

new
perspectives

Aareal
YOUR COMPETITIVE ADVANTAGE.

Content

04 Sustainable business model

07 Property trends

08 Artificial intelligence

11 Platform economy

12 Client focus

15 A dialogue rooted in partnership

17 Co-creation

18 Cooperations with start-ups

20 Integrity

23 Risk culture

24 Setting ESG targets

25 Diversity

28 Risk management

29 Integration of ESG risks

32 An attractive employer

34 Modern forms of work

37 Green Consulting

37 Learning@Areal

38 Essay



04

Business model Which trends we are focusing on

Clients Why joining forces generates better ideas

12



20

Integrity What responsibility means to us



Risk Why we combine
courage with caution

28



32

Employer How we want to
be working in the future

The financial services sector faces growing transformation pressure: besides digitalisation and the challenges arising from the ongoing coronavirus pandemic, it is especially the call for more sustainability that is increasingly shaping change throughout the sector, necessitating future-proof solutions. Of course, this is no longer a matter of simply addressing trends: it is about finding answers to fundamental questions. Perhaps the most important one is: what contribution can banks make to the sustainable development of commerce and society?

Aareal Bank has been considering this question – and similar issues – for quite a long time. By taking ecological, social and governance aspects into account for our business decisions, we can create sustainable value – for clients and investors, as well as for shareholders, staff, and all our other stakeholders. This is our ambition for the future: as a leading international provider of smart financings, innovative payments and software solutions, as well as digital services for the housing and property sectors and related industries, our actions carry special weight, also (and especially) when achieving sustainable development goals.

Just how serious we are about achieving these goals shows our “Aareal Next Level” business strategy, through which we have positioned ourselves well for the future – not least by establishing binding guidelines for sustainable action. We are determined to embed sustainability aspects even more strongly in our structures and processes. In this context, we are focusing on the areas of a sustainable business model, client focus, integrity, risk management, and on being an attractive employer. And in the magazine we show you the trends and topics we are looking at specifically.

An aerial, high-angle photograph of a dense urban landscape at night. The image is dominated by numerous tall, modern skyscrapers and residential buildings, all of which are illuminated from within, creating a vibrant pattern of warm yellow and orange lights against the dark blue and black sky. The perspective is looking down from a high altitude, showing the intricate grid and organic patterns of the city's architecture. The lighting highlights the textures of the building facades and the density of the urban environment.

SUSTAINABLE
BUSINESS MODEL

Keeping up with



the trends

The economy and society are undergoing profound change. Aareal Bank is actively helping to shape this transformation process.



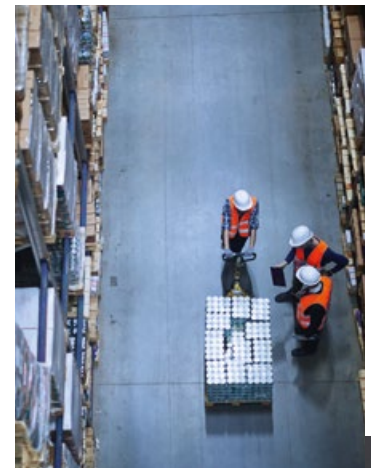
Work life and home life are increasingly merging. This calls for new property concepts.

The financial services sector is facing tremendous challenges: new technologies, new ways of working and new market participants, not to mention new regulations that change the financial markets in lasting and profound ways. More than ever before, banks are being called upon to question their business models, and to continuously develop them in light of sustainability considerations.

That is why we are following the changes on our markets – and the trends that go hand-in-hand with them – very closely, and are considering their implications seriously. It is only by anticipating developments at an early stage and by translating them into innovative products and services for our clients that we can attain the market position we are striving for and rise to the challenge we have set for ourselves.

The many issues that we are currently considering include, for example:

- what are the developments on the property markets – particularly in terms of ESG – and how can we benefit from them,
- how can we take greater advantage of data by using artificial intelligence and in so doing add value for our clients, and
- what opportunities does the platform economy hold and what products and services can we use to cater for this trend.



During recent decades, the logistics sector has evolved from a set of pure transport and storage processes into a global network of production and distribution centres.



Property trends

The Covid-19 pandemic has influenced the property markets considerably over the past financial year and created a great deal of uncertainty. It can be assumed that this uncertainty will persist for some time to come. However, we are confident that the property markets will normalise again as soon as the economy returns to its usual rate of growth. Ultimately, the demand for property remains intact.

Individual asset classes will perform differently in the years ahead, however. Yet these differences are not so much a result of the pandemic than an expression of trends that emerged some time ago and merely gained momentum as a result of the Covid-19 crisis.

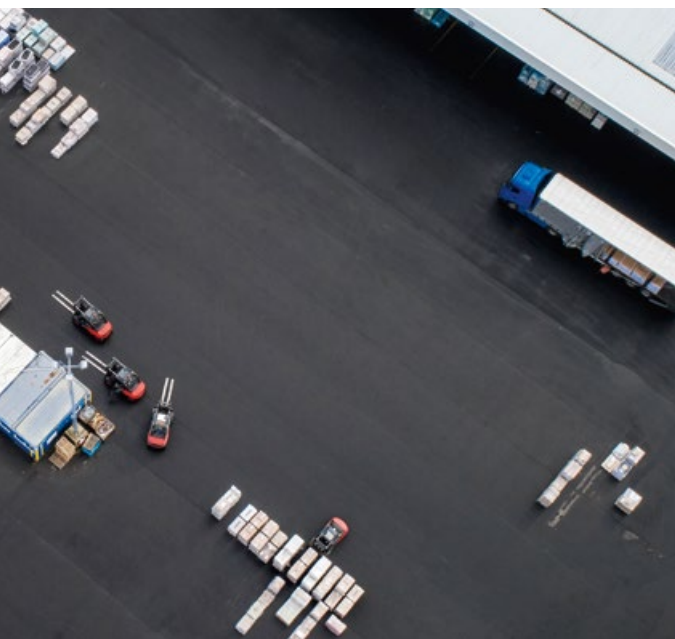
Logistics is a growth market with great potential. As such, the logistics sector will continue to play a decisive role in shaping the economy in the future. That means rising demand for logistics properties – especially those that are centrally located with good infrastructure. The rising demand is also being met with a limited supply of space, creating attractive growth prospects for investors.

Even though **hotel properties** were hit hardest by the coronavirus pandemic, in terms of occupancy, they remain amongst the most sought-after investment asset classes. We do not believe that this is a structural crisis. In the future, we will once again travel and take advantage of the services of hotels. That is why hotels are amongst the properties that will recover the fastest once the economy normalises.



“Our strategy in the Structured Property Financing segment is in touch with these trends on the property markets. We will continue to implement our financing policy – which was conservative to begin with – and focus predominantly on first-class assets and professional clients, and a broadly diversified and sustainable portfolio in our financing projects.”

Severin Schöttmer
Managing Director Special Property
Finance, Aareal Bank



A video clip in our Online Annual Report showcases what makes us special when it comes to financing logistics properties.



An information chart in the Online Annual Report outlines key drivers for the logistics sector.



Expert dialogue:
Prof Dr Kerstin Hennig (EBS) and Severin Schöttmer (Aareal Bank) discuss trends on the property markets.

Prime properties in very good locations continue to offer opportunities.

In the **retail** asset class, the Covid-19 pandemic has acted as a catalyst, accelerating changes that had been emerging for quite some time, particularly due to e-commerce. Once the coronavirus pandemic has been overcome, consumers will once again focus on professionally managed, prime brick-and-mortar retail properties offering an experience in top locations. Hence, this segment will continue to hold opportunities.

Office buildings have experienced many changes. The lines between “life”, “home” and “work” are being increasingly blurred, creating new challenges for office buildings. Properties with future-proof designs in attractive locations continue to offer strong potential in this asset class.

Artificial intelligence

Artificial intelligence (AI), along with blockchain technologies, is one of the key future technologies within the financial services industry. In combination with structured data analysis, it presents banks with numerous different possibilities to unlock new revenue streams and provide even better quality services at a lower cost.

We see a variety of different application areas for AI: it can help to increase efficiency, improve risk management, support lending decisions, identify new findings about sectors and markets and enhance how our products and services perform. That is why we are already employing certain smart tools that use AI technology, especially with regard to clustering and structuring large amounts of data.

To take advantage of the vast array of opportunities, we have been working with a range of AI experts for several years, including our partnership with Rocketloop, a start-up specialising in individual machine learning and AI. As part of our collaboration, we developed an innovative news crawler in 2020 that scans available property markets information on the web and provides it, bundled with different analysis tools, to our Credit Risk department. We are currently using this AI tool to help support our retail property financing activities in the UK.



“There’s hardly any issue that will have a bigger impact on both FinTech companies and the established financial sector over the next several years as data. To be able to develop application areas and ultimately business models based on that, we need to stop siloed thinking and act in a coordinated fashion as a whole company. That is the foundation for AI’s success.”

Dr Sebastian Schäfer
Managing Director, TechQuartier
and Co-Initiator of the Financial Big
Data Cluster



“For us, Neela’s added value is not a purely cost-related consideration. We want to use her to boost our brand – to provide a better, wider-ranging service for tenants and offer a customer touch point far superior to the norm.”

Pernilla Fröden
IT Business Developer,
Stena Fastigheter



Driven by continuous technological innovation, the requirements for modern IT infrastructure keep rising.

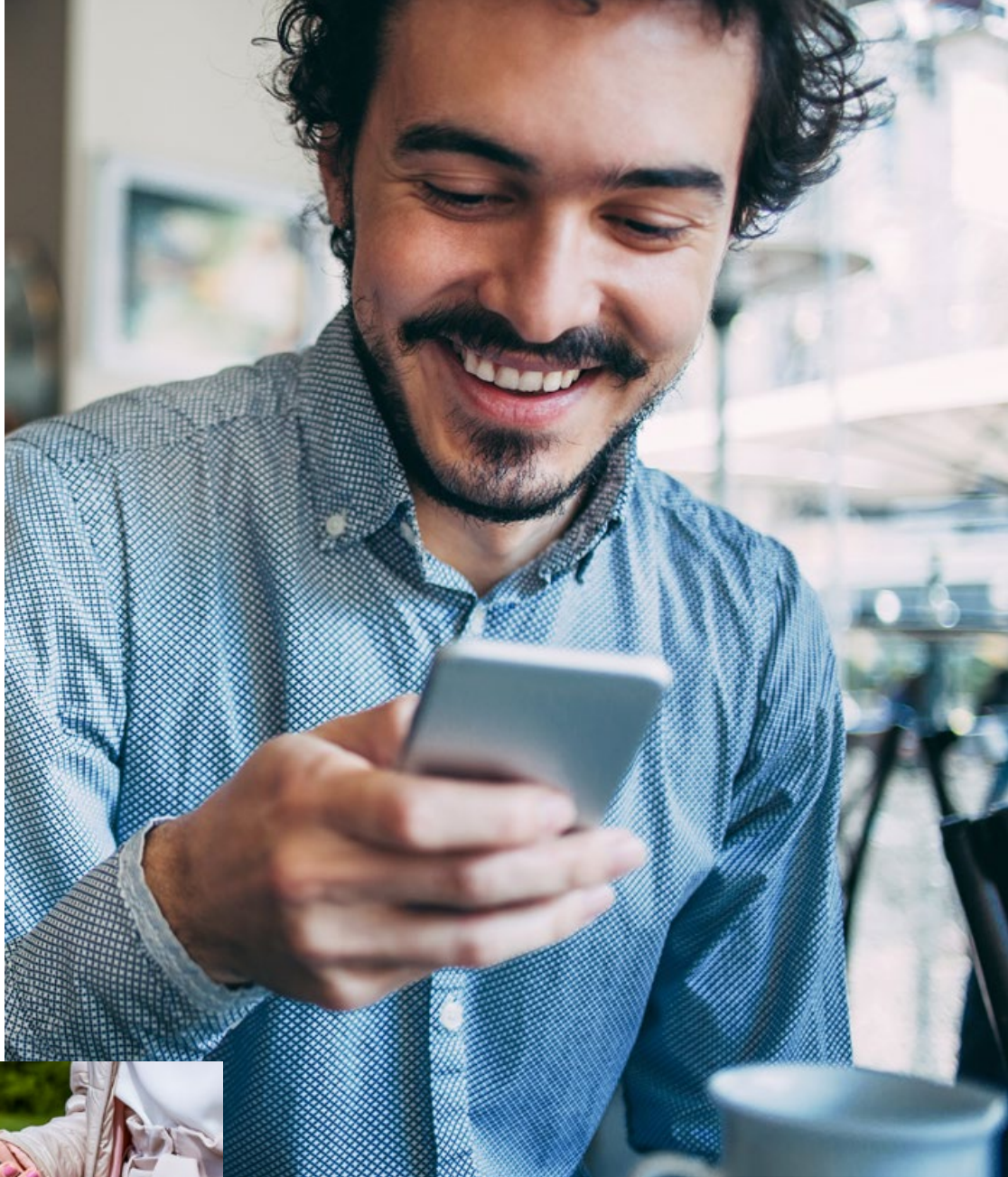
At present we are prioritising other potential applications for AI and are adapting our existing data architecture. At the same time, we are constantly developing our IT infrastructure through targeted sub-projects so that it not only provides the appropriate performance level and flexibility for AI solutions to be widely used, but also so that it can live up to the needs of a modern banking IT landscape overall. It is just as important, however, that our employees have the right mindset and the necessary qualifications. That is why we will be tailoring staff development and collaborations with technology partners in this area in the years to come.

In 2020, Aareon's AI-based virtual assistant Neela was introduced to the market. As part of the initial launch phase, Neela was introduced as a chatbot. The functionality enables property companies in particular to automatically answer their clients' frequently asked questions. The benefits: clients can get answers quickly and conveniently, employees are freed up by not having to answer frequently asked questions and therefore have more time for complex issues.

In
2020
Aareon's AI-based virtual assistant Neela was introduced to the market.



A brief audio clip in our Online Annual Report summarises our cooperation with e-mobility platform provider smartlab (in German only).



As e-mobility gains in importance, the focus is increasingly on efficient settlement of payments to different charging point providers – with the goal of offering maximum convenience to end-customers.

“We entered into a pioneering partnership with Aareal Bank that we can thank for making client processes considerably more efficient. Customers are left with minimum effort and costs, and we are able to focus on our core expertise, i.e. developing services surrounding e-mobility for municipal utilities and business partners.”



Dr Mark Steffen Walcher
Managing Director,
smartlab

Platform economy

Over the past several years, platform companies have been amongst the fastest growing enterprises. Their business model is based primarily on making selling, buying or creating products and services simpler and bringing together market participants on a platform. These platforms, which become more attractive the more offerings and users they unite, are becoming more successful in the financial services sector as well as the property and housing industry.

Aareon is a pioneer in the provision of B2B platforms for the property sector. Roughly 20 years ago, Mareon was launched as a way to connect property companies and tradespeople and Mieter Portal has been on the market for over five years. Aareon Smart Platform was introduced in 2019: as an open platform, this allows clients and partners to develop solutions and transfer them into Aareon Smart World.

Aareal Exchange & Payment Platform is Aareal Bank Group's trail-blazing platform solution. The focus of this B2B platform solution is optimising processes between housing companies and different payment services. With its help, payments in the property and housing industry can be transacted on one common platform using internet-based payment methods Barzahlen/viacash, PayPal or credit cards in addition to traditional options like cash, bank transfers or direct debit. The central integration of different payment services into the underlying ERP processes efficiently allows to pay for various housing services using alternative payment methods, which means housing companies can expand the range of services they offer to their tenants. Surveys very clearly indicate growing demand and expectation for these payment services in the property and housing sectors.

In addition, with Aareal Connected Payments, we partnered with the platform provider smartlab to develop an automated invoicing procedure which is initially being used in the e-mobility arena. The procedure makes it easier to manage the invoices for complex payment flows between different partners, so-called multi-party payments, on a shared platform. Aareal Connected Payments is used on the ladenetz.de platform. It enables electric car owners to charge their vehicles with a single charging card across Germany and makes it possible for the more than 220 connected municipal utilities to automatically and simply settle accounts amongst themselves.



Discover our info chart on the future of payments in our Online Annual Report (in German only).



“Customers want to have a range of simple and secure payment methods when it comes to paying their rent too. Integrating PayPal into the Aareal Exchange & Payment Platform enables companies to connect with more than 370 million PayPal clients worldwide and offer their clients the option of paying the way they want to.”

Christina Moritz
Director Sales, Paypal Germany,
Austria and Switzerland



“Sometimes, it is necessary to be able to integrate new solutions quickly. That's precisely what the Aareon Smart Platform makes possible. It enables us to add value for our customers and their partners; and we derive benefit too from using the service ourselves and being able to enhance the loyalty of our customers.”

Hervé Cliquet
Manager Digital Platform & Innovation
Lab, Aareon France

Cooperation as a



driver of success

CLIENT FOCUS

No success without cooperation – whether in the form of dialogue rooted in partnership, co-creation, intensive communication with start-ups, or in many other ways.



Never before have industries undergone such a rapid transformation process as today. Within just a few decades, entire sectors have changed radically and profoundly. In this process, not only have new business models and providers emerged, but the needs and expectations of clients have also changed at a swift pace.

We believe that in an increasingly digitalised world that is constantly presenting new opportunities and perspectives, it is no longer enough for a company to merely anticipate needs and expectations to remain viable. Rather, it is necessary to place clients' success at the centre of the Company's business activities, and enhance clients' competitive edge for the long term. To underscore this challenge, we evolved our brand in 2020 and defined a new brand claim: "Aareal – Your Competitive Advantage."



"Within a few weeks, after a host of different Covid-19-related global restrictions were introduced in mid-March, we had worked with our clients to formulate short-term strategies for dealing with the exceptional situation. By engaging in a regular and frequent dialogue with our clients, we can adjust these strategies together to adapt to constantly changing conditions. This measure helped considerably to stabilise the situation – and at the same time fostered a long-term relationship based on trust between Aareal Bank and its clients."

Bettina Graef-Parker
Managing Director Special Property
Finance, Aareal Bank

We are now closely looking at:

- how we can expand individual dialogue with our clients, and bring our partnership-based approach more fully to bear,
- when and how we can get creative in collaboration with our clients and what the success factors are in this respect, and
- how we get inspired to develop new products and services while simultaneously securing new markets.

A dialogue rooted in partnership

We see it as our calling to be a partner to our clients. We leverage our comprehensive expertise and experience, and our broad range of services, with the objective of offering our clients the best possible services for their long-term competitive edge. We do not see ourselves merely as a provider of products and services, but rather as a company whose pioneering solutions mean we serve as an advisor, guide and facilitator for our clients.

That is why we believe it is so important to understand market connections, think in a cross-sector way and put ourselves in our client's position to understand the challenges they are facing. As such, we maintain in-house expert teams for logistics, shopping centre and hotel financings in our Structured Property Financing segment. These expert teams provide us with valuable market insights that we can take advantage of to add value for our clients.

“Naturally, we want to stand by our clients' sides, particularly during challenging times,” says Steffen Bruns, Managing Director Business Development & Strategy at Aareal Bank. “Because that's when one needs powerful partners the most. That is why, for example, we approached our clients in the Structured Property Financing segment shortly after the outbreak of the Covid-19 crisis to discuss their particular situations and, where necessary, show them what options they had.”



Management Board member Christof Winkelmann describes how clients benefit from our special sector expertise in a video interview, to be found in our Online Annual Report.



“Despite all the turmoil that 2020 brought there were some successes. Probably our company's biggest achievement was the € 380 million portfolio financing with Aareal Bank. We don't believe it would have been possible without the shared trust and sense of partnership that our respective organisations have built over the years. Thank you to the entire Aareal Team!”

Dominic Seyrling
Director – Investments,
Archer Hotel Capital

Our teams of experts provide advice for all our financing projects – on an equal footing and in a spirit of partnership.





1
Week

650
Participants

26
Experts

11
Sessions



WE.thinkfuture



We have made a short film that summarises the key findings of our WE.thinkfuture 2020 digital conference, which can be found in our Online Annual Report.



Stefan Rohmann from our Human Resources department and IT application specialist **Phil Rüdiger** agree: nothing is more constructive than direct dialogue.

It is also important to us to spark ideas and contribute to a deeper exchange between players. That applies especially to clients from the housing and energy sectors that we provide services to in the Banking & Digital Solutions segment, and at Aareon. Which is why we launched the WE.thinkfuture initiative in 2020. Its aim is to establish a cross-sector dialogue that connects the housing and energy industries, fosters innovation and exchanges with start-ups, identifies change processes at an early stage and actively influences the future. One of the central facets of this work is the client as a driver of innovation.

The feedback that we received from this initiative has been very positive. Over the course of a week, more than 650 participants and 26 experts considered future challenges and current trends in 11 sessions: from the prevailing tension between the drive to innovate and cost pressure, to success factors such as networking and the willingness to cooperate, to the significance of an infrastructure approach that starts small but is aimed at comprehensive framework solutions that propel the development of e-mobility or smart districts. We set a discussion about the future in motion that we will continue and develop in the years to come.

Co-creation

Clients know best what they want. And increasingly, they demand products and services that meet their individual expectations. That is why it simply makes sense to involve clients in the product development process early on, and to systematically take into account their needs and expectations during the design phase of a solution.

We rely on the co-creation approach when developing new products and services, particularly in our Banking & Digital Solutions and Aareon segments, and increasingly so. This entails, for example, using agile, iterative and client-centred methods, such as design thinking.

A good example is Aareon's development of Wodis Yuneo. Wodis Yuneo is the new product generation of the Wodis Sigma ERP system which enables the use of new technologies such as business intelligence, artificial intelligence, big data and robotics. This makes it possible to automate a lot of routine tasks, give users tips and recommendations and make use of intelligent tools and analytics components.

By involving users in many of the product development stages, an ERP system was developed that accommodates a diverse range of different needs. Users can personalise their cockpits and individually tailor how they navigate the system, for example by using a mouse, keyboard, touchscreen or voice commands. Wodis Yuneo also answers users' demands for greater flexibility. Users will be able to access all the data at any time, whether at the office, when working from home or using mobile devices; the ERP system can be run as a Software-as-a-Service (SaaS) solution, or as an inhouse solution. Thanks to the way it seamlessly communicates with BK01, the leading process for payment transactions for the housing sector, users can use Wodis Yuneo to automate their mass payments.



For more information on Wodis Yuneo, please refer to the video in our Online Annual Report (in German only).



“Wodis Yuneo will inspire many employees to embrace innovation. This is precisely the sort of momentum required for the implementation of what can be complex digitalisation processes in the company.”

Ulf Momsen

Authorised Officer (Prokurist),
Flensburger Arbeiter-Bauverein



“With Aareon Wodis Yuneo, we have expanded the ERP system to efficiently meet the challenges of the industry with modern technology. It is a dynamic product that we will continue to develop in collaboration with our clients. That will ensure that it is future-proof and a safe investment for property companies for the long term.”

Dr André Rasquin

Chief Operations Officer, Aareon



Young companies are often creative, agile, and very open to technological innovation, which is why we are also targeting collaborations with start-ups.

We followed a similar co-creation approach when developing Aareal Meter. Aareal Meter will help companies from the energy and housing industries as well as municipalities and other involved service providers to digitalise meter readings, thus boosting efficiency in what used to be a time-consuming and error-prone exercise to date. This solution emerged as a result of a strategic collaboration between Aareal Bank Group and pixolus, a start-up specialised in mobile data collection, and from systematically incorporating client requests in every major phase of product development. This constellation and the use of one of pixolus's existing products as a starting point meant that a shared

idea became a market-ready product within twelve months, and it is already being used by the first customers.

Cooperations with start-ups

In the search for new ideas and innovative approaches, we are also looking to give a leg up to younger companies. They often have the courage and creativity to radically challenge established business models and to test the potential of the latest technologies. In addition, start-up companies generally exhibit a highly agile corporate culture that enables comparatively fast product development timelines.

With our start-up programme, we are targeting different types of collaborations with FinTechs, PropTechs and other start-ups. We are supporting accelerator programmes, entering into cooperations with start-ups and investing in young promising companies, and the Aareon subsidiary Ampolon Ventures is founding its own start-ups.

The goal of these activities is to better understand what drives digital development and how trends can be translated into pioneering solutions. We want to further enhance our innovative force and offer our clients the greatest added value. It is also important to us that we challenge ourselves, and question how future-proof our culture and our processes are.

In our collaborations with PropTechs and FinTechs, which increasingly are turning into important industry experts, it is vital to be intellectually invested. We deliver sector know-how, provide infrastructure and contribute our contacts to the partnership. This is due to our conviction that sometimes the decisive innovative spark is just a collaboration away.

We have high expectations for our most recent investment in objego; objego specialises in the development and operation of a web-based digital platform for managing property portfolios for private landlords of up to 250 units. With the joint venture in objego and the associated partnership with the energy service provider ista, we are not only driving the expansion of our software solution-based product offering, but also expanding into new markets such as the B2C business for private landlords. Our investment in objego is an expression of our strategy to steadily grow our product and service offering in the Banking & Digital Solutions segment, to close attractive market gaps and increase commission income.



Expert dialogue:
Philip Rodowski (objego) and Henning Zander (Aareal Bank) discuss the success factors for a start-up collaboration.



“Innovation is not something new but it is getting more complex every day. Collaboration needs, more than ever, to be intrinsic within a corporation’s strategy and cultural mindset. Banks shouldn’t be trying to conquer the market by themselves, instead, finding the right partner for it is essential either with a start-up, scale-up, SME, or another corporation.”

Fernando Zornig
Director, Plug and Play



“As a young and innovative company in the property segment, our goal is to develop ventures with trailblazing solutions. With Ophigo, foxxbee and Ecaria, we are involved in three ventures with future potential.”

Arash Houshmand
Managing Director, Ampolon Ventures



INTEGRITY

Responsibility is not a
buzz

Ethics and yield are closely linked. Long-term success is only open to those treating humans and nature with respect.

A professional portrait of Frederick Schöning, a middle-aged man with a goatee and glasses, wearing a grey blazer and a light blue shirt. He is sitting in a chair, looking directly at the camera. The background shows a window with a view of a modern building and greenery. The word "word" is overlaid in large white letters across the bottom half of the image.

word

Frederick Schöning
Managing Director, Transaction
Legal & Operations, Aareal Bank



Running a business means assuming responsibility, for society, the environment, employees, and owners. Today, in a world that is increasingly interconnected, this is truer than ever. That is why the requirements for an effective integrity and risk culture and corresponding incentive and sanctions mechanisms have significantly increased in recent years.

For many years, our Code of Conduct has been the foundation of our business practices. The Code of Conduct sets out binding rules for legal and ethical conduct, and defines our fundamental understanding of how we work together, corporate and social responsibility, as well as fair employment and working conditions. At the same time, the Code of Conduct serves as the basis for many other policies and measures at our Company to help ensure that we conduct ourselves in a way that is ethically and morally right. This includes safeguarding fair working conditions and respecting human rights.

Our Code of Conduct is the foundation of our business practices.

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

To continue to meet the ever increasing requirements for upright conduct and integrity, we are currently working on:

- further strengthening our risk culture,
- connecting our ESG targets more strongly with our remuneration systems, and
- implementing our diversity values in our workforce by taking appropriate measures.

Risk culture

Banks live on trust. To retain this trust and prevent illegal or illegitimate business practices in the financial sector, regulators have made risk culture and reputational risk a top priority for all financial institutions. A company's risk culture is defined by four factors in particular: leadership culture, employee accountability, open communication/critical dialogue and appropriate incentives.

We are currently refining our approaches to all four of these factors. Over the past two years, we have revised and further fleshed out all of the relevant processes and underlying guidelines, for example by reviewing our Code of Conduct and preparing Human Rights Guidelines. Furthermore, risk culture has been added to the Group strategy as a key element and made an objective for all members of the Management Board.



“In 2020, Aareal Bank ranked first among MDAX companies in the DVFA Scorecard for Corporate Governance and came in third in the overall ranking. In our communications with shareholders, we rely on transparency and plausibility. This recognition motivates us to continue with our efforts for good corporate governance.”

Holger Lehen
Remuneration Officer, Corporate Lawyer
Corporate Affairs, Aareal Bank

Risk culture



Management culture (tone from the top)

- Management Board and senior management as role models
- Clear communication of Company values

Accountability of employees



- Code of Conduct in accordance with section AT 5, no. 3 of the MaRisk
- All members of staff are responsible for implementing the risk culture within the scope of their duties



Effective communication and challenge

- Open dialogue, across all levels of hierarchy
- Ongoing development of an error culture
- Bi-directional communications – ‘top-down’ and ‘bottom-up’

Appropriate incentives



- Encourage employees' orientation on the risk culture
- Create appropriate material and non-material incentives

An adequate risk culture provides a key foundation for executives and employees to deal with company-specific risks in an appropriate manner.

Sevan Ghazarian
Solution Architect,
Banking Transformation – Business
Analytics & Pro-
jects, Areal Bank

Julia Issel
Lead Consultant,
Banking Transfor-
mation – Business
Analytics & Pro-
jects, Areal Bank

Carolin Kuhaupt
SAP-Consultant,
Banking Opera-
tions – Business
Applications,
Areal Bank

Zaman Kakhki
Business Consultant,
Banking Transformation –
Business Analytics &
Projects, Areal Bank

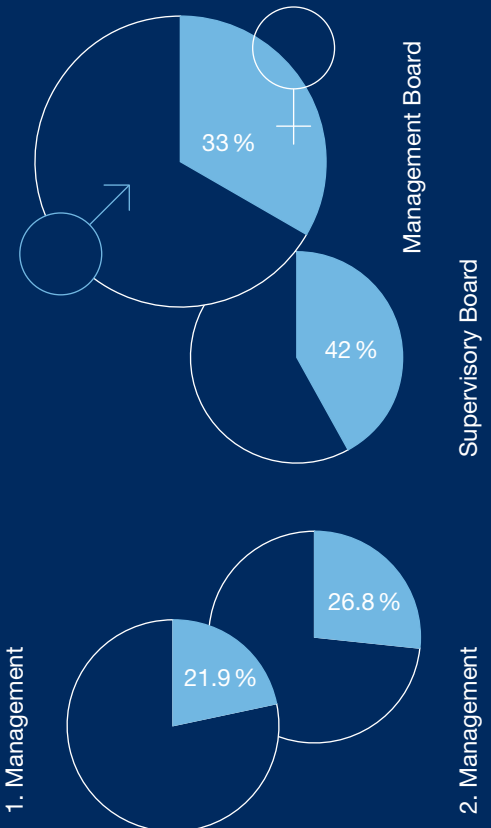
We rely on people who want to get involved, and who contribute a variety of skills and experience.

We are also looking closely into the question of how we can further improve the way we review, measure and then tailor how we strengthen our risk culture. At the same time, we are working on using different event formats to raise awareness amongst our executives and employees about the heightened requirements surrounding our risk culture and to align questions of integrity with our process of cultural change.

Setting ESG targets

Studies and experience have demonstrated time and again: people are particularly motivated to pursue targets, and to do so systematically, if these targets are linked to a variable remuneration component. Target-based variable remuneration not only provides those responsible with a clear orientation framework and incentives, it also has powerful management and steering implications. Furthermore, this type of target setting shows the importance that is attributed to certain targets in a company.

Because the significance of ESG targets is increasing in our industry, we have decided to take a first step towards systematically anchoring ESG criteria in our Management Board remuneration. To this end, our Management Board remuneration system was refined in 2020 and will be presented to our shareholders for adoption at the next Annual General Meeting.



Going forward, our Annual Report will include the specific ESG targets influencing our Management Board remuneration, together with other parameters. The targets we choose are clearly defined and measurable. To measure and monitor target achievement, KPIs are determined annually for the targets, and their degree of achievement is assessed at the end of the financial year.

As part of our ESG@Aareal initiative, we are currently developing a system of ESG indicators that build upon each other for our Group, analysing our stakeholders' expectations, and the regulatory changes that are becoming apparent with regard to our sustainability performance. The formulated KPIs serve as the foundation for effectively and comprehensively embedding ESG targets in our executives' variable remuneration.

Diversity

The Boston Consulting Group has spoken: Aareal Bank Group is a diverse company. For years, we have been at the top end of the consultancy's Gender Diversity Index, ranking first in 2019 and second in 2020.

The main reason behind our strong performance is our high share of women at the executive level: on our Management Board, one in three members is female and on our Supervisory Board 42 per cent are women. On the first management level below the Management Board, 21.9 per cent of managers are women. On the second management level, this share rises to 26.8 per cent.



“The refined remuneration system for the Management Board of Aareal Bank acts as an incentive for aligning the Group’s development more closely with long-term sustainable criteria. A major change in the remuneration system is that sustainability criteria are better integrated with compensation to reflect the growing importance of ESG issues.”

Marija Korsch

Chairman of the Supervisory Board,
Aareal Bank



“I highly appreciate the many options Aareal Bank has offered me to help coordinate work and family, including flexible working hours and part-time arrangements, various work-from-home models, support with day care, or a parent-child office.”

Annette Koriath

Director Finance & Controlling – Financial
Instruments, Aareal Bank



Constructive cooperation and a strong team spirit are what drives successful teams. This is the only way to achieve top performance – regardless of whether you're working at a desk or in our staff restaurant.

“What could be more sustainable in HR than hiring and promoting young talent? In 2020, almost half of all hires at Areal Bank were young talents. I am one of them and I think it's great that I am being supported in my development and that Areal Bank is recognising the value of investing in young talent.”



Stefanie Schweitzer
Assistant Manager
Group Human Resources
& Infrastructure – Center
of Expertise, Areal Bank

There is a positive correlation between diversity and innovation.

For us, however, diversity does not end with gender. We believe it is important to tackle the wide-ranging challenges we have to meet with wide-ranging experiences and perspectives. We are active internationally – we need international teams. We aim to offer comprehensive consultancy – we need employees from different age groups. We offer a broad range of services – we need employees who bring different professional, personal and cultural backgrounds to the table.

Studies have shown time and again There is a positive correlation between diversity and innovation. In particular where the tasks at hand are complex, such as sustainable or digital transformation, heterogeneous teams are more successful than their homogeneous counterparts because they come up with more and better solutions. And for truly fresh ideas to come into being, people with different ways of life and experiences need to join forces to develop solutions.

Against this background, we are committed not only to paying attention to diversity when recruiting and developing talent, but to setting up our operational processes in such a way that we succeed in including different personalities. Our managers play an important role in this – it is their job to transform people with different experiences and profiles into a powerful team. Going forward, we will pay even closer attention to how successful our managers are at doing so. At the same time, we are offering numerous measures for flexible working arrangements to facilitate reconciling work and family needs, supporting our employees whatever their life situation is. We consider diversity management a core discipline of future-oriented human resources management, and as a key success factor in further expanding our market position.



“The capital markets have responded very well to our diversity efforts at Aareal Bank Group. In 2020, we joined the Bloomberg Gender Equality Index. This index is limited to only 325 companies from around the world that exceed a globally established threshold defined by Bloomberg to measure gender equality in five areas: female leadership and talent pipeline, equal pay and gender pay parity, inclusive culture, sexual harassment policies and pro-women brand.”

Jürgen Junginger
Managing Director Investor
Relations, Aareal Bank

RISK MANAGEMENT

Con

trolled



Seizing opportunities – without losing sight of the risks. The more complex the world becomes, the more efficient risk management must be.

The ability to correctly identify, assess and manage risk is one of the most important foundations of our business model. For many years, we have pursued a conservative risk policy, ensuring a clear, sustainable risk culture. Over the past two years, we successfully implemented an accelerated de-risking programme, which we will continue, on a selective basis, in 2021, in order to further enhance the Bank's stability – not least due to the impact of the Covid-19 pandemic.

often

Risk management requirements have increased considerably for banks over the last several years. A number of different market and technology trends have contributed to this, as well as a variety of laws, regulations and administrative rules. The challenge in all of this is not only that the number of possible risks has increased, but also the interdependencies, the volatility of the risk situation and the usability of available data and information.

That is why our risk management is constantly evolving and we are increasingly using automated processes for identifying and evaluating risks to efficiently collect data and allow analysts more time to assess risks. Alongside implementing current and upcoming regulatory requirements, right now we are especially concerned with how we can expand our risk management to include factors that are relevant in the context of ESG.

Integration of ESG risks

The growing importance of ESG topics for the financial services sector holds manifold opportunities, yet also involves risks. Banks therefore need to analyse ESG risks holistically and integrate them into their risk management framework. By this we mean things like the drivers of regulatory risk that create and/or increase established risks in our business.

As part of our ESG@Aareal project we are currently building a high-performance ESG risk management system. The aim of these activities is to systematically integrate ESG considerations into our risk strategy and risk processes, methods and instruments, and to develop an ESG risk management framework. To do this, we analysed the status quo over the past

si
ve

financial year, defined ambition levels and derived measures to be taken from these.

We are currently working to develop a risk governance policy defining the relevant responsibilities, as well as transitioning to the implementation phase, and documenting the results in an ESG manual.

We determined the relevant ESG risk factors for Aareal Bank Group back in 2019, in a Group-wide initiative that used a combination of a bottom-up and a top-down approach. After that, we compared the results of these two perspectives so as ensure that we have identified all ESG risk factors impacting our existing risk types as comprehensively as possible.



ESG risk categories



We consider the relevant ESG risk categories to be (physical) climate risks, changes in stakeholder requirements, competitive and market pressure, business ethics and compliance, and uncertainty regarding ESG regulations relating to Aareal Bank Group. They affect our credit risks in particular, but also our strategic and operational risks.



Expert dialogue:
Matthias Arnheiter (Head of Corporate Strategy at Berlin Hyp) and Christoph Reitze (Aareal Bank) discuss the challenges and solutions of integrating ESG into business strategy and risk management.



“To analyse climate and environmental risks, we rely primarily on scenario analyses and stress tests. As part of ESG@Aareal, we are currently developing a stress scenario that takes into account the relevant physical and transitory climate risks for Aareal’s portfolio.”

Ronny Hahn
 Managing Director Risk Controlling,
 Aareal Bank



“Comprehensively dealing with ESG risk leads to new perspectives on known risks and the complex context of their causes and effects. Effectively managing ESG risks therefore requires a holistic approach across every area of the bank.”

Prof Dr Thomas Kaiser
 House of Finance,
 Goethe-Universität Frankfurt



Threats often lurk where you cannot directly see them. This is why forward-looking and effective risk management is indispensable, especially for banks.





Dr Kirsten Appel, General Counsel,
Corporate Affairs – Legal, Aareal Bank



Dominik Brieler, Managing Director, plusForta



Michele Cleland, Assistant Manager Group
Technology, Aareal Bank



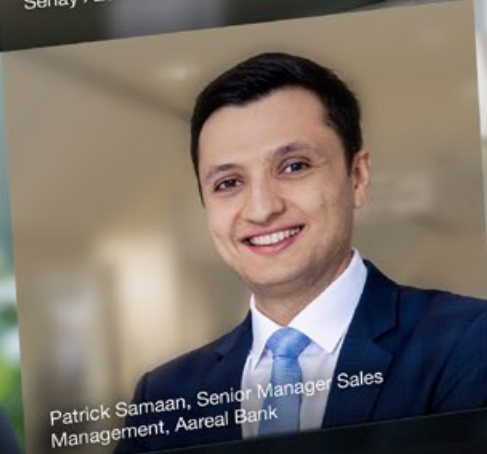
Manfred Over, Director Real Estate
Investment Consulting, Aareal Bank



Senay Azak-Matt, Director Second Line of Defence, Aareal Bank



Carolin Kuhaupt, SAP-Consultant, Banking
Operations – Business Applications, Aareal Bank

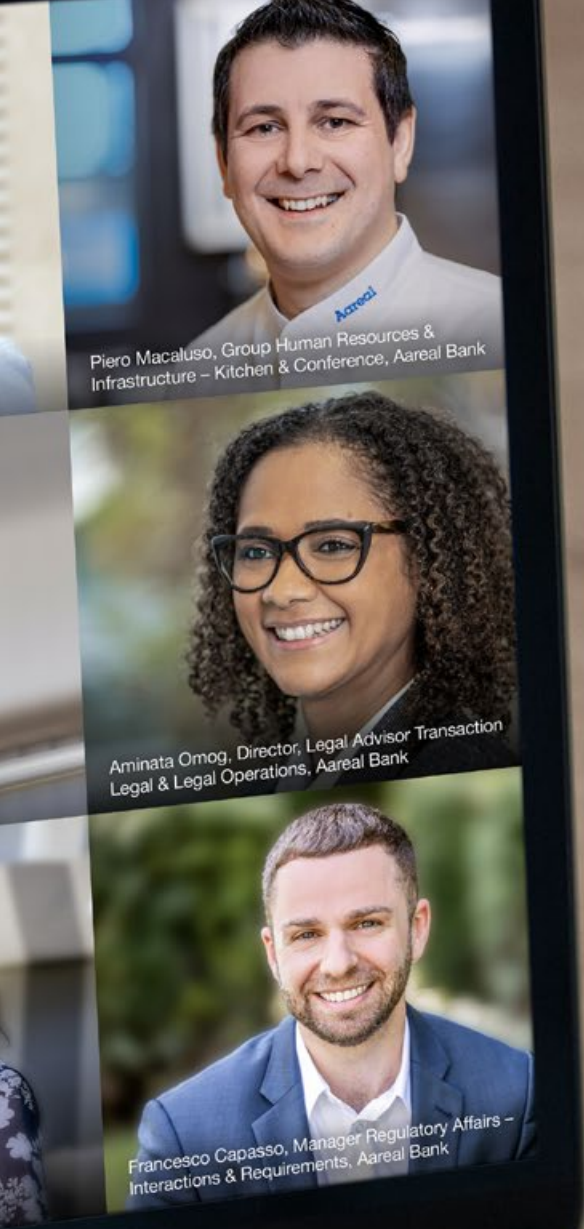


Patrick Samaan, Senior Manager Sales
Management, Aareal Bank



Dr Julia Körner, Company Lawyer,
Corporate Affairs-Legal, Aareal Bank





Piero Macaluso, Group Human Resources & Infrastructure – Kitchen & Conference, Aareal Bank

Aminata Omog, Director, Legal Advisor Transaction Legal & Legal Operations, Aareal Bank

Francesco Capasso, Manager Regulatory Affairs – Interactions & Requirements, Aareal Bank

AN ATTRACTIVE EMPLOYER

Living differently, working differently

Re-defining work. Aareal Bank not only addresses innovative working models and continuous learning – but also the issue of carbon emissions.

Working environments are changing fast, with new technologies opening up opportunities for collaboration and offering fresh perspectives to employers and employees. An open opportunity is a call to action, it needs to be seized – and seizing it requires the courage to embrace change, a mind open to new ways of working, and the willingness to keep learning.

Aareal Bank Group has taken its first steps into the workplace 4.0. Over the past years, we have adjusted our structures and processes, and aligned our working conditions with new working environments. At the same time, we have expanded our relevant training programmes and launched a process of continuous transformation.

We want to make even greater use of the potential that tomorrow's working environments hold. That is why we currently have a particular focus on the following themes:

- What opportunities do fresh, innovative forms of work offer us, and how do we want to make use of them?
- What are the environmental and social benefits to digital work?
- How can we meet the rising demand in continuing professional development, and which measures do we want to adopt for this?

An open opportunity is a call to action; it needs to be seized.

Modern forms of work

The way we work has developed rapidly over the past years and gained further momentum with the COVID-19 pandemic. This change has been driven to a significant extent by digitalisation: automated business processes, additional networking opportunities and new requirements for our staff – as well as their new expectations – are key results of the shifting work culture, adding to new working models such as agile working or work-life blending, the integration of work and life.

We are looking deep into the forms of work of tomorrow to be able to adapt and use them as quickly as possible, both in collaboration with our clients and within our own organisation. Against this background, our working environments keep evolving. This includes using new communication channels, expanding the digital



“I am convinced that hybrid working models will shape the workplace in the long term. We support our financial sector clients in the technological and cultural change that this requires to their organisation. In this effort, collaborative cloud-based solutions such as Microsoft Teams are key. They allow institutions such as Aareal Bank to react to changing requirements swiftly and flexibly.”

Christine Haupt
Chief Operating Officer,
Microsoft Germany





However, the horseshoe-shaped table setting is not yet entirely obsolete: increasingly, modern working spaces emerge which offer new opportunities for managers and employees alike to let their creative juices flow.



“The short-term roll-out of Microsoft Teams was due to the situation at the time. Microsoft Teams has since established itself as a key component to providing our employees with an expanding range of cloud-based digital workplace services across different devices, in particular MS Azure, and doing so in a future-proof way. At the same time, we are reducing our administrative IT workload.”

Mathias Magold
Director IT Services,
Aareal Bank

workplace and advancing our leadership culture. Modern spaces that foster new work and create room for new ideas provide further support in this respect. We are in a process of continuous transformation, raising awareness amongst our employees for the potential and opportunities of new work.

The COVID-19 pandemic has clearly shown that this strategy is successful. In a matter of days, the majority of our employees had to make the switch from their office to a home office and thanks to the structures for mobile work already in place, the move was successful within a very short period of time. In this, we benefitted from a highly flexible IT infrastructure; this flexibility will be expanded even further in the coming years.

31,000

Green Consulting days –
conducted digitally instead
of on-site.

Digital consulting reduces traffic and carbon emissions. This adds up, contributing to a sustainable society.



Green Consulting

Seizing the opportunities of digital working while helping the environment – our Aareon segment has wedded these two objectives in its “Green Consulting” offering. The principle behind it: by providing our IT consulting services online, we not only save on time and money as there is no need to travel, but we also save on carbon emissions.

Our clients have welcomed this offering with open arms, with more than 31,000 “Green Consulting” days being mandated by the end of 2020 – more than double the number of 2019.

Learning@Aareal

In a professional environment undergoing an ever-stronger transformation, lifelong learning is indispensable. In this context, it is not only about continuously acquiring new skills and qualifications. Good continuing professional development also means giving every employee the opportunity to develop at a personal, individual level.

This means that our new job training and CPD initiative Learning@Aareal does not follow a prescriptive approach; rather, it is based on personal initiative and lets our employees decide for themselves which areas they would like to focus on in their development. The starting point for this question is always their current role and function within the Company. Therefore, we have designed a skills matrix determining which expertise our employees should have in which position. The matrix forms the basis for Learning@Aareal, ensuring that every employee finds him-/herself in the programme, regardless of their individual needs.

New ways of learning in a multimedia setting allow Learning@Aareal to provide comprehensive and well-structured CPD offering. The programme includes a few dozen different learning methods. Increased usage of digital channels and so-called blended learning, which combines the benefits of in-person trainings and e-learning, allows for a high degree of flexibility: the online lessons available on the curated learning platform can be accessed from any location and at any time; users can take a break whenever they need and resume at the exact same spot. These are ideal conditions for our employees to be able to continue their education flexibly according to their needs.



Expert dialogue:
Christian Friedrich (Haufe Akademie) and Birgid Schlasius (Aareal Bank) discuss innovative methods in personnel qualification.



“The strong demand for our ‘Green Consulting’ online services underscores that our strategy is right.”

Thomas Lauer
 Director Consulting, Aareon



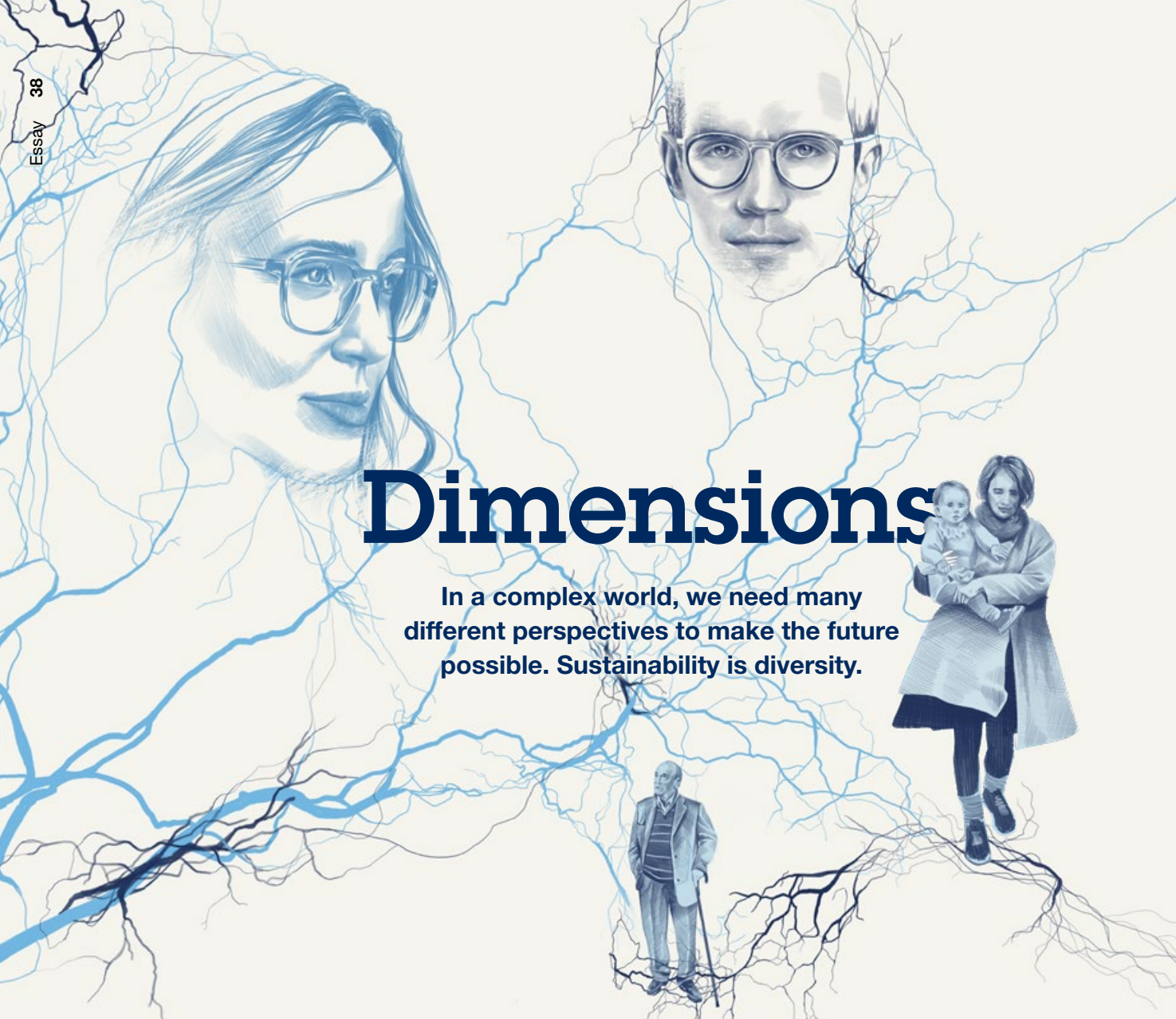
“We pay close attention to sustainability in all of our corporate activities. It’s nice to be supported in this by a partner such as Aareon.”

Elwira Meid
 Digitalisation Officer,
 Koblenzer Wohnungsbaugesellschaft



“Learning@Aareal supports employees in performing their current role through targeted learning offerings – 50 per cent of which are available in the digital realm – that are based on our corporate and HR strategy, as well as Aareal Bank’s USP.”

Jens Huchting
 Managing Director Group Human
 Resources & Infrastructure, Aareal Bank



Dimensions

In a complex world, we need many different perspectives to make the future possible. Sustainability is diversity.

What does one need to do to make tomorrow the best it can be? Since the Second World War, these are the sorts of questions that have occupied futurologues, future researchers and, above all, western nations that have grown affluent. The future had economic boom times, forged by man's will, but not nearly enough – everything needed to keep going that way forever, eternally more of the same – that was the plan for the consumer society of yesterday. And not without reason – many people had nothing or very little. Material needs determined the view of the future, and they still do today, certainly. But at that point, the affluent society was still in its infancy, it had yet to hit puberty, which happened politically, culturally and socially around 1968.

And tomorrow was an endless extension of the present, merely more of it. New perspectives – they were like the old viewpoints, only richer. Technicians and managers – people who were capable of generating wealth and organising it – were the model for the age.

But then people started to have doubts about the endless progression of more, and higher, faster. No, the point is not a mere critique of economic growth; it is not that simple. The point, in the transition to an information society – that is to say in the transformation we are currently in the midst of – is that the need for greater quantity gradually gave rise to the desire for greater quality, and increasingly often. Quality is a personal matter. People used to say, “our



Wolf Lotter
Business journalist
and book author

children should have it better,” and what they meant was more of what we did not have enough of. Of all the things parents want for their children today, they want them to be able to lead a successful life that suits them. The new perspective is human in the truest sense. It revolves around the individual, the most important resource of the information society, and of the 21st century.

What profession should one strive for? What about a forester? It sounds a little like running away, but maybe it is exactly the opposite. The forester can conceive of the whole picture – the wood – and the important detail – the tree – without contradiction. Foresters do not think in terms of uniformity, but rather in differentiation, not in one solution, but in the manifold. Foresters are experts at thinking in context. That is exactly what sustainability has to be in order for us to solve the problems of today and tomorrow.

Sustainability, originally a term from forestry, means that we not simply act, but also consider the repercussions of our actions. This does not mean eternal strife and indecision, quite the contrary. It is about the constructive doubt that the father of the Enlightenment, René Descartes, called “the beginning of wisdom”. Sustainability is not a managed economy. We do not know what will happen tomorrow, and we should not actually need to have a crisis like the pandemic behind us to know that.

Plans are justified, but in a world where complexity becomes the most important resource for innovation and problem solving, their strict limits are quite clear. Critically doubting what is should not distract us, but rather open the door to new possibilities. That is an important and fundamental principle of the Enlightenment and therefore also of the information society and its economy, which is part of that tradition. One must see the wood and the trees, and one must not fear the apparent thicket, its complexity, but rather use it, truly comb it. Because it is precisely at the point at which the future seems to be nothing but a threat that tremendous perspectives suddenly arise.

No, we do not know all of the answers to the questions about the problems of today and tomorrow, but we know about constructive doubt. Sustainable

thinking means that we prepare ourselves for discoveries and new perspectives as best as we can. We have to be capable of handling surprises, not simply working off a blueprint of the future drafted today. That will end in failure. What works is encountering the world with open eyes. Sustainable thinking means flexible thinking, critical questions, where something leads, what we do today, what we don't do – something lacking from a lot of discussions.

The principle of sustainable critical thinking is reflected in the term serendipity, which was coined by the American psychologist Robert Merton. Serendipity – it means something akin to happy coincidence. Columbus tries to find India, but lands in America. We make discoveries that improve our lives when we keep our eyes open, when we do not treat the thicket as an obstacle but rather as a resource for new ideas.

The forester in all of us, as we learn to understand and shape our information society, he knows: „coincidence favours the prepared mind.“ To put it another way, we prepare ourselves by being open to diversity, to the manifold, to complexity, to numerous alternative answers, to open critical questions so that we can recognise a discovery as such when we make it, and to not leave anything by the wayside. We see context when we have learned to see details, to see quality. Sustainability, critical thinking, it underpins differentiation and understanding context.

We are better able to make it in the world when we conceive of it in human proportions. The right sustainable perspective is not a highway into the future, but rather a network of roads and streets, a warren of paths and connections to what matters to people and to where the individual wants to go. The new perspective has open horizons. That is the very reason we find ourselves within it again. It is not a norm. And that is why it has human proportions.



Imprint

Contents:

Aareal Bank AG, Group Communications

Concept/Text editor Magazine “New perspectives”:

Commpark, Liederbach am Taunus

Concept/Design Magazine “New perspectives”:

LIGALUX GmbH, Hamburg

Concept/Design Digital Annual Report:

die firma . experience design GmbH, Wiesbaden

Layout Annual Report:

S/COMPANY · Die Markenagentur GmbH, Fulda

Photographs:

© istockphoto/CHUNYIP WONG (Cover);

Diversity Studio (p. 2, 4 + 5); shironosov (p. 6);

ollo (p. 6 + 7); baranozdemir (p. 9); stockfour (p. 9);

pixelfit (p. 10); Volodymyr Kalyniuk (p. 10);

nd3000 (p. 2, 12 + 13); nimis69 (p. 14); IGphotography
(p. 15); fizkes (p. 2 + 3, 16, 22, 32 + 33); stockfour (p. 18);

lechatnoir (p. 18); golero (p. 2, 20); Maryna Andriichenko
(p. 25); anyaberkut (p. 3, 28, 31); StockRocket

(p. 31); AvigatorPhotographer (p. 36)

© gettyimages/Alexander Spatari (p. 6)

© Adobe Stock/olezzo (p. 34 + 35)

© Andreas Schlote (p. 2 + 3, 21, 32 + 33)

© Sören Kunz (illustrations p. 7 + 8, 10 + 11, 14 + 15,
17, 19, 23, 25, 26 + 27, 30, 34 + 35, 37, 38 + 39)

© Carolin Kuhaupt (p. 16, 24)

© Jörg Puchmüller (p. 26)

© Aareal Bank AG (p. 35)

Aareal Bank AG

Investor Relations

Paulinenstraße 15 · 65189 Wiesbaden

Telefon: +49 611 348 3009

Fax: +49 611 348 2637

www.aareal-bank.com



**Aareal Bank
Group**

Aareal
YOUR COMPETITIVE ADVANTAGE.