

**REPORT  
of the Management Board  
of Erste Group Bank AG**

regarding agenda item 7  
of the 19<sup>th</sup> ordinary general meeting on 15 May 2012

**Agenda Item 7: Authorization of the Management Board to issue convertible bonds excluding the subscription rights of shareholders**

The Management Board of Erste Group Bank AG ("Erste Holding") requests the authorization from the 19<sup>th</sup> ordinary general meeting of Erste Holding, with the consent of the Supervisory Board, which consent needs a majority of three quarters of the shareholder representatives, for a period of five years after the registration of the amendment of the articles of association, to issue convertible bonds which have a conversion or subscription right for shares of the Company, observing or excluding the subscription rights of the shareholders. The terms and conditions may, in addition or instead of a conversion or subscription right, also provide for the mandatory conversion at the end of the term or at any other time. The issue of convertible bonds is limited to the extent that all conversion or subscription rights, and in case of a mandatory conversion stipulated in the terms and conditions, the mandatory conversion, are covered by conditional capital.

The Management Board therefore submits the following report according to § 174 para. 4 in connection with § 153 para. 4 AktG concerning the justification for the exclusion of the subscription rights:

**Exclusion of the subscription right of the shareholders in case of the issue of convertible bonds**

The authorization to issue convertible bonds shall be used for financial instruments with a possible conversion into core capital, in particular to issue Buffer Convertible Capital Securities (BCCS) in accordance with the requirements of the European Banking Association (EBA) or similar instruments. The subscription rights of the shareholders shall be excluded.

The issue of Buffer Convertible Capital Securities is related to the recommendation of the EBA of 8 December 2011 to achieve a core capital ratio of 9% until the end of June 2012 (EBA Recommendation on the creation and supervisory oversight of temporary capital buffers to restore market confidence (EBA/REC/2011/1)).

Buffer Convertible Capital Securities are convertible bonds, which provide for the mandatory conversion into shares in case, inter alia, of a decrease of the core capital ratio below 7% as defined by the EBA.

In the past Erste Holding issued hybrid capital, which is not considered as core capital in accordance with the new capital requirements any more. Therefore, there is the need to be able to issue new instruments such as Buffer Convertible Capital Securities, which are especially designed for the new capital requirements.

Buffer Convertible Capital Securities are complex hybrid instruments, which were developed to meet the new capital requirements. The Common Term Sheet of the EBA shows that this new capital instrument requires expertise and is therefore predestined for professional and institutional investors, less so for the issue to retail investors.

The Management Board should be enabled to issue Buffer Convertible Capital Securities quickly and in tranches of any size. It must be possible to make the allocation to institutional investors promptly, in order to float issues quickly. A subscription right for shareholders would curb the necessary flexibility considerably. It would lead to uncertainty with regard to the amount of convertible bonds allocated to (third) investors, as long as not all shareholders have declared the exercise of their subscription rights.

The conversion of BCCS into ordinary shares and therefore a dilution of shareholders happen only if certain minimum core capital requirements are not met and thus additional core capital is urgently needed. The creation of additional core capital in such a case is in the interest of all shareholders. A dilution only happens if the interest of Erste Holding urgently demands it, and this is in the interest of all shareholders.

Vienna, March 2012

The Management Board