

Combined Separate
Non-financial Report 2018
for Aareal Bank AG



Combined Separate Non-financial Report 2018 for Aareal Bank AG

About this report

The combined separate non-financial report for Aareal Bank AG and Aareal Bank Group relates to the 2018 financial year. It was prepared in accordance with section 340a (1a) of the German Commercial Code (Handelsgesetzbuch – HGB) in conjunction with sections 289b (3) and 340i (5) of the HGB in conjunction with section 315b (3) of the HGB in the versions as amended by the German CSR Directive Implementing Act (CSR-Richtlinie-Umsetzungsgesetz – CSR-RLUG), and was published separately from the Group Management Report. It is supplemented by the online Sustainability Report 2018, "Setting Milestones. Creating Prospects."

Section 171 (1) sentence 4 of the German Public Limited Companies Act (Aktiengesetz – AktG) requires the Supervisory Board to review the non-financial report. This review by the Supervisory Board covers the reporting's compliance with the law, propriety and fitness for purpose. As a supporting measure, the Supervisory Board commissioned a limited assurance review in accordance with ISAE 3000 (Revised) from audit firm PricewaterhouseCoopers GmbH. In addition to the reporting and the non-financial performance indicators, the review by the auditors comprised the materiality analysis, the policies and the due diligence processes. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft issued an unqualified review opinion (see page 17ff.).

The core topics identified in the course of the materiality analysis were used to select the contents to be disclosed on each of the five aspects required (anti-corruption and bribery matters, employee-related matters, social matters, respect for human rights and environmental matters). The non-financial report was prepared on the basis of the requirements of the HGB. In addition, our description of the management approaches and the implementation of the materiality analysis is based on the Global Reporting Initiative Standards ("GRI-referenced") and also takes into account the principles set out in the UN Global Compact and the UN Sustainable Development Goals. Cross-references to disclosures other than in the Group Management Report and the consolidated financial statements represent additional information and do not constitute part of the combined separate non-financial report.

Description of the business model¹⁾

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

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

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

¹⁾ See also the "Fundamental Information about the Group" section of the Group management report in Aareal Bank Group's Annual Report 2018 for a description of the business model.

Determining materiality

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

As a result – and also because the requirements of our various stakeholder groups can change – we regularly update our materiality analysis; for example, we held discussions with internal and external stakeholders in the year under review to validate the relevance of our action areas and the topics allocated to them. Our review focused on material issues within the meaning of section 289c (3) of the HGB, i.e. all information necessary for an understanding of the Group’s development, performance and position, and of the impact of its business activities on the five aspects.

As a result, our sustainability management operations remain focused on the twelve action areas that are depicted in the materiality matrix¹⁾ and that are key to securing the Company’s long-term success (GRI definition). We assigned the material issues underlying the action areas in accordance with section 315c (2) of the HGB to the statutory aspects. The above-average positive scores we have received in established sustainability ratings confirm that we are addressing the topics that are relevant to our sector and our business model.

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

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

Risk reporting

The risk report that forms part of our Group management report²⁾ provides comprehensive information on our risk management system and the material risks associated with our business activities and relationships, products and services that have been identified for Aareal Bank Group. We do not see any other reportable risks pursuant to the CSR-RLUG whose potential adverse impacts on the aspects are or could be severe or whose occurrence is highly probable. We provide more detail on topics that are of particular

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

²⁾ See the risk report that forms part of the Group management report of Aareal Bank Group’s Annual Report 2018.

importance to stakeholders who are interested in sustainability in the overview of risks and opportunities given at the beginning of each aspect.

The aspects are addressed in their order of priority for us as a financial institution and service provider. In other words, anti-corruption and bribery matters and employee-related matters are addressed before social matters, respect for human rights and environmental matters. More detailed information and indicators – including on other aspects that may be of interest to stakeholders focusing on sustainability – are given on our website.¹⁾

1. Anti-corruption and bribery matters

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

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

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

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

The Group Compliance Officer, who is responsible for continuous optimisation of Group-wide compliance processes, is attached directly to the Bank's senior management and reports to them. As at 31 December 2018, Compliance Wiesbaden, which deals with topics relating to anti-corruption and bribery matters, among other things, had 9.6 full-time equivalents (FTEs), while Aareon had 2.0 FTEs.

The compliance management system, which is aligned with Aareal Bank Group's risk position, takes all legal requirements into account and is based on the corporate governance principles recommended in the German Corporate Governance Code (GCGC), among other things. It comprises a Group-wide Code of Conduct, which defines binding rules for all employees on how to act in a lawful and ethical manner towards clients, business partners and colleagues.

Group-wide anti-corruption guidelines, guidelines for preventing white-collar crime and measures to prevent fraud and to avoid and/or manage conflicts of interests serve as the baseline for raising awareness among our employees, while also providing orientation on how to act correctly. They serve to prevent the danger of corruption before it occurs. In addition, all employees receive training on the Com-

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

pany's compliance and fraud prevention requirements and on the potential consequences of any breaches, including under labour law. A confidential whistle-blower system also exists that can be used to report actual or potential breaches of the rules to the Compliance division. The employee reporting the issue is guaranteed confidentiality.

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

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

RESULTS:

- ✓ Given the increasing threat of financial crime in the banking business, a dedicated "Anti-Financial Crime" unit with its own head of department was established within the Compliance division with effect from 1 October 2018.
- ✓ Publication of compliance alerts on Aareal's intranet to raise employee awareness and draw attention to topical issues (e. g. social hacking/fraud prevention) or refresh employees' knowledge (e. g. how to deal with business courtesies and gifts).
- ✓ Preparations for the planned implementation of an electronic whistleblower system permitting anonymised reporting, including a strict prohibition on reprisals against whistleblowers.
- ✓ Revision of the Code of Conduct to emphasise the statements on our corporate values and respect for human rights.
- ✓ The Group Compliance Officer reports at least annually and on an ad hoc basis to the Management Board and Supervisory Board on the results of the risk analyses performed to assess the appropriateness and effectiveness of the preventive measures taken, as well as on any incidents of corruption and the measures taken.
- ✓ In addition, Internal Audit assesses the effectiveness and efficiency of the internal control system as part of regular audits and informs the Management Board and Supervisory Board of the audit findings.

Breaches and sanctions

		2018	2017	2016
Number				
GRI Indicator	Subject matter			
GRI 205-3	Reported cases of corruption	0	0	0
GRI 4419-1	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

		2018	2017	2016
in per cent				
GRI Indicator	Subject matter			
GRI 205-1	Operations included in the compliance concept	100 %	100 %	100 %
GRI 205-2	New employees who have received training on compliance requirements	100 %	100 %	100 %
GRI 205-2	Existing employees who received refresher training on content already taught	100 %	100 %	100 %

2. Employee-related matters

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

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

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

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

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

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

Employee structure

At the end of 2018, Aareal Bank Group employed 2,748 people from more than 30 countries on three continents. Employee-initiated staff turnover was 5.8% in 2018. The average length of service at Aareal Bank – 12.7 years – demonstrates our employees' close attachment to the Company. The average age of employees is 44.9 years.

Remuneration

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

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

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. As part of this, Aareal Bank Group not only pays the regular employer pension contributions but also offers employees

a deferred compensation scheme that allows them to shift taxable income to the period after they have retired, and hence to make personal provision for their retirement. In addition, the Bank takes advantage of rebates, for example for its group accident insurance and other insurance benefits.

Training and education

Aareal Bank Group invests continuously in developing its employees' professional, business and interpersonal skills on an individual, needs-driven basis. In 2018, Aareal Bank focused on professional and interdisciplinary training such as skills development programmes for (agile and conventional) project management and flanking offerings on organisational and team development, which were customised to reflect the Group-wide reorganisation process.

At Aareon, the emphasis was on closely focused management development offerings featuring training, assessment and advisory components, on online English language training to support the company's internationalisation and on expanding employees' specialist knowledge about Aareon Smart World. This last objective was addressed using the weekly WebEx-based WodisSigma University format.

Platforms and dialogue formats for internal networking and the Group-wide Cross-mentoring Programme promote knowledge sharing and transfer. The Bank's Junior Training Programme is used to develop talented young staff. In addition to its management trainee programmes, Aareon AG offers two combined vocational training and degree courses (in Business Information Systems and Media, IT and Management), plus vocational training in various careers including office management, IT applications development and IT systems integration. As at the end of 2018, Aareal Bank Group employed 58 vocational trainees in Germany plus 10 management trainees.

In 2018, Aareon took part for the first time in the German National Scholarship Programme for gifted young students at Johannes-Gutenberg-University in Mainz, while the certified property manager course at the Hochschule für Wirtschaft und Umwelt in Nürtingen-Geislingen was repeated.

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

Company benefits & flexibility

Comprehensive programmes promoting flexible working times and locations (flexible working time models, part-time working, and our mobile working and teleworking offerings where operational requirements permit), plus a broad range of support measures to help employees achieve a positive work-family and work-care balance make it easier for our staff to organise their work. In addition, Aareal Bank Group's comprehensive range of health-promoting measures – which cover information, risk prevention, exercise and ergonomics, nutrition, mental health and relaxation, and which are based on employees' current needs in all cases – increases our attractiveness as an employer.

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

Optimising structures and processes

Team and organisational development measures, including in the area of human resources¹⁾, are one of the key components of our Aareal 2020 programme for the future. By 2020, this will create the pre-conditions we need to continue our success in a rapidly changing market and competitive environment. First-level management has a core role to play in this process. They must be able to actively shape developments and to encourage and motivate their teams to do this as well.

In October 2017, the Management Board launched an evaluation process for first-level management and the Management Board at Aareal Bank, in order to develop their strengths and potential and to be able to deploy them even more effectively in the future. In the 2018 reporting period, the focus was on anchoring cultural change in the organisation by modifying the management model and human resources instruments, focusing more on the role of project managers and supporting communications with new forms of participation. In addition, we continued to drive forward the increased use of digital HR products and services, e.g. by introducing additional digital training courses and a cloud-based applicant tracking system.

The "work4future" project, which was launched jointly in June 2017 by the Human Resources, Communications and IT divisions, is looking at future ways of working. Three subprojects – (i) digital office and workplace structures, (ii) technology and equipment and (iii) collaborative and communications tools and formats – are developing and implementing ideas for new, technology-based ways of working and communicating. One focus in the reporting period was on new, innovative workshops designed to integrate a large number of Aareon staff.

RESULTS:

- ✓ In June 2018, Aareal Bank introduced digital language training courses: mobile apps that offer needs-driven, business-based content whenever and wherever needed. As at 31 December 2018, they were being used by roughly 300 employees who were learning six languages.
- ✓ "Employee Data Protection" framework works agreement signed in the course of implementing the General Data Protection Regulation (GDPR); in addition, the Bank's "Telephone Services and Mobile Devices" general works agreement was signed and the "Mobile Working/Teleworking" general works agreement was extended indefinitely.
- ✓ At Aareon, the "Mobile Working" general works agreement was introduced in 2018; under it, customised technical solutions give staff almost unlimited flexibility regarding where and when they work.
- ✓ At the December meeting of the Supervisory Board, the Remuneration Officer confirmed the appropriateness of the remuneration systems for employees and the Management Board.

>

¹⁾ We have recognised appropriate provisions for optimising our internal structures and processes; see Note (51) "Other provisions" in the Notes to the consolidated financial statements in Aareal Bank Group's Annual Report 2018.

- ✓ The MD Human Resources regularly reported to the plenary meeting of the Management Board on the structure and development of the workforce, the human resources policy and the range of employee programmes, social benefits and other support that the Company offers employees. Reporting for the period under review focused on the progress made, and the staff-related measures taken, in connection with our Aareal 2020 programme for the future and on the process of cultural change that has been launched.
- ✓ A summarised version – the annual Human Resources and Social Report – is submitted to the Works Councils every year; this happened most recently in December 2018.
- ✓ A number of external initiatives confirm the effectiveness and success of the measures that have been initiated. For example, in 2018 the CRF Institute named Aareal Bank Group yet again as a "top employer", bringing the total number of times it has received this award to eleven.

Workforce structure

		2018	2017	2016
GRI Indicator	Subject matter			
GRI 102-8	Workers in Germany	1,962	2,014	2,009
GRI 102-8	Workers in Europe excluding Germany	745	745	678
GRI 102-8	Workers in Asia and North America	41	41	41
GRI 102-8	Workers worldwide	2,748	2,800	2,728
GRI 102-8	of whom outside Germany	786	786	719
GRI 102-8	of whom female	1,035	1,046	1,053
GRI 102-8	Share of female workers worldwide	37.7%	37.4%	38.6%
GRI 102-8	Ratio of part-time workers	21.1%	19.4%	18.4%
GRI 102-8	Full-time workers	2,168	2,256	2,225
GRI 102-8	Female part-time workers	399	386	383
GRI 102-8	Share of women working part-time	68.8%	71.0%	76.1%
GRI 102-8	Male part-time workers	181	158	120
GRI 102-8	Share of male part-time workers	31.2%	29.0%	23.9%

Changes in workforce structure

		2018	2017	2016
GRI Indicator	Subject matter			
GRI 401-1	New hires	303	233	240
GRI 401-1	Employee turnover	5.8%	3.9%	3.9%

Regular employee reviews

		2018	2017	2016
in per cent				
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

		2018*	2017	2016
Number				
GRI Indicator	Subject matter			
GRI 404-1	Average days training per employee	2.8	3.8	3.5
GRI 404-1	Total training days	7,290	9,855	9,416

* As from 2018, the figures do not include the lessons for vocational trainees

3. Social matters

Banks play an important role in the business cycle. To start with, they ensure payment transactions are executed and by so doing allow society and the economy to function smoothly, despite the substantial division of labour needed for material wealth. In addition, by granting credit and managing the related risks they facilitate investments that help promote companies’ economic development and hence strengthen the overall economy as part of a dynamic and innovative growth process. In other words, an efficient, flexible finance system is a prerequisite for the sustainable development of society as a whole.

This means that Aareal Bank Group can add most value to society by constantly ensuring its 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.

Many social risks that are typical for the property sector, such as a lack of transparency in the construction business or negative impacts on local communities, are not actually material for us, since we mainly provide financing for buildings that have already been completed. Since we focus on office buildings, hotels, retail properties, logistics facilities and residential properties, our portfolio does not contain any potentially controversial industrial plant or other facilities that may be considered problematic by the public.

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

In our Consulting and Services business, our success is based on the stable long-term contractual and customer relationships that underpin deployment of our tailor-made IT and banking solutions.

Our software solutions also have an impact on society: in many cases, our clients' customers also benefit from the time, cost and efficiency savings generated. For us, ensuring failsafe information security and data protection is part of another core social duty that goes without saying.

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

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

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

Economic performance

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

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

Information security and data protection

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

RESULTS:

- ✓ Aareal Bank Group's sound financial position is demonstrated by its consistently positive quarterly results and by the strong business performance recorded by both segments in the reporting period, see the "Key Indicators" table in Aareal Bank Group's Annual Report 2018.
- ✓ Risk-driven reduction in exposure and changes to country limits (e.g. the volume of finance in Turkey was scaled back to almost nothing, and office finance in the UK was decreased at an early stage).
- ✓ The sustained value of the Property Financing portfolio is reflected in its consistently low credit risk indicator: whereas loss allowance for the portfolio as a whole amounted to 65 basis points in 2009, at the height of the financial crisis, the figure for financial year 2018 was a mere 27 basis points.
- ✓ Numerous housing associations throughout Germany that are responsible for a total of roughly 7 million residential units use our solutions to perform their social mandate.
- ✓ Measures were taken throughout the Group to implement the EU General Data Protection Regulation (GDPR). At Aareal Bank, the Internal Audit function performed the accompanying reviews. In the case of Aareon, auditors TÜV Rheinland i-sec GmbH confirmed during their annual follow-up audit in August 2018 that the company had implemented the measures in good time.
- ✓ Aareon's internal control system ("IKS-WIKI") was audited in the first quarter of 2018. The auditors again certified the appropriateness and effectiveness of the implemented service and IT processes in accordance with IDW PS 951 (as amended) for the audit period from 1 January to 31 December 2017. At Aareal Bank, the audit is performed as part of the annual audit of the financial statements.
- ✓ Our subsidiary Aareon AG has been awarded the TÜV data protection management quality seal and its information security management system has been certified under the ISO/IEC 27001 standard. As in previous years, there were no data protection infringements requiring to be reported to the supervisory authorities in 2018. The certifications were confirmed in the course of the annual GDPR follow-up audit.

4. Respect for human rights

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

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

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

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

Code of conduct for the entire Group

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

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

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

When setting the remuneration of employees, we do not differentiate by gender but focus exclusively on aspects such as qualification, professional experience and training. Regular analyses of the base salary and remuneration ratios for women and men in comparable positions ensure the necessary transparency. Variable remuneration is paid exclusively on a performance basis, as measured by reviews and the extent to which predefined targets have been reached.

Code of Conduct for suppliers and business partners

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

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

RESULTS:

- ✓ The Management Board has expressly undertaken to respect human rights in the Code of Conduct, which applies to the entire Group, and has also committed itself to observing the principles of diversity and equal treatment by signing the Diversity Charter (Charta der Vielfalt). The human rights reporting is used to inform the Management Board of the measures implemented, their effectiveness, and any infringements and the actions taken to penalise them.
- ✓ No cases of discrimination came to light at Aareal Bank Group during the year under review (GRI 406-1). Equally, no significant human rights impacts were reported for the supply chain (GRI 414-2).
- ✓ When employees are recruited, the employee representative bodies involved regularly use their co-determination rights to check that positions are filled on the basis of applicants' qualifications (GRI 405-2).
- ✓ In addition, we had our remuneration structures analysed externally as part of a study (Logib-D) sponsored by the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth. The results showed that there are no significant differences in remuneration within Aareal Bank between men and women in comparable positions.
- ✓ At present, we are working to develop a human rights policy that will serve as an umbrella document bundling/referencing all existing processes, structures and rules within the Group.

Change in share of women in management positions

		2018	2017	2016
in per cent				
GRI Indicator	Subject matter			
GRI 405-1	Share of women in management positions	25.2 %	21.5 %*	21.4 %
GRI 102-8	Share of female workers worldwide	37.7 %	37.4 %	38.6 %

* Figure adjusted by -0.6 percentage points

Human rights abuses

		2018	2017	2016
Number				
GRI Indicator	Subject matter			
GRI 406-1	Reported/identified incidents of discrimination	0	0	0
GRI 414-2	Reports of significant human rights impacts in the supply chain	0	0	0

5. Environmental matters

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

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

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

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

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

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

This is done on a topic-specific basis by the Valuation & Research department when preparing market and mortgage lending value appraisals and analyses or, in the case of IT products, by the Bank's Housing Industry division or Aareon.

Ecological quality of buildings

We finance properties that will keep their value and which live up to our strict quality requirements. When performing property valuations, we not only focus on the buildings' fair values but also determine the mortgage lending value using a lifecycle analysis that includes environmental aspects such as their technical, functional and ecological quality as standard criteria. When looking at sustainable property use we also always take marketability and third-party usability into account. In 2018, we established the share of our total new business in 2017 that was accounted for by properties certified under national/international standards. We intend to continue and refine this analysis in order to increase transparency at the finance portfolio level.

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

Digital solutions

The digital solutions we are developing focus not only on generating time, cost and efficiency savings, but also on improving our clients' environmental footprint and contributing to their climate protection efforts. The systematic expansion of our BK01 product series is steadily creating a new, cross-sector range of offerings designed to automate processes in the energy utilities and housing industries. These include BK01 immoconnect/BK01 Operating Cost Management (payment of and accounting for service charges) and BK01 eConnect/BK01 Invoice Data Processing (generation and capture of electronic invoice data). The Aareal Portal, our banking portal for housing industry clients, aims to digitalise client communication from end to end and, by doing so, reduces negative impacts on the environment.

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

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

RESULTS:

- ✓ Quality defects such as inadequate energy efficiency negatively impact property valuations and – depending on how severe they are and how relevant for the overall rating (which comprises a comprehensive market, property and risk analysis) – may impact loan structuring or lead to requests for finance being rejected (see the information on the long-term value of the Property Financing portfolio given on p. 13).
- ✓ In 2018, Aareal Bank Group launched a series of workshops together with the Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. (VfU – the Association for Environmental Management and Sustainability in Financial Institutions) which are designed to identify and discuss the challenges that the European Commission’s action plan on sustainable finance poses for the property industry; two initial workshops have been held.
- ✓ Aareon’s invoicing service, the Mareon service portal, the Aareon CRM portal for tenants and property owners, the Aareon ImmoBlue Pro and ImmoBio property agencies, the Aareon Change Management occupant change management solution for utilities and Aareon’s mobile solutions (mobile traffic safety, mobile portfolio data management and mobile handback/acceptance procedures for residential accommodation, etc.) along with many other Consulting/Services offerings and the tried-and-tested BK 01 product range facilitate lean, efficient processing by digitalising what were previously manual or paper-based processes. They generate process and sales advantages and improve our clients’ environmental footprint.
- ✓ We hope that information sharing will help convince additional users of the benefits of digitalising processes. Clients can use our “Pathways to a Digital World“ video series to reports on their individual digital road maps and how they are benefiting from them.
- ✓ The 11th Aareal Energy Forum focused on providing a venue for discussing intelligent concepts to link utilities, operators and building users more closely, and to create a more efficient, environmentally friendly and social environment for living together.
- ✓ Three companies were awarded the “DW Zukunftspreis“, which is sponsored by trade magazine „DW Die Wohnungswirtschaft“ and Aareon. In keeping with this year’s motto, “Against the planned climate economy: intelligent solutions instead of even more regulation“, prizes were awarded to integrated, innovative concepts that help improve the ecological footprint of society as a whole.
- ✓ Green Consulting: 1,826 online consulting days in 2018 reduced project costs and carbon emissions at clients and Aareon alike.

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

Independent Practitioner's Report

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

To Aareal Bank AG, Wiesbaden

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 340a Abs. (paragraph) 1a in conjunction with (hereinafter "icw") 289b Abs. 3 and 340i Abs. 5 icw 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Aareal Bank AG, Wiesbaden, (hereinafter the "Company") for the period from 1 January to 31 December 2018 (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors

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

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

Independence and Quality Control of the Audit Firm

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

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

Practitioner's Responsibility

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

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

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

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2018 has not been prepared, in all material aspects, in accordance with §§ 340a Abs. 1a icw 289b Abs. 3 and 340i Abs. 5 icw 315b Abs. 3 HGB.

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

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

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

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2018 has not been prepared, in all material aspects, in accordance with §§ 340a Abs. 1a icw 289b Abs. 3 and 340i Abs. 5 icw 315b Abs. 3 HGB.

Intended Use of the Assurance Report

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

Munich, 5 March 2019

**PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft**

**Hendrik Fink ppa. Axel Faupel
Wirtschaftsprüfer
(German public auditor)**

Imprint

Responsible for the content:

Aareal Bank AG · Julia Taeschner · Group Sustainability Officer
Paulinenstrasse 15 · 65189 Wiesbaden, Germany
Phone: +49 611 348 3424 · 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 AG
Investor Relations
Paulinenstrasse 15
65189 Wiesbaden, Germany

Phone: +49 611 348 3009
Fax: +49 611 348 2637
www.aareal-bank.com

03/2019



**Aareal Bank
Group**