

Report of the Management Board

of

BAWAG Group AG

(Commercial Register Number FN 269842 b)

**in accordance with Section 65 Para 1b in conjunction with Section 170 Para 2
and Section 153 Para 4 of the Stock Corporation Act (AktG)**

(Acquisition and disposal of own shares of the Company)

**on agenda items 6 and 7 of the
Annual General Meeting held on 30 April 2019**

In the Annual General Meeting of BAWAG Group AG, commercial register number FN 269842 b, Wiedner Gürtel 11, 1100 Vienna (the "**Company**"), held on 30 April 2019, resolutions with regards to the following agenda items are proposed to be adopted:

Agenda item 6: Resolution to authorize the Management Board

- a. to acquire the Company's own shares pursuant to Section 65 Para 1 no 8 and Para 1a and 1b Austrian Stock Corporation Act (AktG) via the stock exchange, a public offer or over-the-counter, also with the exclusion of pro rata shareholder rights of re-purchase (reverse exclusion of subscription rights),
- b. to decide on any other mode of transferring the Company's own shares pursuant to Section 65 Para 1b AktG, i.e. other than via the stock exchange or a public offer, while applying mutatis mutandis the rules on the exclusion of shareholder subscription rights,
- c. to reduce the share capital by cancelling these own shares with no further resolution of the General Meeting,
- d. all of the above (a. through c.) whilst revoking the corresponding authorization in accordance with the resolution on item 3 of the agenda adopted by the General Meeting on September 15, 2017.

Agenda item 7: Resolution to reduce the Company's share capital by the way of cancelation of own shares to be acquired by the Company pursuant to Section 192 Para 3 AktG in conjunction with Section 65 Para 1 No 6 AktG from EUR 100,000,000.00 by up to EUR 20,000,000.00 to up to EUR 80,000,000.00, whereas the shares to be canceled may also be acquired with the exclusion of pro rata shareholder rights of re-purchase (reverse exclusion of subscription rights).

With regard to the potential acquisition of own shares within the scope of the resolutions to be adopted by this Annual General Meeting and the potential exclusion of the shareholders' pro-rata tender rights (reverse exclusion of subscription rights; agenda items 6 and 7, please see Section 2 of this report) as well as the transfer of own shares acquired pursuant to Section 65 Para 1 no 8 AktG pursuant to Section 65 Para 1b AktG using a different method of transfer than through the stock exchange or via a public offer and on a possible exclusion subscription rights of shareholders and to define the terms and conditions of such transfer (agenda item 6, please see Sections 1-4 of this report), the Management Board has issued the following written

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pursuant to Section 65 Para 1b AktG in conjunction with Section 170 Para 2 AktG and Section 153 Para 4 sentence 2 AktG:

1 Authorization for the Transfer and Exclusion of the Shareholders' Subscription Rights

The Company must treat all shareholders equally when acquiring or transferring own shares (Section 65 Para 1b in conjunction with Section 47a AktG). This can be fulfilled by acquiring or transferring shares via the stock exchange or through a public offer, whereas in such public offer the Company can foresee either cash or debt- and/or equity-instruments as consideration. In addition, in the Annual General Meeting held on 30 April 2019 the Management Board is to be authorized to transfer own shares in another manner than via the stock exchange or through a public offer, so that – provided the statutory requirements and the conditions as set out in the resolution and this report are fulfilled – the right of shareholders to acquire these own shares may be excluded. For the following reasons the possible exclusion of the shareholders' subscription rights when transferring own shares is in the predominant interest of the Company, objectively justified, necessary and appropriate:

1.1 Use of Own Shares to Service Debt Instruments (Including Participation Rights) with Conversion or Option Rights or a Conversion Obligation

Pursuant to Section 174 AktG, debt instruments (including participation rights) with conversion or option rights or conversion obligations may be issued on the basis of a resolution by the General Meeting. In the context of issuing such debt instruments (including participation rights) with conversion or option rights or a conversion obligation, shareholders of the Company have statutory subscription rights (Section 174 Para 4 AktG in conjunction with Section 153 AktG). Reference is made to agenda items 10 and 11 according to which the Management Board shall be authorized to issue such instruments.

If shareholders waive to exercise their subscription rights or if such subscription rights have been directly excluded by the General Meeting or by the Management Board on the basis of a respective authorization then the debt instruments (including participation rights) with conversion or option rights or a conversion obligation may be issued to non-shareholders. To service such debt instruments (including participation rights) with conversion or option rights or a conversion obligation it is required that the Management Board grants either newly issued shares (e.g. by way of exercising its authorization under the Authorized Capital or the Conditional Capital, both to be resolved on in this Annual General Meeting) or own shares of the Company to the creditors of such debt instruments (including participation rights) with conversion or option rights or a conversion obligation under exclusion of the shareholders' statutory subscription rights.

As a consequence, only such shareholders are affected from this authorization of the Management Board to exclude the shareholders' subscription rights who already waived their rights to exercise their subscription rights in the course of the issuance of such debt instruments (including participation rights) with conversion or option rights or a conversion obligation or whose subscription rights were excluded by General Meeting itself or by the Management Board on the basis of an appropriate authorization, whereby the granting and exercise of such authorization also had to be in the predominant interests of the Company, objectively justified, necessary and appropriate. Therefore, the exclusion of the shareholders' subscription rights appears to be in the predominant interest of the Company, objectively justified, necessary and proportionate.

For these shareholders, the use of own shares to service such debt instruments (including participation rights) with conversion or option rights or a conversion obligation offers the advantage that the shares required need not be created in the course of an additional capital measure (such as a capital increase from authorized or contingent capital) (at least to the extent that own shares are available). As no new shares would have to be created for the service of conversion and/or subscription rights, the dilution effect typical for capital increases can be avoided and the time and administrative expenses of the Company reduced. In view also of this fact, the exclusion of the subscription right appears to be in the predominant interests of the Company, objectively justified, necessary and proportionate.

1.2 Transfer of Own Shares to Employees, Senior Executives or Members of the Management Board of the Company or its Subsidiaries

Pursuant to Section 153 Para 5 AktG the preferential transfer of shares to employees, senior executives and members of the Management Board of the Company or its associated companies already constitutes a sufficient reason for the exclusion of the shareholders' subscription rights. The exclusion is objectively justified, because employee participation programs or stock option programs, respectively, are in the predominant interests of the Company (goal: strengthening of the Company's success) and the employee participation constitutes an efficient means to achieve this goal. The exclusion of the subscription right of the other shareholders is in this context in the predominant interests of the Company, objectively justified, necessary and proportionate.

1.3 Transfer of Own Shares Against Non-Cash-Contributions for the Purpose of Acquiring Companies or Participations in Companies

Opportunities repeatedly arise for the Company or its subsidiaries, respectively, to make acquisitions that are compatible with its strategic planning. In addition, strategic investments in such companies provide opportunities for potential collaborations.

In many cases, the owners of attractive investment and acquisition targets as well as potential collaboration partners are only willing to conclude a corresponding agreement with the Company if they receive shares in the Company as consideration, either exclusively or at least partly.

Besides the necessity of providing own shares as consideration based on the desire of the contractual partner, the use of own shares as a "transaction currency" is also advantageous for the Company for the following reasons:

- If the Company has acquired own shares at a favorable price and the share price has risen in the meantime a more affordable purchase price can frequently be achieved – in the event of an acquisition, for example – than it would otherwise be the case in the event of a "cash only" transaction. This is because when determining the consideration for the business acquisition, the

own shares to be paid as (partial) consideration are generally recognized at the current (average) share price or possibly higher intrinsic value, and not with the lower historical cost.

- The use of own shares is also advantageous for the Company, and therefore for shareholders as well, because the liquidity need for acquisitions can be reduced.
- Moreover, to optimally exploit the opportunities that arise in the market for the Company, it is often necessary that the Management Board reacts rapidly and flexibly. The possibility of using own shares as a transaction currency prevents the risk that interesting acquisitions or partnerships cannot be concluded because new shares must first be issued – for example as part of a relatively time-consuming capital increase against contributions in cash or in kind.

In order to maximize the value of the own shares – especially through the optimal use of the aforementioned benefits to the Company – it is necessary to enable such sales to take place in any manner permitted by law – i.e. off-market as well as with the exclusion of the shareholders' subscription rights – and in this respect to authorize the Management Board, subject to the consent of the Supervisory Board, to determine the terms and conditions of transfer.

The proposed authorization for the Management Board to resolve on different method of transfer, also with the exclusion of the shareholders' subscription rights, will enable the Management Board to utilize opportunities that arise at the time of sale rapidly, flexibly and cost-efficiently. The possibility of transferring own shares under exclusion of the shareholders' subscription rights is especially important for the Company, because when opportunities arise in a quickly changing environment and in new markets, the Company must be able to exploit them in a rapid and flexible manner and cover the resulting needs on short notice. By eliminating the time-consuming and cost-intensive handling of the shareholders' subscription rights the market opportunities that arise can be optimally utilized in the interest of the Company and its shareholders to achieve corporate policy objectives. The exclusion of subscription rights or the transfer of own shares by means other than via the stock exchange or through a public offer, respectively, is ultimately reasonable and in the best interest of the Company because the Company regularly has a special interest in acquiring the company concerned or making investments in the target company concerned. The interests of existing shareholders are safeguarded because in the event of the acquisition of a company a proportionate granting of shares – usually determined based on the performance of a company valuation – takes place. The value of the target company acquired or of the investment in this company is compared to the value of the Company; based on this ratio the investor making a contribution in-kind or other non-cash contribution receives own shares from the Company. Existing shareholders also participate in the future profits of the acquired company. BAWAG Group AG also (partially) avoids a corresponding outflow of liquid funds by using own shares as consideration for the acquired company. As a result, this cash remains with the Company and its current shareholders.

Even when excluding shareholders' subscription rights the reasons listed above demonstrate that the interests of the Company overall outweigh the interests of shareholders. Therefore, an exclusion of the shareholders' subscription rights appears objectively justified. Moreover, the envisaged authorization for the Management Board is in line with the statutory purpose that own shares are not left with the Company but rather returned to the market.

1.4 Use of Own Shares for Carrying Out a "Scrip Dividend" (*scrip dividend*)

In the course of a scrip dividend the shareholders are being offered to transfer their dividend claim, as arisen with the profit appropriation resolution passed by the General Meeting, in whole or in part to the Company in exchange for newly issued shares or own shares of the Company, depending on the respective form of the scrip dividend to be decided on at a later stage.

A respective exclusion of the subscription right allows for the implementation of a scrip dividend:

Basically, a scrip dividend can be implemented by granting the shareholders' statutory subscription rights. Thereby, the shareholders are being offered only full shares for subscription. Regarding a part of the dividend entitlement, which does not amount to (or exceeds) the subscription price of a full share, the shareholders only receive the cash-dividend and may not receive additional shares to this extent. Neither an offer for a partial entitlement nor the implementation of a trade for subscription rights or fractional units thereof is provided for. This is justified and appropriate because the shareholders receive a pro-rata cash dividend instead of the subscription of own shares.

In a given case, depending on the capital markets' situation, it can be in the best interest of the Company and the shareholders to offer and exercise a scrip dividend under exclusion of the shareholders' statutory subscription rights. Also in such case – notwithstanding a comprehensive exclusion of the shareholders' subscription rights – all shareholders of the Company, who are holding shares with entitlement to dividends, are, by protecting the principle of equal treatment pursuant to Section 47a AktG, being offered own shares for the subscription price in exchange for their full or partial dividend claim. Such an exclusion of the shareholders' subscription rights in context of a scrip dividend provides for the implementation of a dividend with more flexible conditions (in particular without granting a certain period for subscription).

Given the fact that all shareholders holding shares with dividend claims and being offered new shares and their exceeding partial dividend amounts are settled by payment of cash dividends, the exclusion of the subscription rights appears to be justified and appropriate.

1.5 Transfer of Own Shares Against Cash Payments

It is within the Company's interest to be able to satisfy a financial demand of the Company (or of the whole BAWAG Group) or to strengthen the capital structure of the Company quickly by transferring own shares. A respective financial demand might arise, in particular, in relation to the financing of a company acquisition, to finance an expansion of the business operations or a large project, respectively, or to cover refinancing needs (e.g. the repayment of bonds, loans or other financings). In particular in these cases a quick transfer of the Company's own shares might be necessary and appropriate.

Such exclusion of the shareholders' statutory subscription rights in connection with a transfer of own shares against cash payments shall enable the Company to waive the implementation of a public offer, which is both time-consuming and costly. The authorization to transfer own shares against cash payments allows the Company to quickly react to favorable market conditions. From experience, due to the increased flexibility in implementing measures without causing any delay (in particular in the course of an *accelerated bookbuilding*-procedure), such sales can be placed with better conditions and with less placement risks as a comparable public offer with subscription rights of the shareholders and, thus, a higher inflow of capital can be achieved and the risk of an incomplete placement can be lowered. In the event of an off-market transfer under exclusion of the shareholders' subscription rights, the Company does not need to grant a specific period for the subscription (offer or subscription period, respectively), in which the public offer has been publicly started and in which the Company is exposed to the negative changes of the market conditions and the risk of speculation against the shares during the offer period. Such market risks are generally discounted for as deductions of the share price by the (institutional) investors to the disadvantage of the Company.

Moreover, in the event of a public offer to a restricted circle of investors (for example, a placement to qualified investors only) or a private placement, there is no obligation to draw up a prospectus (or an offer document which replaces a prospectus, respectively), the creation of which would entail for the Company a considerable use of its own resources and significant external costs, as well as liability for the content of the prospectus (or offer document, respectively), respectively. Also, the preparation of a prospectus (or an offer document, respectively) requires a long lead-time and makes it impossible for the Company to respond quickly and flexibly to emerging market opportunities.

Also, a transfer of own shares corresponding to a portion of up to 10% of the share capital (cf Section 65 Para 2 AktG) over of the stock exchange within a short time period would very likely result in an undesirable loss of the share price (provided that such a large number of shares would find any buyer at all). This would clearly contradict the purpose of the transfer of the own shares.

Through the transfer of own shares against cash payments and with the exclusion of the shareholders' subscription rights the shareholder structure can be specifically expanded and stabilized within the interest of the Company. This regards at the one hand the establishment of the Company at (certain groups of) institutional investors. Thereby the fungibility of and the trading in the shares of the Company can be improved and, as a consequence, also the opportunity of the Company to finance itself through the capital market. Furthermore, due to strategic reasons for the business operations of the Company, it can be useful to gain one or more existing or potential business partners of the companies of the BAWAG Group as new shareholders of the Company or to expand their participations in the Company to strengthen their connection to the Company.

The exclusion of the shareholders' subscription rights lies within the predominant interest of the Company and is objectively justified, necessary and appropriate to effect quickly and flexibly a raise of equity capital by the Company.

1.6 General

The transfer of own shares while excluding the possibility that existing shareholders may acquire these shares also does not result in the "typical" dilution of the ownership interest of shareholders. Initially, the ownership interest of existing shareholders, i.e. the voting rights of the shares of the existing shareholders, actually "increases" because the Company acquires its own shares and the rights associated with these acquired shares are suspended as long as they are held by the Company as own shares. A reduction in the individual shareholder's ownership interest occurs only if the Company transfers the own shares under the exclusion of the shareholders' subscription rights. In the case of such transfer with an exclusion of shareholders' subscription rights, the shareholder then once again has the status that he had before the Company acquired the own shares. In this context it should be noted that due to the quantitative restrictions on the acquisition of own shares, an acquirer purchasing the own shares generally cannot obtain a "controlling" interest in the Company.

In this context it should be mentioned that the granting of an authorization to the Management Board to transfer own shares with the approval of the Supervisory Board by means other than via the stock exchange or by public offer, it is a customary and generally accepted business practice among many listed Austrian (and German) companies for the purpose of using own shares as consideration in a business combination, i.e. as consideration for the acquisition of companies, businesses, business units or investments in one or more companies both domestically and abroad, as well as for the realization of any similar strategic objective. This is also reflected in Section 5 Para 2 no 7 of the Disclosure Regulation (VeröffentlichungsV 2018), according to which a disclosure must be made at the appropriate time containing information on the nature and purpose of the acquisition and/or the

transfer of own shares, in particular, whether the acquisition and/or the transfer is to take place on- or off-market.

The Management Board will utilize the authorization to resell own shares in a manner other than via the stock exchange or through a public offer with the exclusion of the subscription rights of shareholders and to determine the terms and conditions for the transfer only if the previously described requirements as well as all other applicable statutory provisions have been met. In addition, the Management Board shall determine the consideration of the transferred own shares taking into account the interests of the Company and shareholders. Likewise, when acquiring and/or transferring own shares (with or without the possibility for shareholders to purchase said shares), the Management Board shall comply with all relevant disclosure and notification duties as defined in exchange and securities regulations.

Finally, for the sake of clarity it is held, that this authorization to transfer the Company's own shares in a manner other than via the stock exchange or through a public offer with the exclusion of the subscription rights of shareholders shall also apply to such own shares which were acquired by the Company under the authorization granted by the Extraordinary General Meeting of the Company as of 15 September 2017, agenda item 3.

2 Authorization for the Off-market Acquisition and Exclusion of the Shareholders' pro-rata tender rights (Reverse Exclusion of Subscription Rights)

As emerges from the statements under Section 1 of this report, the Management Board shall be able to use own shares acquired according to Section 65 Para 1 No AktG (agenda item 6) as a transaction currency for any acquisitions. It is therefore necessary for the Management Board to have the greatest possible flexibility, which enables it to act swiftly. To this end, it may be necessary to have the required acquisition currency available to the extent necessary at short notice, and therefore to acquire own shares in the package from individual shareholders or a single shareholder off-market. The short-term availability of the acquisition currency in the form of own shares for the purposes set forth above in this report is the material justification for the exclusion of the shareholders' pro-rata tender rights (reverse exclusion of the shareholders' subscription rights).

Further, this Annual General Meeting is proposed to resolve on a capital reduction by the way of the cancellation of shares (agenda item 7). The Management Board shall, with the consent of the Supervisory Board, be authorized to acquire the shares to be canceled by other means than via Stock Exchange or a public offer and, thus, under exclusion of the shareholders' pro-rata-tender rights (reverse exclusion of the shareholders' subscription rights), if and insofar such form of acquisition lies within the best interest of the Company and is objectively justified.

3 Authorization to Cancel Own Shares

The Management Board is to be authorized to cancel own shares with the consent of the Supervisory Board without any further resolution of the Company's General Meeting. In particular, the cancellation of own shares can be advantageous for the Company and its shareholders from an accounting perspective because reserves must be established for own shares. If the acquired own shares are no longer needed and should there be no better option available for their use than to cancel them, then the advance authorization of the Management Board to cancel the own shares in the event of actual cancellation are an appropriate means to avoid the time-consuming and costly convening of another General Meeting that would otherwise have to be held to adopt these measures.

The Management Board will utilize the authorization to cancel own shares that were permitted to be acquired only if the previously described statutory requirements as well as any other applicable statutory provisions are fulfilled. Likewise, when cancelling own shares the Management Board shall comply with all relevant disclosure and notification duties related to exchange and securities regulations.

4 Summary

If the Annual General Meeting of the Company held on 30 April 2019 resolves to adopt the resolutions to authorize the Management Board as described at the outset, firstly, to purchase own shares in accordance with Section 65 Para 1 no 8, Para 1a and Para 1b of the AktG and to transfer and cancel them, and secondly, in accordance with Section 65 Para 1b of the AktG in the event of the transfer of the own shares to utilize a manner other than via the stock exchange or by public offer, the Management Board will be given an effective tool to respond rapidly to advantageous market opportunities that may arise. The interests of existing shareholders are not exposed to any special risks because of this. The same applies *mutatis mutandis* to the execution of the resolution pursuant to agenda item 7 (Section 192 in conjunction with Section 65 Para 1 no 6 AktG) when acquiring shares in the Company by a manner other than via the stock exchange or by public offer.

Shareholders' interests are safeguarded because, first, the Management Board is obliged to obtain the consent of the Supervisory Board when excluding the shareholders' (reverse) subscription rights, both before acquiring own shares as well as before the cancelling or transferring them. This means, the Management Board must agree in advance to the acquisition and transfer arrangements with the Supervisory Board, in case the subscription right shall be excluded. In addition, due to the approach taken to acquire own shares and the subsequent transfer of these shares with the exclusion of the subscription rights of existing shareholders, no dilution of their shareholdings in the Company will take place. Due to the quantitative restriction on the purpose-free acquisition of own shares in accordance with Section 65 Para 1 no 8 AktG to a total holding of 10% of the share capital of the Company, there are no grounds for concern that a new shareholder may obtain a "controlling" interest in the Company through the acquisition of the own shares. In addition, the principles contained in Section 65 AktG and the aforementioned VeröffentlichungsV 2018 regarding the extensive disclosure requirements in connection with the acquisition and transfer of own shares – also in regard to any additional disclosure requirements that apply to listed companies such as in the future BAWAG Group AG – provide for full transparency with respect to the acquisition and transfer of own shares. It can therefore be said, in summary, that the adoption of the resolutions to authorize the Management Board as described at the outset will enable the Management Board to react quickly to any advantageous opportunities for the Company without creating any significant disadvantages for current individual shareholders.

Vienna, in April 2019

The Management Board of BAWAG Group AG