REPORT

of the Management Board of Erste Group Bank AG

on agenda item 9

of the 25th Annual General Meeting on 24 May 2018

With regard to agenda item 9: Authorisation of the Management Board to increase the Company's share capital subject to the exclusion of the shareholders' subscription rights

At the Annual General Meeting on 24 May 2018 of Erste Group Bank AG ("Erste Group"), the authorisation granted to the Management Board by the Annual General Meeting on 21 May 2014 to increase the share capital and issue new shares shall be revoked to the extent that it has not been exercised and the Management Board shall be granted the authorisation pursuant to sec. 169 Stock Corporation Act (AktG) to increase the Company's share capital on approval from the Supervisory Board until 24 May 2023 by up to EUR 343,600,000.00 (three hundred forty-three million six hundred thousand euros) by issuing up to 171,800,000 (one hundred seventy-one million eight hundred thousand) voting no-par value bearer shares in return for contributions in cash and/or in kind; the issue price and the terms of issue shall be determined by the Management Board with the Supervisory Board's consent. Furthermore, the Management Board shall be authorised to exclude the statutory subscription rights of the shareholders, in their entirety or in part, with the consent of the Supervisory Board (exclusion of the subscription rights):

a. if the capital increase is performed in return for a cash contribution and the shares issued to the exclusion of the shareholders' subscription rights do not exceed a total of EUR 43,000,000.00 (forty-three million euros); and/or

b. if the capital increase is performed in return for contributions in kind.

These measures may also be combined. However, the total pro-rata amount attributable to shares for which shareholders' subscription rights are excluded under this authorisation and to shares issued for the purpose of granting conversion or subscription rights or fulfilling conversion obligations to holders of convertible bonds issued and sold on the basis of the authorisation under clause 8.3 of the Articles of Association on or after 24 May 2018 to the exclusion of subscription rights must not exceed EUR 171,920,000 (one hundred seventy-on million nine hundred twenty thousand).

As far as the authorized capital provided for in paragraph 2 a of agenda item 9 is used for the issue of shares to employees, managers and members of the Management Board of the company or its affiliated undertakings, that amount and the amount used from conditional capital to cover stock options to employees, managers and members of the Management Board of the company or its affiliated undertakings in total must not exceed the amount of EUR 43,000,000 (forty-three million euros).

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

The authorised capital to be approved at today's Annual General Meeting shall replace the currently authorised capital in accordance with clause 5. of the Articles of Association.

<u>With respect to a. Exclusion of shareholder's subscription rights in the event of the cash capital issue of shares whose total does not exceed EUR 43,000,000</u>

On account of regulatory specifications, it is in the interest of Erste Group to take adequate precautions so as to ensure that the Company is able to make funds available quickly in the form of new share capital. Compared to other own fund categories under banking law, the share capital as "hard own funds" is particularly important, because other categories of own funds fail to meet numerous requirements or meet such requirements only to a limited extent. The proposed authorisation to issue shares in the amount of up to approx. 5% of the share capital to the exclusion of the shareholders' subscription rights will give the Management Board the possibility of responding quickly and cost-effectively to capital market developments and optimising the terms of a capital increase in the interest of all shareholders.

In particular, the exclusion of subscription rights will allow Erste Group to offer the new shares by way of an accelerated book-building process. An *accelerated book-building* process will enable a more accurate and quicker assessment of market prices during a short issue period than in the course of a pure rights issue; in the latter case, the subscription period would have to be at least two weeks. As a result, the placement risk associated with the capital increase will be mitigated.

Furthermore, by excluding subscription rights, Erste Group has the option of addressing a choice of selected institutional investors (known as "anchor investors") each of which undertake to subscribe a specific volume of shares. By obtaining a commitment for a fixed allocation of shares, a higher issue price can usually be achieved and a positive signal is sent out for any subsequent rights issue.

Last but not least, when shares are issued while maintaining subscription rights, the Capital Market Act (KMG) requires a prospectus to be drawn up and approved, which requires appropriate documentation and the involvement of the authorities, so that when new shares are issued with a prospectus, lengthier lead times are needed and the costs of the issue become higher. However, no prospectus is needed for capital increases that exclusively address qualified investors, if structured accordingly. By excluding subscription rights, Erste Group will be able to implement the capital increase quickly and flexibly without having to draw up a prospectus provided it ensures that the transaction has an appropriate structure and the new shares are offered only to a select group of strategic and institutional financial investors.

Given the liquid market for Erste Group shares and the limitation of the exclusion of subscription rights to approximately 5% maximum of the share capital in the event of a cash contribution, any dilution of shareholders in terms of their respective interest held in the company value and their voting rights would be kept to reasonable limits. Any shareholders interested in maintaining their percent interest could acquire the appropriate number of Erste Group shares via the stock exchange.

In sum, it can be said that, in excluding subscription rights, Erste Group will be able to cover any of the Company's financing needs at short notice and effectively by injecting additional own funds of the highest quality – however, this would be limited to an amount of EUR 43,000,000, which corresponds to approx. 5% of the current share capital. This is in the best interest not only of the Company but also of its shareholders.

With respect to b. Exclusion of shareholders' subscription rights when issuing shares in return for contributions in kind

In Erste Group's strategy, the expansion into and the penetration of the Central European market is key. For this purpose, the Management Board should also have the option of acquiring existing companies, businesses, business divisions or stakes in companies as a means to prepare its market entry or to strengthen an already existing market position. The acquisition of existing companies is expedient in that it allows rapid market entry, builds on an existing customer base and employees familiar with the local market can be taken over.

When acquiring companies, businesses, business divisions or stakes in companies, it may be expedient to use own shares as consideration, e.g. where shareholders of the target company need to be compensated or when the seller prefers Erste Group shares to cash. Furthermore, a lower purchase price may be achievable if own shares are used as consideration rather than cash.

If no own shares or an insufficient volume of own shares are available or if existing own shares are intended to serve other purposes, the Management Board of Erste Group should have the possibility of creating further shares via a capital increase and then of using these shares as consideration for the assets contributed in kind.

A capital increase in return for contributions in kind specifically requires the exclusion of shareholders' subscription rights, since the assets to be contributed are usually unique in their composition and cannot be contributed by all the shareholders, e.g. stakes in a company that is of strategic important for Erste Group or similar.

<u>EUR 171,920,000 as upper limit for the exclusion of subscription rights</u>

Moreover, an upper limit of EUR 171,920,000 has been set to further limit the exclusion of subscription rights.

In calculating the upper limit, Erste Group also includes the shares issued for the sake of granting conversion or subscription rights or fulfilling conversion obligations to holders of such convertible bonds as are issued and sold to the exclusion of subscription rights on or after 24 May 2018 on the basis of the authorisation under clause 8.3 of the Articles of Association. As a result, the exclusion of subscription rights in connection with the authorised capital (clause 5 of the Articles of Association) and the issue of convertible bonds (clause 8.3 of the Articles of Association) will be limited to a share volume amounting to no more than 20% of the share capital. This would therefore be in compliance with the international voting recommendations for capital involving the exclusion of subscription rights. A dilution of shareholders in terms of their respective interest held in the Company's value and their voting rights should thus be limited accordingly.

Issuance of shares to employees, managers and members of the company's Management Board

In addition, shares from authorized capital may also be used for issuance to employees, managers and members of the Management Board of the company or an undertaking affiliated with it. This should also enable the transfer of shares from the authorized capital to natural or legal persons who hold such shares (in trust) for the benefit of or in the interest of employees and managers. In particular, Erste Group intends to increase the focus of participating persons on the long-term value of the company, to increase the identification of employees with Erste Group and to tie key employees to Erste Group. Additional reward incentives for top performers of Erste Group are to be created. The shareholding allows employees to benefit to a greater extent from the positive development of Erste Group and thus provides an incentive beyond existing performance-related, variable salary components, which is expected to have a positive effect on Erste Group.

A resolution on the exclusion of shareholders' subscription rights is not required for the use of authorized capital for the issue of employee shares, as the preferential issue of shares to employees, managers and members of the Management Board of the company or its affiliated undertaking constitutes a sufficient reason for the exclusion of the subscription right pursuant to § 153 (5) AktG.

In order to comply with international voting recommendations, a cap of 5% of the registered capital, which corresponds to approximately EUR 43,000,000, is to be set for employee shares.

Summary: Consideration of interests

The complete or partial exclusion of subscription rights in capital increases in return for cash contributions of up to EUR 43,000,000 is objectively justified by the objective to be achieved, i.e. to optimise the capital structure and improve the terms of issue and thus to further consolidate and improve the Company in the Company's and shareholders' interest.

Furthermore, the exclusion of subscription rights is also reasonable and necessary, because, without the exclusion of subscription rights, the Company would not be able 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.

The exclusion of subscription rights is further justified by law if shares are issued to employees, managers and members of the company's Management Board or its affiliated undertakings.

The exclusion of subscription rights is also objectively justified when issuing shares in return for contributions in kind, as such an exclusion allows the authorised capital to be used for the acquisition of companies or stakes in companies in return for contributions in kind, which other shareholders would be unable to provide as such in a similar manner.

Furthermore, the Management Board considers the exclusion of subscription rights to be reasonable, since, in the event of a capital increase in return for a cash contribution, such an exclusion would be limited to a stake of EUR 43,000,000 maximum, which corresponds to approximately 5% of the share capital, or, as the case may be, in connection with the authorised capital (clause 5 of the Articles of Association) and the issue of convertible bonds (clause 8.3. of the Articles of Association) to EUR 171,920,000 maximum, which corresponds to 20% of the current share capital. A dilution of shareholders in terms of their respective interest held in the Company's value and their voting rights should thus be limited accordingly. Given the liquid market for Erste Group shares, shareholders interested in maintaining their percent interest could acquire the appropriate number of Erste Group shares via the stock exchange.

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.

The subscription rights may be excluded and all the terms governing the capital increase may be defined only with the Supervisory Board's consent.

Vienna, April 2018

Management Board