



## **Report of the Management Board**

of

### **BAWAG Group AG**

(Commercial Register Number FN 269842 b)

**in accordance with Section 174 Para 4 in conjunction with  
Section 153 Para 4 of the Stock Corporation Act (“AktG”)**

(direct exclusion of subscription rights when issuing convertible bonds, participation bonds,  
participation rights or other instruments according to Section 174 AktG)

**on items 10 and 11 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 Guertel 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 issue convertible bonds (agenda item 10) as well as participation bonds, participation rights or other instruments according to Section 174 AktG (agenda item 11) within five years from the date of the resolution, thus until 30 April 2024.

With respect to the issuance of convertible bonds (to be resolved on in agenda item 10) as well as participation bonds, participation rights or other instruments according to Section 174 AktG (to be resolved on in agenda item 11) the statutory subscription rights shall be excluded (direct exclusion of the statutory subscription rights).

Pursuant to the statutory provisions in accordance with Section 174 Para 4 in conjunction with Section 153 Para 4 AktG, the Management Board of the Company hereby issues the following

### **REPORT**

to the General Meeting as to the reasons for the direct exclusion of subscription rights with respect to the issuance of convertible bonds as well as participation bonds, participation rights or other instruments according to Section 174 AktG:<sup>1</sup>

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<sup>1</sup> This report relates to agenda items 10 and 11 and has been drawn up in one document for the reasons of simplification and efficiency. In the event that one of the resolutions to be adopted under these agenda items 10 and 11 will not be adopted for whatever reason, this report remains valid for the agenda item under which such resolution is passed.

Pursuant to Section 174 AktG, convertible bonds as well as participation bonds, participation rights or other instruments according to Section 174 AktG with or without conversion or option rights or a conversion obligation may be issued on basis of a resolution by the General Meeting. Also, the General Meeting may authorize the Management Board to issue such Instruments within five years from the day of the resolution of the General Meeting. Such authorization is about to be resolved on in this Annual General Meeting 2019.

In the context of issuing convertible bonds as well as participation bonds, participation rights or other instruments according to Section 174 AktG with or without conversion or option rights or a conversion obligation, in principle, shareholders of the Company have statutory subscription rights (Section 174 Para 4 AktG in conjunction with Section 153 AktG).

If shareholders waive to exercise their subscription rights or if such subscription rights have been directly excluded by the General Meeting, then the convertible bonds as well as participation bonds, participation rights or other instruments according to Section 174 AktG with or without conversion or option rights or a conversion obligation may also be issued to non-shareholders of the Company.

A direct exclusion of the shareholders' subscription rights 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 on the grounds of the exclusion of the subscription rights will be required in the course of the issuance.

For the reasons set forth in this report, the direct exclusion of the shareholders' subscription rights in the course of the issuance of convertible bonds as well as participation bonds, participation rights or other instruments according to Section 174 AktG with or without conversion or option rights or a conversion obligation is in the predominant interest of the Company, objectively justified, necessary and proportionate.

The issuance of such Instruments can enhance the Company's ability on the capital markets to obtain new funds and optimize its capital structure. Thus, corporate financing can be organized more flexibly and thus be optimized. Undoubtedly, this lies in the best interest of the Company. The issuance of such Instruments without exclusion of the subscription right would rather unusual compared to the international capital markets' situation and would also slow down the process to issue such Instruments.

Therefore, the direct exclusion of subscription rights when issuing such Instruments bears *inter alia* the following possible advantages:

Firstly, such Instruments may be issued and financing measures may be taken without any loss of time. This goal could not be achieved by the Company if the subscription rights were not directly excluded by the General Meeting. According to international market standards such issuance is carried out in Accelerated Bookbuilding-Procedures which are advantageous to the Company as the issued capital can usually be placed with better conditions and with less placement risks in comparison with an issuance without a direct exclusion of the shareholders' subscription rights. As a result, a higher inflow of capital can be achieved and the risk of an incomplete placement can be lowered.

In case the General Meeting only authorized the Management Board to exclude the shareholders' subscription right – as opposed to the direct exclusion as proposed to be resolved on in this General Meeting – the Management Board would have to publish a separate report at least two weeks before

the respective resolution to issue such instruments. This would cause a delay in the process of issuance which could harm the Company's goals as outlined above to rapidly raise capital.

If the Company issued such convertible bonds or participation bonds, participation rights or other instruments according to Section 174 AktG with subscription rights of the Company's shareholders, this would reduce the Company's ability to quickly react to the need of capital due to, for example, investment opportunities and entail the necessity of a substantial number of costly and time consuming organizational measures such as drawing up a prospectus. This obligation would lead to 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.

In addition, convertible bonds or participation bonds, participation rights or other instruments according to Section 174 AktG might also be used by the Management Board, with consent of the Supervisory Board, as transaction currency when acquiring Companies, stakes in Companies or Assets from Third Parties. By using such Instruments as consideration the Company's liquidity can be preserved. Also, a deferral of payment of the purchase price can be achieved by using such instruments as transaction currency.

Moreover, some investors on the capital markets prefer to invest in convertible bonds or participation bonds, participation rights or other instruments according to Section 174 AktG rather than in shares. So, the Company can approach potential new (institutional) investors. Thus, new groups of investors might be attracted to the Company which is also clearly in the best interest of the Company.

Furthermore, the authorization to issue convertible bonds is limited to a maximum number of convertible bonds granting the right to the conversion and/or subscription rights for up to 10,000,000 bearer shares of the Company which represents 10% of the total share capital at the moment of this Annual General Meeting. Thus, a substantial dilution of the voting rights of the current shareholders is not to be expected from the issuance of convertible bonds granting conversion and/or subscription rights for up to only 10% of the share capital. Besides, the shareholders can also maintain their relative participation ratio and relative voting right ratio through additional purchases at the stock exchange. This applies *mutatis mutandis* to participation bonds, participation rights or other instruments according to Section 174 AktG with respect to the share of the profits to be awarded to owners of such instruments.

In conclusion, the authorization of the Management Board with the consent of the Supervisory Board to issue convertible bonds or participation bonds, participation rights or other instruments according to Section 174 AktG under (direct) exclusion of the shareholders' subscription right entails a large number of advantages both for the Company and its shareholders. Thus, this direct exclusion of the present shareholders' subscription right as set forth in the resolution proposal is necessary, appropriate and objectively justified and indicated in the interest of the Company.

Vienna, this April 2019

The Management Board of BAWAG Group AG