



Report of the Management Board to the Annual General Meeting regarding the authorisations and the exclusion of subscription rights proposed under agenda item no. 8 in accordance with sections 71 (1) no. 8 sentence 5 and 186 (4) sentence 2 of the AktG

The Management Board has submitted a written report regarding agenda item no. 8 in accordance with sections 71 (1) No. 8, 186 (4) sentence 2 of the AktG describing the reasons for the proposed authorisation for the purchase of treasury shares, subject to the partial restriction of the principle of equal treatment and shareholders' tender rights, and regarding the proposed authorisation for the sale of treasury shares other than via the stock exchange and in compliance with the principle of equal treatment and at the proposed issue price. The report is hereby published as follows:

Authorisation to purchase treasury shares and to exclude possible tender rights

The purpose of the proposed authorisation is to enable the Company to continue having the option to purchase treasury shares using customary market practices in accordance with section 71 (1) no. 8 of the AktG. This authorisation enables the Company to purchase treasury shares up to the equivalent of ten per cent (10%) of its share capital up until and including 26 May 2025, i.e. up to the maximum five years permitted by law, for any valid purpose. With the proposed extension of the authorisation granted by the Annual General Meeting of 20 May 2015, the Company will be in a position to continue capitalising on the benefits of purchasing treasury shares, in both its own interests and those of its shareholders, for a further period expiring on 26 May 2025.

The number of treasury shares the Company is permitted to hold is restricted by law to ten per cent (10%) of its share capital - including the authorisation to purchase treasury shares for securities trading purposes, as proposed under agenda item no. 7 (section 71 (2) of the AktG). The acquisition may take place via the stock exchange or via a public offer to purchase at the prices stipulated in the authorisation and based on the prevailing market price. This provides a level playing field for all shareholders to sell shares to the Company, provided that the Company exercises its authorisation to purchase treasury shares. This approach safeguards shareholders' rights and preserves equality of treatment. Whenever a public offer is oversubscribed, acceptance must be effected on a pro-rata basis. The preferential acceptance of a lower share quantity of up to 100 shares tendered per shareholder and commercial rounding may be provided for. This method is used to avoid fractional amounts when determining the individual purchase quotas and minor residual portions, thereby facilitating the technical handling.

Neither the offered purchase price nor the threshold values of the purchase price range may differ by more than ten per cent (10%) from the average closing price of the Company's shares in Xetra (or a comparable successor system on the Frankfurt stock exchange) during the three trading days on the Frankfurt/Main stock exchange prior to the purchase, the assumption of an obligation to purchase or the public announcement of the purchase offer. The public purchase offer may be contingent on further conditions.

Use of purchased shares and exclusion of subscription rights

The treasury shares purchased under the authorisation proposed under agenda item no. 8 or under an earlier authorisation may be used as follows:



The purchased shares may be sold via the stock exchange or in a public offer or called in to reduce the Company's share capital. These alternatives ensure that the shareholders' right to equal treatment will be observed upon disposal.

The resolution contains an additional proposal to authorise the Management Board to effect the sale of any treasury shares purchased in accordance with section 71 (1) no. 8 of the AktG, subject to the Supervisory Board's approval, through channels other than a sale via the stock exchange, or an offer to all shareholders (excluding shareholders' subscription rights pursuant to section 186 (3) sentence 4 of the AktG), provided that the sale is carried out at a cash price that is not significantly lower than the relevant stock exchange price of the Company's shares at the time of sale. In such cases, the management will minimise any discounts from the issue price in relation to the market price and is expected to limit any such discounts to five per cent (5%). Any dilution of the value of shareholders' holdings will be avoided through the close link to the prevailing market price. The selling price of the treasury shares will be finalised immediately prior to use.

The total number of shares sold in this manner may not exceed ten per cent (10%) of the issued share capital, neither at the time the proposed authorisation comes into effect nor at the time of its utilisation. This threshold also includes any shares that were issued or sold during the term, and prior to the exercise, of this authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, by virtue of other authorisations granted to the Management Board for the issue or sale of shares, or on the basis of resolutions passed by an Annual General Meeting. Said 10% threshold shall also include shares that were, or still can be, issued in accordance with section 186 (3) sentence 4 of the AktG during the validity of the proposed authorisation in connection with profit participation rights/bonds with conversion or option rights for shares and excluding shareholders' pre-emptive subscription rights. These inclusions ensure that no purchased treasury shares are sold (excluding shareholders' subscription rights) in accordance with section 186 (3) sentence 4 of the AktG if this would result in the exclusion – without objective grounds – of shareholder's pre-emptive subscription rights in direct or analogous application of section 186 (3) sentence 4 of the AktG for an amount exceeding ten per cent of the registered share capital. This additional restriction is in the interest of shareholders who wish to maintain their stake to the greatest extent possible.

The proposed authorisation therefore ensures that shareholders' financial and voting interests are appropriately taken into account when selling shares to the exclusion of subscription rights, whilst extending the Company's flexibility in the interest of all shareholders. The legal concepts embodied in section 186 (3) sentence 4 of the AktG have thus been properly considered and complied with. Among other things, this will provide the Company with an opportunity to offer shares to institutional investors or domestic and international investors, for example, and to expand its shareholder base, thereby stabilising the value of the shares. The Company will therefore have flexibility in adjusting its equity to commercial requirements and responding to favourable opportunities on the stock exchange. In addition, shareholders have the option of maintaining the level of their shareholding in the Company by purchasing shares on the stock exchange.

Moreover, the shareholders' subscription rights may also be excluded when the shares are sold on a non-cash basis including receivables against the Company. This reflects the purpose of the authorisation included in the proposed resolution to maintain the Company's ability to act in the most flexible and cost-efficient manner when acquiring entities or agreeing on business combinations, particularly without increasing its capital, and to preserve its capital. Where appropriate, the Company may decide to offer treasury shares as consideration for the acquisition of enterprises or participating interests (excluding shareholders' pre-emptive subscription rights if and when appropriate). Such share deals have become increasingly popular world-wide as a form of acquisition finance. To this extent, the shareholders' right to subscribe to treasury shares may also be excluded. The price at which the treasury shares will be issued in this case depends on the individual circumstances and the timing. With regard to



price determination, the Management and Supervisory Boards will be guided by the Company's interests. The Management Board will use the stock exchange price of the Company's shares as a guideline when determining the value of the shares granted by way of consideration; there are no plans to apply any fixed formula relating to the quoted market price, particularly to avoid the results of negotiations being called into question by fluctuations in the quoted market price.

The authorisation also provides for the Company to continue being allowed to use any treasury shares it has purchased to satisfy the rights of holders of convertible bonds and/or bonds with warrants. This may result in a reduction of any capital increase from conditional capital, if required. The use of existing treasury shares instead of a capital increase or cash payment may be financially advantageous; the authorisation is intended to increase flexibility in this regard. At present, no option or conversion rights or conversion obligations exist that would be eligible for servicing through treasury shares under the proposed authorisation.

Furthermore, the Company is to have the ability to partially exclude shareholders' subscription rights upon the sale of the shares via a public offer to all shareholders in favour of the holders of conversion or option rights. In this way, subscription rights to shares could also be granted to these holders that would entitle said holders to the same extent as they would have been entitled upon exercising their conversion or option rights or upon performance of a conversion obligation. This would enable the Company to avoid a reduction in the option or conversion price, which would be the consequence of issuing treasury shares without granting subscription rights to the holders of options and conversion rights in accordance with the terms and conditions governing the convertible bonds and bonds cum warrants.

Furthermore, the Management Board should be authorised, subject to the Supervisory Board's approval, to exclude shareholders' subscription rights for fractional amounts upon the disposal of treasury shares via an offer to all shareholders. The purpose of this authorisation is to create subscription ratios that result in as few fractional shares as possible in order to facilitate the technical settlement of issuing shares. As freely marketable fractions, the shares excluded from the shareholders' subscription rights will either be sold at the stock exchange or otherwise disposed of on a 'best efforts' basis. The Management Board will endeavour to keep the amount of freely marketable fractions as small as possible. Through the limitation to such fractional amounts, shareholders do not suffer a material dilution of their shareholdings. The shareholders' financial interests will be safeguarded by the obligation to ensure best possible realisation.

The option of purchasing and using treasury shares by direct or indirect subsidiaries of the Company, or by third parties for account of the Company or its direct or indirect subsidiaries, provides the Company with additional flexibility in the utilisation of its treasury shares.

The Management Board will only make use of this authorisation if the exclusion of subscription rights in individual instances is in the best interest of the Company and its shareholders. Similarly, the Supervisory Board will only grant the necessary approval if these requirements have been met.

Further information

The Management Board currently has no intention of utilising the authorisation anticipated in the proposed resolution to purchase and use treasury shares.

If the Annual General Meeting grants the proposed authorisation, the Management Board will consider from time to time whether to utilise it in the light of the prevailing market conditions and, depending on the outcome of such considerations, decide to purchase treasury shares and possibly use them for a specific purpose. In this connection, the Management Board will only utilise the authorisation to purchase treasury shares if it is satisfied that (i) this will result



in an improvement in earnings per share and/or an advantageous equity ratio for the Company in the light of the prevailing market conditions and (ii) such a purchase is in the legitimate interests of the Company and its shareholders. The Management Board has not yet made any decision on the extent to which the treasury shares purchased on the basis of this resolution are to be redeemed. The Management Board will only utilise the authorisation to use the treasury shares subject to the exclusion of subscription rights if in the specific situation the strict regulatory conditions for excluding subscription rights are satisfied and in particular if the exclusion of subscription rights is justified in the light of the Company's interests.

Whenever the Management Board utilises one of the above-mentioned authorisations, it will report on this at the next General Meeting as well as in the annual report.

The Management Board's report on agenda item no. 8 explaining the reasons for the planned authorisation to exclude the shareholders' subscription rights will be made available to each shareholder without delay and free of cost (upon request). The report is also available on the internet at <http://www.aareal-bank.com/en/>

Wiesbaden, April 2020

The Management Board