**Report of the Management Board to the Annual General Meeting regarding the authorisation and the exclusion of subscription rights proposed under agenda item No. 6 in accordance with section 203 (2) sentence 2 in conjunction with section 186 (4) sentence 2 of the AktG**

In accordance with section 203 (2) in conjunction with section 186 (4) sentence 2 of the AktG, the Management Board has submitted a written report regarding agenda item No. 6 on the reasons for the exclusion of subscription rights and the proposed issue price. The report is hereby published as follows:

The 2010 Authorised Capital pursuant to the resolution dated 19 May 2010 adopted by the Annual General Meeting in the amount of € 64,132,500 was used during the previous financial year and currently accounts for € 12,826,314 (Article 5 (4) of the Company's Memorandum and Articles of Association). In order to safeguard flexibility through further capital measures by the Management Board, the Authorised Capital shall be increased up to the limitation prescribed by applicable law. It is intended that the existing authorisation be replaced by a new authorisation covering an amount of € 89,785,830 ("Authorised Capital 2012").

The Management and Supervisory Boards propose to the Annual General Meeting that new Authorised Capital be created, having essentially the same terms and conditions as the existing Authorised Capital. As with the existing authorisation–, the new 2012 Authorised Capital shall –be used for capital increases against contributions in cash or in kind.

In the case of utilisation of the new Authorised Capital 2012, shareholders in principle have a subscription right. The shares may also be subscribed by one or more banks, subject to the obligation of offering these to the shareholders for subscription (so-called "indirect subscription right"). However, subscription rights may be excluded where this is in the interest of the Company in the following cases.

The proposed authorisation will enable the Management Board to exclude shareholders' pre-emptive subscription rights in the event of a capital increase against cash contributions, subject to approval by the Supervisory Board and provided that the issue price is not significantly lower than the prevailing market price of the Company's shares already listetd at a stock exchange at the time of the final determination of the issue price. Section 203 (1) and 2 and section 186 (3) sentence 4 of the AktG specifically provide for the possibility of excluding subscription rights. This enables the management to take advantage of favourable opportunities on the stock market whenever they arise and to react quickly to price developments on the market, thereby achieving a high issue price and thus the optimisation of own funds. Moreover, the exclusion of subscription rights is designed to facilitate a placement close to prevailing market price levels, without the issuing discount commonly applied to a rights issue. The amount to be authorised will not exceed the statutory limit of ten per cent (10%) of the registered share capital. Where, in connection with an increase in registered share capital, the Company makes use of the possibility of excluding subscription rights, 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%) as a maximum. This will ensure that any economic dilution of shareholdings will be kept to a minimum. In the event of subscription rights being excluded when issuing new shares against cash contributions close to the prevailing market price, the capital increase must not exceed ten per cent (10%) of the share capital outstanding at the time of the authorisation entering into effect or – if this value is lower – at the time of exercising the authorisation. Given the existence of a liquid market and the amount of freely floating shares, this ensures that shareholders would be able to purchase shares on the stock exchange at similar prices, effectively protecting their shareholding against dilution.

The threshold of ten per cent (10%) of the issued share capital mentioned above 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. Said ten-per-cent threshold shall particularly 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 treasury shares are sold (excluding shareholders' subscription rights) in accordance with section 186 (3) sentence 4 of the AktG where this could result in shareholders' subscription rights being excluded for a total of more than ten per cent (10%) of the registered share capital in direct or analogous application of section 186 (3) sentence 4 of the AktG for no specific justifiable reason. The proposed authorisation therefore ensures that shareholders' financial and voting interests are appropriately taken into account when exercising Authorised Capital to the exclusion of subscription rights, whilst expanding 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.

Furthermore, the proposed authorisation allows the Management Board to exclude shareholders' subscription rights for fractional amounts (subject to approval by the Supervisory Board). In case of capital increases against contributions in cash, the purpose of this exclusion is to permit the exercising of the authorisation in even amounts 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.

Moreover, the proposed authorisation will permit the Management Board to exclude shareholders' subscription rights, subject to approval by the Supervisory Board, where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by Aareal Bank AG or its affiliated companies, which subscription rights are required to entitle these 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, if any, thus protecting such holders against dilution. Hence, this exclusion of subscription rights allows the Company, in the event of a capital increase, to offer subscription rights to holders of existing option rights or convertible bonds, in lieu of reducing the relevant exercise or conversion price in line with the terms of issue. The authorisation allows the Company to achieve this objective without having to resort to treasury shares.

A further event that, according to the proposed authorisation, would permit the Management Board to exclude shareholders' subscription rights is the issue of new shares to staff members of Aareal Bank AG or its subsidiaries. As reflected in section 202 (4) of the AktG, the legislative intent is geared towards the issue of employee shares, as this supports the retention of staff by the Company, facilitates the assumption of joint responsibility and helps to maintain a stable workforce. Thus, issuing shares to employees is in the best interest of the Company and its shareholders. The proposed volume of € 4 million has been determined by taking into account the number of eligible staff, expected subscription results and the term of the authorisation. When setting the issue price, a discount may be granted in line with common practice when issuing employee shares.

Finally, the proposed authorisation allows for the potential exclusion of shareholders' subscription rights in the event of capital increases against contributions in kind. Aareal Bank AG is exposed to competition on a global scale. The bank must be able, at all times, to act quickly and flexibly on both the ocal and international markets in the best interest of its shareholders. This includes the ability to acquire enterprises, parts thereof or participating interests at short notice, in order to boost the bank's competitive position. Obviously, the acquisition of enterprises (or parts thereof) concerns sizeable entities, where the consideration payable may be very large indeed. Granting the Company's shares as consideration may be in its best interests for the purpose of maintaining an optimum financing mix, in order to avoid tying up liquidity or to match the taxation framework in certain countries. The authorisation to issue shares against contributions in kind, as proposed within the scope of the new Authorised Capital 2012, is in line with the authorisation under the existing types of Authorised Capital. Its purpose is to enable Aareal Bank AG, subject to approval by the Supervisory Board, to offer the Company's shares in order to settle contractual or statutory claims arising from the acquisition of enterprises, or parts thereof, without having to tap into the stock market. The option of using the Company's shares as an 'acquisition currency' provides the Company with an edge in the competition for attractive acquisition targets. The issue price, at which the new shares will be issued in this case, depends on the individual circumstances and the timing. In the price determination, the Management and Supervisory Boards will be guided by the Company's interests. At present, there are no concrete plans for using this authorisation. The Management and Supervisory Boards will carefully examine in each individual case whether the exclusion of subscription rights is in the interests of the Company.

When exercising this authorisation, the Management Board will restrict the exclusion of shareholders' pre-emptive rights to a total of 20per cent of the Company's registered share capital. Accordingly, the aggregate exclusion of shareholders' subscription rights upon exercise of this authorisation must not exceed 20 per cent (20%) of the registered share capital at the time said authorisation comes into effect or – in case such amount is lower – is exercised.

The proposed term of the 2012 Authorised Capital (until 22 May 2017) is in accordance with the limitations prescribed by applicable law.

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

The report of the Management Board regarding agenda item No. 6 on the reasons for the authorisations provided thereunder for the exclusion of shareholders' subscription rights will be available for inspection by shareholders at the Company's offices (Paulinenstrasse 15, 65189 Wiesbaden) from the day on which the Annual General Meeting is convened. The report will also be available at the Annual General Meeting. 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

Aareal Bank AG

The Management Board

Wiesbaden, April 2012