

**Working Translation**

**Report by the Management Board**

**on the Redemption**

**of Participation Capital**

**of Erste Group Bank AG**

**pursuant to § 102a of the Banking Act [*Bankwesengesetz*]**

**"Terms and Conditions of the 2009 Issue of up to EUR 2,700,000,000 Bearer  
Participation Capital Securities of ERSTE GROUP BANK AG", ISIN  
AT0000A0D4T3**

Pursuant to § 102a of the Banking Act [BWG] and (by analogy) § 2 sec 3 of the Reorganisation Act [UmwG] in conjunction with § 220 of the Stock Corporation Act [AktG], the management board of Erste Group Bank AG (hereinafter "*Erste Group Bank*" or the "*Company*"), with its registered office in Vienna and its business address at Graben 21, 1010 Vienna, registered in the commercial register of the Vienna Commercial Court [*Handelsgericht Wien*] under FN 33209m, issues the following

**report on the redemption of participation capital  
pursuant to § 102a of the Banking Act [BWG]**

**1. Subject of the Report and Basic Legal Conditions**

1.1. On the basis of the "Terms and Conditions of the 2009 Issue of up to EUR 2,700,000,000 Bearer Participation Capital Securities of Erste Group Bank AG" (hereinafter "*Terms and Conditions of Erste Participation Capital*"), ISIN AT0000A0D4T3, the Company, in three tranches, issued participation capital totalling EUR 1,763,744,000, hence a total of 1,763,744 Participation Capital Securities (hereinafter "*Erste Participation Capital Securities*") in the nominal value of EUR 1,000 each (hereinafter the "*Erste Participation Capital*"), as follows:

1.1.1. The first tranche of the Erste Participation Capital totalling EUR 1,000,000,000 was subscribed to on 10 March 2009 by the Republic of Austria on the basis of the Financial Market Stabilisation Act [*Finanzstabilitätsgesetz*] (Federal Law Gazette I 136/2008, as amended) and the *Grundsatzvereinbarung*, entered into between the Republic of Austria, represented by the Federal Minister of Finance, and the Company on 26 February 2009 (hereinafter the "*Grundsatzvereinbarung*").

1.1.2. The second tranche of the Erste Participation Capital totalling EUR 539,744,000 was subscribed to on 13 May 2009 by private investors on the basis of (i) an offer to shareholders of the Company and (ii) a public offering in Austria, Germany, the Czech Republic, Romania, and Slovakia.

1.1.3. The third tranche of the Erste Participation Capital totalling EUR 224,000,000 was subscribed to on 13 May 2009 by the Republic of Austria on the basis of the Financial Market Stabilisation Act

(Federal Law Gazette I 136/2008, as amended) and the *Grundsatzvereinbarung*.

- 1.1.4. In addition, by public offering dated October 2009 and April 2013, the Company offered holders of Erste Participation Capital Securities existing own Erste Participation Capital Securities for purchase, i.e. in October 2009 the purchase of three additional Erste Participation Capital Securities per 16 Participation Capital Securities, and in April 2013 the purchase of one additional Erste Participation Capital Security per 21 Participation Capital Securities. The purpose of such issue of existing own Participation Capital Securities was to offset a dilution pursuant to § 9 (2) of the Terms and Conditions of Erste Participation Capital.
- 1.2. Pursuant to § 102a sec 2, second sentence, BWG, the shareholders' meeting of 12 May 2010 authorised the management board to redeem by 12 May 2015, subject to approval by the supervisory board, the entire Participation Capital or the Participation Capital of individual tranches already distinguished upon the issue, also in parts if the equal treatment of the beneficiaries of the Participation Capital is ensured. Such authorisation was included in Section 8.4 of the Company's articles of association.
- 1.3. On 18 June 2013, the management board decided to exercise the authorisation pursuant to Section 8.4 of the Company's articles of association and to adopt the redemption of the entire outstanding Erste Participation Capital by way of application of § 102a BWG in conjunction with § 2 sec 3 UmwG (by analogy). The supervisory board approved such resolution by the management board on 24 June 2013 by circular resolution.
- 1.4. Pursuant to § 102a sec 4 BWG, the Company must grant the beneficiaries of the Participation Capital adequate cash compensation. The provisions of § 2 sec 3 UmwG must be applied by analogy. Pursuant to § 6 (2) of the Terms and Conditions of Erste Participation Capital, the Erste Participation Capital Securities will be repaid at their nominal values.
- 1.5. Pursuant to § 102a sec 4 BWG, by way of application by analogy of § 2 sec 3 UmwG, the management board must review the redemption of the Erste Participation Capital and issue a written report.

## **2. Report by the Management Board**

The management board explains the terms and conditions of the Redemption Plan as well as the statements included therein in respect of the amount of cash compensation as follows:

## **2.1 General**

2.1.1 Erste Group Bank is a stock corporation under Austrian law with its registered office in Vienna and a credit institution pursuant to § 1 sec 1 BWG. Erste Group Bank's shares are listed on the Official Market of the Vienna Stock Exchange and on the Prime Markets of the Prague Stock Exchange and in the RGSJ Segment of the Bucharest Stock Exchange. The Erste Participation Capital Securities are not listed on any stock exchange or on any multilateral trading facility (MTF). The requirements under § 102a sec 3, first sentence, BWG are therefore not met.

2.1.2 Pursuant to § 102a sec 4 BWG, the beneficiaries of the Erste Participation Capital shall receive adequate cash compensation, such compensation being payable on the basis of the Redemption Plan to be issued by the Company's management board. In addition, the redemption must be reported and reviewed by way of application by analogy of § 2 sec 3 UmwG and the provisions of the Stock Corporation Act.

## **2.2 Cash Compensation**

2.2.1 The cash compensation depends on the Terms and Conditions of Erste Participation Capital. Such terms of issue provide as follows under "*Repayment and Repurchase*" and "*Dividends Conditional on Profit*":

(...)

### **§ 6 Repayment and Repurchase**

*(1) No final maturity date. The Participation Capital Securities have no predetermined final maturity date and may be repaid prior to liquidation of the Issuer only in accordance with this § 6. The Participants hereby waive their ordinary and extraordinary redemption rights pursuant to § 23 sec 4 No 1 of the Banking Act [Bankwesengesetz].*

*(2) Repayment. The Issuer shall be entitled to repay the Participation Capital Securities in accordance with the statutory requirements as applicable at the time of repayment at any time prior to the liquidation of the Issuer (to the extent permissible, also in tranches or in such parts of the Participation Capital as have been specified by reference to other attributes, but in each case observing the equal treatment of the Participants). Repayment shall not be permissible if the repayment amount would be below 100% of the nominal amount. Until (and including) the tenth*

*business year of the Issuer after issue of the Participation Capital Securities the repayment amount shall be 100% of the nominal value, thereafter 150% of the nominal value, provided that the enterprise value has increased correspondingly. If distributable Annual Profits have been retained despite the absence of a statutory obligation or instructions from a supervisory body to such effect, the repayment amount shall be increased by the number of percentage points by which the agreed dividend has been fallen short of.*

(....)

### **§ 5 Dividends conditional on profit**

*(1) **Dividend payments.** The dividend payable on the Participation Capital Securities amounts to 8% p.a. of their nominal value after taxes which are owed by the Issuer, and applies to business years starting on 1 January 2009, provided that the statutory preconditions are met. Such dividend shall increase in the sixth and seventh business year of the Issuer after issue of the Participation Capital by 50 basis points each year, in the eighth business year by 75 basis points and from the ninth business year on by 100 basis points each year. In total, such dividend shall not exceed the 12-Month-EURIBOR plus 1,000 basis points p.a. The 12-Month-EURIBOR shall be calculated as the arithmetic mean of the 12-Month-EURIBOR rates published daily at 11:00 a.m. Brussels time on Reuters page "Euribor=" between 1 January and 31 December of each year for which a dividend is paid.*

*(2) The Issuer shall be entitled to increase the dividend payable on the Participation Capital Securities without consent of the Participants, provided that the Participants are treated equal. The increase shall be published / notified pursuant to § 11.*

*(3) **Dividend payments.** Dividends shall be payable in arrear ten Business Days after the shareholders' meeting of the Issuer which resolves on the use of profits for the previous business year (the "Relevant Date"). The Issuer shall be the paying agent.*

*(4) **Dividends conditional on profits.** The Participation Capital Securities grant a claim for non-cumulative dividend payments which are conditional upon profits pursuant to § 23 sec 4 of the Banking Act (Bankwesengesetz). If the dividend is covered by the annual profits of the previous business year after movement of reserves (the "Annual Profits") (§ 23 sec 4 No 3 of the Banking Act) and provided that a respective resolution of the shareholders' meeting of the Issuer has been adopted, dividend payments are to be made on the Relevant Date. Dividend payments to Participants shall be made prior to distributions of dividends to shareholders*

*of the Issuer.*

*(5) **Non-cumulative dividend payments.** The Issuer shall not be obliged to repay unpaid dividends (the "Ceased Dividend Payments").*

*(6) **Dividend payments in the discretion of the Issuer.** Even if distributable profits according to § 5(4) exist, the payment of dividends shall be in the sole discretion of the Issuer.*

(...)

- 2.2.2 Pursuant to the "Repayment and Repurchase" provisions of the Terms and Conditions of Erste Participation Capital, the cash compensation in the context of the redemption is 100% of the nominal value of an Erste Participation Capital Security as long as the tenth business year after the issue of the Erste Participation Capital is not completed.
- 2.2.3 Agreed dividends were not fallen short of in the past. For this reason, the repayment amount pursuant to § 6 (2), fourth sentence, of the Terms and Conditions of Erste Participation Capital need not be increased.
- 2.2.4 The amount of cash compensation for holders of the Erste Participation Capital is therefore EUR 1,000 per nominal amount of EUR 1,000.
- 2.2.5 The cash compensation is adequate and consistent both with the Terms and Conditions of Erste Participation Capital and the laws.
- 2.2.6 The Company is not entitled to any cash compensation from its own Erste Participation Capital Securities.
- 2.2.7 From 1 January 2013 until the date of effectiveness of the redemption, provided that the statutory requirements are met and a relevant resolution is adopted at the next ordinary shareholders' meeting a pro rata dividend will be paid.

### **2.3 Explanations pursuant to § 102a sec 7 BWG**

- 2.3.1 Pursuant to § 102a sec 7 BWG, participation capital must be redeemed against the net profits arising from the annual balance sheet or against an unappropriated reserve, but it may also be redeemed if capital of the same or of a better quality is supplied as substitute. In the case at hand, the following course of action will be applied: The Erste Participation Capital will be

redeemed against unappropriated reserves recognised in the Company's financial statements for the year ended 31 December 2012.

## **2.4 Redemption Audit**

- 2.4.1 Pursuant to § 102a BWG, by way of application by analogy of § 2 sec 3 UmwG, the adequacy of cash compensation is to be audited by a court-appointed auditor in the course of the redemption.
- 2.4.2 By decision of the commercial register, Deloitte Audit Wirtschaftsprüfungs GmbH, 1013 Vienna, Rengasse 1/Freyung, FN 36059d, was appointed redemption auditor pursuant to § 102a sec 4 BWG in conjunction with § 2 sec 3 UmwG.

## **2.5 Further Explanations**

- 2.5.1 Neither shareholders nor holders of bonds and profit participation rights will be granted any special rights or other rights as defined in § 220 sec 2 No 6 AktG. No measures as defined in § 220 sec 2 No 6 in conjunction with § 226 sec 3 AktG will be taken.
- 2.5.2 Neither the members of the management board of Erste Group Bank, nor the members of the supervisory board of Erste Group Bank, nor a balance sheet auditor, a bank auditor, a redemption auditor or any other auditor of Erste Group Bank, nor any company involved in the redemption will be granted a special benefit pursuant to § 220 sec 2 No 7 AktG. The reasonable fees payable to the redemption auditor for the redemption audit pursuant to § 220b AktG (by analogy) do not constitute a special benefit as defined in § 220 sec 2 No 7 AktG.
- 2.5.3 bpv Hügel Rechtsanwälte OG with its registered office in Vienna is to be appointed trustee under § 102a sec 6 BWG in respect of amounts to compensate beneficiaries of the Erste Participation Capital to be redeemed which cannot be credited to an account or in respect of which the beneficiary does not make any arrangement.
- 2.5.4 Within a period of at least one month to be applied by analogy pursuant to § 102a sec 4 BWG and § 2 sec 3 UmwG in conjunction with § 221a AktG, the management board of Erste Group Bank, prior to its resolution and the resolution by the supervisory board on the redemption, will timely publish the Redemption Plan in the edict file [*Ediktsdatei*] after review by the supervisory board and publish a reference to such publication in the Official Gazette

[*Amtsblatt*] of *Wiener Zeitung* newspaper. In addition, by way of application by analogy of the mentioned provisions, (i) the Redemption Plan, (ii) the report by the management board on the redemption, (iii) the audit report by the court-appointed redemption auditor, (iv) the report by the supervisory board on the review of the redemption, and (v) the financial statements and directors' reports for the last three business years of Erste Group Bank will be available at the Company's registered office for inspection by the shareholders and holders of Participation Capital and made available on the Company's website at ([www.erstegroup.com/en/Investors/Participation-Capital](http://www.erstegroup.com/en/Investors/Participation-Capital)) during that period.

2.5.5 By way of application by analogy of the provisions of the Reorganisation Act and the Stock Corporation Act, the respective beneficiary of the Erste Participation Capital may initiate a procedure for judicial review of the adequacy of the cash compensation for the Erste Participation Capital to be redeemed. Such procedure will take place by way of application by analogy of §§ 225c et. seq. AktG. The procedure must be initiated with the court having jurisdiction at the registered office of Erste Group Bank, i.e. the Vienna Commercial Court, Marxergasse 1a, 1030 Vienna. The procedure must be conducted by way of application by analogy of § 225e AktG. To safeguard the rights of beneficiaries of the Erste Participation Capital who did not file an application for judicial review of the adequacy of the cash compensation, a joint representative would have to be appointed pursuant to § 225 et. seq. AktG in case such procedure is initiated.

### **3. Final Remarks**

The management board of Erste Group Bank finally states that all reports and documents required for the redemption were issued pursuant to the provisions of the Banking Act, by way of application by analogy of the Reorganisation Act and the Stock Corporation Act, and are in compliance with the laws. The Company's financial statements for the year ended 31 December 2012, which form the basis of the redemption under consideration, were drawn up in accordance with the applicable laws.

The shareholders and holders of the Erste Participation Capital will be informed of their rights pertaining to the redemption under consideration, including, without limitation, their right to inspect the redemption documentation and their right to have the amount of cash compensation reviewed by court, in the Official Gazette of *Wiener Zeitung* newspaper and on the Company's website.



Within a period of one month pursuant to § 102a sec 4 BWG in conjunction with § 2 sec 3 UmwG (by analogy), the management board will adopt a resolution on the redemption of the Erste Participation Capital and publish such resolution in the Official Gazette of *Wiener Zeitung* newspaper.

Vienna, this 19 June 2013

The Management Board of Erste Group Bank AG