



Report of the Management Board

of

BAWAG Group AG

(Commercial Register Number FN 269842 b)

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

(exclusion of subscription rights when carrying out
a capital increase from authorized capital)

**on item 8 of the agenda of the
Annual General Meeting held on 30 April 2019**

In the Annual General Meeting of BAWAG Group AG, commercial register number 269842 b, Wiedner Gürtel 11, 1100 Vienna (the "**Company**"), held on 30 April 2019, the Management Board of the Company shall be authorized, with the consent of the Supervisory Board, to increase the share capital of the Company within five years from the date of the registration of the amendment to the Articles of Association in the commercial register, also in several tranches, against contributions in cash and/or contributions in kind by up to EUR 40,000,000.00 by issuing up to 40,000,000 new bearer shares with no par value, also with the exclusion of the shareholders' subscription right, and to determine the issue price conditions in agreement with the supervisory board (Authorized Capital 2019).

Pursuant to the statutory provisions in accordance with Section 170 Para 2 in conjunction with Section 153 Para 4 AktG, the Management Board of the Company hereby issues to the General Meeting the following

REPORT

as to the reasons for the partial or complete exclusion of the subscription rights / the authorization to the separate exclusion of subscription rights with regard to the issuance of shares from the Authorized Capital 2019.

1. Direct Exclusion of the Statutory Subscription Rights

A direct exclusion of the shareholders' subscription rights resolved on by the General Meeting entails that neither a subsequent resolution by the Management Board and/or the Supervisory Board to exclude shareholders' subscription rights nor the publication of a separate report in the course of the issuance of new shares will be required.

For the following reasons, the direct exclusion of the shareholders' subscription rights in the course of the issuance of new shares against cash payments to prevent fractional amounts which may arise in the event of an unfavorable exchange ratio and to service the exercise of over-allotment options (*Greenshoe* options), as contained in the authorization sought is in the predominant interest of the Company, objectively justified, necessary and proportionate:

1.1. Direct Exclusion to Prevent Fractional Amounts

The issuance of shares against cash payments in a total amount of up to 10% of the Company's share capital shall prevent fractional amounts. Such fractional amounts arise from partial claims with regard to the subscription to shares in the context of a rights offering, when the concrete amount of the capital increase would lead to an unfavorable exchange ratio. The exclusion of the shareholders' statutory subscription rights to prevent fractional amounts serves the purpose, with regard to the respective capital increase, to be able to determine a practicable subscription ratio.

The exclusion of the shareholders' statutory subscription rights to prevent fractional amounts is objectively justified by the following reasons and in the interest both of the minority shareholders and the Company:

- Without the exclusion of the shareholders' subscription rights the technical implementation of a capital increase, in particular a capital increase by an uneven amount, would be severely hampered. Due to the exclusion of the shareholders' subscription rights to fractional amounts, new shares which are entirely free from shareholders' subscription rights are created and, thus, can be sold at the best possible price either via the stock exchange or in any other way. The proceeds from the sale of such shares are attributable to the Company and, as a consequence, indirectly to those shareholders whose subscription rights to fractional amounts were excluded.
- Inherently, an exclusion of the shareholders' subscription rights for share fractions does not lead to a substantial dilution of the shareholdings. Also, the direct exclusion is limited to an amount of up to 10% of the share capital of the Company.

In the course of exercising the authorization sought, the Management Board of the Company will, of course, pay attention to prevent the occurrence of fractional amounts as much as possible by determining the overall conditions for such an increase of the Company's share capital from of the Authorized Capital 2019. In any event, the equal treatment of the shareholders will be assured.

To be able to exercise a capital increase from the Authorized Capital 2019 in a timely and flexible manner, the shareholders' subscription rights shall be directly excluded by the General Meeting to prevent fractional amounts. Otherwise, the Management Board of the Company would have to publish a separate report regarding the exercise of the authorization for the exclusion of the shareholders' subscription rights two weeks prior to the respective Supervisory Board's resolution on approval. Usually, the relevant data (e.g. exact issue volume and, thus, the subscription ratio) is not certain two weeks beforehand, with the result that a mere authorization of the Management Board for exclusion of the shareholders' subscription rights to prevent share fractions could not be reasonably exercised.

1.2. Direct Exclusion in Order to Service Over-allotment Options (*Greenshoe* Options)

The issuance of shares against cash payments in a total amount of up to 10% of the share capital shall enable the Company to service the exercise of over-allotment options granted to issuing banks. In the

course of capital increases with placements via issuing banks it is market standard that the issuing banks are being granted an over-allotment option. The purpose of such measures customary for security issues is to stabilize the development of the share price after the placement of shares and, thus, is in the predominant interest of the Company, objectively justified, necessary and proportionate:

By way of over-allotment options (*Greenshoe* options), issuing banks have the opportunity, within the framework of capital market requirements, to allocate more shares as the offer provides for; usually the required shares for the allocation are made available to the issuing banks by way of securities loans. This provides a basis for stabilizing the share price: If the share price decreases after the offering, the issuing banks acquire the shares on the market, thereby stabilizing the share price of the purchased shares and service the securities loans with these shares (or directly the excessive allocation, provided that a later fulfillment has been agreed). If the share price increases, the issuing banks exercise a previously agreed option by which the Company obliges itself to offer more shares to the issuing banks in the necessary amount at original issue price.

The over-allotment option will be exercised by the issuing banks, after the shares were already placed on the market. In such case the allocation of the shares is formally effected to the issuing banks (or to an issuing bank representing all issuing banks), but actually the shares are already placed in the market to multiple investors.

The exclusion of the shareholders' subscription rights is clearly in the interest of the company (as well as the shareholders) and it is necessary to be able to fulfil this function.

Any impairment of the shareholders by an exclusion of the shareholders' subscription rights in the context of servicing over-allotment options (*Greenshoe* options), is not to be expected:

- To safeguard the existing shareholders' interests in the course of servicing of an over-allotment option granted by the Company from an authorized capital, the new shares are issued at the price of the original issue and, thus, at the market price as determined in the issue.
- A substantial dilution of voting rights from a capital increase with a maximum volume of 10% of the share capital is not to be feared.
- Furthermore, the shareholders also do have the opportunity to maintain their relative shareholding ratio and their relative voting right ratio by way of additional purchases via the stock exchange.

Therefore, in this context the exclusion of the shareholders' subscription rights is in the predominant interests of the Company, objectively justified, necessary and proportionate.

In order to be able to exercise a capital increase from the Authorized Capital 2019 in a timely and flexible manner, the shareholders' subscription rights shall already be excluded by the General Meeting (so that no subsequent resolution by the Management Board, with the Supervisory Board's consent, regarding the exclusion of the shareholders' subscription rights and no publication of a separate report is necessary – see also Section 1.1 of this report).

2. Authorization of the Management Board for the (Entire or Partial) Exclusion of the Subscription Rights with the Supervisory Board's Consent

The Management Board shall also be authorized in particular in, but not limited to, the cases as stated in No i. to v. of the resolution proposal to agenda item 8, with the Supervisory Board's consent, to exclude the shareholders' subscription rights entirely or partially, as long as the exclusion of the subscription rights is objectively justified and in the predominant interest of the Company:

2.1. Issuance of Shares to Service Debt Instruments (Including Participation Rights) with Conversion or Option Rights or a Conversion Obligation

The Authorized Capital 2019 also provides for an authorization of the Management Board for the exclusion of the subscription rights to the extent as required to grant to the holders of debt instruments (including participation rights) with conversion or option rights or a conversion obligation already issued or yet to be issued by the Company or its subsidiaries (Section 189a no 7 UGB) such subscription rights in an amount as they would be entitled to after exercising the conversion or option right or upon fulfillment of a corresponding conversion obligation (see No i. of the resolution proposal).

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 treasury 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 right 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 to the shares to be issued appears to be in the predominant interest of the Company, objectively justified, necessary and proportionate.

2.2. Issuance of Shares to Employees, Senior Executives or Members of the Management Board of the Company or its Subsidiaries

The Authorized Capital 2019 provides for an authorization of the Management Board for the exclusion of the shareholders' subscription rights in the context of issuing shares to employees, senior executives and members of the Company's Management Board or its subsidiaries (Section 189a no 7 UGB) within the framework of an employee participation program or a stock option program (see No ii. of the resolution proposal).

Pursuant to Section 153 Para 5 AktG the preferential issue 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 subscription right. 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 rights of the other shareholders is in this context in the predominant interests of the Company, objectively justified, necessary and proportionate.

2.3. Issuance of Shares Against Contributions in Kind for the Purpose of Acquiring Companies or Participations in Companies

The Authorized Capital 2019 also provides for the authorization of the Management Board for the exclusion of the shareholders' subscription rights in the course a capital increase against contributions in kind provided that the capital increase is carried out for the purpose of (also indirectly) acquiring companies, parts of companies or participations in companies or other assets related to an acquisition project (see No iii. of the resolution proposal).

The authorization for the issuance of new shares against contributions in kind under the exclusion of the shareholders' subscription rights shall grant the Management Board the flexibility required to use shares issued from authorized Capital also as (part of the) consideration for the acquisition of existing companies, businesses, parts of companies or participations in companies, if required. A contribution of such assets as contributions in-kind requires the exclusion of the shareholders' subscription rights, because mostly the assets to be contributed in kind are unique in their composition and can only be contributed by the contributor (but not by all shareholders). The acquisition of existing companies, businesses, parts of companies or participations in companies in the way that they can be contributed as contributions in-kind by exclusion of the other shareholders' subscription rights is within the interest of the Company, because the Company would want to acquire these assets.

The exclusion of the shareholders' subscription rights is required in this context, because only in this way the Company can ensure the acquisition of companies, businesses, parts of companies or participations in companies without the outflow of liquidity and usually the seller is ready to transfer only if he receives an equivalent participation in the Company. From the perspective of the Company, it can be useful for strategic or organizational reasons to include the contributor as shareholder in the BAWAG-Group. In the context of acquiring a company by way of contribution in-kind the seller as contributor can only get his desired participation if only he receives the new shares. The exclusion of the shareholders' subscription rights is proportionate, because in general there is a special interest of the Company in regard to the acquisition of the company or participations in the respective company. The protection of the existing shareholders' interests is ensured by the fact that in the context of an acquisition of a company there is a proportionate granting of shares – in general after the completion of a company valuation. In the course of an acquisition of a company against in-kind contribution for

the issuance of new shares from the authorized capital, the value of the company or the participation in the company, as to be contributed, will be compared to the value of the Company; the contributor will receive new shares in the Company under the respective ratio. Furthermore, the existing shareholders will share in the future profits from the contributed company which usually increase due to synergies with the Company.

In determining the value of shares granted in consideration the stock exchange price will be relevant. It is, however, not planned to stick to the stock exchange price schematically, in particular, to avoid questioning achieved results of negotiations due to fluctuations of the stock exchange price.

When weighing all circumstances mentioned, the authorization to exclude the shareholders' subscription rights in the case of a capital increase against an in-kind contribution sought is necessary, appropriate, proportionate and justified by the prevailing interests of the Company.

2.4. Issuance of Shares in the Context of Carrying Out a "Scrip Dividend"

The Authorized Capital 2019 also provides for an authorization of the Management Board for the exclusion of the shareholders' subscription rights to shares newly issued to implement a scrip dividend (see No iv. of the resolution proposal).

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 treasury 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 shareholders' subscription rights 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 the subscription price. Regarding a part of the dividend entitlement, which does not amounts 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 new 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 this 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 new 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 adherence to statutory subscription periods).

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.

2.5. Issuance of Shares Against Cash Payments

In the context of the Authorized Capital 2019, the Management Board of the Company shall be authorized to (fully or partially) exclude the shareholders' subscription rights in the context of issuance of shares against cash payments (see No v. of the resolution proposal).

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 by a quick placement of new 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 the exclusion of the shareholders' statutory subscription rights is necessary and appropriate to allow a quick placement of the Company's shares.

Such exclusion of the shareholders' statutory subscription rights in connection with a capital increase against cash contributions shall enable the Company to waive the implementation of a rights offering which is both time-consuming and costly. This 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 capital increases can be placed with better conditions and with less placement risks as a comparable capital increase 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 a capital increase with an exclusion of the shareholders' subscription rights, no time period of at least two weeks (subscription period) exists for the Company, in which the capital increase transaction 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 time period for subscription. 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 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. Also, the preparation of a prospectus requires a long lead-time and makes it impossible for the Company to respond quickly and flexibly to emerging market opportunities. Furthermore, the obligation to prepare a stock market prospectus does not apply in the context of admission of new shares up to 20% of the shares already admitted within a period of 12 months.

Through a capital increase 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 (without the subscription time period of two weeks).

An impairment of the shareholders is not to be expected, because the asset interests of the shareholders are protected by the statutorily required determination of an appropriate subscription amount/price for the new shares corresponding to the predominant market conditions.

Moreover, the authorization to exclude the shareholders' subscription rights in the course of an issuance of shares against cash payments is limited to a total of 10% of the current share capital of the Company, thus to EUR 5.000.000. However, this amount is not fully at the Management Board's disposal if the share capital of the Company at the time of the execution of the authorization is below the current amount of the share capital; in this case the shareholders' subscription rights can only be excluded up to a maximum of 10% of the then existing share capital.

A substantial dilution of the voting rights is not to be expected from a capital increase totaling up to only 10% of the share capital. The shareholders also do have the possibility to maintain their relative participation ratio and relative voting right ratio through additional purchases at the stock exchange.

2.6. General Remarks Regarding the Exercise of the Authorization

Considering all circumstances, the respective authorization to exclude the shareholders' subscription rights is, within the described limits, necessary and required as it is within the interest of the Company and the shareholders. The Management Board will exercise the authorization with the consent of the Supervisory Board. The conditions will be determined in due course in such a way that, by considering the respective circumstances, the interest of the shareholders and the Company will be appropriately protected.

The issue price for the new shares will be determined by the Management Board in consideration of the interests of the Company and the shareholders and with the consent of the Supervisory Board. The conditions will be determined in due course in such a way that, by considering the respective circumstances, the interest of the shareholders and the Company will be appropriately protected. In the event of capital increases against contributions in-kind, an examination of the contribution in-kind will be conducted by an auditor.

In the event of an exclusion of the shareholders' subscription rights on the basis of an authorization regarding the exclusion of the shareholders' subscription rights, the Management Board has to publicize two weeks, at the latest, before the respective resolution by the Supervisory Board, a further written report pursuant to Section 171 Para 1 in conjunction with Section 153 Para 4 AktG.

Vienna, in April 2019

The Management Board of BAWAG Group AG