

REPORT
of the Management Board of Erste Group Bank AG
on agenda item 8
of the 25th Annual General Meeting on 24 May 2018

With regard to agenda item 8: Authorisation of the Management Board to issue convertible bonds to the exclusion of the shareholders' subscription rights

The Management Board requests authorisation from the 25th Annual General Meeting of Erste Group Bank AG ("Erste Group") to issue convertible bonds granting subscription or conversion rights on the purchase of Company shares until 24 May 2023 with the Supervisory Board's consent subject to the maintenance or the exclusion of shareholders' subscription rights, respectively. The terms of issue may oblige conversion at the end of the term or at another point in time in addition to or instead of subscription or conversion rights. The number of convertible bonds issued may not exceed the volume needed to warrant satisfaction of any conversion or subscription rights asserted and, where the terms of issue stipulate conversion, fulfilment of related conversion obligations by means of the conditional capital increase. The issue price, terms of issue and the exclusion of shareholders' subscription rights must be decided by the Management Board with the Supervisory Board's consent.

The Management Board now therefore submits the following written report pursuant to sec. 174 (4) in conjunction with sec. 153 (4) Stock Corporation Act (AktG) providing justification for the exclusion of shareholder rights:

The authorisation of the Management Board to issue convertible bonds which is to be granted at today's Annual General Meeting shall replace the authorisation pursuant to clause 8.3 of the Articles of Association.

Exclusion of shareholders' subscription rights when issuing convertible bonds

The authorisation to issue convertible bonds, which is to be granted hereunder, shall be used to issue instruments entailing the option of converting to Tier 1 capital. Exclusion of the shareholders' subscription rights should be an option.

The Management Board is to be given the possibility of issuing instruments with the option of converting to Tier 1 capital quickly and in any tranche sizes they deem necessary. Prompt allocation of instruments to institutional investors must be possible in order to ensure quick and successful placement of the instruments. Granting shareholders subscription rights would seriously compromise the necessary flexibility. If not all shareholders have declared their intention to exercise their subscription rights, uncertainty would result as to the number of convertible bonds that can be issued to third parties.

Practical experience has shown that issuing bonds to the exclusion of subscription rights usually allows better issue terms, since such a procedure ensures immediate placement and for the most part avoids price-related risks arising from a changed market situation that could have a detrimental effect on the Company. As opposed to a rights issue, for which the law stipulates a minimum subscription period of two weeks, the exclusion of subscription rights is a method to generate comparatively more funds for the Company, provided the market situation is correctly assessed, while keeping the number of issued shares low – which come with the right to conversion. For this reason, the exclusion of subscription rights has become standard practice when issuing convertible bonds in the capital market.

The bond holders are granted the right to buy the Company's shares in the future at a price determined when the convertible bonds are issued or in accordance with a price formula determined ahead of the issue ("conversion price"), by which bond holders – once the bonds have been converted – are given access to the Company's

substance and profitability. For Erste Group, convertible bonds are a reasonable means to keep capital costs as low as possible, given that interest on convertible bonds is usually lower than on standard bonds. Thanks to the components mentioned above, i.e. the high level of security offered to bond holders and the possibility of benefiting from price gains by virtue of the right to convert shares, Erste Group has found a way to obtain quicker and more flexible access to attractive financing terms than with (pure) debt instruments.

Owing to the standard terms applicable for convertible bonds in the capital market, the issue price of the shares to be issued will be above the share price payable at the time the convertible bonds are issued ("conversion premium"), so that Erste Group will be able to achieve a higher issue price than with a direct capital increase and additional capital can be injected into Erste Group.

Issue and conversion price

The issue price at the time of exercising the conversion and/or subscription rights is determined in accordance with international capital market practices based on the price for the Company's shares at the time of bond allocation plus a premium that corresponds to the assessment of the Company's future share price performance in connection with the premium achieved in the relevant market with comparable capital market transactions.

As the price of the share at the time of issue is an important factor needed to define the terms for the convertible bonds, it is in the Company's interests to have as much control as possible over the reference price of the Company's share at the point in time that is relevant for the definition of terms.

Particularly in view of possible price fluctuations, it becomes clear that both price performance and market assessment within a two-week reference period – which would have to be observed if subscription rights were not excluded – could be subject to

considerable change. However, when issuing bonds to the exclusion of subscription rights, the Company has the discretion to quickly and flexibly opt for a favourable point in time.

In this manner, the Company is able to flexibly define attractive issue terms at its discretion and schedule the issue as it deems opportune and thus to optimise its terms of conversion in the interest of all shareholders. At the same time, the expected performance of the share price can be taken into account and the terms and common practices applicable in international financial markets can be adhered to at the time of issue.

Summary: Consideration of interests

The complete or partial exclusion of subscription rights is objectively justified by the objectives to be achieved, i.e. to optimise the capital structure and reduce financing costs, to optimise a high conversion price and thus to warrant the further consolidation and improvement of the Company in the Company's and shareholders' interest.

Furthermore, the exclusion of subscription rights is deemed reasonable and necessary, as the expected injection of borrowed capital through target-group-specific allocation of convertible bonds replaces cost-intensive capital increases, offers favourable financing terms and the possibility of flexible long-term business planning and ensures the realisation of envisaged corporate objectives for the benefit of the Company and, along with it, the benefit of all shareholders. Not excluding subscription rights will not allow the Company to respond nearly as quickly and flexibly to favourable market conditions. By excluding the subscription rights, the Company is able to implement a capital increase without having to draft a prospectus for the issue of shares which would be time-consuming and costly.

In sum, the Management Board of Erste Group has concluded that the exclusion of subscription rights to the extent described above is necessary, suitable, reasonable and, in the Company's best interest, objectively justified and imperative.

Vienna, April 2018

Management Board