Report of the Management Board to the Annual General Meeting regarding the authorisation and to exclude of pre-emptive rights proposed under agenda item No. 9 in accordance with section 221 (4) sentence 2 in conjunction with section 186 (4) sentence 2 of the AktG

We propose to the Annual General Meeting that a new authorisation be granted and that new Conditional Capital 2010 be created for the issue of convertible bonds and / or bonds cum warrants. It is proposed that the existing authorisation, which will expire on 20 May 2013, and the existing Conditional Capital 2008 be revoked.

The proposal for resolution on a new authorisation provides that the Management Board be authorised to issue by 18 May 2015, on one or more occasions, bearer and / or registered convertible bonds and / or bonds cum warrants, or combinations thereof, (collectively the "Bonds") having a total nominal amount not exceeding € 600,000,000, with or without fixed term to maturity, and to confer upon the holders or creditors of such Bonds conversion and / or option rights to bearer unit shares of the Company, equivalent to a share in the registered share capital of up to € 30,000,000, in accordance with the terms and conditions governing such convertible bonds or bonds cum warrants.

Sufficient capital resources are a basic requirement for the development of the Company. Along with the traditional methods of raising equity and borrowing, the issuance of convertible bonds and / or bonds cum warrants (or combinations of these instruments) can provide the Company, depending on the market situation, with opportunities of utilising attractive financing alternatives in the capital market, thereby setting the course for the future development of the Company's business. The Management Board believes that it is in the Company's best interest to also have these financing options available to it in the future. However, the intention is to reasonably limit the level from the onset at an aggregate nominal amount of up to € 600,000,000 for convertible bonds and an entitlement for the subscription of up to 10 million unit bearer shares of the Company. The Bonds may also be issued for contribution in kind.

The issuance of convertible bonds and / or bonds cum warrants enables the raising of capital at attractive terms. Such issuance also facilitates the raising of external funds which, depend-ing on the actual terms of issue, may be classified as equity capital or quasi-equity capital, both for rating and balance sheet purposes. The conversion and / or option premiums generated as well as the inclusion in equity will benefit the Company's capital basis, thereby facilitating the use of favourable financing opportunities. Furthermore, the plan to also establish conversion obligations in addition to granting conversion and / or option rights will provide the Company with more scope for structuring this financing instrument. The authorisation will also provide the Company with the necessary flexibility to either place the Bonds itself or via direct or indirect subsidiaries majority-owned by the Company. As an alternative to the issuance in euro, the Bonds may also be issued in other currencies, such as the legal tender of an OECD member state, with or without a limited term.

In order to increase flexibility, the bond terms may also provide that the Company pays the equivalent value in monetary funds, rather than granting shares in the Company to conver-sion or option beneficiaries. Furthermore, the terms and conditions governing convertible bonds or bonds cum warrants may provide for the right on the part of the Company to substitute the cash payment due, in whole or in part, by the granting of new shares or treasury shares of the Company to the Bond creditors ("right to substitute"). Such shares would then be credited at the value that corresponds, in accordance with the bond terms, to the arithmetic mean (rounded up) of the closing auction price for the Company's shares in Xetra trading (or a comparable successor system) on the ten consecutive market trading days of the Frankfurt / Main stock exchange prior to the conversion or option right being exercised, or prior to final maturity.

Moreover, the option and / or convertible bond terms may also allow for a certain degree of variability in terms of the number of shares to be subscribed upon exercise of the option and / or conversion rights or upon performance of conversion obligations, and the ability to change the option and / or conversion price, during the term, within the range to be determined by the Management Board, depending on the development of the share price or as a result of applicable provisions for the protection against dilution.

With the German Act Implementing the Shareholder Rights Directive ("ARUG"), whose essential parts came into force in September 2009, the legislator clarified that, in the event of a conditional capital increase to back the issuance of convertible bonds and similar instruments, it will be sufficient if the resolution authorising the issuance of such instruments determines a minimum issue price or its calculation basis for the shares to be granted upon conversion or option exercise. In doing so, the legislator has departed from the rulings of some courts who required that any resolution of the general meeting concerning conditional capital should result in a specific conversion or option price, which was contrary to common corporate practice at that time.

In view of the clarification of the legal situation by the ARUG, the authorisation provides that the conversion or option price to be set for a share must – even where the exchange ratio / conversion or option price is variable – be no less than 80 % of the average closing auction price of the Company shares in trading on Xetra (or any other successor system) during the ten trading days of the Frankfurt / Main Stock Exchange prior to the day on which the Management Board passes a resolution on the issue of convertible bonds and / or bonds cum warrants, or no less than 80 % of the average closing auction price of the Company's share in trading on Xetra (or any other successor system) during the days on which the relevant subscription rights are traded at the Frankfurt Stock Exchange (with the exception of the last two days of trading in subscription rights).

In principle, the shareholders are entitled to a subscription right. However, it is also intended to authorise the Management Board, subject to Supervisory Board approval and in analogous application of Section 186 (3) sentence 4 of the AktG, to exclude any subscription rights to the extent that the issuance of shares due to conversion or option rights, or due to conversion obligations, is limited to ten per cent (10 %) of the Company's share capital. This threshold also includes any shares that were issued or sold during the term and prior to the exercising of this authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, and 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 a General Meeting. Said ten-percent threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation; this ensures that no convertible bonds and / or bonds cum warrants are issued if this could result in shareholders' subscription rights being excluded for a total of more than ten per cent (10%) of the share capital in direct or analogous application of Section 186 (3) sentence 4 of the AktG for no specific justifiable reason. This further limitation is in the interest of shareholders who wish to maintain their stake, to the greatest extent possible, in the event of capital adjustments.

By offering this opportunity to exclude the subscription right, the Company achieves the flexibility to leverage favourable capital market conditions as they arise. This is due to the fact that, in contrast to the issue of debt securities with subscription rights, the issue price can only be determined immediately prior to placement, thereby avoiding a higher risk of price changes for the duration of one subscription period.

In the event of such exclusion of subscription rights, analogous application of section 186(3) sentence 4 AktG requires that the issue price for the Bonds may not be set significantly below the market value. This is intended to protect the shareholdings of existing shareholders from dilution. As a result of the determination of the issue price for the Bonds at a level not significantly below the notional market value, as provided for by the proposed authorisation, the value of a subscription right would virtually equate to zero. To ensure that this requirement for the issuance of Bonds is met, the issue price must not fall significantly below the theoretical market value of the convertible bonds and / or bonds cum warrants ascertained in accordance with recognised mathematical valuation methods. In this way, the protection of shareholders against dilution of their shareholdings is ensured and the shareholders are not suffering any financial disadvantage due to the exclusion of subscription rights. Shareholders who wish to maintain their share in the Company's share capital or purchase Bonds in line with their stake can do so by buying at the stock exchange.

Furthermore, subject to approval by the Supervisory Board, the Management Board shall be authorised to exclude fractional amounts from the subscription right. Any such fractional amounts may result from the sum of the relevant issue volume and the need for a practicable subscription ratio. In these cases, the exclusion of the subscription right facilitates the handling of the capital adjustment. 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.

Moreover, with the approval of the Supervisory Board, the Management Board shall be enabled to exclude shareholders' subscription rights in order to grant subscription rights to holders or creditors of conversion and / or option rights or convertible bonds subject to a conversion obligation to the extent that would be available to them when exercising conversion or option rights or when performing their conversion obligations. Options and conversion terms usually contain clauses that serve to protect the holder or creditor of option or conversion rights against dilution, thereby improving the ability to place these financial instruments on the market. Granting subscription rights to holders of existing option or conversion rights puts the Company in the position of preventing option or conversion prices from being reduced for holders of existing conversion and / or option rights in accordance with the applicable options and conversion terms and conditions in the event of the authorisation being exercised, or that the Company would have to provide other protection against dilution. This ensures that the issue price of the bearer unit shares to be issued upon the exercise of the option or conversion right would be higher. As this would facilitate the placement of the issue, the exclusion of pre-emptive subscription rights safeguards the interests of shareholders in an optimum financial structure of their Company.

Furthermore, the Management Board shall be authorised to exclude shareholders' subscription rights, subject to the Supervisory Board's approval, where Bonds are issued for contribution in kind and provided that the value of the contribution in kind is commensurate with the theoretical market price of the Bonds determined in accordance with recognised mathematical valuation methods. This provides the opportunity of using Bonds as an "acquisition currency" in suitable cases, thereby being able to purchase attractive acquisition targets, with minimum impact on liquidity, as such opportunity presents itself. The Management Board will carefully examine, on a case-by-case basis, whether it will use its authorisation to issue Bonds against contribution in kind, subject to an exclusion of pre-emptive rights. It will only use this authorisation where this is in the best interest of the Company.

Where these authorisations are utilised, the Management Board will report on this at the next General Meeting.

The proposed Conditional Capital 2010 is intended to service conversion and / or option rights under convertible bonds and / or bonds cum warrants or to perform conversion obligations with regard to shares of the Company, unless treasury shares are used for this purpose, or cash settlement is granted, in accordance with a separate authorisation passed by the General Meeting. In addition, the Conditional Capital 2010 also serves for the issuance of shares where the Company makes use of its right to substitute.

The report of the Management Board regarding agenda item No. 9 on the reasons for the authorisations provided thereunder for the exclusion of shareholders' subscription rights will be available for shareholders at the Company's offices (Paulinenstrasse 15, 65189 Wiesbaden) from the day on which the Annual General Meeting is called. The report will also be available at the Annual General Meeting itself. Upon request, said report will be sent to every shareholder, without delay, free of charge. The report is also available on the internet on http://www.aareal-bank.com.