

Remuneration Report for the 2022 financial year

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1. A review of the 2022 financial year	3	5. Adherence to maximum remuneration	21
1.1 Changes within the Management Board	3	6. Amount of remuneration in the reporting year	22
1.2 Changes within the Remuneration Control Committee	3	6.1 Target remuneration and allocation to remuneration components	22
1.3 New remuneration system for the Management Board as of 2023	3	6.2 Remuneration granted and owed (paid) in the reporting year	24
1.4 Performance in the 2022 financial year	5	7. Pensions	25
2. Management Board remuneration system applicable to the year 2022	5	7.1 Pension expenses	25
2.1 Appropriateness of the remuneration	7	7.2 Benefit payments made to former members of the Management Board	26
2.2 Remuneration structure	7	8. Remuneration system for members of the Supervisory Board	26
2.3 Fixed remuneration component	8	8.1 Fundamental principles	26
2.4 Performance-related variable remuneration	10	8.2 Supervisory Board remuneration in 2022	27
2.5 Deferred disbursement, through retention of variable remuneration components and virtual shares (phase 2)	13	9. Comparison of earnings performance and remuneration	28
2.6 Ex-post review of target achievement and behaviour of the Management Board members	15	10. Outlook	29
2.7 Payments made upon regular or early contract termination	15	Audit opinion	30
2.8 Deviations from the remuneration system	16		
3. Target achievement in the 2022 financial year	17		
3.1 Group performance targets 2022	17		
3.2 Outlook for 2023	18		
3.3 Divisional targets for 2022	18		
3.4 Individual targets for 2022	20		
3.5 Malus review, backtesting, clawback, risk-bearing capacity	20		
3.6 Other information	20		
4. (Virtual) shareholdings of Management Board members and share-based remuneration	21		

Remuneration Report

This Remuneration Report describes the remuneration for current and former members of the Management Board and Supervisory Board of Aareal Bank AG in accordance with section 162 of the German Public Limited Companies Act (Aktiengesetz – AktG). The Remuneration Report was reviewed by the auditors of Aareal Bank AG's annual financial statements, KPMG. KPMG also performed a substantive audit on this report extending beyond the requirements set out in section 162 (3) sentences 1 and 2 of the AktG. The report on the outcome of this audit is reproduced in full at the end of the Remuneration Report. The Remuneration Report of the previous year, also prepared in line with section 162 of the AktG, was submitted to the Annual General Meeting and approved by 99.43 % of the shareholders.

1. A review of the 2022 financial year

1.1 Changes within the Management Board

One change within the Management Board of Aareal Bank AG happened during the year under review.

Christiane Kunisch-Wolff stepped down from the Management Board at her own request, effective 30 June 2022. The Supervisory Board approved the early termination of her contract.

The Supervisory Board appointed Nina Babic as Chief Risk Officer, succeeding Ms Kunisch Wolff, effective 1 July 2022.

1.2 Changes within the Remuneration Control Committee

Aareal Bank's ordinary Annual General Meeting, which was held on 31 August 2022, elected six new members to the Supervisory Board, which had consequences for the composition of all Supervisory Board committees.

With Mr Hall, Mr Giesecke and Mr Lotter, three of the newly elected members joined the Remuneration Control Committee. Prof. Dr Wagner, as the Chair, together with the two employee representatives, Ms Heinemann-Specht and Mr Novatius, remained members of the Remuneration Control Committee, ensuring continuity of the Committee's work.

A detailed look at the changes:

Members of the Remuneration Control Committee

Until 31 August 2022	Since 31 August 2022
1. Prof. Dr Wagner (Chair)	1. Prof. Dr Wagner (Chair)
2. Ms Brendel (until 20 January 2022)	2. Mr Lotter (Deputy Chair)
3. Mr Munsberg (Deputy Chair) (since 20 January 2022)	3. Mr Giesecke
4. Mr Peters (Deputy Chair) (until 20 January 2022)	4. Mr Hall
5. Ms Heinemann-Specht*	5. Ms Heinemann-Specht*
6. Mr Novatius*	6. Mr Novatius*

* Employee representatives

1.3 New remuneration system for the Management Board as of 2023

Aareal Bank's revised remuneration system was approved by 99.26 % of the votes cast at the ordinary Annual General Meeting 2022 – meaning that it was adopted – and will be implemented from the 2023 financial year onwards.

With Mr Klösger's appointment as the Bank's new Chairman of the Management Board, some of the system's components already saw their implementation before the new remuneration system was adopted by the Annual General Meeting. The same applies to the service contract concluded with Ms Babic.

The new remuneration system for the Management Board, which recognises main points of criticism raised by the shareholders, is compared with the old remuneration system in the table below to highlight the changes.

		Remuneration system submitted to the ordinary AGM 2021 for approval	Revised remuneration system submitted to the ordinary AGM 2022 for approval	Rationale
Appropriateness of remuneration level	Peer group	All companies included in DAX, MDAX and SDAX	Companies which are comparable to Aareal Bank	Stronger focus on peer selection considering business segment, size, revenues, market capitalisation and remuneration structure requirements.
Structure of target remuneration	Weight of remuneration components within overall target remuneration ¹⁾	Base salary ~ 45 % Pension contribution ~15 % Target variable ~40 %	CEO: – Base salary ~ 46 % – Pension contribution ~8 % – Target variable ~46 % Ordinary Board members – Base salary ~52 % – Pension contribution ~8 % – Target variable ~40 %	The reduced pension contribution is in line with current market practice and addresses concerns of investors in Aareal Bank. The reduction of the CEO's base salary similarly reflects concerns by Aareal Bank's investors.
	Pension scheme	Guaranteed interest rate of 4 % p.a. In general, life-long pension payments	Fund-tied interest rate (no additional premium guarantee) In general, payout as a one-time payment	The revised approach was in line with market practice at that time, due to the low interest rate environment.
Performance criteria	Target structure	70 % Group targets 15 % Divisional targets 15 % Individual targets	70 % Group component 30 % Strategic component	Divisional targets and individual targets have been merged into one, thereby reducing complexity and making the remuneration system more easily comprehensible.
	Group component	The Supervisory Board may set targets based on Aareal Bank's performance indicators. In practice, Group performance was measured by linking the operating profit target achievement with the RWA target achievement	Four clearly outlined targets, one of them being an ESG component	Basing the Group component on four separate targets leads to a stronger consideration of the various expectations towards the performance of the Management Board and the entire Bank.
	Strategic component	Between two and four divisional targets, and up to two individual targets No specifics on the weight of the targets Catalogue of 22 potential performance criteria	Three strategic targets with equal weight, one of them being an ESG target Catalogue of three categories with potential performance criteria	The revision provides more clarity and reduces complexity.
	ESG targets	The individual component contains solely ESG targets	Incorporation of a separate ESG target within the Group component	A specific ESG component within the Group targets reflects the growing importance of ESG related aspects and emphasises the Bank's commitment to ESG.
	Modifier	In case of extraordinary events, the Supervisory Board may adjust the target achievement of the Group component by up to +/- 20 %	Abolishment of the modifier	The abolition further decreases the amount of discretion that the Supervisory Board has when assessing target achievement.
Further arrangements	Change-of-control clause	Service contracts may contain change-of-control provisions entitling Management Board members to severance payments	Future service contracts will not contain change-of-control provisions	The revision follows recent amendments to the German Corporate Governance Code.
	Maximum remuneration	The maximum remuneration in accordance with section 87a of the AktG is € 5.5 million.	The maximum remuneration in accordance with section 87a of the AktG is € 4.5 million.	The reduction follows revised remuneration levels.

¹⁾ Without ancillary benefits. Pension contribution based on annual pension contribution amount per service contract.

1.4 Performance in the 2022 financial year

The Bank can look back on a successful 2022 financial year in which it exceeded the targets it had set itself despite the negative impact of Russia's war of aggression against Ukraine and the after-effects of the Covid-19 pandemic.

The Bank not only boosted its net interest income and, as a result, its profitability significantly, it was even able to make a further improvement to its Common Equity Tier I ratio (CET1 ratio) at the same time. Overall, this put the Bank at the upper end of the forecast range and ahead of its ambitious plans. The starting position for sustainable and profitable growth was improved yet again in all segments.

This positive development is also based on the Management Board's strong management performance, which is why it is also reflected in the variable remuneration for 2022. The positive results also illustrate, in particular, that the Bank's management and employees have kept a firm focus on the Bank's business and profitability. This all was achieved even though the Bank received an unsolicited takeover bid, which was only successful in a second attempt.

2. Management Board remuneration system applicable to the year 2022

The following overview illustrates the fundamental principles of the Management Board remuneration system applied in 2022, i. e. the year under review. The new Management Board remuneration system adopted by the Annual General Meeting 2022 will be implemented from the 2023 financial year onwards.

	Description	Reference to strategy and long-term development
Fixed remuneration elements		
Fixed annual salary + ancillary benefits = basic remuneration	<ul style="list-style-type: none"> – Fixed contractually agreed remuneration in line with standard market conditions, paid monthly – Ancillary benefits in line with standard market conditions, in particular a company car that can also be used for private purposes or a lump-sum payment for members who decide against a company car; certain costs for security expenses, including the taxes and social security contributions payable on these amounts; (substitute) social security contribution corresponding to 50 % of the contributions due under the statutory social security scheme 	Guaranteeing the fixed income in the form of a fixed annual salary and ancillary benefits equivalent to scope and complexity of the business and the role and responsibility of the individual members of the Management Board, and competitive on the market.
Pension obligations	<ul style="list-style-type: none"> – Defined contribution commitment with guaranteed interest – Management Board members are entitled to pension payments when they reach a defined age. – In the event of permanent disability, Management Board members are entitled to benefit payments even before they reach this defined age. 	<p>Granting of pension commitments for financial security in retirement and protection in case of death and disability that are in line with market requirements.</p> <p>New features for newly appointed Management Board members, or members reappointed from 2021 onwards: The revised remuneration system, which was adopted by the ordinary Annual General Meeting 2022, provides for a defined contribution pension commitment with a fund index performance-based interest rate for newly appointed Management Board members, or members reappointed from 2021 onwards. Upon reaching the defined age, the Management Board members are entitled to a one-off lump-sum payment.</p>

	Description	Reference to strategy and long-term development
Variable remuneration elements	<ul style="list-style-type: none"> – Variable remuneration is determined via the achievement of targets derived from the business and risk strategies, and which are in line with Aareal Bank's corporate and risk culture. – Group (70%), divisional (15%) and individual (15%) targets – Group targets usually correspond to the financial KPIs used in the management system, while divisional and individual targets can include both financial and non-financial KPIs. – Performance measurement based on criteria whose achievement is determined over a three-year period – No discretionary component besides the targets derived from the strategy – Breakdown via four components (as per regulatory requirements) – At least 55% of variable remuneration is share-based – At least 80% is paid out on a deferred basis (20% as a share bonus with a retention period + 60% cash and share deferral) – Maximum overall target achievement level is capped at 150% of the target value – Variable remuneration cannot exceed fixed remuneration – No compensation is granted in the form of special bonuses extending over and above the components referred to above. 	<p>Calculation of variable remuneration on the basis of annual financial and non-financial performance criteria that promote the achievement of the strategic objectives.</p> <p>Provides incentives to Management Board members for implementing the business priorities of Aareal Bank and to act in the interest of the long-term and sustainable positive business development.</p> <p>Group performance targets account for 70% of overall target achievement, hence prioritising the entire Company's interest, including shareholder expectations.</p> <p>By granting the variable remuneration, Aareal Bank meets the regulatory requirements to which it is subject.</p> <p>New features as of 2023: The remuneration system adopted by the Annual General Meeting 2022 combines the previously separate divisional and individual targets into a uniform strategic component, thus enhancing the system's transparency.</p>
Other rules		
Risk-bearing capacity	<ul style="list-style-type: none"> – Before disbursing the variable remuneration, the Supervisory Board reviews it regarding its compatibility with the risk-bearing capacity. 	Disbursing variable remuneration is not meant to threaten Aareal Bank's financial solidity.
Malus and clawback	<ul style="list-style-type: none"> – All components of the variable remuneration are subject to malus and clawback provisions. – Admission of an adjustment to outstanding remuneration and/or clawback of remuneration already disbursed in case of clawback events. 	Within the meaning of responsible and sustainable corporate governance, and for the purpose of implementing the regulatory requirements, malus and clawback rules are a mandatory part of good corporate governance, which in turn is firmly enshrined in Aareal Bank's strategy.
Consideration of extraordinary developments	<ul style="list-style-type: none"> – (Modifier) adjustment of Group target achievement level by 20 percentage points possible in cases involving exogenous circumstances – In principle, no subsequent adjustments to remuneration targets, unless extraordinary developments result in the business strategy being adjusted during the year. 	<p>In order to ensure that the remuneration system provides incentives for the actual performance of the Management Board member with regard to the sustainable and long-term advancement of Aareal Bank Group, adjustments can be made subject to pre-defined and very restrictive conditions.</p> <p>New features as of 2023: The modifier is no longer included in the new Management Board remuneration system. This further restricts the extent to which the Supervisory Board can exercise discretionary judgement when defining the variable remuneration.</p>

	Description	Reference to strategy and long-term development
Maximum remuneration of € 5.5 million per Management Board member (within the meaning of section 87a of the AktG)	– Maximum expense amount for the financial year, which includes the fixed annual salary, variable remuneration elements (incl. the development of the virtual shares over the next six years), ancillary benefits and pension obligations (service cost). Severance payments are excluded from this amount as a non-standard remuneration component.	In order to define absolute values to ensure the proportionality of the amount of Management Board remuneration, the maximum remuneration sets a specific upper limit. This theoretical maximum value is based on a maximum possible target achievement level over the entire three-year assessment period and maximum share price performance. This means that the maximum remuneration can be clearly distinguished from the total target remuneration. New features as of 2023: Maximum remuneration has been reduced to € 4.5 million per Management Board member under the new Management Board remuneration system.

2.1 Appropriateness of the remuneration

A horizontal and vertical comparison is used to ensure that a Management Board member's remuneration is appropriate in terms of their tasks and performance and in terms of the Company's position.

The Supervisory Board took an in-depth look at the question as to which peer group should be used to review the appropriateness of the Management Board remuneration as part of the "horizontal comparison".

The previous Management Board remuneration system, which is still applicable for 2022, included all companies listed in the SDAX, MDAX and DAX in the Bank's peer group for comparison purposes. Many shareholders felt that this peer group was too broad and unspecific, which is why the new remuneration system adopted by the Annual General Meeting 2022 is based on a new peer group. This new peer group was already used when Mr Klösger's and Ms Babić's remuneration was determined in 2021 and 2022, respectively.

The new peer group includes – first and foremost – ECB-regulated banks in Germany, since due to the European Central Bank's specific requirements and expectations towards Management Board members of such institutions, fundamental comparability is given. The focus on Germany is based on the fact that, when trying to attract potential candidates to fill Management Board positions, Aareal Bank is largely competing with other banks based in Germany. This group was further narrowed down by classifying all of the companies using a catalogue of six criteria that are considered highly relevant from the perspective of Aareal Bank and its business model, resulting in a final peer group comprising 13 institutions.

Within this peer group, Aareal Bank had an external, independent remuneration consultant (Willis Towers Watson) rank the Bank on the basis of its size and arrive at an opinion regarding standard market remuneration based on this ranking.

In addition to the horizontal comparison, the vertical comparison serves to observe how the remuneration of Management Board members compares to the remuneration of the senior management (i.e. usually the highest management level below the Management Board) as well as to the remuneration of employees in general, also with a view to the development over time. In this context, 'employees' refers to all permanent employees of Aareal Bank AG in Germany.

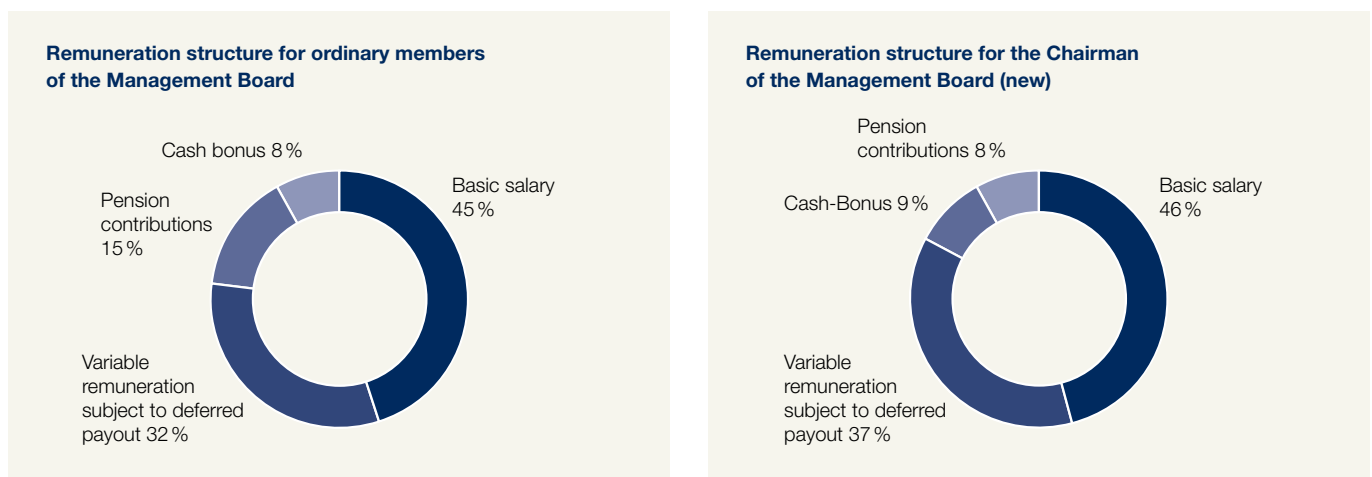
2.2 Remuneration structure

The target total remuneration comprises a fixed component (including ancillary benefits and contributions to retirement pension provisions) and a variable component whose structure is subject to comprehensive regulation, namely the provisions set out in the German Banking Act (Kreditwesengesetz – KWG), the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – InstVergV) and requirements at European level.

In the previous Management Board remuneration system, which is still applicable to 2022, 15 % of the target total remuneration consisted of pension contributions. This portion has been reduced in the new remuneration system, following criticism by the Bank's shareholders.

The Supervisory Board reacted to this criticism right after the 2021 ordinary Annual General Meeting and, when it appointed Mr Klösger as Chair of the Bank's Management Board, it increased the target variable remuneration significantly in relation to the other remuneration components (from approx. 40 % to approx. 46 %) while significantly reducing the pension contributions proportionally (from approx. 15 % to approx. 8 %).

The diagram below illustrates the ratio between the fixed and variable components of the remuneration of all members of the Management Board.



2.3 Fixed remuneration component

The fixed remuneration component of a Management Board member consists of three components – the fixed annual salary, ancillary benefits, and contributions to retirement provisions.

2.3.1 Fixed annual salary

After Mr Klösger's appointment as the new CEO, the base salary for the Chair of the Management Board was set at € 1,200,000 per annum. The base salary paid to Mr Hess and Mr Winkelmann amounted to € 900,000 per annum in the year under review. As a new and first-time Management Board member, Ms Babic's base salary is € 720,000 per annum.

2.3.2 Ancillary benefits

As well as paying a fixed annual salary, the Bank grants the members of the Management Board ancillary benefits in line with standard market conditions. For example, Aareal Bank provides a company car to Management Board members, which may also be used for private purposes. If Management Board members decide against a company car, they receive a lump-sum compensation payment instead. Management Board members also receive an amount equivalent to 50 % of the contributions to the statutory social security system.

The members of the Management Board are also granted insurance cover in line with standard market conditions, such as D&O insurance (subject to the statutory deductible), group accident insurance or health insurance for travel abroad. The Bank may also grant other ancillary benefits such as security expenses and travel costs for family visits.

Ancillary benefits can also fluctuate considerably from year to year.

2.3.3 Pensions and retirement benefits

The benefit regulations as agreed in the service contracts apply to the members of the Management Board. All members of the Management Board are granted a defined contribution commitment.

The Supervisory Board made significant changes to the benefit regulations when it appointed Mr Klösger as the new Chair of the Management Board. By way of example, the contribution for the former Chair of the Management Board – who retired in 2021 – was reduced from € 464,000 p. a. to € 200,000 p. a., meaning that it now only corresponds to around 8% of the target remuneration structure. The guaranteed interest rate of 4 % was also changed to a fund index performance-based interest rate with a 0 % guarantee. Mr Klösger's pension commitment also no longer provides for a monthly, lifelong pension as a fundamental pension benefit. Instead, a one-off lump-sum payment is now provided as standard. All in all, these measures serve to reduce the Bank's accounting risks considerably. These new provisions for Mr Klösger also apply in Ms Babic's case; she receives a contribution in the amount of € 120,000 per annum.

For members of the Management Board appointed prior to 2021, this usually amounts to € 293,000 p. a., accounting for 15 % of the target remuneration structure of the Management Board members. These contributions bear interest at a guaranteed rate of 4 %. For Management Board members appointed in 2021 and after, the rules stipulated by the new remuneration system, which was adopted by the Annual General Meeting 2022, apply as outlined above.

Management Board members who were appointed prior to 1 January 2013 are entitled to claim pension benefits as of the time at which they turn 60. For members of the Management Board who were appointed on or after 1 January 2013, claims arise as of the time at which they turn 62. In the event of permanent disability, a Management Board member is entitled to claim benefits prior to turning 60 or 62, respectively. In this case, the pension capital earned by the Management Board member is increased by a certain lump sum, which is further specified in the respective service contract.

The amounts are subject to a guarantee adjustment of 1 % p. a. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to half-orphans and orphans amount to 10 % and not more than 25 %, respectively.

The main aspects of the previous and the new pension system are shown in the table below:

Pension commitment overview

	Previous pension commitment	New pension commitment*
Type	Defined contribution	Defined contribution
Term of commitment	Period of appointment as Management Board member	Period of appointment as Management Board member
Amount of commitment	~15 % of the target total remuneration	~8 % of the target total remuneration
Interest	Guaranteed interest rate of 4 % p. a.	Fund index performance-based interest rate with a guarantee covering the contributions made
Payment	<ul style="list-style-type: none"> – Lifelong pension – Lump-sum payment (only with the approval of the Supervisory Board) 	<ul style="list-style-type: none"> – Lump-sum payment – Payment in seven annual instalments (only with the approval of the Supervisory Board) – Lifelong pension (only with the approval of the Supervisory Board)
Further terms and conditions	The pension commitment includes benefits paid out in the event of disability and death (paid to surviving dependants)	The pension commitment includes benefits paid out in the event of disability and death (paid to surviving dependants)

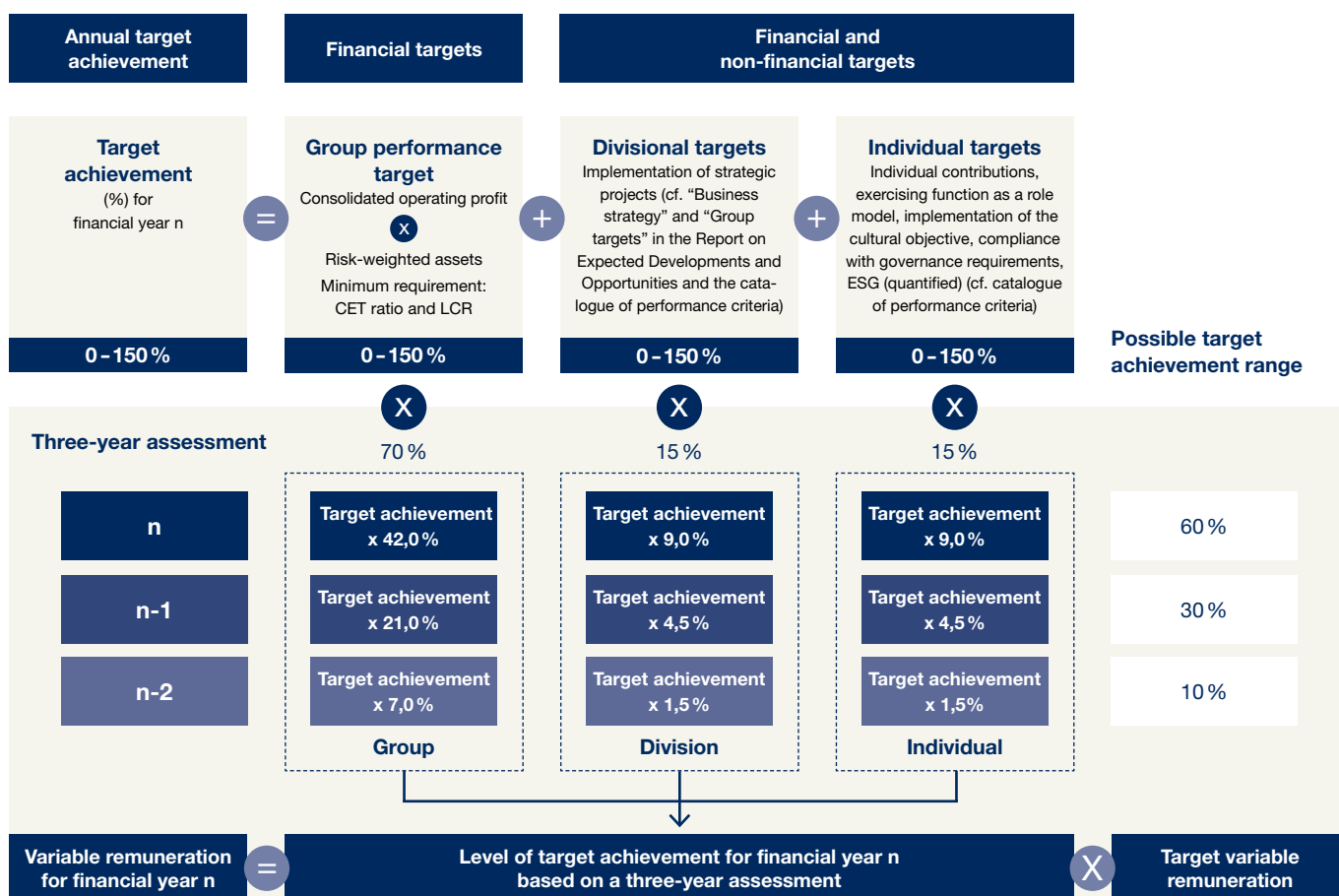
* already applied for Mr Klösger and Ms Babic

2.4 Performance-related variable remuneration

2.4.1 Long-term and sustainable focus of the targets

The structure of the variable remuneration system is subject to detailed requirements set out in the bank regulatory provisions (e.g. German Banking Act, German Regulation on Remuneration in Financial Institutions). The calculation of the variable remuneration is generally split into two phases. In the first phase, the achievement of targets derived from the strategy is determined over a period of three years at three levels: Group, divisional and individual. The target achievement level is multiplied by the reference value and produces the amount calculated (e.g. 780,000 x 90% = € 702,000). The amount calculated is then paid out in the second phase in four different components, including 80% that is paid out on a deferred basis and at least 55% paid out in virtual shares over a period spanning several years. Among other things, the fact that the targets are geared towards the strategy and the subsequent adjustment based on share price performance over the next six years promotes sustainable and long-term company development while at the same time taking the interests of the shareholders into account. This is also achieved through the malus and clawback rules as well as through the guarantee of sufficient risk-bearing capacity.

2.4.2 Multi-year performance measurement across different target levels (phase 1)



A significant part of Aareal Bank’s variable remuneration structure is governed by law: In accordance with the regulatory requirements set out in sections 19 and 20 of the German Regulation on Remuneration in Financial Institutions, the variable remuneration for the members of the Management Board was defined in the reporting year on the basis of three target levels and over a minimum assessment period of three years (2020, 2021 and 2022). Accordingly, the Management Board remuneration system that has applied at Aareal Bank to date, which was submitted to the ordinary Annual General Meeting 2021, provides for three target levels:

- Group performance;
- divisional performance; and
- individual performance.

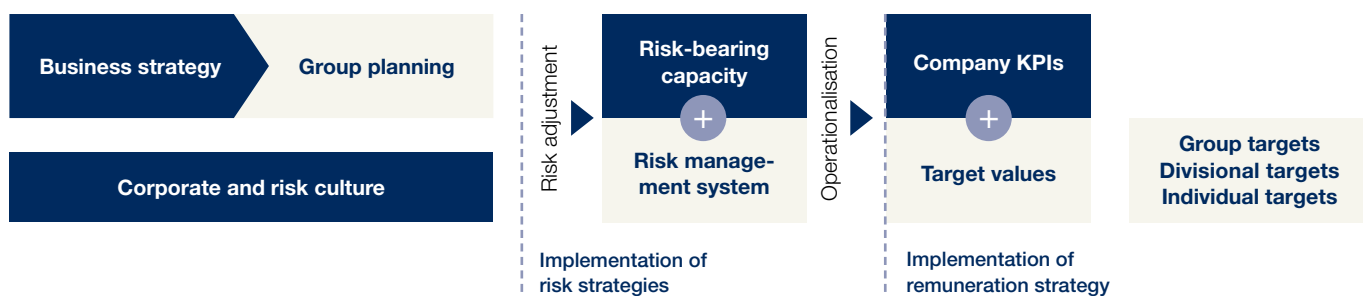
The targets set at all three levels are focused on sustainable and long-term growth. To measure and monitor target achievement, various KPIs are determined annually for targets, and their degree of achievement is assessed at the end of the financial year. The target achievement level for each target level is thus determined by the respective KPI achievement of the past financial year and by the degrees of KPI achievement of the two previous financial years (**three-year assessment basis**).

The members of the Management Board are responsible – and epitomise – the Company’s success. This is also reflected in the **weighting of the target levels**. Accordingly, achieving Group performance targets accounts for the clear majority (70 %) of target achievement. This target level is determined solely on a quantitative basis; performance is therefore calculated based on whether the target value specified by the Supervisory Board for the components consolidated operating profit, RWA or another annually defined parameter has been achieved using a performance grade. The other two target levels, the divisional and individual target levels, are weighted at 15 % each.

To set ambitious targets and a strong incentive for successful Management Board work, target achievement levels are incorporated at different levels over time. As a result, the target achievement level is calculated by looking at performance in more than one year at all target levels. The most recent reporting year is weighted at 60 %, the preceding one at 30 %, and the oldest year in the assessment period at 10 %. As Mr Klösge only joined the Bank in the course of 2021, his variable remuneration for the year under review is calculated on the basis of his performance during that year. At the same time, the deferral period for variable remuneration has been extended from five to seven years. The three-year assessment period will gradually be established over the reporting years following his appointment. The same applies for Ms Babic.

The revised Management Board remuneration system, which was approved by a large majority at the ordinary Annual General Meeting 2022, features a number of changes to the target system. In particular, the plan is that, from the 2023 financial year onwards, the divisional and individual target levels will be combined to create one single assessment level.

2.4.3 System for defining targets



ESG targets being enshrined through business strategy

Pursuant to section 25c (4a) KWG, the strategy is to be geared towards the Bank’s sustainable development. As early on as during the development process, the business strategy is reviewed as to its compatibility with the corporate and risk culture, the risk strategies and the Bank’s sustainability approach, and is adjusted if necessary. This means that the remuneration targets and KPIs derived from the strategy do not promote short-term successes, but rather support the Company in its long-term and sustainable development (**pay-for-performance principle**). As a result, they serve the interests of the shareholders, employees and other stakeholders of Aareal Bank Group.

2.4.4 Remuneration targets (ex-ante risk adjustment)

The targets are made up of quantitative and qualitative components. A target value for 100 per cent target achievement, a minimum ambition level and a maximum achievable value are set for quantitative criteria. Suitable assessment criteria are set for qualitative components. These can include comparisons with project targets, internal and external studies, section-specific reports, as well as statistics on how the Bank is perceived by its employees or clients. Specific target achievement is reported on an ex-post basis.

2.4.4.1 Group performance targets

Amongst other things, the Company's interests are duly taken into account by the fact that **Group targets** are geared towards the KPIs used for corporate management purposes. These KPIs are generally based directly on the Group's performance indicators which can be found in the Group Management Report. In order to reduce the influence of one-off effects, certain effects are already excluded from target achievement per se when the targets are set, e.g. changes due to external regulatory requirements, M&A transactions, etc. The Supervisory Board sets target values for the Group on the basis of the consolidated operating profit, risk-weighted assets (RWA) or another indicator that it defines based on the performance indicators, and determines the result that constitutes achievement of each target.

For the 2022 financial year, consolidated operating profit was set as earnings target, whereas RWA was used as a risk-adjusted target. The maximum achievement level for target consolidated operating profit is 150 %; for the RWA target, it is 125 %. The overall target achievement level is calculated by multiplying all target values; it is capped at a target achievement level of 150 %.

The revised Management Board remuneration system presented to the ordinary Annual General Meeting 2022 features significant changes to the composition of the Group performance targets from the 2023 financial year onwards, with return on equity and ESG criteria targets playing a larger role at the Group level.

2.4.4.2 Divisional and individual targets

In accordance with the regulatory requirements, the Management Board remuneration system that was applied to 2022 sets divisional and individual targets for the members of the Management Board. The targets set match the catalogue of performance criteria.

Catalogue of performance criteria

Divisional and individual targets	
Key performance indicators used in the Group management system	Strategic project (Aareal Next Level)
Increasing flexibility	Defined ESG indicators (e.g. diversity)
Increase in growth	Establishing sustainability in the core business
Capital market target	Expansion of sustainable products
Market expansion	Innovative power
Budget target	Client Satisfaction
Efficiency enhancement	Employee satisfaction
Liquidity planning	Employee communications
Targets for risk indicators	Safeguarding expertise
Effectiveness of the organisation	Transparency (e.g. in ecological aspects)
Scaling client relationships	Empowering the next generation

A maximum of three to four targets are set at divisional level and a maximum of two at individual level.

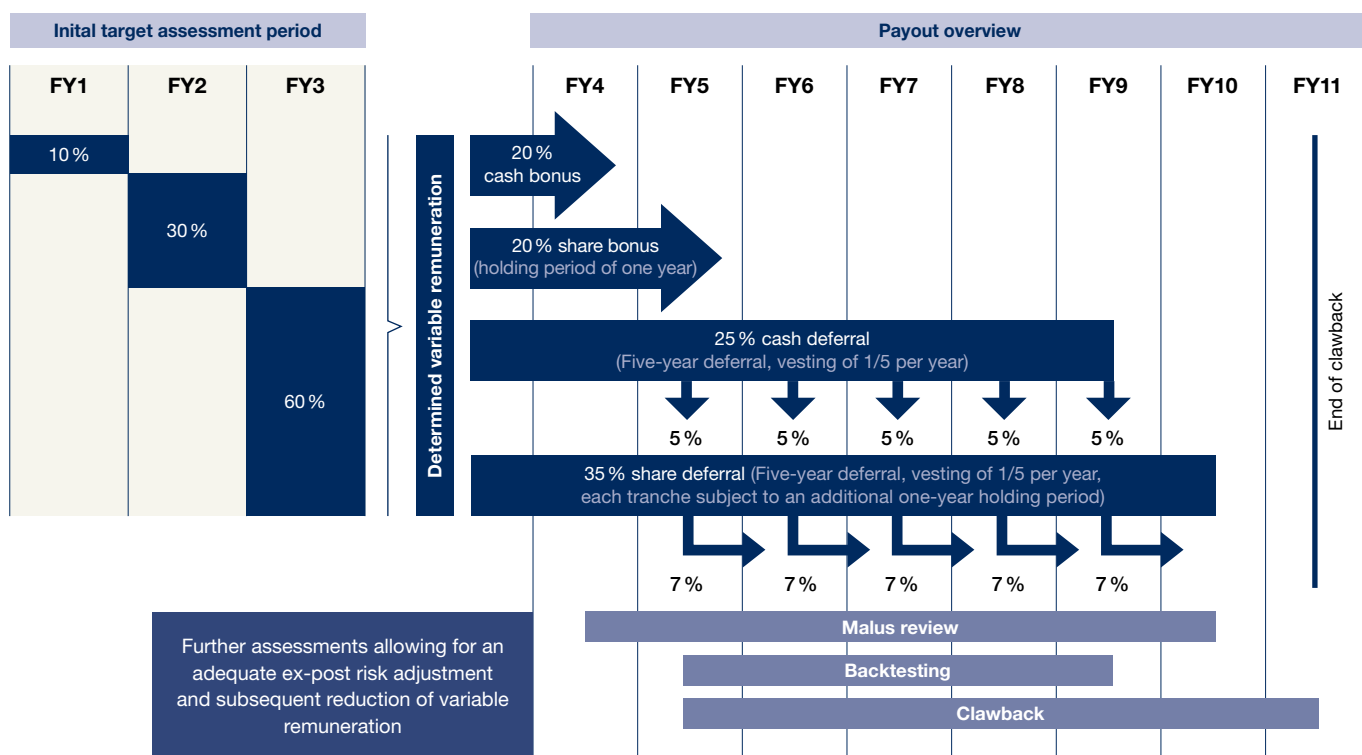
Divisional targets are related to the respective Management Board member's area of responsibility pursuant to the schedule of responsibilities. Accordingly, the Supervisory Board sets targets which the organisational units assigned to the respective Management Board members need to fulfil in order to achieve the strategic objectives of the Company as a whole. The Supervisory Board uses the divisional component to measure the contribution to the implementation of the strategy made by the units for which the individual Management Board member is responsible. The KPIs used by the Supervisory Board include qualitative and quantitative criteria. In line with Aareal Bank Group's management system, divisional targets for Management Board members responsible for Sales units comprise growth enhancement and development of main strategic fields of business and are measured, for example, by the level of specific property portfolio increases or the revenue generated with digital products.

Individual targets refer to the Management Board members’ individual performance as role models for the organisation (“tone from the top”). In this respect, Management Board members also need to achieve material quantitative ESG aspects.

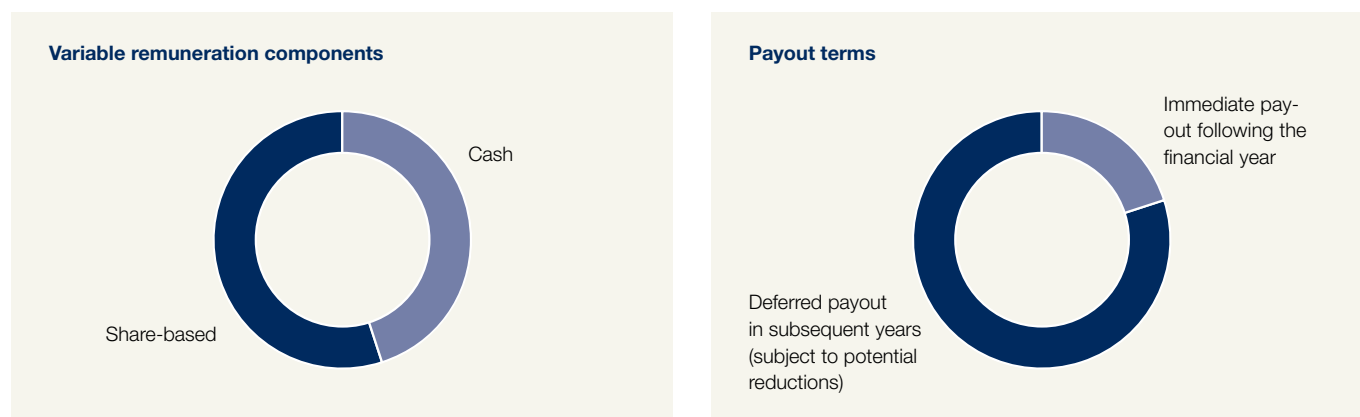
ESG targets are established at both divisional and individual level. The specific ESG target parameters are disclosed as part of the reporting process (annual report for the year concerned) together with the other parameters used. In order to ensure that the increased importance of ESG aspects in Aareal Bank’s strategy are adequately reflected in the remuneration system, quantifiable ESG targets have been included in the overall target calculation with a minimum weighting of 15% since the 2021 reporting year and are covered, in particular, by the individual component. The use of quantitative ESG targets allows for a high level of transparency regarding our ESG focal areas and at the same time creates targeted incentives for a long-term sustainable strategy. In addition to the individual level, the divisional level can also include ESG targets to add more weight to ESG aspects.

In the revised Management Board remuneration system, which was adopted by the ordinary Annual General Meeting 2022 and will be applied from the 2023 financial year onwards, divisional and individual targets are combined to create a single target level (the “strategic component”). Furthermore, the catalogue of performance criteria was also revised, with at least one target within the strategic component being an ESG target going forward.

2.5 Deferred disbursement, through retention of variable remuneration components and virtual shares (phase 2)



Aareal Bank has implemented robust regulations governing retention. These ensure that the remuneration paid to the Management Board members is linked to the institution’s long-term and sustainable success. They also promote alignment with shareholder interests, as 55% of the variable remuneration is granted in the form of virtual shares, meaning that it is linked to long-term share price performance. As 25% of the variable remuneration is granted as a deferred cash payment, a total of 80% of the variable remuneration is paid out as a deferred remuneration component. While the Supervisory Board can opt to adopt, and reach an agreement with the Management Board members on, a different breakdown for the variable remuneration components, care must always be taken to ensure that at least 55% of the variable remuneration amount that is originally calculated is granted in the form of virtual shares.



Overview of pay-out components of variable remuneration

	Share	Deferral period	Payout date (usually April or May)	Share-based
Cash bonus	20%	n/a	In the first year after the assessment period	None
Share bonus	20%	n/a (but holding period of one year)	In the second year after the assessment period	Yes (virtual)
Cash deferral	25%	Pay-out in equal annual tranches over five years	From the second until the sixth year after the assessment period	None
Share deferral	35%	Pay-out in equal annual tranches over five years, each being subject to an additional holding period of one year	From the third until the seventh year after the assessment period	Yes (virtual)

Further details on share-based remuneration

Initial conversion	The share-based portion of the variable remuneration is converted into a corresponding number of virtual shares. The number of virtual shares is calculated based on the weighted average Aareal Bank share price on the five (Xetra®) stock exchange trading days following the publication of the preliminary business figures for the financial year for which the share-based variable remuneration is being granted.
Amount disbursed	Before the share bonus/share deferral tranche is paid out, the virtual shares are converted into a cash amount based on the weighted average Aareal Bank share price on the five (Xetra®) stock exchange trading days following the publication of the preliminary business figures for the year prior to the payout.
Cap	The amount paid out for the share-based remuneration components for a given financial year can vary depending on share price performance and is capped at 300% of the amount of the share bonus/share deferral component calculated based on the bonus amount initially calculated.
Dividends	In accordance with the regulatory requirements for banks, Management Board members do not receive any dividend payments for the share-based remuneration components of their variable remuneration during the retention period. If dividends are paid on shares in Aareal during the holding period, a payment is made as a salary component in the amount of the dividend and the portion of the virtual shares.
Changes in structure	If the number of shares issued by Aareal changes during the retention/holding period, the number of virtual shares can be adjusted.

2.6 Ex-post review of target achievement and behaviour of the Management Board members

In accordance with the regulatory requirements, the Management Board members are only entitled to the deferred variable remuneration components when they are paid out. Before the payment is made, the Supervisory Board performs several checks to determine whether deferred variable remuneration components should be reduced or even clawed back (ex-post risk adjustment). In addition, all deferred variable remuneration tranches are subject to the risk-bearing capacity requirements described above (see section entitled “Additional ex-ante risk adjustment”).

Ex-post risk adjustment

Backtesting	Before the retention period of a deferred tranche ends, the Supervisory Board performs a retrospective review of the original performance measurement. If, for example, an indicator used to determine variable remuneration needs to be adjusted retrospectively, this can result in the variable remuneration components being reduced retrospectively before they vest.
Malus	<p>Until they are paid out, variable remuneration components remain subject to the same malus review as before the initial determination of the variable remuneration, which allows for a subsequent reduction or even the cancellation of the entire variable remuneration.</p> <p>Events that can trigger a malus include intentional breaches of internal or external regulations, conduct that damages the Bank's reputation and negative contributions to performance resulting in substantial losses or significant regulatory sanctions.</p>
Clawbacks	The variable remuneration for Management Board members is also subject to clawback regulations. In cases involving negative performance contributions (see below), the Supervisory Board can claw back variable remuneration components that have already been paid out for up to two years after the end of the last retention period for the variable remuneration paid out for the financial year in question.

Further details on malus and clawback regulations

When determining the variable remuneration and before the retention period for a deferred tranche ends, or the tranche is paid out, the Supervisory Board performs a review, in line with the regulatory requirements, to determine whether there are any reasons that could justify a reduction in, or even the full cancellation of, the variable remuneration. These malus-triggering events can, for example, include scenarios involving certain forms of unconscionable behaviour or behaviour in breach of duties, or so-called negative performance contributions by the Management Board member.

Negative performance contributions include, for example, situations where the Board member was materially involved in (or materially responsible for) conduct that resulted in a significant loss to the institution or a significant regulatory sanction, and also where the Board member has proven to have seriously violated certain relevant regulations regarding suitability and conduct.

The variable remuneration is reduced to zero in the event of negative performance contributions. The Supervisory Board has concluded clawback agreements with the Management Board members based on which the variable remuneration can be clawed back, in the event of negative performance contributions, for a period of up to two years after the end of the last retention period for the variable remuneration paid for the financial year in question.

2.7 Payments made upon regular or early contract termination

The following table shows the payments made upon regular or early contract termination. Information on pension commitments is provided in the chapter on “Pensions”.

Treatment of remuneration components in the event of leaving the Company	In the event of regular or early contract termination, the retention periods and holding periods for deferred remuneration components are not shortened by the termination. The deferred remuneration components remain subject to the same backtesting, malus and clawback conditions even after the termination of the individual's contract. For the year during which the contract was terminated, variable remuneration is determined pro rata temporis, based on the duration of the employment in the given financial year.
Early termination	<p>In accordance with the German Public Limited Companies Act (AktG), employment contracts do not provide for any option for termination for convenience; this does not affect the right of both parties to terminate the employment contract for good cause without notice.</p> <p>The Management Board member's contract ends automatically if the member becomes permanently incapacitated for work as defined by the individual contracts. In such cases, the Management Board employment contracts may provide for the continued payment of the member's fixed annual remuneration (plus (substitute) social security contributions) from the start of the permanent incapacity for work and for a period of up to six months (taking into account those periods for which continued salary payments have already been made). The continued payments cannot, however, extend beyond the date on which the employment relationship would have normally ended.</p> <p>The service contracts may state that, if a member of the Management Board dies during the term of his/her contract, widows, widowers or partners and legitimate children (provided they have not yet turned 27 and are still in vocational training/further education) are entitled, as joint and several creditors, to continued fixed salary payments for the month of death and the following six months, but until the contract ends at the latest. In such cases, the variable remuneration is calculated pro rata temporis for the period leading up to the member's death.</p>
Severance payments	<p>The Management Board service contracts do not include any obligation to make a severance payment in the event of premature termination. Service contracts concluded from 2021 onwards also do not feature any change-of-control clause providing for severance pay. The service contracts concluded prior to 2021 include change-of-control clauses that provide for severance pay in certain cases. If these members were to be reappointed, the change-of-control clauses would no longer be included in that member's extended service contract.</p> <p>Severance payments can still be included in individual cancellation of contract agreements provided that they are consistent with the regulatory requirements, in particular the German Regulation on Remuneration in Financial Institutions. The service contracts concluded with the Management Board members stipulate that, in the event that the contract is terminated early for a reason other than good cause, severance pay must not exceed the value of two annual remuneration payments and must not pay remuneration for more than the residual term of the member's contract (severance cap).</p>
Non-compete clause	The service contracts do not contain any non-compete clauses with waiting allowances. The Supervisory Board can agree a post-contractual non-compete clause for a period of up to 24 months. For this period, appropriate compensation would be determined on a case-by-case basis. If post-contractual non-compete clauses were agreed, any severance payments would be taken into account in the calculation of any waiting allowance.
Temporary incapacity for work	In the event of temporary, non-permanent incapacity for work, members of the Management Board continue to receive their fixed annual remuneration for a period of up to six months. The Supervisory Board has the discretion to decide whether the variable-remuneration components are also granted in full or in part for the periods in which continued salary payments are made. For newly appointed Management Board members, or members reappointed from 2021 onwards, the service contracts contain a provision stating that no variable remuneration components are granted for periods exceeding three months in the financial year in question.

2.8 Deviations from the remuneration system

As shown above, Aareal Bank has responded to the rejection of the previous remuneration system by the 2021 ordinary Annual General Meeting and has structured Mr Klösger's remuneration based on conditions that match the remuneration system adopted by the 2022 ordinary Annual General Meeting. The target variable remuneration, for example, has been increased significantly in relation to the other remuneration components (from approx. 40% to approx. 46%) and the pension contributions have been reduced significantly in relation to the other components (from approx. 15% to approx. 8%). The same applies to Ms Babic, who was appointed during the year under review.

In addition, and in line with the new remuneration system, Mr Klösger and Ms Babic are already subject to the revised pension commitment, which only provides for a fund index performance-based interest rate with a guarantee covering the contributions made.

3. Target achievement in the 2022 financial year

Notwithstanding the Management Board's overall responsibility for the Bank's management, specific divisional and individual targets were agreed upon for each Management Board member. The three-year assessment period means that the overall target achievement level also reflects target achievement in the 2020 and 2021 financial years. In Ms Babic's case, the overall target achievement level is based exclusively on target achievement in the 2022 financial year, as Ms Babic only joined the Management Board in the course of that financial year. Her variable remuneration is subject to a seven-year as opposed to a five-year retention period in line with the regulatory requirements. In Mr Klösge's case, variable remuneration is subject to a six-year retention period, since he joined the Bank in 2021. Against this background, his remuneration is calculated based on the 2021 and 2022 financial years.

The assessment of the individual targets regarding variable remuneration in the year under review yielded the following results:

	Jochen Klösge	Marc Hess	Christiane Kunisch-Wolff	Christof Winkelmann	Nina Babic
%					
2022 Overall Bank performance	122				
Divisional targets	113	142	133	125	100
Individual targets	133	133	133	133	100
2021 Overall Bank performance	148				
Divisional targets	105	112	106	110	
Individual targets	125	142	135	135	
2020 Overall Bank performance	20				
Divisional targets		110	110	110	
Individual targets		130	120	120	
Overall target achievement level for 2022	127.25	123.66	122.17	121.60	115.67
Amount of variable remuneration (€)	1,400,000 €¹⁾	964,548 €	558,702 €	948,480 €	326,538 €

¹⁾ Given an overall target achievement level of 127.25%, the imputed variable remuneration for Mr Klösge would have amounted to € 1,527,000. However, since in accordance with the requirements set out in the German Banking Act, variable remuneration must not exceed 100% of fixed remuneration (bonus cap), variable remuneration was € limited to € 1,400,000.

3.1 Group performance targets 2022

The target achievement level for the Group performance is calculated by multiplying the target achievement level for an earnings target with a risk-adjusting indicator. At the beginning of the year, consolidated operating profit before taxes of € 239 million (adjusted) was set as the earnings target for 100% target achievement, while a target RWA level of € 13.604 billion based on Basel IV IRBA (adjusted) was used as a risk-adjusting indicator.

Thresholds were set for both target parameters which, if undercut or – in the case of RWA – exceeded, result in a target achievement level of zero.

Aareal Bank exceeded its targets for 2022. The members of the Management Board played a key role in this success story. This is also reflected in the Group target achievement level in particular.

	Operating profit before taxes	Risk-weighted assets Basel IV IRBA
Link to strategy	Operating profit before taxes is the key Group performance indicator that reflects the Bank's profitability and cost situation, and also plays a decisive role in the Bank's external communication and how it is viewed externally.	Risk-weighted assets are a key performance indicator with regard to the Bank's risk position and are also a key regulatory indicator of compliance with the capital requirements.
Target achievement in %	105.13%	116.42%
Overall Group target achievement in %	122.38% (product of both individual target achievement levels)	

3.2 Outlook for 2023

The Group targets will be adjusted for the financial years from 2023 onwards. In particular, the target system has been revised to place increased emphasis on the aspects of return on investment, profitability, and ESG. For more detailed information, please refer to the revised Management Board remuneration system, which was presented to the ordinary Annual General Meeting 2022 and approved by a large majority of the Bank's shareholders.

3.3 Divisional targets for 2022

Notwithstanding the Management Board's overall responsibility for the Bank's management, specific divisional and individual targets were agreed upon for each Management Board member. Whilst the individual targets reflect especially the individual contributions of each Management Board member, the divisional targets are meant to reflect the target achievement of the respective Management Board member's area of responsibility. Thus, the strategic initiatives and measures defined and implemented in the respective area of responsibility are the main basis for determining divisional targets. Furthermore, various ESG targets (derived from the business strategy) have been agreed upon on both levels.

Divisional targets

Weighting	Targets	KPI	Target achievement	Target achievement divisional component
Jochen Klösger				
33%	Optimise the deposit structure	– BDS deposits	134%	
33%	Organic growth initiatives	– Aareon sales revenues and – Aareon adjusted EBITDA	69% 91%	113%
33%	Optimise the cost base	– Cost target according to the plan for the CEO section	125%	

Weighting	Targets	KPI	Target achievement	Target achievement divisional component
Marc Hess				
33 %	Optimise funding structure (including green funding)	– Funding plan fulfilled, in line with the planning for the financial year 2022, complying with liquidity indicators (3-month liquidity, LCR, NSFR)	150 %	
33 %	Continuous review and optimisation of capital management	– Target Basel IV ratio (phase-in), adjusted for regulatory changes as well as results from the IMI audit not yet incorporated in the planning)	150 %	
33 %	Optimise the cost base	– Cost target according to the plan for the CFO section (adjusted for unplanned expenses for M&A transactions including the takeover offer, contributions to/levies by the deposit protection fund (Einlagensicherungsfonds – “ESF”), the statutory compensation facility (Entschädigungseinrichtung deutscher Banken – “EdB”) and the bank levy diverging from the plan, as well as costs driven by the share price development)	125 %	142 %
Christiane Kunisch-Wolff				
33 %	Optimise the cost base	– Cost target according to the plan for the CRO section – Devise sustainable concepts for cost efficiency enhancements in the GCRO section (compared to the current bottom-up planning for 2024)	100 % 150 %	
33 %	Operationalise regulatory requirements/risk culture	– Implement risk culture-related self-assessment – Devise a concept mapping concentration limits	125 %	133 %
33 %	Continue the cultural transformation	– Coaching and induction for Ms Babic, execute material parts of her induction plan and support her objectives	150 %	
Christof Winkelmann				
33 %	Expand the lending business with attractive margins, adhering to risk standards and maintaining the risk appetite	– Grow SPF portfolio volume (including non-SPF business) to € 31 billion by year-end 2022, adhering to income and risk parameters (“KPIs”) defined in bottom-up planning	100 %	
33 %	Enhance balance sheet flexibility, increasing market relevance	– Enhancing balance sheet flexibility to improve risk positions via syndications (syndication volume in line with margins) – Reduce the Stage 2 portfolio through migration to Stage 1	150 % 150 %	125 %
33 %	Optimise the cost base	– Cost target according to the plan for the CMO section	125 %	
Nina Babic				
33 %	Optimise the cost base	– Cost target according to the plan for the CRO section	100 %	
33 %	Operationalise regulatory requirements	– Review the NPL reduction strategy with the aim of reducing the legacy NPL portfolio	100 %	
33 %	Continue the cultural transformation	– Familiarisation with the divisions added to her scope of responsibility through the assumption of the CRO function (NFR, RCO, RA, ISD)	100 %	100 %

3.4 Individual targets for 2022

The individual targets for the 2022 financial year consisted exclusively of ESG targets. The focus in the 2022 financial year was on building a green finance portfolio in line with the Bank's green finance requirements.

Individual targets

Targets	KPI	Target achievement
Jochen Klösger		
Implement ESG in the banking business	<ul style="list-style-type: none"> – 20 % green buildings in the SPF portfolio, in line with Aareal Bank's Green Finance Framework – € 600 million of additional green loans in new business – € 1 billion of green funding 	133 %
Marc Hess		
Implement ESG in the banking business	<ul style="list-style-type: none"> – 20 % green buildings in the SPF portfolio, in line with Aareal Bank's Green Finance Framework – € 600 million of additional green loans in new business – € 1 billion of green funding 	133 %
Christiane Kunisch-Wolff		
Implement ESG in the banking business	<ul style="list-style-type: none"> – 20 % green buildings in the SPF portfolio, in line with Aareal Bank's Green Finance Framework – € 600 million of additional green loans in new business – € 1 billion of green funding 	133 %
Christof Winkelmann		
Implement ESG in the banking business	<ul style="list-style-type: none"> – 20 % green buildings in the SPF portfolio, in line with Aareal Bank's Green Finance Framework – € 600 million of additional green loans in new business – € 1 billion of green funding 	133 %
Nina Babic		
Implement ESG in the banking business	<ul style="list-style-type: none"> – 19.77 % green buildings in the SPF portfolio, in line with Aareal Bank's Green Finance Framework 	100 %

3.5 Malus review, backtesting, clawback, risk-bearing capacity

In March 2023, as part of the annual malus review, the Supervisory Board checked whether there were any factors that could lead to a reduction in the variable remuneration for the past financial year or a subsequent reduction in and/or a subsequent clawback of the variable remuneration for previous years. No such factors were identified.

The annual review of risk-bearing capacity in accordance with section 7 of the German Regulation on Remuneration in Financial Institutions revealed that, from the perspective of risk-bearing capacity, there are no factors arguing against determining the variable remuneration for 2022 and paying out deferred remuneration components from previous years.

3.6 Other information

No severance payments were agreed with Management Board members in the last financial year. Christiane Kunisch-Wolff left the Bank during the year under review without receiving severance pay. The termination agreement concluded in this context does not include any agreements on this topic. Aareal Bank agreed to pay for Ms Kunisch-Wolff's legal advice during the negotiations on the termination agreement up to an amount of € 30,000.

No member of the Management Board was promised any kind of remuneration by third parties – neither in connection with their activity as member of the Management Board of Aareal Bank nor in connection with the takeover bid made by Atlantic BidCo GmbH.

4. (Virtual) shareholdings of Management Board members and share-based remuneration

More than half of the variable remuneration is granted in the form of virtual shares. The long retention periods mean that Management Board members typically earn virtual shares amounting to more than 100 % of their fixed annual salary at the latest after three years of service.

The following table illustrates the number of virtual shares which are subject to retention for each member of the Management Board, as well as their value as a percentage of the basic remuneration paid during the year under review.

	Number of outstanding virtual shares at the end of the financial year	Virtual shares determined for the reporting year	Total number of shares	Total value of virtual shares ¹⁾	Total value of virtual shares (in % of the basic remuneration for the reporting year)
Jochen Klösger	8,523	23,340	31,863	1,051,160	88 %
Nina Babic		5,444	5,444	179,598	50 %
Marc Hess	35,951	16,081	52,032	1,716,536	191 %
Christiane Kunisch-Wolff	39,858	9,315	49,173	1,622,217	306 %
Christof Winkelmann	39,691	15,813	55,504	1,831,077	203 %
Total	124,023	69,993	194,016	6,400,588	165 %

¹⁾ The total value of the virtual shares was calculated based on a share price of € 32.99. This is the weighted average price for the first five (Xetra) exchange trading days following the publication of the preliminary business figures for the reporting year. This price is also used to convert the variable remuneration for the reporting year into virtual shares.

5. Adherence to maximum remuneration

The remuneration paid to the Management Board members is capped in three ways.

First, the variable remuneration calculated is based directly on the overall target achievement level, the maximum target achievement level for which is 150 %.

Second, the Bank decided to cap the variable remuneration (bonus cap) at 100 % of the fixed remuneration (base salary plus pension contribution).

Third, the Management Board remuneration system provides for maximum remuneration of € 5.5 million per Management Board member in accordance with section 87a (1) sentence 2 no. 1 of the AktG, which limits the total amount of remuneration actually paid out for a financial year. The revised Management Board remuneration system adopted by the ordinary Annual General Meeting 2022 provides for a reduction in the maximum remuneration (as defined in section 87a (1) sentence 2 no. 1 of the AktG) from € 5.5 million to € 4.5 million. As a matter of principle, compliance with the maximum remuneration (as defined in section 87a (1) sentence 2 no. 1 of the AktG) can only be reported in the Remuneration Report for the reporting year in which the last tranche of the variable remuneration for 2022 is paid out. This is 2029 or, in Mr Klösger's and Ms Babic's case, 2030 and 2031, respectively, due to the longer retention periods.

If it is already certain that the maximum remuneration will be exceeded before that point in time, payment of those remuneration components that are responsible for the maximum remuneration being exceeded is capped. In this sort of scenario, compliance with the maximum remuneration would be reported in the financial year in which the cap is imposed.

6. Amount of remuneration in the reporting year

Changes in total remuneration as compared to the previous year were due to several factors, such as changed target achievement levels and changes in the Management Board's composition. When comparing total remuneration, the latter must be kept in mind. In the 2022 financial year, the total remuneration calculated for the Management Board as a whole fell overall as against the 2021 financial year, from € 8.6 million to € 8.1 million. The amount of € 8.1 million for 2021 includes the remuneration of the retired Management Board members, which is why a different total amount is shown in the table below where only the Management Board members active in 2022 are shown.

The table below illustrates the remuneration calculated by the Supervisory Board for the reporting year. The multi-year variable remuneration components are subject to the conditions of ex-post risk adjustment as described in this report, and partially depend on Aareal Bank's share price performance. Therefore, there may be deviations in subsequent years between the amount defined initially and the amount which is actually paid out.

	2022				2021
	Basic salary	Variable remuneration due immediately	Multi-year variable remuneration	Total remuneration (Excluding ancillary benefits)	Total remuneration (Excluding ancillary benefits)
€ 000's					
Jochen Klösger	1,200	280	1,120	2,600	766
Nina Babic	360	65	261	687	
Marc Hess	900	193	772	1,865	1,759
Christiane Kunisch-Wolff	530	112	447	1,089	1,746
Christof Winkelmann	900	190	759	1,848	1,749
Total	3,890	840	3,359	8,088	6,020

6.1 Target remuneration and allocation to remuneration components

The tables below show the target remuneration, the actual remuneration, the minimum and maximum remuneration, as well as the allocation to the individual remuneration components, including ancillary benefits, for each Management Board member who was active in the reporting year.

The actual remuneration is the remuneration defined for the financial year, irrespective of the year in which it is paid out, irrespective of any subsequent changes in value due to share price fluctuations and irrespective of any potential subsequent reductions due to backtesting, malus scenarios or clawbacks.

Jochen Klösger	2022						2021	
	Actual (€ 000's)	Actual (in %)	Target (€ 000's)	Target (in %)	Min. (€ 000's)	Max. (€ 000's)	Actual (€ 000's)	Target (€ 000's)
Fixed remuneration	1,200	45 %	1,200	49 %	1,200	1,200	353	353
Ancillary benefits	45	2 %	45	2 %	45	45	13	13
Total fixed remuneration	1,245	47 %	1,245	51 %	1,245	1,245	366	366
One-year variable remuneration	280	11 %	240	10 %		280	82	71
Multi-year variable remuneration								
Share bonus	280	11 %	240	10 %		280	82	71
Cash deferral	350	13 %	300	12 %		350	103	89
Share deferral	490	19 %	420	17 %		490	144	124
Total variable remuneration	1,400	53 %	1,200	49 %		1,400	412	355
Total remuneration	2,645	100 %	2,445	100 %	1,245	2,645	778	721

Nina Babic	2022						2021	
	Actual (€ 000's)	Actual (in %)	Target (€ 000's)	Target (in %)	Min. (€ 000's)	Max. (€ 000's)	Actual (€ 000's)	Target (€ 000's)
Fixed remuneration	360	51 %	360	54 %	360	360		
Ancillary benefits	20	3 %	20	3 %	20	20		
Total fixed remuneration	380	54 %	380	57 %	380	380		
One-year variable remuneration	65	9 %	56	9 %		85		
Multi-year variable remuneration								
Share bonus	65	9 %	56	9 %		85		
Cash deferral	82	12 %	71	11 %		106		
Share deferral	114	16 %	99	15 %		148		
Total variable remuneration	327	46 %	282	43 %		423		
Total remuneration	707	100 %	663	100 %	380	804		

Marc Hess	2022						2021	
	Actual (€ 000's)	Actual (in %)	Target (€ 000's)	Target (in %)	Min. (€ 000's)	Max. (€ 000's)	Actual (€ 000's)	Target (€ 000's)
Fixed remuneration	900	47 %	900	52 %	900	900	900	900
Ancillary benefits	47	2 %	47	3 %	47	47	49	49
Total fixed remuneration	947	50 %	947	55 %	947	947	949	949
One-year variable remuneration	193	10 %	156	9 %		234	172	156
Multi-year variable remuneration								
Share bonus	193	10 %	156	9 %		234	172	156
Cash deferral	241	13 %	195	11 %		293	215	195
Share deferral	338	18 %	273	16 %		410	301	273
Total variable remuneration	965	50 %	780	45 %		1,170	859	780
Total remuneration	1,912	100 %	1,727	100 %	947	2,117	1,809	1,729

Christiane Kunisch-Wolff	2022						2021	
	Actual (€ 000's)	Actual (in %)	Target (€ 000's)	Target (in %)	Min. (€ 000's)	Max. (€ 000's)	Actual (€ 000's)	Target (€ 000's)
Fixed remuneration	530	45 %	530	49 %	530	530	900	900
Ancillary benefits	88	7 %	88	8 %	88	88	42	42
Total fixed remuneration	618	53 %	618	57 %	618	618	942	942
One-year variable remuneration	112	9 %	91	9 %		137	169	156
Multi-year variable remuneration								
Share bonus	112	9 %	91	9 %		137	169	156
Cash deferral	140	12 %	114	11 %		171	211	195
Share deferral	196	17 %	160	15 %		240	296	273
Total variable remuneration	559	47 %	457	43 %		686	846	780
Total remuneration	1,176	100 %	1,075	100 %	618	1,304	1,787	1,722

Christof Winkelmann	2022						2021	
	Actual (€ 000's)	Actual (in %)	Target (€ 000's)	Target (in %)	Min. (€ 000's)	Max. (€ 000's)	Actual (€ 000's)	Target (€ 000's)
Fixed remuneration	900	47 %	900	52 %	900	900	900	900
Ancillary benefits	48	3 %	48	3 %	48	48	38	38
Total fixed remuneration	948	50 %	948	55 %	948	948	938	938
One-year variable remuneration	190	10 %	156	9 %		234	170	156
Multi-year variable remuneration								
Share bonus	190	10 %	156	9 %		234	170	156
Cash deferral	237	13 %	195	11 %		293	212	195
Share deferral	332	18 %	273	16 %		410	297	273
Total variable remuneration	948	50 %	780	45 %		1,170	849	780
Total remuneration	1,896	100 %	1,728	100 %	948	2,118	1,787	1,718

6.2 Remuneration granted and owed (paid) in the reporting year

The tables below show the remuneration paid out in the reporting year. This is the remuneration granted and owed pursuant to section 162 (1) sentence 1 of the AktG. It includes remuneration components which were either actually paid (“granted”) to the Management Board members in the year under review or that were due in the same period, but have not yet been paid out (“owed”). In accordance with section 162 (1) sentence 2 of the AktG, the relative shares of the individual remuneration components are also shown.

Remuneration paid out	Jochen Klösiges		Nina Babic		Marc Hess		Christiane Kunisch-Wolff		Christof Winkelmann									
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021								
	€ 000's	in %	€ 000's	in %	€ 000's	in %	€ 000's	in %	€ 000's	in %								
Fixed remuneration	1,200	90 %	353	97 %	360	95 %	900	65 %	900	72 %	530	43 %	900	57 %	900	59 %	900	58 %
Ancillary benefits	45	3 %	13	3 %	20	5 %	47	3 %	49	4 %	88	7 %	42	3 %	48	3 %	38	2 %
Total (fixed)	1,245	94 %	366	100 %	380	100 %	947	69 %	949	75 %	618	50 %	942	60 %	948	62 %	938	61 %
One-year variable	82	6 %					172	12 %	114	9 %	169	14 %	111	7 %	170	11 %	112	7 %
Multi-year variable																		
Share bonus for 2020							136	10 %			133	11 %			133	9 %		
Share bonus for 2019									138	11 %			135	9 %			129	8 %
Share bonus for 2017													90	6 %			91	6 %
Cash deferral for 2020							28	2 %			28	2 %			28	2 %		
Cash deferral for 2019							39	3 %	39	3 %	46	4 %	46	3 %	44	3 %	44	3 %
Cash deferral for 2018							9	1 %	9	1 %	42	3 %	42	3 %	42	3 %	42	3 %
Cash deferral for 2017													79	5 %			80	5 %
Share deferral for 2019							41	3 %			48	4 %			46	3 %		
Share deferral for 2018							8	1 %	7	1 %	39	3 %	32	2 %	39	3 %	32	2 %
Share deferral for 2017											54	4 %	45	3 %	55	4 %	46	3 %
Share deferral for 2016											51	4 %	43	3 %	32	2 %	27	2 %
Share deferral for 2015																		
Dividend									3	0 %			6	0 %			5	0 %
Total (variable)	82	6 %					433	31 %	309	25 %	609	50 %	628	40 %	588	38 %	607	39 %
Pension benefits																		
Total	1,328	100 %	366	100 %	380	100 %	1,381	100 %	1,259	100 %	1,227	100 %	1,570	100 %	1,536	100 %	1,545	100 %

The following table shows the remuneration granted or owed to former members of the Management Board. Pursuant to section 162 (5) of the AktG, no personal details are provided for former members of the Management Board who left the Bank's Management Board prior to 31 December 2012.

Remuneration paid out	Dagmar Knopek (until May 2021)				Hermann J. Merkens (until April 2021)				Thomas Ortmanns ¹⁾ (until September 2021)				Dr. Wolf Schumacher (until September 2015)			
	2022		2021		2022		2021		2022		2021		2022		2021	
	€ 000's	in %	€ 000's	in %	€ 000's	in %	€ 000's	in %	€ 000's	in %	€ 000's	in %	€ 000's	in %	€ 000's	in %
Fixed remuneration			375	29%			475	21%			675	8%				
Ancillary benefits			17	1%			39	2%			32	0%				
Total (fixed)			392	30%			514	23%			707	9%				
One-year variable	69	10%	110	9%	20	1%	179	8%	125	20%	112	1%				
Multi-year variable																
Share bonus for 2020	131	18%			214	15%			134	21%						
Share bonus for 2019			137	11%			226	10%			140	2%				
Share bonus for 2017			112	9%			196	9%			111	1%				
Cash deferral for 2020	28	4%			54	4%			28	4%						
Cash deferral for 2019	47	7%	47	4%	77	6%	77	3%	48	8%	48	1%				
Cash deferral for 2018	49	7%	49	4%	91	7%	91	4%	52	8%	52	1%				
Cash deferral for 2017			99	8%			174	8%			98	1%				
Share deferral for 2019	49	7%			81	6%			50	8%						
Share deferral for 2018	46	6%	38	3%	85	6%	71	3%	48	8%	40	1%				
Share deferral for 2017	67	9%	56	4%	118	8%	98	4%	67	11%	56	1%				
Share deferral for 2016	80	11%	67	5%	143	10%	119	5%	81	13%	67	1%				
Share deferral for 2015			88	7%			123	6%			87	1%			114	27%
Dividend			7	1%			11	1%			7	0%				
Total (variable)	567	79%	811	63%	883	64%	1,367	62%	633	100%	818	10%			114	27%
Pension benefits	154	21%	89	7%	507	36%	335	15%			6,556	81%	340	100%	315	73%
Total	721	100%	1,292	100%	1,390	100%	2,216	100%	633	100%	8,081	100%	340	100%	429	100%

¹⁾ With regard to his pension commitment (2021), Mr Ortmanns opted for the lump-sum payment of his entire pension capital.

7. Pensions

7.1 Pension expenses

	2022		2021	
	Service cost from employer contribution (IFRSs)	Defined benefit obligation	Service cost from employer contribution (IFRSs)	Defined benefit obligation
€ 000's				
Jochen Klösger	209	275	67	67
Nina Babic	63	63		
Marc Hess	622	1,474	723	2,215
Christiane Kunisch-Wolff	508	2,033	580	3,033
Christof Winkelmann	674	2,172	788	3,642
Gesamt	2,076	6,018	2,158	8,956

The total amount of pension obligations (IFRSs) to active and former members of the Management Board was € 47 million as at 31 December 2022 (2021: € 65 million). Of that amount, € 5 million (2021: € 11 million) related to members of the Management Board active at the end of the financial year and € 42 million to former members of the Management Board, including those retired from the Board during year under review, and their surviving dependants (2021: € 55 million).

7.2 Benefit payments made to former members of the Management Board

For benefit payments made to former members of the Management Board, who resigned from the Board after 31 December 2012, please refer to the tables on remuneration paid. Pursuant to section 162 (5) of the AktG, no personal details are provided for former members of the Management Board who left the Bank's Management Board prior to 31 December 2012.

8. Remuneration system for members of the Supervisory Board

The remuneration system for the Supervisory Board members was accepted by 81.54% of the votes cast at the ordinary Annual General Meeting 2021. The fundamental principles of the system and the actual Supervisory Board remuneration paid in 2022 are shown below.

8.1 Fundamental principles

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. Remuneration for the services of the Supervisory Board members comprises exclusively fixed remuneration, plus an attendance fee. In accordance with the requirements set out in section 25d (5) of the German Banking Act, the members of the Supervisory Board do not receive any variable remuneration components for this activity. Where membership in the Supervisory Board falls short of an entire financial year, said remuneration shall be paid on a pro rata temporis basis. Furthermore, the Supervisory Board members will be reimbursed for their expenses.

Remuneration of the Supervisory Board comprises the following:

Remuneration element	Description	Structure
Fixed remuneration	Remuneration for activities on the Supervisory Board; depending on the role of the respective Supervisory Board member (e.g. Chair of the Supervisory Board or Deputy Chair)	<ul style="list-style-type: none"> – € 50,000 p. a. per Supervisory Board member – € 150,000 p. a. for the Chair – € 75,000 p. a. for the Deputy Chair
Committee remuneration	Remuneration for activities and duties on the Supervisory Board committees also depends on the role of the respective Supervisory Board member in the respective committee (e.g. a committee chairman)	<ul style="list-style-type: none"> – € 20,000 p. a. each for membership in the Risk Committee and/or Audit Committee – € 40,000 p. a. each for chairing any of the two committees – € 15,000 p. a. each for membership in other committees – € 30,000 p. a. each for chairing any of the other committees
Attendance fees	Remuneration for participation in Supervisory Board meetings and on the committees of the Supervisory Board	– € 1,000 per meeting

The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

8.2 Supervisory Board remuneration in 2022

	2022			2021		
	Fixed remuneration	Attendance fees	Total	Fixed remuneration	Attendance fees	Total
€						
Prof. Dr Hermann Wagner Chair	270,000	47,000	317,000	138,736	61,000	199,736
Henning Giesecke Member since 31 August 2022	35,292	11,000	46,292			
Denis Hall Member since 31 August 2022	33,611	10,000	43,611			
Thomas Hawel ¹⁾	65,000		65,000	65,000	30,000	95,000
Petra Heinemann-Specht ¹⁾	105,000	40,000	145,000	90,917	41,000	131,917
Barbara Antonia Knoflach Deputy Chair since 31 August 2022	42,014	9,000	51,014			
Jan Lehmann ¹⁾	66,111	23,000	89,111	66,222	31,000	97,222
Hans-Hermann Lotter ²⁾ Member since 31 August 2022	33,611	10,000	43,611			
Marika Lulay Member since 31 August 2022	31,931	7,000	38,931			
Klaus Novatius ¹⁾ Deputy Chair	105,000	25,000	130,000	105,000	57,000	162,000
Sylvia Seignette	120,000	38,000	158,000	92,139	34,000	126,139
José Sevilla Álvarez ²⁾ Member since 31 August 2022	33,611	10,000	43,611			
Jana Brendel Member since 31 August 2022	67,500	18,000	85,500	85,958	35,000	120,958
Holger Giese Member since 14 January 2022 to 31 August 2022	53,014	23,000	76,014			
Friedrich Munsberg Member since 14 January 2022 to 31 August 2022	65,292	29,000	94,292			
Richard Peters Member until 31 August 2022 Deputy Chair until 31 August 2022	71,111	21,000	92,111	140,000	57,000	197,000
Elisabeth Stheeman ²⁾ Member until 31 August 2022	67,778	27,000	94,778	87,139	37,000	124,139
Ulrich Theileis Member since 14 January 2022 to 31 August 2022	53,014	23,000	76,014			
Marja Korsch Member until 9 December 2021 Chair until 23 November 2021				230,681	68,000	298,681
Hans-Dietrich Voigtländer Member until 9 December 2021				108,292	44,000	152,292
Christof von Dryander Member until 9 December 2021				96,250	60,000	156,250
Total	1,318,890	371,000	1,689,890	1,306,334	555,000	1,861,334

¹⁾ Employee representative

²⁾ Income tax plus solidarity surcharge for the Supervisory Board members subject to limited tax liability was declared pursuant to section 50a (1) no. 4 of the German Income Tax Act (Einkommensteuergesetz – EStG), and paid to the German Central Tax Office (Bundeszentralamt für Steuern, BZSt).

9. Comparison of earnings performance and remuneration

Pursuant to section 162 (1) sentence 2 no. 2 of the AktG, information has to be provided on earnings development, the annual change in the remuneration paid to members of the Management Board and the Supervisory Board, as well as the annual change in the average remuneration paid to employees on a full-time equivalent basis over the last five financial years.

Earnings performance is shown based on the operating profit before taxes and consolidated net income.

The remuneration granted and owed in the financial year concerned is taken as a basis for the members of the Management Board and the Supervisory Board. This means that for the Management Board, the remuneration paid out in the financial year concerned is shown.

The staff members employed by Aareal Bank AG in Germany are taken as a basis for the employee figures. The remuneration shown in this respect is the gross remuneration defined for the year.

	2018	2019	Changes (2019/2018)	2020	Changes (2020/2019)	2021	Changes (2021/2020)	2022	Changes (2022/2021)
Earnings performance									
Operating profit before taxes (€ mn)	316	248	-22 %	-75	-130 %	155	307 %	239	54 %
Consolidated net income (€ mn)	226	163	-28 %	-69	-142 %	68	199 %	153	125 %
Net profit of Aareal Bank AG for the financial year pursuant to the HGB (€ mn)	126	120	-5 %	90	-25 %	30	-67 %	61	103 %
Average employee remuneration (€ 000's)									
	104,673	106,203	1 %	101,584	-4 %	107,160	5 %	107,870	1 %
Management Board remuneration (€ 000's)									
Jochen Klösches						366		1,328	263 %
Nina Babic								380	
Marc Hess	223	983	340 %	1,203	22 %	1,259	5 %	1,381	10 %
Christiane Kunisch-Wolff	979	1,222	25 %	1,550	27 %	1,570	1 %	1,227	-22 %
Christof Winkelmann	995	1,137	14 %	1,461	28 %	1,545	6 %	1,536	-1 %
Dagmar Knopek (until May 2021)	1,885	1,979	5 %	1,890	-4 %	1,292	-32 %	721	-44 %
Hermann J. Merckens (until Apr 2021)	2,948	3,055	4 %	3,089	1 %	2,216	-28 %	1,390	-37 %
Thomas Ortmanns (until Sep 2021)	2,189	2,013	-8 %	1,904	-5 %	8,081	324 %	633	-92 %
Wolf Schumacher (until Sep 2015)	1,925	1,341	-30 %	555	-59 %	429	-23 %	340	-21 %
Dirk Große Wördemann (until May 2013)	203		-100 %						
Supervisory Board remuneration (€ 000's)									
Prof. Dr Hermann Wagner	129	131	2 %	156	19 %	200	28 %	317	59 %
Henning Giesecke								46	
Denis Hall								44	
Thomas Hawel	77	78	1 %	87	12 %	95	9 %	65	-32 %
Petra Heinemann-Specht	63	85	36 %	111	30 %	132	19 %	145	10 %
Barbara Antonia Knoflach								51	
Jan Lehmann				51		97	92 %	89	-9 %

	2018	2019	Changes (2019/2018)	2020	Changes (2020/2019)	2021	Changes (2021/2020)	2022	Changes (2022/2021)
Hans-Hermann Lotter								44	
Marika Lulay								39	
Klaus Novatius		126		142	13 %	162	14 %	130	-20 %
Sylvia Maria Seignette	103	105	2 %	114	9 %	126	11 %	158	24 %
José Sevilla Álvarez								44	
Jana Brendel (until Aug 2022)				65		121	87 %	86	-30 %
Holger Giese (until Aug 2022)								76	
Friedrich Munsberg (until Aug 2022)								94	
Richard Peters (until Aug 2022)	123	125	2 %	159	27 %	197	24 %	92	-54 %
Elisabeth T. Stheeman (until Aug 2022)	102	104	2 %	113	9 %	124	10 %	95	-25 %
Ulrich Theileis (until Aug 2022)								76	
Marija Korsch (until Dec 2021)	301	302	0 %	320	6 %	299	-7 %	0	-100 %
Dietrich Voigtländer (until Dec 2021)	141	140	-1 %	153	9 %	152	0 %	0	-100 %
Christof von Dryander (until Dec 2021)				84		156	85 %	0	-100 %
Dr Hans-Werner Rhein (until May 2020)	101	106	5 %	52	-51 %				
Prof. Dr Stephan Schüller (until May 2020)	152	148	-3 %	70	-53 %				
Beate Wollmann (until May 2020)	77	85	10 %	41	-52 %				
Dieter Kirsch (until Dec 2018)	120								
York-Detlef Bülow (until Mar 2018)	40								

10. Outlook

The revised target system will be applied for the first time in 2023. Changes in the remuneration system for the Management Board are currently not planned for 2023.

Audit opinion

To Aareal Bank AG, Wiesbaden

Opinion on the Audit of the Remuneration Report

We have audited the attached remuneration report, including the associated disclosures, of Aareal Bank AG, Wiesbaden for the financial year from 1 January to 31 December 2022 prepared in compliance with Section 162 of the German Stock Corporation Act (AktG).

Responsibilities of the legal representatives and the Supervisory Board

The legal representatives and the Supervisory Board of Aareal Bank AG are responsible for preparing the remuneration report, including the associated disclosures, that meets the requirements of Section 162 AktG. The legal representatives and the Supervisory Board are also responsible for the internal controls that they deem necessary to enable the preparation of a remuneration report, including the associated disclosures, that is free from material false disclosures, whether due to fraud or error.

Responsibilities of the auditor

Our responsibility is to express an opinion on this remuneration report, including the associated disclosures, based on our audit. We conducted our audit in accordance with the German Generally Accepted Standards of Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (IDW). According to these standards, we must adhere to the professional responsibilities and plan and conduct the audit in such a way that reasonable assurance is obtained as to whether the remuneration report, including the associated disclosures, is free of material false disclosures.

An audit comprises the conducting of audit procedures in order to obtain audit evidence for the valuations contained in the remuneration report including the associated disclosures. The audit procedures are selected at the auditor's due discretion. This includes assessment of the risks of material false disclosures – whether due to fraud or error – in the remuneration report including the associated disclosures. In assessing these risks, the auditor takes into account the internal control system that is relevant to the preparation of the remuneration report including the associated disclosures. The objective here is to plan and conduct audit procedures that are appropriate in the circumstances, but not to express an audit opinion on the effectiveness of the company's internal control system. An audit also comprises the assessment of the accounting policies used, the reasonableness of the estimated values calculated by the legal representatives and the Supervisory Board in their accounting, and the assessment of the overall presentation of the remuneration report, including the associated disclosures.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In our view, based on the findings of our audit, the remuneration report for the financial year from 1 January to 31 December 2022 including the associated disclosures complies in all material respects with the accounting rules in Section 162 AktG.

Other matter – Formal audit of the remuneration report

The content-related audit of the remuneration report described in this audit opinion comprises the formal audit of the remuneration report required under Section 162 (3) AktG, including the issuing of an opinion on this audit. As we are issuing an unqualified audit opinion on the content-related audit of the remuneration report, this audit opinion also confirms that the disclosures as per Section 162 (1) and (2) AktG have been made in the remuneration report in all material respects.

Note on limitation of liability

The terms governing this engagement, in fulfilment of which we performed the services detailed above for Aareal Bank AG, are set out in the General Engagement Terms for German Public Auditors and Public Audit Firms as amended on 1 January 2017. By acknowledging and using the information contained in this audit opinion, each recipient confirms that they are aware of the provisions set out therein (including the limitation of liability to 4 million € for negligence in item 9 of the General Conditions of Contract), and recognises their validity in relation to us.

Frankfurt/Main, 16 June 2023

KPMG AG

Wirtschaftsprüfungsgesellschaft

(Original German version signed by:)

Winner

Wirtschaftsprüfer

(German Public Auditor)

Pott

Wirtschaftsprüfer

(German Public Auditor)

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