Social matters
	Environmentally sustainable property quality	1. Environmental matters
	Resource efficiency in operations	1. Environmental matters
ESG offerings	Green lending	1. Environmental matters
	Digital solutions to challenges facing society	1. Environmental matters/ 3. Social matters
	Smart buildings	1. Environmental matters
	Data security and data protection	5. Anti-corruption and bribery matters

Risk reporting

The Risk Report that forms part of our Group Management Report¹⁾ 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 growing importance of ESG topics for the financial services sector and the property industry holds manifold opportunities, yet 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 on 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. We define ESG risks in this context as drivers that can trigger or intensify existing risks in our business. In view of this, we have implemented an ESG risk management function and are systematically integrating ESG aspects with our risk strategy and our risk processes, methods and tools.

¹⁾ See the Risk Report that forms part of the Group Management Report in Aareal Bank Group's Annual Report 2022.

We have included ESG aspects in our risk management framework since 2021 and our clear ESG risk governance has laid the foundations for incorporating ESG risks across the board in our processes and systems. Our end-to-end approach starts with the ESG risk identification process, is followed by the assessment and management of the risks identified, and culminates with their inclusion in internal risk reporting. Regulatory requirements such as the ECB Guide on climate-related and environmental risks, the BaFin Guidance Notice on Dealing with Sustainability Risks and the EBA Guidelines on loan origination and monitoring are explicitly included. Our objective in integrating ESG risks with our risk management activities is to systematically incorporate sustainability aspects into both the various (sub-)risk strategies and the ICAAP and ILAAP frameworks. In addition, ESG risk governance that is appropriate from both a workflow and an organisational perspective permits an integrated, strategic approach to sustainability.

We identified the relevant ESG risk factors as climate risks, changes in stakeholder requirements, competitive and market pressure, business ethics, compliance and uncertainty regarding ESG regulations relating to Aareal Bank Group. These primarily impact our credit risk and operational risk. Since 2021, we have measured climate risks using scenario analyses and stress tests that evaluate the effects of both transitional and physical climate risks. These are based on the scenarios/climate pathways set out in the NGFS (Network for Greening the Financial System) or on internal shock scenarios. In addition, the climate change scenarios are supplemented by a social change scenario. The impact of the ESG scenarios on Aareal Bank's capital utilisation are minor compared to the other stress test scenarios.

We provide more detail on topics that are of particular importance to sustainability-conscious stakeholders in the overviews of risks and opportunities given at the beginning of each aspect. No reportable material risks associated with the Company's own business activities or its business relationships, products and services that are or could be highly likely to have severe adverse impacts on the five aspects were determined during the reporting period.

1. Environmental matters

a) Importance for our sector and our Company

Aareal Bank Group has been accompanying and supporting the sustainable transformation of the economy and society for years with its systematic approach to sustainability. We want to do our bit to help meet the international climate protection goals such as those set out in the Paris Agreement on Climate Change and the United Nations' Sustainable Development Goals (SDGs). This is because, as a financial services provider and partner to the property industry, we are active in two sectors that are instrumental as the economy transforms.

The property sector accounts for a significant proportion of global energy consumption and resulting greenhouse gas emissions. As a result, this sector has a responsibility to realise the potential savings in this area, which are substantial in some cases – a responsibility that politicians are also reminding it of. As is the case with most financial institutions, the environmental impacts of our financing 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 live up to our responsibility to society in this area of business and to ensure that our business model remains viable in the future. ESG criteria play an increasingly important role not only in lending but also on the funding side of our business, in our investment portfolio, and in our digital product portfolio. We use compliance with the ESG criteria that have been classified as relevant to our business as a key tool for assessing properties' sustainable intrinsic value. In our investment portfolio, we apply these criteria both out of ethical conviction and from a risk perspective, so as to avoid any losses in value as far as possible. At the same time, enhancing transparency for the properties we finance with respect to ESG aspects during property valuations allows us to create a basis for providing additional support for international climate protection efforts. In addition, our funding activities and securities business can have an active impact on the market. Equally, we consider the inclusion of environmental risks as a fundamental necessity for ensuring our long-term business success.

In the Banking & Digital Solutions and Aareon segments, our products and services raise our clients' environmental awareness and enable them to use digital, mobile solutions to actively and measurably cut carbon emissions, and hence reduce negative environmental impacts. For example, they contribute to more efficient processes, a drop in the number of kilometres travelled and lower paper usage.

We are aware of our corporate responsibility and hence aim to help shape market developments when it comes to implementing ESG aspects. This is why we are monitoring political developments at national and EU level closely, contributing our expertise in this area through consultations and implementing measures at an early stage, and in some cases also on a voluntary basis, that are designed to promote transparency and make the environmental impact on our business activities visible and comparable.

OBJECTIVES:

- **A responsible approach to natural resources and environmental protection** are part of our corporate responsibility. We already include sustainability factors in a number of areas of our business operations. For example, we are helping the transition to a more energy-efficient and lower-emissions economy with each energy-efficient property and each energy-efficient refurbishment project that we finance. We aim to expand this contribution further going forward. We are continuing to enhance our ESG KPIs for both our sustainability performance at enterprise level and our funding and product portfolios; these will make our performance in various divisions visible and measurable.
- **Creating and enhancing transparency** e. g. in relation to building certifications in line with ESG criteria, energy efficiency, the visualisation of consumption data for operators and tenants or the environmental impact of new products and services.
- **Conserving resources is environmental protection** and part of our corporate philosophy. Continuously cutting energy usage and avoiding carbon emissions also play an important role in our internal planning and optimisation measures. For the 2023 financial year, we have set ourselves the goal of ensuring carbon-neutral operations in line with the “avoid, reduce, offset” principle. This will allow us to play our part as a company in protecting the climate.

b) Our management approach

Aareal Bank AG’s Sustainability Management function is responsible for central management of environmental matters that are relevant for the Group. In addition, more and more responsibilities were successively transferred to the individual divisions in recent years, and the relevant expertise established there. Aareon also has its own contacts for ESG topics. This ensures that we can take the multi-faceted group of topics that make up the “environment” into account adequately across all divisions and business processes. In addition to our own business operations, a non-exhaustive list of areas affected includes risk management, property valuation, funding and product development in the Banking & Digital Solutions and Aareon segments. The following gives examples of initiatives and processes that illustrate how we are implementing environmental matters within our organisation:

Transparency at company and portfolio level

Transparency about the effects of economic activity on the climate and the environment is increasingly being taken into account by institutional investors, and is required by supervisory authorities and regulators. Financial services providers and property sector players alike are facing the challenge of gathering data on, and disclosing, the carbon emissions they have financed or that have been caused by their property portfolios. Since no uniform methodology for calculating and ensuring the comparability of such carbon data existed previously, we decided to participate in the development and use of a uniform standard for financed emissions from commercial property. In 2021, we signed a PCAF Commitment Letter undertaking to report the carbon footprint for our property finance portfolio in line with the PCAF standard by 2024. As the co-lead for the “Commercial Property and Mortgages” group that is relevant for our business, we are contributing our expertise and ideas on how to enhance and apply the PCAF standards. We started working towards this back in 2019 by creating the data infrastructure required to capture information on energy efficiency, green building certificates and energy-efficient refurbishment projects in our systems. Once again, progress was made with data gathering, capture and validation for our global portfolio in the reporting period. This already allows us to calculate a

number of sustainability-related KPIs for our lending business. In the future, we aim to go into greater detail and expand this to capture CO₂ impacts (Scope 3 emissions). Together with external experts, we developed a methodology in the reporting period for harmonising and assigning priorities to different data sets used to calculating financed carbon emissions. This methodology is designed to serve as the basis for establishing a structured process for using heterogeneous data of varying quality to calculate financed carbon emissions.

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 and use a lifecycle analysis that includes environmental aspects such as the buildings' technical, functional and environmental quality as standard components. 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 appraisal (which comprises a comprehensive market, property and risk analysis), these may impact loan structuring or lead to requests for finance being rejected.

Green lending and green funding

Green lending was identified as a material opportunity for ensuring that our business model remains viable back in the 2019 financial year. We have defined environmental sustainability criteria for commercial property based on our valuation expertise, our many years of experience, our property market knowledge, and existing market standards. These form the basis for our "Green Finance Framework – Lending". In addition to meeting minimum energy efficiency standards and the existence of certain high-quality building certificates, the requirements for Taxonomy-aligned buildings serve as qualification criteria for green loans. This definition was developed together with internal experts with the goal of applying it around the world. A second-party opinion by Sustainalytics then reviewed the framework developed in this way for the ambition, market conformity and suitability of the qualification criteria, and rated it as "credible and impactful". This third-party certified model serves as the basis for extending green loans and hence is successively aligning the Bank's credit portfolio with sustainable criteria.

Our green funding offering supplements our green lending activities, allowing us to offer ESG-oriented clients products in both the asset and the liability areas of the business in the reporting period. Our suitability criteria for our liability-side products and for classifying them as "green" have been designed in a similar way to our existing "Green Finance Framework – Lending". The resulting "Green Finance Framework – Liabilities" was also subjected to a second party opinion review by Sustainalytics and was classified as "market-conforming, credible and impactful". At the same time as the first green funding products were introduced, the Green Finance Committee (GFC) was established to manage and monitor the green asset pool and to make additional enhancements to the Framework.

Digital solutions

Our Banking & Digital Solutions and Aareon segments offer a wide range of digital solutions for the property and housing industries. In addition to time and cost savings and efficiency gains, they can also contribute to greater transparency and an improved environmental footprint. In this way, we are helping our clients cut carbon emissions and save energy. In addition, we examine forward-looking topics and technical innovations on an ongoing basis so as to assess their potential to enhance efficiency and optimise processes and to develop new property industry solutions ("enabler products" and/or corresponding ESG offerings). Examples of products that have a positive ESG impact and that can contribute to sustainable decisions include the following:

- Aareal Meter, a digital meter management system, allows both housing enterprises and utilities to optimise their meter reading processes. Digital readings of main and secondary meters on set dates increase the quality and security of companies' meter reading data. Rapid data capture and the resulting high-quality data pool also allow higher-quality operating cost invoices to be created more quickly. In turn, the reduced error rate leads to lower internal expenditure and fewer queries by tenants. In addition, the use of digital meter management can optimise, and potentially reduce, meter reading trips. Digital readings have very low error rates, avoiding the need for additional trips to the properties concerned.

- AiBATROS®, a software system from Aareon's subsidiary CalCon Deutschland GmbH, supplements Aareon's existing ERP systems by determining buildings' current condition and energy status. Based on this evaluation, the system then automatically proposes maintenance and refurbishment measures and demonstrates what improvements to properties' condition or reductions in emissions can be generated in return for what investments. In addition, ESG scoring can be used to analyse buildings according to sustainability criteria and to cluster them by their weaknesses and potential. AiBATROS® then derives a suitable property strategy from this and makes concrete recommendations for actions that can be taken to facilitate the portfolio's sustainable development. The goal is to help property companies deploy investments efficiently and strategically.
- Momentum, an Aareon subsidiary, provides customers with a modern online platform designed to digitalise and simplify everyday life for property owners and their tenants. The company develops, sells and implements software as a service (SaaS) for property management and energy monitoring.

Resource efficiency in operations

In addition to taking environmental aspects into account in our business decisions, we work continuously in our own business operations to conserve natural resources and reduce our carbon footprint. We make a valuable contribution to climate protection at our two head offices in Wiesbaden and Mainz by sourcing 100 % green electricity and by using climate-friendly district heating and geothermal heating. We document the entire Group's energy and resource usage 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. The table under c) Performance indicators and progress made in the reporting period shows direct and indirect energy consumption and the resulting carbon emissions (calculated using the market-based method) for our two head offices in Wiesbaden and Mainz. Consequently, the environmental indicators disclosed in this report account for just under 71 % of Group energy consumption. The carbon emissions generated by our two head offices also made a significant contribution to the Group's overall carbon footprint, accounting for approximately 57 % of Scope 1 and Scope 2 emissions overall.

Aareon's data centre in Mainz features a number of measures that lead to high energy efficiency. Firstly, the data centre's design and the optimum use of its air conditioning system give it an extremely good power usage effectiveness (PUE) score (when averaged over the year, this is below the threshold of 1.4 needed to qualify for energy efficiency class A. Secondly, the waste heat produced by the data centre is used to heat the building in winter and to fill the geothermal storage system in summer.

c) Performance indicators and progress made in the reporting period

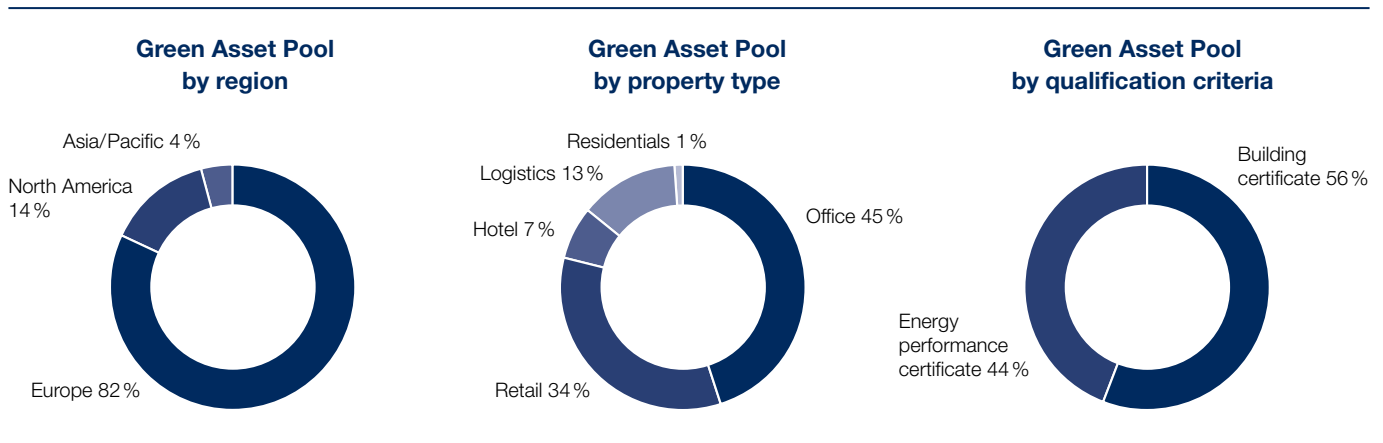
Green finance indicators – Funding

A total of roughly € 2.3 billion in green securities was issued for funding purposes in the reporting period. These can be broken down into roughly € 1.3 billion worth of green CP (issued under the Multi-currency Commercial Paper Programme) and two green senior preferred benchmark bond emissions of € 0.5 billion each (issued under the Debt Issuance Programme). Due to intra-year maturities and short CP durations in some cases there was a relatively large difference, measured in terms of the total nominal value of the money market instruments, between the total money market instruments issued in the 2022 financial year and the securities outstanding (as at the 31 December 2022 reporting date). All in all, green funding instruments amounting to roughly € 1.5 billion were outstanding as at 31 December 2022 (see the next table).

Overview of our green funding instruments in the reporting period

	Volume in euros as of the 31 December 2022 reporting date	New issues in euros in the 2022 financial year
Green CP	482,524,050	1,292,879,019
Green bonds	1,000,000,000	1,000,000,000
Total	1,482,524,050	2,292,879,019

The green asset pool as at 31 December 2022 amounted to approximately € 4.3 billion. This enables Aareal Bank AG to ensure adequate excess cover for the funding instruments issued. Breakdowns of the overall green asset pool by region, building type and qualification criteria are given below.



Environmental indicators

Total energy consumption at our Wiesbaden and Mainz head offices (GRI 302-1)

	2022	2021	2020
in gigajoules (GJ)			
Direct energy consumption			
Petrol	2,965	3,491	5,013
Diesel	13,288	11,273	9,403
Heating oil	283	176	210
Natural gas	36	36	0
Total	16,572	14,976	14,626
Indirect energy consumption			
District heating operator	10,240	12,739	11,069
Power	22,908	23,250	23,398
Proportion attributable to green electricity	100 %	100 %	100 %
Total	33,148	35,989	34,467
Total energy consumption	49,720	50,965	49,093

As had been expected, total energy consumption and resulting carbon emissions rose slightly again compared to the reduction in consumption seen in previous years as a result of the pandemic. However, they are still at a low level compared to pre-pandemic years. This is due among other things to a high proportion of district heating sourced from CHP plants and renewable energy sources. These made an important contribution to avoiding additional carbon emissions from heating. Last year, we documented the high proportion of district heating from CHP plants and renewable energy sources that we sourced in Wiesbaden, while in the current reporting period we were again able to document this for the district heating sourced at our Mainz location. This confirms that the district heating sourced has a low primary energy factor and is environmental friendly. Aareon sources geothermal energy to power its headquarters in Mainz, employing ground source heat pumps to exploit the constant temperature levels deep underground for heating in winter and for cooling in summer.

Carbon emissions at our Wiesbaden and Mainz head offices in tonnes (market-based method)

		2022	2021	2020
in tonnes (t)				
GRI 305-1	Scope 1	1,161	1,046	1,017
GRI 305-2	Scope 2	269	326	297
Total		1,430	1,372	1,314

RESULTS AND PROGRESS MADE IN THE REPORTING PERIOD:

- ✓ A comprehensive catalogue of ESG objectives was communicated publicly for the first time in the reporting period. This underscores the strategic relevance of sustainability aspects at Aareal Bank Group.
- ✓ We continued expanding our sustainable finance activities in the reporting period:
 - We have examined a large proportion of our global credit financing portfolio (CREF portfolio) for available ESG information. ESG data taking the form of verified energy and/or building certificates have been documented in our systems for 48 % of the buildings involved.
 - The proportion of green properties (as defined in Aareal Bank's Green Finance Framework – Lending) in the CREF portfolio was increased in the reporting period from approximately 17 % to 21 %.
 - We issued roughly € 1 billion in new green loans in the reporting period. All in all, the total green loan volume rose by a total of € 1.8 billion to € 2.2 billion, since a number of existing clients converted their previous financing arrangements into green loans by submitting the required undertaking and documentary proof for the first time.
 - Roughly € 2.3 billion in green issuing proceeds were generated from our two green senior preferred benchmark bond issues and from subscriptions under the Multi-currency Commercial Paper Programme in the reporting period.
- ✓ We use sustainable and regional products for our locations in Mainz and Wiesbaden where this is possible and such products are available.
- ✓ We played an active part in a variety of events designed to identify and promote promising, high-growth start-ups in the reporting period as part of our activities in this area. The focus here was on environmental aspects. For example, Aareal Bank Group sponsored the Sustainable Finance special award at the 2022 Fintech Germany Awards and is in ongoing contact with a number of start-ups that are developing promising solutions in the areas of climate action and carbon reduction.

- ✓ Aareon is taking part in the “ForeSight” project that is being sponsored by the Federal Ministry for Economic Affairs and Climate Action. The goal is to develop intelligent, forward-looking smart living services. Aareon is providing ForeSight’s Big Data & Analytics platform and is managing the data management work package, which aims to develop concepts for linking smart living services and the platform information on the one hand with the housing industry’s ecosystem of ERP systems and digital solutions on the other.
- ✓ Aareon and Aareal Bank AG expanded the number of charging stations they offer for private and company e-cars at their Mainz and Wiesbaden locations in the reporting period. In addition, 10 % of Aareon’s vehicle fleet in Mainz already consists of electric vehicles, and this figure will be expanded in future.
- ✓ Since the start of 2022, plusForta has been taking part in a tree planting project run by Eden Reforestation Projects in Nepal; this came about primarily at the request of staff who wanted to make a bigger contribution to climate action and environmental protection. plusForta’s involvement alone led to a further 66,000 additional trees being planted in 2022.
- ✓ What is more, Aareon staff in the United Kingdom and Mainz took part in the World Cleanup Day – in which people around the world come together to collect litter – during the reporting period.
- ✓ Aareon acquired a majority stake (93 % of the shares) in Momentum Software Group AB, Sweden, in the reporting period, expanding its range of sustainable digital solutions even further. Momentum’s 100 or so staff provide software solutions for energy monitoring, among other things.
- ✓ Aareon fully offsets the carbon emissions produced from business travel. Aareal Bank AG has offset roughly 100 tonnes of its carbon emissions from flights.
- ✓ Just under 46 % of total energy consumption at our two head offices was attributable to electric power. Our electricity consumption here in the reporting period was slightly more than 6.3 million kWh. Roughly 4.2 million kWh of this figure was attributable to our Wiesbaden location and 2.1 million kWh to Mainz. We are aware of our responsibility and know that, assuming an average annual consumption of 3,200 kWh, this amount of energy would have been enough to supply electricity to roughly 2,000 households. As in the past, we used certified, demonstrably emissions-free green power for all our electricity requirements during the reporting period, benefiting both the environment and the climate.
- ✓ Our fossil fuel consumption and our use of company cars led to total CO₂ emissions of 1,430 t at our two head offices in the 2022¹⁾ financial year. With respect to Scope 1, a total of 1,161 t of CO₂ was emitted in relation to the use of company cars and heating. Scope 2 carbon emissions were calculated using the electricity and district heating consumed. They amounted to 269 t for the two head offices using the market- based method.

¹⁾ Calculated by adding together the carbon emissions for Scope 1 and Scope 2 (using the market-based method)

2. Employee matters

a) Importance for our sector and our Company

Our staff play a crucial role in Aareal Bank Group’s future development: motivation, the ability to think and act in an entrepreneurial manner, taking responsibility and developing innovative solutions are critical to 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.

The rapid rise of digitalisation, pressure to innovate, a cultural shift and the skills shortage have permanently changed the way we work in recent years and will continue to have a major effect in this area going forward. In particular, the war in Ukraine and the still tangible effects of the Covid-19 pandemic posed a number of challenges for us in the last reporting period. This included the need to protect our employees' and clients' health, the emergence of a new world of work as a consequence of the Covid-19 rules and questions relating to the energy crisis and its impact on our working environment.

OBJECTIVES:

- ① **Workforce health and safety** are our top priority. Large proportions of our employees around the globe continued to engage in mobile work in the 2022 reporting period, protecting both themselves and the health of the public as a whole from the effects of the Covid-19 pandemic.
- ① **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 promoting a corporate culture that is aligned with our needs. This is done in a wide variety of ways, such as through appropriate, performance-based remuneration, needs-driven training and education, attractive company benefits, and sufficiently flexible working times and locations.
- ① **Continuous two-way communication with the workforce:** A strong feedback culture is critical if Aareal Bank Group is to enhance and extend its corporate culture in the way it wants to. This is why we regularly ask employees to tell us about their expectations, needs, and opinions using a number of different formats.

b) Our management approach

The HR departments at Aareal Bank AG and the subsidiaries concerned coordinate human resources management for Aareal Bank Group, and support managers in operational staff management issues. Aareal Bank AG performs the HR function for a number of subsidiaries, while in the Aareon subgroup Aareon AG is responsible for managing this. Human resources strategy tasks are addressed by the Managing Director (MD) Group Human Resources & Infrastructure function at Aareal Bank AG and by equivalent functions at the subsidiaries.

The Aareal Bank AG guidelines (on e.g. the remuneration strategy, financial control for human resources and the corporate retirement plan) are based among other things on the core labour standards¹⁾ published by the International Labour Organization (ILO) and on more far-reaching 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, which also act as an early warning system.

Our human resources policy is reflected in the following topics:

Remuneration

Our remuneration systems are based on specific remuneration principles. All permanent Aareal Bank AG employees receive performance-related variable remuneration in addition to their fixed remuneration.

¹⁾ Core ILO labour standards: Convention 87, Convention 98, Convention 29, Convention 105, Convention 100, Convention 111, Convention 138, Convention 182

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. 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 in full and directly, but is retained in tranches for several years and granted partly as virtual shares. The goals here are to ensure that the variable remuneration does not create an incentive for staff to enter into disproportionately large exposures, and that remuneration is aligned with the Bank's long-term success.

In line with section 25d (12) of the German Banking Act (Kreditwesengesetz – KWG), Aareal Bank's 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.

ESG targets were included in the individual component of the overall target achievement for Aareal Bank AG's Management Board members in the 2022 financial year, in order to ensure that the increased importance of ESG aspects to our corporate strategy was also reflected in the remuneration paid. The minimum weighting was 15%. The use of quantitative ESG targets allows a high level of transparency regarding Aareal Bank AG's ESG focal areas and at the same time creates targeted incentives for a long-term sustainable strategy. From the 2023 financial year onwards, the emphasis put on ESG targets in Management Board remuneration has been increased: the 2022 Annual General Meeting approved a revised remuneration system for the members of the Management Board under which targets will also be set for ESG aspects at the Group component level in future. In other words, the minimum weighting for ESG targets in future will be 25% of the overall targets. For further information on the revised remuneration system, please see the agenda for the 2022 Ordinary Annual General Meeting.

Training and education

Aareal Bank Group invests continuously in developing its employees' professional, business and interpersonal skills on an individual, needs-driven basis. Our professional development measures aim to ensure that anybody – from new recruits to employees of many years standing – can grow and develop their individual potential with us. Learning@Aareal, our end-to-end training and education approach, is based on the changed needs of our working environment and reflects the new demands being made on our employees' skills and qualifications. Our goal with Learning@Aareal is to permit a high level of flexibility, and we are making increased use of digital channels and blended learning, i.e. combining online and face-to-face education and eLearning. In addition, Learning@Aareal has an international audience and includes considerable amounts of English-language material.

Staff development at Aareon is also being expanded with digital support. The Cornerstone learning management system was used in the reporting period to offer training modules on housing industry topics from the EBZ Business School in Bochum, while PINKTUM covered management, agile project management, soft skills, communication and health issues. In the United Kingdom, Aareon uses the Udemy online learning platform. In view of the continuing process of internationalisation, both Aareal Bank and Aareon also attach great importance to expanding language and communications skills. At Aareon, for example, intercultural training (ICT) courses were used to promote this. These courses aim to improve intercultural skills within the company and to create greater understanding of intercultural differences in order to facilitate collaboration within teams and projects. Aareon is supported in the ICT area by an external international team of experts. Managers receive individual training in the Aareon Development Centre for Managers, among

other things. In addition, the eighth round of the cross-mentoring programme has already been launched. Cross-mentoring describes the targeted exchange of employees from different companies; it is a personnel development measure aimed at promoting knowledge transfer. Information sharing and dialogue among managers is also specifically promoted. Aareon's management circles offer the opportunity for managers to learn from each other.

Aareal Bank's strategic development approach uses a skills matrix as the basis for talent development at an organisational level. Linking the skills matrix, Learning@Aareal, clear selection procedures, and management and expert career paths facilitates our employees' sustainable development and is flanked by a mandatory staff development dialogue for all managers and employees. In it, employees and their line managers discuss and agree individual development measures permitting staff to develop their skills and invest their talent in a forward-looking way over a medium- to long-term horizon in the coming years. The staff development dialogue builds on the employee's current tasks and, in the Company's and the employee's interests, promotes and enhances both soft skills and hard (professional, methodological and digital) skills. In this context, networking knowledge contributes to the permanent development of the organisation and guarantees that specialist knowledge is secured through sustainable succession planning.

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

Fostering young talent

Attracting and growing young talent is a key aspect of our human resources work. The specialist knowledge required in our business divisions requires us to invest continuously – and in a targeted manner – in training the next generation. For this reason, talent recruitment and training is an integral part of our sustainable succession planning and our structured knowledge management. We stepped up our recruitment and training activities for talented young employees even further in the reporting period.

Our 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. Moreover, Aareal Bank promotes dual courses of study and offers vocational training for IT applications developers, in cooperation with other companies in the region. It collaborates closely with universities in the region through various initiatives, which are being expanded continuously. Apart from successfully transferring specialist knowledge and acquiring new perspectives, the measures that Aareal Bank AG takes to empower young professionals have already led to a decrease in the average age of its workforce.

Besides its internal trainee programmes, Aareon offers a twin-track degree course ("Business information systems"), plus vocational training opportunities for office managers, IT applications developers and IT systems integrators.

Internal dialogue formats

Regular Structured Appraisal and Target-Setting Dialogues are mandatory at all levels. Here managers discuss their employees' performance with them at least once a year plus – if desired – their individual development and specific development measures. Dialogues can also be held if a new manager is appointed for an employee during the year, if a manager considers an employee's performance to be inadequate, if an employee's responsibilities change significantly, or ad hoc if requested by the employee.

Direct, honest feedback is extremely important to us and hence is firmly embedded in our corporate culture. We want to work together on successfully enhancing the Group, to promote information sharing, and to facilitate networking across individual divisions and levels in the hierarchy.

This is why we ask our employees to provide feedback at regular intervals in the Structured Appraisal and Target-Setting Dialogues and using other formats such as employee events. We also poll employees every two years at Group companies Aareal Bank AG and Aareon (most recently in 2021), as well as conducting other surveys and holding workshops ad hoc as needed. The response rates achieved are extremely high and we consider the feedback received to be both constructive and of a high quality.

Aareal Bank AG launched its USP Programme in the reporting period to facilitate the onboarding process for new staff. The programme aims to help ensure that key knowledge is passed on by experienced experts to all new recruits. In addition, the “Aareal Digital Night” format was introduced in 2022. In it, experts hold short sessions on issues relating to digital transformation.

Aareon held a number of workshops with its Chief Human Resources Officer and 10 to 20 staff at a time in 2022, in order to give participants an opportunity to provide direct feedback. More than 150 employees have taken this opportunity since September 2022. The workshops will be continued in 2023. In addition, Aareon started work on a new employee survey tool in the autumn of 2022. The goal is to deploy it for the first time in the summer of 2023.

New Work

We want a working environment in which all our employees feel comfortable and that offers them an infrastructure providing optimum support for their daily tasks. This applies both to mobile and to on-site working. We are focusing on digital tools, innovative office layouts, pioneering technologies and methods, and a new management culture that optimally supports collaboration in an era of hybrid work, so as to assist this development with confidence and on our own terms.

Staff largely engaged in mobile working in the reporting period. Our works agreements on mobile working mean that our employees have already had the technical equipment needed for this for several years now, and that our IT infrastructure is designed for mobile working. We again took care throughout the reporting period to accommodate employees facing particular challenges due to the need to care for children or relatives, and to do justice to employees’ individual safety needs during the ongoing Covid-19 pandemic. This was achieved among other things by providing opportunities for mobile working, and by giving preference to virtual dialogue formats wherever possible and sensible. As a result, our employees were again able to take advantage of expanded rules for working from home in the reporting period. Training about their new digital workplaces has helped ensure that employees can engage in mobile working both efficiently and safely.

We are promoting and expanding digital formats to ensure in-depth communication even when employees engaged in mobile working. For example, Aareal Bank AG regularly holds digital coffee breaks that are designed to simplify networking across divisional boundaries. The internal “Aareal TeamUp!” initiative has a similar goal: staff sit in on meetings held by other divisions and teams so as to provide insights into and touchpoints with the Bank’s different teams and functions. It also enables different teams within the Bank to get to know each other and develop contacts. In addition, our “Buddy@Aareal” programme offers new hires in particular an opportunity to develop their networks and to discuss any questions they may have about Aareal Bank Group with a dedicated contact person for three months. Fresh recruits also pass through a digital onboarding procedure and attend a digital welcome workshop.

Another key goal for us is to design our office space in such a way that this facilitates enjoyable, efficient work. In line with this, we are adapting the layout of our offices to reflect our workforce’s new requirements and needs. Digital solutions should also provide support for staff in this new world of work. For example, in the autumn of 2022 Aareon began implementing its “Workday” human resources management system, which standardises HR processes and aims to enhance transparency. The new software will provide employees with easier access to HR services in future. It also aims to facilitate staff development and gives individual employees more responsibility.

Comprehensive programmes promoting flexible working times and locations (flexible working time models, part-time working, and our mobile working offerings where operational requirements permit), plus a broad range of support measures designed to help employees achieve a positive work-family and work-care balance make it easier for our staff to organise their activities. We also offer our employees a range of health promotion offerings comprising a mix of information, preventive measures, exercise and ergonomics, nutrition, mental health and relaxation, that are consistently tailored to employees’ current needs.

c) Performance indicators and progress made in the reporting period

RESULTS AND PROGRESS MADE IN THE REPORTING PERIOD:

- ✓ Responsible reaction to the pandemic so as to protect employees

 - Maintenance of the high level of mobile working
 - Help in dealing with difficult situations, such as the need to provide childcare
 - Frequent provision of information on current developments (Pandemic Committee)
 - Offer of free masks and coronavirus tests for employees
 - Free vaccinations offered at a number of German locations
 - Protective measures taken on the premises in response to the pandemic
 - Offerings such as ergonomics advice for staff working from home
 - Company Health Management initiatives such as tips for working from home
- ✓ Aareal Bank AG published internal Diversity Guidelines in the reporting period, which set out our diversity principles and supplement the internal provisions of the Code of Conduct and of our Human Rights Guidelines.
- ✓ A number of external initiatives confirm the effectiveness and success of the measures taken. For example, the CRF Institute named Aareal Bank a “top employer” for the 15th time in 2022.
- ✓ Internal employee offerings and presentations are designed to promote and support a feeling of togetherness and individuals’ mental and physical health. Offerings included the following:

 - Intranet articles designed to raise awareness of physical and mental well-being
 - Internal dialogue formats on current developments, comprising open discussion and Q&A sessions
 - Regular online business yoga courses
 - A colon cancer screening campaign at Aareal Bank AG and Aareal Estate AG
 - Counselling in crisis situations, including in Ukrainian and Russian
 - A variety of health care offerings at our Wiesbaden and Mainz locations, such as eye tests, flu vaccinations and blood donor campaigns
- ✓ Aareon used its Mental Health Awareness Month to focus on psychological health. Among other things, courses discussed how employees can nurture their mental health, especially when engaging in mobile work. Other topics addressed included mental agility and resilience, plus how to boost one’s self-confidence.
- ✓ In addition, Aareon launched a group-wide “Mental Well-Being” programme on 10 October 2022, World Mental Health Day. This will use a variety of events, initiatives and offerings to spotlight employees’ mental well-being in the course of 2023. One component of this was the Aareon Mental Health Day at the beginning of January, which offered staff the opportunity to take an entire day to do something for their well-being. The plan is to repeat the Aareon Mental Health Day every year going forward.
- ✓ In Germany, Aareon was awarded “Great Place to Work®” certification by the Great Place to Work® organisation during the reporting period in the “Best Employers in ITC (Information Technology and Telecommunications) 2022” category. The award is given for credible, fair management and active employee development. This seal of approval is based on the one hand on a representative, anonymous employee survey conducted in line with the global Great Place to Work® standard, and is supplemented on the other by insights into internal human resources activities.
- ✓ Aareon has held a “Beruf und Familie” certificate for a strong work-family balance ever since 2008. Measures taken here include its work together with a family services company, parent-child offices, and crèche and kindergarten places at a day care centre in cooperation with another company in Mainz.

Workforce structure

Aareal Bank Group had continued to grow as at the end of 2022, employing a total of 3,316 people from more than 45 countries and three continents. Employee-initiated staff turnover amounted to 10% in 2022. The number of new hires rose slightly, from 11.9% to 13.7%. A large majority of these appointments were made in Europe, with 54% being in Germany. Average employees' years of service with the Company rose slightly again from 10.9 to 11.1. The average employee age is also continuing to fall, with the current figure being 43.7. 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 81.2%, the proportion of pay scale employees was roughly on a par with the previous year (80.6%).

Workforce structure

		2022	2021	2020
GRI-Indicator	Subject matter			
GRI 102-8	Number of employees in Germany	2,220	2,170	2,105
GRI 102-8	Number of employees in Europe excluding Germany	1,025	957	835
GRI 102-8	Number of employees in Asia and North America	71	43	42
GRI 102-8	Employees worldwide	3,316	3,170	2,982
GRI 102-8	of whom outside Germany	1,096	1,000	877
GRI 102-8	of whom female	1,207	1,161	1,122
GRI 102-8	Percentage of female employees worldwide	36.4%	36.6%	37.6%
GRI 102-8	Percentage of part-time employees	18.4%	18.6%	19.6%
GRI 102-8	Number of full-time employees	2,707	2,580	2,398
GRI 102-8	Female part-time employees	414	408	398
GRI 102-8	Percentage of female part-time employees	68%	69.2%	68.2%
GRI 102-8	Male part-time employees	195	182	186
GRI 102-8	Percentage of male part-time employees	32%	30.8%	31.8%

Changes in workforce structure

		2022	2021	2020
GRI-Indicator	Subject matter			
GRI 401-1	New hires	454	376	412
GRI 401-1	Employee turnover	10%	5.6%	4.5%

Regular employee reviews

		2022	2021	2020
GRI-Indicator	Subject matter			
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	100%	100%	100%

Participant days training and education*

		2022	2021	2020
GRI-Indicator	Subject matter			
GRI 404-1	Average days training and education per year and employee	2.7	2.0	2.0
GRI 404-1	Total training days	8,798	6,436	5,652

* Not including Mercadea Srl

3. Social matters

a) Importance for our sector and our Company

The finance sector plays a central role in Europe's sustainable finance strategy, which aims to make the EU a more climate-friendly and social community by regulating banks and insurers in these areas. This is the aim behind the development of the EU's Social Taxonomy rules and, at the national level, of the German Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtgesetz – LkSG), for example, which will also be important for Aareal Bank Group. We have participated in consultations and in discussions at a variety of levels so as to help ensure that developments can be easily implemented.

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, the property industry and related sectors, and its financing solutions, digital products and services add considerable value, help create long-term value for the Company and boost its innovative ability. In addition, as a participant in this sector we are helping to ensure the stability of the property and financial market 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 help create value 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 stable, long-term contractual and client relationships that underpin the use of our tailor-made IT and payment transactions 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.

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.
 - We do not lose sight of **the impact our business has** on society: our goal is to avoid negative social impacts, including along the supply chain.
 - **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 and collaborating with start-ups, and for internal ideas and initiatives. We aim to add value for our clients by identifying and providing support for promising, forward-looking business ideas. We do this by focusing on integration and partnerships.
-

b) Our management approach

ESG topics, and hence social matters as well, 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 traditional banking allows us to accurately assess material 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 are of only minor relevance to us, since Aareal Bank AG mainly provides financing for buildings that have already been completed. Since we focus on office buildings, hotels, shopping centres and logistics facilities, our portfolio does not contain any potentially controversial industrial plant or other properties that might be considered problematic.

We ensure social and client matters are adequately taken into account at Group level as follows:

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. Our long-term, trusting client partnerships have proved their worth yet again during the Covid-19 pandemic: our local account managers and specialists are in contact with our clients whenever necessary to discuss their business plans and draw up tailor-made solutions. In addition, we are well-capitalised and have both a strong liquidity position and highly diversified sources of funding.

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.

Our banking and software solutions and digital services provide the property, housing and energy industries with business process management tools. These allow clients to do business leanly and efficiently, helping them cut both administrative expenses and the time involved, and making useful contributions to the economy as a whole. For example, cost-efficient processes help municipal and cooperative housing associations to create 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 that are based on years of experience. In-depth cooperation during product development has proved its value when developing our digital solutions: here, too, we aim for direct dialogue to allow us to identify requirements while also anticipating trends, developments and risks at an early stage. We are working in partnership with our clients to master current challenges as optimally as possible.

Aareal Bank AG’s relationships with its equity and debt holders build on our employees’ many years of capital market expertise. What is more, our clients value the high level of continuity we offer in our client contacts.

c) Performance indicators and progress made in the reporting period

RESULTS AND PROGRESS MADE IN THE REPORTING PERIOD:

- ✓ Aareal Bank Group’s strong business performance resulted in operating profit of € 239 million in the 2022 financial year. This was substantially more than the figure for the previous year.
- ✓ The commercial property lending business continued to grow, without sacrificing its strong margins and conservative risk parameters. Together with positive effects from the increase in interest rates and a further improvement in the funding mix, this led to a substantial year-on-year increase in net interest income for the Group as a whole. The other two segments also continued their growth course. Both Aareon and the Banking and Digital Solutions segment increased their net commission income yet again.
- ✓ The publication of a number of white papers on digital processes and products is designed to support our clients with their digital transformation processes.
- ✓ Aareal Bank Group held a large number of virtual and face-to-face events in the reporting period. Events taking place during the reporting period included the following:
 - The Aareon Congress, which was held in Essen from 1 to 3 June under the overarching motto of “Pioneering Tomorrow”. Presentations, discussions and interactive formats examined future developments, innovations, connectivity, cybersecurity, energy efficiency and the world of hybrid working after the Covid-19 pandemic.
 - The Customer Lounge for Central and Eastern Germany organised by Aareon in 2022 provided customers with information about topics such as AiBATROS, SAP/Blue Eagle, Wodis Yuneo and cybersecurity.

- A large number of leads were approached using a wide range of webinars and online events such as the Wodis Dialogues 2022.
- The client event organised by Aareon France in May was held to mark its 40th anniversary and focused in particular on the challenges facing social housing in the future.
- Aareal Bank AG's Annual General Meeting was again held online this year.

- ✓ In the reporting period, as in every year since 2004, Aareon and magazine "DW Die Wohnungswirtschaft" presented the DW Innovation Award to housing and property companies that have developed and implemented particularly contemporary and future-proof concepts designed to master the challenges facing the property industry. The motto this year was "Properties, districts and cities after the pandemic".
- ✓ During the "Give Others a Smile" campaign, Aareon employees collected and distributed presents for women, children and homeless people in need. Staff gave presents of goods or money to people in need in Mainz, Dortmund, Leipzig and Southampton, making their Christmas wishes come true. More specifically, the campaign supported children's homes and villages, youth welfare services and women's aid organisations.
- ✓ Donations made by Aareal Bank Group in the reporting period included the following:
 - Humanitarian aid donations for the victims of the war in Ukraine, which broke out on 24 Februar 2022.
 - A donation to DESWOS (Deutsche Entwicklungshilfe für soziales Wohnungs- und Siedlungswesen) in Cologne, helped in the reporting period by the proceeds from the Aareon Congress.
 - Mainzer Hospizgesellschaft e.V.
 - Pfarrer-Landvogt-Hilfe e.V. in Mainz
 - Donations to 13 charitable organisations in the United Kingdom, including Happy Days UK, Queens Cross Community Foundation, and the Torus Group's Christmas Campaign/food bank.

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. New regulatory requirements that could lead to obligations with respect to the observance of human rights at the Group are reviewed regularly for their relevance and for any need to take action. In addition, we track new laws such as the German Supply Chain Due Diligence Act and hence identify potential implications for Aareal Bank Group as soon as possible.

At the level of the workforce, complying with the German General Equal Treatment Act (Allgemeines Gleichstellungsgesetz – AGG) and the ban on discrimination (e.g. treating staff differently on the basis of diversity aspects, or inappropriate or unfair remuneration) is a key issue. 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.

OBJECTIVES:

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

Breaches of human rights – including along our value chain – must be prevented for humanitarian reasons in the first instance. Above and beyond this, though, any infringements could have far-reaching economic consequences for the Group. Reputational damage and financial penalties can lead to long-term risks that should not be underestimated. Managing these risks comprehensively and responsibly is a particularly important task. 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 to observe the principles of diversity and equal treatment. Our reporting on our respect for human rights is used to inform the Management Board of the measures implemented, their effectiveness, any infringements and the actions taken to penalise them.

The workers' representative body responsible exercises its right of co-determination in the case of appointments at our German locations. In addition, we report annually on the proportion of women in management positions and in the workforce throughout the world. We define "women in management" as all female non-pay scale employees at the Company who exercise a professional management role or who have the right to issue instructions to employees.

We have our salary structures reviewed regularly by external specialists. The results of the most recent analysis confirmed that there were no significant differences in remuneration within Aareal Bank AG between men and women in comparable positions.

In addition, we have incorporated ESG criteria into the investment criteria used for our securities portfolios. Among other things, we take social criteria such as the freedom of the press and the Corruption Index into account here.

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.

Our Code of Conduct for employees summarises the values and convictions that make us – Aareal Bank Group – what we are. Its principles are designed to ensure a culture of integrity and mutual trust throughout the Group. In line with this, the Code of Conduct covers the topics of equal opportunities and diversity, fairness and protecting human rights, among other things. It is a matter of course for us that we respect and comply with the laws and regulations of the countries in which we operate and that we respect human rights, focusing in particular on the abolition of all forms of forced and child labour. Making sure all employees have the same opportunities and promoting diversity within our Group go without saying for us. We see workforce diversity and the wide variety of

people making up our boards, committees and working groups as a key factor in the Company's success. This 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. We respect all people regardless of their ethnic or geographical origin, religion, ideology, disability, sexual orientation, gender or age, and respect each and every individual's dignity, rights and privacy. We also attach the greatest importance to gender-neutral, fair remuneration. Aspects such as qualifications, professional experience and training are the only factors taken into account when setting employee remuneration. 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

We have introduced contractual rules relating to the Code of Conduct for Suppliers in our Purchasing and Procurement operations in order to combat the risk of human rights violations among our suppliers. 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

Aareal Bank Group's Management Board has resolved Human Rights Guidelines that 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 in this area 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 AND PROGRESS MADE IN THE REPORTING PERIOD:

- ✓ 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).
- ✓ Annual external comparison of remuneration for non-pay scale employees at Aareal Bank AG.

Percentage of women in management positions

		2022	2021	2020
GRI-Indicator	Subject matter			
GRI 405-1	Percentage of women in management positions	22.5 %	24.3 %	24.6 %
GRI 102-8	Percentage of female employees worldwide	36.4 %	36.6 %	37.6 %

Human rights abuse

		2022	2021	2020
GRI-Indicator	Subject matter			
GRI 406-1	Reported/identified incidents of discrimination	0	0	0
GRI 414-2	Number of reports of significant negative social impacts on human rights in the supply chain	0	0	0

5. Compliance

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. This leads to long-term client relationships that promote the Company’s steady 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.

OBJECTIVES:

- **Ensuring effective risk identification, management and minimisation** This depends on having a well-developed 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.
- We are committed to the objective of **preventing and combating money laundering and terrorist financing**. This also comprises avoiding sanctions breaches and fraud. This is why we only do business with partners who have been unambiguously identified and checked for the matters mentioned above. In addition to clients, this also applies to all other business partners (e. g. economic beneficiaries, suppliers, service providers and employees).
- **Information security at Aareal Bank** aims to ensure the integrity, availability and confidentiality of its information, data and systems, with the transparency and authenticity of information being taken into account via the "integrity" objective. At the same time, we consistently ensure compliance with applicable laws, regulations and contractual requirements pertaining to information security.

b) Our management approach

The Group Compliance Officer, who is also the Group Anti-Money Laundering Officer, is responsible for the continuous optimisation of Group-wide compliance processes. He answers directly to, and reports 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)¹⁾. 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 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.

The central ICS Coordination Unit (ICS = internal control system) is responsible for defining suitable principles, procedures, standards and instruments pertaining to the ICS, and for their further development. The ICS covers all measures designed to ensure that Aareal Bank Group is able to comply with internal requirements and external rules and expectations, in order to ensure that risks remain within an acceptable range from the Company's viewpoint. The ICS is designed to help identify risks and implement measures to mitigate these risks so that the Group's objectives can be achieved efficiently and in accordance with the rules. Aareal Bank's internal control system takes into account the principles established by the Minimum Requirements for Risk Management (MaRisk) relating to the company-specific design of the ICS. The statutory requirements for Aareal Bank Group to establish and maintain an effective ICS are derived from the provisions applicable to corporations in general and the supervisory requirements for credit institutions in particular. The Management Board regularly reviews the adequacy and effectiveness of the ICS. Its assessment is primarily based on the results of the semi-annual ICS Report and the monthly risk reporting.

The Group-wide compliance management system takes all relevant legal and regulatory requirements into account and is based on the corporate governance principles recommended in the German Corporate Governance Code ("the Code"), 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 comprehensively revised in the reporting period 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 regularly reviewed and updated as necessary. In addition, mandatory employee training courses are held, e.g. to raise awareness of the Code of Conduct and help ensure it is complied with.

¹⁾ German Anti-Money Laundering Act (Geldwäschegesetz)

Consolidated monitoring of Aareal Bank AG's non-financial risks is performed by its Non-Financial Risks (NFR) division. The division comprises four departments and the Bank's Neutral Body (required by the German Securities Trade Act (Wertpapierhandelsgesetz – WpHG). The Compliance department focuses on the compliance management system (CMS) and compliance with the WpHG and the Minimum Requirements for Risk Management (MaRisk), and is responsible for the whistle-blowing system. The Anti-Financial Crime department (AFC) identifies, monitors and manages the Bank's risks in the areas of anti-money laundering and the prevention of terrorist financing, fraud and financial sanctions breaches, and is responsible for the AFC strategy. The other departments address the validation of internal models and operational risk. The Head of the Non-financial Risk division, together with the Group Human Resources & Integration department (GHRI), is in charge of the Complaints Office in accordance with the German General Equal Treatment Act (Gleichbehandlungsgesetz – AGG), acts as the central contact person for issues relating to whistle-blowing and serves as the Central Fraud Prevention Office in accordance with section 25h of the KWG. This organisational structure ensures that risk-related information is used efficiently. In addition, its overarching coordination role further enhances the effectiveness of our controls.

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. We expect our business partners to act in a similarly responsible manner.

Tools, processes and rule books

At Group level, the Framework Directive on Preventing Corruption and the Procedural Guidelines on the Prevention of 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. All these measures serve to prevent the danger of corruption before it occurs. This should help avoid and manage any conflicts of interest as far as possible.

In addition, employees receive training on the Company's compliance and fraud prevention requirements and on the potential consequences of any breaches. More specifically, the training courses designed to raise employee awareness of compliance requirements comprise individual modules on general compliance requirements, on the Code of Conduct, on preventing money laundering and terrorist financing, and on preventing corruption and fraud. 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. This guarantees the employee reporting the issue confidentiality and protection. Employees can use this voluntary, confidential reporting system to raise concerns online or by phone – including anonymously, if desired. Aareon is also committed to complying with the rules and recognises the need for breaches of applicable laws and principles of conduct to be identified and eradicated. A tool-based whistle-blower system has been implemented to assist with this, enabling Aareon staff, clients and service providers plus other people outside the organisation to report potential infringements of the law. All tip-offs received are naturally treated as confidential. Aareon Group's central Compliance function receives the reports and coordinates their further handling as appropriate. The website lists the different ways in which breaches of the law relating to compliance can be reported.

The AFC strategy details how to deal with the risks relating to money laundering/terrorist financing, sanction violations and fraud that result from Aareal Bank Group's activities as an international property specialist. The AFC strategy primarily serves to provide strategic guidance on professional and deliberate risk management in the areas of money laundering, terrorist financing, violation of sanctions and fraud. In so doing, the strategy considers the underlying organisational conditions and the foundations of the relevant reporting. 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 when entering into client relationships of the duties of care to be observed, as well as 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.

If functions (particularly material ones) are outsourced, the division performing the outsourcing must ensure the service provider's suitability using a 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 when outsourcing material functions.

The Code of Conduct, which was revised in the reporting period, serves as the basis for how our Group does business. It includes basic values such as respect for one another, avoiding conflicts of interest, and doing business fairly and responsibly. The Code of Conduct 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. Our Code of Conduct shows, among other things, how we aim to make a positive contribution to the sustainable development of economy and society. Within our sphere of influence we pursue a holistic approach that systematically fosters environmental, social and corporate governance aspects.

Ensuring information security and data protection

In the context of the war against Ukraine, the Federal Office for Information Security (BSI) is warning of a heightened risk of cyberattacks against companies, organisations and private accounts alike. Aareal Bank Group has a fundamental interest in ensuring the security of information that is of value to our clients or the Company, or that we are obliged by law or by contract to protect. For us, ensuring failsafe information security and complying with data protection requirements go without saying. This involves measures designed to protect data relating to our clients, business partners and employees, to ensure IT security, to comply with banking secrecy and to protect other sensitive information and company data. As part of this, we comply with the comprehensive provisions of the EU General Data Protection Regulation (GDPR), the German Data Protection Act (Bundesdatenschutzgesetz – BDSG) and other, specific pieces of legislation, and with the regulations applicable in the other countries in which we are active.

Aareal Bank AG is a critical infrastructure operator for conventional payment transactions and account management services pursuant to the German Act to Strengthen the Security of Federal Information Technology (Gesetz über das Bundesamt für Sicherheit in der Informationstechnik – BSI) and the Regulation Amending the Regulation on the Identification of Critical Infrastructures in accordance with the German Act to Strengthen the Security of Federal Information Technology (Verordnung zur Bestimmung Kritischer Infrastrukturen nach dem BSI-Gesetz – KritisV). Aareal Bank has provided proof that these critical infrastructures are adequately protected in accordance with section 8a of the KritisV and section 12 of the Supervisory Requirements for IT in Financial Institutions (BAIT). In our role as a financial services institution in the Federal Republic of Germany, we comply with the BAIT, which was issued by the Federal Financial Supervisory Authority (BaFin). Besides BaFin, Aareal Bank AG is also monitored by the European Central Bank (ECB) and complies with the relevant requirements (such as EBA GL 2019/04) here, too. Internal guidelines, instructions and training courses are used to inform employees of the legal requirements in relation to data protection and cybersecurity, and to raise their awareness of them. We also undergo voluntary external audits and certification processes. What is more, Aareal Bank AG took additional security precautions to prevent unauthorised third-party access to the systems. As an IT supplier, Aareal is also a potential target for malware and cybercriminals. A wide range of highly developed, complex security solutions at network and application level are deployed to prevent this, and are regularly reviewed and enhanced. These include state-of-the-art endpoint detection and response (EDR) systems, Web application firewalls (WAFs) and next-generation firewalls (NGFWs). In addition to ensuring the Group's ability to operate, security of the client data that it processes takes top priority.

Compliance with statutory requirements, and with IT and data security, is crucial for our products and services in Aareal Bank AG's Banking & Digital Solutions segment. Our wide-ranging product portfolio enables users to comply with the relevant data protection rules and laws more easily.

c) Performance indicators and progress made in the reporting period

Performance indicators for breaches and sanctions

		2022	2021	2020
No. of				
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

		2022	2021	2020
Compliance management				
GRI-Indicator	Subject matter			
GRI 205-1	Operations included in the compliance concept	100 %	100 %	100 %
GRI 205-2*	Employees who have received training on general compliance requirements	99.6 %	98.3 %*	100 %
GRI 205-2*	Employees who have received training on the Code of Conduct requirements	97.8 %	93.5%*	100 %
GRI 205-2*	Employees who have received training on the requirements for preventing money laundering and terrorist financing	98.0 %	97.7%*	100 %
GRI 205-2*	Employees who have received training on the requirements for preventing corruption and fraud	97.5 %	95.5%*	100 %

* With effect from 2021, only those employees who have successfully completed their training as at the 31 December 2021 reporting date have been included in the figures. Existing employees who have already received initial training are only included once they have successfully completed the refresher training under the training policy.

RESULTS AND PROGRESS MADE IN THE REPORTING PERIOD:

- ✓ Publication of tips and alerts as part of a compliance awareness campaign on Aareal Bank's intranet aimed at ongoing awareness-raising among employees and to draw attention to topical issues (e. g. how to handle gifts) or refresh their existing knowledge. These tips also regularly draw attention to the whistle-blower system that is available.
- ✓ In addition, employee awareness of cybersecurity, phishing and social engineering attacks is being deliberately strengthened by establishing a training platform and using internal measures. Measures taken during the reporting period included internal training and campaigns, and the regular publication of security alerts such as how to deal correctly with phishing mails.
- ✓ The wide range of non-financial risks makes this area particularly complex, and hence requires coordinated management. An end-to-end NFR framework was introduced in the reporting period to address this issue appropriately. It standardises assessment criteria and methods, and reporting throughout established risk management cycles and defines responsibilities based on a transparent risk taxonomy. At Aareon, we regularly perform data protection and data security audits and certifications, and work with specialised service providers who, for example, simulate cyberattacks.

-  Aareon's data centre in Mainz is kept up to date at all times by our IT experts, and its data protection measures have multiple certifications in line with the standards required by our clients in the insurance and banking sectors. This means among other things that it is a Level 4 fail-safe network data centre. Its operations are regularly certified as complying with Audit Standard PS 951 (new version) Type II issued by Institut der Wirtschaftsprüfer e.V. (IDW), which corresponds to the ISAE 3402 Type II International Standard on Assurance Engagements.
-  In the reporting period, TÜV Rheinland certified Aareon's information security management system as complying with ISO/IEC 27001.
-  There were no reportable data protection breaches requiring to be reported to the supervisory authority at Aareal Bank AG in 2022. At Aareon Nederland, there was a cyberattack on the REMS data centre in Amsterdam during the reporting period. The systems were immediately taken offline, all clients were informed and a comprehensive forensic analysis was launched. No other parts of the IT infrastructure were affected.

EU-Taxonomy

Classification instrument for sustainable business activities

By signing the Paris Agreement on climate change, the European Union undertook to help limit global warming to well below 2 °C and to achieve greenhouse gas neutrality by the middle of the century. The first thing that needed to be done was to establish how this goal can be achieved. In light of this, the High-Level Expert Group on Sustainable Finance ("HLEG") was convened by the European Commission in 2016. The work performed by the HLEG resulted among other things in the adoption in March 2018 of the European Commission's Action Plan on Financing Sustainable Growth. This is designed to promote and develop a sustainable financial and economic system in the EU, and to mobilise capital to achieve Europe's climate protection goals. Due to its capital allocation function, the financial sector will play an important role in supporting and promoting sustainable economic and social development (see Article 2c of the Paris Agreement).

One core element in achieving the target is the adoption of a Taxonomy designed to define in more detail what can be understood as "sustainable economic activity" within the meaning of the Paris Agreement and the United Nations' Sustainable Development Goals. In the period up to and including March 2020, the Technical Expert Group on Sustainable Finance (TEG) that was then convened addressed, among other things, the design of the Taxonomy and the definition of concrete technical criteria with which economic activity in the various sectors can be classified into Taxonomy-aligned and Taxonomy-non-aligned activities. The first step was to develop a Taxonomy for environmental matters. The final report of the TEG, which was published in March 2020, makes recommendations on two of the six environmental objectives and uses technical criteria (including thresholds) to define when economic activity can be classified as environmentally sustainable. Technical criteria for the other four environmental objectives and a Social Taxonomy will follow at a later date.

These recommendations were implemented in the EU in the Technical Screening Criteria (Annex 1 and 2 of Commission Delegated Regulation (EU) 2021/2139). The criteria define the economic activities that count towards the two environmental objectives of climate change mitigation and climate change adaptation as set out in the Taxonomy Regulation. Only economic activities that are listed there can be considered to be Taxonomy-aligned.

Article 8 of Regulation (EU) 2020/852 (the Taxonomy Regulation) requires all undertakings that are subject to an obligation to publish a non-financial statement pursuant to Directive 2013/34/EU (the Non-Financial-Reporting-Directive – NFRD) to disclose information on how and to what extent the undertaking's activities are associated with economic activities that qualify

as environmentally sustainable. The disclosure obligations are set out in more detail in Commission Delegated Regulation (EU) 2021/2178.

In July 2021, the European Commission published its Commission Delegated Act on Article 8 of the Taxonomy. This provides more detailed definitions of the phased reporting obligations for undertakings. In the case of financial years 2021 and 2022, Article 10 of Commission Delegated Regulation (EU) 2021/2178 initially obliges financial undertakings to make a limited number of disclosures that largely cover the Taxonomy eligibility of their economic activities, plus qualitative information. According to this, Aareal Bank AG has to report the proportion of its Taxonomy-eligible activities in the reporting period, plus the proportion of non-eligible activities and other ratios. The breakdown of the ratios required under the regulation and voluntary information on the assets taken into account are given on the following page.

Aareal Bank's Structured Property Financing segment provides support for domestic and international clients looking to invest in property in Europe, North America and the Asia/Pacific region. Consequently, a not insignificant proportion of its business is located outside the EU and is therefore not covered by the criteria set out in the EU Taxonomy Regulation; as a result, it cannot be included in the proportion of Taxonomy-eligible activities. Our clients' sophisticated requirements for structuring their cross-portfolio and cross-border finance deals mean that another large proportion of our economic activities are attributable to business partners whose size, structure and/or legal form exempt them from the requirement to submit a non-financial statement as defined by the NFRD, and which therefore also do not meet the criteria for Taxonomy eligibility. Leveraging opportunities that present themselves in the growth area of sustainable products and services is part of our business strategy. As a result, we take the Taxonomy Regulation's technical screening criteria, among other things, into account during product development so as to be able to classify economic activities as "environmentally sustainable". For example, the company-specific green definition in our Green Finance Framework includes EU Taxonomy alignment as one qualification criterion for green loans or the green asset pool. In light of this, and so as to improve transparency in the loan portfolio, the ability to flag loans as being Taxonomy-aligned has also been implemented at system level. We implement this by requesting the relevant ESG information, including the necessary supporting documentation, from the client and entering it in our systems.

The Taxonomy KPIs were presented on the basis of the regulatory data as at 31 December 2022 and in line with the current interpretations of the rules. Consequently, they relate to Aareal Bank's regulatory scope of consolidation pursuant to Art. 11ff. of the CRR. As a result, Aareal Bank AG subsidiaries that are not required to be consolidated for prudential purposes are included as investments in undertakings when determining the Taxonomy ratios. This also applies to the Aareon subgroup. However, since none of these subsidiaries are required to submit non-financial statements under the NFRD, the investments in undertakings are disclosed in the "non-NFRD" ratio. The substantial room for interpretation offered by the current rules means that the European Commission can be expected to issue additional clarifications, which might also impact the methodology we use to calculate the ratios shown below. We are planning to include additional explanatory information on Taxonomy eligibility and Taxonomy alignment in our reporting so as to further enhance transparency. We shall also take future recommendations from the Platform on Sustainable Finance into account in this context.

The more extensive disclosure obligations regarding Taxonomy alignment must be met for the first time for publications as from 1 January 2024 (for the 2023 financial year). We interpret this as also applying to all qualitative information pursuant to Annex XI to Commission Delegated Regulation (EU) 2021/2178 that refer explicitly to "Taxonomy alignment"; as a result, these are not yet contained in the current report. In the case of credit institutions, the disclosure obligations under the Taxonomy Regulation must be applied in full as from 1 January 2026 (for the 2025 financial year) (Art. 10 (5) paragraph 2 of Commission Delegated Regulation (EU) 2021/2178).

Calculation and disclosure of the proportion of Taxonomy-eligible assets for the 2022 financial year

pursuant to Art. 10 (3) in conjunction with Art. 7 of Commission Delegated Regulation (EU) 2021/2178, plus voluntary disclosures(*). The information provided relates in each case to the proportion of the value of all exposures (i.e. total assets).

- **1.4 % Taxonomy-eligible economic activities**

The proportion of our exposures to economic activities currently covered by the Taxonomy accounted for by financial and non-financial undertakings that are obliged by the NFRD to report non-financial information, and by households.

- **6.5 % Taxonomy-non-eligible economic activities**

The proportion of our exposures to economic activities not currently covered by the Taxonomy accounted for by financial and non-financial undertakings that are obliged under the NFRD to report non-financial information, and by local governments.

- **16.2 % Central governments, central banks and supranational issuers**

The proportion of our exposures accounted for by central governments, central banks and supranational issuers

- **2.3 % Derivatives**

The proportion of our derivatives

- **66.4 % “Non-NFRD”**

The proportion of our exposures accounted for by financial and non-financial undertakings that are not obliged under the NFRD to report non-financial information (“non-NFRD”)

- **0 % Trading book**

No trading book activities are currently performed

- **3.8 % On-demand interbank loans**

The proportion of our on-demand interbank loans

- **3.4 % Out of scope (*)**

The proportion of our exposures that were not analysed for their Taxonomy eligibility since they fall outside the scope of the Taxonomy Regulation including Commission Delegated Regulation (EU) 2021/2178

Basic assumptions:

- In the absence of concrete rules on the treatment of “regional governments” plus the distinction made between “local governments” and “regional governments” in the EU’s FAQs dated 20 December 2021, we have classified our exposures to federal German states as “local governments”. All exposures to local governments have been classified as “Taxonomy-non-eligible”, since none of the loans are intended to finance public housing or other Taxonomy-aligned specialised lending.
- According to question 13 of the European Commission’s FAQs of 21 December 2021, financial undertakings are required to look through “portfolios of investments and assets” to assess their Taxonomy eligibility. We did not perform a look-through due to the lack of a definition of the legal term “portfolios of investments and assets” and the contradictory requirement to exclude exposures to “non-NFRDs” from the numerator that is set out in Art. 7 (3) of Commission Delegated Regulation (EU) 2021/2178. Consequently, we have disclosed exposures to property funds and special purpose entities in the ratio pursuant to Art. 10(3c) of Commission Delegated Regulation (EU) 2021/2178.
- We have adopted a conservative approach when calculating the KPIs due to the substantial room for interpretation and lack of information. In line with this, we have classified exposures that cannot be unambiguously assigned or whose Taxonomy eligibility cannot be definitively determined as “non-Taxonomy-eligible economic activities” so as to ensure a clear, transparently reasoned approach. Less than 0.02 % of total assets were not assigned unambiguously in the reporting period.

-
- The ratios for “Taxonomy-eligible economic activities” and “Taxonomy-non-eligible economic activities” do not include any undertakings that are themselves not obliged to disclose non-financial information. Subsidiaries of NFRD parents that are themselves not obliged to disclose non-financial information have been classified as “non-NFRD”.
 - Exposures to non-financial institutions within the EU were only analysed with respect to the Taxonomy ratios if they exceed a materiality threshold of € 100,000. Exposures below this materiality threshold are assigned to the “non-NFRD” category without being examined individually. Less than 0.01 % of total assets are not analysed individually for this reason.
 - In the absence of concrete instructions, we have only classified assets that are accounted for as “demand deposits” as on-demand interbank loans.

Limited Assurance Report of the Independent Auditor¹⁾

To the Supervisory Board Aareal Bank AG, Wiesbaden

We have performed an independent limited assurance engagement on the separate combined non-financial report of Aareal Bank AG, Wiesbaden, (further “Company” or “Aareal Bank”) for the period from January 1 to December 31, 2022.

Management’s Responsibility

The legal representatives of the Company are responsible for the preparation of the separate combined non-financial report in accordance with §§ 340a paragraph 1a and 340i paragraph 5 in conjunction with 315c in conjunction with 289c to 289e HGB and with Article 8 of REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (further “EU Taxonomy Regulation”) and the supplementing Delegated Acts as well as the interpretation of the wordings and terms contained in the EU Taxonomy Regulation and in the supplementing Delegated Acts by the Company as disclosed in Section “EU-Taxonomy” of the separate combined non-financial report.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the separate combined non-financial report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, the legal representatives are responsible for the internal controls they deem necessary for the preparation of the separate combined non-financial report that is free of – intended or unintended – material misstatements.

The EU Taxonomy Regulation and the supplementing Delegated Acts contain wordings and terms that are still subject to substantial uncertainties regarding their interpretation and for which not all clarifications have been published yet. Therefore, the legal representatives have included a description of their interpretation in Section “EU-Taxonomy” of the separate combined non-financial report. They are responsible for its tenability. Due to the innate risk of diverging interpretations of vague legal concepts, the legal conformity of these interpretations is subject to uncertainty.

Practitioner’s Responsibility

It is our responsibility to express a conclusion on the separate combined non-financial report based on our work performed within a limited assurance engagement.

We conducted our work in the form of a limited 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”, published by IAASB. Accordingly, we have to plan and perform the assurance engagement in such a way that we obtain limited assurance as to whether any matters have come to our attention that cause us to believe that the separate combined non-financial report of the Company for the period from January 1 to December 31, 2022 has not been prepared, in all material respects, in accordance with §§ 340a paragraph 1a and 340i paragraph 5 in conjunction with 315c in conjunction with 289c to 289e HGB and with the EU Taxonomy Regulation and the supplementing Delegated Acts as well as the interpretation of the wordings and terms contained in the EU Taxonomy Regulation and in the supplementing Delegated Acts by the legal representatives as disclosed in Section “EU-Taxonomy” of the separate combined non-financial report. We do not, however, issue a separate conclusion for each disclosure. As the assurance procedures performed in a limited assurance engagement are less comprehensive than in a reasonable assurance engagement, the level of assurance obtained is substantially lower. The choice of assurance procedures is subject to the auditor’s own judgement.

¹⁾ Our engagement applied to the German version of separate combined non-financial report. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

Within the scope of our engagement we performed, amongst others, the following procedures:

- Gaining an understanding of the structure of the Group's sustainability organization and the Group's sustainability organization and about the involvement of stakeholders
- Inquiries of group-level personnel who are responsible for the materiality analysis in order to understand the processes for determining material topics and respective reporting boundaries for Aareal Bank AG
- A risk analysis, including media research, to identify relevant information on Aareal Bank AG's sustainability performance in the reporting period
- Identification of probable risks of material misstatement in the separate combined non-financial report
- Inquiries of relevant personnel involved in the preparation of the separate combined non-financial report the preparation of the separate combined non-financial report on the preparation process and the internal control system related to this process
- Reviewing the suitability of internally developed Reporting Criteria
- Evaluation of the design and the implementation of systems and processes for the collection, processing, and monitoring of disclosures, including data consolidation, on environmental, employee and social matters, respect for human rights, and combatting corruption and bribery matters
- Inquiries of group-level personnel who are responsible for determining disclosures on concepts, due diligence processes, results, and risks, performing internal control functions and consolidating disclosures
- Inspection of selected internal and external documents
- Assessment of the overall presentation of the disclosures
- Evaluation of the process for the identification of taxonomy-eligible economic activities and the corresponding disclosures in the separate combined non-financial report.

The legal representatives have to interpret vague legal concepts in order to be able to compile the relevant disclosures according to Article 8 of the EU Taxonomy Regulation. Due to the innate risk of diverging interpretations of vague legal concepts, the legal conformity of these interpretations and, correspondingly, our assurance thereof are subject to uncertainty.

In our opinion, we obtained sufficient and appropriate evidence for reaching a conclusion for the assurance engagement.

Independence and Quality Assurance on the Part of the Auditing Firm

In performing this engagement, we applied the legal provisions and professional pronouncements regarding independence and quality assurance, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the separate combined non-financial report of Aareal Bank AG for the period from January 1 to December 31, 2022 has not been prepared, in all material respects, in accordance with §§ 340a paragraph 1a and 340i paragraph 5 in conjunction with 315c in conjunction with 289c to 289e HGB and with the EU Taxonomy Regulation and the supplementing Delegated Acts as well as the interpretation disclosed in Section "EU-Taxonomy" of the separate combined non-financial report.

Restriction of Use/General Engagement Terms

This assurance report is issued for purposes of the Supervisory Board of Aareal Bank AG, Wiesbaden, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of Aareal Bank AG, Wiesbaden, and professional liability as described above was governed by the General Engagement Terms for Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms notice of the provisions contained therein including the limitation of our liability as stipulated in No. 9 and accepts the validity of the General Engagement Terms with respect to us.

Frankfurt/Main, 7 March 2023

KPMG AG
Wirtschaftsprüfungsgesellschaft

Winner **ppa. Seidel**
Wirtschaftsprüfer

Imprint

Responsible for the content:

Aareal Bank AG

Robin Weyrich · Group Sustainability Officer

Paulinenstrasse 15 · 65189 Wiesbaden, Germany

Phone: +49 611 348 2335

E-mail: sustainability@aareal-bank.com

Design/Layout:

S/COMPANY · Die Markenagentur GmbH, Fulda, Germany

This report is also available in German language.



**Aareal Bank
Group**

Aareal
YOUR COMPETITIVE ADVANTAGE.