

# #Thinking ahead.

Acting consciously.

Sustainability Report 2016



**Aareal Bank  
Group**



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*Ladies and gentlemen,*

Companies that do business sustainably by managing economic, ecological and social aspects in a responsible manner ensure their future. Conversely, firms that take their long-term viability as their yardstick also do business sustainably.

Corporate values such as reliability, innovative ability, integrity and maintaining client relationships based on mutual trust are key components of our sustainability mission statement. At an overarching level, we focus on twelve strategic action areas that we have developed together with external stakeholders. These also allow us to keep the promise we made when we signed the United Nations' Global Compact.

This report shows how the action areas in our sustainability strategy contribute to our 'Aareal 2020 – Adjust. Advance. Achieve.' programme for the future, which was unveiled at the beginning of 2016. Aareal Bank Group's aim with Aareal 2020 is to safeguard its strong foundation in a business environment that will remain very challenging in the future, whilst also unlocking new income potential for both business segments.

During the past financial year, we completed many of the preparations for a rapid implementation of the programme on schedule and reached our first important milestones. For instance, Aareal Bank has launched a comprehensive realignment of its IT infrastructure, pursued the expansion of digital platform offerings in the Consulting/Services segment, and initiated cooperations with start-ups in order to swiftly implement its digital agenda. In addition, we have driven forward our syndication activity in the interests of more flexible portfolio management.

The past year has provided impressive proof that our strategy is bearing fruit and that we are therefore on the right track. The transformation of our Company in line with the strategic priorities defined in Aareal 2020 will accelerate significantly in 2017. Once the programme has been implemented, we will be more flexible and more efficient, as well as sustainably profitable and successful despite the fundamental changes in the market and competitive environment. Aareal Bank Group's clients and employees will benefit from this, but so will its investors, shareholders and stakeholders in society.

Yours, **Hermann J. Merkens**  
Chairman of the Management Board



# Sustainably successful

Our sustainability management activities are based on an analysis of the key topics that are critical in the long term to Aareal Bank Group's success.

A sustainable approach to doing business is one of the preconditions for a company's or an organisation's long-term viability. Successful sustainability management therefore requires us to select and prioritise the action areas and key topics that are material to our Company's business in its specific sector. Identifying and analysing these key topics allows us to lay the foundations for strategic sustainability management, which defines quantifiable targets and goals and develops precisely tailored measures to achieve them.

We performed such an analysis of the topics material to a competitive, forward-looking focus for Aareal Bank Group in the financial year 2015, and deepened and reviewed it in 2016.

## Discussions with stakeholders

The starting point for the analysis in 2015 was a series of discussions with approximately 20 stakeholders, which we have continued since then down to the present. We exchange information and opinions both internally (with subsidiaries, the divisions, the Works Council, etc.) and with external

stakeholders (clients/the Client Advisory Council, suppliers, auditors, Supervisory Board members, etc.). In addition to documenting what stakeholders expect from the Company, the discussions focus on their views of how it adds value to the goals of sustainable development.

Based on our stakeholders' expectations, we then developed four strategic directions which define the framework for our sustainability management activities and our sustainability reporting.

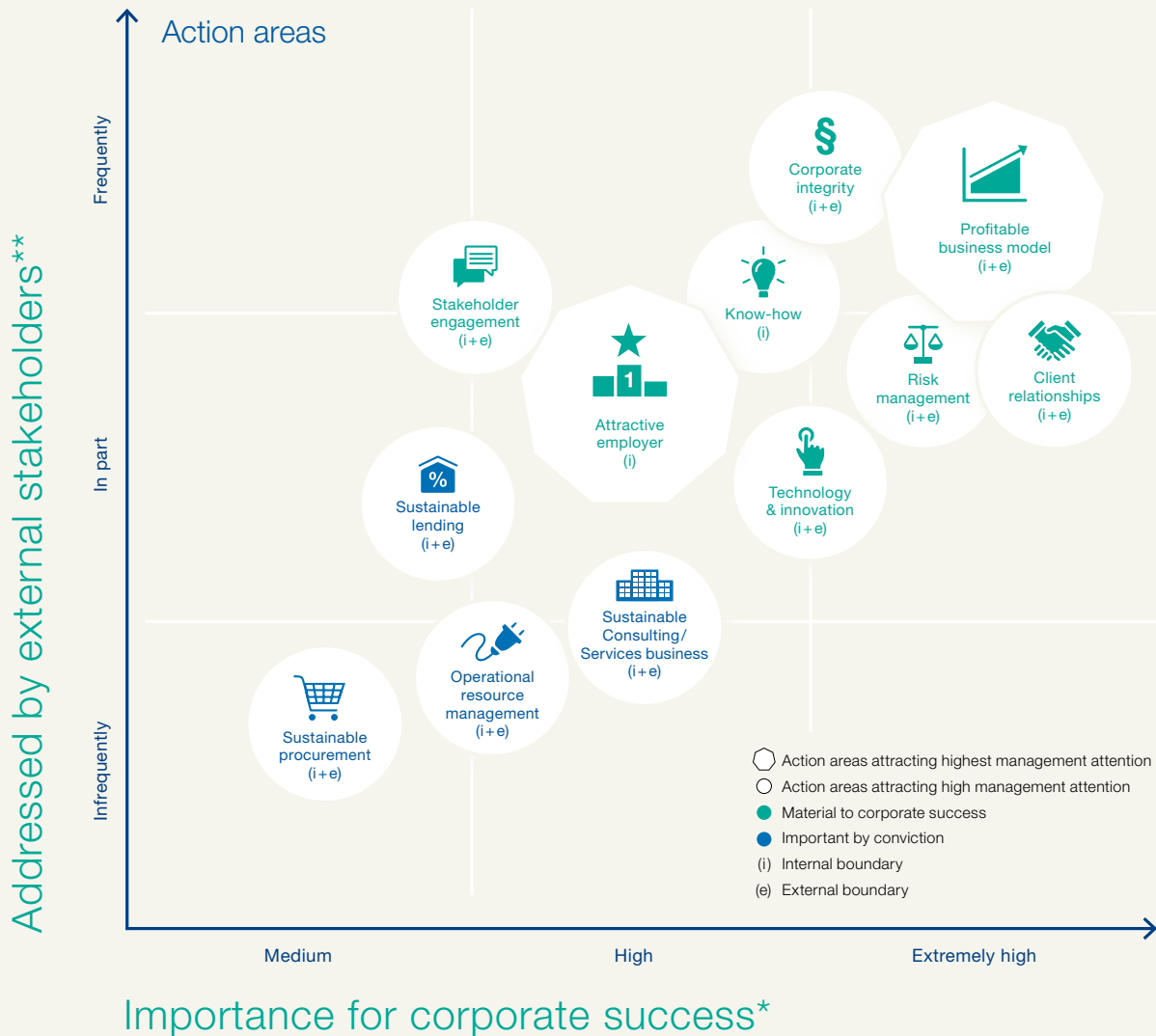
- Document and increase the sustainability of our core business
- Continue pursuing our systematic and Group-wide approach to sustainability
- Identify and increase the value added by Aareal Bank Group
- Increase the transparency of our sustainability performance

The evaluation of the action areas and key topics that were identified was presented to and agreed by the Sustainability Committee and the Management Board.

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"The Supervisory Board was already actively involved in the sustainability reporting process last year. We shall continue this policy, especially in view of the Supervisory Board's statutory duty as from 2017 to review the content of the non-financial statement."

# Aareal Bank Group's materiality matrix



\* Based on the assessments by management and specialist divisions (including assumed stakeholder expectations)

\*\* e.g. clients/advisory boards, Supervisory Board, rating agencies

## Ensuring the Company's success is our goal

Our operational focus is on twelve identified action areas and associated key topics that were presented to and agreed by the Sustainability Committee and the Management Board.

The 12 action areas are particularly relevant because they are important for ensuring the Company's long-term success. In line with this, the core thrust is on the profitability of

our business model, effective risk management and our continued attractiveness as an employer. Additionally, the list includes action areas that we are driving forward because we are convinced of their value, such as our operational resource management or the sustainability of our portfolio of services. These ensure our Company's credibility and hence contribute in the long term to Aareal Bank Group's business success.

# 01

## Profitable business model

# Facing the future from a position of strength



Management Board: Thomas Ortmanns, Christiane Kunisch-Wolff, Hermann J. Merkens (Chairman), Dagmar Knopek, Christof Winkelmann

**Our Aareal 2020 programme for the future combines our decades of experience in supplying financing solutions and services to the property sector in particular with our technological expertise.**

Aareal 2020 is an Aareal Bank Group programme designed to organise our business on sustainable lines in future. It aims to ensure that our Group maintains its solid foundation and

### IN BRIEF



#### New governance/committee structure

A new level immediately below the Management Board – the Group Managing Directors (GMDs) – bundles reporting lines for particularly strategic tasks and is designed to make it easier to exchange views within the Group.



#### Attractive dividend policy

We ensure that our shareholders participate in the Group's success. The Bank plans to continue distributing an ordinary dividend of approximately 50 per cent of earnings per share (EpS) for the financial years from 2016 onwards. For financial years 2016-2018 the goal is to pay a supplementary dividend, which will rise from 10 per cent to between 20 per cent and 30 per cent of EpS.



#### A sound business

Our Common Equity Tier 1 ratio, which at 15.7 per cent as at 31 December 2016 is well above the statutory requirements, documents our commitment to security and stability.



#### Excellent results for 2016

Another above-average operating profit is proof of our sound business model. The consolidated operating profit rose by 14.4 per cent\* to € 366 million. The pre-tax return on equity increased to 13.2 per cent.

\* Based on the previous year's figures after adjustment for the negative goodwill arising from the initial consolidation of Westdeutsche ImmobilienBank.

continues to write its success story in the medium to long term. The programme's headings – Adjust, Advance and Achieve – group together measures derived from the action areas contained in a strategic agenda that was developed for the Company in 2015.

'Adjust' means establishing structures and processes so as to keep pace with growing and modified requirements and to be able to help master change. The focus is on improving efficiency. 'Advance' bundles our forward-looking initiatives for our Structured Property Financing and Consulting/Services business segments, with the aim of tapping into new markets and acquiring new client groups. We define 'Achieve' as the economic result of these measures, which create lasting value for clients and employees.

#### A successful start

In 2016, we completed all preparations for implementing our programme for the future. We are on track with its execution: in addition to defining the strategic directions for enhancing our business model, launching related projects and realising the first concrete initiatives, we have driven forward a number of structural changes. In particular we have realigned our IT architecture, increased the flexibility of our organisational structures and enhanced our corporate culture.



We have already recorded initial successes in leveraging new revenue potential: for example we have expanded our US business, built up our syndication activity in the area of new business and rolled out successful innovative digital solutions that offer clients significant added value.

Aareon AG makes a considerable contribution to achieving these goals. Operational implementation of the Aareal 2020 programme for the future in the Consulting and Services segment means growing its digital solutions, reinforcing the ERP business, entering new markets and new market segments, continuously increasing profitability and improving corporate performance.

"Our Aareal 2020 programme for the future addresses the challenges we shall face going forward. In an environment dominated by technological change, altered client requirements and fiercer competition, it allows us to secure our strong foundations while also leveraging new revenue potential."

Hermann J. Merckens, Chairman of the Management Board



### WHAT WE ARE WORKING ON...

We are intensifying our **cooperation with start-ups** so that we can identify developments and trends at an early stage. This is part of our innovation activities in the various divisions. Our start-up strategy includes not only partnerships but also equity interests and integrating products with Aareal's and Aareon's product portfolios.

Our experiences to date with start-ups have been positive. Take KIWI.KI, with which we have been working together since November 2016. The Berlin-based company has developed an intelligent key-less door access system that makes property maintenance easier for our clients. The digital access system can be used, for example, to let craftsmen into a building even if nobody is present. This means we can connect housing enterprises, craftsmen and property owners even more smoothly and efficiently than before.



From left to right:  
**Jens Engemann**,  
 Senior Manager Credit  
 Management  
**Christof Teichmann**,  
 Director Business &  
 Syndication Management



# 02

## Risk management

### Syndication enhances flexibility

**Aareal Bank's increasing use of syndication for large property loans reduces its risk, increases its capacity to do business and keeps its balance sheet flexible.**

Large cross-border transactions require considerable structuring expertise, an international network and partnerships that are built on trust. A recent example of this is our cooperation with Invesco Real Estate in 2016. The company was looking to finance a pan-European property investment deal covering 27 locations in seven European countries. Instead of shouldering the project on its own, Aareal Bank leveraged its established network to structure and implement a syndication with other lenders.

As the name for the transaction – the 'Bedrock Deal' – suggests, it provided a stable foundation for the investment

fund managed by our client, Invesco. Aareal Bank is the arranger and agent and was able to bring the Allianz Insurance Group on board as a partner. Allianz's share of the ten-year financing package, which has a total volume of € 610 million, is € 366 million. The loan agreement provides for the credit facility to be extended by a further as yet uncommitted sum of approximately € 390 million, bringing the total maximum amount to € 1 billion.

#### International specialists

Due to the size and complexity of this deal, many employees from various divisions – including Risk Management, Transaction Management and Treasury – worked on it in total. A transaction of this size can only be successfully handled by a specialist with an established, robust network of national and international property industry players (clients, consultants,



From left to right:

**Christof Teichmann,**

Director Business &  
Syndication Management

**Johannes Kupers,**

Vice President Special Property Finance

**Elvira Valiullina,**

Manager Credit Management

**Michael Eisenkolb,**

Director Special Property Finance



From left to right:

**Michael Eisenkolb,**

Director Special Property Finance

**Johannes Kupers,**

Vice President Special Property Finance

lawyers, valuers, etc.). Aareal Bank Group's head office in Wiesbaden is home to teams of specialists with extensive cross-border expertise who focus on shopping centres and the logistics and hotel sectors. Our ability to deploy a mixture of local market and sector experts gives us a strong regional presence in Europe.

The combined know-how provided by our local expertise and our use of specialist teams allows us to address client needs at an early stage and to take a solutions-oriented approach to produce effective and rapid results – a clear unique selling proposition that lends itself in particular to complex, cross-border, multijurisdictional transactions. Aareal Bank's short internal decision-making processes allow it to act quickly and to process transactions efficiently.

## IN THE SPOTLIGHT

### High or low risk?

The ability to correctly assess risks, and to manage them in a targeted manner, is a key requirement in banking. Aareal Bank has pursued a conservative risk policy for many years, as can be seen from our consistently positive quarterly results, even during the financial crisis. We exceeded the ECB requirements that were relevant to us even in the most stringent ECB stress test scenario.

Our risk culture is an integral part of responsible corporate management. The Bank's risk appetite framework constitutes an end-to-end approach comprising guidelines, processes, controls and systems. This means that we can take conscious decisions at all times on the degree of risk that we are ready to assume.



### WHAT WE ARE WORKING ON...

Pfandbriefe account for a major share of our long-term funding. Their quality has been repeatedly confirmed by a variety of excellent ratings, most recently the Aaa rating we received from Moody's in January 2017. Fitch has given our Pfandbriefe an AAA rating.

Traditionally, the insurance sector was the industry to use Pfandbriefe, as these consistently yielded stable interest income over long periods. However, for many insurance companies the current interest rate situation on the financial markets is no longer attractive. **New Pfandbrief issues** are increasingly aimed at banks and central banks that are looking for low-risk, liquid investment opportunities. The strong Moody's rating had a positive effect during the placement of our € 500 million mortgage Pfandbrief in January, which has a term of 5.5 years. More than 60 investors took part, with some of them acquiring an Aareal Bank Pfandbrief for the first time. The issue was oversubscribed by a factor of three and the order book was closed after only two hours.

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# 03

## Technology and innovation

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# Exploiting the opportunities offered by digitalisation

**Our unique combination of IT and banking solutions, our profound knowledge of our clients' processes and payment/ERP systems, and our services expertise allow us to support our clients as they transition to their digital future.**

Aareal Bank Group is a provider of financial and technology services. Our clients, who are mainly drawn from the property sector, use our IT services to manage their properties and for a wide range of billing applications. To underscore just how important this business segment is, we have made innovation an integral part of the structure of Aareal Bank Group's governing bodies: the Supervisory Board's Technology and Innovation Committee, which was set up in 2015, looks both at the Company's internal IT structure and at innovative products that we develop and market.

One challenge facing us is the dynamic development of the software environment in the systems that our clients and we ourselves use. Business growth poses a constant stream of new systems and applications requirements in the form of the need for new interfaces and the ability to expand the systems that connect with them. In addition, increasing regulatory requirements are impacting our internal control systems and our reporting.

### TOTALLY DIGITAL

**Leadership Meeting on Digitalisation:** Executives and experts from Aareal Bank Group focused on the issue of digitalisation at their Annual Management Meeting (AMM) in Berlin in April 2016. Management Board Chairman Hermann J. Merkens stressed that networking, collaboration and thinking issues through together will form a much more important part of the Group's everyday activities than they had in the past; the motto for this is 'Innovate. Create. Move.'.

**Aareon DesignLab:** In July 2016, Aareon AG opened its DesignLab at its head office in Mainz. This offers an optimal environment for deploying the 'design thinking' approach, in which people from different disciplines work together using a variety of methods. First workshops have already been held with housing industry clients. Among other things, they developed new solutions for digitalising rental management, such as a company-specific tenant app.

### In-depth meetings

In its four meetings in 2016, the Technology and Innovation Committee examined such multifaceted topics in detail. Market trends, technological developments and innovations play a key role, especially for our Consulting/Services segment clients. These include potential business opportunities resulting from increasing business process digitalisation and the question of how Aareal Bank Group can exploit these for the benefit of its clients.

One of the client-focused topics discussed by the committee in 2016 was the potential that digitalisation offers the housing industry. To protect its leading position in this area, Aareon AG has launched the 'Aareon Smart World' on the market. We are systematically enhancing classic, generally nationally focused ERP solutions by taking international approaches. The new 'digital platform' will be both a development environment and a communications interface. We have already started marketing our first solutions – for example in the areas of customer, supplier and building relationship management, and work-force automation.

**Rapid prototyping:** A total of 85 programmers divided into 24 teams competed at the Bankathon on the Payment Services Directive 2 held on 9-11 October 2016. The goal was to develop the prototype of a digital product in just 30 hours and then to present it in a live demo. Our teams developed an integrated solution for managing, checking and forecasting rental agreements and cash flows for commercial properties with large numbers of rental units, along with an app for optimising cash management for multiple bank accounts.

**Aareon's got talent:** The ideas management competition for Aareon AG employees produced exciting innovations. The prizewinners were a mobile multilingual sales solution, the integration of drone technology with Aareon Smart World and a video-based identification procedure.

"Digitalisation uses technology to model analogue real-world processes, automates them and makes them measurable. We can observe the effects of digitalisation in both our private and our professional lives. Keeping pace with the velocity and complexity of this development is and will continue to be a challenging task, for us as human beings and for enterprises, too."

Holger Spielberg, Group Managing Director (GMD), Group Technology



#### WHAT WE ARE WORKING ON ...

A powerful IT infrastructure is crucial for Aareal Bank Group's effectiveness and efficiency. This is why **realigning our IT architecture** is an integral part of our Aareal 2020 strategy. The aim is to provide optimal support for Aareal Bank Group's business strategy by ensuring flexible data availability, low maintenance costs, a high level of adaptability and enhanced modularity. The foundations for Aareal Bank's new IT environment will be laid by the end of 2017.

"Efficient payment solutions are based on high-performance systems. That's why the advantages of digitalisation are clear to see. Aareal Bank Group is exactly the right size to implement the necessary change processes with the required speed, both internally and together with our clients. Digitalisation offers opportunities to cut our cost base without compromising on service quality."

Dietrich Voigtländer, Aareal Bank AG Supervisory Board member and Chairman of the Technology and Innovation Committee



# 04

## Client relationship management

# It all comes down to trust

**Data security builds trust, strengthens client relationships and is a must for Aareal Bank Group. This applies to both the lending and the Consulting/Services business.**

The number of cyber attacks is increasing rapidly and is putting the issue of data security even more squarely in the spotlight. The focus in all cases is on IT systems security and on protecting sensitive client data. While there are strict laws governing both areas, careful and rigorous data protection management by the organisations storing the data is also required.

Aareon Group handles particularly large, complex volumes of data due to the many billing and administration processes it performs for a large number of clients and their tenants. Because of its various telecommunications tools, it is also classified as a telecommunications operator by the German Federal Network Agency (Bundesnetzagentur – BNetzA) and therefore has to comply with the requirements of the German Telecommunications Act (Telekommunikationsgesetz). It therefore comes as no surprise that data security is particularly important to Aareon Group.

### Data protection certification

In July 2016, TÜV Rheinland awarded Aareon the status of a 'service provider offering certified data protection management'. The data protection certificate from TÜV Rheinland i-sec GmbH

### WHAT WE ARE WORKING ON ...

Our **data protection strategies** focus on information security management, on preventing cybercrime and on additional standards and technical measures. We use a variety of 'defensive strategies' to address new legal regulations and requirements in the field of information security management. For example, the EU's General Data Protection Regulation (EU GDPR), which was resolved in May 2016, will harmonise the protection of personal data throughout Europe. Also relevant to us are the German IT Security Act (IT-Sicherheitsgesetz), the Minimum Security Requirements for Internet Payments (Mindestanforderungen an die Sicherheit im Internetzahlungsverkehr – MaSi) issued in 2015 by the Federal Financial Supervisory Authority (BaFin) and (from 2018 onwards) the EU's Payment Services Directive 2 (PSD2). As a consequence, Aareal Bank Group has introduced the position of a Chief Information Security Officer (CISO) – an independent central instance that will become an industry standard under ISO/IEC 27001.

confirms that Aareon AG – including Group companies Aareon Deutschland GmbH and Aareon Immobilien Projekt Gesellschaft mbH – has implemented effective processes to protect personal and potentially personal data.

In the course of the preparations for the project, we bundled our numerous information security activities and measures into a single certifiable package. Certification in accordance with ISO/IEC 27001 documents that Aareon effectively operates an information security management system to a recognised international standard. All mission-critical technical and organisational measures relating to data controller/processor relationships within the meaning of section 11 of the German Federal Data Protection Act (Bundesdatenschutzgesetz) have been effectively implemented.

By obtaining the TÜV data protection certificate, Aareon has provided recognised proof of the effectiveness and appropriateness of the data protection measures it has taken. The added value for Aareon clients is particularly clear in the context of controller-processor arrangements: they can use the certificate to document compliance with their own statutory duty of care and control.

For us, certification confirms our high standards with respect to data management – a prerequisite for our clients' confidence in us.

“Our corporate structure benefits customers in two ways: firstly, they know they can expect digital solutions which adhere to strict banking regulations as well as data protection and compliance requirements. Secondly, our customers can count on us offering them the necessary know-how, and complying with high demands regarding intelligent safety concepts.”

Christiane Kunisch-Wolff, Member of the Management Board of Aareal Bank AG

#### CLIENT SATISFACTION IS OUR BENCHMARK

Client satisfaction surveys are an important tool in the continuous improvement of our products and services in our clients' interests. In 2016, Aareon AG conducted its third international customer survey. All branches agreed on a basically identical questionnaire in order to be able to compare the results across individual countries. In Germany, this was the 14th client satisfaction survey.

Clients were polled in September and October 2016, with the survey extending until mid-November in some countries. The results varied slightly depending on the product involved. Whereas client satisfaction with core products such as Wodis Sigma increased slightly, it declined slightly for some others. All in all, good levels of satisfaction were recorded both for client satisfaction with our products and for their readiness to recommend us to others. At the same time, we identified isolated areas with room for improvement and added measures for them that are now being systematically implemented.

Aareal Bank's Housing Industry division also intends to conduct systematic annual online client satisfaction surveys from 2017 onwards to supplement its established – and important – personal contacts. The technical and organisational requirements for this were established in 2016.



## 05

## Corporate integrity

## IN BRIEF

**40 per cent women on the Management Board**

Praise for Aareal Bank AG came from the AllBright foundation in September 2016: it said the Company was the only one out of the 160 German public limited companies included in stock market indices to have 40 per cent women on its Management Board. Four out of the total of 12 members of the Supervisory Board are also women, including the Chairman, Marija Korsch.

**New responsive design website**

Aareal Bank Group revamped its website in March 2016. The content was restructured and streamlined and transparency enhanced, in keeping with the focus on new target groups. The new website [www.aareal-bank.com](http://www.aareal-bank.com) automatically adapts to displays on a variety of different devices ('responsive design').

**Transparency of sustainability reporting**

Aareal Bank Group bases its communication about sustainability and corporate responsibility on internationally agreed transparency guidelines (the Global Reporting Initiative's G4 Guidelines and the recommendations of the German Sustainability Code). It also uses a variety of channels: information about sustainability is included in general corporate presentations and in investor and analyst materials.

**Aareal's sustainability reporting is based on CSR Directive**

Aareal Bank Group has partially implemented the requirements of Directive 2014/95 EU, which regulates the 'disclosure of non-financial and diversity information' a year before it is required to be applied in Germany – in online form as our 'Sustainability Accounts 2016', in parallel to this compact report.



→ [www.aareal-bank.com/responsibility](http://www.aareal-bank.com/responsibility)

## Change brings new opportunities

**Our comprehensive enhancement of our corporate culture is ensuring that Aareal Bank Group is becoming even more client-focused, agile and innovative.**

Continuous development is vital to remaining competitive in an increasingly digital world. At Aareal Bank Group, we have identified our uncompromising client focus, high level of agility and above-average innovative ability as the values that ensure we will be successful in the long term. For this development to remain authentic, it must start in our executives' and employees' minds and must progress from there to become an integral and living part of our corporate culture – one that influences the behaviour of each and every one of us.

However, such priorities cannot simply be imposed from above. A flexible organisation, powerful IT facilities, leaner structures and faster processes demand a lot from our employees as well. Our comprehensive change management programme, which was originally launched at Aareon in 2015 and was extended to the entire Group in 2016, assists us in mastering the transition. We are helping to drive forward cultural change using beacon projects and by creating an appropriate framework that includes, for example, pilots for new spatial concepts ('creative boxes') and developing new ways and methods of working. Executives have an especially important role to play here and must take particular care to live up to their function as role models. We have set up a change monitoring process that regularly measures sentiment in order to monitor the pace of change.



Dr Manfred Alflen,  
Chairman of the Aareon AG Management Board

## ”You need role models for change. And you need time.“

Dr Manfred Alflen, Chairman of the Aareon AG Management Board, shares his experience of change management processes

### Dr Alflen, you launched a change programme for Aareon back in 2015 – what motivated you to do this?

It is my deeply-held conviction that everything is going to be different, especially in the sector in which we operate. Digitalisation means that change is no longer a linear process, but an exponential one. The principle of ‘survival of the smartest’ applies here, meaning that success comes to those who adapt most quickly to a changing environment. And this depends on having a corporate culture that supports and promotes agility as optimally as possible.

### What exactly do you mean by agility?

It means keeping moving: we have to act quickly and flexibly, to be open and to reflect on our situation continuously. We must look at things from different viewpoints and interact from different perspectives. And we must be able to think in terms of opportunities and possibilities.

### What lessons have you learned that can you contribute to this Group-wide change process?

You need role models for change. And you need time. This is why, at Aareon, we use dialogue formats in which our staff

exchange ‘testimonials of change’. These allow them to communicate how they experience change, what has actually changed for them in concrete terms and what contribution their own division or team can make to the change process.



### WHAT WE ARE WORKING ON ...

In future, **sustainability** will be represented on **Aareal Bank Group’s website** by the ‘Responsibility’ menu item at the top of the home page, on a level with the Company, Customers, Career, Investors and Media areas. This is our response to increasing demand for this information from a variety of interested stakeholders.

→ [www.aareal-bank.com/responsibility](http://www.aareal-bank.com/responsibility)

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# 06

## Stakeholder engagement

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# Dialogue for corporate development

**Aareal Bank Group actively seeks to engage in face-to-face dialogue with its stakeholders – and as part of this our investors can also talk directly with the CEO.**

Communication isn't a one-way street. We use a wide variety of formats in our search for dialogue with our Company's stakeholders. Our goal is to do more than simply push our messages; we also want to interact with others so as to understand the expectations they have of us, making the dialogue fruitful for both sides.

The same motto also applies to the capital markets. In 2016, our Investor Relations team took part in a total of ten international capital markets conferences and held well over

200 discussions with more than 300 investors and analysts in the course of twelve roadshows in Europe and the USA. We aim to provide as accurate a picture as possible of our Company's position, both to facilitate informed investment decisions and to learn about areas in which investors want greater transparency.

Investors really appreciate the fact that the Chairman of the Management Board personally takes part in a large number of these roadshows and capital market conferences. For example, in the context of an analyst recommendation, German newspaper 'Handelsblatt' reported the analyst as saying that 'the roadshow with the Bank's CEO, Hermann Merkens, had confirmed his positive assessment of the property finance specialist.'

## From the CEO's schedule

(H1 2016)

Roadshows and capital market conferences attended by the Chairman of the Management Board, Hermann J. Merkens, in the first half of 2016:

**23 February:** Annual Press and Analysts' Conference

**29 February:** Roadshow Frankfurt

**3-4 March:** Roadshow London

**10-11 March:** Roadshow New York and Chicago

**14 April:** Bankhaus Lampe capital markets conference (Germany)

**10 May:** Press call on Q1 2016 results

**12-13 May:** Roadshow London

**18-20 May:** Roadshow Montreal/Toronto/  
Los Angeles

**25 May:** Aareal Bank AG Annual General Meeting

**8 June:** Deutsche Bank capital markets conference (Germany)

**29 June:** Roadshow Zurich



The investor meetings focused among other things on

- the impact of regulatory measures – and at present in particular of the 'Basel IV' package of reforms (planned new rules for calculating risk)
- equity and how optimising it can improve profitability, and
- the situation in a number of countries such as Italy, the UK and Turkey.

Our partners in these discussions included not only shareholders but also investors in our subordinated products, unsecured corporate bonds and Pfandbriefe, and analysts from a number of rating agencies. Sustainability issues are also actively addressed at investor meetings – which is why, since 2016, we have included them as a fixed item in our documents for analysts.



#### WHAT WE ARE WORKING ON ...

We are holding ongoing **discussions with relevant stakeholders** to further validate the results of the materiality analysis that we performed at the end of 2015 and beginning of 2016 (see page 4/5). We are talking to investors, clients and e.g. sustainability officers at our competitors – and our recent discussion with a member of the management board of a well-known building certification company also yielded valuable insights. The discussions will focus on different strategies for integrating sustainability with a property finance specialist's core business.

## In dialogue with...

**... clients:** Aareal Bank Group is in continuous dialogue with its clients, for example at trade fairs and other events. One of the regular discussion forums is our Aareon Congress – the largest meeting for the German property industry – which was held for the 26th time in June 2016. In July 2016, Aareal Bank hosted the 9th Housing Industry Summit, which opened with a presentation on the sustainable use of resources. We are also available for discussion at the leading international property industry trade fairs, such as MIPIM in Cannes and Expo Real in Munich.

**... politicians:** At the Hauptstadtalon – a discussion event held several times a year in Berlin – we seek to exchange news and views with politicians, the business community and members of society.

**... colleagues:** In addition to a large number of formal and less formal opportunities for the management and staff of Aareal Bank Group to exchange news and information, our activities in 2016 focused on our Aareal 2020 strategy for the future. Among other things, cross-departmental, cross-hierarchical task forces were set up in December to develop concrete projects and measures as part of the programme for evolving our corporate culture.

**... stakeholders in society:** We know the challenges facing people outside our Company and their needs, not least due to our involvement with charitable organisations as part of our corporate social responsibility activities. One example is the 'Zwerg Nase Stiftung': the Förderverein Zwerg Nase e.V. – the association of friends of this foundation, which we have supported for many years – aims to provide simple, unbureaucratic help to parents of disabled children. → [www.zwerg-nase.de](http://www.zwerg-nase.de)



07

Attractive employer

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## FAMILY BENEFITS AT A GLANCE



Aareal Bank works together with the charitable organisations 'Fit For Family Care' and 'famPLUS' in order to help employees with small children **balance the needs of their work and their families**.



Aareal Bank and Aareon employees at a number of locations can use **parent-child offices** to solve short-term care bottlenecks.



Aareal Bank also supports the **Hessen Family Card scheme**. This offers a range of discounts and benefits in various areas.



Together with Wiesbaden's Department for Social Work, Aareal Bank offers **vacation child care for employees' children** aged between 6 and 15.

## Room for new ideas

**For us as a service provider, our employees are our most important resource – their skills, their commitment and their sense of responsibility determine Aareal Bank Group's economic performance and competitiveness.**

Aareal Bank Group does a lot for its employees. Our offerings cover all key areas of state-of-the-art human resources management – from comprehensive programmes for continuous professional development down to our Company Health Management scheme and programmes designed to help staff achieve a successful work-life balance. The success of these measures is underscored by a series of external awards.

→ [www.aareal-bank.com/en/your-perspectives-at-aareal-bank/aareal-bank-as-an-employer/an-excellent-employer/](http://www.aareal-bank.com/en/your-perspectives-at-aareal-bank/aareal-bank-as-an-employer/an-excellent-employer/)

This was countered by a number of changes in the context of integration and consolidation activities in the recent years.

In addition, we need to adapt to, and to actively shape, market changes to an even greater extent – one example here are the increasingly rapid moves towards product and client digitalisation, which is leading on our part to a growing need for agile and flexible solutions. We adopt a wide variety of approaches to promote a corporate culture that is designed to achieve this.

Our employees evaluate the progress we are making: most recently, we polled international executives throughout the Group in October 2016. Despite the short lead time the survey achieved a good response rate of 57 per cent; with especially high levels of answers being returned in Germany and at Aareal Bank AG. Respondents were asked about their general personal mood, their 'feeling of urgency' with respect to necessary changes, their understanding of our strategy, ability to change, our management culture and their belief in our common success.



### WHAT WE ARE WORKING ON...

Effective 1 January 2017, the new General Works Agreement 'Mobile Working/Telework' came into force at the Bank. The objective of this agreement is **to give staff more flexibility in how they organise their work**, so that they can better align their personal circumstances and needs with the Bank's goals. The General Works Agreement initially runs until 31 December 2018 and is designed to serve as a pilot project for the Bank. The Bank and the Works Council representatives have arranged to start negotiations on signing a new agreement well before the pilot period expires.

## Numerous awards ...

In February of 2016 and 2017, the CRF Institute again awarded Aareal Bank Group the accolade of being a 'top employer', bringing the total number of times it has received this award to ten. Praise came for the excellent working conditions that the Company provides for staff and for its measures to ensure their continuous professional development.

In November 2016, Aareal Bank Group received its second Corporate Health Award. The prize is given every two years by EuPD Research Sustainable Management, Handelsblatt, TÜV Süd Academy and ias Group to companies that have demonstrably shown an exceptional commitment to the health of their employees, and hence pursue a forward-thinking and sustainable personnel strategy.

In 2016, Aareon AG was a finalist in the 'Success Factor Family – Germany's Most Family-friendly Companies' competition for companies, which is run by Germany's Federal Ministry for the Family, Senior Citizens, Women and Young People (BFSFJ).



### Work-Care Balance Charter signed

Demographic change also affects companies and their employees. Its effects include not only the shortage of specialists that we frequently hear about, but also the fact that more and more staff are having to juggle looking after relatives who require care in addition to doing their jobs. In September 2016, Aareal Bank Group signed up for the Work-Care Balance Charter in Hesse. The signatories are companies located in the state who share the goal of actively addressing the challenges associated with trying to reconcile work and long-term care.

Aareal Bank has already offered an internal care network for some time that enables affected staff to communicate with each other and obtain advice. In addition, Aareal Bank employees have access to Viva FamilienService – a free, comprehensive range of advisory and support services that staff can use if their close relatives fall ill or need long-term care.

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# 08

## Know-how

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"The Bank encourages and supports a wide range of training and CPD measures. This means that I can do a master's degree at the same time as my traineeship."

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Bastian Haider, trainee

# Professional experience made easy

## **Aareal Bank Group's Junior Training Programme offers a development path for young professionals.**

In mid-2015, we put the Bank's entire training activities for young staff on a new footing and established the Junior Training Programme (JTP). It comprises a number of different components: the annual Girls' Days and Boys' Days held in Wiesbaden and Mainz and our internships for school students, which focus on younger age groups and aim primarily to raise awareness of Aareal Bank Group and the wide variety of areas it is active in. Five to ten such internships are offered each year.

The mandatory and voluntary internships provided for students during their university courses focus more specifically on recruiting direct entrants. We fill these positions by advertising with universities, offering approx. 20 students a year the opportunity to gain their first professional experience with our Company for periods of between six weeks and six months.

Vocational training and dual work-study programmes also belong in this category. For example, in Wiesbaden we offer two vocational traineeships as office management specialists and two dual work-study course places for degrees in business IT and business administration for banks. We plan to expand this to include a degree course for software development and consulting in 2017. Both the vocational training courses and the dual work-study courses last three years. In addition, we offer a two-year dual work-study master's course and a trainee programme for graduates of bachelor's and master's degrees.

At the end of 2016 we had nine 'juniors': four dual work-study undergraduate course students, two students on integrated work-study degree courses, two vocational trainees (office management specialists) and one master's student as a trainee. We aim to offer permanent employment to all vocational trainees and students on the JTP once they have finished their studies.



"One of the key things you learn here is how to think across divisional boundaries."

Zaman Kakhki, dual work-study degree course student



"All the people I have got to know here so far are extremely nice and helpful."

Jaruwan Singruang, integrated work-study degree course student



## WHAT WE ARE WORKING ON ...

Digitalisation is changing our day-to-day business – the way we work, communicate, obtain information and share knowledge. We also exploit the resulting opportunities and potential internally, e. g. in **knowledge management, so as to leverage synergies and realise efficiency gains**. For example, the Housing Industry division is continuing to expand its corporate digital learning offering, which is used for employee training, on our new knowledge management platform. The training offering with its focus on cross-departmental interface optimisation is being migrated in full to e-learning tools.

The goal is to capture the expert knowledge needed for process optimisation in this area and to make it accessible to employees at all times in the form of documentation, webinars and learning videos. The knowledge management portal is currently being set up and is being continuously expanded to include new corporate digital learning packages.

## TAILOR-MADE PROGRAMMES

**Executive Programme:** Aareal Academy's executive development concept covers six areas/basic challenges that we consider to be essential: complexity, reflection, innovation, knowledge, collaboration and relationships. These are flexibly structured in modules and can be customised to fit individual needs.

**Expert Programme:** Aareal Academy also offers an 'Expert Programme' for employees aiming for a focused specialist career track. A variety of training modules prepare staff for future roles in the Company, including a 'Fit for responsibility' module that addresses, among other things, the topic of 'lateral management' (management of/by people on the same hierarchical level within an organisation). Other modules on topics such as stakeholder management, emotional intelligence and self-management are also available.

**Cross-mentoring Programme:** Launched in 2016, this programme aims to promote constructive relationships between mentors and mentees from different organisations. Over a limited period, mentors provide mentees with an independent perspective on issues arising in their day-to-day roles, enabling them to reflect on their behaviour, expand their horizons, boost their self-confidence and drive forward their personal development.



"A bank is not just about figures: political and regulatory effects make working here a fascinating experience."

Vanessa Schmehl, intern

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# 09

## Sustainable lending business

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"We track the market closely. Roughly 10 per cent of the buildings financed by Aareal Bank between 2014 and 2016 had a sustainability certificate, most of them office properties."

Christof Winkelmann, Member of the Management Board of Aareal Bank AG

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"International certifications differ in terms of content. The effects of sustainability certification results on the property under review must be considered individually. The criteria we apply when preparing a valuation report for a property are distinctly more comprehensive and also take account of long-term usability and marketability, among others."

Karl-Ludwig Göth, Managing Director of Aareal Valuation GmbH

# High-value property loan portfolio

**Financing properties and portfolios entails more than just granting loans. Aareal Bank Group's loan approval process incorporates risk avoidance processes at many points, thus ensuring that our decisions are sustainable.**

### Expertise plus sustainability

**Highest standards:** Our credit risk indicator is consistently low; it was a mere 65 basis points at the height of the financial crisis in 2009 and continued to decline between 2015 and 2016, falling from 43 to 33 basis points. In this way, Aareal Bank contributes to the stability of the financial market, especially in the area of commercial property finance.

**Green finance initiatives:** Aareal Bank played a more active role in industry initiatives on green finance issues in 2016 – for example at the Verband öffentlicher Banken (VÖB – Association of German Public Banks), the Verband deutscher Pfandbriefbanken (vdp – Association of German Pfandbrief Banks) and the latter's European counterpart, the European Covered Bonds Council (ECBC).

**Sustainability certifications for building finance:** In a multi-stage process, Aareal Bank AG has revisited a large proportion of the financing deals that it entered into in the period from 2014 to 2016 to document whether the office buildings, hotels, etc. concerned were certified in accordance with recognised sustainability standards. This is an important first step towards improving our understanding of the importance of certification in the property finance business. Our goal is to compare how certification affected the valuation.

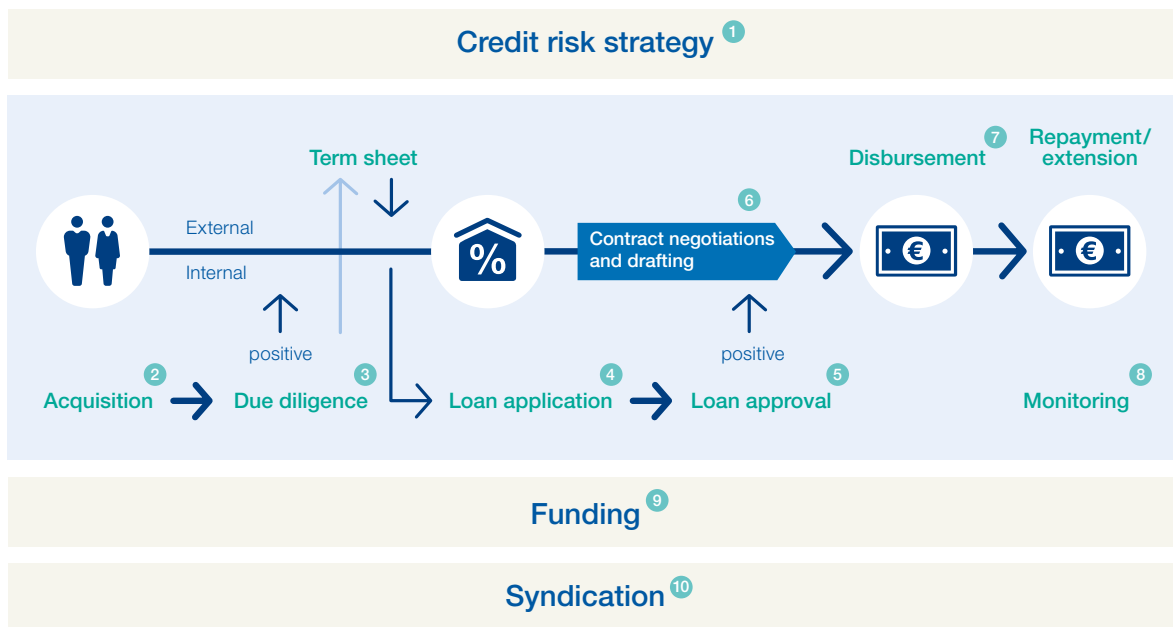


### WHAT WE ARE WORKING ON ...

To date, the way in which sustainability was dealt with in international valuation reports varied considerably and any sustainability seals of approval were not always fully described or not described at all, in terms of their names (LEED, BREEAM, HQE, DGNB, etc.) and the achieved level (platinum, gold, silver, bronze, etc.).

Since the beginning of 2017, our standardised instruction letter for ordering valuation reports includes a query for all properties on whether they have been granted a green building certificate and what level or score was reached in any sustainability rating. In the medium term, we expect this to lead to significantly enhanced transparency regarding the certification status of the sustainable properties we finance, as well as to provide further encouragement for the sector to **create a common pool of qualified and meaningful data in order to determine the effect that sustainability certificates have on property values.**

# Sustainability-related aspects of the loan approval process\*



**1 Group-wide policy requirements**

- Investment financing of office buildings, hotels, shopping centres, logistics and residential properties on three continents
- High level of diversification
- No contentious properties (industrial plants, etc.)
- Controversies (e.g. regarding transparency issues in the project development business) irrelevant

**2 Active management of portfolio and new business**

- Lending policies pool specific lending decision reqs: quantitative/qualitative risk mitigation criteria
- Focus on stable markets, plus (macro)economic and property market specific criteria; legal certainty, market transparency, corruption levels, etc. taken into account
- Multiyear business plan for optimising the Bank's revenue/risk structure, including minimum conditions to be met

**Comprehensive KYC\*\* check**

- Client checks for compliance with far-reaching anti-money laundering and terrorist financing requirements, e.g.
- origin of money and assets
- ownership

**3 Basis of cooperation**

Due diligence on the risk/return perspective enables clients to be given a non-binding term sheet early on detailing whether and on what terms Aareal Bank can take part in the financing

**4 Sales units and Credit Management assess the funding separately on the basis of: Market analysis**

- Analysis of (macro)economic conditions
- Evaluation of property market (down to submarket level)

**Property appraisal**

- Examination of economic, technical, functional, socio-cultural and ecological quality; lifecycle analysis
- Assessment of marketability and third-party reuse
- Conservative valuation ensures cover pool eligibility

**Risk analysis**

- Risk classification using end-to-end rating procedure covering borrower (credit rating), property quality and expected cash flows (operator, tenant structure, rental trends) and capital debt stack (equity/debt mix, etc.)

**Profitability assessment**

- Accurate assessment of transaction profitability
- Optimum allocation of Aareal Bank AG's equity

**5 Clear allocation of responsibilities**

- Loan approval decision depends on size/compliance with lending policy
- Rapid, efficient decision-making in client's interests

**6 Legally compliant documentation**

- Negotiation/drafting of loan agreement plus collateral agreements using in-house/external lawyers
- Risk mitigation using covenant structures (binding conditions for the borrower) as risk indicator/management tool

**7 Careful check**

Check if collateral has been furnished and other conditions for disbursement have been met

**8 Continuous early risk identification process**

- Risk classification of existing exposures – regularly and ad hoc
- determines frequency/scope of credit monitoring
- triggers intensive care if risk is elevated

**9 Balanced funding mix including: Pfandbriefe – a sound investment**

- In some cases, loans are funded by issuing rated Pfandbriefe (Fitch, Moody's), an intrinsically sustainable form of finance:
- subject to strict statutory requirements
- guarantees high level of investor protection
- sound investment thanks to excellent credit quality

**Housing industry deposits**

- Additional pillar in funding mix that is largely independent of the capital markets

**10 Established network**

- Use of consortia to finance large, often multinational property portfolios (credit obligations and credit risk spread among partners) in order to
- avoid cluster risk
- mitigate risk
- optimise use of equity
- generate additional revenue potential

\* Loan agreements may fail to be reached, or may be rejected by the other side, at any stage before signature.

\*\* KYC: know your customer

# 10

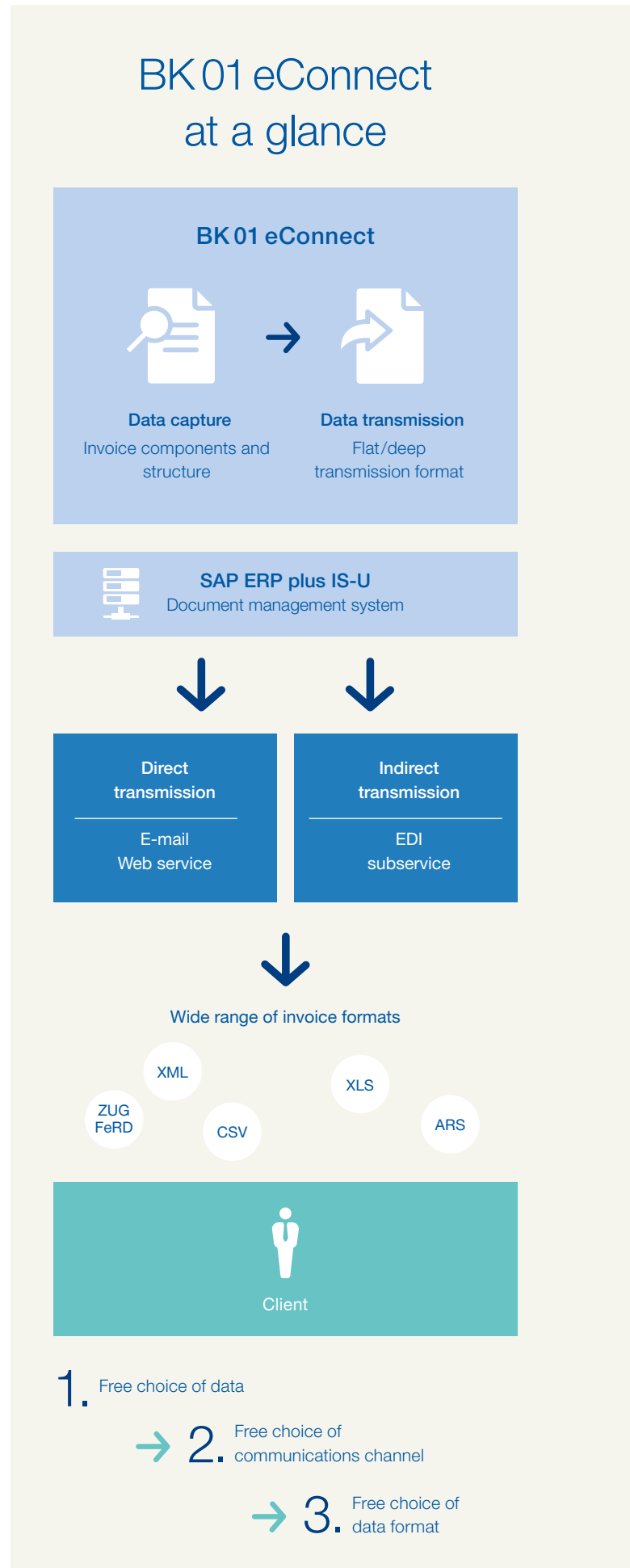
Sustainable  
Consulting/Services  
business

The paperless  
office is already  
here

**Products such as BK01 eConnect enable our clients to digitalise their processes and design them more efficiently.**

For some people, the paperless office is wishful thinking, while for others it is impracticable. Yet younger people frequently show us how this could work: they are digital natives who are at home with the Internet and using electronic media comes naturally to them.

The situation at Aareal Bank Group's clients is similar. Housing associations, property managers and public utilities generally use electronic media. And yet in many cases good old lever arch files full of printouts of electronic documents are still used in parallel, negatively impacting paper, toner and electricity consumption.





Aareal Bank Group has a large number of offerings designed to facilitate lean, efficient invoicing by digitalising manual and/or paper-based processes. For outgoing invoices, our BK01 eConnect product enables energy utilities to provide corporate customers with electronic invoices in flexible formats using a number of different communications channels. This solution allows our clients to leverage process and sales force benefits in their day-to-day business and to reduce their negative impact on the environment.

We have taken the same approach with regard to the housing industry. Aareon's Invoicing Service and BK01 Invoice Data Processing are two products that perfectly model incoming electronic invoices at housing enterprises.

### Digital services

Aareal Bank Group's digitalisation strategy – part of our Aareal 2020 programme for the future (page 6/7) – is already a reality in large parts of the Consulting/Services business segment. The digital solutions business is picking up speed and we are continuously expanding our offering:

- For example, a **fully automatic rental process** enables customers of the Joseph Foundation in Bamberg to take a virtual tour of their student accommodation in southern Germany, apply for it online and then complete all the formalities online using a secure platform. The tenant app, which is already in use in France and the UK, is being tweaked for the German market. The 360° solution produced by our English subsidiary 1st Touch is currently being customised for the German market.
- A large number of other **new digital solutions** are in the product pipeline, including an online rental agreement, a mobile system for placing work with craftsmen, a condominium owners' association portal and a savings portal.
- In October 2016, Aareon developed a new software package for **third-party property management** together with TREUREAL. The new property manager template builds on our Wodis Sigma ERP solution. The structures and modules offered focus in particular on property management requirements and on property managers who have to handle changing portfolios.
- The new **Wodis Sigma University** provides comprehensive weekly webinars on the functionality and innovations offered by all the modules making up Wodis Sigma – our ERP system that is at the heart of Aareon Smart World.
- The **Aareal Portal** – a multibank-enabled online corporate client portal that offers account overviews and payment authorisation functionality plus an easy-to-use, state-of-the-art infrastructure – was our investment focus last year and will continue to be so in the years to come. It will serve as the basis for positioning and marketing an enhanced digital portfolio. With it, clients will be able to increase the efficiency of their processes as well as to access additional offerings to support their financial management business processes.



### WHAT WE ARE WORKING ON ...

One of the wide range of upcoming goals and measures is **Aareon's 'Green Consulting' offering**. We want to increasingly encourage clients to de-emphasise consulting services performed at their premises in favour of remote WebEx offerings – online meetings and conference calls – and e-learning services.

Remote consulting has a direct impact both on our clients' sustainability accounting and on Aareal Bank Group. We can reduce the effort involved in travelling (and hence also the

emissions produced and time spent) and help clients cut their travel budgets. This means that our consultants can be freed up to work on other client projects more quickly, thus increasing our overall consulting capacity for them.

As an additional incentive, we donate € 10 per offsite consulting day to DESWOS, a non-profit organisation dedicated to combating poverty and housing shortages in the developing countries.

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# 11

## Operational resource management

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### IN BRIEF

#### New Ökoprofit certificates

Both Aareal Bank AG and Aareon AG again received Ökoprofit certificates in 2016. Aareon received its certificate at the Rheinhesen Chamber of Commerce and Industry's Energy Forum, as one of the ten businesses belonging to the Ökoprofit Club in Mainz. Aareal Bank Group's head office also received another certificate in July 2016. We are cutting our energy and material consumption, carbon emissions, water consumption and waste volumes using the wide range of measures in our ambitious environmental programme.



#### Revised environmental guidelines

In August 2016, we revised Aareal Bank AG's environmental guidelines, which were resolved by the Management Board and apply throughout the Group. These serve as a binding standard for our activities and set out responsibilities in relation, among other things, to the economical use of resources, sustainable procurement, monitoring and data analysis methods, stakeholder dialogue, participation in external environmental initiatives and raising employee awareness.



#### Increasing the transparency of our ecological footprint

Specialist divisions within Aareal Bank Group regularly capture and analyse environmental consumption data and indicators for all locations (including our international sites). This allows us to produce an 'ecological footprint' – an overview of the effect that our business activities have on the environment – and to develop measures to reduce negative ecological impacts. One way of doing this has been to successively increase the proportion of green energy used by the Group, a process that started back in 2014.



# Cutting energy consumption by increasing efficiency

**Aareal Bank contributes to the federal government's climate protection goals through its membership of Wiesbaden's energy efficiency network.**

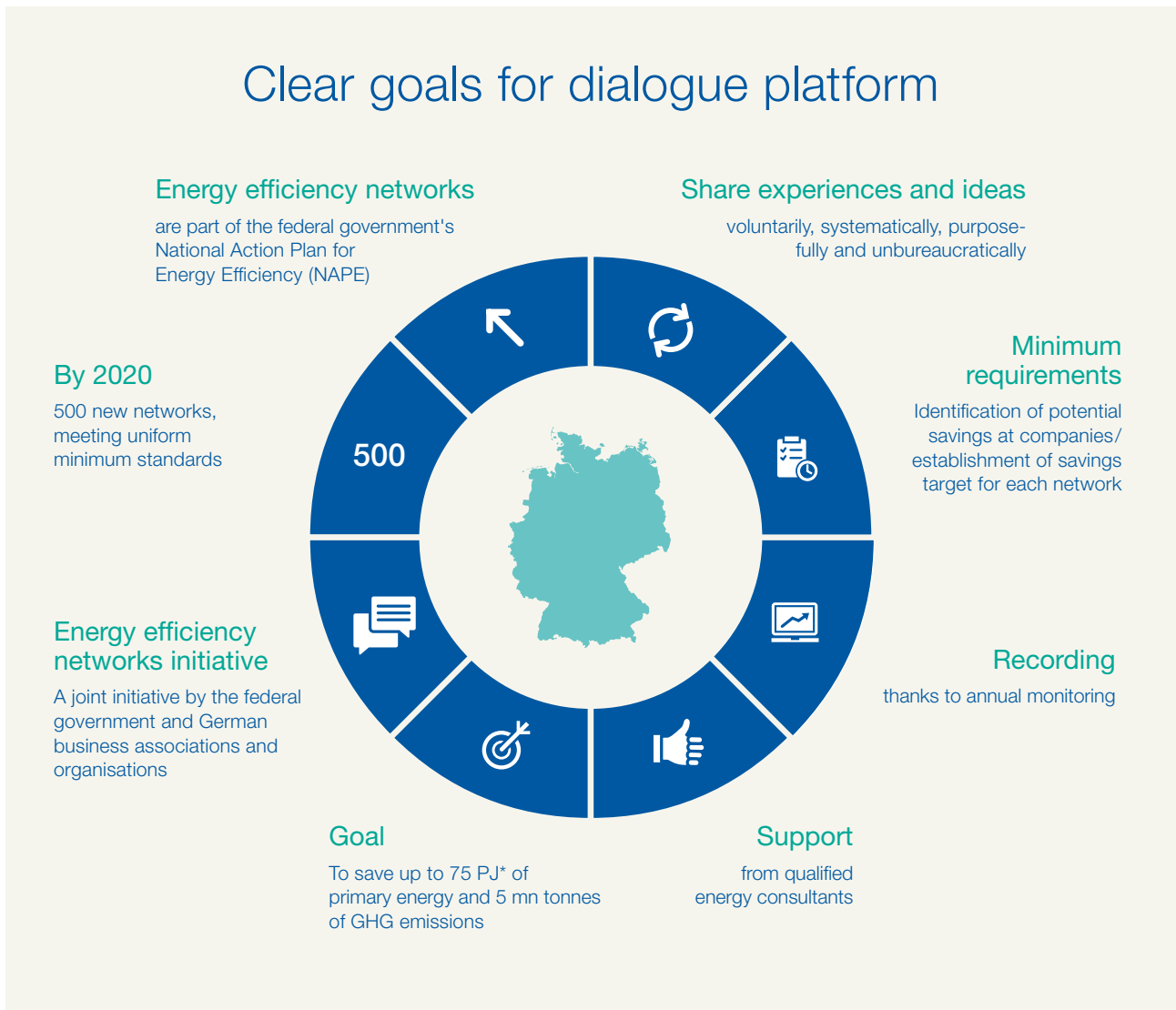
Energy efficiency is one of the crucial keys to combating climate change. The logic is really simple: the less energy used, the lower carbon emissions are. This is why, as part of its Climate Action Plan 2020, the federal government is aiming to get businesses and consumers to use less energy and improve the efficiency of energy usage, for example by switching to state-of-the-art, energy-saving devices. The details have been set out in a National Action Plan for Energy Efficiency (NAPE). One key component of NAPE is to launch and establish around 500 energy efficiency networks in Germany by the end of 2020. The Energy Efficiency Networks Initiative was set up to achieve this goal.

→ [www.effizienznetzwerke.org/initiative](http://www.effizienznetzwerke.org/initiative)

It comprises 21 German business associations and organisations plus the Federal Ministry for Economic Affairs (BMWi) and the Federal Ministry for the Environment (BMUB). The objective is to cut greenhouse gas emissions by five million tonnes in the period up to 2020.

Aareal Bank has been taking part in the Wiesbaden energy efficiency network as part of its activities in connection with the Ökoprofit-Initiative there, thus helping the federal government achieve its climate protection and energy policy goals. The project is scheduled to run from March 2015 to the end of 2017 in the first instance. The Energy Efficiency Networks Initiative requires participating enterprises to define a common energy savings target. For 2017, this has been set at 1.5 per cent. Other requirements cover the measures taken to achieve these goals and the method used to document this. Recognised measures include switching lighting, insulating building

## Clear goals for dialogue platform



\* Petajoules

Source: Based on Deutsche Energie-Agentur GmbH (dena)

envelopes, new heating facilities, efficient water and waste water pumps, electromobility and many more.

We are convinced that combating climate change can be done most effectively by as many partners as possible working together. Our active participation in the Ökoprofit project, where we have been addressing energy efficiency issues for several years already, helps us in our work with the Wiesbaden network.

"We have bundled electricity procurement at our German locations and have switched almost totally to green electricity."

Oliver Wünsch, Senior Manager Purchasing Services, Aareal Bank AG



### WHAT WE ARE WORKING ON ...

Due to Aareal Bank Group's established organisational structure comprising a number of companies, each with a series of subsidiaries and foreign branches, many policies and thematic guidelines currently apply to specific companies only. Our goal is to **work more closely together** in the future. For example, we are currently developing Group-wide ecological targets and are starting off by implementing them as part of the energy efficiency network. Other topics will follow.

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# 12

## Sustainable procurement

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### Shared responsibility

**With our new Code of Conduct for Suppliers, we expect our business partners to comply with the same standards of ecological and social responsibility as we do ourselves.**

How far does a company's environmental and social responsibility extend in the age of globalisation? All relatively large enterprises are asking themselves this question. Depending on the sector they are in, the answers can yield very different results – take the example of the textile industry, where in many cases all raw materials and merchandise come from developing countries and emerging markets, or the automotive sector, where vertical integration at leading manufacturers is now frequently only 30 to 40 per cent.

At first glance, the impact of suppliers in the financial and IT services sector would seem to be small. However, a second look reveals that Aareal Bank Group actually accounts for a sizeable procurement volume – from IT terminals through paper and office materials down to office fittings and furnishings.

When we signed the United Nations' Global Compact, we undertook to ensure compliance with human rights, to take a preventive approach to environmental protection, and to fight corruption and bribery. This is the background to why we introduced a Code of Conduct for Suppliers at Aareal Bank Group in 2016. This mandatory, Group-wide policy forms the basis for our business relationships with suppliers.

**Our business partners also affect our sustainability performance**

By signing and hence agreeing to abide by our Code of Conduct, suppliers undertake to comply with the legal requirements and with ethically correct standards of behaviour. A responsible approach to the environment plays a particularly important role here. Suppliers are required at all times to conserve natural resources and to find and prioritise environmentally friendly solutions as far as possible. Ultimately, our Code of Conduct requires our business partners and service providers to comply with the same high standards in terms of ecological and social responsibility as we do ourselves.

The Code of Conduct is particularly important to us for two reasons. Firstly, it extends our environmental and sustainability management activities to the Company's indirect effects, which we cannot otherwise influence to any large extent. Secondly, we can protect ourselves against potential risks in the supply chain from failures to comply with environmental or social standards – failures that would reflect negatively on us.

The Code of Conduct is publicly available on our website and forms part of our General Business Conditions. Existing business partners are also successively signing the Code, with the initial focus being on partners with whom master agreements exist. In the case of new business partners or service providers, the Code of Conduct forms the basis of the business relationship.

"The Code of Conduct for Suppliers documents the high standards that we have always required our business partners to meet. Our initial experiences confirm that in some cases business partners use voluntary commitments that are even stiffer."

Thomas Böhler, Senior Manager Purchasing Services,  
Aareal Bank AG

"The fact that our requirements are now set out in writing will be particularly useful when it comes to requests for tenders."

Adrian Haese, Team Leader, Central Purchasing, Aareon AG

"Section V of the Code of Conduct for Suppliers shows that we take our duties under the UK Slavery Act to prevent forced labour, slavery and human trafficking seriously."

Dr Daniela Westphalen, Legal, Group,  
Bank & Supervisory Law, Aareal Bank AG

### Testing electric vehicles in practice

Alternative drives are the technology of the future. But when does this future actually start? Aareal Bank Group's company car policy has provided incentives to purchase hybrid and electric vehicles since 2013. The fact that demand is still muted is due among other things – as is the case for the German vehicle market as a whole – to batteries' current range limitations and to the inadequate charging infrastructure.

However, battery capacities and the range of vehicles available are both increasing. To test this, a BMW i3 has been made available as a carpool vehicle at our Wiesbaden location. This allows staff to experience for themselves what sustainable, forward-looking mobility can offer in terms of vehicle range, charging times, electricity consumption and suitability for day-to-day use. Other areas of the Company already have electric vehicles: one has been in use at Aareon in Mainz since February 2016, while the Aareal Bank branch in Paris acquired another in June 2016.

### Healthy catering and eating

Sustainability also plays a role at Aareal Bank when it comes to buying food. Employee health is the top priority here. As an employer, we offer our staff the opportunity to eat healthy, balanced meals in our in-house canteen. In the process, we comply with the goals of our Company Health Management scheme. We only source fresh fruit and vegetables, not pre-prepared foods, and our suppliers are experienced local companies with a focus on regional products.



### WHAT WE ARE WORKING ON ...

Not only can commuting to work every day be stressful, it can also pollute the environment. This is why Aareal Bank Group is currently reviewing its **mobility concept** and conducting an employee needs survey. The March 2017 Intranet survey is designed to find out what we can do to simplify daily

commutes and act in a cost-effective and environmentally aware manner. For example, we are interested in knowing whether staff would find an expansion of the car sharing platform developed by Aareon or a leased Company bicycle offering attractive.

# About this report

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Aareal Bank Group has produced annual reports on its sustainability performance since 2012 – making the current report the fifth of its kind. Its main focus is on the progress made during the reporting period in the twelve action areas for sustainability management, as well as on providing information about what we are currently working on.

Aareal Bank Group's sustainability reporting is supplemented and completed by our online Sustainability Disclosures, which have been prepared in accordance with the current version (G4) of the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI). In addition, the Sustainability Disclosures are based on the transposition into German law of EU Directive 2014/95 as regards disclosure of non-financial and diversity information (the CSR Directive). They are structured in line with the five areas of concern specified (environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters), and also include information on diversity. As a quality assurance measure, a limited assurance was also performed of selected quantitative and qualitative non-financial disclosures in the Sustainability Disclosures.

The online Sustainability Disclosures can be found at [www.aareal-bank.com/responsibility](http://www.aareal-bank.com/responsibility)

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## Imprint

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05/2017



**Aareal Bank  
Group**