

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

regarding agenda item 8  
of the 21<sup>st</sup> ordinary shareholders' meeting on 21 May 2014

**Agenda Item No. 8: Authorization of the Management Board to increase the registered capital of the company excluding the subscription right of existing shareholders**

In the ordinary meeting of shareholders on 21 May 2014 of Erste Group AG ("Erste Group"), the authorization granted in the ordinary meeting of shareholders of Erste Group on 12 May 2010 to the Management Board to increase the registered capital and to issue new shares shall be revoked, to the extent not already used, and the Management Board shall be granted the authorization according to section 169 of the Stock Corporation Act (*Aktiengesetz; AktG*) until 21 May 2019 to increase, with the consent of the Supervisory Board, the registered capital of the company by up to EUR 171,800,000 (in words: one hundred and seventy one million eight hundred thousand) by issuing up to 85,900,000 (in words: eighty five million nine hundred thousand) voting no-par value bearer shares in return for contributions in cash and/or in kind, with the issue price and the issuing conditions being determined by the Management Board with the consent of the Supervisory Board. Furthermore, the Management Board shall be authorized to fully or partly exclude the statutory subscription right of the shareholders with the consent of the Supervisory Board (exclusion of the subscription right),

- a) if the capital increase is in return for a cash contribution and the shares issued while excluding the subscription right of the shareholders, taken together, do not exceed EUR 43,000,000 (in words: forty three million); and/or

- b) if the capital increase is in return for a contribution in kind.

These measures can also be combined. The aggregate pro rata amount of registered capital represented by shares in respect of which the shareholders' subscription rights are excluded under this authorization, together with the pro rata amount of registered capital attributable to shares to which conversion or subscription rights or obligations relate under bonds which were issued and sold on the basis of the authorization in section 8.3 of the Articles of Association, subject to an exclusion of subscription rights, on or after 21 May 2014 must not, however, exceed the amount of EUR 171,800,000 (in words: one hundred seventy one million eight hundred thousand).

The Management Board therefore submits the following report according to section 153 para 4 of the Stock Corporation Act (*Aktiengesetz, AktG*) regarding the justification for the exclusion of the subscription rights:

The authorized capital to be resolved in today's shareholders' meeting replaces the existing authorized capital according to section 5 of the Articles of Association.

ad a. Exclusion of the subscription right of the shareholders in case of the issue of shares, limited to EUR 43,000,000, for considerations in cash

Due to regulatory requirements and a market environment confronted by lasting changes of the financial crisis, it is in the interest of Erste Group to take appropriate precautions that financial means are quickly available to the company in the form of new share capital. The share capital as "hard equity capital" is of particular importance compared to other categories of banking equity capital as other categories of share capital are not fully or only partly recognised for various requirements. With the proposed authorization to exclude the subscription right in case of a capital increase of up to approximately 5% of the registered capital in return for contributions in cash, the Management Board receives the appropriate

means to react to the developments in the capital market quickly and in a cost-effective way and to optimize the conditions of a capital increase for the benefit of all shareholders.

With an exclusion of the subscription right, the Company would be put in a position of offering the new shares utilising the accelerated bookbuilding. When using the accelerated bookbuilding procedures, the price expectations of the market can be evaluated more precisely and quickly during a short offer period than through a mere rights issue, which usually requires to comply with a compulsory subscription period of two weeks. Thus, placement risk associated to the capital increase can be reduced.

With an exclusion of subscription rights, Erste Group further has the possibility of approaching an institutional investor, or a range of selected institutional investors (so called "anchor investors"), in advance, who are to undertake to subscribe to a certain amount of shares. By the possibility of promising a fixed allotment to these investors, the issue price to be realised for the Company is increased and a positive signal effect of such fixed placement can be achieved for any subsequent rights issue to the advantage of the Company.

Finally, any issue of shares, thereby keeping the subscription right, requires the preparation or approval of a prospectus with corresponding documentation, thereby involving the authorities according by Capital Market Act (*Kapitalmarktgesetz, KMG*), which necessarily results in a longer preliminary lead time and higher costs when issuing new shares under consideration of the listing prospectus requirement. However, capital increases which are aimed at qualified investors are excluded from the prospectus requirement if structured appropriately. The exclusion of subscription rights allows Erste Group to implement a capital increase quickly and flexibly without the requirement to produce a prospectus if the transaction is structured carefully and if the new shares are exclusively offered to a selected group of strategic and institutional financial investors.

In light of the liquid market for shares of Erste Group and the limitation of an exclusion of the subscription right to a portion of approximately 5 % of the share capital, a dilution of shareholders in light of their share in the value of the enterprise and their voting rights would be confined to reasonable limits. Any shareholders interested in maintaining the quota of their equity interest could acquire the appropriate number of shares of Erste Group on the stock exchange.

In summary, it can thus be noted that through the exclusion of the subscription right Erste Group will be put in a position to quickly and effectively cover the financing needs of the Company by the issue of additional share capital of the highest quality - however, limited to the volume of EUR 43,000,000 which corresponds to approximately 5 % of the currently registered capital. This is not only in the best interest of the company but also in the best interest of the shareholders.

ad b. Exclusion of subscription rights of the shareholders for issuing shares against contributions in kind

The expansion into and the penetration of the central European market is of high importance in the strategy of Erste Group. To that end, the Management Board should be in a position to acquire existing companies, businesses, parts of businesses or shares in companies in order to prepare its market entry or to strengthen an already existing market presence. The acquisition of existing companies is advantageous because it allows a rapid market entry, building upon an existing customer base and taking over employees who are familiar with the local market.

When acquiring companies, businesses, parts of businesses or shares of a business it may be advantageous to use own shares as consideration, e.g. where shareholders of the target company need to be compensated. Equally, it may be advantageous in case the seller prefers to receive shares of Erste Group instead of cash. Furthermore, it may be possible to achieve a lower purchase price if own shares are used as consideration rather than cash.

The Management Board of Erste Group shall have the option to create new shares by means of a capital increase which can be used as consideration for the contribution of assets in kind if no shares at all or not a sufficient number of own shares is available or if the available own shares are reserved for other purposes.

Especially a capital increase against contributions in kind requires the exclusion of subscription rights because the assets to be contributed are in most circumstances unique and cannot be contributed by all shareholders, such as shares in companies that are of strategic importance for Erste Group or the like.

#### The limitation of EUR 171,800,000 for the exclusion of the subscription right

As a further limitation to the exclusion of the subscription right an upper total cap of EUR 171,800,000, representing nearly 20% of the currently registered capital of Erste Group, is implemented.

Erste Group includes in the calculation of this limitation also all those shares to which conversion or subscription rights or obligations relate under bonds which are issued and sold on the basis of the authorization in section 8.3 of the Articles of Association, subject to an exclusion of subscription rights, on or after 21 May 2014. Thus, the exclusion of the subscription right in context with authorized capital (section 5 of the Articles of Association) and with the issue of bonds (section 8.3 of the Articles of Association) is limited to a share volume of up to a maximum 20% of the registered capital. With respect to this topic, international proxy voting recommendations applicable for capital with shareholder rights being excluded have been considered. A dilution of the shareholders with regard to their shares in the enterprise value and their voting rights would be limited.

#### Summary / Balancing of interests

The total or partial exclusion of the subscription right when increasing the capital in return for contributions in cash to an extent of up to EUR 43,000,000 is objectively justified by the objectives aimed at, namely in particular the optimizing of the capital structure und the improvement of the issuing conditions and

therefore further strengthens and improves the company in the interest of the company and the shareholders.

Moreover, the exclusion of the subscription right is also reasonable and necessary, since without the exclusion of the subscription right the Company would not be able to receive, with comparable speed and flexibility, financial resources securing the realization of the planned business targets for the benefit of the Company and, connected therewith, also of all shareholders. The exclusion of the subscription right also may provide the possibility for the quick execution of a capital increase without the protracted and costly preparation of a prospectus.

Also when issuing any shares in return for contributions in kind such exclusion of subscription rights is objectively justified since it allows the authorized capital to be used as consideration for a contribution in kind when acquiring companies or shares of companies, which cannot be granted by other shareholders in this form.

From the Management Board's point of view, the exclusion of the subscription right moreover is proportionate, since in case of a capital increase in return for contributions in cash the exclusion of the subscription right is limited to a portion of EUR 43,000,000, which corresponds to a portion of the registered capital of approximately 5 %, and since with respect to authorized capital (section 5 of the Articles of Association) and the issue of bonds (section 8.3 of the Articles of Association) the exclusion of the subscription right is limited to a total portion of EUR 171,800,000, which corresponds to almost 20% of the currently registered capital. A dilution of shareholders in light of their share in the value of the enterprise and their voting rights would be confined to reasonable limits. Considering the liquid market for shares of the Erste Group, the shareholders interested in maintaining the quota of their equity interest could acquire the appropriate number of shares of Erste Group on the stock exchange.

In summary, the Management Board of the Erste Group concludes that the exclusion of the subscription right within the limits described is necessary, suitable, reasonable and objectively justified and required in the prevailing interest of the Company.

The exclusion of the subscription right and the establishment of the conditions for the capital increase are subject to the consent of the Supervisory Board.

Vienna, April 2014

The Management Board