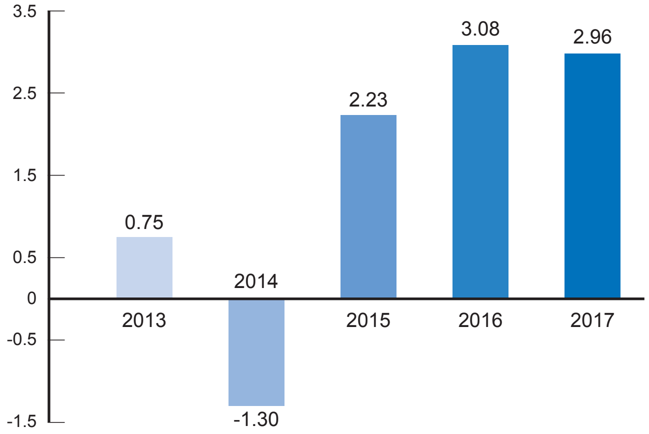
Erste Group

Annual Report 2017

ERSTE Group

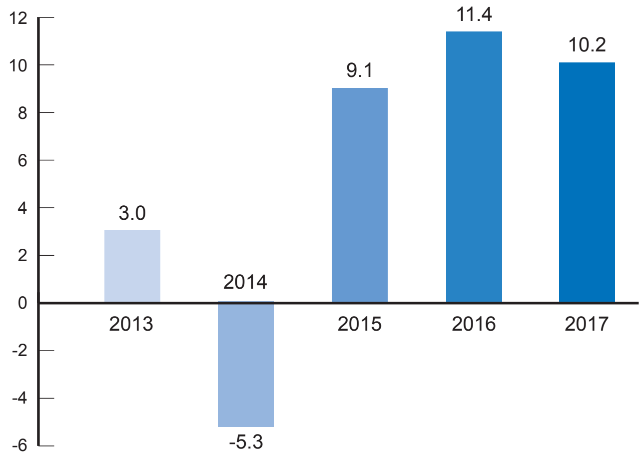
Extensive presence in Central and Eastern Europe

Cash earnings per share (in EUR)

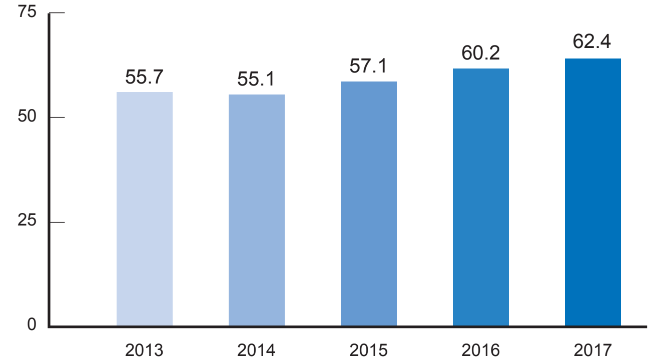


The figures for the comparative periods 2014 and 2013 are restated according to IAS 8.

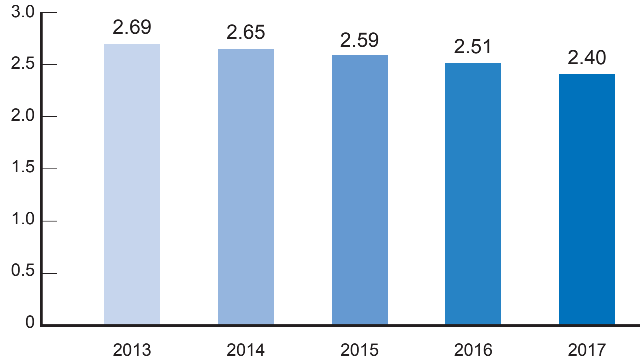
Cash return on equity (in %)



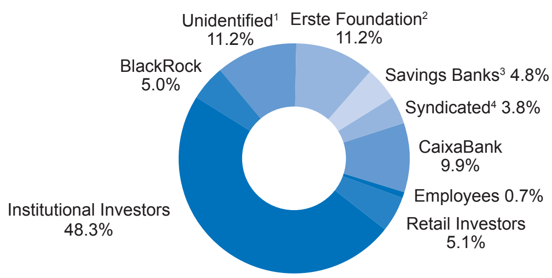
Cost/income ratio (in %)



Net interest margin (in %)

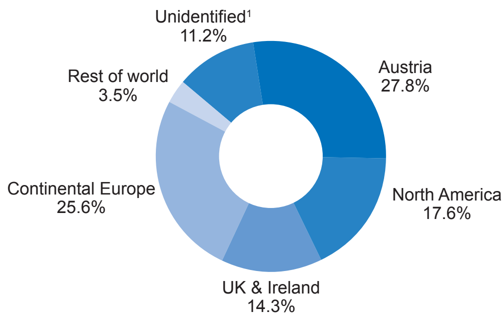


Shareholder structure as of 31 December 2017 by investors (in %)



[1] Unidentified institutional and retail investors
[2] Economic interest Erste Foundation
[3] Economic interest Savings Banks
[4] Other parties to the shareholder agreement of Erste Foundation, Savings Banks and CaixaBank

Shareholder structure as of 31 December 2017 by region (in %)



[1] Unidentified institutional and retail investors

Ratings as of 31 December 2017

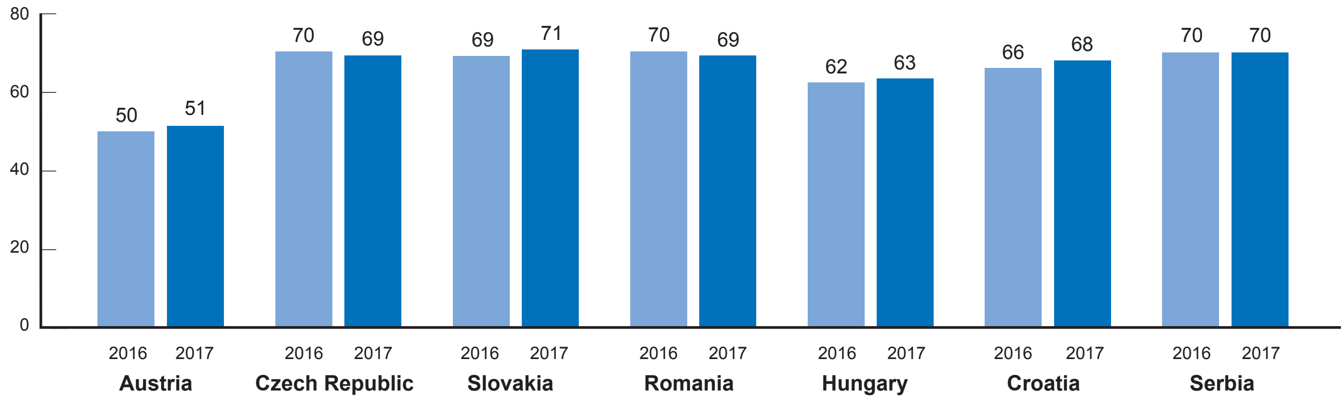
Fitch	
Long-term	A-
Short-term	F1
Outlook	Stable
Moody's Investors Service	
Long-term	A3
Short-term	P-2
Outlook	Positive
Standard & Poor's	
Long-term	A
Short-term	A-1
Outlook	Positive

Financial calendar 2018

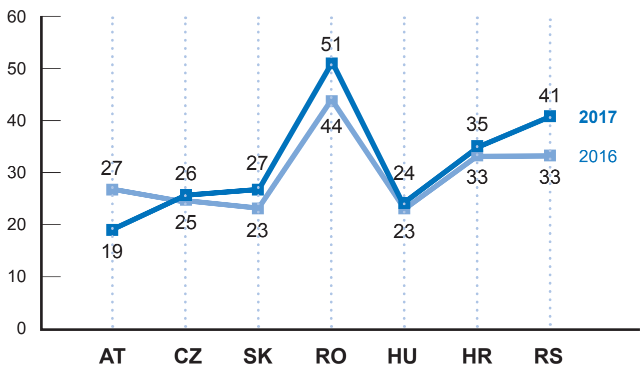
Date	Event
4 May 2018	Results for the first quarter 2018
14 May 2018	Record date Annual General Meeting
24 May 2018	Annual General Meeting in Vienna
29 May 2018	Ex-dividend day
30 May 2018	Record date dividend
1 June 2018	Dividend payment
31 July 2018	Results for the first half-year 2018
2 November 2018	Results for the first three quarters 2018

The financial calendar is subject to change.
The latest updated version is available on Erste Group's website (www.erstegroup.com/investorrelations).

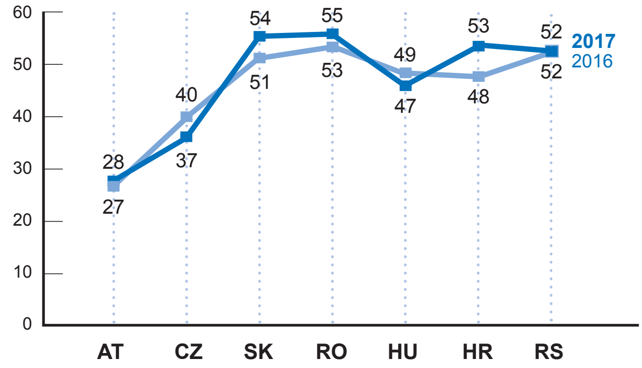
Share of women in total workforce (in %)



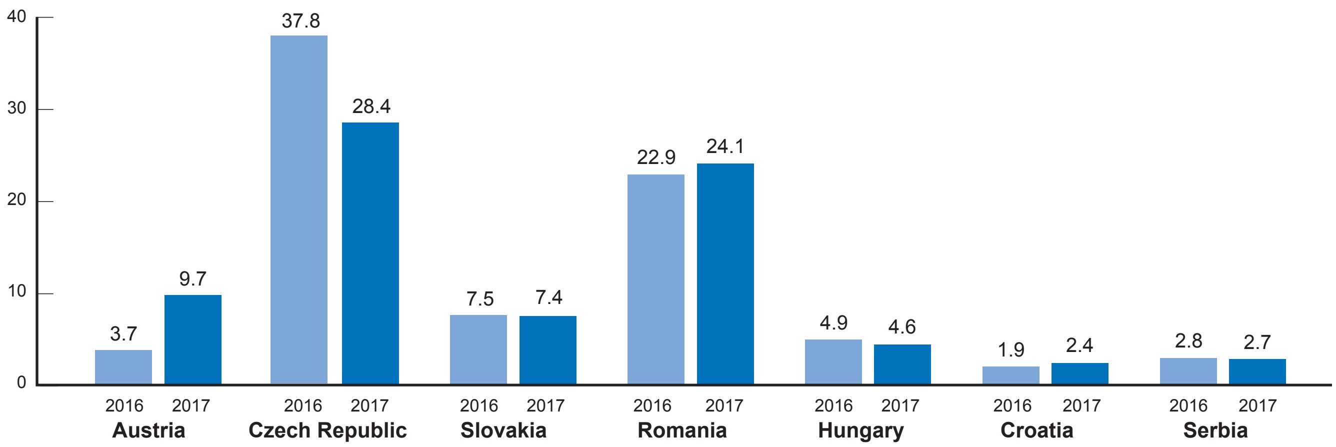
Share of women in executive positions (in %)



Share of women in all managerial positions (in %)

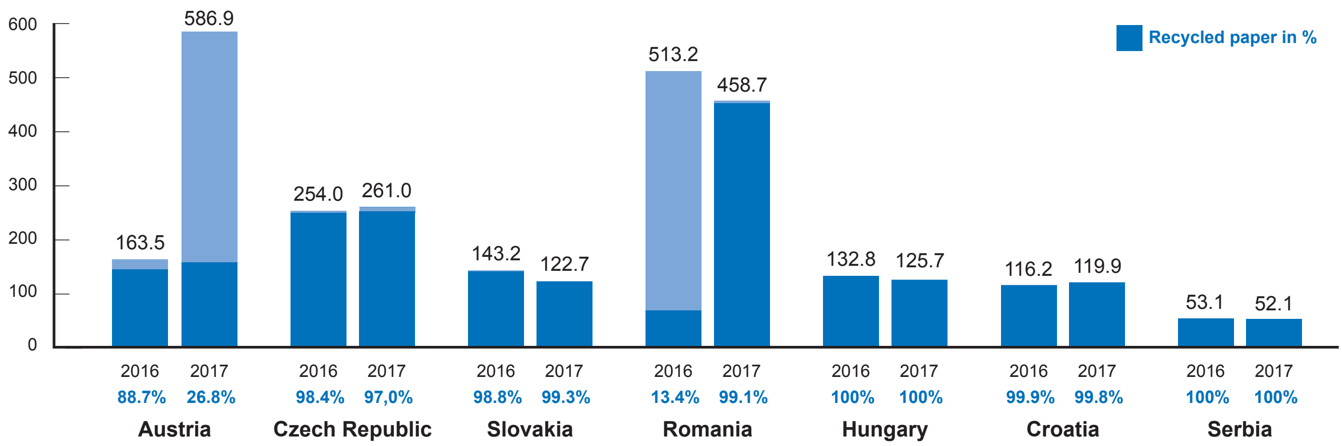


Greenhouse gas emissions (in thousand tonnes CO_2 equivalents)



Greenhouse gas emissions comprise scope 1, 2 and 3 (only mobility)

Copy paper consumption (in tonnes) and share of recycled paper



In 2017, additional entities were included in the consolidation scope for non-financial reporting purposes.
Therefore, the data for the years 2016 and 2017 are not comparable.

Key financial and operating data

in EUR million (unless otherwise stated)	2013	2014	2015	2016	2017
Balance sheet					
Total assets	**200,054**	**196,287**	**199,743**	**208,227**	**220,659**
Loans and receivables to credit institutions	8,377	7,442	4,805	3,469	9,126
Loans and receivables to customers	119,869	120,834	125,897	130,654	139,532
Trading, financial assets	51,269	50,131	47,542	47,586	42,752
Intangibles	2,441	1,441	1,465	1,390	1,524
Cash & other assets	18,099	16,439	20,035	25,127	27,726
Total liabilities and equity	**200,054**	**196,287**	**199,743**	**208,227**	**220,659**
Bank deposits	17,299	14,803	14,212	14,631	16,349
Customer deposits	122,415	122,583	127,946	138,013	150,969
Debt securities	33,124	31,140	29,654	27,192	25,095
Trading liabilities & other liabilities	12,494	14,319	13,124	11,789	9,958
Equity attributable to non-controlling interests	3,462	3,605	3,802	4,142	4,416
Equity attributable to owners of the parent	11,260	9,838	11,005	12,460	13,872
Own funds pursuant to Basel 3 (final)					
Total risk exposure amount	97,901	101,870	100,281	103,639	111,571
Total own funds	15,994	15,853	17,284	18,893	20,337
Common equity tier 1 capital (CET1)	11,199	10,811	12,045	13,256	14,448
Tier 2 capital (T2)	4,206	5,042	5,239	5,140	4,898
Total capital ratio	16.3%	15.6%	17.2%	18.2%	18.2%
CET1 capital ratio	11.4%	10.6%	12.0%	12.8%	12.9%
Income statement					
Net interest income	4,685.0	4,495.2	4,444.7	4,374.5	4,353.2
Net fee and commission income	1,806.5	1,869.8	1,861.8	1,783.0	1,851.6
Net trading result	218.8	242.3	210.1	283.8	222.8
Operating income	6,995.1	6,877.9	6,771.8	6,691.2	6,669.0
Operating expenses	-3,896.1	-3,787.3	-3,868.9	-4,028.2	-4,158.2
Operating result	3,099.0	3,090.7	2,902.9	2,663.0	2,510.8
Net impairment loss on financial assets	-1,849.9	-2,083.7	-729.1	-195.7	-132.0
Pre-tax result from continuing operations	302.9	-727.7	1,639.1	1,950.4	2,077.8
Net result attributable to owners of the parent	0.9	-1,382.6	968.2	1,264.7	1,316.2
Operating data					
Number of employees	45,670	46,067	46,467	47,034	47,702
Number of branches	2,833	2,792	2,735	2,648	2,565
Number of customers (in million)	16.5	16.2	15.8	15.9	16.1
Share price and key ratios					
High (EUR)	26.94	29.71	29.04	29.59	37.99
Low (EUR)	19.34	17.02	18.97	18.87	27.46
Closing price (EUR)	25.33	19.24	28.91	27.82	36.105
Price/earnings ratio	>100%	na	12.8	9.5	11.8
Dividend per share (EUR)	0.20	0.00	0.50	1.00	1.20
Payout ratio	>100%	0.0%	22.2%	34.0%	39.2%
Dividend yield	0.8%	0.0%	1.7%	3.6%	3.3%
Book value per share	26.2	22.9	25.6	27.8	30.0
Price/book ratio	1.0	0.8	1.1	1.0	1.2
Total shareholder return (TSR)	7.1%	-23.3%	50.3%	-2.0%	33.4%
Stock market data (Vienna Stock Exchange)					
Shares outstanding at the end of the period	429,800,000	429,800,000	429,800,000	429,800,000	429,800,000
Weighted average number of outstanding shares	411,553,048	427,533,286	426,726,297	426,668,132	426,679,572
Market capitalisation (EUR billion)	10.9	8.3	12.4	12.0	15.5
Trading volume (EUR billion)	8.3	9.3	10.0	11.4	11.0

The figures for the comparative periods 2014 and 2013 are restated according to IAS 8. The resulting retrospective changes in the presentation were explained in chapter B on significant accounting policies in the 2015 consolidated financial statements.

The net trading result presented in this overview includes the fair-value result for the years 2013 until 2015.

The calculation of own funds pursuant to Basel 3 is effective as of 1 January 2014. Until 31 December 2013 the calculation was effected pursuant to Basel 2.5.

Number of employees is defined as full-time equivalents as of the end of the reporting period.

The dividend payout ratio represents dividends paid to owners of the parent (excluding dividends paid on participation capital) for the respective year divided by the net result attributable to owners of the parent.

Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).

Highlights

Best result in Erste Group's history

_ Net result of EUR 1,316.2 million
_ Historically low risk costs
_ Dividend of EUR 1.2 proposed to AGM

Revenues almost stable, costs up on IT spend

_ Revenues pressure eases in volume growth
_ Regulatory requirements drive IT costs
_ Cost/income ratio at 62.4%

Loan growth accelerates to 6.8%

_ Net loans increase to EUR 139.5 billion
_ Retail business as growth driver
_ Growth in Czech Republic, Slovakia and Austria

Positive asset quality trend continues

_ NPL ratio improves further to 4.0%
_ NPL provision coverage at 68.8%

Excellent capitalisation

_ CET 1 ratio increased to 12.9% (Basel 3 fully loaded)
_ Strong organic capital generation; offset by RWA inflation, partly driven by one-offs
_ Successful issuance of another EUR 500 million additional tier 1 capital

Favourable funding and liquidity position

_ Strong retail deposit base in all core countries is key trust indicator and competitive advantage
_ Loan-to-deposit ratio at 92.4%

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Management board

Petr Brávek, Andreas Treichl, Willibald Cernko

Peter Bosek, Jozef Síkela, Gernot Mittendorfer

Letter from the CEO

Dear shareholders,

Erste Group posted a net profit of EUR 1,316.2 million for 2017 and a return on tangible equity (ROTE) of 11.5%. Based on this record result, the management board will propose to the annual general meeting to pay a dividend of EUR 1.2 per share for 2017, i.e. an increase of 20% over the previous year.

This strong performance was owed to robust economic growth in our core markets in Central and Eastern Europe: Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia. In this benign economic environment, lending expanded by almost 7% and asset quality improved. The NPL ratio dropped from 4.9% to 4.0%. At EUR 132.0 million, risk costs were at a historically low level. Operating expenses increased due to higher IT project costs driven largely by regulatory requirements, including the implementation of IFRS 9 and the introduction of MiFID 2. However, we also invested in the ongoing development of *George*, Erste Group's digital banking platform. After its successful launch in Austria, its roll-out started in the Czech Republic and Slovakia. This was a major step leading to the establishment of a regional digital banking platform. By the end of 2017, it already had 2 million registered users.

Growth momentum in all core markets

In 2017, Erste Group benefited from the continued positive economic development in its markets in Central and Eastern Europe. While average euro zone growth was around 2.5%, the key CEE economies in which we operate showed strong economic growth of between 2.8% in Croatia and 7.0% in Romania. Amid falling unemployment rates, rising real wages and still relatively low inflation rates, domestic demand remained the region's main growth driver. Austrian GDP rose by 2.9%, also beating expectations. This boosted demand for loans, resulting in net loan growth of 6.8%. Even after taking into account the positive impact of the appreciation of the Czech koruna, a more than solid development. Demand was still focused on mortgage loans, although in 2017 interest in corporate loans picked up as well.

Despite this positive development, the loan-to-deposit ratio declined to 92.4% as a result of continued dynamic deposit growth. The extraordinarily sharp rise in customer deposits by 9.4% is a strong indication that attempts to persuade savers to increase their spending by expansionary monetary policies were hardly effective, at least not in Erste Group's core markets. The European Central Bank (ECB) left its key rate unchanged at 0%. In the Czech Republic, the base rate was raised in several steps between August 2017 and, most recently, February 2018 from 0.05% to 0.75%. In Romania, the key interest rate also rose from its historic low of 1.75% to currently 2.25%.

Stabilisation of operating income

While the interest rate environment remained as challenging for Erste Group in 2017 as it had been in previous years, solid loan growth almost offset the pressure on net interest income. Negative impacts came from the European Central Bank's zero or even negative interest rate policy and lower interest income from sovereign bonds. While net trading result was adversely affected by declining income from securities and derivatives trading, net fee and commission income improved, driven by rising client interest in asset management products, and thus contributed substantially to the stabilisation of the operating income. This is all the more notable as the development of attractive investment products with a risk-return profile suitable for retail clients is a challenge in a region whose capital markets are still at an early stage of development.

IT project costs at all-time high

As in the previous year, elevated IT project costs made up a substantial portion of operating expenses. Including personnel and consulting expenses as well as software and hardware costs, they accounted for about one quarter of Erste Group's general administrative expenses in 2017. These projects are, however, important investments in the bank's future and, in addition to compliance with regulatory and accounting standards, will ensure that Erste Group will remain competitive over the long-term. You may remember some projects from last year, such as those relating to the implementation of IFRS 9. The report on the first quarter 2018 due for release in May will already be prepared in accordance with the new requirements. Of key importance is the development of a new group-wide database, which will also establish the foundation for improved data quality, the simplification of the product portfolio and the group-wide standardisation of processes. All these will be key prerequisites for operating more efficiently in the digital age and for ensuring an individualised customer experience. To this, *George* will be making an increasingly significant contribution. Erste Group aims to roll out *George* in all of its seven core markets and establish it as the first pan-European banking platform. Its open API-based architecture and plug-in infrastructure make *George* flexible and customisable. *George* is PSD2-ready and supports co-operation with fintechs and other third-party providers.

Regulatory costs have peaked

Overall, recurring regulatory costs have declined significantly. General administrative expenses included EUR 82.8 million in deposit insurance contributions. After a large one-off payment in Austria, banking and transaction taxes decreased significantly to EUR 105.7 million from EUR 388.8 million. Like the annual contributions to resolution funds in the total amount of EUR 65.8 million, they are reflected in other operating result. Other effects with a major impact on the 2017 result largely offset each other. Gains from the sale of securities were offset by write-downs on IT projects and branches in the Czech Republic as well as losses from retail loans due to Supreme Court rulings regarding the passing on of negative interest reference rates in Austria.

Risk costs at historically low level

At 9 basis points, supported by releases, risk costs remained at a historically low level, and thus contributed substantially to the strong result. Painful as the low-interest-rate environment may be where income is concerned, it does have a positive impact on asset quality and the NPL ratio, i.e. non–performing loans as a percentage of loans to customers. Hence, asset quality continued to improve and the NPL ratio fell to 4%. I would particularly like to highlight the NPL ratio of the Czech Republic segment, which, at 2.1%, is now only slightly above the 2.0% reported by Erste Bank Oesterreich and subsidiaries. Asset quality has also improved significantly in Romania and Hungary. The NPL coverage ratio excluding collateral remained adequate at 68.8%. Year on year, Erste Group's performing loans grew by 7.1% to EUR 137.7 billion, most pronounced in the Czech Republic and in Slovakia.

Excellent capital and liquidity position

The successful second issuance of additional tier 1 capital in the amount of EUR 500 million in April 2017 along with the record profit improved Erste Group's total equity by more than 10% to EUR 18.3 billion and regulatory common equity tier 1 capital (CET 1) by EUR 1.1 billion to EUR 14.7 billion. The CET 1 ratio (Basel 3 phased in) stood at 13.4% and is hence well above the legal minimum requirement. The CET 1 ratio (Basel 3 fully loaded) improved to 12.9% and thus already exceeded our minimum target of least 12.75% set for 2019. Not least due to extraordinarily strong deposit growth in all core markets – with especially retail clients demonstrating their trust in our local banks – funding needs remained modest and Erste Group's short and long-term liquidity position excellent.

Non-financial reporting

As part of their 2017 annual reporting, large companies such as Erste Group are legally required, for the first time, to report not only key financial indicators but to additionally provide information on non-financial topics outlining their significance for the company and impacts on stakeholder groups. As dealing with customers, employees and investors in a responsible manner has always been a defining feature and common business practice of Erste Group since its very foundation almost 200 years ago, a strategic adjustment was not necessary in our case. We therefore decided to include a non-financial report in our annual report rather than publishing a separate document.

Outlook for 2018

What exactly are we expecting for 2018? Based on growth forecasts of between 3% and 5% for our core markets we again expect a return on tangible equity (ROTE) of more than 10% in 2018. This is based on the assumption of a moderate improvement in income driven by loan growth of more than 5% and further rate hikes in the Czech Republic and Romania. Declining project expenditure should result in slightly lower costs. Risk costs are likely to rise, albeit expected to remain at a still low level.

Well-positioned for the digital future

In recent years we have demonstrated that we are able to deal with a wide variety of challenges, from which we have learned our lessons and which have made us stronger for the future. Our capital base has been strengthened massively. Substantial investment has been undertaken to ensure that we are not only able to meet complex regulatory reporting obligations, but that our customers are likewise set to benefit from modern data management in the middle to long run.

We are not afraid of third-party providers, as our open digital banking platform *George* opens up opportunities for co-operation and business in ways that were inconceivable in the past. We are investing in our digital offerings while also modernising branches. At the same time, we do not make any compromises on service quality: our customers will be able to access advice and support whenever they wish, through personal visits to the branches, phone calls to contact center staff or via digital channels. For there is one thing that continues to be important to us: we want to support our customers – private individuals, freelance professionals, SMEs and corporates alike – with their lending and investment needs and offer them suitable bank products to help them attain their goals and dreams. We are working to retain their trust also in the future. In this, the efforts of our employees are of enormous importance and I therefore thank them for their dedication and excellent service.

Erste Group is well positioned to remain successful in the future. We are aware that we cannot rest on past achievements. We must become more efficient to generate sustainable growth and value – for customers, shareholders and society at large. An important part of our strategy is to let our shareholders participate in the success of Erste Group. Based on the improved result, the management board will propose to the annual general meeting to pay a dividend in the amount of EUR 1.2 per share for 2017, i.e. 20% more than in the previous year.

Andreas Treichl mp

Supervisory board

Gunter Griss, Markus Haag, Karin Zeisel, Andreas Lachs, Elisabeth Bleyleben-Koren, Jan Homan, Friedrich Rödler

Marion Khüny, Barbara Pichler, Maximilian Hardegg, Regina Haberhauer, John James Stack, Elisabeth Krainer Senger-Weiss, Wilhelm Rasinger, Jordi Gual Solé, Jozef Pinter, Brian D. O'Neill

Report of the supervisory board

Dear shareholders,

Erste Group can look back on a very successful year 2017. The highest net profit in the bank's history, continued loan and deposit growth, higher capital ratios and an unchanged low level of risk costs are encouraging and make the supervisory board confident that Erste Group, the bank for retail and corporate customers in CEE, in the eastern part of the European Union, will maintain its successful course in 2018.

Erste Group has shown its ability to deal with the challenges and disruptions in the European financial services sector. Investment expenditure was high as substantial funds were needed to meet regulatory requirements. With its digital banking platform *George*, the bank has demonstrated both innovation and creativity. At the same time, it also has invested in staff training.

It is therefore with self-assurance and confidence that Erste Group can face the coming year, which will mark Erste Bank's 200th anniversary. The economic environment prevailing in Erste Group's core markets should in any case support the continuation of its success story.

The financial year 2017 also saw changes on the supervisory board: Bettina Breiteneder, Second Vice Chairwoman, resigned from her mandate with effect from the end of Erste Group Bank AG's annual general meeting on 17 May 2017, after having served on the supervisory board for 13 years. The annual general meeting elected Jordi Gual Solé and Marion Khüny as members of Erste Group Bank AG's supervisory board. Antonio Massanell Lavilla resigned from his position on the supervisory board as of 15 September 2017. I thank both former supervisory board members very cordially for their reliable and highly valuable contributions to the work of the supervisory board.

The annual general meeting 2017 also extended the mandates of the Chairman of the supervisory board and his First Vice Chairman until 2022. Maximilian Hardegg was elected Second Vice Chairman by the supervisory board.

For details regarding the composition and independence of the supervisory board, the criteria for its independence, its working procedures, the number and type of committees and their decision-making powers, the meetings of the supervisory board and the main focus of its activities, please refer to the (consolidated) corporate governance report drawn up by the management board and reviewed by the supervisory board.

As regards the activities of the audit committee, please also refer to the report of the audit committee.

In the course of 41 supervisory board and committee meetings, the management board promptly and comprehensively informed the supervisory board. This allowed us to act in accordance with the mandate laid down by law, the articles of association and the Austrian Code of Corporate Governance, as well as to ascertain the proper conduct of business.

The financial statements (consisting of the balance sheet, income statement and notes), the management report, the consolidated financial statements and the group management report for 2017 were audited by Sparkassen-Prüfungsverband, the legally mandated auditor, and by PwC Wirtschaftsprüfung GmbH, the elected supplementary auditor, and received an unqualified audit opinion. Representatives of both auditors attended the financial statements review meeting of the audit committee and the supervisory board and presented their comments on the audits they had conducted. Based upon our own review, we endorsed the findings of these audits and agreed with the proposal for appropriation of the profit. PwC Wirtschaftsprüfung GmbH was also mandated for the audit of the (consolidated) corporate governance report for 2017. The audit did not give rise to any qualifications. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was contracted to perform an audit of the (consolidated) non-financial report 2017.

We have approved the financial statements and these have thereby been duly endorsed in accordance with section 96 para. 4 of the Aktiengesetz (Austrian Stock Corporation Act). The management report, consolidated financial statements, group management report, (consolidated) corporate governance report and the (consolidated) non-financial report have also been reviewed by the supervisory board and accepted on the basis of the audit reports received by the supervisory board.

We thank the management board and all employees of Erste Group for their great dedication and impressive commitment without which the success we achieved together in the financial year ended would not have been possible.

For the supervisory board,

Friedrich Rödler mp
Chairman of the supervisory board

Report of the audit committee

Dear shareholders,

As chairman of the audit committee I am pleased to provide to you an insight into the duties of Erste Group Bank AG's audit committee and our work in the financial year 2017.

The audit committee is one of six committees established by Erste Group Bank AG's supervisory board. The audit committee's mandate is derived from the law, the rules of the Austrian Code of Corporate Governance (CCG) and its rules of procedure. The audit committee oversees in particular the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system, and the audit of the (consolidated) financial statements; it reviews and monitors the independence of the (Group) auditor, reports on the results of the audit to the supervisory board, reviews the adoption of the (consolidated) financial statements and prepares its approval. Furthermore it reviews the proposal for the appropriation of profits, the (Group) management report and the (consolidated) corporate governance report, reports on the findings of the review to the supervisory board and conducts the process for the selection of the (Group) auditor. In its report on the findings of the annual audit to the supervisory board, the audit committee also explains in detail how the annual audit has strengthened the reliability of financial reporting and the role played by the audit committee in doing so. In addition, the audit committee regularly considers the results of the reviews conducted by the regulatory authorities' joint supervisory team and their implementation at Erste Group.

Due to changes in legal requirements, the audit committee's scope of duties has expanded further, which has also been reflected in significantly more extensive agendas and longer sessions than in the previous years. Key audit matters were discussed with the auditors in the course of audit planning and covered in the auditor's report. In spring 2018, the auditors presented to the audit committee for the first time an additional report pursuant to Art 11 of the EU Audit Regulation (537/2014/EU) dated 16 April 2014, which, among other things, explains the findings of the audit of the (consolidated) financial statements in more detail and in which the auditors confirm their independence too. Another new task has been the review of the (consolidated) non-financial report for the financial year 2017 by the audit committee. As Erste Group has always been strongly committed to various aspects of sustainability since its very foundation, the topics covered in this report have not been unfamiliar to the bank.

The audit committee currently comprises five shareholder representatives and three members delegated by the employees' council, as shareholder representative Antonio Massanell Lavilla also resigned from his audit committee mandate when he left the supervisory board as of 15 September 2017.

The audit committee met five times in 2017 and, in addition, held one informal meeting to prepare the meeting on the audit of the (consolidated) financial statements. Those who attended the meetings included the chairman of the management board, the management board members responsible for accounting, controlling and risk as well as the auditors' representatives. Responsible division heads were also invited to attend as permanent guests or to attend as guests in discussions on specific agenda items. The chairman of the audit committee and the financial expert regularly conducted one-on-one meetings amongst others with the auditors, members of the management board, the head of group internal audit and, if required, with division heads.

The chairman of the audit committee informed the supervisory board on the committee's activities, the subject matters of its meetings and of its discussions at the respective subsequent supervisory board meetings.

In 2017, the audit committee considered topics including the following: after receipt of the auditors' report on the (Group) (consolidated) financial statements for 2016, the audit committee held the final discussion, reviewed the (Group) (consolidated) financial statements and the (Group) management report as well as the (consolidated) corporate governance report and recommended to the supervisory board the approval of the annual financial statements, setting out towards the supervisory board how the annual audit had strengthened the reliability of financial reporting and describing the role played by the audit committee. Monitoring the independence of the auditor was a key topic in the financial year 2017. The audit committee received regular reports and, after careful examination, pre-approved non-audit services to be performed by the auditor. The audit committee also considered new financial reporting and accounting standards, including the impacts of the new financial reporting standards IFRS 9. The findings and status of the annual audit were discussed with representatives of the auditors in an ongoing process. In December 2017, it was decided to recommend to the supervisory board to propose at the annual general meeting the renewal of the mandate of PwC Wirtschaftsprüfung GmbH as additional (Group) auditor for the financial year 2019. In addition, the chairmen of the audit committee and of the supervisory board met the joint supervisory team of the regulatory authorities to inform it of the audit committee's scope of duties.

Further information on the activities of the audit committee and its composition is contained in the (consolidated) corporate governance report prepared by the management board and reviewed by the supervisory board.

For the audit committee,

Jan Homan mp

Erste Group on the capital markets

The uptrend in international stock markets continued in 2017. Share prices rose mainly on the back of the broad-based growth of the global economy, underpinned by positive economic and corporate news flows as well as institutions' and economists' upward revisions of economic growth, corporate earnings and revenues forecasts for 2017 and subsequent years. The central banks' rate policies remained at the centre of market attention. While the European Central Bank (ECB) continued its expansionary monetary policy, the US central bank (Fed) raised its key interest rate again in 2017. In this benign environment, which also saw a rebound in European bank share prices, the share of Erste Group, which marked the 20th anniversary of its stock market listing, was up 29.8% on the year.

EQUITY MARKET REVIEW

Steady uptrend

Against the backdrop of accelerating economic growth, solid corporate earnings and ongoing low interest rates, stock markets were up across the board in the year ended. While US leading indices recorded gains of 20% or more and closed the reporting period near historic peaks, European indices were trailing behind. The German DAX Index, which hit a new record high of more than 13,500 points in early November, closed the year on a gain of 12.5%. The Austrian Traded Index (ATX) beat all stock markets tracked, advancing by 30.6%. At year-end 2017, the Euro Stoxx 600 Index was 7.7% higher at 389.18 points while the Euro Stoxx 50 Index closed at 3,503.96 points, up 6.5%. The US indices widened their outperformance relative to the European markets as the year progressed. This was largely attributable to expectations fuelled by announcements of deregulation and tax reforms in the US and the resulting stronger earnings momentum of US companies. The Dow Jones Industrial Average Index rose 25.1% to 24,719.22 points. The broader Standard & Poor's 500 Index advanced 19.4% to 2,673.61 points as of the end of the year.

Monetary policies in Europe and the US

Central banks' policies were again closely watched by investors. The ECB left its policy rate unchanged at the record low of 0% it had reached in March 2016 and continued its EUR 60 billion sovereign bond purchasing programme until December 2017. By announcing its intention to reduce the purchasing volume by half in the period from January to at least September 2018, the ECB took first steps towards a less expansionary monetary policy. The Fed, for its part, carried out a total of three rate hikes of 25 basis points each in 2017, lifting its key interest rates to a range of 1.25% to 1.50%. In the light of the continuing recovery of the US economy as well as positive economic forecasts (including the proposed tax reform), the Fed announced further rate hikes for 2018 and 2019.

Global economy growing at fastest rate since 2010

As global economic indicators improved further, numerous economic research institutes and institutions revised their growth forecasts upwards. The International Monetary Fund (IMF) raised its outlook for 2017 global economic growth to 3.7%. The euro zone is expected to grow at a rate of 2.5% in 2017 and outperform the US, the world's largest economy (2.3%). For 2018, the growth for the euro zone is expected at 2.1% and at 1.9% for 2019, with the outcome of the Brexit negotiations being considered a factor of uncertainty. In the US, growth is expected at a rate of 2.5% in 2018 and 2.1% in 2019.

European bank shares up

After some major setbacks in the first half of 2016, the Dow Jones Euro Stoxx Bank Index, which is composed of the leading European bank shares, started a rally which continued in 2017. Interest rate policies in the US, the US administration's plans for deregulation of the banking industry and the resulting rises in US bank stock prices also had an impact on European bank shares. The European banking index also benefited from the bright economic outlook and expectations of rising yields triggered by the anticipated tapering of asset purchases by the ECB. The Dow Jones Euro Stoxx Banks Index climbed 10.9% to 130.48 points year-on-year.

Vienna Stock Exchange records largest gain

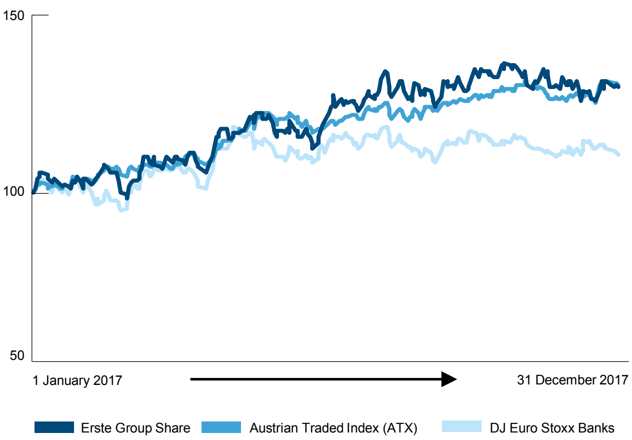
In the year ended, the Austrian Traded Index (ATX) continued the uptrend started in 2016, advancing steadily. It saw its annual and, at the same time, new nine-year high on 2 November 2017 at 3,445.23 points. With a gain of 30.6% and year-end close at 3,420.14 points, the ATX beat all indices covered. This increase was also due to the outperformance of the bank shares and oil-price-sensitive shares included in the index.

ERSTE GROUP SHARE

Share performance in its 20th year on the stock exchange

4 December 2017 marked the 20th anniversary of the Erste Group's IPO on the Vienna Stock Exchange. Erste Group not only developed from a local Austrian bank to one of the leading financial institutions in Central and Eastern Europe, but has also witnessed a strong, sometimes volatile performance of its share price, which hit its all-time high at EUR 61.5 in April 2007. In the course of the financial crisis, the share price dipped to its historic low of EUR 7.0 in February 2009. Due to Erste Group's rigorous execution of its business strategy, the share price has since more than quintupled.

Performance of the Erste Group share and major indices (indexed)



Throughout 2017, the Erste Group share widened its outperformance relative to the Dow Jones Euro Stoxx Banks Index. The Erste Group share posted its year low at EUR 27.46 on 28 February 2017, its year high at EUR 37.99 on 20 October 2017.With a closing price of EUR 36.105 at year-end 2017, the share gained 29.8% in the year ended. By comparison, the Euro Stoxx Bank Index advanced 10.9% in the reporting period. In 2017, the analysts' and investors' main focus was on the solid business development, lending growth, low risk costs, the development of operating income and capitalisation.

Performance of the Erste Group share versus indices

	Erste Group share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	225.8%	162.1%	-
Since SPO (Sep 2000)	207.3%	192.7%	-62.9%
Since SPO (Jul 2002)	107.2%	180.4%	-48.1%
Since SPO (Jan 2006)	-19.8%	-12.2%	-65.6%
Since SPO (Nov 2009)	24.5%	31.3%	-42.7%
2017	29.8%	30.6%	10.9%

IPO … initial public offering, SPO … secondary public offering.

Number of shares, market capitalisation and trading volume

The number of shares of Erste Group Bank AG remained unchanged at 429,800,000. At year-end 2017, the Erste Group's market capitalisation stood at EUR 15.5 billion, 29.8% higher than at year-end 2016 (EUR 12.0 billion).

Trading volume on the three stock exchanges (Vienna, Prague, Bucharest) on which the Erste Group share is listed averaged 715,408 shares per day and accounted for about 38% of the total trading volume in Erste Group shares. More than half of the trading activity was executed over the counter (OTC) or through electronic trading systems.

Erste Group in sustainability indices

The Erste Group share has been included in VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008. In 2011, the Erste Group share was included in the STOXX Global ESG Leaders Index, which represents the best sustainable companies on the basis of the STOXX Global 1800. In 2016, the Erste Group share was included in the FTSE4Good Index series, in 2017 in the Euronext Vigeo Index: Eurozone 120.

DIVIDEND

Erste Group's dividend policy is guided by the Bank's profitability, growth outlook and capital requirements. At the annual general meeting held on 17 May 2017 it was decided to pay a dividend of EUR 1.00 per share for the financial year 2016. This was double the amount paid for 2015. In view of a return on tangible equity (ROTE) of 11.5% in 2017 and a common equity tier 1 ratio (CET 1 ratio; Basel 3 phased-in) of 13.4%, the management board of Erste Group will propose to the annual general meeting a dividend for the financial year 2017 of EUR 1.20 per share. Based on the closing price on the last day of the year, the dividend yield is 3.3%.

RATING UPGRADES AND FUNDING ACTIVITIES

In view of the solid development in recent years, all of the three major US rating agencies upgraded Erste Group's ratings in 2017. Standard & Poor's raised its rating in two steps to A/A-1 and changed the outlook to positive. Fitch upgraded the rating to A-/F1 with a stable outlook and Moody's raised its rating to A3/P-2 with a positive outlook.

In 2017, Erste Group again placed two benchmark-sized issues, a EUR 750 million 7-year mortgage covered bond at mid-swap minus 6 basis points in January, and, for the second time, CRD IV/CRR compliant additional tier 1 capital in the amount of EUR 500 million in April. In addition, some EUR 270 million in tier 2 and EUR 620 million in senior unsecured bonds were issued via private placements during the year.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In the year ended, Erste Group's management and the investor relations team met with investors in a total of 346 one-on-one and group meetings and conducted a large number of teleconferences with analysts and investors. The presentation of the 2016 annual result in Vienna was followed by the annual analysts' dinner and a road show day with investor meetings in London. A spring road show was conducted in 2017 after the release of the first-quarter results, and an autumn road show following the release of the third-quarter results was held in Europe and in the US. Erste Group presented its strategy in the current operating environment at international banking and investor conferences organised by the Vienna Stock Exchange, UniCredit, Kepler Cheuvreux, Autonomous, PKO, Morgan Stanley, RCB, HSBC, Concorde, Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, JP Morgan, UBS, Citigroup and Wood. Another 71 meetings were held to intensify the dialogue with bond investors. A large number of face-to-face meetings with analysts and portfolio managers were held at conferences, road shows and workshops hosted by UBS, Barclays, HSBC, Société Générale, Bank of America Merrill Lynch and Euromoney.

The website http://www.erstegroup.com/ir provides comprehensive information on Erste Group and the Erste Group share. Investors and the broader public can also follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on Slideshare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group on the social web. As an additional service for investors and analysts, Erste Group offers a free investor relations app for iPhone, iPad, and Android devices. This app enables users to access and download Erste Group Bank AG share price information, the latest investor news, multimedia files, financial reports and presentations as well as an interactive financial calendar and contact details for the investor relations team. More details on the Investor Relations app, social media channels, the news/reports subscription and reminder service are available at https://www.erstegroup.com/de/investoren/ir-service.

Analyst recommendations

In 2017, 25 analysts regularly released research reports about Erste Group, including one initial coverage analysis. The Erste Group Bank AG share was covered by financial analysts at the following national and international firms: Autonomous, Bank of America Merrill Lynch, Barclays, Berenberg, Citigroup, Commerzbank, Concorde, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, JP Morgan, JT Banka, KBW, Kepler Cheuvreux, Macquarie, mBank, Mediobanca, Morgan Stanley, PKO, RCB, SocGen, UBS, VTB Capital and Wood.

As of the end of the year, fourteen analysts had issued buy recommendations, ten had rated the Erste Group share neutral and one analyst issued a sell rating. The average year-end target price was EUR 38.9. The latest updates on analysts' estimates for the Erste Group share are posted at https://www.erstegroup.com/en/investors/share/analyst-estimates.

Strategy

Erste Group strives to be the leading retail and corporate bank in the eastern part of the European Union, including Austria. To achieve this goal, Erste Group aims to support its retail, corporate and public sector customers in realising their ambitions by offering excellent financial advice and solutions, lending responsibly and providing a safe harbour for deposits. Erste Group's business activities will continue to contribute to economic growth and financial stability and thus to prosperity in its region.

In all of its core markets in the eastern part of the European Union, Erste Group pursues a balanced business model focused on providing the best banking services to each of its customers. In this respect, digital innovations are playing an increasingly important role. Sustainability is reflected in the bank's ability to fund customer loans by customer deposits, with most customer deposits being stable retail deposits. Sustainability of the bank's strategy is also reflected in long-term client trust, which underpins strong market shares in almost all of Erste Group's core markets. However, market leadership is not an end in itself. Market leadership only creates value when it goes hand in hand with positive economies of scale and contributes to the long-term success of the company.

The banking business, however, should not only be run profitably but also reflect its corporate responsibility towards all material stakeholders, in particular customers, employees, society and the environment. Therefore, Erste Group pursues banking business in a socially responsible manner and aims to earn an adequate premium on the cost of capital.

Long-standing tradition in customer banking

Erste Group has been active in the retail business since 1819. This is where the largest part of Erste Group's capital is tied up, where Erste Group generates most of its income and where it funds the overwhelming part of its core activities by drawing on its customers' deposits. The retail business represents Erste Group's strength and is its top priority when developing products such as modern digital banking that enable it to meet customers' expectations more effectively.

Offering attractive, easy-to-understand products and services that meet the individual needs and objectives of bank customers is important in building and maintaining strong long-term customer relationships. Today, Erste Group serves a total of more than 16 million customers in seven core markets.

The bank's core activities also include advisory services and support for its corporate customers with regard to financing, investment, hedging activities and access to international capital markets. Public sector funding includes providing finance for infrastructure projects and acquiring sovereign bonds issued in the region.

To meet the short-term liquidity management needs of the customer business, Erste Group also operates in the interbank market.

Core markets in the eastern part of the European Union

When Erste Group went public as an Austrian savings bank with no meaningful foreign presence in 1997, it defined its target region as consisting of Austria and the part of Central and Eastern Europe that had realistic prospects of joining the European Union. The aim was to benefit from the attractive growth prospects in these countries. Against the backdrop of emerging European integration and limited potential for growth in Austria, Erste Group acquired savings banks and financial institutions in countries adjacent to Austria from the late 1990s onwards. While the financial and economic crisis has slowed the economic catch-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues unabated. This part of Europe offered and still offers the best structural and therefore long-term growth prospects.

Today, Erste Group has an extensive presence in its core markets of Austria, the Czech Republic, Slovakia, Romania, Hungary and Croatia – all of which are members of the European Union. Following significant investments in its subsidiaries, Erste Group holds considerable market positions in these countries. In Serbia, which has been assigned European Union candidate status, Erste Group maintains a minor market presence but one that may be expanded through acquisitions or organic growth as the country makes progress towards European Union integration. In addition to its core markets, Erste Group also holds direct and indirect majority and minority banking participations in Slovenia, Montenegro, Bosnia and Herzegovina, Macedonia and Moldova.

Growing importance of innovation and digitalisation

The pace of digital transformation has accelerated considerably as a result of technological changes, demographic developments and also regulatory interventions in recent years. As a result, customer behaviour and customer expectations towards financial products have also changed significantly. Erste Group is convinced that the digital banking business will continue to gain in importance and will be essential for the economic success in the long term and therefore fosters digital innovation. Intra-group, interdisciplinary teams develop innovative solutions.

Erste Group's digital strategy is based on its own digital ecosystem. It aims at providing customers access to personalised products from Erste Group and also third-party suppliers through application programming interfaces (APIs) in the secure IT environment of a financial platform. APIs enable a wide range of co-operations, whether with fintechs or across industries, and can therefore help open up new markets.

The digital platform *George* was implemented in Austria in 2015. By the end of 2018, *George* should also be up and running in the Czech Republic, Slovakia and Romania while being rolled out successively in all of the other core markets. *George* is supplemented by the mobile application *George Go*. The range of digitally available products and services is constantly expanded.

Customers can activate applications of Erste Group or third parties via plug-ins and use them to manage their finances.

The omni-channel approach of Erste Group integrates the various sales and communication channels. Customers decide on how, when and where they do their banking business. Contact centers serve as interfaces between digital banking and traditional branch business. These contact centers offer advice and sales, thus going far beyond the traditional help desk function.

Focus on sustainability and profitability

Acting responsibly and earning a premium on the cost of capital is a key prerequisite for the long-term survival of any company and the creation of value for customers, investors and employees. Only a bank that operates in a sustainable manner – balancing the social, ecological and economic consequences of its business activities – and profitably, can achieve the following: provide products and services to customers that support them in achieving their financial ambitions; deliver the foundation for share price appreciation as well as dividend and coupon payments to investors; create a stable and rewarding work environment for employees and be a reliable contributor of tax revenues to society at large.

The management board adopted a Statement of Purpose to reaffirm and state in more detail the purpose of Erste Group to promote and secure prosperity across the region. Building on this statement of purpose, a Code of Conduct defines binding rules of the day-to-day business for employees and members of both the management and supervisory boards. At the same time, the Code of Conduct underlines that in pursuing its business activities, Erste Group values responsibility, respect and sustainability. The Code of Conduct is an important tool to preserve the reputation of Erste Group and to strengthen stakeholder confidence. Sustainability in this context means to operate the core business both in a socially and environmentally responsible manner and economically successfully.

Through a combination of stable revenues, low loan loss provisions, and cost efficiency profits can be achieved in the long term. This is helped by a strong retail-based funding profile. When growth opportunities are elusive, as they will be from time to time, or the market environment is less favourable as a result of factors including high taxation, increased regulation or low interest rates, there will be a stronger focus on cost cutting. When the operating environment improves, more time will be devoted to capturing growth in a responsible way. Irrespective of the environment, Erste Group should benefit materially from operating in the region of Europe that offers the best structural growth opportunities for some time to come.

Erste Group's strategy

Customer banking in Central and Eastern Europe				
Eastern part of the EU		Focus on CEE, limited exposure to other Europe		
Retail banking	**SME/Corporate banking**	**Capital markets**	**Public sector**	**Interbank business**
Focus on local currency mortgage and consumer loans funded by local deposits FX loans (in Euro) only where funded by local FX deposits (Croatia and Serbia) Savings products, asset management and pension products Expansion of digital banking offering	SME and local corporate banking Advisory services, with focus on providing access to capital markets and corporate finance Real estate business that goes beyond financing	Focus on customer business, incl. customer-based trading activities In addition to core markets, presences in Poland, Germany and London with institutional client focus and selected product mix Building debt and equity capital markets in CEE	Financing sovereigns and municipalities with focus on infrastructure development in core markets Any sovereign holdings are held for market-making, liquidity or balance sheet management reasons	Focus on banks that operate in the core markets Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business

THE STRATEGY IN DETAIL

The basis of Erste Group's banking operations is the retail and corporate customer business in the eastern part of the European Union, including Austria. The capital markets and interbank activities as well as the public sector business are defined more broadly to be able to meet the bank's customer needs as effectively as possible.

Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. Erste Group's core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population. Today, the bank serves a total of more than 16 million customers in its markets and operates almost 2,600 branches. Wealthy private clients, trusts and foundations are served by the bank's private banking staff and benefit from services that are tailored to the needs of this target group.

In addition, the bank uses and promotes digital distribution channels such as internet and mobile banking as Erste Group is convinced that the importance of digital banking will further increase and will substantially change the future of retail business. This has already become visible through the activities of fintech companies, which offer financial services online and typically operate without a banking licence. *George*, Erste Group's new digital platform, was launched in Austria in 2015. By the end of 2018, *George* should also be up and running in the Czech Republic, Slovakia and Romania, while being rolled out successively in all of the other core markets.

Retail banking is attractive to Erste Group for a number of reasons: It offers a compelling business case that is built on market leadership, an attractive risk-reward profile and the principle of self-funding. In addition, it benefits from a comprehensive range of products that are simple and easy to understand and provide substantial cross-selling potential. Erste Group takes advantage of these factors in all core markets and makes best use of its resulting position of strength by pursuing an omni-channel strategy. In addition to the expansion of digital sales channels, the branch network remains an important component of the business strategy. Only a retail bank that offers modern digital services and operates an extensive distribution network is able to fund loans in local currency mainly from deposits made in the same currency. In short, Erste Group's retail banking model supports sustainable and deposit-funded growth even in economically more challenging times. Another positive factor is the diversification of the retail business across countries that are at different stages of economic development, such as Austria, the Czech Republic, Romania, Slovakia, Hungary, Croatia and Serbia.

Corporate business

The second main business line, which also contributes significantly to Erste Group's earnings, is the business with small and medium-sized enterprises, regional and multi-national groups and real estate companies. Erste Group's goal is to enhance the relationships with its clients beyond pure lending business. Specifically, the bank's goal is for SMEs and large corporate customers to choose Erste Group as their principal bank and also route their payment transfers through the Group's banking entities and, in fact, regard Erste Group as their first point of contact for any kind of banking service.

Catering to their different requirements, Erste Group serves small and medium-sized enterprises locally in branches or separate commercial centres, while multinational groups are serviced by the Group Corporates' units. This approach permits Erste Group to combine industry-specific and product expertise with an understanding of regional needs and the experience of the bank's local customer relationship managers. In view of the regulatory interventions, advising and supporting corporate customers in capital market transactions is becoming increasingly important.

Capital markets business

Client-driven capital markets activities are also part of the comprehensive portfolio of products and services that Erste Group offers to its retail and corporate customers. The strategic significance of the bank's centrally governed and locally rooted capital markets operations consists in supporting all other business areas in their dealings with the capital markets and, hence, in providing the bank's customers with professional access to the financial markets. Erste Group, therefore, views its capital markets business as a link between financial markets and its customers. As a key capital markets player in the region, Erste Group also performs important functions such as market-making, capital market research and product structuring.

The capital markets business serves the needs of Erste Group's retail and corporate customers as well as those of government entities and financial institutions. Due to Erste Group's strong network in the eastern part of the European Union, the bank has a thorough understanding of local markets and customer needs. In Erste Group's capital markets business, too, the bank concentrates on core markets of the retail, SME and large corporate business: Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia. For institutional customers, specialised teams have been established in Germany and Poland as well as in London, Hong Kong and New York that offer these customers a tailor-made range of products.

In many countries where Erste Group operates, the local capital markets are not yet as highly developed as in Western Europe or in the United States of America. That means Erste Group's banking subsidiaries are pioneers in some of these markets. Therefore, building more efficient capital markets in the region is another strategic objective of Erste Group's capital markets activities.

Public sector business

Solid deposit business is one of the key pillars of Erste Group's business model. Customer deposits surpass lending volume in many of its geographic markets. Erste Group's banking entities make a significant part of this liquidity available as financing to the region's public sector entities. In this way, the bank facilitates essential public sector investment. Erste Group's public sector customers are primarily municipalities, regional entities and sovereigns that the bank additionally supports and advises in capital market issuance, infrastructure financing and project financing. Furthermore, Erste Group cooperates with supranational institutions.

In terms of sovereign bond investments, Erste Group is equally focusing on Central and Eastern Europe.

Adequate transport and energy infrastructure and municipal services are absolute key prerequisites for sustainable economic growth in the long term. Therefore, Erste Group views infrastructure finance and all associated financial services to be of extreme importance. Between 2014 and 2020, the European Union has earmarked about EUR 90 billion from structural and investment funds for the Czech Republic, Slovakia, Croatia, Hungary and Romania: This is one quarter of the total allocation under the European Union's cohesion policy. In this context, Erste Group's commitment to infrastructure development in Romania is to be highlighted. The Romanian subsidiary Banca Comercială Română supports investment in essential infrastructure by funding key companies in all sectors.

Interbank business

The interbank business is an integral part of Erste Group's business model that performs the strategic function to ensure that the liquidity needs of the bank's customer business are met. This involves, in particular, short-term borrowing and lending of liquid funds in the interbank market.

REGULATORY CHANGES IN BANKING

In recent years, regulation of the financial sector has been tightened substantially to strengthen the resilience of banks and prevent or at least minimise the adverse impact of any new crises on economies and market participants. The ultimate aim of these reforms has been to largely rule out reliance on state guarantees and taxpayers' money to absorb banks' losses.

A banking union has been established as a regulatory framework consisting of a European banking supervision mechanism, a banking resolution mechanism and common standards for deposit insurance. Implementing the requirements defined by the Basel Committee on Banking Supervision, the European Commission released in November 2016 a proposal for a comprehensive review of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) as well as of the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation. The package of revised EU regulations is not expected to enter into force before the beginning of 2019. Under a so-called fast-track procedure, though, a number of rules contained in this package of EU regulations – the regulations cluster IFRS 9, large exposures and creditor hierarchy – are implemented early, as of the beginning of 2018.

At the beginning of December 2017, the Basel Committee on Banking Supervision presented the final part of the Basel 3 reform package, which is designed to achieve a transparent and comparable calculation of the capital requirements of each institution. The standardised approaches for the individual risk categories have been revised and the use of internal models for calculating capital requirements will be restricted in the future. An output floor has been introduced to ensure that banks' calculations of risk-weighted assets (RWAs) generated by internal models cannot, in aggregate, fall below a certain percentage threshold of the risk-weighted assets computed by the standardised approaches; the output floor will be gradually raised to 72.5%. The use of internal models for the calculation of operational risks will no longer be permitted. The package is scheduled for implementation in the EU by 1 January 2022 and will be fully applicable after a transition period of up to five years.

The European Single Resolution Board (SRB) is working on the development of resolution plans and the definition of resolution strategies for significant institutions. For Erste Group Bank AG, a specific MREL (minimum requirement for own funds and eligible liabilities) was not defined yet in 2017.

Several provisions of the fourth Anti-Money Laundering Directive have meanwhile been transposed into Austrian law. On 1 January 2017, the Financial Markets Anti-Money Laundering Act (FM-GwG – Finanzmarkt-Geldwäschegesetz) took effect and, on 3 January 2017, the Austrian Financial Market Authority's Identification Regulation based on FM-GwG, which, among other things, permits video identification of customers if certain conditions are met. At the beginning of 2018, an amendment to the Ultimate Beneficial Ownership Register Act (WiEReG – Wirtschaftliche Eigentümer Registergesetz) entered into force, creating the legal basis for the register of beneficial owners of companies and other legal entities (e.g. foundations and trusts). Previously, the companies register only contained data of beneficial owners of companies and foundations.

The reform of the Banking Act and the Financial Market Authority Act that became effective in January 2018 provides, among other things, for an improvement in proportionality, transparency and legal certainty. At the same time, regulatory relief was granted to smaller institutions, e.g. with regard to the creation of committees. The Securities Supervision Act 2018 (Wertpapieraufsichtsgesetz, WAG 2018) implemented in Austria a substantial portion of the European rules of the Markets in Financial Instruments Directive (MiFID) 2 and Markets in Financial Instruments Regulation (MiFIR), which continue and expand the existing MiFID framework. The amendment to the Payment Services Act designed to transpose the revised Payment Services Directive (PSD 2) into Austrian law is expected to be adopted in 2018.

To strengthen the Austrian banking industry, the Financial Market Authority (FMA) had already introduced, by way of ordinance (capital buffer ordinance), a systemic risk buffer for a number of Austrian credit institutions and a buffer for other systemically important institutions (O-SIIs) in December 2015. For Erste Group, the buffer amounts to 1% of RWAs as of 1 January 2018 and will be increased to 2% by 1 January 2019. The FMA's amendment to the capital buffer ordinance, which took effect on 1 January 2018, implemented a recommendation of the Financial Market Stability Board. Under the amendment, seven credit institutions, including Erste Group Bank AG, are required to hold systemic risk buffers also at single-entity level.

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

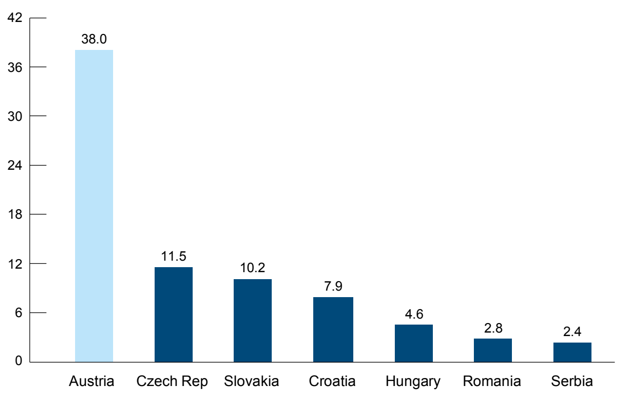
While the financial and economic crisis has temporarily slowed the economic catch-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues. This is on the one hand due to the fact that the region has to make up for almost half a century of communist mismanagement of the economy and on the other hand due to the fact that banking activities were largely non-existent during that time.

With the exception of deposit-taking, modern banking services were largely unknown in these countries after the fall of communism. On the lending side, this was due to high nominal and real interest rates and also to disposable incomes that did not support household credit growth. In addition, a healthy competitive environment was lacking due to extensive state ownership. All this has changed. Disposable income has risen strongly on the back of growing gross domestic products. Most formerly state-owned banks have been sold to strategic investors that have fostered product innovation and competition. Economic growth, which declined substantially in some countries in CEE following the economic and financial crisis, recovered recently. Despite such economic slowdowns and potential temporary negative impacts on the banking markets in Central and Eastern Europe, these factors will remain the driving force behind future development.

In addition, most countries of Central and Eastern Europe have human resources that are at least equivalent to those of Western European countries but do not need to struggle with the unaffordable costs in the long term of the western welfare states and have labour markets that are considerably more flexible. These advantages are complemented by – on average – highly competitive export industries that benefit from wage costs that are low relative to workforce productivity and from investor-friendly tax and welfare systems.

A comparison of per capita private debt levels in Central and Eastern Europe with those of advanced economies reveals that even today an enormous gap exists between these markets. Countries such as the Czech Republic and Slovakia, but also Croatia and Hungary, are many years away from reaching Austrian or Western European levels of loans per capita; also in relative terms, these countries differ substantially regarding debt levels common in the West. The contrast to Serbia or Romania is even more pronounced - private debt levels and particularly household debt, are substantially lower than in the advanced economies. Even though the developments of very recent years will probably lead to a reassessment of what constitutes acceptable debt levels and to only a gradual rise in lending in Central and Eastern Europe, Erste Group still firmly believes that credit expansion accompanied by economic growth in this region will prove to be a lasting trend rather than a short-term process that has already peaked.

Customer loans/capita in CEE (2017) in EUR thousand



Source: Local central banks, Erste Group

Over the upcoming 15 to 20 years, on average, the countries of the eastern part of the European Union are therefore expected to experience higher growth rates than the countries of Western Europe, even though periods of expansion may alternate with times of economic stagnation or even setbacks on this long-term path of sustainable growth.

Management report

ECONOMIC ENVIRONMENT

In 2017, the global environment was characterised by a strong increase in world trade with improvements relatively well synchronised across advanced economies and emerging markets. Main economic and political topics were diverging monetary policies among central banks of the world's leading economies, the continued migration into Europe – though at a lower level – and intensified geopolitical tensions related to North Korea. Global trade activity was supported by a gradual recovery in commodity prices, continued rapid growth in China and India, a return to positive growth in formerly distressed economies such as Brazil and Russia, which benefitted from higher oil prices and growing demand among advanced economies. Among the advanced economies, Canada, New Zealand and dynamic Asian economies, such as Singapore, showed particularly strong performances in 2017. The United States and the economies of the euro zone were supported by favourable labour market developments and muted inflation. In Europe, negotiations regarding the withdrawal of the United Kingdom from the European Union continued. Among major central banks, policies continued to diverge. While the Swiss National Bank, the European Central Bank (ECB) and the Bank of Japan left key interest rates untouched throughout 2017, the Bank of England and the Federal Reserve (Fed) hiked their key rates by 0.25% and by 0.75% in 2017. Overall, global economic growth accelerated from 3.2% in 2016 to 3.7% in 2017.[1]

The US economy benefitted from solid private consumption growth, which was significantly supported by elevated consumer sentiment and higher investment activity reflecting strong increase of manufacturing output. Negotiations regarding the future of the North American Free Trade Agreement (NAFTA) continued throughout 2017 after the announcement that the United States might withdraw from the 23-year-old accord. Employment growth was solid throughout 2017, resulting in both a higher labour-force participation rate and a further decline in the unemployment rate to 4.1%[2] at the end of 2017. Despite increasing energy and moderately rising real estate prices, inflation remained muted. Based on the strong economic performance, the Fed decided to wind down its asset purchase scheme and raised its key rate three times, to 1.50% during 2017. Overall, the US economy grew by 2.3%[3] in 2017.

The pace of economic growth also accelerated in the euro zone in 2017, propelled by resilient private consumption, more investment activities, increasing support from the global upswing, loose financing conditions and further improvements in the labour market.

[1] IMF: http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018 (Download on 21 February 2018)

[2] Bureau of Labor Statistics: https://www.bls.gov/news.release/archives/empsit_01052018.htm (Download on 21 February 2018)

3 Bureau of Economic Analysis: https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm (Download on 21 February 2018)

When looking at the bigger economies of the euro zone, Germany and Spain again outperformed Italy and France. Despite the uncertainties triggered by the Catalan independence movement, economic growth in Spain was particularly strong mainly driven by excellent investment activity. Elections in some of the continent's biggest economies, such as Germany and France were mainly in line with expectations. The continued negotiations regarding the United Kingdom exiting the European Union did not significantly impact economic performance. Most of the euro zone's economies continued to show increasing employment rates throughout 2017. Unemployment, however, still varied substantially among the member states, with southern countries having significantly higher rates than those in the north. Consumer prices increased but remained well under control across the region. The ECB maintained its expansionary monetary policy by keeping the base rate unchanged in 2017. The adaptions of the ECB's monthly asset purchase programme reflected growing confidence of the central bank to reach its inflation target of less than 2%. Overall, real GDP growth in the euro zone was 2.5%[4].

After several years of moderate growth, the Austrian economy achieved a solid performance in 2017. The real GDP growth of 2.9%[5], the highest in six years, was supported by the rapid recovery of exports, strong investment activity and solid domestic consumption. The economic sentiment indicators also showed a clear upswing throughout the year. In addition, the traditionally strong service and tourism sectors continued to perform well. The favourable economic performance led for the first time since 2012 to the decline of the unemployment rate. Average consumer prices remained well under control with an increase of the inflation rate of 2.2%[6]. Following the parliamentary elections held in October, a new government was formed in December. With EUR 42,000 GDP per capita[7], Austria remained one of the most prosperous economies in the euro zone characterised by its well-educated workforce, stable institutional framework and strong international competitiveness.

The economies of Central and Eastern Europe continued to outperform the euro zone and achieved strong economic performance in 2017. Domestic demand remained the main growth driver, while exports also contributed to economic growth. The rising convergence of the region was demonstrated by significant wage inflation, most pronounced in the Czech Republic, Slovakia, Hungary and Romania. Consumption was further supported by higher consumer confidence, improving labour markets and relatively low interest rates across the region. The automobile

[4] Eurostat: http://ec.europa.eu/eurostat/documents/2995521/8662991/2-14022018-BP-EN.pdf/ccf970c0-bb55-4a22-b8ea-d50d5a92586d (Download on 21 February 2018)

5 WIFO: http://www.wifo.ac.at/jart/prj3/wifo/resources/person_dokument/person_dokument.jart?publikationsid=60911&mime_type=application/pdf (Download on 21 February 2018)

6 Statistik Austria: http://www.statistik.at/web_de/statistiken/wirtschaft/preise/verbraucherpreisindex_vpi_hvpi/022835.html (Download on 21 February 2018)

7 Statistik Austria: http://www.statistik.at/web_de/statistiken/wirtschaft/volkswirtschaftliche_gesamtrechnungen/index.html (Download on 21 February 2018), adjusted for economic growth and inflation for 2017

industry, which was one of the main contributors to exports, again supported the Czech, Slovak, Romanian and Hungarian economies. In addition, European Union fund absorption rates improved in 2017. Consumer price inflation remained well under control and with the exception of the Czech Republic, central banks kept the base rates at historic low levels. The strong fundamentals of the Czech economy were also demonstrated by the strengthening of the Czech koruna following the decision of the Czech National Bank to depeg the currency from the euro. Unemployment rates in the region declined further. The Czech Republic and Hungary were among the countries showing the lowest unemployment rates in the European Union. In addition, public deficits in the region remained low. Overall, CEE economies grew in 2017, between 7.0%[8] in Romania and 1.8%[9] in Serbia.

PERFORMANCE IN 2017

In the consolidated management report P&L data of 2017 is compared with data of 2016, balance sheet data as of 31 December 2017 is compared to data as of 31 December 2016.

Acquisitions and disposals in Erste Group in 2017 did not have any significant impact and therefore had no effect on the rates of change stated below. Details are provided in the notes to the consolidated financial statements.

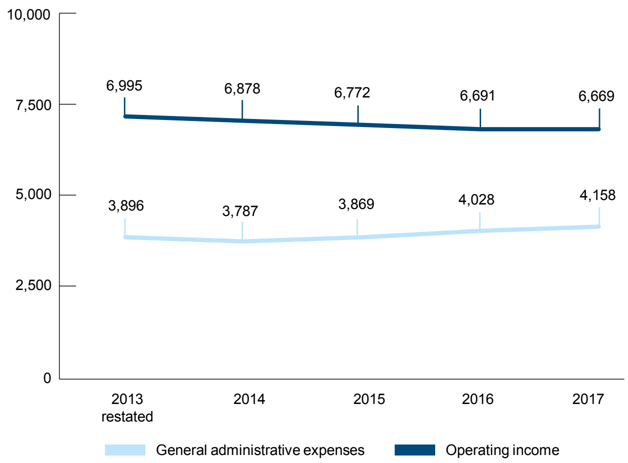
Overview

Net interest income declined to EUR 4,353.2 million (EUR 4,374.5 million) despite lending growth, mostly due to lower interest income from the government bond portfolio and a lower unwinding effect. Net fee and commission income increased to EUR 1,851.6 million (EUR 1,783.0 million). Income from the securities business, from asset management and from brokerage was up substantially, while income from the lending business declined. **Net trading result** decreased significantly to EUR 222.8 million (EUR 283.8 million). **Operating income** was nearly stable at EUR 6,669.0 million (EUR 6,691.2 million).

General administrative expenses rose to EUR 4,158.2 million (EUR 4,028.2 million). This was attributable to an increase in other administrative expenses and in depreciation and amortisation as well as higher personnel expenses of EUR 2,388.6 million (EUR 2,339.3 million). This line item also included deposit insurance payments in the amount of EUR 82.2 million (EUR 88.8 million). Consequently, the **operating result** decreased to EUR 2,510.8 million (-5.7%; EUR 2,663.0 million). The **cost/income ratio** rose to 62.4% (60.2%).

Net impairment loss on financial assets declined even further to EUR 132.0 million or 9 basis points of average gross customer loans (EUR 195.7 million or 15 basis points) and thus to a historical low. This was attributable to the substantial decline in the balance of the allocation and release of provisions for the lending business, mostly in Austria and in the Czech Republic. The **NPL ratio** improved further to 4.0% (4.9%). The **NPL cover ratio** was stable at 68.8% (69.1%).

Operating income and operating expenses in EUR million



Other operating result amounted to EUR -457.4 million (EUR -665.0 million). The improvement was largely due to the significant reduction of Austrian banking taxes to EUR 23.0 million (EUR 306.7 million, including a one-off payment of EUR 200.9 million under the Austrian Bank Tax Act). Overall, banking and transaction taxes declined to EUR 105.7 million (EUR 388.8 million). This line item includes the annual contributions to resolution funds in the amount of EUR 65.8 million (EUR 65.6 million) and EUR 45.0 million in expenses for losses from loans to consumers incurred as a result of supreme court rulings regarding negative reference interest rates in Austria.

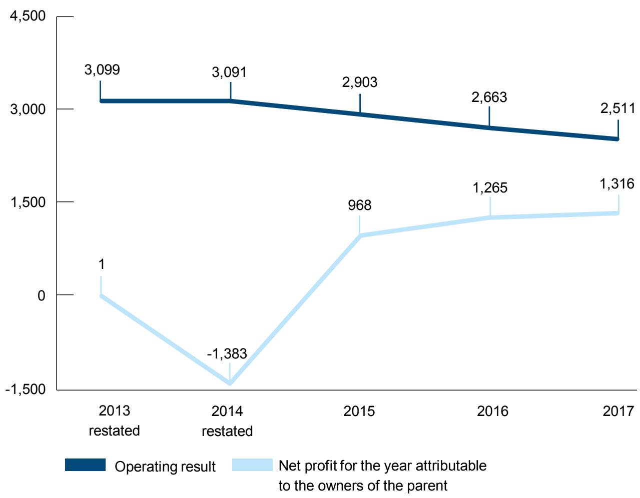
The minority charge rose to EUR 351.5 million (EUR 272.0 million) due to a rise in the earnings contributions of the savings banks. The **net result attributable to owners of the parent** rose to EUR 1,316.2 million (EUR 1,264.7 million).

Cash return on equity (see glossary for definition), i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, stood at 10.2% (reported ROE: 10.1%) versus 11.4% (reported ROE: 10.8%) in the previous year.

[8] National Institute of Statistics: http://www.insse.ro/cms/sites/default/files/com_presa/com_pdf/pib_tr4e2017.pdf (Download on 21 February 2018)

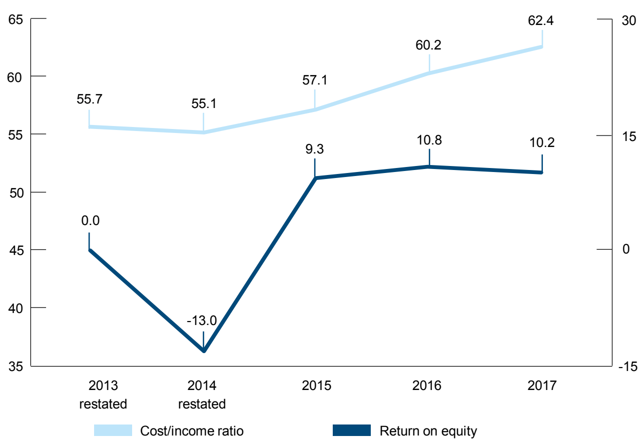
9 Statistical Office of the Republic of Serbia: (http://www.stat.gov.rs/WebSite/repository/documents/00/02/68/18/NR40_-_ENG-327.pdf (Download am 21 February 2018), adjusted by estimates for the fourth quarter 2017

Operating result and net profit/loss for the year attributable to owners of the parent in EUR million



Cash earnings per share (see glossary for definition) amounted to EUR 2.96 (reported EPS: EUR 2.94) versus EUR 3.08 (reported EPS: 2.93) in the previous year.

Key profitability ratios in %



Total assets increased to EUR 220.7 billion (EUR 208.2 billion). On the asset side, cash and cash balances rose to EUR 21.8 billion (EUR 18.4 billion), loans and receivables to credit institutions increased to EUR 9.1 billion (EUR 3.5 billion). **Loans and receivables to customers** rose to EUR 139.5 billion (EUR 130.7 billion). On the liabilities side, deposits from banks increased to EUR 16.3 billion (EUR 14.6 billion) and **customer deposits** continued to grow – most notably in the Czech Republic and in Austria – to EUR 150.9 billion (EUR 138.0 billion). The **loan-to-deposit ratio** stood at 92.4% (94.7%).

The **common equity tier 1 ratio** (CET1, Basel 3 phased-in; see glossary for definition) remained stable at 13.4% (13.4%), the **total capital ratio** (Basel 3 phased-in; see glossary for definition) at 18.5% (18.5%).

Dividend

A dividend distribution of EUR 1.20 per share will be proposed at the annual general meeting (2016: EUR 1.00 per share).

Outlook

Erste Group targets a return on tangible equity (ROTE) of more than 10% in 2018. The expected very solid macro-economic development in the core markets Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria, rising interest rate levels in several of our markets and still historically low risk costs should be supportive factors to achieve this target. On the other hand, a global or regional slowdown of economic growth as well as potential – and as yet unquantifiable – political or regulatory risks might jeopardise achieving the target.

In 2018, the positive development of the economy should be reflected in growth rates (real GDP growth) of around 3% to 5% in the Erste Group's CEE core markets. All other economic parameters are currently expected to be similarly robust. Unemployment rates should remain at historic lows – in the Czech Republic and in Hungary they are already among the lowest in the EU. Inflation is forecast to rise but remain subdued by historical standards and strong competitive positions should again lead to current account surpluses. The fiscal situation and public debt levels are also projected to remain sound. Austria should see accelerating economic growth at a rate of close to 3%. Overall, growth continues to be driven by domestic demand across all economies. The contribution of exports is forecast as neutral.

Against this backdrop, Erste Group expects mid-single digit net loan growth. In 2018, net interest income should also be slightly up on the back of rising short and long-term interest rates, primarily in the Czech Republic and Romania, but also globally, and therefore declining margin pressure from sovereign bond reinvestments. The second key income component, net fee and commission income, is also expected to increase moderately in 2018. As in 2017, some positive momentum should again come from the securities business, fund management and the insurance business. The other income components are expected to remain stable, by and large, despite the volatility of the net trading and fair value results. Consequently, operating income should grow slightly in 2018.

Operating expenses are expected to decline marginally in 2018, mainly due to the fact that in 2017 higher IT expenditure was incurred for regulatory projects, which will not recur on the same scale in 2018. However, Erste Group will continue to invest in digitalisation and thereby its future competitiveness in 2018. The focus will be on product simplification, process standardisation or the group-wide implementation of the digital platform George. After its rollout in Austria, George will be fully up and running in the Czech Republic, Slovakia and Romania in 2018. Overall, the operating result is projected to rise in 2018.

Risk costs should support net profit again in 2018. Amid a moderate rise of interest rates, risk costs should go up only slightly. Further improvements in asset quality, however, should have a dampening effect. Overall, Erste Group does not expect a recurrence of the historically low risk cost level of 2017 of just 9 basis points of average gross customer loans. While precise forecasts are difficult in the current environment, Erste Group projects for 2018 risk costs of up to 20 basis points of average gross customer loans. The implementation of accounting standard IFRS 9 is not expected to materially impact financial results in 2018.

Assuming a tax rate of around 22% and a similar level of minority charges, Erste Group aims to achieve a return on tangible equity (ROTE) of more than 10%.

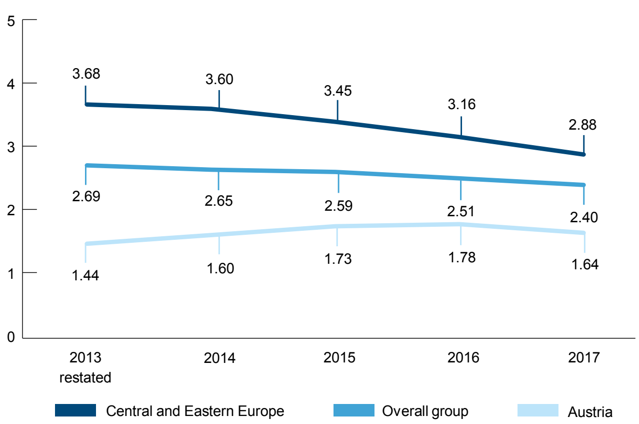
Potential risks to the guidance are interest rate trends that differ from expectations, political or regulatory measures targeting banks as well as geopolitical and global economic developments.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income declined to EUR 4,353.2 million (EUR 4,374.5 million) on the back of a persistently challenging market interest rate environment, which resulted in lower interest income from the government bond portfolio and customer loans, and a lower unwinding effect owed to continued asset quality improvements. The implementation of supreme court rulings regarding negative reference interest rates for consumer loans also had a negative impact on net interest income in Austria. Solid net customer loan growth did not fully offset the pressure on net interest income. As a result, the net interest margin (net interest income as a percentage of average interest-bearing assets) declined from 2.51% to 2.40%.

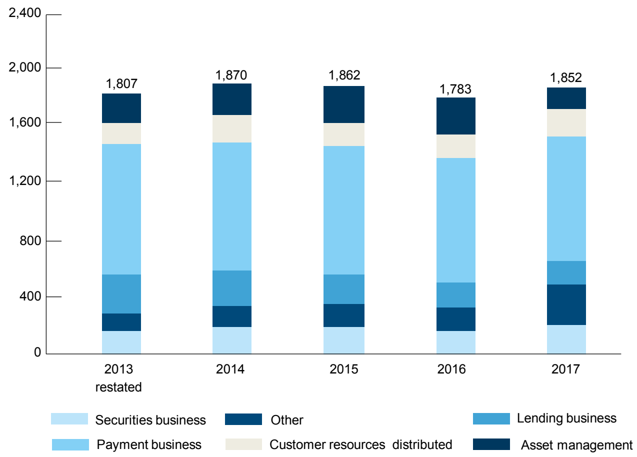
Net interest margin in %



Net fee and commission income

Net fee and commission income rose to EUR 1,851.6 million (EUR 1,783.0 million). While income from the securities business, from asset management and from brokerage saw significant growth, income from lending declined, most notably in the Czech Republic and in Slovakia.

Net fee and commission income, structure and trend in EUR million



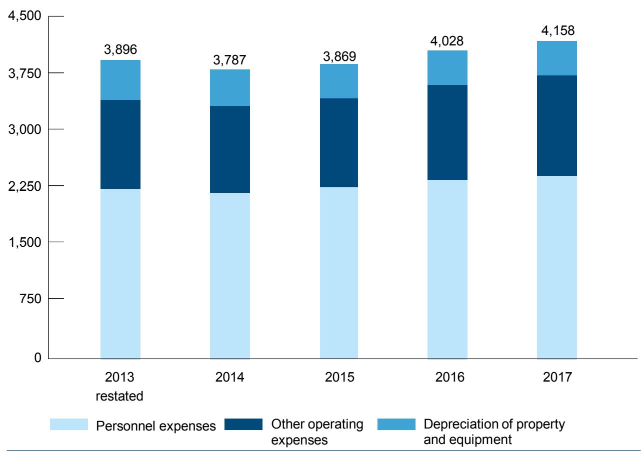
Net trading result

Net trading result decreased to EUR 222.8 million (EUR 283.8 million). This was attributable to losses from securities and derivatives trading as well as negative contributions from hedge accounting.

General administrative expenses

General administrative expenses amounted to EUR 4,158.2 million (EUR 4,028.2 million).

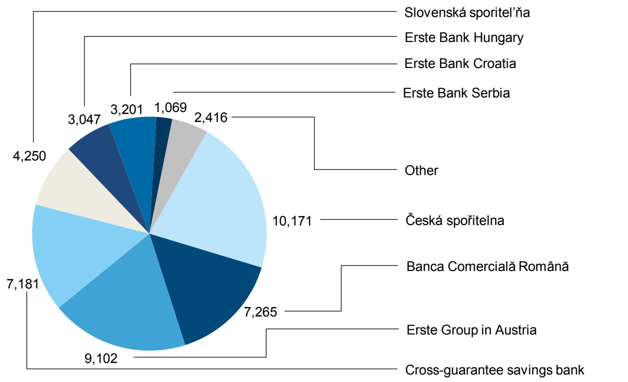
General administrative expenses, structure and trend, in EUR million



Personnel expenses increased to EUR 2,388.6 million (EUR 2,339.3 million), **other administrative expenses** to EUR 1,309.6 million (EUR 1,235.8 million). IT expenditure rose to EUR 425.9 million (EUR 339.3 million), mainly due to increased regulatory requirements and the implementation of new systems in Austria. Consulting expenses were up at EUR 165.7 million (EUR 151.7 million). Deposit insurance contributions declined to EUR 82.8 million (EUR 88.8 million) as lower contributions of EUR 2.2 million (EUR 14.5 million) in Romania and EUR 0.8 million (EUR 2.5 million) in Slovakia offset higher payments in other core markets. **Depreciation and amortisation** increased to EUR 460.0 million (EUR 453.1 million).

The **average headcount** increased marginally by 1.5% to 47,659 (46,955).

Headcount as of 31 December 2017



The number of employees is based on full-time equivalents. The data regarding subsidiaries in Central and Eastern Europe refer to partial groups.

Operating result

Operating income was nearly stable at EUR 6,669.0 million (EUR 6,691.2 million) on the back of improved net fee and commission income, moderately declining net interest income and lower net trading result. General administrative expenses rose to EUR 4,158.2 million (EUR 4,028.2 million), driven by an increase in other administrative and personnel expenses and depreciation and amortisation. The operating result accordingly declined to EUR 2,510.8 million (EUR 2,663.0 million). The cost/income ratio stood at 62.4% (60.2%).

Gains/losses from financial assets and liabilities not measured at fair value through profit or loss (net)

Gains from financial assets and liabilities not measured at fair value through profit or loss (net) amounted to EUR 156.4 million (EUR 148.0 million). This item includes mostly gains from the sale of securities in Austria, in the Czech Republic and in Hungary shown in income from financial assets – available for sale. In the comparative period, the item reflected a gain from the sale of shares in VISA Europe in the amount of EUR 138.7 million.

Net impairment loss on financial assets

Net impairment loss on financial assets amounted to EUR 132.0 million (EUR 195.7 million) or 9 basis points (15 basis points) on the average volume of gross customer loans and hence remained at a historically very low level. This was mostly attributable to the decline in the balance of the allocation and release of provisions for the lending business together with lower costs of direct loan write-offs, which also offset the decline in income received from the recovery of loans already written off. In addition, this line item included a net impairment loss on financial assets – held to maturity and financial assets – available for sale in the amount of EUR -27.0 million (EUR -11.4 million), which was mostly a net impairment loss on participations.

Other operating result

Other operating result improved significantly to EUR -457.4 million (EUR -665.0 million) mostly due to reduced **levies on banking activities** of EUR 105.7 million (EUR 388.8 million). Following last year's one-off payment of EUR 200.9 million, banking tax rates have been reduced in Austria from 2017 onwards. This resulted in lower Austrian banking levies of EUR 23.0 million (EUR 306.7 million). In addition, the Hungarian banking tax was further reduced. Due to a lower tax rate and an adjustment of the assessment base, the tax charge declined to EUR 12.8 million (EUR 19.4 million). Including financial transaction tax of EUR 42.4 million (EUR 37.6 million), bank levies in Hungary totalled EUR 55.2 million (EUR 57.0 million). In Slovakia, bank levies rose to EUR 27.4 million (EUR 25.1 million).

Allocation/release of other provisions, including for commitments and guarantees given, amounted to EUR -116.2 million (EUR -125.9 million). This included EUR 45.0 million in provisions for losses from loans to consumers resulting from supreme court rulings regarding negative reference interest rates in Austria. In addition, other operating result also reflected impairments (EUR 31.1 million for IT projects and EUR 26.7 million for branches in the Czech Republic) as well as the annual contributions to resolution funds in the amount of EUR 65.8 million (EUR 65.6 million) shown in the line item result from other operating expenses/income. In Romania, these increased to EUR 14.2 million (EUR 4.5 million) and, to a lesser extent, also in the Czech Republic and Hungary, but declined marginally in Austria, Slovakia and Croatia. In the previous year, the partial impairment of goodwill in Slovenská sporitel'ňa had a negative effect of EUR 61.3 million.

Profit/loss for the year

The pre-tax result from continuing operations amounted to EUR 2,077.8 million (EUR 1,950.4 million). The minority charge rose to EUR 351.5 million (EUR 272.0 million) due to continued solid earnings contributions of the savings banks. The net result attributable to owners of the parent rose to EUR 1,316.2 million (EUR 1,264.7 million).

Tax situation

Pursuant to section 9 of the Austrian Corporate Tax Act ("KStG"), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – and tax payments for the permanent establishments abroad, no Austrian corporate income tax was payable for the financial year 2017. The current tax loss carried forward increased in 2017.

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes. The reported total income tax expense amounted to EUR 410.1 million (EUR 413.6 million).

Balance sheet development

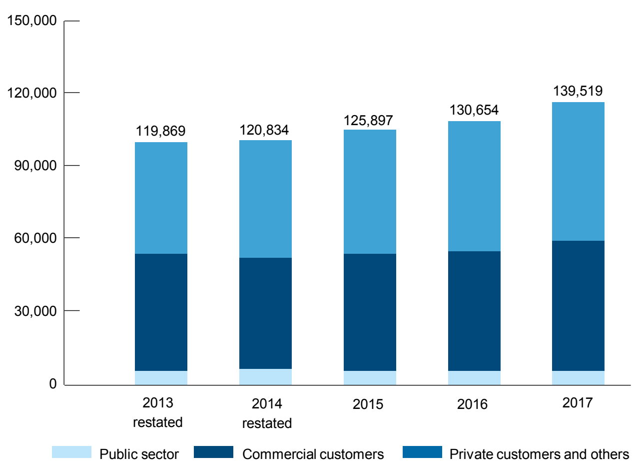
The rise in **cash and cash balances** to EUR 21.8 billion (EUR 18.4 billion) was primarily due to larger cash balances held at central banks on the back of continued strong customer deposit inflows and lower reinvestments.

Trading and investment securities held in various categories of financial assets declined to EUR 42.8 billion (EUR 47.6 billion), driven by sales of available-for-sale securities.

Loans and receivables to credit institutions (net), including demand deposits other than overnight deposits, increased to EUR 9.1 billion (EUR 3.5 billion).

Loans and receivables to customers (net) rose – mainly in the Czech Republic, but also in Austria and in Slovakia – to EUR 139.5 billion (+6.8%; EUR 130.7 billion) on the back of growth in retail and corporate lending as well as a temporarily expanded money market business.

Loans and advances to customers, structure and trend, in EUR million



Allowances for loans and receivables to customers declined to EUR 4.0 billion (EUR 4.6 billion), mostly due to the continuing improvement in asset quality.

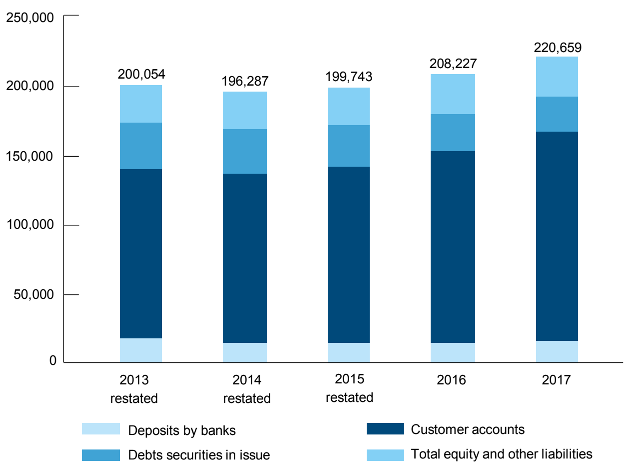
Intangible assets increased to EUR 1.5 billion (EUR 1.4 billion).

Miscellaneous assets declined to EUR 5.9 billion (EUR 6.8 billion).

Financial liabilities – held for trading decreased to EUR 3.4 billion (EUR 4.8 billion).

Deposits from banks, primarily in the form of term deposits, rose to EUR 16.3 billion (EUR 14.6 billion); **deposits from customers** increased to EUR 151.0 billion (EUR 138.0 billion), due to the strong growth in overnight deposits mainly in Austria and in the Czech Republic. The **loan-to-deposit ratio** stood at 92.4% (94.7%).

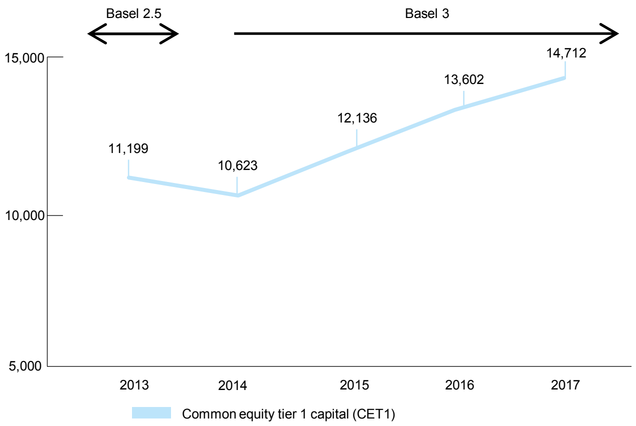
Balance sheet structure/liabilities and total equity in EUR million



Debt securities in issue declined to EUR 25.1 billion (EUR 27.2 billion). Miscellaneous liabilities were almost unchanged at EUR 6.5 billion (EUR 7.0 billion).

Total assets increased to EUR 220.7 billion (EUR 208.2 billion). Erste Group's **total equity** increased to EUR 18.3 billion (EUR 16.6 billion). Following two issuances in June 2016 and April 2017, this has included AT1 instruments in the amount of EUR 993 million. After regulatory deductions and filtering according to the Capital Requirements Regulation (CRR) the **common equity tier 1 capital** (CET1, Basel 3 phased-in) increased to EUR 14.7 billion (EUR 13.6 billion). **Total own funds** (Basel 3 phased-in) rose to EUR 20.3 billion (EUR 18.8 billion). **Total risk** (risk-weighted assets (RWAs) including credit, market and operational risk, Basel 3 phased-in) increased to EUR 110.0 billion (EUR 101.8 billion).

Common equity tier 1 capital (CET 1) according to CRR in EUR million

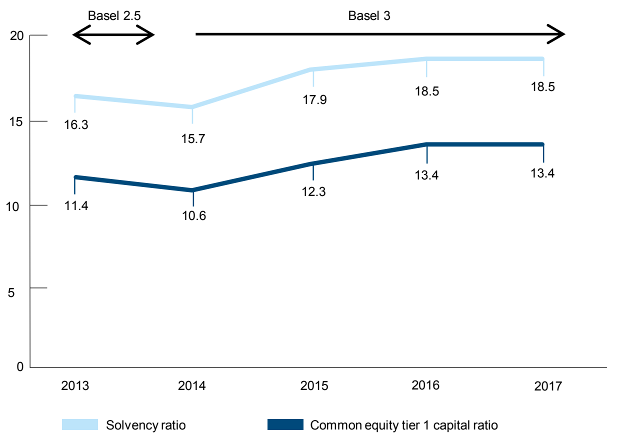


In Basel 2.5: Core tier-1 capital excluding hybrid capital pursuant to section 23 (4a and 4b) of the Austrian Banking Act
Basel 3 values are based on CRR transitional rules.

Consolidated regulatory capital is calculated in accordance with CRR taking into consideration transitional provisions as defined in the Austrian CRR Supplementary Regulation and the regulation 2016/445 of the European Central Bank on the exercise of options and discretions. These define the percentages applicable to eligible capital instruments and regulatory deduction items as well as filters. The **total capital ratio** (Basel 3 phased-in), total eligible qualifying capital in relation to total risk pursuant to CRR, remained stable at 18.5% (18.5%), well above the legal minimum requirement.

The **tier 1 ratio** (Basel 3 phased in) stood at 14.0% (13.4%), the **common equity tier 1 ratio** (Basel 3 phased-in) at 13.4% (13.4%).

Solvency ratio and common equity tier 1 capital ratio in %



In Basel 2.5: Core tier-1 capital excluding hybrid capital pursuant to section 23 (4a and 4b) of the Austrian Banking Act
Basel 3 values are based on CRR transitional rules.

EVENTS AFTER BALANCE SHEET DATE

There were no significant events after the balance sheet date.

RISK MANAGEMENT

With respect to the explanations on substantial financial and non-financial risks at Erste Group as well as the goals and methods of risk management, we would like to draw the reader's attention to the information in Notes 44, 45 and 50 to the consolidated financial statements.

RESEARCH AND DEVELOPMENT

Erste Group does not engage in any research activities pursuant to section 243 (3) no. 3 UGB, but in 2017 development costs in the amount of EUR 139 million (EUR 45 million) were capitalised in connection with software developed in-house.

In order to drive improvements for retail customers and in the ongoing services, Erste Group launched the Innovation Hub. Its purpose is to initiate and coordinate across-the-board initiatives with a strong focus on customer experiences. As a multi-disciplinary team consisting of marketing, product and IT as well as design experts, the Innovation Hub is tasked with creating innovations and managing new programme initiatives.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

Disclosures pursuant to section 243a (1) UGB (Austrian Commercial Code)

With regard to the statutory disclosure requirements related to the composition of the capital as well as the class of shares, special reference is made to Note 36 in the consolidated financial statements.

As of 31 December 2017, together with its syndicate partners, DIE ERSTE oesterreichische Spar-Casse Privatstiftung (Privatstiftung), a foundation, controlled approximately 29.62% of the shares in Erste Group Bank AG and with 15.62% the most important shareholder. The Privatstiftung holds 6.50% of the shares directly, the indirect participation of the Privatstiftung amounts to 9.12% of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the Privatstiftung. 1.00% is held directly by Austrian savings banks respectively saving banks foundations acting together with the Privatstiftung and affiliated with Erste Group Bank AG through the Haftungsverbund. 9.92% of the subscribed capital is controlled by the Privatstiftung on the basis of a shareholder agreement with Caixabank S.A. 3.08% are held by other partners to the shareholder agreement.

Furthermore, it should be noted that Erste Group Bank AG – just as nearly all Austrian savings banks – is a member of the Haftungsverbund of Sparkassengruppe. Sparkassengruppe sees itself as an association of independent, regionally established savings banks that strives to bolster its market position by strengthening common product development, harmonising its market presence and advertising concepts, pursuing a common risk policy, engaging in co-ordinated liquidity management and applying common controlling standards.

In addition, the purpose of this scheme is:

- to identify any business issues of its member banks at an early stage and to provide effective assistance to its members in the resolution of business issues – this can range from offering technical assistance or giving guarantees to providing borrowed or qualifying capital and
- to provide customers with a deposit guarantee system that goes beyond the legal deposit guarantee requirement (section 93 et seq. of the Austrian Banking Act (BWG), which only guarantees certain types of customer deposits, by creating a suitable obligation to service the liabilities of other participating savings banks if the need arises.

Haftungsverbund GmbH is responsible for implementing such measures and analysing the business situation of every member bank of the Haftungsverbund. Overall, the participating savings banks hold a maximum stake of 49% (assuming all savings banks participate) in Haftungsverbund GmbH and Erste Group Bank AG always holds a minimum stake of 51%.

As required by the BWG, individual members of the Haftungsverbund may need to provide assistance to other members (by giving liquidity assistance, granting loans or guarantees and providing equity capital, for instance) and, in any other protection case (insolvency), to service the guaranteed customer deposits of a Haftungsverbund member. The scope of the individual services to be provided by individual Haftungsverbund members where needed is subject to an individual and general maximum limit. Any contributions made by Haftungsverbund members under the statutory deposit guarantee system pursuant to section 93 et seq. BWG are likewise counted. The corresponding amounts are determined by Haftungsgesellschaft and communicated to members liable for contributions.

In 2013, collaboration with savings banks was further strengthened by way of an additional agreement. The purpose of the agreement concluded in 2013 and effective as of 1 January 2014 is not only to broaden the regulatory options available to Erste Group Bank AG but also to ensure compliance with point 127 of Article 4 (1) CRR and Article 113 (7) CRR with a view to allowing recognition of minority interests at consolidated level in accordance with Article 84 (6) CRR. Savings banks that are party to the agreement concluded in 2013 also include Allgemeine Sparkasse Oberösterreich, which forms an institutional protection scheme as defined under Article 113 (7) CRR with the other members of the Haftungsverbund. Owing to the new legal and supervisory requirements, the maximum limits for support mechanisms of the individual members were raised and an ex ante fund was set up. Payments to the ex-ante fund are made on a quarterly basis over a period of 10 years. In the financial statements, the payments by the individual members are recognised as participations in IPS GesbR – which has been charged with managing the ex-ante fund. There was a shift in retained earnings from untied reserves to tied reserves. On the basis of the contractual provisions, these retained earnings represent a tied reserve. These tied retained earnings may be released only if the ex-ante fund is used due to a contingency. Internally, this reserve may therefore not be used to cover a loss and, at member level, it does not qualify as capital under the definition of CRR; on a consolidated level, however, the ex-ante fund qualifies as capital.

Additional disclosures pursuant to section 243a (1) UGB

All restrictions on voting rights or the transfer of shares, even if they are included in agreements between shareholders, insofar as they are known to the management board pursuant to section 243a (1) no. 2 UGB:

In shareholder agreements, the Privatstiftung agreed with its partners the following: Concerning the appointment of the members of the supervisory board, the partners are obliged to vote as required by the Privatstiftung. The partners can dispose of shares according to a predefined sale procedure and can purchase shares only within the quotas agreed with the Privatstiftung (of in total a maximum of 2% within 12 months); with this regulation an unwanted creeping-in according to the Takeover Act shall be prevented. In addition, the partners have committed themselves not to make a hostile takeover bid, nor to participate in a hostile takeover bid, nor to act together with a hostile bidder in any other way.

Under article 15.1 of the articles of association, for the duration of its assumption of liability for all current and future debts in the event of their default on payment, the Privatstiftung is entitled, pursuant to section 92 (9) of the Austrian Banking Act, to delegate up to one-third of the supervisory board members to be elected at the annual general meeting. Until now, the Privatstiftung has not exercised this right.

Article 15.4 of the Articles of Association concerning the appointment and dismissal of members of the management board and the supervisory board is not directly prescribed by statutory law: A three-quarters majority of valid votes cast and a three-quarters majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for removal of supervisory board members. The Articles of Association contain no restrictions in respect of voting rights or the transfer of shares. Article 19.9 of the Articles of Association concerning amendments to the Articles of Association contains a provision that is not prescribed directly by statutory law: Amendments to the Articles of Association, in so far as they do not alter the business purpose, may be passed by a simple majority of votes cast and a simple majority of the subscribed capital represented at the meeting considering the amendment. Where higher majority votes are required by individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to Article 19.9 require a three-quarters majority of the votes cast and a three-quarters majority of the subscribed capital represented at the meeting considering the proposal.

Additional disclosures pursuant to section 243a (1) no. 7 UGB

Pursuant to the following provisions, members of the management board have the right to repurchase shares, where such a right is not prescribed by statutory law.
As per resolution of the annual general meeting of 17 May 2017:

- The management board is entitled to purchase up to 10% of the subscribed capital in treasury shares for trading purposes according to section 65 (1) no. 7 Austrian Stock Corporation Act (AktG). However, the trading portfolio of these shares must not exceed 5% of the subscribed capital at the end of any calendar day. The consideration for the shares to be purchased must not be less than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 20% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for a period of 30 months, i.e. until 11 November 2017.
- The management board is entitled, pursuant to section 65 (1) no. 8 as well as (1a) and (1b) Stock Exchange Act and for a period of 30 months from the date of the resolution, i.e. until 11 November 2017, to acquire own shares of up to 10% of the subscribed capital, subject to approval by the supervisory board, with the option of making repeated use of the 10% limit, either at the stock exchange or over the counter, likewise to the exclusion of the shareholders' right to tender proportional payment. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or more purposes. The market price per share must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with section 171 Stock Corporation Act, the management board is authorised, from the date of the resolution, i.e. until 11 May 2020, on approval by the supervisory board, to sell or use the company's own shares, also by means other than the stock exchange or a public offering for any purpose allowed by the law, particularly as consideration for the acquisition and financing of the acquisition of companies, businesses, business divisions or shares in one or more businesses in Austria or abroad to the exclusion of the shareholders' proportional purchase option. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or more purposes. The management board is authorised to redeem own shares subject to the supervisory board's approval without requiring the annual general meeting to adopt any further resolution.

The management board is authorised until 28 June 2017, with the consent of the supervisory board, to issue convertible bonds, which have the conversion or subscription right for shares of the Company, observing or excluding the subscription rights of the shareholders. The terms and conditions may, in addition or instead of a conversion or subscription right, also provide for the mandatory conversion at the end of the term or at any other time. The issuance of the convertible bonds is limited to the extent that all conversion or subscription rights and, in the case of a mandatory conversion stipulated in terms and conditions, the mandatory conversion, are covered by conditional capital. The issue amount, the terms and conditions of the issue of the convertible bonds and the exclusion of the subscription rights for the shareholders will be determined by the management board with the consent of the supervisory board.

Concerning the authorised and conditional capital we refer to the information given in Note 36 to the consolidated financial statements. All sales and purchases were carried out as authorised at the annual general meeting.

Significant agreements pursuant to section 243 a (1) no. 8 UGB

The following paragraphs list important agreements to which the company is party and which become effective, are amended or are rendered ineffective when there is a change in the control of the company as a result of a takeover bid, as well as their effects:

Haftungsverbund

The agreement in principle of the Haftungsverbund provides for the possibility of early cancellation for good cause. Good cause allowing the respective other contracting parties to cancel the agreement is deemed to exist if

- one contracting party harms grossly the duties resulting from present agreement
- the ownership structure of a party to the contract changes in such a way – particularly by transfer or capital increase – that one or more third parties from outside the savings banks sector directly and/or indirectly gain a majority of the equity capital or voting rights in the contracting party or
- one contracting party resigns from the savings banks sector irrespective of the reason.

The Haftungsverbund agreement in principle and supplementary agreement expire if and as soon as any entity that is not a member of the savings bank sector association acquires more than 25% of the voting power or equity capital of Erste Group Bank AG in any manner whatsoever and a member savings bank notifies the Haftungsverbund steering company and Erste Group Bank AG by registered letter within 12 weeks from the change of control that it intends to withdraw from the Haftungsverbund.

Directors and officers insurance

Changes in controlling interests
In the event that any of the following transactions or processes occur during the term of the insurance policy (each constituting a "change of control") in respect of the insured party:

- the insured party ceases to exist as a result of merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
- another company, person or group of companies or persons acting in concert who are not insured parties, acquire more than 50% of the insured party's outstanding equity or more than 50% of its voting power (giving rise to the right to control the voting power represented by the shares, and the right to appoint the management board members of the insured party), then the insurance cover under this policy remains in full force and effect for claims relating to unlawful acts committed or alleged to have been committed before this change in control took effect. However, no insurance cover is provided for claims relating to unlawful acts committed or allegedly committed after that time (unless the insured party and insurer agree otherwise). The premium for this insurance cover is deemed to be completely earned.

In the event that a subsidiary ceases to be a subsidiary during the insurance period, the insurance cover under this policy remains in full force and effect for that entity for the remainder of the insurance period or (if applicable) until the end of the extended discovery period but only in respect of claims brought against an insured party in relation to unlawful acts committed or alleged to have been committed by the insured party during the existence of this entity as a subsidiary. No insurance cover is provided for claims brought against an insured party in relation to unlawful acts committed or allegedly committed after this entity ceased to exist.

Cooperation between Erste Group Bank AG and Vienna Insurance Group ("VIG")

Erste Group Bank AG and Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG) are parties to a General Distribution Agreement concerning the framework of the cooperation of Erste Group and VIG in Austria and CEE with respect to bank and insurance products. In the event of a change of control of Erste Group Bank AG, VIG has the right to terminate the General Distribution Agreement and, in the event of a change of control of VIG, Erste Group Bank AG has a reciprocal right. A change of control is defined, with respect to Erste Group Bank AG, as the acquisition of Erste Group Bank AG by any entity other than DIE ERSTE österreichische Spar-Casse Privatstiftung or Austrian savings banks of 50% plus one share of Erste Group Bank AG's voting shares and, with respect to VIG, as the acquisition of VIG by any entity other than Wiener Städtische Wechselseitiger Versicherungsverein-Vermögensverwaltung-Vienna Insurance Group of 50% plus one share of VIG's voting shares. If VIG elects to terminate the General Distribution Agreement after a change of control of Erste Group Bank AG has occurred, it may choose to ask for a reduction of the original purchase price that it and its group companies have paid for the shares in the CEE insurance companies of Erste Group. The rebate corresponds to the difference between the purchase price and the embedded value and is reduced to zero on a linear scale from 26 March 2013 to 16 March 2018.

Erste Group Bank AG and VIG are furthermore parties to an Asset Management Agreement, pursuant to which Erste Group undertakes to manage certain parts of VIG's and its group companies' securities assets. In the event of a change of control (as defined above), each party has a termination right. If Erste Group Bank AG elects to terminate the Asset Management Agreement following such a change of control of VIG because the new controlling shareholders of VIG no longer support the Agreement, it may choose to ask for a full refund of the purchase price that it has paid for 95% of Ringturm Kapitalanlagegesellschaft m.b.H., the asset management company performing the services under the Asset Management Agreement. The refund decreases on a linear scale down to zero from October 2013 to October 2018.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR THE GROUP FINANCIAL REPORTING PROCEDURES

Control environment

The management board is responsible for the establishment, structure and application of an appropriate internal control and risk management system that meets the company's needs in its group accounting procedures.

The management in each group unit is responsible for implementing group-wide instructions. Compliance with group rules is monitored as part of the audits performed by internal and local auditors.

Consolidated financial statements are prepared by the Group Consolidation department. The assignment of powers, the process description and the necessary control procedure are defined in the operating instructions.

Risks relating to the financial reporting procedures

The main risk in the financial reporting procedures is that errors or deliberate action (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever, alone or in aggregate, they are apt to influence the decisions made by the users of financial statements. Such a decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

Furthermore, especially estimates for the determination of the fair value of financial instruments for which no reliable market value is available, estimates for the accounting of risk provisions for loans and advances and for provisions, complex measurement requirements for accounting as well as a difficult business environment bear the risk of significant financial reporting errors.

Controls

Group Accounting and Group Performance Management are responsible for group reporting and report to Erste Group's CFO.

Erste Group issues group policies used for preparation of consolidated financial statements in accordance with IFRS. A summary description of the accounting process is provided in Erste Group's IFRS Accounting Manual. All transactions have to be recorded, posted and accounted for in accordance with the accounting and measurement methods set out in this manual. The management of each subsidiary is responsible for the implementation of group policies. The basic components of the internal control system (ICS) at Erste Group are:

- Controlling as a permanent financial/business analysis (e.g. comparison of target and actual data between Accounting and Controlling) and control of the company and/or individual corporate divisions.
- Systemic, automatic control systems and measures in the formal procedure and structure, e.g. programmed controls during data processing.
- Principles of functional separation and checks performed by a second person (the four-eye principle).
- Internal Audit – as a separate organisational unit – is charged with monitoring all corporate divisions in an independent yet proximate manner, particularly with regard to the effectiveness of the components of the internal control system. The Internal Audit unit is monitored and/or checked by the management board, the audit committee/supervisory board, by external parties (bank supervisor, in individual cases also by an external auditor) as well as through audit's internal quality assurance measures (self-assessments, peer reviews).

Group Consolidation

The data provided by the group entities is checked for plausibility by the Group Consolidation department. The subsequent consolidation steps are then performed using the consolidation system (TAGETIK). These include consolidation of capital, expense and income consolidation, and debt consolidation. Lastly, possible intragroup gains are eliminated. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS, BWG and UGB.

The consolidated financial statements and the group management report are reviewed by the audit committee of the supervisory board and are also presented to the supervisory board for approval. They are published as part of the annual report, on Erste Group's website and in the Official Journal of Wiener Zeitung and finally filed with the Commercial Register.

Information and communication

Each year, the annual report shows the consolidated results in the form of a complete set of consolidated financial statements. In addition, the management summary provides verbal comments on the consolidated results in accordance with the statutory requirements. Throughout the year, the group produces consolidated monthly reports for group management. Statutory interim reports are produced that conform to the provisions of IAS 34 and are also published quarterly in accordance with the Austrian Stock Corporation Act. Before publication, the consolidated financial statements are presented to senior managers and the Chief Financial Officer for final approval and then submitted to the supervisory board's audit committee.

Reporting is almost fully automated, based on source systems and automated interfaces, and guarantees up-to-date data for controlling, segment reporting and other analyses. Accounting information is derived from the same data source and is reconciled monthly for reporting purposes. Close collaboration between accounting and controlling permits continual target/actual comparisons for control and reconciliation purposes. Monthly and quarterly reports to the management board and the supervisory board ensure a regular flow of financial information and monitoring of the internal control system.

Responsibilities of Internal Audit

Internal Audit is in charge of auditing and evaluating all areas of the bank based on risk-oriented audit areas (according to the annual audit plan as approved by the management board and reported to the audit committee). The main focus of audit reviews is to monitor the completeness and functionality of the internal control system. Internal Audit has the duty of reporting its findings to the group's management board, supervisory board and audit committee several times within one year.

According to section 42 BWG, Internal Audit is a control body that is directly subordinate to the management board. Its sole purpose is to comprehensively verify the lawfulness, propriety and expediency of the banking business and banking operation on an ongoing basis. The mandate of Internal Audit is therefore to support the management board in its efforts to secure the bank's assets and promote economic and operational performance and thus in the management board's pursuit of its business and operating policy. The activities of Internal Audit are governed in particular by the currently applicable Rules of Procedure, which were drawn up under the authority of all management board members and approved as well as implemented by them. The Rules of Procedure are reviewed on a regular basis and whenever required and adapted should the need arise.

Audit activities of Internal Audit

In its auditing activities, Internal Audit puts a special focus on:

- Operating and business areas of the bank;
- Operating and business processes of the bank;
- Internal bank standards (policies, guidelines, operating instructions), also with regard to their compliance and up-to-dateness;
- Audit areas stipulated by the law as they inter alia result from the rules of the Austrian Banking Act (BWG) and the Capital Requirements Regulation (CRR).

Internal Audit performs its responsibilities based on its own discretion and in compliance with the annual audit plan as approved by the management board. Once approved, the audit plan is also reported to the audit committee.

CORPORATE GOVERNANCE

The (consolidated) corporate governance report is part of the annual report of Erste Group (http://www.erstegroup.com/investor-relations).

(CONSOLIDATED) NON-FINANCIAL DECLARATION

Erste Group decided to prepare and publish a separate non-financial report – integrated in the annual report– in line with an option provided for in the Austrian Sustainability and Diversity Improvement Act (NaDiVeG).

Management board	
Andreas Treichl mp, Chairman	Willibald Cernko mp, Member
Peter Bosek mp, Member	Gernot Mittendorfer mp, Member
Petr Brávek mp, Member	Jozef Síkela mp, Member

Vienna, 28 February 2018

Segments

Erste Group's segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision-maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within Erste Group, the function of the chief operating decision-maker is exercised by the management board.

Erste Group's segment reporting is based on the matrix organisation (business and geographical information) and provides comprehensive information to assess the performance of the segments.

The tables and information in this section are not subject to the audit of the consolidated financial statements. They provide a brief overview and focus on selected and summarised items. For more details, please see Note 37. Additional information is available in Excel format at http://www.erstegroup.com/en/investors/reports/financial_reports.

Operating income consists of net interest income, net fee and commission income, net trading as well as result from financial assets and liabilities designated at fair value through profit or loss, dividend income, net result from equity method investments and rental income from investment properties & other operating leases. The latter four listed items are not separately disclosed in the tables below. Operating expenses equal the position general administrative expenses. Operating result is the net amount of operating income and operating expenses. Risk provisions for loans and receivables are included in the position net impairment loss on financial assets. Other result summarises the positions other operating result and gains/losses from financial assets and liabilities not measured at fair value through profit or loss. The cost/income ratio is calculated as operating expenses in relation to operating income. The return on allocated equity is defined as the net result after tax/before minorities in relation to the average allocated equity.

Business segments

Erste Group – business segments						
Retail	Corporates	Group Markets	Asset/Liability Management & Local Corporate Center	Savings Banks	Group Corporate Center	Intragroup Elimination

The **Retail** segment comprises the business with private individuals, micros and free professionals within the responsibility of account managers in the retail network. This business is operated by the local banks in cooperation with their subsidiaries such as leasing and asset management companies with a focus on simple products ranging from mortgage and consumer loans, investment products, current accounts, savings products to credit cards and cross selling products such as leasing, insurance and building society products.

The **Corporates** segment comprises business activities with corporate customers of different turnovers (small and medium-sized enterprises, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SME) are customers under the responsibility of the local corporate commercial center network with annual turnover up to determined thresholds. Local Large Corporates (LLC) are customers with an annual turnover exceeding the SME thresholds but not categorised as Group Large Corporate customers. Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in Erste Group's core markets that are included in the GLC client list. Commercial Real Estate (CRE) includes for example business with real estate investors generating income from the rental of individual properties or portfolios of properties as well as with developers of individual properties or portfolios of properties generating capital gains through sale. Public Sector consists of three sets of customers: public sector, public corporations and non-profit sector.

The **Group Markets (GM)** segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Group, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade & export finance).

The **Asset/Liability Management & Local Corporate Center (ALM & LCC)** segment includes all asset/liability management functions – local and of Erste Group Bank AG (Holding) – as well as the local corporate centers which comprise internal service providers that operate on a non-profit basis and reconciliation items to local entity results. The corporate center of Erste Group Bank AG is included in the Group Corporate Center segment.

The **Savings Banks** segment includes those savings banks which are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector and in which Erste Group does not hold a majority stake but which are fully controlled according to IFRS 10. The fully or majority owned Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse and Sparkasse Hainburg are not part of the Savings Banks segment.

The **Group Corporate Center (GCC)** segment covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), non-profit internal service providers (facility management, IT, procurement), the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economic equity allocated to the segments).

Intragroup Elimination (IC) is not defined as a segment but is the reconciliation to the consolidated accounting result. It includes all intragroup eliminations between participations of Erste Group (e.g. intragroup funding, internal cost charges). Intragroup eliminations within partial groups are disclosed in the respective segments.

RETAIL

Financial review

in EUR million	2016	2017	Change
Net interest income	2,198.2	2,155.7	-1.9%
Net fee and commission income	958.4	1,003.8	4.7%
Net trading result	99.6	114.0	14.5%
Operating income	3,286.3	3,304.4	0.6%
Operating expenses	-1,892.8	-1,995.8	5.4%
Operating result	1,393.5	1,308.6	-6.1%
Cost/income ratio	57.6%	60.4%	
Net impairment loss on financial assets	-19.1	9.5	n/a
Other result	-110.8	-60.4	-45.5%
Net result attributable to owners of the parent	964.6	960.7	-0.4%
Return on allocated capital	42.0%	40.5%	

Net interest income declined on the back of lower contributions from deposit business in Austria and the Czech Republic as well as lower contributions from lending business in Romania and Slovakia. These developments were partially mitigated by an increasing secured loan portfolio as well as the shift of clients from the Corporates segment in Austria, improved performance of deposit business in Croatia and Slovakia as well as additional income generated by the unsecured portfolio of the acquired business of Citibank in Hungary. Net fee and commission income increased primarily due to higher securities and payment transfer fees in Austria. The former Citibank retail business in Hungary also contributed positively. Net trading went up due to the higher income from client foreign exchange transactions in Romania and the Czech Republic and the increased client base in Hungary. Operating expenses increased primarily due to higher costs in Hungary and Slovakia as well as higher costs in Austria triggered by the shift of clients from the Corporates segment. Operating result thus declined, the cost/income ratio went up. The significant improvement of net impairment loss on financial assets was driven by releases of risk provisions in the Czech Republic, Austria and Romania. Other result improved due to the non-recurrence of high litigation provisions in Romania booked last year. Overall, the net result attributable to the owners of the parent marginally decreased.

Credit risk

Credit risk exposure in the Retail segment rose strongly to EUR 59.7 billion (+10.6%). The customer loan portfolio increased to EUR 52.7 billion (+8.8%). The share of the retail business in Erste Group's total customer loans was up at 36.7% (35.8%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 63.0% (63.7%). The quality of the retail customer loan portfolio improved again significantly. Non-performing loans as a percentage of total retail customer loans decreased to 3.2% (4.0%). In terms of the NPL ratio, this segment continued to feature the highest quality of all business segments with a significant loan portfolio. In addition to the decline of non-performing loans by EUR 254 million, a migration to better risk classes of performing loans took place. The share of low-risk loans as a percentage of total retail customer loans rose to 86.3% (84.6%). The NPL coverage ratio based on loan loss provisions rose to 78.0% (75.2%).

CORPORATES

Financial review

in EUR million	2016	2017	Change
Net interest income	1,015.6	993.9	-2.1%
Net fee and commission income	259.1	256.2	-1.1%
Net trading result	90.7	91.6	1.0%
Operating income	1,504.7	1,469.9	-2.3%
Operating expenses	-562.4	-577.0	2.6%
Operating result	942.4	892.9	-5.2%
Cost/income ratio	37.4%	39.3%	
Net impairment loss on financial assets	-61.9	-135.3	>100.0%
Other result	-10.2	-13.9	37.2%
Net result attributable to owners of the parent	653.0	580.3	-11.1%
Return on allocated capital	22.3%	18.8%	

Net interest income decreased primarily due to the lower contribution of business in Austria partially caused by the shift of clients to the Retail segment of Erste Bank Oesterreich. Net interest income in Croatia was negatively impacted by lower contribution of the lending business. A better result from early repayment fees in the Czech Republic, higher guarantee fees in Hungary as well as higher lending fees in Croatia partially compensated the negative impact of the shift of customers in Austria on net fee and commission income. The moderate increase in the net trading result was mainly attributable to valuation effects of derivatives in Erste Bank Oesterreich. Rental income was negatively influenced by the sale of real estate SPVs in the Czech Republic and decreasing volumes of operating lease in Croatia. As a result, operating income went down. Higher operating expenses driven by project-related costs contributed to the decrease of the operating result and the increase in the cost/income ratio. Net impairment loss on financial assets increased significantly on the back of lower income from insurance claims in Romania as well as downgrading of one customer in Croatia. On the other hand, risk costs in the Czech Republic and Erste Bank Oesterreich decreased. Other result improved mainly due to the release of provisions for litigations in Hungary. Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Corporates segment rose to EUR 64.1 billion (+4.4%). Loans to customers increased to EUR 47.2 billion (+5.7%). As a percentage of Erste Group’s total loans to customers they slightly declined to 32.9% (33.1%). The difference between credit risk exposure and the customer loan portfolio is primarily due to a large volume of guarantees and unused loan commitments. Active management of non-performing loans through restructuring and write-downs resulted in a significant improvement of the asset quality in the Corporates segment. Sales of non-performing loans played a lesser role than in previous years. The NPL ratio dropped to 4.9% (6.1%). The share of low risk loans rose to 86.3% (84.3%). The NPL coverage ratio based on loan loss provisions stood at 69.4% (72.3%).

GROUP MARKETS

Financial review

in EUR million	2016	2017	Change
Net interest income	212.1	196.8	-7.2%
Net fee and commission income	203.7	223.0	9.4%
Net trading result	94.3	123.8	31.2%
Operating income	515.1	554.1	7.6%
Operating expenses	-223.4	-229.5	2.7%
Operating result	291.7	324.6	11.3%
Cost/income ratio	43.4%	41.4%	
Net impairment loss on financial assets	11.4	3.6	-68.4%
Other result	4.9	-11.5	n/a
Net result attributable to owners of the parent	235.6	245.7	4.3%
Return on allocated capital	37.6%	36.9%	

Net interest income decreased primarily due to the generally low interest rate environment, lower volumes of collateral trading products and lower margins on sight deposits of financial institutions. Net fee and commission income rose on the back of increased sales activities, higher assets under management and arrangement fees related to debt issuance. The increase in net trading result was attributable to positive market developments affecting fixed income, money market, collateral trading and credit trading products. Therefore, operating income improved. Although operating expenses went up on the back of higher project-related costs, operating result as well as the cost/income ratio improved. Other result deteriorated due to the booking of one-off income from the resolution of a claim last year. Overall, the net result attributable to the owners of the parent increased.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2016	2017	Change
Net interest income	-93.7	-55.4	-40.9%
Net fee and commission income	-64.4	-87.4	35.6%
Net trading result	-10.2	-74.3	>100.0%
Operating income	-135.2	-191.2	41.4%
Operating expenses	-117.3	-86.0	-26.7%
Operating result	-252.5	-277.2	9.8%
Cost/income ratio	-86.8%	-45.0%	
Net impairment loss on financial assets	-9.6	-8.3	-13.4%
Other result	-28.2	-142.9	>100.0%
Net result attributable to owners of the parent	-214.4	-359.3	67.6%
Return on allocated capital	-9.6%	-17.7%	

Net interest income increased mainly due to a higher contribution from deposits in Erste Bank Oesterreich partially offset by the lower result from derivatives in the Holding. The decrease in net fee and commission income was primarily related to lower fee income in the Czech Republic. The deterioration of net trading result as well as the result from financial assets and liabilities designated at fair value through profit or loss was driven by valuation results in the Holding. The decrease in operating expenses was mainly attributable to lower costs in Slovakia. Overall, operating result declined. Other result worsened mainly due to the non-recurrence of the selling gains on the shares of VISA Europe in 2016 (EUR 138.7 million) as well as provisions for expected losses from loans to consumers due to supreme court rulings regarding negative reference interest rates in Erste Bank Oesterreich in 2017 (EUR 13.7 million). These effects were partially compensated for by the substantial decrease of banking tax in Erste Bank Oesterreich after a one-off payment in the amount of EUR 25.4 million in 2016. The net result attributable to the owners of the parent decreased.

SAVINGS BANKS

Financial review

in EUR million	2016	2017	Change
Net interest income	955.8	982.0	2.7%
Net fee and commission income	429.7	446.2	3.8%
Net trading result	5.3	10.2	91.4%
Operating income	1,446.0	1,492.9	3.2%
Operating expenses	-1,021.8	-1,051.2	2.9%
Operating result	424.2	441.7	4.1%
Cost/income ratio	70.7%	70.4%	
Net impairment loss on financial assets	-54.2	12.6	n/a
Other result	-56.8	-38.0	-33.2%
Net result attributable to owners of the parent	34.1	51.9	52.4%
Return on allocated capital	9.3%	14.7%	

The increase in net interest income was mainly attributable to higher loan volumes and lower interest expenses, which was partially offset by the effect of the implementation of supreme court rulings regarding negative reference interest rates for consumer loans. Net fee and commission income increased mostly due to higher fees from securities business and payments. Net trading result improved on the back of positive valuation results. Operating expenses went up due to higher IT expenses. The booking of deposit insurance contributions for the full year amounted to EUR 27.0 million (EUR 24.2 million). Therefore, operating result increased and the cost/income ratio improved. Net impairment loss on financial assets decreased substantially. Other result improved due to selling gains of AfS securities and the decrease of banking tax to EUR 4.4 million (EUR 47.0 million – including a one-off payment in the amount of EUR 32.6 million) despite provisions for expected losses from loans to consumers due to supreme court rulings regarding negative reference interest rates (EUR 31.3 million) and higher provisions for contingent liabilities. The payment into the resolution fund amounted to EUR 6.4 million (EUR 8.5 million). Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Savings Banks segment increased to EUR 57.7 billion (+2.8%) while loans to customers rose to EUR 42.1 billion (+3.7%). Their share in Erste Group's total customer loans amounted to 29.4% (30.0%). Lending to private households increased at the same pace as loans to customers. Their share in the Savings Banks' total customer loan portfolio was unchanged at 38.3%. Lending to freelance professionals, other self-employed persons and small businesses grew by 0.9%. At 15.7% of total loans, the share of this customer segment was again significantly larger than at Erste Group's subsidiaries in Central and Eastern Europe. This reflects the structure of Austria's economy with a very high share of small and medium-sized enterprises compared with other countries. Swiss franc denominated foreign-currency loans declined further to EUR 2.2 billion (-25.1%). The trend towards higher collateralisation of loans continued. The quality of the loan portfolio was again very solid. Non-performing loans as a percentage of total loans to customers decreased to 4.2% (4.9%). The development was especially positive among corporate clients. The NPL coverage ratio based on loan loss provisions stood at 58.3% (58.1%).

GROUP CORPORATE CENTER

Financial Review

in EUR million	2016	2017	Change
Net interest income	77.4	74.9	-3.2%
Net fee and commission income	6.4	13.0	>100.0%
Net trading result	3.7	-41.5	n/a
Operating income	112.0	73.1	-34.8%
Operating expenses	-871.5	-996.4	14.3%
Operating result	-759.4	-923.3	21.6%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets	-62.2	-14.1	-77.3%
Other result	307.3	709.2	>100.0%
Net result attributable to owners of the parent	-408.1	-163.2	-60.0%
Return on allocated capital	-7.2%	-2.0%	

Operating income declined mainly due to lower valuation results. The increase in operating expenses was primarily driven by higher IT costs. Other result improved significantly on the back of lower Austrian banking tax impacted by a one-off payment in the amount of EUR 138.3 million in the previous year. In 2016 this line item also included partial impairment of the goodwill in Slovenská sporitel'ňa in the amount of EUR 61.3 million. Consequently, the net result attributable to the owners of the parent improved significantly.

Geographical segments

For the purpose of segment reporting by geographical areas, the information is presented based on the location of the booking entity (not the country of risk). In the case of information regarding a partial group, the allocation is based on the location of the respective parent entity according to the local management responsibility.

Geographical areas are defined according to the country markets in which Erste Group operates. Based on the locations of the banking and other financial institution participations, the geographical areas consist of two core markets, Austria and Central and Eastern Europe and a residual segment Other that comprises the remaining business activities of Erste Group outside its core markets as well as the reconciliation to the consolidated accounting result.

The geographical area **Austria** consists of three segments:

_ The **Erste Bank Oesterreich & Subsidiaries** (EBOe & Subsidiaries) segment comprises Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).
_ The **Savings Banks** segment is identical to the business segment Savings Banks.
_ The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Corporates and Group Markets business, Erste Group Immorent, Erste Asset Management and Intermarket Bank.

The geographical area **Central and Eastern Europe (CEE)** consists of six segments covering Erste Group's banking subsidiaries located in the respective CEE countries:

_ **Czech Republic** (comprising Česká spořitelna Group)
_ **Slovakia** (comprising Slovenská sporiteľňa Group)
_ **Romania** (comprising Banca Comercială Română Group)
_ **Hungary** (comprising Erste Bank Hungary Group)
_ **Croatia** (comprising Erste Bank Croatia Group) and
_ **Serbia** (comprising Erste Bank Serbia Group)

The residual segment **Other** covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), internal non-profit service providers (facility management, IT, procurement), the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economic equity allocated to the segments). Asset/Liability Management of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intercompany eliminations, dividend eliminations) are also part of the segment Other.

Austria

Economic review

The developed and open economy of Austria is well diversified across industries, benefiting from a high value adding industrial base, well-educated workforce and a strong tourism and service sector. Economic growth in 2017 was the strongest in six years, driven mainly by solid domestic consumption and increased investment activity. Net exports were also strong and contributed to economic growth. Consumer confidence indicators showed an upswing. The robust economic activity resulted in a decline of the unemployment rate; it reversed its negative trend and improved for the first time in five years. The unemployment rate declined to 5.5%. In terms of GDP per capita at EUR 42,000, Austria remained one of the wealthiest countries in the euro zone. Overall, real GDP grew by 2.9%.

Following early parliamentary elections in October 2017, a new coalition headed by the People's Party was formed. The fiscal position of the country remained stable and Austria kept its general government deficit at a relatively low level of 1.0%. Revenues were significantly supported by the inflows from personal income tax and higher social security contributions, which reflected the rise in employment. Government expenses increased only moderately, mainly due to lower debt service costs. Public debt as a percentage of GDP decreased from 83.6% in 2016 to 80.8% in 2017. Reflecting the country's performance, all major rating agencies affirmed their strong ratings for Austria. At year-end, Standard & Poor's and Fitch had the country's long-term credit rating with a stable outlook at AA+, Moody's at Aa1, also with a stable outlook.

Although the economic upswing led to increasing inflation, it remained at a moderate level. Property prices continued to rise moderately in 2017. The price increase in the service sector was most pronounced in tourism. Overall, average consumer prices increased by 2.2%. The European Central Bank continued its expansionary monetary policy and left the key interest rate untouched at 0% throughout 2017.

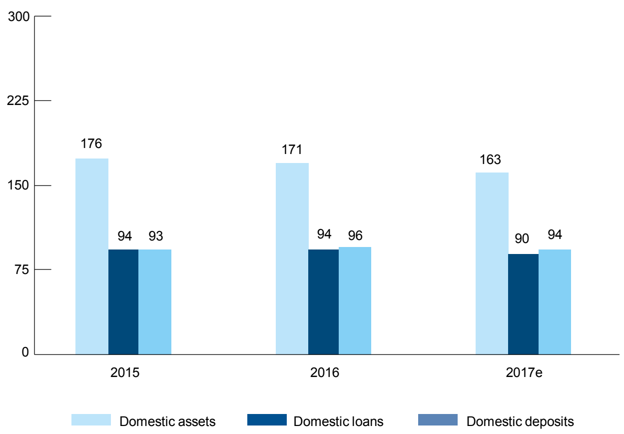
Key economic indicators – Austria	2014	2015	2016	2017e
Population (ave, million)	8.5	8.6	8.7	8.8
GDP (nominal, EUR billion)	333.1	344.5	353.3	369.2
GDP/capita (in EUR thousand)	39.0	39.9	40.4	42.0
Real GDP growth	0.8	1.1	1.5	2.9
Private consumption growth	0.4	0.8	1.7	1.3
Exports (share of GDP)	39.5	39.7	39.8	41.2
Imports (share of GDP)	41.0	41.2	4.2	43.1
Unemployment (Eurostat definition)	5.6	5.7	6.0	5.5
Consumer price inflation (ave)	1.5	0.8	1.0	2.2
Short term interest rate (3 months average)	0.1	0.0	-0.3	-0.3
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	2.5	1.9	2.1	2.2
General government balance (share of GDP)	-2.7	-1.0	-1.6	-1.0

Source: Erste Group

Market review

The Austrian banking market, with total assets of 224% of GDP in 2017, has the characteristics of a developed banking market. It remains very competitive and continues to suffer from low margins. Challenges to profitability also persist in the form of relatively high costs compared to banking markets in CEE. On the other hand, the country's banking market benefits from traditionally low risk costs and the significant reduction of the banking tax in 2017. The market continued to grow with customer loans expanding by 1.4% and deposits growing by 4.0% as of September 2017. The banking system's loan-to deposit-ratio ratio stood at 95.7%.

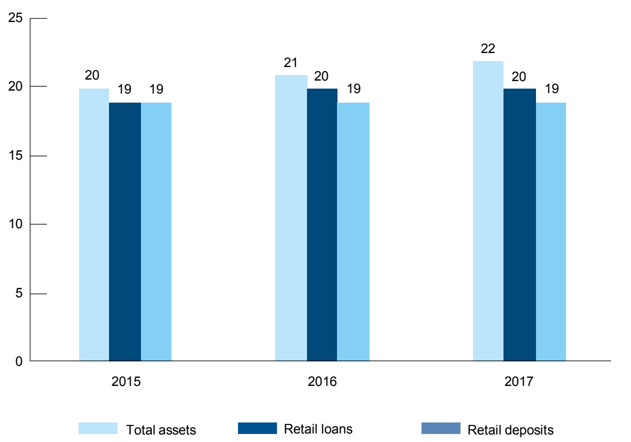
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank (data as of Q3 2017), Erste Group

The Austrian Supreme Court confirmed that, for consumer loans, with respect to the margin used to calculate the applicable interest rate, it is impermissible to fix a floor for such margin while not at the same time fixing a ceiling. Thus, banks are obligated to reimburse improperly-calculated interest to the affected consumers as well as to adjust the calculation of interest for future payments. At the same time, the Supreme Court confirmed that negative base rates in the loan markets cannot trigger a reversal of payment obligations.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank (data as of Q3 2017), Erste Group

Erste Bank Oesterreich and the savings banks continued to have a very strong market position in the Austrian market. Based on their balanced business model, they further increased their combined market shares to between 19% and 21% in both retail and corporate segments. Importantly, *George*, the digital banking platform developed by Erste Group Bank AG's in-house fintech, has already become the country's most modern and popular banking platform. Its 1.5 million users represents more than every third online banking user in Austria. Altogether, the market share of Erste Bank Oesterreich and the savings banks in terms of total assets stood at 22.0%. The three largest banking groups of the Austrian market continued to have a combined market share of than 60% in customer loans and deposits.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review – Highlights

Innovation in banking. By launching its digital platform *George* and the mobile App *George Go*, Erste Bank Oesterreich affirmed its position as innovation leader in the market. Mobile use of digital banking services has strongly increased. By year-end 2017, 1.5 million users had already signed up for *George*. *George* is being continuously expanded and also offers services for corporate customers.

The bank's digital offering also includes consumer loans and enables customers to open bank accounts using video identification.

New branch concept. The rollout of the new branch concept was continued. Simple business is dealt with quickly at newly designed service centres situated at high-frequency locations, along people's daily routes. For more complex customer needs, Erste Bank Oesterreich offers a wide range of products and services at its large advisory branches. For customers, this means clearly designed and welcoming branches, rooms for private meetings, faster handling of their requests and proactive support in the foyers entry areas. Customer satisfaction increased at all newly opened advisory branches.

High customer satisfaction, strong growth. Erste Bank Oesterreich regularly conducts customer surveys to maintain and further improve its high level of customer service quality. In 2017, best marks were achieved in all three satisfaction categories (satisfaction with the bank, the branch, the relationship manager) in both the retail and the corporate customers' segments. The number of newly acquired customers amounted to more than 43,000 (net).

Continued growth. Net loans increased again significantly in 2017. Small and medium-sized enterprises increasingly turned to Erste Bank Oesterreich to fund their investment spending. In the retail business, demand for mortgage loans remained high. Attractive offerings with fixed interest rates – also for longer maturities – allow Erste Bank Oesterreich's customers to benefit from and lock in low interest rates. Significantly more than half of all housing loans were granted at fixed interest rates. Consumer loans were also up significantly, which was attributable in particular to online consumer loans, which can be contracted quickly and easily through *George*.

International recognition. Erste Group won the prestigious *Best Private Bank in CEE* award conferred by the financial magazine *The Banker* for the fourth time in a row and was also recognised once again for *Best Private Banking in Austria*.

Financial review

in EUR million	2016	2017	Change
Net interest income	660.5	631.2	-4.4%
Net fee and commission income	334.6	353.8	5.7%
Net trading result	16.1	18.9	17.0%
Operating income	1,057.5	1,053.7	-0.4%
Operating expenses	-666.9	-679.6	1.9%
Operating result	390.6	374.1	-4.2%
Cost/income ratio	63.1%	64.5%	
Net impairment loss on financial assets	-29.3	26.1	n/a
Other result	-18.5	-27.5	48.3%
Net result attributable to owners of the parent	228.4	253.2	10.9%
Return on allocated capital	19.3%	21.1%	

Net interest income decreased due to a change in accrual policy at the building society, a change in the scope of consolidation and the effect of the implementation of supreme court rulings regarding negative reference interest rates for consumer loans, which was only partially compensated for by higher customer loan volumes and re-pricing of deposits. Net fee and commission income increased due to higher securities, payments and insurance fees, as well as a change in accrual policy at the building society. The net trading result increased slightly due to valuation effects of derivatives. Operating expenses increased mainly on the back of higher IT costs. The booking of deposit insurance contributions also rose to EUR 21.7 million (EUR 19.2 million). Consequently, operating result decreased and the cost/income ratio deteriorated. Net impairment loss on financial assets benefited from lower provisioning requirements in corporate and retail business. The deterioration of other result was driven by non-recurrence of the selling gains from buildings and related to the sale of shares in Visa Europe (EUR 12.2 million) in 2016 as well as by provisions for expected losses from loans to consumers due to Supreme Court rulings regarding negative reference interest rates (EUR 13.7 million). Banking tax decreased to EUR 3.3 million (EUR 44.4 million; including a one-off payment in the amount of EUR 30.0 million). Payment into the resolution fund decreased to EUR 6.1 million (EUR 7.2 million). Overall, the net result attributable to the owners of the parent improved.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich and Subsidiaries segment increased marginally to EUR 39.3 billion (+0.8%) while the volume of customer loans rose more visibly to EUR 31.8 billion (+2.4%). The share of this segment in Erste Group's total loan portfolio declined to 22.1% (23.0%). The share of retail customers in total loan volume was almost unchanged at 39.9% (40.0%). The share of corporates, including self-employed individuals and small businesses, was constant at 53.8% (53.9%). Loans to freelance professionals, other self-employed persons and small businesses are less significant than they are for the savings banks and amounted to 10.1% (9.8%) of total loans to customers. Lending to the public sector increased more substantially to EUR 2.0 billion (+6.4%). Owing to the continued campaign promoting the conversion of foreign currency loans to euro, the share of Swiss franc loans in the total loan portfolio decreased further to 5.0% (6.7%). The quality of the loan portfolio improved again. While low-risk loans registered above-average growth, non-performing loans as a percentage of total loans to customers declined to 2.0% (2.5%). The development was positive across all customer segments, but most visible among medium-sized and larger enterprises. Default rates remained lowest in the public sector and private households customer segments. The NPL coverage ratio based on loan loss provisions stood at 57.1% (59.3%).

SAVINGS BANKS

The geographical segment Savings Banks is identical to the business segment Savings Banks (see page 33).

Business review – Highlights

Growth in a low interest rate environment. Like Erste Bank Oesterreich, the savings banks also achieved significant growth in deposits and loans. Loans grew by 3.5%, while the increase in deposits was more pronounced at 6.6%. These growth rates were the result of the excellent customer support and high service quality but also the successful positioning as an innovative provider of banking services and the positive image that resulted from it.

Reducing complexity. The measures taken by the savings banks to further reduce the complexity of work processes and simplify the products offered not only create added value for the customers but will also improve the cost/income ratio over the medium term.

Innovation in banking. For the savings banks innovation is key to creating more value for customers and raising customer satisfaction. With *George*, Erste Bank Oesterreich and the savings banks have developed a modern platform that already boasts a large number of active users.

OTHER AUSTRIA

Business review – Highlights

Strong performance of Erste Asset Management. Erste Asset Management (Erste AM) continued to expand its business volume despite difficult market conditions. Assets under management rose to EUR 63.3 billion (+10.7%). In terms of assets under management Erste AM is market leader in Austria, Romania, the Czech Republic and now also in Croatia.

The *ERSTE BOND CORPORATE PLUS* fund launched at the end of 2016 is one of the most successful product innovations with an annualised performance of 8.5%. Erste AM expanded its range of sustainable products. In March 2017, it launched the *ERSTE RESPONSIBLE STOCK DIVIDEND* fund. The fund has been awarded the Austrian Ecolabel for meeting relevant sustainability criteria.

At the Austrian fund of funds awards, Erste AM received 16 awards and ranked first in five categories. EAM was also awarded the FNG label for ten of its sustainable funds. Created by Forum Nachhaltige Geldanlagen e.V. (FNG), the FNG label is the quality standard for sustainable financial investment in German-speaking countries.

Group Markets business. Group Markets activities comprise trading and markets services as well as the entire financial institutions customer business.

Erste Group was one of the bookrunning syndicate banks in the Initial Public Offerings (IPO) of Dino Polska on the Warsaw Stock Exchange and Waberer International on the Budapest Stock Exchange. In addition, Erste Group was a leading syndicate bank in the capital increase of Agrana, listed on the Vienna Stock Exchange.

Erste Group acted as joint bookrunner on the issuance of the EUR 3.5 billion century bond as well as the EUR 4 billion benchmark bond both issued by the Republic of Austria.

Commercial real estate business. Due to strong new business generation the portfolio volume remained stable despite growing competition for financing of real estate assets across Austria and CEE. The robust risk profile of the new business supported the continued improvement of the overall portfolio quality and diversification. More than half of the new business volume was attributable to Austria and the Czech Republic.

As a result of the consistent high service quality in the commercial real estate business, Erste Group was named *Lender of the Year* at the CEE Quality Awards.

Erste Group Immorent completed the development of the Enterprise Office building in Prague, which is considered a landmark office development and was sold with a significant profit. While the commercial real estate business was almost equally distributed between the asset classes logistics, office and retail, the share of financing of commercial development declined.

Group Corporates business. The integrated corporate banking business model benefits from profound sector know how of the local entities and a group-wide steering approach making it possible to utilise cross-selling opportunities.

Erste Group again demonstrated its syndicated loan capabilities domestically and internationally. Erste Group acted as coordinator, mandated lead arranger and bookrunner on a EUR 1 billion revolving credit facility for Novomatic, closing the deal with 13 international banks. Another example was the EUR 250 million loan for Egger Holzwerkstoffe, the subsidiary of a leading, Austrian based producer of wood composites. Erste Group acted as agent for a group of Egger's relationship banks.

In project finance, Erste Group focused on financing renewable energy projects in CEE. The wind power sector is a steady contributor to the financing pipeline, particularly in Croatia and Serbia. In Hungary, after years of stagnation, photovoltaic projects have gained in importance. The total project volume in various stages of debt financing in 2017 amounted to EUR 1 billion, mainly allocated to wind, solar and waste to energy projects.

Overall, Erste Group's successes in capital markets, corporate finance and transaction banking improved its market position in the large corporates business.

Group Research. In addition to its research publications, Erste Group organised institutional investor conferences in London, New York, Chicago and Stegersbach/Austria. Some 80 stock-listed companies of Erste Group's core markets in CEE attended the conference in Stegersbach.

Financial review

in EUR million	2016	2017	Change
Net interest income	401.6	372.2	-7.3%
Net fee and commission income	197.8	216.6	9.5%
Net trading result	18.3	50.7	>100.0%
Operating income	681.7	708.0	3.9%
Operating expenses	-355.5	-373.8	5.1%
Operating result	326.2	334.2	2.5%
Cost/income ratio	52.2%	52.8%	
Net impairment loss on financial assets	-23.5	-40.0	69.8%
Other result	25.6	3.4	-86.7%
Net result attributable to owners of the parent	248.1	228.6	-7.8%
Return on allocated capital	16.6%	15.5%	

Net interest income declined primarily as a result of lower income from credit trading positions in Group Markets business, a decrease of lending margins in the corporate loan portfolio in New York branch and the non-recurrence of a positive one-off impact in the real estate business in Austria. Net fee and commission income increased due to higher asset management volumes and a wider scope of consolidation at Erste Asset Management, as well as the inclusion of Intermarket Bank (reported as part of EBOe & Subsidiaries segment in 2016). The increase of net trading result was predominantly attributable to better performance of interest rate derivatives. Despite an increase in operating expenses, mostly driven by higher project costs, overall operating result improved. Cost/income ratio remained stable. Net impairment loss on financial assets increased as an effect of downgrading selected corporate customers. Other result deteriorated mostly due to higher off-balance provisions and a non-recurrence of the positive effect from the resolution of a claim in the previous year. This line item also included a resolution fund contribution of EUR 3.6 million (EUR 3.1 million). Overall, the net result attributable to the owners of the parent deteriorated.

Credit risk

Credit risk exposure in the Other Austria segment, which is almost completely made up of Erste Group Bank AG and Erste Group Immorent GmbH, declined further, albeit at a slower pace than in previous years, to EUR 28.8 billion (-1.1%) or to 12.7% (13.6%) of Erste Group's credit risk exposure. A large share of the business in this segment was accounted for by securities and investments with banks. Consequently, the share of loans to customers as a percentage of Erste Group's total loan portfolio was significantly lower than the contribution to credit risk exposure. In 2017, it was nearly unchanged at 9.1% (9.3%). While commercial real estate financing declined further to EUR 3.4 billion (-5.6%), loans to medium-sized enterprises and large corporates increased. Non-performing loans were up marginally, accounting for 5.6% (5.5%) of the total loan portfolio. Within the category of performing loans, there was a clear migration to better risk categories. The NPL coverage ratio based on loan loss provisions declined to 50.2% (63.9%).

Central and Eastern Europe

CZECH REPUBLIC

Economic review

The Czech Republic remained one of the most successful economies in Central Europe. With real GDP expanding by 4.5% and GDP per capita increasing further to EUR 18,200 the country's convergence towards more developed Western European economies continued. Although the Czech Republic is among the most open economies in the region, growth in 2017 was mainly supported by household consumption and investments. Consumption benefitted significantly from higher consumer confidence, lower unemployment and accelerating growth of real wages. Investments were positively impacted by a robust EU funds absorption rate and a labour market characterised by full employment, which incentivised enterprises to invest in automation. Economic recovery in the euro zone, which spurred demand for Czech exports, also played an important role in the economic development. Industrial production benefitted significantly from the strong performance of the automotive industry. Czech passenger car production increased by 5.2% to more than 1.4 million vehicles in 2017. Reflecting the strong economic performance, the unemployment rate decreased further to 2.9%, and remained the lowest in the European Union.

Parliamentary elections were held in October 2017. The ANO movement won the elections by a significant margin. The country's political landscape remained diverse as nine parties and movements passed the minimum electoral threshold of 5%. Despite 2017 being an election year fiscal prudence prevailed, as expressed by a budget surplus of 0.6%. State revenues were positively impacted by growing tax revenues due to measures addressing tax avoidance and higher social contributions. These developments more than offset the significant increase of public wages. Public debt as a percentage of GDP was again one of the lowest in Central and Eastern Europe and declined further to 33.9%. These economic developments were also acknowledged by Fitch which revised the country's outlook from stable to positive. At year-end, Fitch assessed the country's long term credit rating at A+, Standard & Poor's at AA- and Moody's at A1, the latter two with a stable outlook.

Inflation increased but remained within the Czech National Bank's range of 1% and 3%. Rising domestic demand, increasing wages, and higher food and services prices were partly counterbalanced by the strengthening of the Czech koruna following the Czech National Bank's decision in April 2017 to remove the exchange rate floor against the euro. Overall, the average consumer price index stood at 2.5%. Due to the favourable developments of the country's economy, the strong currency and increasing inflation the Czech National Bank decided to increase its key policy rate twice in the second half of 2017, from 0.05% to 0.5%. The Czech National Bank was the first in Central Europe to increase its key policy rate.

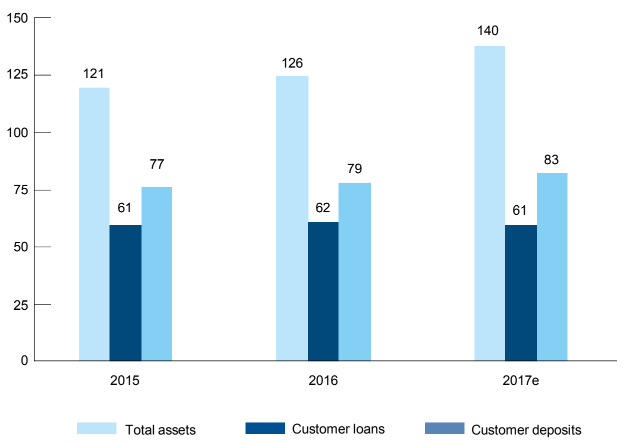
Key economic indicators – Czech Republic	2014	2015	2016	2017e
Population (ave, million)	10.5	10.5	10.6	10.6
GDP (nominal, EUR billion)	156.6	168.5	176.5	192.0
GDP/capita (in EUR thousand)	14.9	16.0	16.7	18.2
Real GDP growth	2.7	5.4	2.5	4.5
Private consumption growth	1.8	3.8	3.6	4.2
Exports (share of GDP)	75.1	74.8	75.2	76.0
Imports (share of GDP)	69.7	70.0	69.5	69.8
Unemployment (Eurostat definition)	6.2	5.1	4.0	2.9
Consumer price inflation (ave)	0.4	0.4	0.7	2.5
Short term interest rate (3 months average)	0.4	0.3	0.3	0.4
EUR FX rate (ave)	27.5	27.3	27.0	26.3
EUR FX rate (eop)	27.9	27.1	27.0	25.5
Current account balance (share of GDP)	0.2	0.2	1.1	1.2
General government balance (share of GDP)	-1.9	-0.4	0.5	0.6

Source: Erste Group

Market review

The Czech banking market benefitted from the positive macroeconomic environment and displayed rising demand for banking products. Supported by increased household consumption and improved consumer confidence, customer loans increased by 4.6%. Lending growth was attributable to both retail and corporate loans. Likewise, the 10.7% of customer deposit growth was equally balanced. Overall, the Czech banking market remained one of the most liquid in Central and Eastern Europe. The loan-to-deposit ratio across the banking sector stood at 74.0% at the end of 2017. The solid fundamentals were also demonstrated by the banking sector's total capital ratio of 19.3%. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits.

Financial intermediation – Czech Republic (in % of GDP)

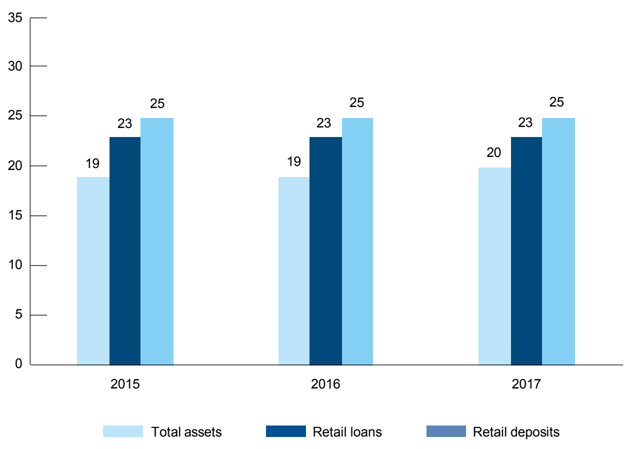


Source: Czech National Bank, Erste Group

Despite the low interest rate environment and margin pressure, the Czech banking market achieved another very profitable year. Positive asset quality trends continued and the ratio of non-performing loans declined to 4.0%, one of the lowest in the European Union. The sector's strength was demonstrated by the return on equity of 17.0%. Regulatory topics also played a significant role in the development of the Czech banking market throughout 2017. The Czech National Bank decided to further increase the countercyclical capital buffer to 1.25% as of 2019 and set stricter lending rules on secured loans regarding loan to value, debt to income, and debt service to income ratios.

Česká spořitelna maintained its market leadership positions across all product categories. Its retail market shares ranged from 23% to 28%, while its market shares in the corporate segment increased to above 20%. Česká spořitelna increased its market shares both in retail and corporate lending. The company retained its top position in consumer lending, including the credit card business, with a market share of 28.3%. Česká spořitelna further strengthened its strong position in asset management products, with a market share of approximately 26%, the highest in the country. Overall, its market share in terms of total assets stood at 19.8%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Business review – Highlights

Innovation and focus on customer relationships. Česká spořitelna puts a strong emphasis on the development of digital banking and improving customer satisfaction. The bank introduced *George* and more than 250,000 customers signed up during the pilot phase. The paperless loan and the online mortgage allow customers to finalise the loan application fully online, thus significantly reducing processing times.

My Healthy Finance, the bank's flagship retail banking service, extended its advisory services to the mass market segment. Overall, 720,000 customers signed up for the service by the end of the year. Thanks to *My Healthy Finance* Česká spořitelna improved customer satisfaction further, and the number of transactions done through digital channels increased significantly.

Success in mortgage and consumer lending. Česká spořitelna achieved double-digit growth in mortgage loans and retained its number two position on the market.

The positive economic situation and offerings of Česká spořitelna are also reflected in the consumer loan portfolio, the bank confirmed its number one position on the consumer loan market.

Solid performance in corporate business. Over the years, the bank has developed specialised programmes for individual industrial sectors focusing on smaller and medium-sized enterprises. The newly introduced offering *Easy Loan* significantly increased the business volume with SMEs. Due to an improved and accelerated credit application process, Česká spořitelna increased corporate loans substantially.

International and local recognition. Česká spořitelna has again received multiple awards. It was named *Best Bank* in the Czech Republic in the *Euromoney Awards for Excellence* and Erste Private Banking won the *World Finance award* for best private banking in the Czech Republic. Česká spořitelna defended the *Most Trustworthy Bank* in the prestigious competition Bank of the Year. In the *Golden Crown Competition*, it won awards for social responsibility, mortgages, supplementary pension savings and its building-society loans.

Financial review

in EUR million	2016	2017	Change
Net interest income	914.3	942.3	3.1%
Net fee and commission income	344.3	334.4	-2.9%
Net trading result	107.2	103.9	-3.0%
Operating income	1,384.5	1,393.4	0.6%
Operating expenses	-671.2	-692.8	3.2%
Operating result	713.3	700.6	-1.8%
Cost/income ratio	48.5%	49.7%	
Net impairment loss on financial assets	-70.5	-1.3	-98.2%
Other result	27.7	-35.2	n/a
Net result attributable to owners of the parent	542.0	532.9	-1.7%
Return on allocated capital	31.1%	26.3%	

The segment analysis has been performed on a constant currency basis. The CZK appreciated by 2.6% against the EUR in the reporting period. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) increased primarily due to rising interest rates and higher loan volumes. Net fee and commission income went down on the back of lower payment and lending fees as well as non-recurrence of the one-off positive impact from release of provisions for the customer incentive program in 2016. These developments were partially offset by higher fees from asset management and insurance brokerage. Net trading result decreased driven by lower derivative valuation results. Higher personnel and project-related costs led to an increase in operating expenses. Deposit insurance contributions amounted to EUR 8.3 million (EUR 7.4 million). Operating result thus decreased, the cost/income ratio went up. The decline of net impairment loss on financial assets was attributable to an improvement in corporate and retail portfolio quality resulting in releases of risk provisions. The other result deteriorated mainly due to the non-recurrence of last year's selling gains on the shares of VISA Europe in the amount of EUR 52.6 million. The resolution fund contribution amounted to EUR 16.2 million (EUR 14.7 million). Overall, these developments led to a decrease in the net result attributable to the owners of the parent.

Credit risk

Credit risk exposure in the Czech Republic segment rose significantly to EUR 45.2 billion (+23.6%) on the back of the benign economic environment, a substantial increase in the money market business and the 5.4% appreciation of the Czech koruna against the euro. Loans to customers rose at a slightly slower pace to EUR 25.5 billion (+16.2%), with growth almost evenly split between the retail and the corporate business. Customer loan volume as a percentage of Erste Group's total loans to customers increased to 17.8% (16.2%). In terms of business volume, the Czech Republic is thus still by far the second most important market for Erste Group after Austria. The quality of customer loans was significantly better than in Erste Group's other core markets in Central and Eastern Europe. Due to proactive and effective credit risk management, non-performing loans as a percentage of the total customer loan portfolio decreased to 2.1% (3.2%), which continued the positive development of recent years. Improvements were seen in all customer segments but most notably among corporate customers. Default rates were again lowest in the retail segment. The NPL coverage ratio based on loan loss provisions increased substantially to 92.5% (82.8%).

SLOVAKIA

Economic review

The Slovak economy displayed again a strong performance in 2017. Economic growth was mainly driven by robust household consumption. Investments also contributed to the favourable economic development. Consumption benefitted from further improvement in the labour market, growing real wages, and moderate inflation. Employment growth remained solid as the unemployment rate declined to a record low of 8.1%. Investments were supported by the expansion and construction of further automotive plants. Slovakia remained the world's top car producer per capita, and automotive was again the largest industry in Slovakia with a share of around 10% of the Slovak GDP. Overall, real GDP grew by 3.4%, while GDP per capita amounted to EUR 15,600 in 2017.

The fiscal position of Slovakia continued to improve. VAT and personal income tax revenues benefited from improving private consumption and labour market conditions. Higher ceiling amounts on social and healthcare contributions also played a role in the fiscal developments. As a result, the fiscal deficit declined from 2.2% to 1.5%. The country's public debt as a percentage of GDP remained low at 51.1%.

Slovakia experienced mild inflation in 2017 as consumer prices increased after three consecutive years of deflation. Inflation was impacted by higher food and services prices while energy prices declined on the back of lower electricity prices. Reflecting the upward pressure of the tightening labour market, nominal wage growth accelerated to 4.6%, the fastest rate since 2008. Overall, average consumer prices increased by 1.3%. The positive macroeconomic developments were recognised by Moody's which changed the country's outlook from stable to positive. As of the end of 2017, Moody's kept the country's long-term credit rating at A2, Standard & Poor's and Fitch, both with a stable outlook, at A+.

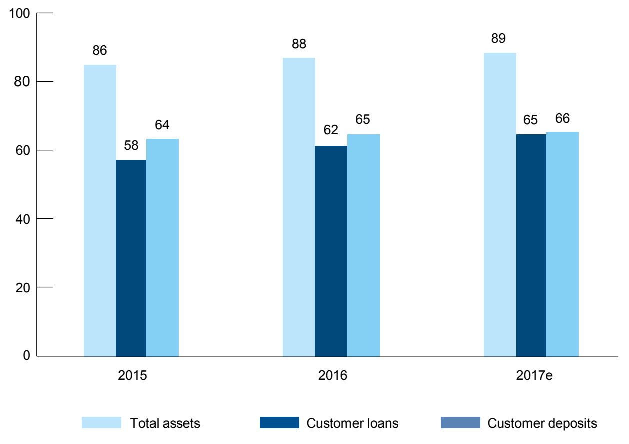
Key economic indicators – Slovakia	2014	2015	2016	2017e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	76.1	78.9	81.2	85.0
GDP/capita (in EUR thousand)	14.0	14.5	14.9	15.6
Real GDP growth	2.8	3.9	3.3	3.4
Private consumption growth	1.4	2.3	2.6	3.7
Exports (share of GDP)	82.2	81.9	82.8	84.1
Imports (share of GDP)	78.6	80.6	80.7	82.6
Unemployment (Eurostat definition)	13.2	11.5	9.6	8.1
Consumer price inflation (ave)	-0.1	-0.3	-0.5	1.3
Short term interest rate (3 months average)	0.2	0.0	-0.3	-0.3
Current account balance (share of GDP)	1.1	-1.7	-1.5	-0.9
General government balance (share of GDP)	-2.7	-2.7	-2.2	-1.5

Source: Erste Group

Market review

The positive macroeconomic environment continued to favourably impact the country's banking market. Customer loans increased by 9.6%, with the retail business growing by 12.0% and corporate loans by 6.9%. Customer deposits, driven by both retail and corporate businesses, rose by 5.3%, resulting in a loan-to-deposit ratio of 99.3%. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits. Consolidation of the sector continued with Sberbank's Slovak subsidiary merging with Prima banka. The banking sector remained well capitalised with a capital adequacy ratio of 18.6%.

Financial intermediation – Slovakia (in % of GDP)

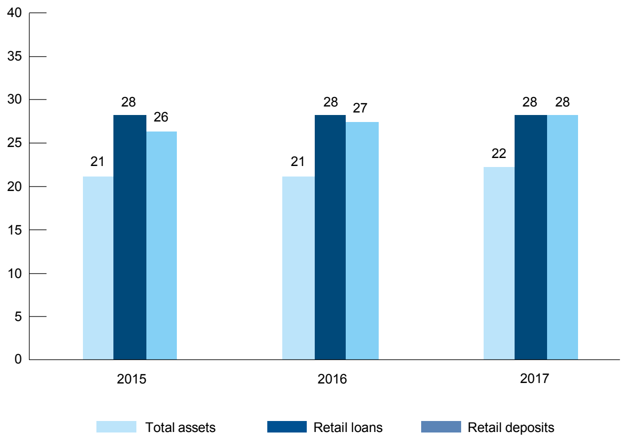


Source: National Bank of Slovakia, Erste Group

Despite suffering from the low interest rate environment, banking tax and regulatory changes, Slovakia's banking sector continued to be profitable in 2017. Low interest rates led to a decline in the net interest margin but also supported the positive asset quality trends throughout the year. The NPL ratio decreased further to 3.7%. Banks continued to pay banking tax at 0.2% of total liabilities excluding equity and subordinated debt. Overall, the sector's return on equity stood at 7.8% at the end of 2017.

Slovenská sporiteľňa successfully retained its leading market positions. The bank continued to control one fifth of the country's banking market in terms of total assets and led the market in retail loans and deposits. In the retail loan business, the bank's market share amounted to 27.7%. At 13.1%, its market share in corporate deposits was significantly lower than in retail deposits, which stood at 27.6%. Slovenská sporiteľňa maintained its strong position in asset management products with a market share of more than 25%.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Business review – Highlights

New branch and advisory concept. Slovenská sporiteľňa continued its emphasis on redesigning the branch network and remodelling the advisory concept. Another 30 branches were redesigned and more than 20 deposit ATMs were installed, allowing customers not only to withdraw but also to deposit cash.

Following the reduction of purely transaction-related business at the branches, waiting times were reduced and previously tied capacities were freed-up for advisory services. The bank also intensified the usage of tablets by branch advisors. Tablets facilitate service interactions like discussions of financial needs or information about products. In addition, the usage of tablets simplifies the sales process, particularly for opening savings accounts and a newly introduced consumer loans offering. Overall, more than two million customer dialogues were supported by tablets in 2017, leading to substantially higher client activation. In addition, customer satisfaction improved substantially on the back of the new advisory concept.

Sales performance through digital channels. Slovenská sporiteľňa continued its innovation efforts and doubled the sales volume of consumer loans, overdrafts and credit cards in digital banking to more than EUR 100 million.

In the fourth quarter, the bank launched the pilot phase of the digital platform *George*. The roll-out is scheduled for 2018.

Focus on insurance products. Slovenská sporiteľňa increasingly offered its customers insurance products. In doing so, it reacted to the high demand, in particular for non-life insurance products, like household insurance or payment protection insurance. In addition, the bank piloted pension insurance in two regions. Following the success of this product launch, it is planned to rollout this offer into other regions in 2018.

Banking for corporate customers. The bank continued its focus on process improvements, rolling out a new integrated loan processing system. It aims at increasing efficiency through simplifying the lending process. *Business 24*, the digital banking channel for corporate customers, was further upgraded and now includes additional features for payment card management. In addition, a new and easy to use cash management and financial service tool, *Erste Confirming*, was introduced.

International and local recognition. Slovenská sporiteľňa was again awarded multiple prizes. It was named *Bank of the Year* in Slovakia by the financial magazine *The Banker* and ranked second in the *TREND Top Bank* of the Year. The bank also received the *Bank without barriers* award for the third consecutive year, and it ranked first in a survey conducted by the portal Profesia.sk as the country's best employer in the category banking, finance and insurance industry.

Financial review

in EUR million	2016	2017	Change
Net interest income	453.0	434.3	-4.1%
Net fee and commission income	121.7	112.7	-7.4%
Net trading result	13.5	13.8	2.3%
Operating income	595.4	568.7	-4.5%
Operating expenses	-275.1	-281.1	2.2%
Operating result	320.4	287.6	-10.2%
Cost/income ratio	46.2%	49.4%	
Net impairment loss on financial assets	-48.2	-30.1	-37.7%
Other result	11.0	-39.5	n/a
Net result attributable to owners of the parent	213.3	166.2	-22.1%
Return on allocated capital	33.7%	24.7%	

Net interest income in the Slovakia segment (comprising Slovenská sporitel'ňa Group) decreased mainly due to a lower asset/liability management contribution driven by the low interest rate environment and lower loan margins in retail business that were not fully compensated for by higher loan volumes and re-pricing of deposits. Net fee and commission income went down due to lower lending and point-of-sale maintenance fees due to the sale of the card-acquiring business in 2016. Net trading result remained stable. Operating expenses increased on the back of higher personnel and IT expenses, which was partially compensated for by lower deposit insurance contributions of EUR 0.8 million (EUR 2.5 million). Overall, operating result decreased, the cost/income ratio deteriorated. Net impairment loss on financial assets decreased mainly due to a release of provisions in the corporate business. The other result declined mainly due to the non-recurrence of last year's selling gains on the shares of VISA Europe in the amount of EUR 26.8 million. The payment into the resolution fund decreased to EUR 2.8 million (EUR 4.0 million). Banking tax amounted to EUR 27.4 million (EUR 25.1 million). Overall, the net result attributable to the owners of the parent declined.

Credit risk

Credit risk exposure in the Slovakia segment rose to EUR 17.3 billion (+10.2%). Loans to customers increased to EUR 12.0 billion (+14.2%). Slovakia was thus one of the most dynamic segments of Erste Group. Its share of Erste Group's total loan portfolio rose to 8.4% (7.8%). The breakdown of the portfolio by customer segment shows a slight shift towards corporate loans. The share of loans to private households amounted to 72.6% (73.3%) of total customer loans and was again significantly larger than in other geographical segments. This customer mix also explains the large share of secured business of 58.8% of the entire loan portfolio, which exceeds that of other Central and East European core markets. The NPL ratio declined to 3.8% (4.5%). Asset quality improved across all customer segments. The NPL coverage ratio based on loan loss provisions rose to 79.7% (72.1%).

ROMANIA

Economic review

The Romanian economy posted the fastest growth rate among Central European countries in 2017. This performance was driven by surging household consumption on the back of tax cuts and a substantial wage increase in the public sector. The unemployment rate declined further to 5.0%, the lowest level in the last 20 years. Investments also made a positive contribution to growth, mainly supported by the private sector. The good performance of the agricultural sector also played an important role.. Net exports did not contribute to economic growth, despite the robust performance of the industrial sector, including automotive. Overall, real GDP grew by 7.0%, GDP per capita amounted to EUR 9,500.

The political environment was volatile throughout 2017. The short governmental tenures limited the implementation of necessary structural reforms, especially in tax collection, public investments and EU funds absorption. The fiscal policies remained loose as the government increased wages in the public sector and cut VAT to 19%. At 3.0%, the budget deficit remained within the target of 3% of GDP. Public debt as a percentage of GDP decreased to 36.3%, a low level compared to some other countries in the region. As of the end of 2017, Standard & Poor's and Fitch had the country's long-term credit rating with a stable outlook at BBB-, Moody's, also with a stable outlook, at Baa3.

After two consecutive years of deflation, price levels started to increase in 2017. Despite the cut in VAT and lower excise duties on fuel, average consumer prices increased by 1.3%, slightly less than the national bank's target of 1.5% to 3.5%. The widening current account deficit and statements from the central bank regarding greater flexibility in foreign exchange rate control led to a weakening of the Romanian leu in the fourth quarter. The currency then traded between 4.6 and 4.7 against the euro, after a previous stable range of 4.4 and 4.5. The national bank kept its policy rate at 1.75% throughout the year but lowered the mandatory reserves for foreign exchange liabilities to 8%.

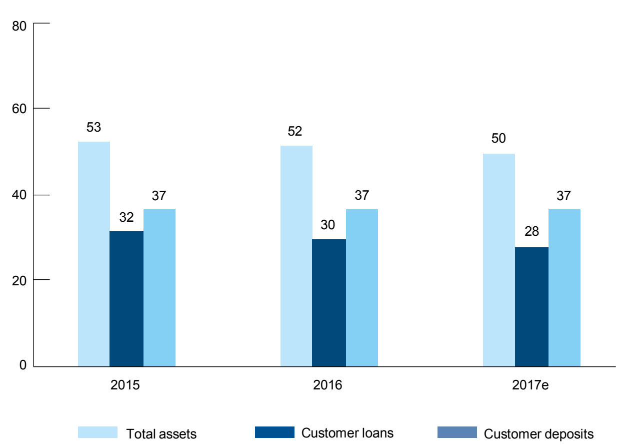
Key economic indicators – Romania	2014	2015	2016	2017e
Population (ave, million)	19.9	19.9	19.8	19.8
GDP (nominal, EUR billion)	150.3	160.3	169.8	187.5
GDP/capita (in EUR thousand)	7.5	8.1	8.6	9.5
Real GDP growth	3.1	4.0	4.8	7.0
Private consumption growth	4.4	5.7	7.3	8.8
Exports (share of GDP)	34.9	34.1	33.8	33.4
Imports (share of GDP)	38.9	39.3	39.7	40.3
Unemployment (Eurostat definition)	6.8	6.8	6.0	5.0
Consumer price inflation (ave)	1.1	-0.6	-1.5	1.3
Short term interest rate (3 months average)	2.5	1.3	0.8	1.2
EUR FX rate (ave)	4.4	4.4	4.5	4.6
EUR FX rate (eop)	4.5	4.5	4.4	4.4
Current account balance (share of GDP)	-0.7	-1.2	-2.1	-3.4
General government balance (share of GDP)	-1.4	-0.8	-3.0	-3.0

Source: Erste Group

Market review

The Romanian banking market benefitted from the macroeconomic developments and revived demand for banking products. Customer loans moved up 4.9%. In the retail segment, mortgages grew faster than consumer loans. The government-guaranteed mortgage programme Prima Casa continued to be important. In the corporate segment, lending grew mainly as a result of a pick-up in investment loans in large corporates. In addition, banks reviewed lending criteria regarding tenor and loan-to-value ratios after the initial tightening in the previous year following adoption of the walkaway law (datio in solutum). Customer deposits increased by 10.4%, mainly due to demand for current and savings accounts as a result of higher disposable income. The banking system's loan-to-deposit ratio dropped further to 76.8% at the end of 2017.

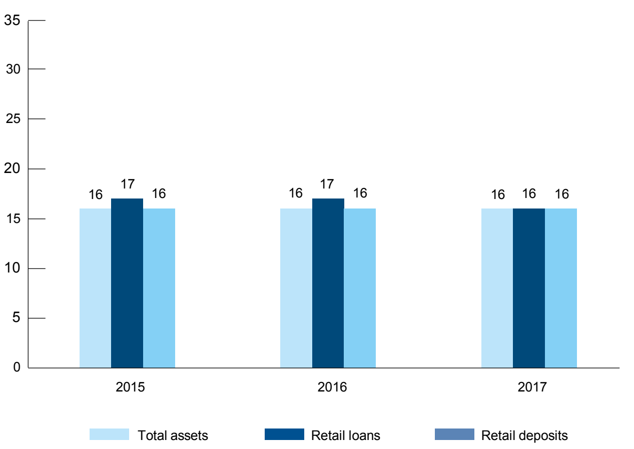
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

The profitability of the country's banking market improved, partially due to lower risk provisions. Asset quality improved, mainly driven by the continued resolution of non-performing loans as well as the positive macroeconomic backdrop such as the low interest rate environment, higher wages, and improved job market. Financial institutions continued to implement efficiency measures, including further workforce reductions, network optimisation and automation. Overall, the sector achieved a return on equity of 12.7%. The banking sector's consolidation continued as Banca Transilvania acquired Bancpost. The Romanian banking sector continued to be strongly capitalised with a total capital ratio of 18.9% at the end of the year.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Banca Comercială Română remained the largest bank in the country. As of the end of 2017, the bank was ranked number one by total assets, customer loans, customer deposits and asset management. The bank defended its market leader position in Prima Casa, with a share of approximately 25%. Banca Comercială Română's customer loan market share, however, decreased to 14.1%, most visibly in the corporate sector in which the market share stood at 12.1%. The customer deposit market share remained stable at 15.7%. In terms of total assets, Banca Comercială Română had a market share of 15.8%.

Business review – Highlights

Success in retail and SME lending. The bank's leading position in mortgage lending, particularly in the Prima Casa programme and the acceleration in standard mortgage sales, drove the increase in retail loans. Micro lending started to recover, following a new service model implementation and the launch of more transactional-oriented new bundles, as well as the active participation of the bank by offering bridge loans in the state-subsidised *Start-up Nation* programme. On the back of expected interest rate increases, Banca Comercială Română promoted fixed-interest loans for both secured and unsecured loans to provide its retail customers with a higher degree of predictability and transparency, an offer which was well received by customers.

The bank also focused its lending activity on its corporate and SME business. Within the corporate loan book, working capital loans declined while investment finance increased. As a result of the bank's intensified efforts in client acquisition and activation, net loans to SME customers increased by more than 10%.

Customer satisfaction and contact center activity. Banca Comercială Română focused on increasing customer satisfaction and service excellence. In line with the new cashless branch concept, the bank started to implement a more active contact center approach. The contact center now has the role to ensure the interface between digital banking and the service in branches by offering a more relevant support in advisory as well as selling products and services. These efforts resulted in particular in a higher volume of unsecured loans and also in a higher number of current accounts opened and insurance products sold.

Innovation and digital banking. Data excellence is the basis for future growth and makes it possible to respond not only more effectively to regulatory requirements but also to customer needs. To further improve efficiency, Banca Comercială Română introduced, as the first bank in the country, the RPA (Robotic Process Automation) technology for some repetitive tasks in the back-office area.

The mobile banking offering was redesigned by adding new features. Furthermore, it is now possible to open current accounts and term deposits fully online. The number of internet banking users exceeded one million. The next step will be the implementation of *George*, which is planned for 2018.

International and local recognition. Banca Comercială Română was named the *Best Retail Bank in 2017* by the local financial magazine *Piata Financiara*. It also won the Romanian *PR Silver Award for Excellence* for the project Banking Language Understood by Everyone, the *Excellence Award of the Romanian CSR* awards for its Goodness Stock Exchange, the only free of charge donation platform in the country, and the *Best Office Lease of the Year* award for its new headquarters.

Financial review

in EUR million	2016	2017	Change
Net interest income	374.9	365.5	-2.5%
Net fee and commission income	157.9	153.4	-2.9%
Net trading result	70.3	77.3	10.0%
Operating income	615.7	611.5	-0.7%
Operating expenses	-349.8	-338.0	-3.4%
Operating result	266.0	273.5	2.8%
Cost/income ratio	56.8%	55.3%	
Net impairment loss on financial assets	62.4	-7.1	n/a
Other result	-90.7	-88.9	-2.0%
Net result attributable to owners of the parent	199.5	120.7	-39.5%
Return on allocated capital	21.6%	12.5%	

The segment analysis has been performed on a constant currency basis. The RON depreciated by 1.7% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) decreased mainly due to lower income from lending business and lower unwinding effects. Net fee and commission income decreased on the back of lower transaction and account maintenance fees in the retail business. The increase in net trading result was mostly attributable to foreign currency positioning and derivatives revaluation. Operating expenses decreased on the back of the significantly lower deposit insurance fund contribution of EUR 2.2 million (EUR 14.5 million). Overall, operating result increased and the cost/income ratio improved. Despite the non-recurrence of last year's high net provision releases, the net impairment loss on financial assets remained low. Other result improved due to a significantly lower level of provisions for litigations despite higher resolution fund contribution of EUR 14.2 million (EUR 4.5 million) and the non-recurrence of last year's selling gains on the shares of VISA Europe in the amount of EUR 24.3 million. Overall, the net result attributable to the owners of the parent decreased.

Credit risk
Credit risk exposure in the Romania segment was almost stable at EUR 14.1 billion (-0.1%) while loans to customers declined slightly to EUR 7.8 billion (-1.7%). This represented a share of 5.4% (5.8%) of Erste Group's total loans to customers. The decline in the loan portfolio was mainly attributable to extensive write-downs of non-performing loans. Sales in the secondary market played a much lesser role than in the previous years. The share of foreign currency loans decreased to 45.8% (49.1%) and was almost completely denominated in euro, as the state-guaranteed Prima Casa programme was initially denominated in euro. Due to the ongoing clean-up of the portfolio, the NPL ratio declined further to 8.1% (11.8%), with non-performing corporate loans down even more sharply. The breakdown by customer segment shows that asset quality was again the highest in loans to private households. The NPL coverage ratio based on loan loss provisions rose to 92.7% (85.3%).

HUNGARY

Economic review
The Hungarian economy again performed well in 2017. Economic growth was driven mainly by household consumption, which benefitted from higher consumer confidence, increasing real wages, and continued positive trends in the labour market. Despite imports growing faster than exports, Hungary maintained a positive trade balance and a significant current account surplus. Investments were positively impacted by a strong EU funds absorption rate. Industry, construction, and services performed well, while agriculture was a drag on growth. The unemployment rate declined further and stood at a record low of 4.2%, among the lowest in the European Union. Overall, the Hungarian economy grew by 4.0%, while GDP per capita increased to EUR 12,600.

The fiscal position of the country remained solid in 2017. Despite tax cuts such as lowering the employers' social security contributions and corporate income tax, the general government balance remained well within the Maastricht limits. The minimum wage was increased. These measures were to a large extent compensated by higher revenues such as additional tax receipts on the back of wage growth and the decline of interest payments and social spending. Public debt as a percentage of GDP decreased further to 72%. Rating agencies acknowledged the performance of the Hungarian economy with Standard & Poor's and Fitch upgrading the outlook from stable to positive and affirming the country's long-term rating at BBB-. Moody's rated the country's long-term credit worthiness at Baa3 with a stable outlook.

Inflation increased but remained within the national bank's target range of 2% to 4%. This development was driven mainly by higher prices for food, tobacco and alcoholic beverages, which was counterbalanced by flat energy prices. Overall, average consumer prices increased by 2.4%. The Hungarian forint was relatively stable against the euro, trading between 305 and 315 throughout the year. The National Bank continued its expansionary monetary policy and kept the base rate at a record low of 0.90% and pushed interbank interest rates (BUBOR) very close to 0%.

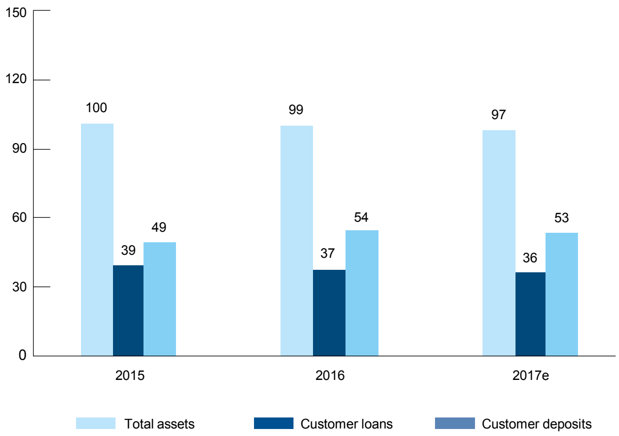
Key economic indicators – Hungary	2014	2015	2016	2017e
Population (ave, million)	9.9	9.9	9.8	9.8
GDP (nominal, EUR billion)	105.6	110.8	113.7	123.5
GDP/capita (in EUR thousand)	10.7	11.2	11.6	12.6
Real GDP growth	4.2	3.4	2.2	4.0
Private consumption growth	2.4	3.4	3.8	4.1
Exports (share of GDP)	87.7	90.2	89.6	89.9
Imports (share of GDP)	81.3	81.4	79.5	81.0
Unemployment (Eurostat definition)	7.7	6.8	5.1	4.2
Consumer price inflation (ave)	-0.2	-0.1	0.4	2.4
Short term interest rate (3 months average)	2.4	1.6	1.0	0.1
EUR FX rate (ave)	308.7	309.9	311.5	309.2
EUR FX rate (eop)	314.9	313.1	311.0	310.1
Current account balance (share of GDP)	1.5	3.5	6.1	3.5
General government balance (share of GDP)	-2.1	-1.6	-1.8	-2.0

Source: Erste Group

Market review
Hungary's banking sector benefitted further from a positive macroeconomic environment and a significant improvement in business sentiment. Lending growth was stimulated primarily by economic growth and increased consumer confidence. Overall, customer loans rose by 5.2%. Growth in the retail sector was driven primarily by an increase of 3.9% in mortgage loans. In addition to the Home Purchase Subsidy Scheme for families implemented in 2015, a new consumer friendly mortgage product was introduced in 2017. These mortgage loans have standard terms defined by the National Bank of Hungary such as interest margin and mortgage fee ceilings and tenors of three, five and ten years. New disbursement growth in retail lending was substantial in 2017 but was partially offset by a high level of early repayments. Corporate loans increased by 9.8%, mainly driven by lending to SMEs. At 5.2%, customer deposits grew in line with customer loans. Similar to the lending market, the corporate deposit segment grew more quickly than the retail segment. Overall, the banking system's loan-to-deposit ratio stood at 69.0% at the end of the year.

The Hungarian banking sector remained profitable in 2017. The low interest rate environment continued to weigh on revenues. The country's banking market kept costs under control partly compensating declining revenues. Risk provisions declined substantially on the back of net provision releases and favourable macroeconomic indicators. The banking tax, calculated on the basis of total assets of 2015, was further reduced to 21 basis points. Overall, the banking sector's return on equity rose to 16.1% in 2017. Consolidation of the sector continued without changing the positions of the main market players. The Hungarian banking sector continued to be well capitalised with a capital adequacy ratio of more than 20%.

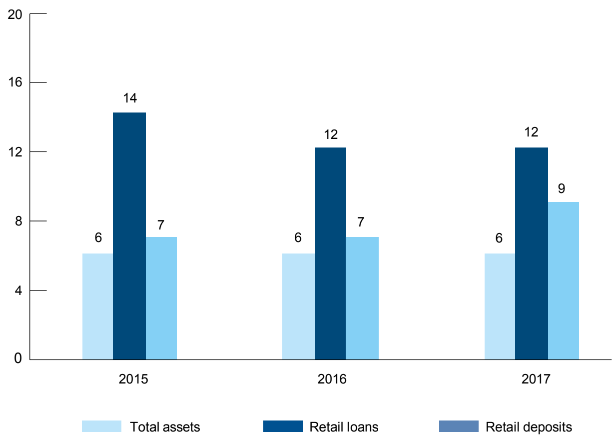
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

Erste Bank Hungary continued to be a major market player in the country and increased its presence further with the acquisition of Citigroup's local retail portfolio. The bank's market share for customer loans increased to 9.3% with the retail sector remaining at a higher share than the corporate sector. Customer deposit market share increased to 7.5%. Overall, Erste Bank Hungary's total assets market share increased to 5.9%.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Business review – Highlights

Implementation of new branch model. Erste Bank Hungary started the implementation of a new branch concept. Cash desk areas are replaced by an appealing reception area in the centre of the branch. As a result of fewer administrative tasks, resources are freed up for advisory activity, leading to higher customer satisfaction.

Growth in retail and corporate lending. Erste Bank Hungary was one of the first banks, whose consumer friendly mortgage product was approved by the National Bank of Hungary. Increasing household consumption supported consumer lending growth.

The bank performed particularly well in corporate lending, increasing its net loans to corporate customers by 32.5%. Although early repayments remained relatively high, net customer loans rose by 11.1%.

International and local recognition. Erste Bank Hungary won the Randstad's *Employer Brand Research Special Award* for the most attractive employer in the banking industry in Hungary in 2017, and it ranked 3rd in the *Bank of the Year* competition.

Financial review

in EUR million	2016	2017	Change
Net interest income	173.4	198.4	14.4%
Net fee and commission income	141.8	157.4	11.0%
Net trading result	22.2	37.7	70.0%
Operating income	340.3	395.0	16.1%
Operating expenses	-195.6	-220.8	12.9%
Operating result	144.8	174.2	20.3%
Cost/income ratio	57.5%	55.9%	
Net impairment loss on financial assets	91.7	35.1	-61.7%
Other result	-93.4	-28.6	-69.4%
Net result attributable to owners of the parent	133.6	164.9	23.4%
Return on allocated capital	27.1%	29.3%	

The segment analysis has been performed on a constant currency basis. The HUF appreciated by 0.7% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) increased on the back of the acquisition of Citibank's retail portfolio (predominantly unsecured loans) and a decreased unwinding contribution. Net fee and commission income rose due to higher card, payments and securities fees in the retail business supported by the former Citibank portfolio. Net trading result improved mainly due to the higher contribution of derivatives. Operating expenses increased primarily due to additional costs related to the former Citibank business and IT expenses. The contribution to the deposit insurance fund amounted to EUR 8.7 million (EUR 7.4 million). Consequently, operating result and the cost/income ratio improved. A lower net release of risk provisions (net impairment loss on financial assets) was posted both in retail and corporate business. Other result improved on the release of provisions for litigations, higher selling gains from securities and shares in VISA Inc. and Mastercard Inc. as well as lower banking levies of EUR 55.3 million (EUR 57.0 million). This line item also included the contribution to the resolution fund of EUR 1.9 million (EUR 1.8 million). Overall, the net result attributable to the owners of the parent improved.

Credit risk

Credit risk exposure in the Hungary segment rose significantly to EUR 7.9 billion (+17.3%). After contracting for several years, loans to customers likewise registered growth, rising to EUR 3.8 billion (+8.3%). The share of the Hungary segment in Erste Group's total loans to customers was stable at 2.6%. While loans to private households were slightly down, loans to corporates increased to approximately EUR 1.6 billion (+21.6%). The share of loans denominated in Hungarian forint amounted to 75.7% (79.5%). Asset quality again improved substantially. Non-performing loans as a percentage of total loans to customers declined to 5.5% (9.7%), with the corporate business showing the sharpest reduction of the NPL ratio to 1.7% (8.9%). The NPL coverage ratio based on loan loss provisions rose significantly to 89.3% (75.0%).

CROATIA

Economic review

The Croatian economy continued to perform well in 2017. Domestic demand, in particular private consumption, remained strong and contributed significantly to the performance of the country. Consumption benefited from higher disposable income, revived credit growth, and resilient consumer sentiment. However, the restructuring of the conglomerate Agrokor, which almost became insolvent and had to be bailed out by the state, impacted spending. Investments performed well and the well-developed tourism industry had another excellent year with overnight stays expanding in mid-single digit rates. The unemployment rate declined further to 11.3%, still high compared to other countries in CEE. Overall, real GDP grew by 2.8% and GDP per capita increased to EUR 11,300.

After a period of political uncertainty, a new government was formed in June 2017. The fiscal performance improved further, revenues were to a significant degree driven by VAT and corporate income tax. Pressure on the expenditure side was largely contained partially due to lower social transfers. The general government balance stood at 0.3% and public debt as a percentage of GDP declined to 78.7%. In 2017, both Fitch and Moody's upgraded their outlook to stable, affirming the long-term credit ratings at BB+ and Ba2, respectively. Standard & Poor's upgraded the outlook to positive and affirmed the country's long-term credit rating at BB.

Inflation increased, the average consumer price rose by 1.1% and was impacted by energy price hikes and increasing food prices. The restructuring of Agrokor did not significantly impact the performance of the Croatian kuna which traded in the range of 7.4 and 7.6 against the euro. Given the country's very high use of the euro, the National Bank of Croatia's objective to preserve the nominal exchange rate stability remained in place. The National Bank of Croatia left the key policy rate unchanged at 3.0%.

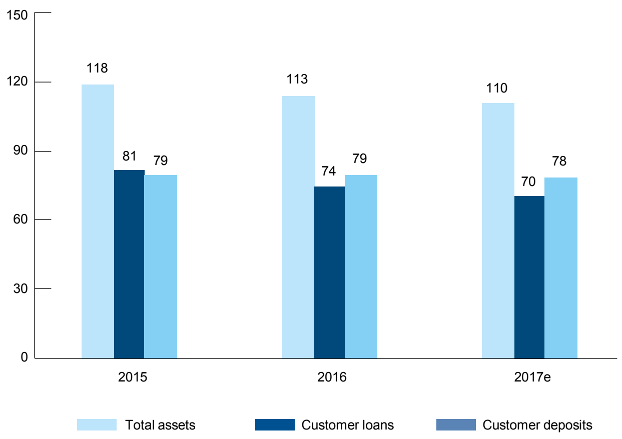
Key economic indicators – Croatia	2014	2015	2016	2017e
Population (ave, million)	4.3	4.3	4.3	4.3
GDP (nominal, EUR billion)	43.4	44.5	46.4	48.7
GDP/capita (in EUR thousand)	10.1	10.4	10.8	11.3
Real GDP growth	-0.1	2.3	3.2	2.8
Private consumption growth	-1.6	1.0	3.5	3.6
Exports (share of GDP)	21.7	22.9	22.7	24.0
Imports (share of GDP)	36.7	38.5	38.5	40.6
Unemployment (Eurostat definition)	17.3	16.3	13.1	11.3
Consumer price inflation (ave)	-0.2	-0.5	-1.1	1.1
Short term interest rate (3 months average)	0.7	1.0	0.6	0.5
EUR FX rate (ave)	7.6	7.6	7.5	7.5
EUR FX rate (eop)	7.7	7.6	7.6	7.5
Current account balance (share of GDP)	2.0	4.5	2.5	3.6
General government balance (share of GDP)	-5.1	-3.3	-0.9	0.3

Source: Erste Group

Market review

Despite favourable macroeconomic developments, Croatia's banking market suffered from relatively weak demand for banking products. The corporate sector again outperformed the retail sector in both lending and deposits. Tourism and export-related lending increased visibly. Overall, customer loans declined slightly while customer deposits increased. The system's loan-to-deposit ratio stood at 90.3% at the end of the year. With total banking assets at 110.0% of GDP, Croatia's level of financial intermediation as well as the capital adequacy of the Croatian banking system at 23.2% remained among the highest in the region.

Financial intermediation – Croatia (in % of GDP)

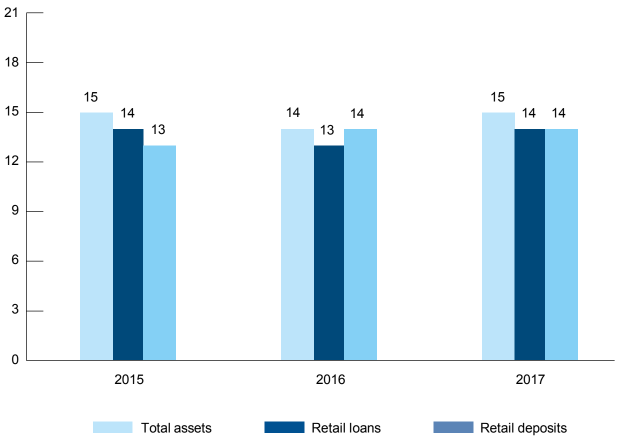


Source: National Bank of Croatia, Erste Group

Despite elevated risk provisions in the wake of Agrokor's restructuring, pressure on revenues and limited demand for banking-related products, the banking sector was profitable. The market was characterised by a visible shift towards products denominated in local currency. The banking sector's asset quality benefited from the improvement in macroeconomic developments, such as the low interest rates and decreasing unemployment. The sale of non-performing loans continued, the NPL-ratio declined further to 11.4%. Consolidation also played a role in the development of the country's banking sector. Among the transactions concluded during 2017, Hungarian OTP's acquisition of Société Générale's Splitska banka was the largest in terms of assets. Overall, the country's banking sector achieved a return on equity of 7.9%.

Erste Bank Croatia remained among the top three players in the market with a market share in terms of total assets of 14.9%. The bank outperformed the market with customer loans and customer deposits increasing by 3.5% and 5.6%, respectively. The bank's loan-to-deposit ratio stood at 97.6%.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Business review – Highlights

Addressing SME customers. To become the bank of first choice for SME customers, Erste Bank Croatia implemented a new SME strategy. It aims at further improving customer satisfaction, increasing operational income as well as reaching an even higher level of internal efficiency.

As a result of the new strategic approach, Erste Bank Croatia acquired more than 400 new SME customers and net loans to SME customers increased by 14.6%.

Innovations in digital banking. The bank has continued its strong emphasis on digital banking. Erste Bank Croatia started to offer pre-approved loans through digital channels. The simple contracting and activation process resulted in a clear improvement in customer experience. Following a decline in 2016, net loans to customers in the retail segment increased by more than 6% due to the accelerated lending activity stemming from pre-approved loans as well as a recovery in housing loans.

International and local recognition. The bank's main strengths compared to its competitors are innovation, a wide range of products and a special emphasis on customer care. For its housing loan campaign, Erste Bank Croatia received the *Ideja X award* and for its digital media strategy for corporate clients the *MIXX award*. Erste Bank Croatia was also recognised *Best Private Bank* in Croatia in 2017 by the financial magazine *The Banker*.

Financial review

in EUR million	2016	2017	Change
Net interest income	264.9	270.5	2.1%
Net fee and commission income	88.0	95.8	8.8%
Net trading result	29.5	26.6	-9.7%
Operating income	407.4	414.0	1.6%
Operating expenses	-194.3	-206.3	6.2%
Operating result	213.1	207.7	-2.5%
Cost/income ratio	47.7%	49.8%	
Net impairment loss on financial assets	-48.4	-116.1	>100.0%
Other result	-5.2	-9.0	73.3%
Net result attributable to owners of the parent	83.7	37.7	-55.0%
Return on allocated capital	22.2%	10.4%	

The segment analysis has been performed on a constant currency basis. The HRK appreciated by 0.9% against the EUR in the reporting period. Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased predominantly due to higher deposit margins in the retail business. Net fee and commission income went up due to higher fees from payment transfers and card transactions in retail business as well as fees related to debt issuance. The net trading result decreased on the back of lower foreign exchange and securities trading. Operating expenses increased due to higher personnel as well as IT costs and included a EUR 10.9 million (EUR 10.9 million) deposit insurance fund contribution. Overall, the operating result declined and the cost/income ratio went up. The deterioration of net impairment loss on financial assets was primarily driven by the downgrading of one customer in the corporate business. Other result deteriorated mainly due to the non-recurrence of last year's selling gains on the shares of VISA Europe in the amount of EUR 10.0 million. It included the resolution fund contribution of EUR 4.0 million (EUR 5.2 million). Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

In the Croatia segment, credit risk exposure rose to EUR 9.3 billion (+3.5%). Loans to customers remained relatively stable at EUR 6.4 billion (+1.4%). The share of the Croatia segment in Erste Group's total loans to customers decreased marginally to 4.4% (4.6%). The composition of the loan portfolio by customer segment changed, with the shares of private households and corporates increasing while that of the public sector fell below 10%. The share of local currency loans rose to 31.5% (27.8%) of total loans to customers. Most loans were still denominated in euro. Since the conversion option provided by a law passed in 2015, the volume of Swiss franc denominated loans has only been marginal and, at year-end 2017, stood at EUR 63 million or 1.0% of the customer loan portfolio. The large share of foreign currency loans is mainly due to the widespread use of the euro in Croatia. Euro loans are usually matched by corresponding income or deposits in euro. Asset quality was impaired by the default of one large corporate. The NPL ratio increased to 12.3% (11.2%). The NPL coverage ratio based on loan loss provisions declined slightly to 70.9% (72.4%).

SERBIA

Economic review

The Serbian economy performed well in 2017. Economic growth, however, was weaker than expected, mainly due to lower agricultural and energy production in the first half of the year. Net exports and investments were also a drag on the economic performance. Private consumption, on the other hand, remained strong and benefitted from growing wages, increasing consumer confidence and further improvements in the labour market. The unemployment rate declined to 13.2%. Overall, real GDP grew by 1.9%, while GDP per capita stood at EUR 5,100.

Fiscal consolidation in Serbia improved further, benefitting from the stable political situation. The general government balance recorded a surplus, supported by improved tax collection and one-offs such as dividends from state-owned companies and premiums from issued securities. Public debt as a percentage of GDP improved further and reached 77.5%. Inflation increased but remained within the national bank's target range of 1.5% to 4.5%. Overall, average consumer prices increased by 3.0%. The Serbian dinar appreciated against the euro. The strong currency and improved fiscal performance led the National Bank of Serbia to cut the base rate by 50 basis points to 3.50% in 2017. Improvements in the macroeconomic development and progress of European Union membership negotiations were reflected in the actions of rating agencies in 2017 with Standard & Poor's and Fitch upgrading Serbia's long-term credit rating to BB with a stable outlook. Moody's rated the country's long-term credit worthiness at Ba3 with a stable outlook.

Key economic indicators – Serbia	2014	2015	2016	2017e
Population (ave, million)	7.2	7.2	7.2	7.2
GDP (nominal, EUR billion)	33.3	33.5	34.6	36.8
GDP/capita (in EUR thousand)	4.6	4.7	4.8	5.1
Real GDP growth	-1.8	0.8	2.8	1.8
Private consumption growth	-1.3	0.4	0.8	1.8
Exports (share of GDP)	33.4	34.9	37.0	38.9
Imports (share of GDP)	46.2	46.4	47.6	49.0
Unemployment (Eurostat definition)	19.2	17.7	15.3	13.2
Consumer price inflation (ave)	2.1	1.4	1.6	3.0
Short term interest rate (3 months average)	8.3	6.1	3.4	3.3
EUR FX rate (ave)	117.3	120.7	123.1	121.4
EUR FX rate (eop)	121.0	121.5	123.4	119.8
Current account balance (share of GDP)	-6.0	-4.8	-4.2	-4.7
General government balance (share of GDP)	-6.6	-3.7	-1.3	1.2

Source: Erste Group

Market review

The lending market, similar to the previous year, was clearly driven by retail loans which increased by 8.2%, while corporate loans fell by 1.1%. Customer deposits grew by 3.4%, driven by the corporate business. As of the end of 2017, the banking sector's loan-to-deposit ratio stood at 99.2%. Regulatory topics, such as further increase of capital buffers and harmonisation of balance sheet write-offs, also played a significant role in the development of the Serbian banking market. Serbia's banking sector remained well capitalised with the total capital ratio of 20.5%, significantly exceeding the legal requirement of 8.0%.

Financial intermediation – Serbia (in % of GDP)

Source: National Bank of Serbia, Erste Group

The profitability of the Serbian banking sector increased further. Although the declining interest rate environment resulted in margin pressure and lower net interest income, significantly lower risk provisions supported the banks' profitability. Asset quality improved mainly on the back of the low interest rate environment and the amendments in the legal framework regarding the sale of non-performing loans. At 11.1%, the NPL ratio in the retail segment continued to be significantly lower than in the corporate segment. Overall, the sector's profitability stood at 10.6% of return on equity.

Erste Bank Serbia maintained its position among the country's top ten banks. Its market share of customer loans increased further to 5.2%, retail and corporate market shares stood at 5.4% and 5.1%, respectively. The bank's deposit base remained fairly divided between euro and dinar deposits. Overall, the bank's market share for customer deposits stood at 4.6%, its loan-to-deposits-ratio at 110.1%.

Business review – Highlights

Most successful year. In terms of profitability, 2017 was the most successful year since Erste Bank Serbia launched its operations. The net result rose by one third to EUR 17.0 million, the cost/income-ratio stood at 67.3%. In addition, the continued inflow of deposits reconfirmed customers' trust in banks. Erste Bank Serbia is highly rated by its customers by all parameters of quality: trust, recommendation, satisfaction and ease of doing business with the bank.

Growing retail business. Retail loans denominated in Serbian dinars increased substantially. Thanks to efficient marketing campaigns, Erste Bank Serbia took advantage of this development despite the competitive situation on the market. The market share in retail loans increased to above 5%, and housing loans were the biggest growth contributor.

Overall, net customer loans rose by a double-digit margin. At the same time customer deposits increased by 28%, affirming the high levels of trust the bank enjoys.

International and local recognition. The bank received various awards. For its *Superste.net* platform Erste Bank Serbia received the bronze award for innovation in media by the magazine *The Internationalist*. The bank was also recognised for its contribution to the development of non-financial reporting in Serbia by the *Responsible Management Forum*.

Financial review

in EUR million	2016	2017	Change
Net interest income	46.8	51.3	9.6%
Net fee and commission income	11.1	11.3	1.7%
Net trading result	3.3	4.1	25.5%
Operating income	61.7	67.0	8.6%
Operating expenses	-40.2	-45.1	12.0%
Operating result	21.5	21.9	2.1%
Cost/income ratio	65.2%	67.3%	
Net impairment loss on financial assets	-4.1	1.2	n/a
Other result	-0.6	-0.3	-47.2%
Net result attributable to owners of the parent	12.8	17.0	32.8%
Return on allocated capital	13.6%	15.5%	

The segment analysis has been performed on a constant currency basis. The RSD appreciated by 1.4% against the EUR. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased mainly due to higher loan volumes. Net fee and commission income remained largely unchanged. Net trading result went up on the back of higher gains from foreign exchange transactions. The increase in operating expenses was driven by higher personnel and project costs. Operating result remained largely stable while the cost/income ratio went up. Net impairment loss on financial assets benefited from strong recovery activities as well as portfolio quality improvement mainly in corporate business, resulting in net releases of risk provisions. Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Serbia segment increased substantially to EUR 1.5 billion (+22.3%). The customer loan portfolio also saw strong growth. Loans to customers increased to EUR 965 million (+16.0%). This very dynamic development was almost exclusively attributable to the expansion of the retail business. The share of foreign-currency loans – denominated almost exclusively in euro – in the total loan portfolio stood at 78.0% (79.3%). The large share is mainly due to the widespread use of the euro in Serbia as a result of the weakness of the local currency. Euro loans are usually matched by corresponding income or deposits in euro. The clean-up of the loan portfolio by write-downs and sales as well as a decline in NPL inflows resulted in another visible improvement in asset quality. Non-performing loans as a percentage of the total loan portfolio declined to 3.3% (6.8%). The NPL coverage ratio based loan loss provisions stood at 112.0% (99.1%).

OTHER

Financial review

in EUR million	2016	2017	Change
Net interest income	129.3	105.5	-18.4%
Net fee and commission income	-43.9	-30.0	-31.8%
Net trading result	-1.7	-120.3	>100.0%
Operating income	100.9	-35.2	n/a
Operating expenses	-257.9	-269.6	4.6%
Operating result	-157.0	-304.8	94.1%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets	-71.5	-12.6	-82.3%
Other result	-315.9	-37.5	-88.1%
Net result attributable to owners of the parent	-430.7	-256.8	-40.4%
Return on allocated capital	-6.4%	-3.0%	

Net interest income declined mainly due to a lower ALM result in the Holding on the back of an unfavourable yield curve development. Net trading result as well as result from financial assets and liabilities designated at fair value through profit or loss went down on the back of valuation effects. The increase in operating expenses was primarily driven by higher IT costs. Operating result declined. Other result improved significantly on the back of lower Austrian banking tax following a one-off payment in the amount of EUR 138.3 million in the previous year. In 2016, this line item also included partial impairment of the goodwill in Slovenská sporiteľňa in the amount of EUR 61.3 million. The net result attributable to the owners of the parent increased significantly.

(Consolidated) non-financial report

Introduction

For Erste Group, considering the impact of its entrepreneurial activities on society is nothing new. On the contrary, looking beyond financial performance is very much in line with the idea of social responsibility to which Erste österreichische Spar-Casse committed itself when it was founded almost 200 years ago.

Resolving the conflicting targets of profitability and the ecological and social impact of its business is also a key element for the management of Erste Group. In this regard, Erste Group's Statement of Purpose offers valuable guidance by defining the following tasks and principles:

- Disseminating and securing prosperity
- Accessibility, independence and innovation
- Profitability
- Financial literacy
- It is about people
- Serving civil society
- Transparency, stability, simplicity

Every business has to answer two key questions every time it takes a decision: "Is it profitable?" and "Is it legal?". For Erste Group, this has never been enough. Before taking a business decision, every employee has to answer the "third question" in the Statement of Purpose to determine whether the action considered is responsible in terms of its impact on the future: "Is it the right thing to do?"

Implementation of the reporting obligation

For the first time, large companies – like Erste Group Bank AG – are required to provide more than just financial statements for their reporting of the financial year 2017. The reporting obligation includes at a minimum environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters.

Erste Group Bank AG has decided to prepare a (consolidated) non-financial report to meet its obligations under sections 243b and 267a of the Austrian Commercial Code (UGB). Following the comply-or-explain approach, deviations are permitted, but must be explained and justified. Erste Group has drawn up this (consolidated) non-financial report in conformity with the Global Reporting Initiative (GRI standards: core option). The non-financial reporting is not subject to the audit of the consolidated financial statements. A voluntary audit of the financial reporting was performed by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Non-financial reports must be prepared for the same scope of consolidation that is covered by the financial reporting. The calculation of non-financial data, such as energy consumption per employee, is based on all Erste Group entities that have at least one full time equivalent employee. The non-financial report covers all relevant subsidiaries with the exception of the Austrian savings banks with fewer than 500 employees that are not majority-owned by Erste Group Bank AG. Human resources-relevant data are captured at single entity level, environmental data on the basis of properties used for banking operations. Over the coming years, it is the aim to gradually include the data of all consolidated companies in the non-financial report.

Sustainability at Erste Group

Almost 200 years ago, the founding concept of Erste österreichische Spar-Casse, Erste Group's predecessor, already embraced the idea of contributing to the common good. Erste Group has expanded its core activities from those of a traditional savings bank focused on retail lending and deposit-taking to include those of an international bank providing financial services to all sectors of the economy in its core markets. Unlike the operations of many other financial institutions, Erste Group's business has always been firmly embedded in the real economy. Customer savings deposits fund the loans for housing construction or purchases or investments by companies. This is how Erste Group creates sustainable value for society. In conducting its business, responsibility to its customers, employees, investors, local communities and national economies has always been a defining feature of the bank. As one of the leading providers of financial services in the Eastern part of the European Union, Erste Group is also an important employer, customer of – mostly local – suppliers and taxpayer.

According to Erste Group's own definition, sustainability means "to operate the Bank's core business in a socially and ecologically responsible manner and at the same time be financially profitable". Erste Group's environmental strategy uses the definition of sustainability as it appears in the UN's Brundtland report *Our Common Future* of 1987: "A sustainable development is a development which meets the needs of current generations without compromising the ability of future generations to meet their own needs".

While several generations of savings bankers have been committed to doing business responsibly, the establishment of the Group Sustainability Office underpins the increasing strategic importance of non-financial aspects. Covering the topics environment, diversity, corporate volunteering and corporate social responsibility (CSR), the team is primarily responsible for the development and implementation of group-wide policies and the group-wide Code of Conduct.

The Sustainability Board, newly created in late 2017, is headed by Erste Group's Chief Risk Officer. It is composed of one board member from each of the local banking subsidiaries, the head of the Group Sustainability Office and the Group Diversity Manager. The Sustainability Board is responsible for developing and monitoring sustainability topics. For 2018 it is planned to set up local sustainability teams in each banking subsidiary which will report directly to the responsible member of the board.

One of the key tasks of the Sustainability Board in 2018 will be to discuss non-financial targets in the fields of ecology and diversity and to ensure their implementation in the local banking subsidiaries. At the same time, Erste Group's strategy and business operations will be further aligned with the *Sustainable Development Goals (SDGs)* adopted by the UN member states, including in particular those of the 17 global sustainability goals to which Erste Group is making or is able to make a positive contribution on account of its business model and corporate activities.

For a start, Erste Group is seeking to contribute to the achievement of the following selected *Sustainable Development Goals*:

- No poverty (SDG 1)
- Quality education (SDG 4)
- Gender equality (SDG 5)
- Decent work and economic growth (SDG 8)
- Sustainable cities and communities (SDG 11)
- Climate action (SDG 13)
- Partnerships for the goals (SDG 17).

For more information on the *United Nations' Sustainable Development Goals* see http://www.un.org/sustainabledevelopment/.

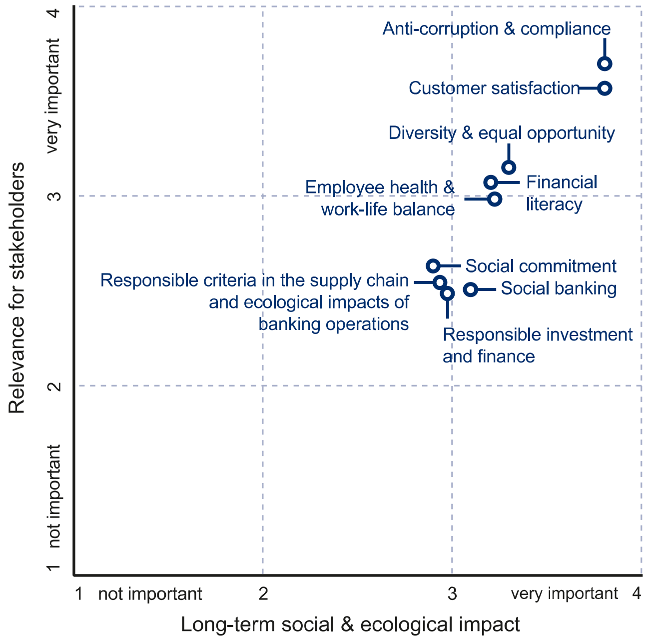
MATERIALITY ANALYSIS

The starting point of non-financial reporting is a materiality analysis. With the involvement of the relevant stakeholders, matters of economic, ecological and social relevance that are of material importance to Erste Group are identified. As a result of in-house discussions, the following stakeholders have been identified as being relevant to Erste Group: employees, customers, management (supervisory board, management board), investors and authorities/supervisors/policy-makers.

The selection of material topics for current reporting purposes is based on the evaluation of the materiality analysis performed in 2016. A survey was conducted in autumn 2017 that included the management board, the supervisory board and employees representing relevant stakeholders in order to assess their respective positions on the material topics. Based on the evaluation of potential long-term impact of the business activities on the stakeholders, the relevance of these topics for Erste Group and, subsequently, key areas of activity were derived.

The materiality matrix illustrates the relevance of the material topics to Erste Group as determined in 2017.

To make the context of the material topics more visible, Erste Group decided to categorise them by higher-level areas, regardless of their degree of relevance. Further information on how Erste Group reflects these topics in its strategy and business activities is provided in the chapters commitment to society, customers, suppliers, employees and environment of the non-financial report. The topic of anti-corruption and compliance may affect all stakeholders, but it usually results from interaction with customers or suppliers. For further information on this topic, please refer to the additional corporate governance principles presented after the corporate governance report.



Social responsibility

Financial literacy. This is a key factor in creating equal opportunities, economic prosperity and social inclusion. In most cases, a lack of financial literacy means restrictions in almost all spheres of life.

Social commitment. Erste Group aims to be not only commercially successful but also to act socially responsible. It therefore pursues a multitude of activities contributing to the cultural and social development of society and also encourages its employees' individual social engagement.

Employees

Diversity and equal opportunity. For Erste Group, diversity and equal opportunity are key elements of its human resources strategy. It therefore seeks to offer a work environment that is free of discrimination and harassment, that values the work of each and every person regardless of gender, age, disability, marital status, sexual orientation, skin colour, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment.

Employee health & work-life balance. Erste Group is convinced that employees perform better and are more motivated when their work and private life are well balanced and when the company contributes to their good health. The focus of Erste Group is on fostering an awareness of the importance of a healthy lifestyle and promoting preventive health care as a complementary service to the public health-care system.

Customers

Customer satisfaction. High levels of customer satisfaction and the resulting customer loyalty secure the bank's long-term success. It is therefore vital to continuously adapt products and services to customers' expectations and needs and to ensure high service quality.

Anti-corruption and compliance. Corruption is a problem in many parts of the economy. Erste Group employees are required to attend a customised training programme enabling them to recognise and prevent fraud and corruption. Conflicts of interest between customers, Erste Group and employees are covered by clear rules such as Chinese walls, provisions on employee transactions, research disclaimers, or the gift policy.

Responsible investment and finance. Public interest in the indirect impacts that bank products have on the environment and society is growing significantly. Erste Group is therefore steadily expanding its range of responsible investment and finance products. When taking business decisions, social and/or ecological criteria are increasingly taken into account in addition to the traditional financial risk aspects.

Social banking. For a variety of reasons, even today some parts of the population do not have access to financial services of commercial banks. In accordance with its founding principles, Erste Group's social banking programmes help people to help themselves and contribute to a positive economic development for the excluded parts of society.

Environment

Ecological impacts of banking operations. Protecting the environment and the climate are among the most significant global challenges. Erste Group aims to minimise its ecological footprint, specifically its consumption of energy and paper, and to use natural resources responsibly.

Suppliers

Responsible criteria in the supply chain. In the light of interrelated economic activities, companies must consider not only the ecological and social impact of their own operations, but also those of their entire supply chain. Through its supply chain management, Erste Group is making every effort to avoid having an undesirable indirect impact on the environment and human rights.

Changes in the classification of material topics

From 2016 to 2017, the number of topics included in the materiality analysis was reduced from fifteen to nine. In 2017, the topics data security, fair competition between banks and open disclosure of financial results were not covered by the materiality analysis.

Data security. The security of its customer data is of fundamental importance to Erste Group. Erste Group applies the highest standards in its IT infrastructure and provides ongoing training to its employees to offer maximum protection against the misuse or loss of customer data. This is a key prerequisite for success in the banking industry. This topic is no longer included in the materiality analysis as the measures to be taken in this regard must be implemented in any case, regardless of the outcome of such an assessment.

Fair competition between banks. As important as this topic certainly is, individual banks have hardly any way to influence it. It is essentially the duty of the legislature and the supervisory authorities to take suitable measures. Therefore, this topic has also been removed from the materiality analysis.

Open disclosure of financial results. Every company that is listed on a stock exchange is of course required to openly disclose its financial results. Transparent and full financial reporting is mandatory regardless of the outcome of the materiality analysis. For this reason, this topic is also no longer part of the materiality analysis.

In the 2017 materiality analysis, the topics social commitment of the employees and social engagement of the bank were combined under the heading of social commitment. The topic covering the impacts of the banking business on the environment is now part of the topic responsible criteria in the supply chain and ecological impact of banking operations.

The material topic customer satisfaction considered for the first time in 2017 encompasses the 2016 topics easily understandable products, easy access to banking products and digital banking/digital innovation. To assign customers a weighting that reflects their significance as stakeholders, the topic responsible investment and finance was added.

Opportunities and risks

Consideration of the material topics opens up opportunities for improving customer relationships, attracting new customers, improving the environmental footprint as well as maintaining and increasing the attractiveness as an employer. Ignoring non-financial topics may adversely affect Erste Group's stakeholders. In addition, Erste Group may become exposed to a variety of risks, some of which are interconnected.

Reputation risk exists in all these topic areas. In addition, further specific risks may arise. Commitment to society encompasses a variety of activities, ranging from financial inclusion of low-income or disadvantaged persons to supporting social initiatives, financial literacy as well as art and culture. Reducing the level of engagement may for instance result in financial gaps at cooperation partners and the suspension of initiatives or activities. This may harm reputation and, as a consequence, may have negative impact on customer retention, lead to a loss of customers and make it more difficult to attract new customers. In this context, consumer protection activities must be mentioned as well. Offering adequately designed products and services may reduce the adverse impact of such initiatives. For employees, a loss of reputation as well as an inadequate attention to social topics (such as diversity and equal opportunity) may result in a company being less attractive as a preferred employer. This may lead to a decline in employee motivation, extended sick leave and increased employee turnover, and make it harder to recruit adequate staff in the labour market. Ignoring the risk of corruption may lead not only to a loss of reputation, but may also cause financial harm. Failure to deal with environmental topics may result in reputation risk, a deterioration of the ecological footprint and higher costs due to lower resource efficiency. In the lending business, the value of collateral may decline. For suppliers, failure to respect human rights may adversely affect the working or living conditions of people in the producer's or supplier's country of origin, just as neglecting environmental concerns may adversely affect the supplier’s or producer’s environmental footprint. For Erste Group, dealing with suppliers involves delivery risk, reputation risk and the risk of losing customers.

The following materiality table provides an overview of the stakeholder groups, the material topics of the materiality analysis assigned to them, references to the GRI standards and references to the sections of the non-financial report in which these topics are explained.

Materiality table

Stakeholders	Material and other topics for Erste Group	Topics of the materiality analysis	Material topics pursuant to GRI Standard	Chapter in the non-financial report
Customers	_ Anti-corruption and compliance _ (Digital) innovation _ Information and data security _ Customer satisfaction _ Financial literacy _ Easily understandable products _ Easy access to bank services _ Fair competition _ Social banking	_ Customer satisfaction _ Anti-corruption and compliance _ Responsible investment and finance _ Social banking	_ Customer privacy (GRI 418-1) _ Anti-corruption (GRI 205-3) _ Anti-competitive behaviour (GRI 206-1) _ Indirect economic impact (GRI 203-2)	_ Customers _ (outside the non-financial report: Corporate governance)
Employees	_ Social and employee-related topics _ Respect for human rights _ Diversity and equal opportunity _ Employee health & work-life balance _ Employee development _ Gender equality and non-discrimination _ Talent promotion and planning _ Leadership competency development _ Employee engagement _ Fair competition	_ Diversity and equal opportunity _ Employee health & work-life balance	_ Employment (GRI 401-1, 401-3) _ Training and education (GRI 404-1, 404-2) _ Diversity and equal opportunity (GRI 401-3, 405-1) _ Non-discrimination (GRI 406-1)	_ Employees _ (outside the non-financial report: Corporate governance)
Investors	_ Transparency _ Financial markets communication _ Disclosure obligation		_ Economic performance (GRI 201-1)	_ (outside the non-financial report: Financial statements)
Society	_ Financial literacy _ Partnership in social and cultural affairs _ Fight against poverty _ Compliance, anti-corruption _ Indirect economic impact _ Social engagement of the bank and its employees _ Social banking	_ Financial literacy _ Social commitment _ Social banking	_ Indirect economic impact (GRI 203-2) _ Anti-corruption (GRI 205-3) _ Socioeconomic compliance (GRI 419-1) _ Economic performance (GRI 201-1)	_ Commitment to society _ Customers _ (outside the non-financial report: Financial statements)
Environment	_ Environmental topics _ Impacts of the banking business on the environment _ Climate protection _ Ecological footprint _ Responsible products and services _ Resource-efficient business management	_ Social and ecological criteria in the supply chain & ecological impacts of banking operations	_ Materials (GRI 301-1, 301-2) _ Energy (GRI 302-1, 302-4) _ Emissions (GRI 305-1, 305-2, 305-3)	_ Environment _ Suppliers
Suppliers	_ Environmental topics _ Respect for human rights _ Social and ecological criteria in the supply chain _ Local rather than cross-border procurement _ Co-operation with suppliers	_ Social and ecological criteria in the supply chain & ecological impacts of banking operations	_ Supplier environmental assessment (GRI 308-1) _ Supplier social assessment (GRI 414-1)	_ Suppliers

Commitment to society

Since the foundation of Erste Group's predecessor almost 200 years ago, commitment to society has been an important part of its business activities. It encompasses a variety of activities, ranging from financial inclusion of low-income or disadvantaged persons to supporting social initiatives, financial literacy as well as art and culture.

The *Extra*VALUE programme of Erste Group is based on the bank's commitment to social responsibility and to intangible values – humane, social, cultural – that go beyond the bank's core business activities. This extra value is created by supporting and promoting institutions, initiatives and projects.

Social and sponsoring activities are combined group-wide under the umbrella of the ExtraVALUE programme. Regional focus, cross-thematic initiatives and cooperation within related fields characterise the programme. Erste Group's *Extra*VALUE programme is a visible sign of the bank's commitment to its responsibility towards society and the individual. Ultimately, it supports personal development and helps people to meet their social and cultural needs.

Because of the multitude of social and educational initiatives, sponsoring and corporate volunteering only a few selected projects can be highlighted here. More detailed information on various Erste Group initiatives is available at http://www.erstegroup.com/en/about-us/responsibility and on websites of Erste Group's subsidiaries in the respective local language and in some cases English.

SOCIAL AND EDUCATIONAL ACTIVITIES

Erste Group's long tradition of cooperation with established local and international organisations reflects its commitment to the promotion of social welfare and education. The focus of social activities is on providing practical and swift assistance to people in difficult life situations and on support for initiatives creating new opportunities for disadvantaged people. In all core markets, Erste Group also supports diverse educational initiatives.

Erste Bank Oesterreich has supported annual domestic aid campaigns, the initiative for children and the *youngCaritas* and *Kulturbuddy* (a platform to coordinate volunteers) for many years as a partner of Caritas. Erste Bank Oesterreich has also been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health care, social and family services in Austria, for many years. Additionally, the bank supports a variety of smaller NGO's, such as *lobby.16,* which gives unaccompanied young refugees access to education and employment and helps them participate in social life.

Banca Comercială Română operates *Bursa Binelui*, a crowd funding platform for NGOs. The bank is a partner of *Teach for Romania*, an initiative to improve the educational system in Romania. The bank's online and offline programme for students and young professionals called *Laboratorul de Cariere* facilitates labour market integration by helping people to develop soft skills. In addition, BCR is partnered with the most important five universities in Romania and supports *Save the Children* Romania in achieving equal opportunities for all children.

Slovenská sporiteľňa supports disadvantaged people and raises awareness about them with the help of various partners: *Civic Association Inklúzia* (inclusion of handicapped people), *Vagus* (resocialisation of homeless people), *People in Need* (building houses for underprivileged Roma families) or *Association of the Friends of Children from Children's Homes* (scholarship programme for young people from children's homes). Furthermore, Slovenská sporiteľňa systematically supports educational projects at Slovak schools and universities.

Superste is a Serbian online hub where people from 16 to 35 can access funds, mentors, NGO contacts and leaders for their social responsibility projects in the arts, culture and education. The bank continues to support two science festivals in Belgrade and Novi Sad, which are well known for making science fun, inspiring and motivating not only for kids but the elderly as well.

Erste Group has been supporting amateur sporting events in Austria and Central Europe for many decades and is particularly active in fostering young athletes. Projects are carried out in a spirit of close partnership with the organisers and hosts of these events. In 2017, Erste Group sponsored a large number of running events, including many in support of social projects such as the *erste bank vienna night run* in Austria, the Košice Peace Marathon in Slovakia (the oldest marathon in Europe), the *Color run* in Romania and the *Homo si Tec Marathon* in Croatia.

Česká spořitelna is the main partner of the Czech Athletics Federation and supports athletes at all levels – from the national teams to young talent. Owing to the athletic youth programmes, more than ten thousand children were encouraged to get involved in sporting activities.

For 40 years, Erste Bank Oesterreich and the savings banks have supported school leagues in soccer and volleyball. This commitment represents the longest-standing sponsorship of young athletes in Austrian sports. With more than 1,000 schools participating every year, these are the largest youth competitions in Austria.

One of the key priorities within the Erste Group's commitment to educational activities is financial literacy.

FINANCIAL LITERACY

Financial literacy is important for creating equal opportunities, social inclusion and economic well-being. Financial ignorance limits social, economic and cultural life.

Therefore, Erste Group is engaged in a wide variety of financial education activities. The main objectives of Erste Group's financial education activities are to enable people of all ages to gain adequate skills and abilities to make informed and appropriate financial decisions. In addition, they assure that employees of Erste Group have up-to-date knowledge about bank products and services as well as a comprehensive understanding of financial concepts and recent economic developments. Erste Group's employees must be able to understand the bigger picture to advise customers to choose the appropriate financial products. Erste Group is committed to ensuring that the financial products and services offered are transparent and easy to understand and meet the customers' short- and long-term financial needs.

In line with a recommendation of the Organisation for Economic Co-operation and Development (OECD) that financial education should start as early as possible, Erste Group puts a particular emphasis on financial education projects for children and young people. Erste Group wants to empower young people to participate in economic life and to understand finance as a system.

Erste Group's most ambitious financial literacy project is the *Fina*ncial Life Park (FLiP) at the Erste Campus in Vienna (http://www.financiallifepark.at), open to visitors since October 2016. FLiP offers innovative financial literacy training through a combination of state-of-the-art digital media technology and trained guides. By promoting know-how in money matters, *FLiP* helps visitors to acquire the skills to manage personal financial affairs responsibly and independently. Depending on the visitors' age and background, three different guided tours are available, each with its own approach, didactics, thematic layout and depth of content. In its educational activities, the *FLiP* team is supported by some 80 active and retired Erste Group volunteers. Educational activities are currently offered in German, English and Slovak. In 2017, some14,000 visitors took part in almost 600 interactive tours conducted at *FLiP*. Since September 2017, two dates a month have been available for Slovak schools. While children and young adults are the main target group, *FLiP* has proved an exciting experience popular with all age groups. While children are the main target group, *FLiP* proved to be interesting for visitors of all age groups.

Since *FLiP* is far from reaching all schools and pupils that may be interested and since Erste Group aims at continuously promoting financial literacy, a mobile version – *FliP2Go* – will be on tour from 2019. *FLiP* educational content will be displayed in nine interactive booths installed in a remodelled double-decker bus.

More than 1,000 specially trained employees of Banca Comercială Română provide financial literacy training under the umbrella of *The School of Money* in schools, universities and companies. Since summer 2017, the bank has also been running the *Money School on Wheels*. A similar version of FLiP contents is on display in a remodeled bus. During the summer, the bus stopped in three Romanian cities while 2,000 children took part in workshops.

The interactive travelling exhibition *The ABC of Money*, a hands-on show explaining the basics of the money system and how money evolved over time, enjoys unbroken popularity. The exhibition will be in Pilsen, Czech Republic, until April 2018. To date, the exhibition has been on display at seven different venues and viewed by more than 160,000 visitors.

In all of its core markets Erste Group cooperates with schools to promote financial literacy. Slovenská sporiteľňa supports educational projects at Slovak schools and universities, for example a joint project with the Children of Slovakia Foundation on the subject of money called *Get to Know Your Money*, in which more than 20,000 pupils have already taken part. Erste Bank Serbia staff stage workshops in kindergartens and schools to explain what banks do. The local banking subsidiaries have developed a range of e-learning tools and apps to bring financial education to as wide a public as possible. More than 500 teenagers participated in financial literacy workshops called *iCan* across Austria supported by volunteers of Erste Group. Slovenská sporiteľňa piloted activities aimed at over-indebted customers to help them cope with these difficulties. Erste Bank Croatia piloted *Financial parachute*, a new financial literacy programme comprising workshops and mentoring sessions for private individuals. This programme is unique on the Croatian market and aims to stabilise and improve customers' financial health.

ART AND CULTURE

Erste Group supports and promotes cultural and art institutions. Under the *Extra*VALUE sponsoring programme, Erste Bank Oesterreich is the principal sponsor of *Jeunesse*, whose focus is on the promotion of young artists by giving them opportunities to perform professionally on stage as well as on the development of new concepts for teaching music appreciation. Erste Group also supports a wide variety of institutions such as Klangforum Wien, the Gustav Mahler Youth Orchestra, Wien Modern, Jazz at the Konzerthaus, Secession, Tanzquartier Wien, the ZOOM Childrens' Museum, Wiener Festwochen, the International Childrens' Film Festival and the promotion *Hunger auf Kunst und Kultur* (Hunger for Art and Culture).

Erste Bank Oesterreich also has a long standing partnership with *Viennale*, Austria's largest international film festival. Every year, the bank awards the *Extra*VALUE Film Prize and the *Extra*VALUE Design Prize for social design as part of Vienna Design Week, the Erste Bank *Extra*VALUE Art Prize in collaboration with *das weisse haus* art association and the Erste Bank Composition Prize.

Slovenská sporiteľňa is most visibly associated with *Bratislava Jazz Days* and the *Viva musica* music festival and supports the *Danubiana* modern art museum as well as regional theatres in Bratislava, Martin, Nitra, Prešov and Košice. Česká spořitelna is a sponsor of several international festivals such as *Pražské jaro*, *Kefír* as well as general partner of *Colours of Ostrava*, Česká filharmonie, *Smetanova Litomyšl* and *Bohemia Jazz Fest*.

Erste Bank Croatia organises a well-known annual competition for emerging artists and art students, called *Erste Fragments*. *Organ Vida* is an international photography festival in Zagreb that attracts photographers from Croatia and abroad in a series of exhibitions, workshops and lectures. Erste Bank Croatia has supported the international *comic book festival* in Zagreb for many years. In Serbia, Erste Bank focuses on jazz music events such as the *Beogradskje jazz festival* and festivals in Novi Sad, Pančevo, Subotica, Kraljevo, Kragujevac and Kikinda. The *Danube Dialogues* contemporary art festival has received support since it was founded.

CORPORATE VOLUNTEERING

Erste Group facilitates, supports and encourages employees to actively contribute and volunteer. Donating money is not the only way of supporting people, communities or non-profit organisations. Employees and managers of Erste Group prove their commitment by donating their time and experience.

Erste Group's Austrian initiative *Time Bank* matches employees who want to donate their free time and skills with more than 50 partner organisations. Employees of the Holding, Erste Bank Oesterreich and their subsidiaries as well as many regional savings banks across Austria volunteer their time in their local communities.

In addition to volunteering, donations in kind are becoming increasingly important as people often lack items that we take for granted such as toys, clothes and sports equipment for children. The Time Bank provides long-term support to its partner organisations by organising regular collection activities to remedy this situation.

Several of Erste Group's local banks successfully support volunteering as a teambuilding activity. Česká spořitelna contributes to the development of the Czech non-profit sector by actively supporting its employees whose volunteer work benefits the public good. Since 2007, employees have been granted two working days off each year to volunteer as part of Česká spořitelna's *Charity Days* programme. The bank supports a special volunteer programme for managers that allows them to spend up to a week offering their skills to NGOs and charity organisations. Erste Bank Croatia signed the *Charter on recognition of competencies acquired through volunteering*, which means that as a bank, it recognises the importance of skills learned through volunteering and that these skills are considered during the recruiting process and career progression. For example, they organised volunteering in children's shelters and other socially disadvantaged areas.

Slovenská sporiteľňa continued its *Euro to Euro* grant project and supported sports, educational and cultural activities in communities where the bank's employees live.

Customers

FOCUS ON CUSTOMER RELATIONS

Erste Group puts customers and their interests at the centre of its business activities. Only banks that understand the underlying reasons behind the financial needs of their customers can offer the right solutions at the right time. Special attention is devoted to dealing with customers' requests in top quality, within short response times and to providing exactly those solutions that meet the customers' needs - a vital part of establishing and maintaining long-term customer relations.

Erste Group puts its customers in control of their financial life by offering financial advice based on their interests, needs and financial literacy and by increasing their accessibility. Erste Group ensures high quality advisory services by continuously training its employees, thereby focusing clearly on the relationship with the customer and not the transaction.

Advisory concept

Erste Group's retail business reflects its approach of thinking from the customers' perspective. Only a bank that understands the clients' needs and the individual motives forming those needs is able to develop specific solutions. Customer behaviour is changing: online and digital channels are growing in importance which frees up branch advisors' resources to focus fully on high-quality advice. The sales incentive scheme of Erste Group reflects this development by abandoning purely product-driven targets and shifting attention towards quality-driven criteria like the quality of customer relationships.

To meet increasing customer expectations, it is essential to adapt the education and learning approach of both customers and advisors. The focus is devoted to customer behaviour and the sales channels customers use most frequently for daily and long-term banking activities. Factors such as experience, financial literacy, financial position and the risk appetite of the individual customer are taken into account. The education programmes of Erste Bank Oesterreich and Slovenská sporiteľňa already reflect this new approach.

Products and processes
Product development is driven by customers' needs and the ways customers carry out their banking activities. Product features and services reflect flexibility, life-cycle changes, simplicity, security, transparency and easy-to-understand features. Identifying and satisfying customers' needs leads to higher customer retention and stronger sales and cross-selling potential. In this respect, Erste Group focuses on simplifying the current product portfolios and aims at developing new products and services to meet as many customer needs as possible.

To this end, Erste Group is continuously reducing the complexity of its product portfolio. With their client centric-approach and initiatives to promote simplicity, Erste Bank Oesterreich, Česká spořitelna and Slovenská sporiteľňa act as forerunners in the group.

OMNI-CHANNEL APPROACH

As an omni-channel bank, Erste Group allows its customers to choose between new and traditional sales and communication channels. Customers decide how, when and where they do their banking. They can switch channels within one single customer journey, expecting seamless experience across all touchpoints. The aim is to integrate all areas of the retail banking business, e. g. advisory services in the branch network, internet or mobile banking and the contact center.

Branches
Direct contact with customers through branches is and will remain a substantial asset, as confidence and trust in the highly-qualified advisor build the basis for successful business relations. The interior and infrastructure of the branches also must meet the increased expectations of the customers. Customers expect to handle their banking business in the branches not only more easily and quickly but also more memorably and conveniently. Cash desk areas are replaced by an appealing reception area as the most important part in the centre of the branches.

The implementation of the new branch concept has started in Erste Bank Oesterreich and Česká spořitelna. More than 20 branches have been refurbished or newly opened in Austria, 50 in the Czech Republic. Banca Comercială Română opened the first pilot branch in Bucharest, Erste Bank Serbia in Belgrade and Erste Bank Hungary in Budapest. Erste Bank Croatia will follow in 2018.

Digital banking
Both only internet-savvy and also traditional customers expect more and more modern digital banking services. The websites of the local banks of Erste Group are constantly enhanced, focusing on accessibility, usability and simple and easy-to-understand content. The range of digitally available products and services is continually being extended.

Erste Group focuses on innovation and has developed its own digital ecosystem. The new digital value offering for existing and potential customers is the next generation web portal and internet banking platform *George* on the one hand and the mobile core app *George Go* on the other.

George and *George Go* are the main digital interfaces that enable customers to activate and use additional applications of the bank or third parties in a secure IT environment to help them in their financial lives. Following the successful implementation in Austria and Slovakia, *George* will be fully available across the Czech Republic and Romania by the end of 2018. Erste Group aims to introduce its unified digital banking platform in all of its seven markets (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia), thus making *George* the first pan-European banking platform that offers a full range of products and services across all platforms.

Erste Group has launched digital consumer loan offerings in Austria, the Czech Republic and Slovakia. Digital sales contributed significantly to new business development in 2017. Česká spořitelna is now offering its customers a new and convenient method: they can get refinance or a new mortgage completely online. Erste Bank Oesterreich started as the first bank in the country to allow customers to open an account completely online including video authentication that complies with all legal and security requirements. Erste Bank Oesterreich also introduced a new mobile payment (wallet) function as part of the *George Go* app, which allows customers to pay for goods and services directly with their NFC (near-field communication) enabled mobile phones.

Contact Center
Customers expect easy service interactions when they need assistance with digital banking. The first point of contact is the Erste Group's contact centers, where qualified employees answer questions regarding products, services or self-service terminals. Additionally, the contact centers' agents help customers navigate the digital sales process and handle customer complaints and emergencies, such as requests to block credit cards and debit cards.

The contact centers are the bridge between traditional physical banking and the digital world and the interface between digital banking and service at a branch. The contact centers are developing from a help desk to more relevant support in advisory and selling products and services. They are an essential part of the omni-channel strategy of Erste Group and will be further expanded in its core markets. Banca Comercială Română, for instance, has significantly increased the size of its contact center team. The capacities of Slovenská sporiteľňa's call center have also been increased by 60% and it is effectively supporting digital customer service.

THE IMPORTANCE OF THE BRAND

Branding is built on experience and expectation. A brand is more than a logo, it is about the perception of people when they think of or hear of an organisation, its products and services. Brands have an important identification and differentiation function, which in turn determines whether a customer chooses one brand over another. Ultimately, companies with strong brands benefit from emotional relationships with their customers. Only a few companies were founded with the underlying purpose of more than just profits. Erste Group is one of these and consequently has been benefiting from a high degree of brand awareness and trustworthiness even in economically challenging years.

By establishing the lead narrative #believeinyourself (#glaubandich), Erste Group introduced purpose-driven brand communication. The lead narrative is designed as a "one group, one brand" approach. The concept was launched in Austria, Czech Republic, Romania, Hungary and Croatia back in 2017.

Erste Group's brand identity is not only built on its history and past achievements. On the contrary, Erste Group's digital efforts are very visible to customers and competitors alike and underpin its innovation power. The cutting-edge digital platform *George* allows Erste Group to serve its customers in a very innovative and convenient way.

Erste Group's marketing efforts are not limited to the bank itself. To familiarise a broader public with the economic importance and potential of Central and Eastern Europe, Erste Group has been running a TV and online campaign in leading international media since 2009. In 2017, the image campaign portrayed selected investments of large corporations in the region that were realised with Erste Group's support.

In addition to the numerous activities oriented towards amateur and professional sporting events described in the chapter "Commitment to society", Erste Group has supported professional athletes, teams and events in ice hockey, tennis, soccer and sailing.

Since 2013, Erste Bank Oesterreich has been the main sponsor of the Austrian ice hockey league that bears its name. It also sponsors of the Austrian national ice hockey team and the local Vienna Capitals ice hockey team. The Erste Bank Ice Hockey league grew beyond Austria to include teams from the Czech Republic, Hungary, Croatia and Italy. Young Austrian ice hockey players are supported through two youth series, Erste Bank Young Stars League and Erste Bank Juniors League. Erste Bank Hungary started its engagement in ice hockey sponsoring with the 2017/18 season.

Erste Bank Oesterreich's sport sponsoring activities also comprise the Erste Bank Open in Vienna, the most important tennis event in Austria and an ATP World Tour 500 tournament. Erste Bank Hungary supported the Hungarian Sailing Association and was the main sponsor of the Kékszalag, Europe's largest round the lake sailing competition at Lake Balaton with 500 boats participating. Slovenská sporiteľňa was once again the official partner of Slovakia's National Soccer Team.

Erste Group is represented in numerous social media to communicate directly with its stakeholders. Up-to-date information is published on Twitter, YouTube, Flickr and SlideShare. In addition, all subsidiary banks are accessible on local Facebook pages.

ACCESSIBILITY

Erste Group defines accessibility as designing the real-word and digital environment as well as information and product offerings in such a way that they can be used by people with disabilities without any additional help.

In co-operation with the Prague wheelchair users' organisation, Česká spořitelna tested its branches for barrier-free access, and more than a third of Česká spořitelna's branches are already entirely barrier-free. At Erste Bank Oesterreich, all new or refurbished branches are fully barrier-free, and Erste Bank Hungary has remodelled its branches so that more than three quarters of the branch network were classified as barrier-free at year-end. Access is also barrier-free at all new or remodelled branches of Erste Bank Serbia.

In addition to past achievements in terms of barrier-free access for blind and visually impaired persons (e.g. bank cards printed in braille or cash dispensers equipped to provide audio instructions), Erste Group now offers mobile banking for the blind through its digital platform, the *George Go* app. Barrier-free use of the app is made possible by the accessibility features of the two main smart phone operating systems iOS and Android. A variety of functions are available: zoom, contrast adjustment, very large fonts and speech output. The barrier-free functions were developed with blind persons and persons with a wide variety of visual impairments. According to the Austrian Federation of the Blind and Partially Sighted, 300,000 visually impaired people live in Austria.

CUSTOMER SATISFACTION

The quality of customer relations depends ultimately on the customers' experiences in their day-to-day dealings with their bank. Keeping a loyal customer base is becoming increasingly difficult in banking due to growing competition that has recently included non-traditional players. Customers are more demanding, well informed and expect a higher value, more speed, flexibility and reliability from their banking services. As high levels of customer satisfaction and thus customer loyalty secure the bank's long-term success, it is essential to intensify the relations between the bank and the customers and to increase client satisfaction by improving the quality of the offering and answering requests in a timely manner.

The Customer Experience Index was established for this purpose. It focuses on the loyalty of Erste Group's customers, combining five relevant dimensions. It is used to determine the positioning as well as the strengths and weaknesses of the local banks of Erste Group relative to the top three competitors in each country. It is also a bonus criterion for board members of Erste Group and the local banks.

Overall, Erste Group maintained its position across its markets in 2017, a positive development is especially visible in the private individuals and SME customers segments. In the SME customers segment, Erste Bank Croatia confirmed its strong performance and remained comfortably ahead of its competition. Erste Bank Serbia, Erste Bank Croatia, Slovenská sporiteľňa and Erste Bank Oesterreich achieved good results in the private customer segment.

RESPONSIBLE INVESTMENT AND FINANCE

Erste Asset Management (Erste AM) was an early mover in anticipating the growing needs of investors to emphasise environmental and socio-ethical aspects in their investment decisions. Over the past decade, Erste Group has seized this opportunity and developed the most diverse portfolio of sustainable funds in Austria. Since 2012, all entities of Erste AM have been *UN PRI Signatories* and have thus committed themselves to complying with the *UN Principles of Responsible Investment (PRI)*. The decision not to allow any actively managed mutual fund to invest in companies engaged in banned weapons, such as land mines, nuclear weapons, or cluster bombs, was taken back in 2011. Furthermore, funds are not allowed to engage in food speculation. Since November 2016, Erste AM has excluded from all its actively managed mutual funds any company that earns more than 30% of its total revenue from coal mining, coal trading or production of coal-based fuels. The respective guidelines are available on the website of Erste AM (http://www.erste-am.com).

In addition to Erste AM, ERSTE Immobilien Kapitalanlagegesellschaft also offers its customers funds involving sustainability. The criteria for sustainable real estate assets in the ERSTE RESPONSIBLE IMMOBILIENFONDS include not only the typical economic criteria, but also aspects such as environmental compatibility, mobility, social infrastructure, quality of life and future viability of the property. Sustainable assets under management amounted to EUR 123 million as of the end of 2017.

Erste AM is a leading provider of sustainable investment funds in Austria and in the CEE region and also works with institutional investors. In 2017, Erste AM managed assets worth EUR 63.4 billion. Actively managed funds that are audited for exclusion of banned weapons, coal sales and coal fuel sales amounted to EUR 23.9 billion. The total volume of assets managed by sustainable investment funds reached approx. EUR 5 billion.

Sustainable investment represents a core competency of Erste AM. As of the end of 2017, Erste AM sustainability experts managed 31 investment funds in the public funds and special funds/externally mandated portfolio categories. The managed sustainable public funds comprised seven bond funds, three regional stock funds, one newly opened global stock fund focused on a dividend-based strategy, one micro-finance fund of funds, one theme funds for climate protection and the environment (jointly managed with WWF Austria) as well as one asset allocation fund of funds. As in past years, 2017 was again characterised by strong investor demand for sustainability funds that invest in emerging market corporate bonds worldwide.

In 2017, ten of Erste AM's sustainability funds were awarded the FNG label (2016: nine). Created by Forum Nachhaltige Geldanlagen e.V. (FNG) in 2015, the FNG label is the quality standard for sustainable financial investment in German-speaking countries. To qualify for the FNG label, the minimum requirements are transparency and process criteria, the exclusion of weapons and nuclear energy and meeting standards in four UN Global Compact categories: human rights and labour law, environmental protection, the fight against corruption and bribery. Moreover, nine of the sustainable funds have had the Austrian environmental certificate for sustainable financial products, some of them for many years.

Companies were contacted regarding their involvement with various sustainability issues that are highly relevant to Erste AM. Key topics were human rights in industries focusing on the exhaustion and exploitation of raw materials as well as intensive dialogues with German car manufacturers as a consequence of the exhaust emission scandal. Following the results of the 2017 Diesel Summit in Germany, they were excluded from Erste AM's sustainable investment universe. This step was accompanied by intensive dialogue aimed at receiving responses to various unsolved matters. The dialogues with the companies took place in writing, by telephone and also in person with company representatives in Vienna and have already shown initial success. Co-operation with other international asset managers (organised by the PRI Association and GES) continued in 2017 in order to approach companies from a position of greater strength.

Apart from engaging in dialogue with companies on controversial topics in the areas of sustainability and environmental protection, Erste AM represented the interests of its customers at 330 annual general meetings in 2017. In addition, more than shareholder motions were supported to encourage companies to manage their businesses in a more sustainable and transparent manner.

The online magazine by Erste AM's Responsible Investment Team (http://www.esgletter.at) also met with great interest in 2017. The quarterly published magazine focused on batteries, child labour, gambling and logistics. Apart from this main publication, specific fact sheets are published monthly on the investment universe and the sustainability funds to inform customers of the selection criteria and their influence on the ESG key indicators (such as the CO_2 footprint of the funds).

In 2015, Erste AM was the first Austrian asset management company to sign the *Montréal Carbon Pledge*. Under this scheme, capital market participants agree to have the CO_2 emissions of their stock holdings measured and to disclose their CO_2 footprint every year. Erste Asset Management calculated and published the CO_2 emissions of their equity investments in 2017 as well. By divesting from CO_2-intensive companies in coal mining and coal trading, the CO_2 footprint of company-wide investments was reduced further.

The Erste Responsible Advisory Board met once in 2017 and again made valuable contributions to the further development of Erste AM's sustainable investment strategies. Active membership in the *Forum Nachhaltige Geldanlagen* (Forum for Sustainable Financial Investments), Eurosif and the *Verein zur Förderung von Ethik und Nachhaltigkeit bei der Geldanlage* (Corporate Responsibility Interface Center, CRIC) was continued.

In line with the Statement of Purpose, Erste Group's finance guidelines also contain specific exclusion criteria to ensure its environmental and social responsibility. These exclusion criteria relate in particular to the energy and the weapon sectors, excluding for instance the financing of nuclear and coal-fired power plants, coal mining and fracking. Exceptions may be projects aimed at improving the safety of existing plants or significantly reducing CO_2 emissions. Examples of financing projects providing ecological benefits are mentioned in the chapter environment, section priorities.

SOCIAL BANKING

Part of the population in Erste Group's core markets of Austria, Croatia, the Czech Republic, Hungary, Romania, Serbia and Slovakia is still at risk of poverty or social exclusion. Erste Group believes that economic growth should be inclusive and that basic financial products and financial advice must be available to everyone. Offering basic banking services to the otherwise unbanked part of the population was one of the main reasons for the foundation of Erste oesterreichische Spar-Casse in 1819. For a variety of reasons, some segments of the population do not have access to financial services of commercial banks even today. Therefore, Erste Group has launched a social banking initiative called *Step-by-Step.*

Step-by-Step promotes the financial inclusion of low-income individuals, starting entrepreneurs and social organisations, offering them fair access to financial products, sound financial advice and business training and mentoring. The *Step-by-Ste*p programme was rolled out throughout Erste Group's network of local banks and in partnership with local organisations and NGOs. It builds on individual programmes that Erste Group's subsidiaries in the CEE region have already launched and works together with existing local social banking projects.

Access to basic financial products for people on low-income is an essential element to reduce poverty. Financial inclusion empowers people to cope with unexpected financial shock and better manage unexpected events. Zweite Sparkasse has supported a total of 16,700 people in financial difficulties in Austria for more than ten years, and, currently, serves about 7,800 customers. It also supports 500 customers through caregiver accounts with debt counselling services, which is intended for customers with full legal capacity but a lack of control over their money. Slovenská sporiteľňa launched a new offer combining micro savings, financial education and micro loans for housing.

One of the most difficult tasks for starting entrepreneurs is raising financing to start their business. Erste Group believes that small entrepreneurs provide not only financial stability for their families, but they often expand their businesses in their communities and create new jobs. Erste Group offers access to loans, business training, e-learning tools, mentoring sessions and networking to these customers. In accordance with the guarantee agreements between the European Investment Fund (EIF) and local banks, more micro-loans can be granted to start-ups and micro businesses. In Austria, the micro-loans initiative between Erste Bank Oesterreich and the Austrian Federal Ministry of Labour, Social Affairs, Health and Consumer Protection was continued. With the help of savings banks, more than 600 start-ups have received funding under this programme. Banca Comercială Română was one of three banks to participate in a state-supported start-up lending program called *Start-up Nation* in which it financed more than 160 start-ups and opened more than 1,800 new business accounts. Erste Bank Serbia launched its new micro-finance programme called *Korak po korak* (Step-by-step) that supports the unemployed persons who want to become entrepreneurs as well as small social businesses. In 2017, Erste Group financed 407 starting entrepreneurs with a total volume of EUR 10.5 million.

Social organisations (non-profit organisations and social enterprises) deal with some of the most challenging issues in our society such as youth unemployment, social integration and reducing poverty. Erste Group offers a bundle of working capital loans, bridge loans, investment loans and capacity building programmes. In 2017, together with Erste Foundation and financial support of the EU Commission, Erste Bank Hungary started to implement its three-year programme *SEEDS* to help social organisations in strengthening their financial independence. Česká spořitelna strengthened its market leadership in financing the social sector with more than 100 new customers. In 2017, Erste Group financed 166 social entrepreneurs and NGOs with a total volume of EUR 20.7 million. For further information and social banking client stories please visit ‚https://www.erstegroup.com/en/about-us/social-banking.

good.bee Credit offers micro loans to farmers and small entrepreneurs in rural and urban areas in Romania. As the first microfinance company in CEE, good.bee Credit received a certification for compliance with the European Code of Good Conduct for

Microcredit Provision in November 2017, which is the result of its clear focus on incorporating the requirements set forth in the priority clauses of the Code in the areas of customer and investor relations, governance, risk management, reporting and information systems. In 2017, good.bee Credit provided 1,177 loans with a total volume of EUR 9.9 million and reached an outstanding loan balance of EUR 19 million. More information on good.bee Credit can be found at http://www.goodbeecredit.ro/.

Launched initially as a social banking initiative in Austria, the Fund of Excellence, an alternative investment fund, was included in the Group Corporates business segment in 2017. Through the fund, the bank invests in people with potential, including funding for students, support for working parents and, under the Vision Capital programme, investing in the early stage of promising business start-ups. Overall EUR 1.2 million has been committed for investment since 2014, thereof EUR 0.5 million in 2017.

PRIVATE BANKING

Despite the persistent low interest-rate environment, Erste Group continued to strengthen its market position in private banking and asset management in Central and Eastern Europe. Across the group, the focus of the services offered was on long-term wealth accumulation, asset management and investment counselling, as well as estate planning. In addition to the services of a universal bank such as payments or financing solution, Erste Private Banking offers investments in securities, real estate, gold and diamonds. Erste Private Banking focuses on offering its customers advisory excellence, sustainability and transparency. A group-wide training programme has been initiated to meet these high quality requirements.

In 2017, Erste Group was named the *Best Private Bank* in CEE for the fourth consecutive year and again the *Best Private Bank* in Austria and Croatia by the business magazine *The Banker*. In addition, Erste Private Banking was named the *Best Private Bank* in the Czech Republic by the business magazine *Euromoney*.

Suppliers

Erste Group views suppliers as partners in shaping its business to be more sustainable. Therefore, procurement decisions include assessments of the suppliers' social and environmental impact.

Covering the entire supply chain, Erste Group Procurement is the sourcing and procurement company of Erste Group. Its basic objective is to ensure clear and fair sourcing and procurement activities and contracts. Meeting all the needs of Erste Group entities for goods and services on time and in accordance with their particular quality requirements with best possible terms (e.g. price, terms of payment, guarantees and liability), purchased locally or across borders, is a key element of this. Erste Group's suppliers must meet defined standards in the areas of business ethics, environmental protection and human rights.

In fulfilling their contractual obligations, suppliers of materials, equipment and services, selected as group partners, are expected to:

- comply with national and local laws, decrees and regulations
- fulfil all their legal obligations regarding the health and safety of their employees and their contractors
- comply resolutely with environmental legislation
- respect and implement the following basic principles of corporate social responsibility:
  - protection of fundamental human and labour rights
  - protection of the environment
  - promotion of health & safety
  - commitment to the fight against corruption

This is also expressed in the supplier code of conduct that is publicly available on the website of Erste Group Procurement. Erste Group Procurement holds the *CIPS Ethics Mark*, a certification awarded by the *Chartered Institute of Procurement and Supply (CIPS)*. This certificate distinguishes institutions that have committed to high standards in procurement and set up relevant further education courses in house. Currently, 90% of all employees of Erste Group Procurement have obtained individual certification on ethical behaviour in procurement.

SUPPLY CHAIN

Erste Group's supply chain consists of mostly indirect expenses that support the group's core business. In 2017, the total amount paid to companies outside Erste Group was slightly above EUR 1.1 billion and the majority of it is linked to IT (amounting to 39.9% of the total amount spent), followed by expenses for services, operations and marketing (37.9%) and facility management (22.2%). Out of a total of approximately 22,000 suppliers at the group level, 80% of the total procurement expenses relate to 549 suppliers.

98.8% of the suppliers (reflecting 97.6% of the expenses) are located in the European Union, highlighting Erste Group's focus on its markets in CEE. An additional 0.5% of the suppliers are located in North America, 0.5% in other European countries and the rest (0.2%) are based on other continents.

Only 12.3% of Erste Group's purchases were made across borders. This focus on local procurement strengthens the local economies of the countries where Erste Group operates and underlines its commitment to support these regions.

SUPPLIER SELECTION PROCESS

Compliance with sustainability criteria in selecting suppliers is guaranteed at both the strategic and the operational levels. Strategies have been developed for selected groups of goods to help in supplier selection. Apart from group standards on social responsibility, these standards also include defined technical specifications. Since 2016, sustainability criteria have been a mandatory element in these documents drafted with the Group Sustainability Office of Erste Group.

To ensure that Erste Group's suppliers meet the group's corporate responsibility standards at an operational level, audit questionnaires are requested for any purchase of more than EUR 100,000 and regular supplier business reviews are performed.

The supplier audit questionnaire is processed with a special IT tool and is an integral part of Erste Group Procurement's supply chain. This operational tool ensures full transparency and allows timely assessment and risk identification before entering into contracts with suppliers. The results of the audits form the basis for the supplier evaluation in procurement.

To ensure correct procedures, all of the relevant steps have been integrated into the electronic tendering system. The IT application blocks the entry of further data and thus collaboration with the supplier, if there is not enough information or no explicit release has been given for suppliers classified as critical. Any non-compliance with the supplier code of conduct is brought forward to compliance delegates, who decide – if required –on further measures. In addition to the initial evaluation, regular supplier business reviews are performed covering the most important or riskiest suppliers.

Environmental aspects

Based on Erste Group's efforts in environmental protection, environmental aspects are part of Erste Group Procurement's supplier selection process. The supplier audit questionnaire addresses specific topics such as the:

- existence of an environmental management system
- existence of a written environmental policy
- method of measuring CO_2 emissions
- existence of environmental targets
- information on fines or charges for environmental infringements
- description of the supplier' supply chain

The audit questionnaire for procuring of goods has additional questions on potentially hazardous chemicals, recycling capabilities of the product, the return policy at the end of the product's useful life and *ENERGY STAR* or similar standards.

In 2017, a supplier sustainability scorecard was introduced: suppliers must provide their ecological footprint (energy usage, waste, emission) for the last two years – either on a general level or related to their activities for Erste Group. 30 suppliers who are involved in resource-intensive operations like data-centres or transportation were selected to provide their data for this scorecard. As these areas represent relevant criteria in the supplier selection process, their development will be continuously monitored and assessed.

Some 26% of the suppliers with new and renewed contracts were audited according to environmental standards in 2017. No supplier was subject to a specific environmental impact assessment beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual and potentially negative environmental impact. No actual and potentially negative environmental impact was identified in the supply chain. Finally, no supplier contract had to be terminated as a result of a significant actual and potentially negative environmental impact.

Social aspects

Since the supplier selection process includes social aspects, the supplier audit questionnaire also comprises specific topics such as the:

- effective abolition of child labour
- elimination of all forms of forced and compulsory labour
- elimination of discrimination with respect to employment
- freedom of association and the right to collective bargaining
- reasonable working hours and fair remuneration
- health protection
- occupational health and safety
- job restructuring
- remuneration
- fair working conditions
- other social criteria in the supply chain

Some 26% of the suppliers with new and renewed contracts were audited according to both labour practice standards and human rights criteria in 2017. No supplier was subject to specific labour practice or human rights impact assessments beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual or potentially negative impact on labour practice or human rights. There was no actual and potentially negative impact on labour practice or human rights identified in the supply chain and no supplier contract had to be terminated as a result of a significant actual and potentially negative impact on labour practice or human rights.

Furthermore, no supplier was found in violation of or at risk of violating the right to exercise freedom of association and collective bargaining, nor was any supplier found to have significant risk of child labour, young workers exposed to hazardous work, or risk of incidents of forced or compulsory labour.

Employees

The financial industry is facing a dynamic transformation in the way it does business. Customer behaviour is changing, digital channels are growing in importance. As a result, employees need a different set of skills than just a few years ago. Erste Group regards learning and competency building as key to its business future as well as to individual employability and development of its workforce and the organisation.

Retaining talented, engaged and experienced employees is fundamental to the long-term success of every company. As one of the largest employers in the region, Erste Group aims to maintain its position as an employer of choice in Central and Eastern Europe, encourages its employees to continually strive for professional and personal development and offers equal opportunities to everyone in its organisation.

Erste Group focuses on operational excellence, market-competitive compensation and recognition as well as attracting, developing and retaining the best people. Its leadership culture is engaging and empowering and promotes a high-performing and inclusive work environment.

Developing employees with high potential in special programmes is part of Erste Group's human resources strategy. Erste Group's people management strategy reflects the changing demands of the business environment. It is based on three key pillars:

- culture
- competence
- competitiveness

In addition, Erste Group places a strong emphasis on providing its employees a safe and healthy work environment. As an employer of choice, Erste Group recognises that a satisfying work-life balance enhances a stable work environment. Employees are encouraged to volunteer their time and share their knowledge and expertise to give back to the society and communities in which the bank operates.

DIVERSITY AND EQUAL OPPORTUNITY

A diverse and inclusive workforce is essential for business success. Companies that are committed to diversity and inclusion benefit from more engaged employees, a better brand image and higher customer satisfaction. Erste Group sees diversity and inclusion as a vital part of its human resources strategy and key to attracting and retaining top employees.

Erste Group's diversity and inclusion principles are reflected both in its Statement of Purpose and Code of Conduct, which emphasise a work environment free of discrimination and harassment and values the work and worth of each and every person regardless of gender, age, disability, marital status, sexual orientation, skin colour, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment.

The diversity priorities for 2017 were the following:

- to adopt and implement the group diversity policy framework in the local banks of Erste Group
- to develop and encourage further initiatives in the area of generation management and inclusion
- to increase the number of women in top management by at least 3 percentage points and develop more group-wide initiatives to support female leadership
- to encourage more men to use paternity leave options
- to continue to encourage local diversity initiatives
- to continue monitoring the gender pay gap and identify measures for closing it

In December 2016, the management board approved the group-wide diversity policy framework and the policy was implemented in all local banking subsidiaries in 2017. Local diversity managers define priorities and initiatives that support the group diversity strategy.

To support generation management and inclusion, various lectures and workshops on anti-discrimination, unconscious bias and inclusive leadership were offered. Best practice sharing and benchmarking with other companies also took place.

Erste Group set a group-wide internal target of having at least 35% of positions in top management and on supervisory boards filled by women by 2019. This target applies to the local banks (excluding other subsidiaries or the savings banks in Austria). As of the end of 2017, 31% of positions in top management were filled by women (2016: 29%) and the share of female supervisory board members stood at 36% (3%).

To increase the number of women in senior management positions, Erste Group aims for a greater gender and age balance in its talent pools. The international talent pool is made up of 39% women and 29% of the group's key positions pool is female.

In addition, Erste Group implemented a variety of initiatives to support the development of female leadership. In Austria, for instance, the *Erste Women's Hub* employee resource group continued key initiatives such as the *WoMentoring* programme, financial education for women, networking events for female employees and customers and focused on encouraging more men to take parental leave options and flexible work hours. *Women in IT (Erste WIT)*, a new initiative, strives to encourage more women to pursue careers in IT. Erste Bank Hungary signed the Hungarian Diversity Charter and launched *Erste Nő* (Erste Women Club), which focuses on promoting a family-friendly organisation, the work-life balance of working women and supporting mothers returning from maternity leave.

Erste Group believes that diverse teams are more creative and flexible in reacting to changing demands. Valuing and understanding cultural diversity fosters inclusion and integration as well as better teamwork and co-operation. In February 2017, the *ErsteColours* LGBT & Friends network was launched in Austria, promoting inclusion by focusing on LGBT issues in human resources and society. Erste Group is contributing to the implementation of the UN sustainable development goals and Agenda 2030. Its diversity strategy and activities support gender equality, decent work & economic growth and reduced inequalities.

The diversity priorities for 2018 are the following:
_ increase the number of women in top management by at least one percentage point and develop more group-wide initiatives to support female leadership
_ make careers in the field of IT more attractive for women through *Erste WIT*
_ develop and encourage more initiatives in the area of LGBT inclusion
_ further develop local diversity initiatives in CEE
_ continue monitoring the gender pay gap on a country-by-country basis and identify measures for closing it

LEARNING, TALENT MANAGEMENT, LEADERSHIP AND COMPETENCY DEVELOPMENT

Erste Group is committed to developing its employees' professional and interpersonal skills to ensure that they are well prepared to act professionally and in a socially responsible manner. Erste Group continuously develops and aligns group-wide training programmes for senior experts and managers.

Erste School of Banking and Finance, the group's platform for professional and leadership training, offers customised executive training and personal development training courses as well as programmes for specific business areas. In 2017, the main focus was on further developing the group-wide talent management strategy, leadership development roadmap and the concept of functional competency management. Erste Group intensified its co-operation with the renowned IESE Business School. Other cooperation partners are IMD Lausanne, ESMT Berlin, WU Executive Academy in Vienna and Ashridge Executive Education.

In addition, Erste Group further expanded the training part of the Finance College in four key areas: controlling, asset/liability management, accounting and business data excellence. New courses at the Risk Management College reflect the regulatory changes and contribute to bridging functional competency gaps of employees. The Corporates & Markets College's initiatives cover topics such as specific product knowledge or corporate sales abilities. In addition to project management, the Business Transformation College expanded its focus on business analysis and data management.

The two pillars of Erste group's leadership development and talent management strategies are the Erste Leadership Evolution Centre, which structures group-wide leadership development offerings and Erste Group's Talent Management Architecture, which ensures the continuous development of top employees through three talent pools. The International Talent Pool targets high-performing junior professionals up to board minus 3 management levels. As of the end of 2017, 39% of the International Talent Pool were women. The next level, the Group Key Positions Pool, aims at preparing managerial talents for roles at division head level. This pool comprises 29% women. The Executive Pool, which identifies and develops top executive level talent, also comprised 29% women.

Erste Group also offers an annual Graduate Programme for university graduates. The aim of the programme is to attract top graduates and provide fundamental banking and risk management knowledge. In the current programme 52% of the participants are women.

In 2017, each employee of Erste Group had on average 30 training hours for professional development – women 33.3 and men 24.6 training hours. Employees in managerial positions had on average 24.6 training hours, while employees without managerial functions had 46.3 training hours.

The focus for 2018 is the mobilisation of identified talents within the group and to further develop the digital learning offering.

REMUNERATION AND PEOPLE PERFORMANCE MANAGEMENT

Erste Group's remuneration policy is geared towards an appropriate balance in rewarding the performance, competence and level of responsibility of the employees. The link between company performance and retail sales incentive schemes is transparent, retail incentive payments are based on quantitative and qualitative criteria. Erste Group's reward system is consistent, competitive and transparent. The remuneration policy aims to
_ create an environment where employees can perform, develop and be engaged
_ reward at the right level to attract and retain employees with the required competence and skills
_ be cost-competitive and cost-flexible for a sustainable business
_ support leadership and employee behaviour that creates an engaging and unique customer experience and effective risk management practices

As a signatory of the Austrian *Diversity Charter* and the *UN Global Compact*, Erste Group committed itself to the principles of equal opportunity and transparency, especially in remuneration. Consequently, one of the key strategic priorities is to ensure that all reward schemes are more transparent, market-driven and linked to performance and personal development. Erste Group offers competitive but not market-leading compensation packages. The local banks' remuneration practices remain well balanced with the business line needs and local country pay practices. The remuneration schemes are designed to meet all EU and national regulatory requirements on remuneration.

Fixed remuneration is the core component of any employee's remuneration and is based on job complexity, individual contributions and local market conditions. Fixed salary represents a sufficiently high proportion of the total remuneration to allow the operation of a flexible and variable remuneration policy. The total remuneration is balanced in such a way that it does not promote excessive risk-taking. The variable remuneration component may be offered to all employees. Awarding a variable salary is based on company, business line and individual performance and also reflects local country practices. On all these levels, Erste Group uses a balance between financial, business growth, risk, customer and cost indicators. The overall performance evaluation also includes the employee's behaviour and competence. Retail sales incentive schemes are offered to selected employees working in the retail business line and are based on company, business line and individual performance.

Benefits are provided as a means to stimulate well-being in the work environment and to support an appropriate work-life balance. Examples of benefits are flexible working time, study leave, parental leave and the health centre expertise. Pension and insurance schemes aim at ensuring that employees have an appropriate standard of living after retirement. Pension and insurance provisions are according to local law, regulation and market practice.

The supervisory board reviews group and local remuneration policies and practices annually. The respective group and local remuneration policies and execution are evaluated annually to ensure that remuneration practices comply with respective international and national regulations. The evaluation comprises the entire remuneration process from determining bonus budget pools, target setting, performance evaluation, awarding bonuses in relation to performance and fixed salary, to the actual pay-out of bonuses.

EMPLOYEE HEALTH AND WORK-LIFE BALANCE

The development of health literacy, embedded in the UN sustainable development goals and Agenda 2030, is essential for dealing with illnesses better, guaranteeing equal access to health care, and advancing of social policies in this area. The workplace offers an ideal setting and infrastructure to support and promote health issues to large groups of people, thus making occupational health an important contributor to public health.

Erste Group is committed to a proactive approach to helping its employees to identify and manage health risks. Health promotion activities and topics in Erste Group include lifestyle habits, work-life balance, mental health, stress prevention and nutrition counselling. A multi-professional team of occupational physicians, industrial psychologists and physiotherapists assists Erste Group's employees in any matters of health and well-being.

The health centre at Erste Group's headquarters in Vienna offers 38 courses covering a wide range of measures such as relaxation techniques and physical activity. The courses include yoga, circuit training, Pilates, preventive back pain training, and more. In addition, the health centre continued to focus on health risk factors (in particular the prevention of heart disease and stroke) and on changing personal health practices and behavioural patterns (e.g. smoking and diet). It also offers comprehensive programmes in nutrition, physical fitness and addiction prevention.

Chronic diseases have a major impact not only on quality of life and life expectancy but also on the labour market, since chronic illnesses affect job fluctuation and wages. Erste Group implemented a wide variety of measures to prevent or at least limit the impact of chronic diseases. These measures include preventive medical examinations, access to rehabilitation centres and treatments and a reintegration programme after long-term absence. Erste Group is still one of very few companies with a company agreement on gradual reintegration after an extended sickness. The company agreement is a very good example of bridging health and labour issues.

The workplace directly influences the physical, mental, economic and social well-being of employees and affects the health of their families, communities and society. Consequently, the health centre continued to focus on strengthening its effectiveness on maintaining mental health of the employees in 2017.

Respecting and promoting work-life balance among its employees has been a long-standing priority of Erste Group and it offers a wide variety of family-friendly measures and evaluates them on a regular basis to ensure that they meet the employees' needs. These measures differ from country to country and include flexible work arrangements, short sabbaticals and regular meetings for employees on maternity/parental leave. One of the priority measures ensuing from the Career and Family (Beruf & Familie) Certification Audit in Austria is to encourage more men to take full advantage of paternity leave options. As of the end of the year, a total of 3,554 employees were on paternity leave, thereof 3,373 women (94.9%) and 181 men (5.1%). The share of men on paternity leave is the highest in Austria, where almost 10% of all employees on leave are men.

As an additional offer, Erste Group opened its *MiniCampus* company kindergarten at Erste Group's headquarters in Vienna in 2016.

Staff indicators

Overview 2017

	Total		Permanent employment contract		Temporary employment contract		Full-time employees		Part-time employees	
	Females	Males	Females	Males	Females	Males	Females	Males	Females	Males
Erste Group	**28,917**	**17,160**	**26,081**	**15,999**	**2,836**	**1,161**	**24,292**	**16,218**	**4,625**	**942**
thereof Holding	1,002	1,101	981	1,072	18	32	688	1,045	309	61
Austria	7,453	7,132	7,143	6,846	310	286	4,203	6,525	3,250	607
Czech Republic	7,300	3,256	6,359	2,962	941	294	6,563	3,162	739	92
Slovakia	3,086	1,269	2,472	1,053	614	216	3,028	1,257	58	12
Romania	5,218	2,333	4,800	2,182	418	151	4,871	2,188	347	145
Hungary	1,986	1,172	1,913	1,143	74	28	1,828	1,095	159	76
Croatia	2,179	1,030	1,894	898	299	118	2,153	1,016	40	0
Serbia	753	319	654	295	99	24	751	318	2	1

With the exception of the Austrian savings banks with fewer than 500 employees that are not majority-owned by Erste Group Bank AG, all relevant subsidiaries are included.
The staff indicators are based on headcount data as of the end of the year.
Total data (46,077 employees) include data from indirect holdings of Erste Group outside its core markets.

	Share of female staff		Share of part-time staff		Share of female part-time staff in total part-time workforce		Share of male part-time staff in total male workforce		Share of executive positions	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Erste Group	**62.8%**	**64.0%**	**12.1%**	**8.2%**	**83.1%**	**82.5%**	**5.5%**	**4.8%**	**1.5%**	**1.9%**
thereof Holding	47.6%	47.6%	18.4%	15.4%	83.5%	79.5%	5.5%	7.6%	1.8%	1.8%
Austria	51.1%	50.0%	26.4%	25.8%	84.3%	81.1%	8.5%	9.8%	1.4%	2.9%
Czech Republic	69.2%	69.7%	7.9%	7.6%	88.7%	89.4%	2.8%	2.7%	1.1%	1.2%
Slovakia	70.9%	68.7%	1.6%	1.2%	82.9%	83.3%	0.9%	0.6%	1.1%	1.1%
Romania	69.1%	70.3%	6.5%	5.8%	70.5%	80.1%	6.2%	3.9%	1.0%	1.7%
Hungary	62.9%	62.5%	7.4%	3.4%	67.7%	74.0%	6.5%	2.4%	2.0%	2.4%
Croatia	67.9%	66.4%	1.2%	1.5%	100.0%	80.0%	0.0%	0.9%	1.9%	2.7%
Serbia	70.2%	69.9%	0.3%	0.1%	66.7%	0.0%	0.3%	0.3%	2.1%	2.8%

	Other managerial positions		Share of women in executive positions		Share of women in other managerial positions		Average number of sick leave days per employee		Number of employees with health disability	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Erste Group	**7.8%**	**6.8%**	**29.9%**	**29.4%**	**43.3%**	**46.4%**	**7.9**	**8.4**	**548**	**394**
thereof Holding	10.2%	9.2%	18.9%	23.1%	26.7%	27.4%	5.6	6.1	16	23
Austria	8.9%	6.9%	19.3%	26.5%	29.2%	27.8%	7.1	7.3	230	138
Czech Republic	4.4%	4.2%	25.6%	25.4%	40.5%	44.3%	8.9	8.3	152	109
Slovakia	9.1%	8.8%	26.5%	23.1%	56.9%	54.6%	4.5	12.0	116	102
Romania	6.9%	6.3%	50.6%	44.0%	55.3%	56.0%	8.4	7.9	30	27
Hungary	11.8%	12.2%	23.8%	22.9%	50.8%	51.4%	7.7	7.6	3	8
Croatia	4.6%	5.5%	35.5%	32.6%	60.5%	55.9%	12.5	9.4	10	9
Serbia	14.9%	14.4%	40.9%	33.3%	53.8%	56.2%	6.0	6.7	1	1

Executive positions cover all the board and board-1 positions. Other managerial positions cover all the board-2, board-3 and board-4 positions.
In 2017, the scope of consolidation was extended. 2017 data are therefore not comparable with 2016 data.
As of year-end 2017, 18.8% of the total workforce was younger than 30, 62.4% was between 30 and 50 and 18.8% older than 50 years.
Governance bodies: Detailed information about the members of the Management Board and the Supervisory Board of Erste Group Bank AG is presented in the Corporate Governance Report. As of year-end 2017, only males were members of the Management Board, and none was younger than 30, 16.7% was between 30 and 50 and 83.3% was older than 50 years. As of year-end 2017, 64.7% of the members of the Supervisory Board were males, 35.3% were females. No Supervisory Board member was younger than 30, 29.4% was between 30 and 50 and 70.6% was older than 50 years.

New employee hires

2017	Females		Males		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**5,250**	**11.4%**	**3,108**	**6.7%**	**4,398**	**9.5%**	**3,577**	**7.8%**	**383**	**0.8%**
thereof Holding	180	0.4%	215	0.5%	275	0.6%	112	0.2%	8	0.0%
Austria	1,113	2.4%	1,140	2.5%	1,441	3.1%	693	1.5%	119	0.3%
Czech Republic	1,419	3.1%	661	1.4%	1,240	2.7%	764	1.7%	76	0.2%
Slovakia	604	1.3%	227	0.5%	417	0.9%	390	0.8%	24	0.1%
Romania	809	1.8%	414	0.9%	646	1.4%	510	1.1%	67	0.1%
Hungary	775	1.7%	406	0.9%	307	0.7%	793	1.7%	81	0.2%
Croatia	305	0.7%	140	0.3%	193	0.4%	242	0.5%	10	0.0%
Serbia	109	0.2%	59	0.1%	73	0.2%	92	0	3	0.0%

Total data include data from indirect holdings of Erste Group outside its core markets.
The ratio of new employee hires (in total 8,358 or 18.1%) is calculated on the basis of the total headcount.

Employee turnover

2017	Females		Males		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**4,145**	**9.0%**	**2,471**	**5.4%**	**2,174**	**4.7%**	**3,389**	**7.4%**	**1,053**	**2.3%**
thereof Holding	48	2.4%	84	4.2%	19	0.9%	66	3.3%	47	2.3%
Austria	608	4.2%	662	4.5%	411	2.8%	459	5.5%	400	2.7%
Czech Republic	1,313	12.4%	573	5.4%	721	6.8%	876	8.3%	289	2.7%
Slovakia	547	12.6%	199	4.6%	230	5.3%	421	9.7%	95	2.2%
Romania	828	11.0%	376	5.0%	451	6.0%	676	9.0%	77	1.0%
Hungary	549	17.4%	315	10.0%	199	6.3%	577	18.3%	88	2.8%
Croatia	139	4.3%	225	7.0%	113	3.5%	188	5.9%	63	2.0%
Serbia	71	6.6%	45	4.2%	17	1.6%	71	6.6%	28	2.6%

2016	Total		<30 years		31-40 years		41-50 years		>50 years	
	Females	Males	Females	Males	Females	Males	Females	Males	Females	Males
Austria	3.2%	4.1%	5.3%	5.6%	2.8%	4.5%	1.6%	2.3%	2.9%	4.2%
Czech Republic	12.4%	5.3%	18.7%	8.9%	11.6%	6.3%	7.5%	3.1%	11.6%	3.1%
Slovakia	12.8%	5.0%	18.7%	8.3%	11.8%	6.9%	8.2%	2.6%	12.3%	2.3%
Romania	11.5%	6.3%	21.6%	10.0%	12.3%	6.2%	6.3%	3.7%	5.8%	5.2%
Hungary	13.8%	8.1%	17.1%	12.6%	12.1%	8.0%	10.8%	6.4%	15.0%	5.5%
Croatia	4.6%	2.7%	10.5%	4.6%	2.7%	1.7%	2.0%	2.2%	3.2%	2.2%
Serbia	6.3%	5.7%	12.2%	14.5%	4.7%	5.1%	1.9%	1.4%	6.5%	1.7%

Total data include data from indirect holdings of Erste Group outside its core markets.
The presentation of the turnover data was amended pursuant to GRI Standard. 2017 data are therefore not comparable with 2016 data.
Employee turnover means employees who left Erste Group (including retirees) and does not include employees on parental leave, internal transfers within Erste Group or departing trainees and interns. The total number of employees who left Erste Group is presented as a ratio of the headcount at the beginning of the reporting period, amended by new employee hires and employees who left during the year. The turnover rate is calculated on the basis of the total headcount and not on the total headcount by gender.
Total turnover was 6,616 (14.4%).

Parental leave

2017	Return to work after parental leave				Retention 12 months after return			
	Females		Males		Females		Males	
	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**955**	**73.8%**	**83**	**95.4%**	**814**	**81.7%**	**59**	**86.8%**
thereof Holding	54	96.4%	18	100.0%	91	95.8%	15	93.8%
Austria	268	91.5%	64	98.5%	294	95.5%	47	90.4%
Czech Republic	173	53.2%	1	100.0%	132	87.4%	0	n.a.
Slovakia	54	40.9%	8	100.0%	38	74.5%	1	100.0%
Romania	202	86.7%	7	87.5%	120	63.5%	7	87.5%
Hungary	121	84.0%	0	0.0%	39	44.3%	0	0.0%
Croatia	54	83.1%	1	100.0%	115	98.3%	3	100.0%
Serbia	40	72.7%	0	n.a.	31	93.9%	0	n.a.

Total data include data from indirect holdings of Erste Group outside its core markets. The ratio (in %) shows the return rate after parental leave has ended. As parental leave includes different terms, the ratios do not refer to the total number of employees on parental leave. Every employee in a permanent employment contract is eligible to take parental leave. In 2017, 3,372 female and 181 male employees were on parental leave, a total of 1,038 employees returned from parental leave (75.2%) and the retention ratio was 82.4% (873 employees).
N.a. indicates that no employee was on parental leave in the reporting or reference period.

Environment

In recent years, sustainability has developed from a marginal issue to an important part of business policy called for by various stakeholders such as employees, customers and investors.

Many states – including Austria – have signed the Paris Agreement on climate change, committing themselves to a reduction or even all-out ban of fossil fuels. On the other hand, there is a lack of actual policies for achieving national targets. It is therefore all the more important that companies like Erste Group define their own ecological targets and understand sustainability as part of their corporate responsibility.

Due to their lack of production facilities, banks are service providers whose business operations have only a modest direct impact on the environment, mostly through their consumption of energy and paper. Regardless of this, Erste Group recognises its environmental responsibility and has implemented a group-wide environmental strategy that aims at minimising both its direct and, more importantly, its indirect ecological footprint.

ENVIRONMENTAL STRATEGY

Erste Group's environmental strategy is built on four pillars:
_ implementation of an environmental management system
_ implementation of a supply chain management system for all products and services needed to run the banking business
_ integration of environmental criteria into banking products and services
_ cooperation with environmental NGOs

The following priority areas were defined as part of the environmental strategy to integrate social and ecological aspects more closely into Erste Group's day-to-day business:
_ climate protection and sustainable use of natural resources: increased use of energy from renewable sources, improvement of energy efficiency at all office locations, branches and data centres and reduction of business travel by increased reliance on telephone and video conferences.
_ include ecological considerations in purchase decisions by supply change management
_ expand the range of sustainable banking products, defining additional criteria for responsible financing.

Environmental targets until 2016

In 2012, initial group-wide targets were defined for reducing energy consumption, paper consumption and CO_2 emissions by 2016. These targets were largely met or even exceeded.

	Target	Achieved
Electricity consumption	-10%	-13%
Heating energy	-10%	-18%
Copy paper consumption	-20%	-20%
CO_2e-emissions (Scope 1,2)	-30%	-28%

Environmental footprint

	2016	2017
Electricity consumption	161 GWh	186 GWh
Heating energy consumption	134 GWh	165 GWh
Cooling energy consumption	0 GWh	4 GWh
Fuel consumption	30 GWh	38 GWh
Total energy consumption	**325 GWh**	**393 GWh**
CO_2e-emissions (Scope 1, 2+3/mobility)	**81,484 t**	**79,846 t**
Copy paper consumption	**1,376 t**	**1,733 t**

Due to the first-time inclusion of additional subsidiaries in Austria, the number of business entities included in the data rose significantly in 2017. Comparing this data with the ecological footprint of 2016 is therefore not meaningful.

Ecological group-wide targets taking into account the new consolidation scope are planned in 2018 in line with the new non-financial reporting requirements.

Implementation of environmental management systems

ISO 14,001 certification in Croatia and ISO 50,001 in Hungary have been completed, while implementation at the Holding and Erste Bank Oesterreich was postponed to 2018/2019. Of the Austrian savings banks, Steiermärkische Sparkasse has been ISO 14,001 certified and Allgemeine Sparkasse OÖ has been ISO 50,001 certified.

All local subsidiaries are expected to implement a certified environmental management system by 2020. This should create the basis for efficient monitoring of all environmental data at all banks.

PRIORITIES

Improving energy efficiency

For banks, the most effective approach to cutting CO_2-emissions is to use electricity from renewable energy sources. Erste Group has completed this switch to "green" electricity in Austria and Croatia and partially completed it in Hungary and the Czech Republic.

Reducing consumption of electrical energy, heating and hot water is largely ensured by the construction and use of new headquarter buildings, such as in Vienna (Erste Campus), Bucharest (The Bridge) and Belgrade (Sirius Office).

Measures to improve energy efficiency are being implemented group-wide on an ongoing basis. Erste Campus in Vienna, for example, is being supplied with non-fossil fuel energy (district heating and cooling and green electricity). In the future, use of cold groundwater and optimisation of heat pumps combined with geothermal energy will reduce the need for external energy sources. Energy monitoring has been rolled out to another 19 branches, primarily to cut consumption of electrical energy.

Banca Comercială Română has completed its new headquarters building and most of its employees have already moved in. This building has been certified LEEDS (Leadership in Energy and Environmental Design) GOLD and replaces the use of old, energy-inefficient buildings. The extent of energy savings will not be seen until next year when the move into the new building is complete. The replacement of old and inefficient heating systems in 110 branches in Romania is expected to save up to 1 GWh per year.

At Slovenská sporiteľňa, the focus was on raising the energy efficiency of the data centre. The use of new servers and a more efficient cooling system is projected to save 2.1 GWh/year.

Česká spořitelna already procured 50% of its electricity demand from renewable sources, which resulted in a reduction of CO_2 emissions by 34%. In the Czech Republic, installation of advanced energy monitoring systems in the branches was continued. Staff are now able to check their branch's energy consumption at any time.

In July 2017, Erste Bank Serbia started to move to the new Sirius Office complex, which had been built to the highest ecological standards, including high energy efficiency and renewable or recycled structural materials. Certification of the building to BREEAM (Building Research Establishment Environmental Assessment Method) standards will be completed in 2018.

Ecological sourcing of products and services

Erste Group Procurement (EGP) continued its efforts to include environmental criteria in its purchasing activities. Since 2014, the Ethical and Environmental Code of Conduct for Suppliers of Goods and Services of EGP has applied across the group. Supplier evaluation criteria include sustainability and environ-mental aspects. In addition, EGP staff must pass the on-line test of the Chartered Institute of Procurement and Supply (CIPS) based in England. For further details, please refer to the sections on Customers and Suppliers.

Measures to reduce office paper consumption

To minimise its environmental impact, Erste Group continuously runs paper-saving initiatives and takes into account ecological criteria by purchasing only 100% recycled paper or paper that is FSC or PEFC-certified.

The trend towards digitalisation of the banking business is also reducing paper consumption. In many transactions that are still done at the bank counter, customers sign on electronic pads rather than on printed forms.

In Romania, Banca Comercială Română redesigned many of the processes in its branches in such a way that a total of about 15,000 photocopies are being saved per day. The bank was the last local subsidiary to switch to 100% recycled copy paper.

Current efforts aim at processing all standard banking transactions electronically wherever possible, which will not only make customer service more efficient but also accelerate back office procedures. This improves not only the customer experience but also reduces paper consumption.

Bank products with ecological benefits

Erste Group continuously develops products and services for its customers that incorporate sustainability criteria, including investment products and financing. For more information on sustainable investment please refer to the Customers section.

There are also numerous examples in the lending business: Erste Bank Serbia financed the construction of one of the largest wind farms in Kovacica. This project forms part of Serbia's efforts to increase the share of renewable energy and curb CO_2 emissions. Ceska spořitelna, market leader in municipal financing in the Czech Republic, runs the Smart City project to assist local authorities who promote the use of new resource-saving technologies. Also worth mentioning is project financing that is critical to the improvement of ecological conditions in the Ostrava region: cleaning up a huge spoil heap from a former coal mine. This heap, which is more than 30 metres high and covers an area of about 100 hectares, has smouldering material inside; it has been emitting noxious greenhouse gases for 20 years.

Other environmental initiatives

Another element of Erste Group's environmental strategy is co-operation with independent environmental NGOs that offer access to their local and international know-how and provide valuable assistance to Erste Group in its efforts to become an even more environmentally sustainable company. In Austria, Erste Group and Erste Bank co-operate with the WWF Climate Group. The primary aim of this platform of leading Austrian companies is to fight climate change. In 2017, it marked its 10-year anniversary with a number of public events, debates and a prize drawing that was open to some 50,000 people working for WWF Climate Group members.

For a number of years, Erste Bank Serbia has been sponsoring a nation-wide *Green Ideas* competition, which awards the best green projects submitted by companies. In addition, Erste Bank Serbia is a partner of the *samo ne autom* project initiated by the Serbian Ministry for the Protection of the Environment, which promotes commuting by environmentally friendly means of transport rather than by car.

Slovenská sporiteľňa placed bee hives on the rooftop of its headquarters building, following the example of Erste Campus. As well as producing excellent honey, these bee hives also serve as a visible symbol of the need for nature conservation.

An exciting project in Romania supports a car-sharing initiative (eGO) by making 20 e-cars available for the exclusive use of customers of Banca Comercială Română. The bank thus helps to reduce emissions in Bucharest while at the same time making a statement in the fight against climate change. If this initiative proves popular with customers, it will be rolled out to other cities in Romania. At Erste Campus in Vienna, a car sharing system using an e-car was tested at the initiative of s-Leasing in late 2017. Employees can rent it at attractive terms for both personal and business travel. Ceska spořitelna is testing the use of e-cars in its fleet and at Erste Bank Hungary an e-car is being used as a board member's company car for the first time.

Environmental data

Environmental data are collected with a software tool (*cr360)*, which uses emission factors from the UK Department for Environment, Food and Rural Affairs (DEFRA) and the International Energy Agency (IEA).

Environmental indicators

Total figures shown in the following tables include data of indirect holdings of Erste Group outside its core markets. A detailed presentation of Holding data is not available, as a meaningful separation of the environmental indicators is not possible due to the shared usage of the location (Erste Campus) with other entities. In 2017, the scope of consolidation was extended; the 2017 data are therefore not comparable with the preceding year. Relative values for 2017 refer to 40,630 FTEs (full-time equivalent; defined as an employee times his/her employment factor). CO_2 equivalents (CO_2e) are the sum of all greenhouse gas emissions, i.e. carbon dioxide, methane and nitrous oxide.

CO_2e-emissions

in tonnes	Erste Group	Austria	Czech Republic	Slovakia	Romania	Hungary	Croatia	Serbia
2017								
Cooling agents	2,124	307	118	248	870	148	284	116
Mobility	8,227	1,787	2,726	695	1,302	678	745	268
Heating/ warm water	17,503	3,250	742	2,869	9,509	343	625	166
Σ Scope 1	**27,854**	**5,343**	**3,587**	**3,811**	**11,681**	**1,169**	**1,653**	**550**
District heating / cooling	13,508	2,254	9,303	134	320	771	395	221
Electricity	35,127	436	14,736	3,379	11,549	2,664	273	1,900
Σ Scope 2	**48,635**	**2,690**	**24,038**	**3,513**	**11,869**	**3,435**	**668**	**2,121**
Scope 3 (only mobility)	**3,357**	**1,709**	**818**	**45**	**565**	**27**	**119**	**51**
Total (Scope 1,2 and 3)	**79,846**	**9,742**	**28,443**	**7,369**	**24,115**	**4,630**	**2,440**	**2,721**
2016								
Cooling agents	1,246	14	399	176	159	148	268	81
Mobility	7,642	949	2,964	720	1,333	680	724	273
Heating/ warm water	13,742	994	807	2,895	7,863	449	585	150
Σ Scope 1	**22,630**	**1,957**	**4,169**	**3,792**	**9,355**	**1,277**	**1,577**	**504**
District heating	11,076	144	9,208	269	490	436	293	236
Electricity	43,302	109	22,365	3,391	12,283	3,137	14	2,002
Σ Scope 2	**54,377**	**253**	**31,573**	**3,661**	**12,773**	**3,573**	**307**	**2,237**
Scope 3 (only mobility)	**4,476**	**1,478**	**2,043**	**84**	**728**	**24**	**48**	**71**
Total (Scope 1,2 and 3)	**81,484**	**3,688**	**37,785**	**7,537**	**22,856**	**4,874**	**1,933**	**2,812**

If national emission factors for Scope 2 (district heating and electricity) were applied, the CO_2e-emissions would amount to 124,970 t. Erste Group procures primarily CO_2e-neutral electricity and district heating from waste or biomass. For this reason, Erste Group's actual CO_2e-emissions are significantly lower.

Relative values

	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	CO_2e Scope 1 t/FTE	CO_2e Scope 2 t/FTE	CO_2e Scope 3 t/FTE
2017						
Erste Group	**99.1**	**108.6**	**42.7**	**0.69**	**1.20**	**0.08**
Austria	79.8	121.8	45.5	0.42	0.21	0.13
Croatia	73.7	180.6	41.7	0.58	0.23	0.04
Czech Republic	107.5	98.6	25.7	0.35	2.37	0.08
Hungary	77.5	131.6	41.9	0.39	1.14	0.01
Romania	129.1	91.6	74.9	1.91	1.94	0.09
Serbia	74.8	106.1	48.6	0.51	1.98	0.05
Slovakia	87.3	98.4	28.8	0.89	0.82	0.01
2016						
Austria	92.0	186.7	20.0	0.24	0.03	0.18
Croatia	76.7	193.1	37.3	0.51	0.10	0.02
Czech Republic	96.1	90.4	24.4	0.40	3.04	0.20
Hungary	63.5	158.0	45.4	0.44	1.22	0.01
Romania	107.2	91.2	72.2	1.29	1.80	0.10
Serbia	69.0	98.8	52.8	0.50	2.23	0.07
Slovakia	84.4	107.0	33.0	0.87	0.84	0.02

Copy paper

	2016			2017		
	total weight tonnes	recycled in %	non-recycled in %	total weight tonnes	recycled in %	non-recycled in %
Erste Group	**1,376.0**	**65.9**	**34.1**	**1,733.0**	**74.1**	**25.9**
Austria	163.5	88.7	11.3	586.9	26.8	73.2
Croatia	116.2	99.9	0.1	119.9	99.8	0.2
Czech Republic	254.0	98.4	1.6	261.0	97.0	3.0
Hungary	132.8	100.0	0.0	125.7	100.0	0.0
Romania	513.2	13.4	86.6	458.7	99.1	0.9
Serbia	53.1	100.0	0.0	52.1	100.0	0.0
Slovakia	143.2	98.8	1.2	122.7	99.3	0.7

Management board	
Andreas Treichl mp, Chairman	Willibald Cernko mp, Member
Peter Bosek mp, Member	Gernot Mittendorfer mp, Member
Petr Brávek mp, Member	Jozef Síkela mp, Member

Vienna, 13 March 2018

GRI Standard 2016 Content Index

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
GRI 101 Foundation 2016 GRI 102 General Disclosures 2016					
1. Organisational profile					
GRI 102	General Disclosures	102-1	Name of the organisation	p. 282	Erste Group Bank AG
GRI 102	General Disclosures	102-2	Activities, brands, products, and services	p. 14	Strategy
GRI 102	General Disclosures	102-3	Location of headquarters	p. 282	Vienna
GRI 102	General Disclosures	102-4	Location of operations	p. 14, 17	Strategy
GRI 102	General Disclosures	102-5	Ownership and legal form	p. 84	Ownership: cover (inner face: shareholder structure) Legal form: (consolidated) corporate governance report
GRI 102	General Disclosures	102-6	Markets served	p. 14, Note 37	Strategy, Group consolidated financial statements: Note 37 (segment reporting)
GRI 102	General Disclosures	102-7	Scale of the organisation	Note 37	Cover (inner face: branches, employees), Group consolidated financial statements: Note 37 (segment reporting)
GRI 102	General Disclosures	102-8	Information on employees and other workers	p. 71 et seq.	Employees (staff indicators). The staff indicators provide information on gender distribution per country, share of part-time staff per country, gender distribution in part-time staff per country, share and gender distribution of executive and other managerial positions per country, average number of sick leave days per employee per country, number of employees with health disabilities per country, turnover rates per gender and country, return rates after parental leave per gender and country. The share of leased personnel (i.e. workers that are not employees) was not significant. The total number of employees is not subject to seasonal changes.
GRI 102	General Disclosures	102-9	Supply chain	p. 66	(consolidated) non-financial report: suppliers
GRI 102	General Disclosures	102-10	Significant changes to the organisation and its supply chain	n.a.	No significant changes in the organisation (neither in terms of size, structure nor ownerhsip) nor in the supply chain.
GRI 102	General Disclosures	102-11	Precautionary Principle or approach	p. 14, 54 et seq.	Strategy, (consolidated) non-financial report, The precautionary principle is reflected in both Erste Group's code of conduct and the statement of purpose.
GRI 102	General Disclosures	102-12	External initiatives	p. 64 et seq., 73	(consolidated) non-financial report: customers, environment, UN Principles of Responsible Investment (2012), Bangladesh Memorandum (2015), UN Global Compact (2015), Nestor Gold Charta (2015), Montréal Carbon Pledge (2015), Austrian Diversity Charter (2016)
GRI 102	General Disclosures	102-13	Membership of associations	n.a.	There are the following significant memberships for Erste Group Bank AG: WSBI (World Savings Banks Institute), ESBG (European Savings Banks Group), Österreichischer Sparkassenverband, WKÖ (Austrian Economic Chambers, Industry Sector: Banking and Insurance), OEVFA (Österreichische Vereinigung für Finanzanalyse und Asset Management), BWG (Bankwissenschaftliche Gesellschaft Österreich), WIFO (Wirtschaftsforschungsinstitut Österreich), Österreichische Industriellenvereinigung, respACT (Austrian Business Council for Sustainable Development), WWF Climate Group
2. Strategy					
GRI 102	General Disclosures	102-14	Statement from senior decision maker	p. 4 et seq., 14	Letter of the CEO, strategy
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	p. 56 et seq.	(consolidated) non-financial report: materiality analysis
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	p. 14, 84	Strategy (reference made to code of conduct, statement of purpose), (consolidated) non-financial report, (consolidated) corporate governance report (reference made to Austrian Code of (consolidated) corporate governance);
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	p. 54 et seq., 84 et seq.	(consolidated) non-financial report (reference to Sustainability Board), (consolidated) corporate governance report
5. Stakeholder engagement					
GRI 102	General Disclosures	102-40	List of stakeholder groups	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-41	Collective bargaining agreements	n.a.	100%, as collective bargaining agreements at all locations
GRI 102	General Disclosures	102-42	Identifying and selecting stakeholders	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-44	Key topics and concerns raised	p. 55 et seq.	(consolidated) non-financial report: materiality analysis

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
6. Reporting practice					
GRI 102	General Disclosures	102-45	Entities included in the consolidated financial statements	p. 54	Non-financial reports have to be prepared for the same scope of consolidation that is covered by the financial reporting. The calculation of non-financial data, such as energy consumption per employee, is based on all Erste Group entities that have at least one full time equivalent employee. The non-financial report covers all relevant subsidiaries with the exception of the Austrian savings banks with fewer than 500 employees that are not majority-owned by Erste Group Bank AG. Human resources-relevant data are captured at single entity level, environmental data on the basis of properties used for banking operations. Over the coming years, it is the aim to gradually include the data of all consolidated companies in the non-financial report.
GRI 102	General Disclosures	102-46	Defining report content and topic boundaries	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-47	List of material topics	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-48	Restatements of information	n.a.	No restatements
GRI 102	General Disclosures	102-49	Changes in reporting	p. 56	Adjustments of material topics compared to 2016 following the materiality analysis. Additional entities from the scope of consolidation were included in the non-financial reporting in 2017. This includes in particular the Austrian savings banks with more than 500 employees.
GRI 102	General Disclosures	102-50	Reporting period	n.a.	Calendar year 2017
GRI 102	General Disclosures	102-51	Date of most recent report	n.a.	Annual report 2016
GRI 102	General Disclosures	102-52	Reporting cycle	n.a.	Annual
GRI 102	General Disclosures	102-53	Contact point for questions regarding the report	p. 282	Important addresses, Imprint (contact)
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI Standards	p. 54	This report has been prepared in accordance with the GRI Standards: Core option.
GRI 102	General Disclosures	102-55	GRI content index	p. 77 et seq.	(consolidated) non-financial report Also available on the company's website: http://www.erstegroup.com/en/investors/reports
GRI 102	General Disclosures	102-56	External assurance	p. 82 et seq.	Independet assurance statement The (consolidated) non-financial report is compliant with the Austrian Commercial Code (Unternehmensgesetz). The GRI Standards were applied on a voluntary basis, as was the external assurance of the nonfinancial reporting by an independent auditor.
GRI 103 Management Approach 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 54 et seq.	Strategy, (consolidated) non-financial report: materiality analysis
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 54 et seq.	Strategy, (consolidated) non-financial report: materiality analysis
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance report: working methods of the management board and the supervisory board
Material & additional topics					
Additional topic: GRI 201 Economic Performance 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq.	Strategy
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq.	Strategy
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance report: working methods of the management board and the supervisory board
GRI 201	Economic Performance	201-1	Direct economic value generated and distributed	Note 37 Note 54	Group consolidated financial statements: Note 37 (segment reporting), Note 54 (country by country reporting)
Material topics: Social commitment and social banking (GRI 203 Indirect Economic Impacts 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 59 et seq., 65	Strategy, (consolidated) non-financial report: commitment to society, customers (social banking)
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 59 et seq., 65	Strategy, (consolidated) non-financial report: commitment to society, customers (social banking)
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance report: working methods of the management board and the supervisory board The responsibility for the implementation of the activities lies within the respective subsidiary.
GRI 203	Indirect Economic Impacts	203-2	Significant indirect economic impacts	p. 59, 65 et seq.	(consolidated) non-financial report: commitment to society, customers (social banking)

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
Material topic: Anti-corruption and compliance (GRI 205 Anti-corruption 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 95 et seq.	(consolidated) non-financial report, additional corporate governance principles
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 95 et seq.	(consolidated) non-financial report, additional corporate governance principles
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 95 et seq.	(consolidated) non-financial report: materiality analysis, additional corporate governance principles Compliance with statutory and internal regulations is the responsibility of the audit departments in the respective subsidiaries. Group Audit regularly carries out control checks on compliance with these policies. In case of non-compliance, appropriate measures are taken.
GRI 205	Anti-Corruption	205-3	Confirmed incidents of corruption and actions taken	p. 96	Additional (consolidated) corporate governance principles In 2017, Erste Group did not discover or record any incident of corruption.
Additional topic: GRI 206 Anti-competitive behaviour 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 84	(consolidated) non-financial report, (consolidated) corporate governance report
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 84	(consolidated) non-financial report, (consolidated) corporate governance report
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, additional corporate governance principles Compliance with statutory and internal regulations is the responsibility of the audit departments in the respective subsidiaries. Group Audit regularly carries out control checks on compliance with these policies. In case of non-compliance, appropriate measures are taken.
GRI 206	Anti-competitive behaviour	206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	Note 50	Group consolidated financial statements: Note 50 (contingent liabilities) There were no legal actions for anti-competitive behavior, anti-trust, or monopoly practices pending against Erste Group Bank AG.
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 301 Materials 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 66 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: suppliers, environment
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 66 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: suppliers, environment
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 301	Materials	301-1	Materials used by weight or volume	p. 75 et seq.	(consolidated) non-financial report: environment
GRI 301	Materials	301-2	Recycled input materials used	p. 76	(consolidated) non-financial report: environment
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 302 Energy 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: environment
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: environment
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 302	Energy	302-1	Energy consumption within the organisation	p. 73, 75 et seq.	(consolidated) non-financial report (environment) In terms of energy consumption, there is no separate presentation of renewable / non-renewable energy sources. It is included in the determination of the CO_2 emissions.
GRI 302	Energy	302-4	Reduction of energy consumption	p. 73, 75 et seq.	(consolidated) non-financial report: environment
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 305 Emissions 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: environment
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: environment
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 305	Emissions	305-1	Direct (Scope 1) GHG emissions	p. 75 et seq.	(consolidated) non-financial report: environment GRI 305-1c is not applicable.
GRI 305	Emissions	305-2	Energy indirect (Scope 2) GHG emissions	p. 75 et seq.	(consolidated) non-financial report: environment
GRI 305	Emissions	305-3	Other indirect (Scope 3) GHG emissions	p. 75 et seq.	(consolidated) non-financial report: environment
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 308 Supplier Environmental Assessment 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 66 et seq.	Strategy, (consolidated) non-financial report: suppliers
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 66 et seq.	Strategy, (consolidated) non-financial report: suppliers

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 308	Supplier Environmental Assessment	308-1	New suppliers that were screened using environmental criteria	p. 67	(consolidated) non-financial report: suppliers
Material topic: Diversity and equal opportunity (GRI 401 Employment 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 401	Employment	401-1	New employee hires and employee turnover	p. 72	(consolidated) non-financial report: employees
GRI 401	Employment	401-3	Parental leave	p. 72	(consolidated) non-financial report: employees
Material topic: Diversity and equal opportunity (GRI 404 Training and Education 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 404	Training and Education	404-1	Average hours of training per year per employee	p. 69	(consolidated) non-financial report: employees
GRI 404	Training and Education	404-2	Programmes for upgrading employee skills and transition assistance programs	p. 69	(consolidated) non-financial report: employees
Material topic: Diversity and equal opportunity (GRI 405 Diversity and Equal Opportunity 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 405	Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	p. 71 et seq.	(consolidated) non-financial report: employees
Material topic: Diversity and equal opportunity (GRI 406 Non-Discrimination 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 406	NON-Discrimination	406-1	Incidents of discrimination and corrective actions taken	n.a.	As a preventive measure, an anti-discrimination officer was appointed to foster an environment of mutual respect for all employees. In 2017, no significant incidents were brought forward to the anti-discrimination officer in Austria or the other countries. For the other countries (i.e. except Austria), the local HR departments are in charge in this matter.
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 414 Supplier Social Assessment 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 66 et seq.	Strategy, (consolidated) non-financial report: suppliers
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 66 et seq.	Strategy, (consolidated) non-financial report: suppliers
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 414	Supplier Social Assessment	414-1	New suppliers that were screened using social criteria	p. 67	(consolidated) non-financial report: suppliers
Additional topic: GRI 418 Customers Privacy 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 54 et seq.	Strategy, (consolidated) non-financial report
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 54 et seq.	Strategy, (consolidated) non-financial report
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
GRI 418	Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	n.a.	In 2017, there were no substantiated complaints concerning breaches of customer privacy.
Additional topic: GRI 419 Socioconomic compliance 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 84 et seq.	Strategy, (consolidated) non-financial report , (consolidated) corporate governance report
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 84 et seq.	Strategy, (consolidated) non-financial report, (consolidated) corporate governance report
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 419	Socioeconomic compliance	419-1	Non-compliance with laws and regulations in the social and economic area	n.a.	In 2017, there were no significant fines nor non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area.
Material topic: Employee health and work-life balance					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 68 et seq.	(consolidated) non-financial report: materiality analysis, employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 68 et seq.	(consolidated) non-financial report: materiality analysis, employees Health topics for employees lie within the responsibility of the respective subsidiaries. Larger entities are equipped with appropriate health facilities or provide access to external health centers.
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq.	(consolidated) non-financial report: materiality analysis Sick days are recorded. It is the aim to promote the health of employees and the work-life balance. Health reports are the basis for potential improvement measures.
Material topic: Financial education					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 60	(consolidated) non-financial report: materiality analysis, commitment to society (financial literacy)
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 60	(consolidated) non-financial report: materiality analysis, commitment to society (financial literacy)
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq.	(consolidated) non-financial report: materiality analysis The responsibility for the implementation of the activities lies within the respective subsidiary.
Material topic: Customer satisfaction					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 63 et seq.	(consolidated) non-financial report: materiality analysis, customers
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 63 et seq.	(consolidated) non-financial report: materiality analysis, customers
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq.	(consolidated) non-financial report: materiality analysis, Customer satisfaction is measured through surveys applying uniform criteria across all relevant markets. It is incorporated into strategic considerations.
Material topic: Responsible investment and finance					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 64 et seq.	(consolidated) non-financial report: materiality analysis, customers
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 64 et seq.	(consolidated) non-financial report: materiality analysis, customers
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq.	(consolidated) non-financial report: materiality analysis, Compliance with the existing exclusion criteria for investments and financing lies within the responsibility of the respective business units. The exclusion criteria are evaluated on a regular basis to see whether they fulfill the envisaged social and ecological responsibility.

To the Board of Erste Group Bank AG

INDEPENDENT ASSURANCE REPORT

Independent assurance over the 2017 sustainability disclosures and data of Erste Group Bank AG

Attention: This letter has been translated from German to English for referencing purposes only. Please refer to the officially legally binding version as written and signed in German. Only the German version is the legally binding version.

Engagement

We were requested to perform a limited assurance engagement over the 2017 sustainability disclosures and data (hereafter "**Report**") in accordance with the GRI Standards CORE Option of Erste Group Bank AG (hereafter "**EGB**" or "**Company**").

The assurance engagement covers the chapter "Non-financial Report" in "Integrated Annual Report 2017" in pdf-format concerning information in and references linked from the GRI-Index to sustainability disclosures and data.

Our assurance engagement solely covers references directly specified in the GRI-Index. It does not cover any further web references.

Our procedures have been designed to obtain a limited level of assurance on which to base our conclusions. The extent of evidence gathering procedures performed is less than for that of a reasonable assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided.

Clarifications to our Review

_ The objective of our engagement was neither a financial audit nor a financial audit review. We did not perform any assurance procedures on data, which were subject of the annual financial audit, the corporate governance report or the risk reporting. We merely checked that data was presented in accordance with the GRI Guidelines.
_ Limited assurance over prospective information was not subject to our engagement.
_ We did not test data derived from external surveys, we only verified that relevant disclosures and data are correctly quoted in the Report.
_ Neither the detection and investigation of criminal offenses, such as embezzlement or other fraudulent actions, nor the assessment of effectiveness and efficiency of management were subject to our engagement.

Criteria

The information included in the Report was based on the criteria applicable in the year 2017 ("**The Criteria**"), consisting of:

_ GRI Standards[10] in connection with the Nachhaltigkeits- und Diversitätsverbesserungsgesetz (NaDiVeG) § 267a Austrian Company Act.

[10]https://www.globalreporting.org/information/g4/Pages/default.aspx

We believe that these criteria are suitable for our assurance engagement.

Management responsibilities

EGB's management is responsible for the Report and that the information therein is in accordance with the criteria mentioned above. This responsibility includes designing, implementing and maintaining internal controls.

This responsibility includes not only proper reporting but also designing, implementing and maintaining an internal control system to ensure the required data quality (including traceability). Such an internal control system is essential for the elimination of material misstatements in the Report.

Our responsibilities

It is our responsibility to express a conclusion on the information included in the Report on the basis of the limited assurance engagement.

Our assurance engagement has been planned and performed in accordance with the International Federation of Accountants' ISAE3000[11] and the Code of Ethics for Professional Accountants, issued by the International Federation of Accountants (IFAC), which includes requirements in relation to our independence.

The objective of our engagement is not to account for the interests of any third parties. Our work solely serves the client and his purpose. Our engagement is thus not destined to be used as a basis of decision-making for third parties.

The "General Conditions of Contract for the Public Accounting Professions"[12], are binding for this engagement. According to that, our liability is limited and an accountant is only liable for violating intentionally or by gross negligence the contractual duties and obligations entered into. In cases of gross negligence, the maximum liability towards EGB and any third party together is EUR 726,730 in the aggregate.

[11]International Federation of Accountants' International Standard for Assurance Engagements Other than Audits or reviews of Historical Financial Information (ISAE3000) Revised, effective for assurance statements dated on or after December 15, 2015.

[12]version of February 21th 2011 (AAB 2011) issued by the Chamber of Public Accountants and Tax Advisors, section 8 http://www.kwt.or.at/PortalData/1/Resources/aab/AAB_2011.pdf

What we did to form our conclusion

We have performed all the procedures deemed necessary to obtain the evidence that is sufficient and appropriate to provide a basis for our conclusions. Our main procedures were:

_ Obtained an overview over the industry as well as the characteristics and governance of the organisation;
_ Interviewed a selection of Group and functional senior managers and executives to understand key expectations and identify systems, processes and internal control processes to support them;
_ Reviewed Group level, Board and Executive documents to assess awareness and priority and to understand how progress is tracked;
_ Examined risk management and governance processes related to sustainability and critical evaluation of the representation in the Report;
_ Performed analytical procedures at Group level;
_ Performed site visits in Vienna, Graz and Zagreb to review progress and obtain evidence of performance.
_ Reviewed data and processes on a sample basis to test whether they had been collected, consolidated and reported appropriately at Group level. This included reviewing data samples to test whether the data had been reported in an accurate, reliable and complete manner;
_ Reviewed the coverage of material issues against the key issues raised in the stakeholder dialogues, areas of performance covered in external media reports and the environmental and social reports of peers;
_ Evaluated the materiality assessment, including sector specific megatrends and aspects of GRI;
_ Challenged a sample of statements and claims in the Report against our work steps and the GRI Standards principles;
_ Assessment whether the NaDiVeG requirements have been adequately addressed and
_ Reviewed whether the GRI Standards were consistently applied for the CORE Option;

Our Conclusion

Based on the scope of our review nothing – with the exception of the following restrictions – has come to our attention that causes us to believe that the disclosures and data in the Report were not prepared, in accordance with the criteria identified above.

Restrictions to Engagement

_ According to § 267a Austrian Company Act, the consolidated report must include the entire scope of consolidation of the EGB. Different to the scope of consolidation of the EGB, only those Savings Banks with more than 500 employees have been taken into account.
_ The Reporting on environmental data includes the main, but not all, locations of the EGB in Austria, in the Czech Republic, in Slovakia, in Hungary, in Croatia, in Serbia, in Slovenia, in Poland and in Romania; furthermore the locations in London, New York and Hong Kong and the locations in smaller countries of the Balkan region (Bosnia, etc.) are not included.
_ In addition, other key non-financial performance indicators among the material topics Financial Literacy, Social Engagement, Social Banking, Sustainable Criteria in the Procurement, Customers Satisfaction and Responsible Investment and Financing were reported only for selected operational units.
_ Not all relevant subsidiaries of the EGB are integrated into a consistent system for risk evaluation, data management, data control and reporting of non-financial performance indicators.

Vienna, March 21st 2018

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Stefan Uher mp ppa. Christine Jasch mp

Corporate Governance

(Consolidated) corporate governance report

In 2003, Erste Group Bank AG declared its commitment to complying with the rules of the Austrian Code of Corporate Governance (Austrian CCG – see www.corporate-governance.at) with the objective of ensuring responsible and transparent corporate governance. In addition, the management board adopted a Statement of Purpose in 2015. This statement reaffirms and states in more detail the purpose of Erste Group Bank AG to promote and secure prosperity throughout the region in which Erste Group is active. Building on this Statement of Purpose, a Code of Conduct defines binding rules for day-to-day business. Erste Group values responsibility, respect and sustainability in pursuing its business activities. The Code of Conduct therefore helps to protect the reputation of Erste Group and to strengthen stakeholder confidence. The Corporate Governance Report has been prepared in accordance with sections 243c and 267b of the Austrian Commercial Code and Rules 60 et seq. of the Austrian CCG and combines the corporate governance report of Erste Group Bank AG, the parent, and the consolidated corporate governance report in one single report. For the first time, the management board has also prepared a (consolidated) non-financial report in accordance with sections 243b and 267a of the Austrian Commercial Code, which is released as part of the annual report.

In the financial year 2017, Erste Group Bank AG complied with all L-Rules (Legal Requirements – mandatory legal norms) and R-Rules (Recommendations – these rules are more similar to recommendations; non-compliance does not need to be disclosed or explained) as well as – with two exceptions – all C-Rules (Comply-or-Explain – deviations are permitted but must be explained) of the Austrian CCG. The two deviations are described and explained below: Pursuant to C-Rule 2 of the Austrian CCG, shares are to be construed in accordance with the principle of one share – one vote, i.e. investors have one vote per share and no right to nominate members to the supervisory board. Under Erste Group Bank AG's articles of association (Art. 15.1), DIE ERSTE österreichische Spar-Casse Privatstiftung is, however, granted the right to nominate up to one third of the members of the supervisory board to be elected by the shareholder meeting as long as it is liable for all present and future liabilities of Erste Group Bank AG in case of its insolvency according to section 92 para. 9 of the Austrian Banking Act. The Privatstiftung has not exercised this right to date. Pursuant to C-Rule 52a of the Austrian CCG, the number of supervisory board members (without employees' representatives) shall be ten at most. At the beginning of the year 2017, the supervisory board of Erste Group Bank AG comprised twelve members elected by the annual general meeting and at present has eleven members. The deviation from C-Rule 52a of the Austrian CCG is due to the size of Erste Group and its market position in seven core markets in Central and Eastern Europe as well as to the fact that the supervisory board of Erste Group Bank AG must perform a multitude of financial market related and prudential review and oversight duties. Moreover, the supervisory board must meet various criteria to comply with the diversity requirements.

Working methods of the management board and the supervisory board

Erste Group Bank AG is a stock corporation established according to Austrian law with a management board and a supervisory board as management bodies (two-tier system). The management board is responsible for managing the company as required for the benefit of the company taking into account the interests of the shareholders and the employees as well as public interest. The management board develops the strategic orientation of the company and aligns it with the supervisory board. It ensures effective risk management and risk controlling. The management board takes its decisions in compliance with all relevant legal provisions, the articles of association and its internal rules of procedure as well as the Statement of Purpose. The supervisory board appoints the members of the management board, decides on the remuneration of the management board and monitors and evaluates on a yearly basis its activity. The supervisory board advises the management board on the determination of the business strategy. It takes part in making decisions as provided for by law, the articles of association and its internal rules of procedure.

Selection and assessment of members of management bodies

The qualification requirements for members of the management bodies (management board and supervisory board) of Erste Group Bank AG are governed by the internal guidelines for the selection and assessment of members of the management and supervisory boards (Suitability Policy). These guidelines define, in accordance with applicable legal provisions, the internal framework for the selection and assessment of members of the management bodies. The assessment of proposed and appointed members of management bodies is based on the following criteria: personal reputation, professional qualifications and experience as well as governance criteria (potential conflicts of interest, independence, time availability, overall composition of the management or supervisory board and diversity).

Training and development

To maintain an appropriate level of professional qualification of members of the management bodies, Erste Group regularly organises events and seminars for members of the management board and supervisory board, management and staff. Speakers at these events are in-house and outside experts.

MANAGEMENT BOARD

Management board member	Year of birth	Date of initial appointment	End of current period of office
Andreas Treichl (Chairman)	1952	1 October 1994	30 June 2020
Peter Bosek	1968	1 January 2015	31 December 2020
Petr Brávek	1961	1 April 2015	31 December 2020
Willibald Cernko	1956	1 January 2017	31 December 2020
Gernot Mittendorfer	1964	1 January 2011	31 December 2020
Jozef Síkela	1967	1 January 2015	31 December 2020

In the financial year 2017, the management board consisted of six members.

As of 1 January 2018, the allocation of duties among the members of the management board is as follows:

Management board member	Areas of responsibility
Andreas Treichl (Chairman)	Group Strategy, Group Secretariat, Brand Management and Company Transformation, Group Investor Relations, Group Human Resources, Human Resources, Group Audit, Group Board Support & Stakeholder Management, Social Banking Development
Peter Bosek	Erste Hub, Digital Sales, Group Retail Strategy
Petr Brávek	Holding IT, Holding Banking Operations, Group COO Governance, Group Architecture and Portfolio Management
Willibald Cernko	Executive Divisional Director Strategic Risk, Group Liquidity and Market Risk Management, Enterprise wide Risk Management, Credit Risk Models, Group Non Financial Risk, Group Workout, Group Credit Risk Management, Group Legal
Gernot Mittendorfer	Executive Divisional Director Strategic Data Program, Group ALM, Group Data Management and Reporting, Group Accounting and Group Controlling, Group Services
Jozef Síkela	Group Corporates, GCRE & Leasing, Group Markets, Operating Office C and M, Group Research

Supervisory board mandates and similar functions, management roles in subsidiaries

As of 31 December 2017, the management board members held the following supervisory board mandates or similar functions in domestic or foreign companies or material subsidiaries of Erste Group Bank AG (the latter are marked with *). No management board member holds a management position in a material subsidiary of Erste Group Bank AG.

Andreas Treichl

Erste Bank der oesterreichischen Sparkassen AG* (Member),
Banca Comercială Română S.A.* (Vice Chair),
Česká spořitelna, a.s.* (Vice Chair),
Die Zweite Wiener Vereins-Sparcasse* (Chair),
Leoganger Bergbahnen Gesellschaft m.b.H. (Member)

Peter Bosek

Wiener Städtische Versicherung AG Vienna Insurance Group (2nd Vice Chair),
Sparkassen Versicherung AG Vienna Insurance Group (Member),
Česká spořitelna, a.s.* (Member)

Petr Brávek

Česká spořitelna, a.s.* (Member),
s IT Solutions AT Spardat GmbH* (2nd Vice Chair),
Erste Group IT International GmbH* (Chair)

Willibald Cernko

Semper Constantia Privatbank Aktiengesellschaft (Vice Chair),
Erste Bank der oesterreichischen Sparkassen AG* (Member),
Erste & Steiermärkische Bank d.d.* (Erste Bank Croatia) (Chair)

Gernot Mittendorfer

Banca Comercială Română S.A.* (Member),
Erste Bank Hungary Zrt.* (Member),
Erste Bank a.d. Novi Sad* (Chair),
Slovenská sporiteľňa, a.s.* (Chair),
Erste Group IT International GmbH* (Vice Chair)

Jozef Síkela

Oesterreichische Kontrollbank Aktiengesellschaft (Member),
Prvá stavebná sporiteľňa, a.s.* (Member)

SUPERVISORY BOARD

In the financial year 2017, the following persons were members of the supervisory board:

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Friedrich Rödler	1950	Auditor and tax advisor	4 May 2004	AGM 2022
1st Vice Chairman	Jan Homan	1947	General Manager, ret.	4 May 2004	AGM 2022
2nd Vice Chairwoman (until 17 May 2017)	Bettina Breiteneder	1970	Entrepreneur	4 May 2004	AGM 2017
2nd Vice Chairman (since 17 May 2017)	Maximilian Hardegg	1966	Entrepreneur	12 May 2015	AGM 2020
Member	Elisabeth Bleyleben-Koren	1948	General Manager, ret.	21 May 2014	AGM 2019
Member	Gunter Griss	1945	Lawyer	21 May 2014	AGM 2019
Member	Jordi Gual Solé	1957	Chairman, CaixaBank	17 May 2017	AGM 2022
Member	Marion Khüny	1969	Consultant	17 May 2017	AGM 2019
Member	Elisabeth Krainer Senger-Weiss	1972	Lawyer	21 May 2014	AGM 2019
Member	Antonio Massanell Lavilla	1954	Deputy Chairman, CaixaBank	12 May 2015	15 September 2017
Member	Brian D. O'Neill	1953	Senior Advisor, Lazard Frères & Co	31 May 2007	AGM 2022
Member	Wilhelm Rasinger	1948	Consultant	11 May 2005	AGM 2020
Member	John James Stack	1946	CEO, ret.	31 May 2007	AGM 2021
Delegated by the employees' council					
Member	Markus Haag	1980		21 November 2011	until further notice
Member	Regina Haberhauer	1965		12 May 2015	until further notice
Member	Andreas Lachs	1964		9 August 2008	until further notice
Member	Barbara Pichler	1969		9 August 2008	until further notice
Member	Jozef Pinter	1974		25 June 2015	until further notice
Member	Karin Zeisel	1961		9 August 2008	until further notice

Changes in the supervisory board in the financial year 2017: Bettina Breiteneder, 2nd Vice Chairwoman, resigned as member of the supervisory board with effect as of the end of the annual general meeting on 17 May 2017.

At the annual general meeting Jordi Gual Solé and Marion Khüny were elected to the supervisory board. Antonio Massanell Lavilla resigned as member of the supervisory board as of 15 September 2017.

Membership in supervisory board committees

Committee membership as of 26 January 2018:

Name	Executive committee	Nomination committee	Audit committee	Risk committee	Remuneration committee	IT committee
Friedrich Rödler	Chairman	Chairman	Member*	Chairman	Chairman**	Vice Chairman
Jan Homan	Vice Chairman	Vice Chairman	Chairman	Vice Chairman	Vice Chairman	Substitute
Maximilian Hardegg	Member	Member	Member	Member	Substitute	Chairman
Elisabeth Bleyleben-Koren	-	-	Member	Member	-	-
Gunter Griss	-	-	-	-	Member	-
Jordi Gual Solé	-	-	-	-	Member	-
Marion Khüny	-	-	-	Member	-	Member
Elisabeth Krainer Senger-Weiss	-	Member	-	Substitute	-	Member
Brian D. O'Neill	-	-	-	-	Member	-
Wilhelm Rasinger	Substitute	-	Member	Member	-	-
John James Stack	-	-	-	-	Member	-
Delegated by the employees' council						
Markus Haag	-	-	-	Member	Substitute	-
Regina Haberhauer	-	-	Member	Substitute	-	-
Andreas Lachs	Substitute	Substitute	Substitute	Member	Member	Member
Barbara Pichler	Member	Member	Member	-	Member	Substitute
Jozef Pinter	Substitute	Substitute	Member	Member	Substitute	Substitute
Karin Zeisel	Member	Member	Substitute	Substitute	Member	Member

*Financial expert, **Remuneration expert

Mandates on supervisory boards or similar functions

As of 31 December 2017, the supervisory board members held the following additional supervisory board mandates or similar functions in domestic or foreign companies. Material subsidiaries of Erste Group Bank AG are marked with *, listed companies are marked with **.

Friedrich Rödler
Erste Bank der oesterreichischen Sparkassen AG* (Chair),
Erste Bank Hungary Zrt.*,
Sparkassen-Prüfungsverband (Chair),
Abschlussprüferaufsichtsbehörde (Audit Oversight Body of Austria)

Jan Homan
Constantia Flexibles Holding GmbH,
Frapag Beteiligungsholding AG (Chair),
Slovenská sporiteľňa, a.s.*

Bettina Breiteneder
DIE ERSTE österreichische Spar-Casse Privatstiftung,
PAPPAS Holding GmbH,
Generali Holding Vienna AG,
Best in Parking-Holding AG (Vice Chair)

Maximilian Hardegg
DIE ERSTE österreichische Spar-Casse Privatstiftung,
Česká spořitelna, a.s.*

Gunter Griss
AVL List GmbH (Chair),
Bankhaus Krentschker & Co. Aktiengesellschaft* (2nd Vice Chair),
Steiermärkische Bank und Sparkassen Aktiengesellschaft* (Chair)

Jordi Gual Solé
CaixaBank, S.A.** (Chair),
Repsol S.A.**

Marion Khüny
KA Finanz AG

Elisabeth Krainer Senger-Weiss
Gebrüder Weiss Holding AG,
Gebrüder Weiss GmbH

Brian D. O'Neill
Emigrant Bank,
Banca Comercială Română S.A.*,
Aqua Venture Holdings, LLC

Wilhelm Rasinger
Friedrichshof Wohnungsgenossenschaft reg. Gen. mbH (Chair),
Gebrüder Ulmer Holding GmbH,
Haberkorn Holding AG,
Haberkorn GmbH,
S IMMO AG**,
Wienerberger AG**

John James Stack
Ally Bank,
Ally Financial Inc.**,
Česká spořitelna, a.s.* (Chair),
Mutual of America Capital Management

Elisabeth Bleyleben-Koren did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies as of 31 December 2017.

Antonio Massanell Lavilla resigned as member of the supervisory boards of Repsol S.A.**, SAREB, S.A., Telefónica, S.A.** und Cecabank, S.A. (Chair) as of 31 December 2017.

Delegated by the employees' council:

Regina Haberhauer
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.*,
Erste Asset Management GmbH*

Barbara Pichler
DIE ERSTE österreichische Spar-Casse Privatstiftung

Andreas Lachs
VBV-Pensionskasse Aktiengesellschaft

Markus Haag, Jozef Pinter and Karin Zeisel did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies.

Mechanism for shareholders and employees to provide recommendations and direction to the supervisory board
In accordance with the law and the articles of association, the Employees' Council has the right to delegate one member from among its ranks for every two members appointed by the annual general meeting (statutory one-third parity rule). If the number of shareholder representatives is an odd number, then one more member is appointed as an employee representative.

Measures to avoid conflicts of interest
Every year, the members of the supervisory board are obligated to consider the regulations of the Austrian CCG regarding conflicts of interest. Furthermore, new members of the supervisory board receive comprehensive information regarding the avoidance of conflicts of interest when taking up their supervisory board functions.

Independence of the supervisory board
Pursuant to C-Rule 53 of the Austrian CCG, the majority of the members of the supervisory board elected by the annual general meeting or delegated by shareholders in accordance with the articles of association shall be independent of the company and its management board. A member of the supervisory board is deemed to be independent if such person does not have any business or personal relations with the company or its management that would constitute a material conflict of interest and, therefore, might influence the member's conduct. The supervisory board adheres to the independence criteria guidelines as set out in Annex I of the Austrian CCG.

- The supervisory board member shall not have been a member of the management board or a managing employee of the company or of a subsidiary of the company in the past five years.
- The supervisory board member shall not have or not have had in the past year any business relations with the company or a subsidiary of the company to an extent of significance for the supervisory board member. This shall also apply to business relations with companies in which the supervisory board member has a significant economic interest but not to positions held in the Group's managing bodies. The approval of individual transactions by the supervisory board pursuant to L-Rule 48 does not automatically qualify the respective supervisory board member as not being independent.
- The supervisory board member shall not have served as auditor for the company or been involved in an audit or worked as an employee of the audit firm that audited the company in the past three years.
- The supervisory board member shall not serve as a management board member at another company in which a member of the company's management board is a supervisory board member.
- The supervisory board member shall not serve on the supervisory board for more than 15 years. This shall not apply to members of the supervisory board that hold investments with a business interest or that represent the interests of such a shareholder.
- The supervisory board member shall not be a close family member (child, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the management board or of persons holding one of the positions described in the points above.

Based on the above criteria, all members of the supervisory board have declared their independence.

No member of the supervisory board holds directly or indirectly more than 10% of the shares of Erste Group Bank AG. In 2017, three members of the supervisory board (Maximilian Hardegg, Bettina Breiteneder and Barbara Pichler) served on a management body of a company holding more than 10% of the shares of Erste Group Bank AG. One member (Wilhelm Rasinger) represented in particular the interests of retail shareholders.

Attendance of supervisory board meetings

In 2017, all members of the supervisory board attended more than half of the supervisory board meetings that took place after their election or delegation to the supervisory board.

Self-evaluation of the supervisory board

At its meeting of 24 January 2018, the nomination committee performed an evaluation of the activities of the supervisory board and its committees. It discussed the supervisory board members' attendance of supervisory board and committee meetings in 2017, evaluated the efficiency of the supervisory board's activities as well as organisation and working practice of the supervisory board and undertook a critical review of the composition of committees. Potential conflicts of interest of management board and supervisory board members were discussed and the number of mandates and secondary activities of management and supervisory board members were reviewed. The supervisory board will discuss and consider the results of this evaluation pursuant to C-Rule 36 of the Austrian CCG.

Contracts subject to approval (C-Rule 49 Austrian CCG)

No contracts have been entered into that would require approval pursuant to section 95 para 5 no 12 Austrian Stock Corporation Act.

SUPERVISORY BOARD COMMITTEES AND THEIR DECISION-MAKING POWERS

The supervisory board has set up six committees: the risk committee, the executive committee, the audit committee, the nomination committee, the remuneration committee and the IT committee.

Risk committee

The risk committee advises the management board with regard to the bank's current and future risk appetite and risk strategy and monitors the implementation of this risk strategy. The committee also reviews whether the services and products offered are adequately priced in accordance with the bank's business model and risk strategy. Without prejudice to the duties of the remuneration committee, the risk committee is also responsible for reviewing whether the incentives offered by the internal remuneration system adequately take into account risk, capital, liquidity and the probability and timing of profit realisation. The risk committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board defined in the approval authority regulation. The approval of the risk committee is required for any exposure or large exposure as defined in section 28a of the Austrian Banking Act if the carrying value of such an investment exceeds 10% of the company's eligible own funds or of the banking group's eligible consolidated own funds. In addition, it may grant advance approvals to the extent permitted by law. The risk committee is responsible for monitoring the risk management of Erste Group Bank AG. A report providing key information about the organisation, structure and operation of the risk management system in place for the company and major subsidiaries must be submitted to the committee at least once a year. The supervisory board has delegated to the risk committee the right to approve the establishment and closure of branches and to grant special statutory power of attorney (Prokura) or commercial power (Handlungsvollmacht) for all business operations. The committee is responsible for monitoring the Group's portfolio of participations except in cases where this is the responsibility of the audit committee. The tasks of the risk committee include the acknowledgement of reports on legal disputes and on the risk impact and costs of major IT projects as well as of reports on important audits of subsidiaries conducted by regulatory authorities.

Executive committee

The executive committee meets on an ad hoc basis at the supervisory board's request for the purpose of preparing specific topics for meetings or for circular resolutions. The committee may also be assigned the power to take final decisions. In case of imminent danger and to prevent significant damage, the executive committee may be convened by its chairperson in order to take action in the interest of the company even without a specific mandate from the supervisory board.

Audit committee

The audit committee is responsible for overseeing the accounting process; monitoring the effectiveness of the company's internal control system, internal audit system and risk management system; overseeing the annual audit of single-entity and consolidated financial statements; reviewing and supervising the independence of the auditor (Group auditor), in particular with respect to the additional services rendered to the audited company and the group companies; submitting a report on the results of the annual audit to the supervisory board and explaining how the annual audit has affected the reliability of financial reporting and the role of the audit committee in doing so; reviewing the annual financial statements and preparing its approval; reviewing the proposal for the allocation of profits, the management report and the (consolidated) corporate governance report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of the group and the group management report and submitting the report on the results of the review to the supervisory board; carrying out the procedure for the selection of the auditor (group auditor), taking into account the appropriateness of the fees and recommending the appointment of the auditor (group auditor) to the supervisory board; recommending the renewal of the auditor's (group auditor's) mandate to the supervisory board; acknowledging the additional report of the auditor and discussing this report; acknowledging timely information on the focal points of the audit and submitting proposals for additional focal points of the audit; taking note of the annual financial statements of material subsidiaries and of the participations report; acknowledging the audit plan of the company's internal audit function; acknowledging information on current matters relevant to the internal audit of the Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the audit areas and material audit findings and the activity report pursuant to section 20 in connection with section 21 (2) of the Austrian Securities Supervisory Act (Wertpapieraufsichtsgesetz); acknowledging immediate information on material findings of the auditor, the internal audit function or an audit conducted by a regulatory authority; acknowledging immediate information on loss events that could exceed 5% of consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments and compliance regarding corporate governance and anti-money laundering rules; acknowledging the compliance activity report pursuant to section 18 in connection with section 21 (2) of the Austrian Securities Supervisory Act. Furthermore, the supervisory board assigned the audit committee the task of reviewing the (consolidated) non-financial report (section 243b of the Austrian Commercial Code) and preparing its approval by the supervisory board to.

Nomination committee

Meetings of the nomination committee are held as needed (at least once a year) or when a member of the committee or of the management board requests a meeting. The nomination committee submits proposals to the supervisory board for filling management board mandates that become vacant and deals with issues of succession planning. The committee decides on the employment contracts for members of the management board. It deals with and decides on relationships between the company and the members of the management board except for resolutions to appoint members to the management board or revoke such appointments and on the granting of company stock options. Furthermore, the nomination committee supports the supervisory board in making proposals to the annual general meeting for filling supervisory board mandates that have become vacant. In filling vacant management board and supervisory board mandates, the focus is in particular on the members' personal and professional qualifications, a well-balanced board composition in terms of expertise, a well-balanced and broad range of knowledge, skills and experience of the members on each body and on aspects of diversity. The nomination committee also defines a target quota for the underrepresented gender and develops a strategy to achieve this target. Furthermore, the nomination committee must ensure that the management board's and the supervisory board's decision-making processes are not dominated by one single person or a small group of persons. The nomination committee periodically assesses the management board's and the supervisory board's structure, size, composition and performance and submits proposals for changes to the supervisory board, if necessary. In addition, the nomination committee must conduct periodic assessments of the expertise, skills and experience of both the management board members and the individual members of the supervisory board as well as of each body in its entirety and to report its findings to the supervisory board. As regards the selection for senior management positions, the nomination committee must review actions taken by the management board and supports the supervisory board in making recommendations to the management board.

Remuneration committee

The remuneration committee prepares resolutions on remuneration matters, including resolutions that have an impact on the bank's risk and risk management and must be passed by the supervisory board. The remuneration committee approves the general principles of remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes in relation to the control, monitoring and containment of risks, the capital base and liquidity, with due regard to the long-term interests of the bank's shareholders, investors and employees as well as the national interest in a well-functioning banking system and financial market stability. The committee approves exceptions from the application of the remuneration policy to individual staff members of the company and monitors the payment of variable remuneration to members of the management board and to the company's second management level as well as to management board members of major subsidiaries. It furthermore reviews the (variable) remuneration of senior managers of the company performing independent control functions such as risk management and compliance and of staff members having a significant impact on the company's risk profile. In addition, it approves the identification of employees having a significant impact on the company's risk profile and reviews the criteria on which the management board's decision is based as well as the procedure used in taking such decisions. The committee also ensures that information on the remuneration policy and practices provided to shareholders is appropriate. Once a year, the committee is presented with a comprehensive report on the remuneration system including key performance indicators as well as a report on the situation regarding personnel and management in the Group.

IT committee

The IT committee monitors and supervises IT-related issues and IT strategy in general. In addition, the IT committee is also responsible for taking note of IT reports, of reports on the IT outsourcing strategy and on the outsourcing of IT-related functions; taking note of the Group IT budget; of reports on the status of the IT support function and on the development of key IT initiatives and projects; monitoring the capacity and performance of systems, operating continuity and crisis management, data security, computer and network security and taking note of critical changes in the organisational structure and responsibilities of the IT department.

MEETINGS OF THE SUPERVISORY BOARD AND REPORT ON PRINCIPAL ACTIVITIES

Six meetings of the supervisory board were held in the financial year 2017.

At each ordinary meeting of the supervisory board, with the exception of the meeting of 17 May 2017, the monthly developments of the balance sheet and the income statement were presented and reports were given on individual risk types and the bank's total risk; the status of individual bank subsidiaries in Central and Eastern Europe was discussed and quarterly reports were delivered on the areas audited and on the internal audit department's material audit findings pursuant to section 42 para 3 of the Austrian Banking Act. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A recurring topic at supervisory board meetings in 2017 was reports on current regulatory developments in the banking environment and their impacts on Erste Group. The management board regularly presented proposals to the supervisory board that required its approval under the law, the articles of association and internal rules.

At the meeting of 29 March 2017, the financial statements and the management report 2016, the consolidated financial statements and consolidated management report as well as the (consolidated) corporate governance report 2016 were reviewed; the auditors' reports were discussed and the financial statements 2016 were adopted in accordance with the recommendation of the audit committee. Furthermore, the resolutions proposed for the annual general meeting were discussed and approved. It was also decided to propose PwC Wirtschaftsprüfung GmbH to the annual general meeting on 17 May 2017 as an additional auditor of the (consolidated) financial statements for the financial year 2018. In addition, a report was delivered on current developments at Erste Bank Hungary Zrt., the supervisory board's report to the annual general meeting was approved and the annual report of the supervisory board on loans to board members pursuant to section 28 para 4 of the Austrian Banking Act as well as the list prepared pursuant to C-Rule 82a Austrian CCG were each taken note of.

At the constituent meeting of 17 May 2017 held after the annual general meeting those present were informed that Marion Khüny and Jordi Gual Solé had been newly elected and Friedrich Rödler, Jan Homan, Brian O'Neill and John James Stack had each been re-elected to the supervisory board of Erste Group Bank AG. The chairman further announced that Bettina Breiteneder had resigned as member of the supervisory board at her own request. Friedrich Rödler was elected chairman, Jan Homan first vice chairman and Maximilian Hardegg second vice chairman. In addition, supervisory board members were elected to the respective supervisory board committees and the composition of the committees thus reorganised. The distribution key for the remuneration of supervisory board members approved by the annual general meeting was adopted for 2016. Finally, the annual report of Group Compliance was taken note of.

At the meeting of 29 June 2017, which was also attended by members of the supervisory authorities' Joint Supervisory Team, who gave presentations and answered questions raised by supervisory board members, reports were delivered on the current status of a number of projects and the report on the implementation of the ALM strategy was taken note of. In addition, the framework plan for the issuance of certificates and warrants was adopted.

At the meeting of 14 September 2017, reports were delivered on current developments at Erste Bank der oesterreichischen Sparkassen, key competitors, risk tolerance across the Group and at individual banks in the second quarter of 2017 and on the current status of the Group Recovery Plan 2017. Changes to the remuneration committee's rules of procedure and the organisational structure of the risk division were also approved. In addition, the chairman informed those present about the procedures used in auditing the (consolidated) non-financial report.

At the meeting of 19 October 2017, the current status of specific projects was discussed and the report on the strategy for small and medium-sized enterprises was taken note of.

At the meeting of 14 December 2017, retail and ALM strategies were discussed. Reports were delivered on the current status of a project to improve data quality as well as on the development of Erste Group Immorent AG and foreign branches of Erste Group Bank AG. Furthermore, the reports on large exposures pursuant to section 28b of the Austrian Banking Act and the annual plan for the financial year 2018 were discussed, approved and taken note of. The areas of responsibility as of 1 January 2018 were approved and an anticipatory resolution was taken pursuant to section 95 para 5 no 12 of the Austrian Stock Corporation Act as well as a resolution on long-term funding activities in the financial year 2018. With regard to the supervisory board's self-evaluation it was noted that an external advisor had been engaged to provide support and that it will be continued in 2018, also for taking into account information relating to the full year of 2017.

MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held seventeen meetings in 2017, at which it regularly took decisions on exposures and loans exceeding the powers of the management board and was briefed on loans granted within the scope of authorisation of the management board. The committee was regularly informed on the risk strategy, risk appetite, the monitoring required to comply with these limits, individual risk types, risk-bearing capacity and large exposures. Furthermore, reports were given on the situation of specific sectors and industries, including the real estate and automotive industries and the resulting impacts on the risk strategy. Further items on the agenda were audits by supervisory authorities, internal risk models and various legal disputes. Reports were regularly delivered on risk development in individual countries and subsidiaries. In 2017, the members of the risk committee were also briefed on recent developments in current IT projects. Without prejudice to the duties of the remuneration committee, the risk committee members were also informed on whether the incentives offered by the internal remuneration system adequately account for risk, capital, liquidity and the probability and timing of profit realisation. Also on the agenda were regulatory developments at the European level and in Austria. A report on a recovery plan required under applicable regulations was also delivered in the risk committee. In addition, the members of the risk committee were informed about developments in the corporate workout portfolio in general and major workout cases in particular.

The executive committee did not meet in 2017.

The audit committee met five times in 2017 and, in addition, held one informal meeting to prepare the meeting on the review of the (consolidated) financial statements. The external auditors were present at all meetings. Among other things, the auditors reported on the audit of the single-entity and consolidated financial statements for 2016 and the audit committee subsequently conducted the final discussion. The financial statements and the management report, the consolidated financial statements and the management report as well as the (consolidated) corporate governance report were reviewed and the financial statements recommended for approval by the supervisory board. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2016 and, on an ongoing basis, about audit-relevant matters in the group and explained the audit plan for 2017. The internal audit department presented its reports pursuant to section 42 para 3 of the Austrian Banking Act and, jointly with the compliance department, a report pursuant to section 21 para 2 of the Austrian Securities Supervision Act. In addition, a report was delivered on the assessment of the functionality of the risk management system pursuant to Rule 83 of the Austrian CCG and on the effectiveness of the internal control system. Based on these reports, the audit committee monitored the effectiveness of the internal control system, the internal audit system and the risk management system pursuant to section 63a para 4 no 2 of the Austrian Banking Act. The audit committee also discussed its work plan for 2018 and defined agenda topics for the meetings. It was decided to recommend the renewal of the audit mandate of PwC Wirtschaftsprüfung GmbH as additional auditor of the (consolidated) financial statements for the financial year 2019 to the supervisory board. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2017. Besides, discussions were held on the reports on the development of participations, on the half year report as of 30 June 2017, on current legal developments impacting audit committee activities, on the impacts of supreme court decisions on negative interest rates in loan agreements, on the current status of the IFRS 9 project and its impacts within Erste Group as well as on reviews conducted by the European Central Bank and on the 2016 management letter. The audit committee continuously reviewed and monitored the independence of the auditors of the (consolidated) financial statements with a particular focus on non-audit services rendered for Erste Group pursuant to section 63a para 4 no 4 of the Austrian Banking Act. Among other things, the audit committee gave therefore pre-approval to permissible non-audit services rendered by the (group) auditor, received reports on their current status and laid down and communicated throughout the Group guidelines for the approval of such non-audit services for Erste Group. It also discussed the process for the preparation of a (consolidated) non-financial report for 2017. The audit committee consulted Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to assist in its review of the non-financial report. The audit committee's report on activities included in the 2016 annual report was discussed and approved. The exchange of views between the audit committee and the auditors in the absence of the management board pursuant to C-Rule 81a Austrian CCG was conducted in December 2017.

The nomination committee met three times in 2017 and assessed the qualifications of Jordi Gual Solé, Marion Khüny, John James Stack, Brian O'Neill, Friedrich Rödler and Jan Homan ahead of their respective elections as members of the supervisory board by the annual general meeting of Erste Group Bank AG in May

2017. In addition, the nomination committee reviewed the evaluation pursuant to C-Rule 36 of the Austrian CCG and the evaluation of the management board and the supervisory board pursuant to section 29 no 6 and 7 of the Austrian Banking Act and considered, in particular, the topic diversity within Erste Group.

The remuneration committee met five times in 2017. The members discussed the result of the Remuneration Deep Dive conducted by the supervisory authorities' Joint Supervisory Team. In addition, they discussed and approved various remuneration topics relating to Erste Group Bank AG and its subsidiaries, including the structure of key performance indicators and the bonus policy including the requirements for the payment of variable remuneration components and remuneration rules for Material Risk Takers. Furthermore, the remuneration of members of the supervisory board was discussed and a decision of principal was passed concerning the proposal to the annual general meeting regarding fixed remuneration for supervisory board members. Reports were delivered on current changes in performance-linked remuneration for employees with sales responsibilities and on regulatory developments concerning remuneration and their implementation by Erste Group.

The IT committee met five times in 2017. Its main topics were the IT project portfolio and IT governance for Erste Group, risk management relating to IT and an IT audit plan, which was discussed on an ongoing basis. Reports were delivered on IT security, on the strategy concerning using of data while handling data and digitalisation, on the current status of various infrastructure projects and on IT strategy. In addition, the IT budget was discussed and the structure of the organisation considered in more detail.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Principles governing the remuneration policy

The principles governing the remuneration of the management boards of Erste Group Bank AG and of consolidated material subsidiaries are specified in the remuneration policy of Erste Group Bank AG at Group level, including in particular the definition and evaluation of performance criteria.

The contractual maximum value of performance-linked payments to management board members shall not exceed 100% of the fixed salaries.

The performance criteria and their impact on the variable remuneration of the management board of Erste Group Bank AG are defined at the beginning of the year by the supervisory board following a proposal of the responsible organisational units (Group Strategy und Group Human Resources). Management board members must achieve defined performance criteria at both company level and individual level. The first criterion is Erste Group's overall performance. For the year 2017, target achievement is measured by reference to the following indicators: compliance with capital and liquidity requirements, net profit and operating result minus risk cost. The second performance criterion is the achievement of individual objectives. These are, for example, operating result minus risk cost, return on tangible equity, net impairment loss as a percentage of average gross customer loans, customer satisfaction index, data quality and NPL ratio.

The performance criteria and their impact on the variable remuneration of the management boards of major consolidated subsidiaries are defined at the beginning of the year by the respective supervisory or advisory boards following proposals of the responsible organisational units (Group Strategy und Group Human Resources). Management board members must achieve the defined performance criteria at both company level and individual level.

The variable part of the management board's remuneration, including both cash payments and share equivalents, is distributed over five years in accordance with legal requirements and is paid out only under certain conditions. Share equivalents are not exchange-traded shares but phantom shares that are paid out in cash after a one-year vesting period based on defined criteria.

Remuneration of management board members

Remuneration in 2017

			Performance-linked remuneration		
in EUR thousand	Fixed salaries	Other remuneration	for 2016	for previous years	Total
Andreas Treichl	1,475.0	643.7	310.8	170.6	2,600.0
Peter Bosek	700.0	136.3	132.4	36.0	1,004.7
Petr Brávek	700.0	135.7	150.4	36.0	1,022.0
Willibald Cernko	700.0	129.1	0.0	0.0	829.1
Gernot Mittendorfer	700.0	136.7	156.0	63.2	1,055.9
Jozef Síkela	700.0	135.5	139.9	36.0	1,011.4
Total	**4,975.0**	**1,316.9**	**889.4**	**341.8**	**7,523.1**

Between 1 January 2015 and 31 January 2016, Peter Bosek was a management board member of Erste Group Bank AG as well as of Erste Bank der oesterreichischen Sparkassen AG. Thus, the remuneration was split equally between both entities for that period.

The item “Other remuneration” comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind. In 2017, performance-linked remuneration and share equivalents were paid out or vested for previous years. No performance-linked remuneration was paid to members of the management board for 2014 and 2011. Pension fund contributions declined as one member of the management board reached the legal retirement age of 65.

Non-cash performance-linked remuneration in 2017

Share equivalents (in units)	for 2016	for previous years
Andreas Treichl	14,408	7,923
Peter Bosek	6,512	1,433
Petr Brávek	6,512	1,433
Willibald Cernko	0	0
Gernot Mittendorfer	6,349	2,857
Jozef Síkela	6,512	1,433
Total	**40,293**	**15,079**

Pay-outs will be made pro rata in 2018 after the one-year vesting period. Share equivalents are valued at the average weighted daily share price of Erste Group Bank AG in 2017 in the amount of EUR 32.97 per share.

In 2017, EUR 2,097.8 thousand was paid in cash and 8,390 share-equivalents were assigned to former members of management bodies and their dependants.

Principles governing the pension scheme for management board members

Members of the management board participate in the defined contribution pension plan of Erste Group on the basis of the same principles as other employees of the company.

Principles governing vested benefits and entitlements of management board members in case of termination of the position

Regarding vested benefits and entitlements of management board members in the event of termination of their position, the standard legal severance benefit provisions of section 23 of the Austrian Salaried Employees Act (Angestelltengesetz) still apply to one member of the management board.

The remuneration granted to the management board members complies with the banking rules on management remuneration.

Remuneration of members of the supervisory board

in EUR thousand	Meeting fees for 2017	Supervisory board compensation for 2016	Total
Friedrich Rödler	42.0	100.0	142.0
Jan Homan	34.0	75.0	109.0
Bettina Breiteneder	6.0	75.0	81.0
Maximilian Hardegg	34.0	50.0	84.0
Elisabeth Bleyleben-Koren	28.0	50.0	78.0
Gonzalo Gortázar Rotaeche	0.0	41.2	41.2
Gunter Griss	11.0	50.0	61.0
Jordi Gual Solé	9.0	0.0	9.0
Marion Khüny	17.0	0.0	17.0
Elisabeth Krainer Senger-Weiss	20.0	50.0	70.0
Antonio Massanell Lavilla	9.0	50.0	59.0
Brian D. O´Neill	11.0	50.0	61.0
Wilhelm Rasinger	28.0	50.0	78.0
John James Stack	10.0	50.0	60.0
Markus Haag	0.0	0.0	0.0
Regina Haberhauer	0.0	0.0	0.0
Andreas Lachs	0.0	0.0	0.0
Barbara Pichler	0.0	0.0	0.0
Jozef Pinter	0.0	0.0	0.0
Karin Zeisel	0.0	0.0	0.0
Total	**259.0**	**691.2**	**950.2**

The 2016 annual general meeting granted the members of the supervisory board remuneration totalling EUR 691,200 for the financial year 2016. The distribution of this remuneration is at the supervisory board’s discretion and was approved at the meeting of the supervisory board on 17 May 2017. In addition, attendance fees paid to the members of the supervisory board were set at EUR 1,000 per meeting of the supervisory board or one of its committees.

Directors’ and officers’ liability insurance

Erste Group Bank AG has directors’ and officers’ liability insurance. The insurance policy covers former, current and future members of the management board or managing directors, of the supervisory board, of the administrative board and of the advisory board as well as senior management, holders of statutory powers of attorney (Prokuristen) and management staff of Erste Group Bank AG and the subsidiaries in which Erste Group Bank AG holds more than 50% of the shares or voting rights either directly or indirectly through one or more subsidiaries. The costs are borne by the company.

MEASURES TAKEN TO PROMOTE WOMEN ON MANAGEMENT BOARDS, SUPERVISORY BOARDS AND IN MANAGING POSITIONS

Erste Group´s diversity and inclusion principles are embedded both in its Statement of Purpose and Code of Conduct, which places emphasis on providing a work environment free of discrimination and harassment and valuing the work and worth of each and every person, regardless of gender, age, marital status, sexual orientation, physical ability, race, skin colour, religious or political affiliation, ethnic background, nationality, citizenship or any other aspect unrelated to employment.

At the end of 2016, the management board of Erste Group Bank AG formally approved the group-wide Diversity Policy, which provides the formal structures and processes for diversity management in Erste Group. The policy was adopted and implemented in local entities in 2017.

In 2014, the nomination committee of Erste Group Bank AG's supervisory board approved a group-wide target to have 35% women in board and B-1 positions (combined) by 2019 and a second target of 35% women in supervisory boards by 2019. This is a group-wide target which is aggregated from the following entities: Erste Group Bank AG, Erste Bank der oesterreichischen Sparkassen AG, Česká spořitelna, a.s., Slovenská sporiteľňa, a.s., Erste Bank Hungary Zrt., Erste Bank Croatia, Erste Bank Serbia, Banca Comercială Română S.A. While the target does not apply individually to the aforementioned entities, they are encouraged to align with the group target.

At the end of 2017, 31% (29%) of positions in top management in the Group were filled by women. The share of female supervisory board members also increased by two percentage points from 34% to 36%.

Erste Group implemented a variety of initiatives to support female leadership. In Austria, the Erste Women's Hub employee resource group continued key initiatives such as the *WoMentoring* program, financial education for women, networking events for female employees and clients and focused on encouraging more men to take advantage of parental leave options and flexible working. A new initiative focusing on Erste Women in IT (*Erste WIT*) was launched to look at ways in which to encourage more women to pursue IT careers and develop those who are in IT. Erste Bank Hungary launched *Erste Nő* (Women's Club) which focuses on promoting a family friendly organisation, the work-life balance of working women and supporting mothers returning from maternity leave, as well as on mentoring and networking activities. Slovenská sporiteľňa organised a networking conference for its female managers *ZenyZenam* (women to women) and Česká spořitelna continues to support female leadership through its internal and external mentoring activities. To increase the number of women in senior management positions, Erste Group also aims for a greater gender and age balance in its talent pools.

EXTERNAL EVALUATION

Erste Group Bank AG commissioned an external evaluation of compliance with the Austrian Code of Corporate Governance in accordance with C-Rule 62 of the Austrian CCG at least every three years, most recently for the 2017 fiscal year. All evaluations reached the conclusion that Erste Group Bank AG had met all requirements of the Code. The deviations of C-Rules were described and explained. Summary reports on these evaluations are available at the website of Erste Group Bank AG.

SHAREHOLDERS' RIGHTS

Erste Group Bank AG has no rights arising from its own shares. Neither a subsidiary nor a third party holding shares on behalf of Erste Group Bank AG or of a subsidiary may exercise its voting rights and its rights for subscription of these shares.

Voting rights

Each share of Erste Group Bank AG entitles its holder to one vote at the annual general meeting. In general, shareholders may pass resolutions at an annual general meeting by a simple majority of the votes cast or, in the event that the majority of the share capital present is required to approve a measure, by a simple majority of the share capital present, unless Austrian law or the articles of association require a qualified majority vote. The articles of association differ from the statutory majority requirements in three cases: First, the appointment of supervisory board members can be revoked before the end of their respective term by a resolution of the annual general meeting that requires a majority of 75% of the votes cast and a majority of 75% of the share capital present at such meeting. Second, the articles of association may be amended by a resolution of the annual general meeting. Provided that such amendment does not concern the business purpose, this requires a simple majority of the votes cast and a simple majority of the share capital present at such meeting. Third, any provision regulating increased majority requirements can only be amended with the same increased majority.

Dividend rights

Each shareholder is entitled to receive dividends if and to the extent the distribution of dividends is resolved by the annual general meeting.

Liquidation proceeds

In case of dissolution of Erste Group Bank AG, the assets remaining after the discharge of liabilities and repayment of supplementary capital as well as additional tier 1 capital will be distributed pro rata to the shareholders. The dissolution of Erste Group Bank AG requires a majority of at least 75% of the share capital present at an annual general meeting.

Subscription rights

All holders of shares have subscription rights allowing them to subscribe to any newly issued shares to maintain their existing

share in the share capital of Erste Group Bank AG. Such subscription rights are in proportion to the number of shares held by such shareholders prior to the issue of the new shares. The said subscription rights do not apply if the respective shareholder does not exercise these subscription rights or subscription rights are excluded in certain cases by a resolution of the annual general meeting or by a resolution of the management board and the supervisory board.
The Austrian Stock Corporation Act contains provisions that protect the rights of individual shareholders. In particular, all shareholders must be treated equally under equal circumstances unless the shareholders affected have consented to unequal treatment. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.

The articles of association of Erste Group Bank AG do not contain any provisions regarding a change in the share capital, the rights associated with the shares or the exercise of the shareholders' rights that differ from statutory requirements.

Stock corporations like Erste Group Bank AG must hold at least one annual general meeting (ordinary shareholders' meeting) per year, which must be held within the first eight months of any financial year and cover at least the following items:
- Presentation of certain documents
- Appropriation of profit
- Discharge of the members of the management board and the supervisory board for the financial year ended.

At annual general meetings, shareholders may ask for information about the company's affairs to the extent that this is required for the proper assessment of an agenda item.

Management board	
Andreas Treichl mp, Chairman	Willibald Cernko mp, Member
Peter Bosek mp, Member	Gernot Mittendorfer mp, Member
Petr Brávek mp, Member	Jozef Síkela mp, Member

Vienna, 28 February 2018

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

Erste Group is committed to the highest standards of corporate governance and responsible behaviour by individuals and conducts its business in compliance with applicable laws and regulations. In addition, Erste Group has introduced various policies and guidelines defining rules and principles for its employees.

Non Financial Risk

Reflecting Erste Group's integrated view of Compliance, Operational Risk and Security, an increasing number of non-financial risk decisions were taken in dedicated committees, adjusting the corporate governance principles towards a holistic view instead of the silo mentality. The integrated approach offers great potential for improvement regarding completeness, effectiveness and efficiency.

Closely associated with this approach is the constant pursuit of a clear assignment of roles and responsibilities to first, second and third line of defence (accountability, independent challenge and audit).

Compliance and anti-corruption

The responsibility for all compliance issues at Erste Group rests with the Compliance department, one of the non-financial risk units. In organisational terms, it is assigned to the Chief Risk Officer but reports directly to the management board. The compliance rules of Erste Group are based on the relevant legislation, such as the Austrian Stock Exchange Act and the Securities Supervision Act; on the Standard Compliance Code of the Austrian banking industry as well as on international practices and standards. Conflicts of interest between customers, Erste Group and employees are covered by clear rules such as Chinese walls, provisions on employee transactions, research disclaimer or gift policy.

Further key topics are procedures and measures to prevent money laundering and terrorist financing and to monitor sanctions and embargoes, as well as the establishment and coordination of measures to prevent financial crimes within Erste Group.

Based on international anti-corruption/anti-bribery initiatives (e.g. the OECD Anti-Bribery Convention, the United Nations Convention against Corruption) local authorities in many countries have approved laws and regulations that generally prohibit the acceptance of benefits by public officials for the purpose of obtaining or retaining business, or otherwise securing an improper advantage. All of Erste Group's businesses are subject to the laws and regulations in the countries in which the bank operates. Most laws and regulations cover corruption in both the private and public sector, partly with a global scope.

Public officials are subject to the respective domestic laws and regulations relating to gifts, hospitality and entertainment. Laws may differ from country to country and are to some extent extremely restrictive. Improper payments or other inducements for the benefit of a public official, even if made indirectly through an intermediary, are prohibited. Erste Group under no circumstances offers anything of value to a public official nor to members of a public official's family or any charitable organisation suggested by a public official for the purpose of influencing the recipient to take or refrain from taking any official action or to induce the recipient to conduct business with Erste Group. This also includes facilitating payments.

Erste Group did not record a case of corruption in 2017. To ensure compliance with all laws and regulations group-wide standards, policies and procedures are evaluated and refined continuously.

The mandatory compliance training for all new employees includes awareness training and an introduction to the prevention of corruption. For employees in selected business areas regular compliance trainings are mandatory.

Activities in 2017

_ Further improvement of the group-wide concept for Non-Financial Risk management, by embedding the established methodology (Risk Return Decision Procedure) into core business processes, developing a committee structure with Group-, Regional- and Local Operational Conduct Committees and by optimising roles and responsibilities and communication between all stakeholders.
_ Amendment of processes in line with the requirements of the Financial Market Money Laundering Act (Finanzmarkt-Geldwäschegesetz) and the Beneficial Owner Register Law (Wirtschaftlicher Eigentümer Register Gesetz) that came into force in 2017 implementing the European Union Fourth Anti-Money Laundering Directive in Austria.
_ Implementation and update of the group reporting tool monitoring securities transactions of employees, black and white-lists, secondary employment activities as well as various employee trainings and preparation of group reports.
_ Annual or periodic activities included the review of group-wide policies such as the Sanctions & Embargoes Policy, Securities Compliance Manual, Anti-Corruption and Conflicts of Interest Policy
_ Regular anti-corruption training
_ Support of group-wide projects to reach compliance with new or enhanced regulatory requirements such as the Markets in Financial Instruments Directive (MiFID II), consisting of the directive and of a regulation (MiFIR), related Commission Delegated Directive and Commission Delegated Regulations, regulatory and implementing technical standards developed by the European Securities and Markets Authority (ESMA). MiFID II as well as the connected Packaged Retail and Insurance-based Investment Products (PRIIPs) will be applicable from 3 January 2018.
_ Further roll-out of Erste Group's whistleblowing tool in various entities to ensure a state-of-the-art process for potential whistleblowing cases and their documentation. Employees throughout Erste Group can report severe cases of potential misconduct either locally in their respective entity or directly to the Holding. The rollout into the savings banks sector in Austria reached a penetration rate of approximately 70% of the institutes.

Activities started to be continued in 2018

_ Optimisation of the Group Risk Return Decision Procedure and its rollout to all local banks.
_ Analysing the implementation of the requirements of EU-Directive 2014/95/EU on the disclosure of non-financial and diversity information by large companies (non-financial reporting) which includes the reporting obligation for anti-corruption and bribery issues
_ Definition of a Group Fraud Risk Management Policy with planned approval in 2018

Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risk and return for earning a sustainable return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, is included in the Notes beginning on page 180. In addition, credit risk is analysed in detail in a separate section starting on page 31, in the Segments section of this report.

Directors' dealings

In accordance with the Market Abuse Regulation Article 19, individual trades by persons discharging managerial responsibilities at an issuer as well as persons closely associated with them involving shares or debt instruments or associated derivatives or other associated financial instruments of an issuer are published by the issuer. Erste Group publishes directors' dealings through electronic dissemination media and on the website (www.erstegroup.com/investorrelations).

Transparency

Transparent operations and reporting play a crucial part in establishing and upholding stakeholders' confidence. Accordingly, it is one of the main goals of Erste Group to provide accurate, timely and comprehensible information about the business development as well as financial and non-financial performance. Erste Group's disclosure adheres to applicable legal and regulatory requirements and is prepared in line with best practice.

Your Notes

Your Notes

Group Consolidated Financial Statements 2017 (IFRS)

Consolidated statement of income

in EUR thousand	Notes	1-12 16	1-12 17
Net interest income	1	4,374,518	4,353,154
Interest income	1	5,910,189	5,624,422
Interest expense	1	-1,535,671	-1,271,268
Net fee and commission income	2	1,782,963	1,851,567
Fee and commision income	2	2,225,598	2,329,384
Fee and commision expense	2	-442,635	-477,816
Dividend income	3	45,181	43,726
Net trading result	4	283,802	222,802
Result from financial assets and liabilities designated at fair value through profit or loss	4	-11,527	-12,302
Net result from equity method investments		9,010	15,857
Rental income from investment properties & other operating leases	5	207,234	194,235
Personnel expenses	6	-2,339,292	-2,388,581
Other administrative expenses	6	-1,235,771	-1,309,630
Depreciation and amortisation	6	-453,110	-460,022
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	148,001	156,431
Net impairment loss on financial assets	8	-195,672	-132,017
Other operating result	9	-664,953	-457,425
Levies on banking activities	9	-388,794	-105,658
Pre-tax result from continuing operations		**1,950,385**	**2,077,797**
Taxes on income	10	-413,627	-410,050
Net result for the period		**1,536,757**	**1,667,747**
Net result attributable to non-controlling interests		272,030	351,529
Net result attributable to owners of the parent		**1,264,728**	**1,316,218**

Earnings per share

Earnings per share constitute net profit/loss for the year attributable to owners of the parent divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (through an increase in the average number of shares) that would occur if all subscription and conversion rights granted were exercised (also see Note 36 Total equity). As in the previous year no subscription and conversion rights were outstanding during th financial year. Diluted earnings per share were identical to the undiluted.

		1-12 16	1-12 17
Net result attributable to owners of the parent	in EUR thousand	1,264,728	1,316,218
Dividend on AT1 capital	in EUR thousand	-16,368	-60,893
Net result for the period attributable to owners of the parent after deduction of AT1 capital dividend	in EUR thousand	1,248,360	1,255,325
Weighted average number of outstanding shares		426,668,132	426,679,572
Earnings per share	**in EUR**	**2.93**	**2.94**
Weighted average diluted number of outstanding shares		426,668,132	426,679,572
Diluted earnings per share	**in EUR**	**2.93**	**2.94**

Consolidated statement of comprehensive income

in EUR thousand	1-12 16	1-12 17
Net result for the period	**1,536,757**	**1,667,747**
Other comprehensive income		
Items that may not be reclassified to profit or loss		
Remeasurement of net liability of defined pension plans	-36,130	-7,387
Deferred taxes relating to items that may not be reclassified	-9,098	6,747
Total	**-45,227**	**-640**
Items that may be reclassified to profit or loss		
Available for sale reserve	-4,603	-184,575
Gain/loss during the period	142,807	-61,622
Reclassification adjustments	-147,411	-122,953
Cash flow hedge reserve	-13,341	-105,288
Gain/loss during the period	18,235	-73,898
Reclassification adjustments	-31,576	-31,390
Currency translation	28,848	237,620
Gain/loss during the period	28,848	237,620
Reclassification adjustments	0	0
Deferred taxes relating to items that may be reclassified	8,791	67,273
Gain/loss during the period	-33,446	23,264
Reclassification adjustments	42,236	44,009
Total	**19,694**	**15,030**
Total other comprehensive income	**-25,533**	**14,391**
Total comprehensive income	**1,511,224**	**1,682,137**
Total comprehensive income attributable to non-controlling interests	307,847	277,144
Total comprehensive income attributable to owners of the parent	**1,203,377**	**1,404,994**

The deferred taxes relating to items that may be reclassified amounted to EUR 62,273 thousand (2016: EUR 8.791 thousand), thereof EUR 45,188 thousand (2016: EUR 4.379 thousand) relate to the available for sale reserve and EUR 22,085 thousand (2016: EUR 4.412 thousand) relate to the cash flow hedge reserve.

Consolidated balance sheet

in EUR thousand	Notes	Dec 16	Dec 17
Assets			
Cash and cash balances	12	18,352,596	21,796,299
Financial assets - held for trading		7,950,401	6,349,189
Derivatives	13	4,474,783	3,333,142
Other trading assets	14, 18	3,475,618	3,016,047
thereof pledged as collateral	42	56,314	242,434
Financial assets - at fair value through profit or loss	15, 18	479,512	542,572
thereof pledged as collateral	42	0	0
Financial assets - available for sale	16, 18	19,885,535	16,060,153
thereof pledged as collateral	42	678,225	756,537
Financial assets - held to maturity	17, 18	19,270,184	19,800,435
thereof pledged as collateral	42	913,600	1,568,387
Loans and receivables to credit institutions	19	3,469,440	9,125,673
Loans and receivables to customers	20	130,654,451	139,532,277
Derivatives - hedge accounting	22	1,424,452	884,311
Property and equipment	26	2,476,913	2,386,767
Investment properties	26	1,022,704	1,111,561
Intangible assets	27	1,390,245	1,523,564
Investments in associates and joint ventures	23	193,277	198,373
Current tax assets	28	124,224	107,633
Deferred tax assets	28	233,773	257,933
Assets held for sale	29	279,447	213,897
Other assets	30	1,019,916	768,795
Total assets		**208,227,070**	**220,659,433**
Liabilities			
Financial liabilities - held for trading		4,761,782	3,422,793
Derivatives	13	4,184,508	2,933,667
Other trading liabilities	31	577,273	489,126
Financial liabilities - at fair value through profit or loss		1,763,043	1,801,245
Deposits from banks	32	0	0
Deposits from customers	32	73,917	48,559
Debt securities issued	32	1,689,126	1,752,686
Other financial liabilities	32	0	0
Financial liabilities measured at amortised cost		178,908,933	191,711,402
Deposits from banks	33	14,631,353	16,349,382
Deposits from customers	33	137,938,808	150,920,715
Debt securities issued	33	25,502,621	23,342,123
Other financial liabilities		836,150	1,099,182
Derivatives - hedge accounting	22	472,675	360,379
Changes in fair value of portfolio hedged items		942,028	666,117
Provisions	34	1,702,354	1,647,963
Current tax liabilities	28	65,859	101,079
Deferred tax liabilities	28	67,542	61,454
Liabilities associated with assets held for sale	29	4,637	2,752
Other liabilities	35	2,936,220	2,595,932
Total equity		**16,601,996**	**18,288,316**
Equity attributable to non-controlling interests	36	4,142,054	4,416,402
Additional equity instruments	36	496,750	993,275
Equity attributable to owners of the parent	36	11,963,192	12,878,639
Subscribed capital	36	859,600	859,600
Additional paid-in capital	36	1,477,860	1,476,689
Retained earning and other reserves	36	9,625,732	10,542,350
Total liabilities and equity		**208,227,070**	**220,659,433**

Consolidated statement of changes in equity

in EUR million	Subscribed capital	Capital reserves	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency translation	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent	Additional equity instruments	Equity attributable to non-controlling interests	Total equity
As of 1 January 2017	**860**	**1,478**	**10,090**	**107**	**632**	**-734**	**-357**	**-112**	**11,963**	**497**	**4,142**	**16,602**
Changes in treasury shares	0	0	-20	0	0	0	0	0	-20	0	0	-20
Dividends paid	0	0	-470	0	0	0	0	0	-470	0	-29	-499
Capital increases	0	0	0	0	0	0	0	0	0	497	-1	496
Participation capital	0	0	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	31	31
Other changes	0	-1	3	0	0	0	0	0	2	0	0	2
Acquisition of non-controlling interest	0	0	-1	0	0	0	0	0	-1	0	-4	-5
Total comprehensive income	0	0	1,316	-103	-87	231	-7	55	1,405	0	277	1,682
Net result for the period	0	0	1,316	0	0	0	0	0	1,316	0	352	1,668
Other comprehensive income	0	0	0	-103	-87	231	-7	55	89	0	-74	14
Change in cash flow hedge reserve	0	0	0	-103	0	0	0	0	-103	0	-2	-105
Change in revaluation reserve	0	0	0	0	-87	0	0	0	-87	0	-98	-185
Change in currency translation reserve	0	0	0	0	0	231	0	0	231	0	6	238
Change from remeasurement of defined benefit plans	0	0	0	0	0	0	-7	0	-7	0	0	-7
Change in tax	0	0	0	0	0	0	0	55	55	0	19	74
Other changes in OCI	0	0	0	0	0	0	0	0	0	0	0	0
As of 31 December 2017	**860**	**1,477**	**10,918**	**4**	**545**	**-503**	**-364**	**-57**	**12,879**	**993**	**4,416**	**18,288**

in EUR million	Subscribed capital	Capital reserves	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency translation	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent	Additional equity instruments	Equity attributable to non-controlling interests	Total equity
As of 1 January 2016	**860**	**1,478**	**9,071**	**115**	**688**	**-759**	**-334**	**-112**	**11,005**	**0**	**3,802**	**14,808**
Changes in treasury shares	0	0	-14	0	0	0	0	0	-14	0	0	-14
Dividends paid	0	0	-222	0	0	0	0	0	-222	0	-60	-281
Capital increases	0	0	0	0	0	0	0	0	0	497	2	499
Participation capital	0	0	0	0	0	0	0	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0	0	0	0	0	89	89
Other changes	0	0	0	0	0	0	0	0	0	0	0	0
Acquisition of non-controlling interest	0	0	-10	0	0	0	0	0	-10	0	0	-10
Total comprehensive income	0	0	1,265	-8	-56	25	-23	-1	1,203	0	308	1,511
Net result for the period	0	0	1,265	0	0	0	0	0	1,265	0	272	1,537
Other comprehensive income	0	0	0	-8	-56	25	-23	-1	-61	0	36	-26
Change in cash flow hedge reserve	0	0	0	-8	0	0	0	0	-8	0	-6	-13
Change in revaluation reserve	0	0	0	0	-56	0	0	0	-56	0	51	-5
Change in currency translation reserve	0	0	0	0	0	25	0	0	25	0	4	29
Change from remeasurement of defined benefit plans	0	0	0	0	0	0	-23	0	-23	0	-14	-36
Change in tax	0	0	0	0	0	0	0	-1	-1	0	0	0
Other Changes in OCI	0	0	0	0	0	0	0	0	0	0	0	0
As of 31 December 2016	**860**	**1,478**	**10,090**	**107**	**632**	**-734**	**-357**	**-112**	**11,963**	**497**	**4,142**	**16,602**

In the column additional components of equity, Erste Group reports additional tier 1 bonds issued in June 2016 and April 2017, each with a nominal value of EUR 500 million. After deduction of costs directly attributable to each capital increase (EUR 3 million per issue), the net increase in capital amounted to EUR 497 million respectively.

Additional tier 1 bonds are unsecured and subordinated bonds which are classified as equity under IFRS.

For further details, see Note 36 Total equity.

Consolidated statement of cash flows

in EUR million	Notes	1-12 16	1-12 17
Net result for the period		**1,537**	**1,668**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation, impairment and reversal of impairment of assets	26, 27	622	558
Allocation to and release of provisions including risk provisions	9	721	414
Gains/losses from the measurement and derecognition of assets and liabilities	17, 29	-462	-421
Other adjustments		327	-173
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets - held for trading	13, 14	738	1,572
Financial assets - at fair value through profit or loss	15	-123	-53
Financial assets - available for sale: debt instruments	16	781	3,586
Financial assets - held to maturity	17	-1,566	-528
Loans and receivables to credit institutions	19	1,323	-5,661
Loans and receivables to customers	20	-5,341	-9,166
Derivatives - hedge accounting	22	759	437
Other assets from operating activities		352	323
Financial liabilities - held for trading	13, 31	-915	-1,072
Financial liabilities - at fair value through profit or loss	32	-153	16
Financial liabilities measured at amortised cost			
Deposits from banks	33	419	1,718
Deposits from customers	33	10,142	12,982
Debt securities issued	33	-2,406	-2,159
Other financial liabilities		-45	263
Derivatives - hedge accounting	22	-120	-112
Other liabilities from operating activities		-414	-711
Cash flow from operating activities		**6,176**	**3,479**
Financial assets - available for sale: equity instruments	16	188	273
Proceeds of disposal			
Associated companies	23	-18	11
Property and equipment and intangible assets	26, 27	83	105
Investment properties	26	170	6
Acquisition of			
Associated companies		0	0
Property and equipment and intangible assets	26, 27	-643	-636
Investment properties	26	-164	-112
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		0	0
Disposal of subsidiaries		0	0
Cash flow from investing activities		**-383**	**-354**
Capital increases	36	499	496
Capital decrease	36	0	0
Acquisition of non-controlling interest	36	-10	-1
Dividends paid to equity holders of the parent	36	-222	-470
Dividends paid to non-controlling interests	36	-60	-29
Other financing activities		0	0
Cash flow from financing activities		**208**	**-4**
Cash and cash equivalents at beginning of period	12	**12,350**	**18,353**
Cash flow from operating activities		6,176	3,479
Cash flow from investing activities		-383	-354
Cash flow from financing activities		208	-4
Effect of currency translation		1	323
Cash and cash equivalents at end of period	12	**18,353**	**21,796**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)		**4,119**	**3,885**
Payments for taxes on income	10	-408	-407
Interest received	1	6,114	5,792
Dividends received	3	45	44
Interest paid	1	-1,632	-1,543

Cash and cash equivalents are equal to cash on hand, cash balances at central banks and other demand deposits.

Notes to the group financial statements of Erste Group

A. GENERAL INFORMATION

Erste Group Bank AG is Austria's oldest savings bank and listed on the Vienna Stock Exchange. It is also quoted on the Prague Stock Exchange (since October 2002) and on the Bucharest Stock Exchange (since February 2008). The registered office of Erste Group Bank AG is located at Am Belvedere 1, 1100 Vienna, Austria.

The group of Erste Group Bank AG (hereinafter referred to as 'Erste Group') offers a complete range of banking and other financial services, such as savings accounts, asset management (including investment funds), consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital market and money market services, foreign exchange trading, leasing and factoring.

It is planned for the management to approve the consolidated financial statements for publication on 28 February 2018.

Erste Group is subject to the regulatory requirements of Austrian and European supervisory bodies (National Bank, Financial Market Authority, Single Supervisory Mechanism). These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity and interest rate risk, items denominated in foreign currencies and operating risk.

In addition to the banking entities, some Group companies are subject to regulatory requirements, specifically in relation to asset management.

B. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements of Erste Group for the financial year ending on 31 December 2017 and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union on the basis of IAS Regulation (EC) No. 1606/2002. The requirements of Section 59a of the Austrian Banking Act and Section 245a of the Austrian Commercial Code are fulfilled.

In accordance with the applicable measurement models prescribed or permitted under IFRS, the consolidated financial statements have been prepared on a cost (or amortised cost) basis, except for financial assets - available for sale, financial assets and liabilities held for trading (including derivatives), instruments subject to hedge accounting and financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value.

The consolidated financial statements have been prepared on a going concern basis.

Except for regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all financial institutions based in Austria and Central and Eastern Europe, Erste Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling interests in Group subsidiaries do not have rights that can restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

Except as otherwise indicated, all amounts are stated in millions of euro. The tables in this report may contain rounding differences.

The consolidated financial statements have not been accepted by the supervisory board and the financial statements of Erste Group Bank AG have not been approved by the supervisory board yet.

b) Basis of consolidation

Subsidiaries

All entities directly or indirectly controlled by Erste Group Bank AG are consolidated in the Group financial statements on the basis of their annual accounts as of 31 December 2017, and for the year then ended.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Erste Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the bank's subsidiaries are prepared for the same reporting year as that of Erste Group Bank AG and using consistent accounting policies. All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable directly or indirectly to the owners of Erste Group Bank AG. Non-controlling interests are presented separately in the consolidated statement of income, in the consolidated statement of comprehensive income and within equity on the consolidated balance sheet. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, an interest in an associate or joint venture is recognised on the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's or joint venture's result is recognised in the statement of income and comprehensive income. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2017 and for the year then ended.

Associates are entities over which Erste Group exercises significant influence ('associates'). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. As a general rule, significant influence is presumed to mean an ownership interest of between 20% and 50%.

Joint ventures are joint arrangements over which Erste Group exercises control jointly with one or more other venturers, with the venturers having rights to the net assets of the arrangement, rather than to the assets and liabilities relating to the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Erste Group is not involved in joint arrangements which take form of joint operations.

Scope of consolidation

As of 31 December 2017, Erste Group Bank AG, as parent entity of Erste Group, includes in its IFRS scope of consolidation a total of 421 subsidiaries (31 December 2016: 448). This includes a total of 47 local savings banks which, alongside Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings bank sector (please refer to 'd) Significant accounting judgements, assumptions and estimates' for further details).

In 2014, following the implementation of the new agreements of the cross-guarantee system (please refer to chapter 'd) Significant accounting judgements, assumptions and estimates') and the related financial support of the members, an 'ex-ante fund' was established. The fund is managed by a civil law company named IPS GesbR. The assets of the fund – the members of the cross-guarantee system are required to pay into the fund over a period of ten years - are bound and can be used solely for the purpose to cover loss events of members of the cross-guarantee system. The company IPS GesbR was included in the scope of consolidation in 2014.

For further details regarding the scope of consolidation please refer to Note 55 Details of the companies wholly or partly owned by Erste Group as of 31 December 2017.

Additions in 2017. The additions had no material impact on the financial position and performance of the Group.

Disposals in 2017. The disposals had no material impact on the financial position and performance of the Group.

Sale of shares to EBRD and Corvinus

As of 11 August 2016, Erste Group Bank AG has sold respectively 15% of the shares held in Erste Bank Hungary Zrt. (EBHU) to the European Bank for Reconstruction and Development (EBRD) and to Corvinus Nemzetközi Befektetési Zrt. (Corvinus) - a related party to the Hungarian state. Erste Group Bank AG received EUR 250 million for the sale of the shares. At the same time, call-put option agreements were concluded between Erste Group Bank AG and EBRD and Corvinus for the acquisition of 30% of the shares. In the consolidated financial statements of Erste Group Bank AG, the option agreements are accounted for as a liability in the amount of the present value of the expected exercise price. Due to the structure of the option agreements, for the 30% no share in non-controlling interest is recognised.

c) Accounting and measurement methods

Foreign currency translation

The consolidated financial statements are presented in euro, which is the functional currency of Erste Group Bank AG. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, exchange rates quoted by the central banks in each country are used. For Group entities with the euro as functional currency, these are the European Central Bank reference rates.

i. Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the statement of income under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items that are measured at fair value (such as equity investments) in a foreign currency are translated using the exchange rates at the date when the fair value was measured, thus the exchange differences are part of the fair value gains or losses.

ii. Translation of the statements of Group companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Erste Group's presentation currency, the euro, at the rate of exchange as of the balance sheet date (closing rate). Their consolidated statement of income and consolidated statement of comprehensive income are translated at the average exchange rate of the respective reporting period calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries (i.e. customer relationships and brand) and fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the statement of income under the line item 'Other operating result'.

Financial instruments – recognition and measurement

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

Erste Group uses the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

The line items as presented on the balance sheet are not necessarily corresponding with the IAS 39 categories of financial instruments. The correspondence between the balance sheet line items and categories of financial instruments is described in the table at point (xi).

i. Initial recognition

Financial instruments are initially recognised when Erste Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at the settlement date, which is the date that an asset is delivered. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

ii. Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

iii. Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

iv. Derivative financial instruments

Derivative financial instruments are used by Erste Group to manage exposures to interest rate, foreign currency and other market price risks. Derivatives used by Erste Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps.

For presentation purposes derivatives are split into:

- Derivatives – held for trading; and
- Derivatives – hedge accounting

Derivative financial instruments are carried at fair value (dirty price) on the Consolidated Balance Sheet - regardless of whether they are held for trading or hedge accounting purposes. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those which are not designated as hedging instruments for hedge accounting. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book are presented in this line item.

Changes in the fair value (clean price) of derivatives held for trading are reported in the statement of income in the line item 'Net trading result'. Interest income/expense related to derivatives – held for trading is recognised in the statement of income under the line item 'Net interest income' if held in the banking book or under the line item 'Net trading result' if held in the trading book.

Derivatives – hedge accounting are those which are designated as hedging instruments in hedge accounting relationships fulfilling the conditions of IAS 39 (please refer to Hedge Accounting). In the balance sheet, they are presented in the line item 'Derivatives - hedge accounting' on asset or liability side.

Changes in the fair value of derivatives (clean price) in fair value hedges are recognised in the statement of income in the line item 'Net trading result'. Interest income/expense related to derivatives in fair value hedges is reported in the statement of income in the line item 'Net interest income'.

The effective part of changes in the fair value (clean price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve'. The ineffective part of changes in the fair value (clean price) of derivatives in cash flow hedges is recognised in profit or loss under the line item 'Net trading result'. Interest income/expense from hedging derivatives in cash flow hedges is disclosed in the statement of income in the line item 'Net interest income'.

v. Financial assets and financial liabilities - held for trading

Financial assets and financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed above in (iv).

Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the balance sheet, they are presented as 'Other trading assets' or 'Other trading liabilities' under the heading 'Financial assets / financial liabilities – held for trading'.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the statement of income under the line item 'Net trading result'. Interest income and expenses are reported in the statement of income under the line item 'Net interest income'. Dividend income is shown under the line item 'Dividend income'.

If securities purchased under agreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Other trading liabilities'.

vi. Financial assets or financial liabilities designated at fair value through profit or loss
Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).

Erste Group uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy, the performance of the portfolio is evaluated and regularly reported to the management board. The portfolio contains mostly funds and bonds.

Financial assets - designated at fair value through profit or loss are recorded on the balance sheet at fair value under the line item 'Financial assets - designated at fair value through profit or loss', with changes in fair value recognised in the statement of income under the line item 'Result from financial assets and liabilities designated at fair value through profit or loss'. Interest earned on debt instruments is reported under the line item 'Net interest income'. Dividend income on equity instruments is shown under the line item 'Dividend income'.

Furthermore, Erste Group uses the fair value option in the case of some hybrid financial liabilities. This is relevant when:
- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk for financial liabilities designated at fair value through profit or loss is calculated by the method described by IFRS 7. This amount is the difference between the present value of the liability and the observed market price of the liability at the end of the period. The rate used for discounting the liability is the sum of the observed (benchmark) interest rate at the end of the period and the instrument-specific component of the internal rate of return determined at the start of the period.

Financial liabilities designated at fair value through profit or loss are reported on the balance sheet under the line item 'Financial liabilities designated at fair value through profit or loss' further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are recognised in the statement of income under the line item 'Result from financial assets and liabilities designated at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income'.

vii. Financial assets – available for sale
Available-for-sale financial assets include debt and equity securities as well as other interests in entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are measured at fair value. On the balance sheet, available-for-sale financial assets are disclosed under the line item 'Financial assets – available for sale'.

Unrealised gains and losses are recognised in other comprehensive income and reported in the 'Available for sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and reported in the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net' in the case of sale or in the line item 'Net impairment loss on financial assets' in the case of impairment.

Interest income on available-for-sale financial assets is reported under the line item 'Net interest income'. Dividend income is reported under the line item 'Dividend income'.

In 2017, as part of IFRS 9 implementation, valuation models for investments in unquoted equities were developed. Erste Group considers that these models deliver reliable fair value measurement. As a result, these investments were remeasured to fair value throughout 2017. The remeasurement effects are disclosed in Note 16 Financial assets – available for sale.

If the fair value of investments in non-quoted equity instruments could not be measured reliably in the comparative period, they were recorded at cost less impairment. This was the case when the range of reasonable fair value estimates as calculated by valuation models was significant and the probabilities of the various estimates could not be reasonably assessed. There was no market for these investments.

viii. Financial assets – held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity and reported on the balance sheet as 'Financial assets – held to maturity' if Erste Group has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the statement of income under the line item 'Net interest income'. Losses arising from impairment of such financial assets are presented as 'Net impairment loss on financial assets'. Realised gains or losses from selling are recognised in the statement of income under the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

ix. Loans and receivables

The balance sheet line items 'Loans and receivables to credit institutions' includes financial instruments which are allocated to financial instrument category loans and receivables with a contractual maturity of more than 24 hours. The balance sheet line item 'Loans and receivables to customers' includes financial instruments which are allocated to financial instrument category loans and receivables regardless of their contractual maturity. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under these balance sheet line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- those that Erste Group intends to sell immediately or in the near term and those that Erste Group upon initial recognition designates as at fair value through profit or loss;
- those that Erste Group, upon initial recognition, designates as available for sale; or
- those for which Erste Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter 'Leasing' Interest income earned is included under the line item 'Net interest income' in the statement of income.

Impairment losses arising from loans and receivables are recognised in the statement of income under the line item 'Net impairment loss on financial assets'.

x. Financial liabilities measured at amortised cost

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

For presentation on the balance sheet, the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down by 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' in the statement of income. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

xi. Relationships between balance sheet items, measurement methods and categories of financial instruments

Balance sheet position	Measurement principle: Fair value	At amortised cost	Other	Financial instrument category
ASSETS				
Cash and cash balances		x	Nominal value	n/a / Loans and receivables
Financial assets - held for trading				
Derivatives	x			Financial assets at fair value through profit or loss
Other trading assets	x			Financial assets at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets at fair value through profit or loss
Financial assets - available for sale	x			Available for sale financial assets
Financial assets - held to maturity		x		Held to maturity investments
Loans and receivables to credit institutions		x		Loans and receivables
thereof Finance lease			IAS 17	n/a
Loans and receivables to customers		x		Loans and receivables
thereof Finance lease			IAS 17	n/a
Derivatives - hedge accounting	x			n/a
LIABILITIES AND EQUITY				
Financial liabilities - held for trading				
Derivatives	x			Financial liabilities - at fair value through profit or loss
Other trading liabilities	x			Financial liabilities - at fair value through profit or loss
Financial liabilities - at fair value through profit or loss	x			Financial liabilities - at fair value through profit or loss
Financial liabilities measured at amortised cost		x		Financial liabilities measured at amortised cost
Derivatives - hedge accounting	x			n/a

Furthermore, two additional classes of financial instruments which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable credit commitments.

Embedded derivatives

Erste Group is involved in business with debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host debt instruments if:

_ the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
_ the embedded derivative meets the IAS 39 definition of derivative; and
_ the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the balance sheet under the line item ‘Derivatives’ in financial assets – held for trading and financial liabilities – held for trading.

At Erste Group, derivatives that are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds and deposits that contain interest caps, floors or collars in the money, CMS bonds without appropriate cap, contractual features linking payments to non-interest variables such as FX rates, equity and commodity prices and indices, or third-party credit risk.

Reclassifications of financial assets

IAS 39 provides various possibilities to reclassify financial assets between categories of financial instruments. It also places restrictions on some reclassifications. Erste Group makes use of reclassification alternatives only in the case of held-to-maturity financial assets. If a significant credit deterioration in a held-to-maturity financial asset results in a change in the intention and ability to hold the asset until maturity, the asset is reclassified into the available-for-sale financial assets category. Furthermore, reclassifications may relate to sales, which are performed close to the maturity date. Such reclassifications are not triggering a reclassification of the entire held-to-maturity portfolio.

Derecognition of financial assets and financial liabilities

A financial asset (or where applicable part of a financial asset or part of a group of similar financial assets) is derecognised when:

_ the contractual rights to receive cash flows from the asset have expired; or
_ Erste Group has transferred its rights to receive cash flows from the asset
_ or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement;

and either:
_ it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
_ has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold are not derecognised from the balance sheet, as Erste Group retains substantially all the risks and rewards of ownership because the securities are repurchased at a fixed price when the repo transaction ends. Furthermore, Erste Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to Erste Group or are reflected in the repurchase price.

The corresponding cash received is recognised on the balance sheet with a corresponding obligation to return it as a liability under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to Erste Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the statement of income under the line item 'Net interest income' and is accrued over the life of the agreement. Financial assets transferred out by Erste Group under repurchase agreements remain on the Group's balance sheet and are measured according to the rules applicable to the respective balance sheet item. Moreover, they are presented in 'thereof pledged as collateral' positions under the respective balance sheet items.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised on the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded on the balance sheet under the respective line items 'Loans and receivables to credit institutions' or 'Loans and receivables to customers', reflecting the transaction's economic substance as a loan by Erste Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the statement of income under the line item 'Net interest income'.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by Erste Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, Erste Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lendings. The securities lent are presented in 'thereof pledged as collateral' positions under the respective balance sheet items.

Securities borrowed are not recognised on the balance sheet unless they are then sold to third parties. In this case, the obligation to return the securities is recorded as a short sale within 'Other trading liability'.

Impairment of financial assets and credit risk losses of contingent liabilities

Erste Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Erste Group uses the CRR definition of default as a primary indicator of loss events. Default, as a loss event, occurs when:
_ the obligor is more than 90 days past due on any material credit obligation;
_ as a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
_ the obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
_ the obligor is subject to bankruptcy or similar protection proceedings.

In order to maximise collection opportunities and minimise the number of defaults, Erste Group renegotiates loans to customers in financial difficulties (referred to as forbearance cases). Both retail and corporate loans can be subject to forbearance. Under the Erste Group's forbearance policy, loan forbearance can be granted if the debtor is currently in default or if there is a high risk of default, there is evidence that the debtor made all efforts to pay according to the original contractual terms and it is expected that the debtor is able to meet the revised terms. Revised terms could be extended maturity, instalment reduction, changing the timing of the interest payments, interest reduction or forgiveness, revolving exposure change to instalments.

Loans subject to forbearance are generally not derecognised and are considered for impairment based on renegotiated conditions. However, in certain cases (like for FX loan conversions) when the renegotiation is qualitatively assessed as a substantial extinguishment of the rights to collect the cash flows due to material changes in the timing and amount of the cash flows, the loan is derecognised and the renegotiated loan is recognised as a new loan initially measured at fair value.

For assessment at portfolio level, Erste Group uses the incurred but not reported losses concept. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the bank at the moment of default.

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

For more detailed information see Note 44.4.

i. Financial assets carried at amortised cost

Erste Group first assesses individually for significant loans and held-to-maturity securities whether objective evidence of impairment exists. If no objective evidence of impairment exists for an individually assessed financial asset, Erste Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset also reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Impairment losses on financial assets carried at amortised cost are recognised as loss allowance. On the balance sheet, loss allowances decrease the value of the assets. I.e. the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. This treatment holds for loss allowances for loans and receivables and for incurred but not reported losses (i.e. portfolio allowances) on held-to-maturity financial assets. Reconciliation of changes in these loss allowance accounts is disclosed in the notes. However, individual loss allowances for held to maturity financial assets are treated as direct reduction of the asset carrying amount and therefore reconciliation of changes is not disclosed in the notes.

In the statement of income, impairment losses and their reversals are presented in the line item 'Net impairment loss on financial assets'. Loans together with the associated allowance are removed from the balance sheet when there is no realistic prospect of future recovery and all collaterals have been realised by Erste Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases, the previously recognised impairment loss is increased or reduced by adjusting the loss allowance.

ii. Available-for-sale financial assets

In cases of debt instruments classified as available for sale, Erste Group assesses individually whether there is objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the statement of income. On recognising impairment, any loss retained in the other comprehensive income item 'Available for sale reserve' is reclassified to the statement of income and shown as an impairment loss under the line item 'Net impairment loss on financial assets'.

If, in a subsequent period, the fair value of a debt instrument increases, which can be related objectively to an event occurring after the impairment was recognised, impairment loss is reversed through the statement of income under the line item 'Net impairment loss on financial assets'. Impairment losses and their reversals are recognised directly against the assets on the balance sheet.

In cases of equity investments classified as available for sale, objective evidence of impairment also includes a 'significant' or ' prolonged' decline in the fair value of the investment below its cost. For this purpose at Erste Group, 'significant' decline means a market price below 80% of the acquisition cost and 'prolonged' decline refers to a market price that is permanently below the acquisition cost for a period of nine months up to the reporting date.

Where there is evidence of impairment on equity investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income, is shown as an impairment loss in the statement of income under the line item 'Net impairment loss on financial assets'. Any loss previously recognised under the other comprehensive income item 'Available for sale reserve' has to be reclassified to the statement of income as part of an impairment loss under the line item 'Net impairment loss on financial assets'.

Impairment losses on equity investments are not reversed through the statement of income; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets on the balance sheet.

For investment in unquoted equity instruments carried at cost because their fair value cannot be determined reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

iii. Contingent liabilities
Provisions for credit losses of contingent liabilities (particularly financial guarantees as well as credit commitments) are included under the balance sheet line item 'Provisions'. The related expense or its reversal is reported in the statement of income under the line item 'Other operating result'.

Hedge accounting
Erste Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is considered as highly effective if the changes in fair value or cash flows attributable to the hedged risk offset the fair value changes of the hedging instrument in a range of 80% to 125%. This is assessed both prospectively, i.e. whether the results are expected to be in the range, and retrospectively, i.e. whether the actual results are in the range. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by Erste Group are specified internally in the hedge accounting policy.

i. Fair value hedges
Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the statement of income under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the statement of income under the line item 'Net trading result' and adjusts the carrying amount of the hedged item.

Erste Group also uses portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. Currently only interest rate risk from issued bonds is being hedged (i.e. no assets are included as hedged items). The change in the fair value of the hedged items attributable to the hedged interest risk is presented on the balance sheet under the line item 'Changes in fair value of portfolio hedged items'. Erste Group does not make use of the relaxation of hedge accounting requirements provided for portfolio fair value hedges by the EU carve-out.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised to the statement of income under the line item 'Net interest income' until maturity of the financial instrument.

ii. Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the statement of income under the line item 'Net trading result'. For determination of the effective and ineffective portions, the derivative is considered at its clean price, i.e. excluding the interest component. If the hedged cash flow affects the statement of income, the gain or loss on the hedging instrument is reclassified from other comprehensive income on the corresponding income or expense line item in the statement of income (mainly 'Net interest income'). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains in 'Cash flow hedge reserve' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Erste Group undertakes interest rate derivative transactions via London Clearing House and credit derivative transactions via ICE Clear Europe Ltd by fulfilling all offsetting requirements according IAS 32. The offsetting is carried out between asset and liability derivative positions while the net position is further offset with variation margin amounts. The amounts offset are disclosed in Note 13 Derivatives – held for trading and Note 22 Derivatives – hedge accounting as well as in Note 43 Offsetting of financial instruments.

Determination of fair value

Fair value is the price that would be received if an asset were sold or paid, if a liability were transferred in an orderly transaction between market participants on the measurement date. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 46 Fair value of financial instruments.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease at Erste Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at Erste Group are classified as operating leases. This mainly includes the leasing of commercial real estate, automobiles and small trucks.

Erste Group as a lessor

The lessor in the case of a finance lease reports a receivable from the lessee under the line item 'Loans and receivables to customers' or 'Loans and receivables to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income under the line item 'Net interest income'.

In the case of operating leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from investment properties & other operating leases'.

The vast majority of lease agreements in which Erste Group operates as a lessor are finance leases.

Erste Group as a lessee

As a lessee, Erste Group has not entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the statement of income on the line item 'Other administrative expenses' on a straight-line basis over the lease term.

Business combinations and goodwill

i. Business combinations

Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the statement of income under the line item ‘Other operating result’ in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree’s identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the statement of income line item ‘Other operating result’.

ii. Goodwill and goodwill impairment testing

Goodwill arising on acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated subsequent impairment losses, if any. Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and intangible assets recognised at the time of business combination if they are allocated to the CGU.

The recoverable amount is the higher of a CGU’s fair value less costs of disposal and its value in use. Where available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfilment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU. Values for the long-term growth rates are disclosed in Note 27 Intangible assets in the subsection ‘Development of goodwill’.

The cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information. Discount rates applied to determine the value in use are disclosed in Note 27 Intangible assets in the subsection ‘Development of goodwill’.

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the statement of income under the line item ‘Other operating result’. The impairment loss is allocated first to write down the CGU’s goodwill. Any remaining impairment loss reduces the carrying amount of the CGU’s other assets, though not to an amount lower than their fair value less costs of disposal. No impairment loss is recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

The goodwill included in the acquisition cost of investments in associates and joint ventures is not tested separately by performing the recurring impairment assessments applicable to goodwill. Instead, the entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (higher of fair value in use and fair value less costs of disposal) with its carrying amount (after application of the equity method) whenever relevant objective evidence of impairment is identified. Such evidence includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environments in which associates and joint ventures operate, indicating that the cost of the investment may not be recovered.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the statement of income on the line item 'Depreciation and amortisation' and impairment under the line item 'Other operating result'.

The estimated useful lives are as follows:

Useful life in years	
Buildings	30-50
Re-buildings on own and foreign real estates	15-50
Office furniture and equipment	4-10
Passenger cars	4-8
Computer hardware	4-6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of income under the line item 'Other operating result'.

Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented on the balance sheet in the line item 'Investment properties'.

Rental income is recognised in the statement of income in the line item 'Rental income from investment properties and other operating leases'. Depreciation is presented in the statement of income in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are in the range of 15-100 years. Any impairment losses, as well as their reversals, are recognised under the line item 'Other operating result'.

Property Held for Sale (Inventory)

The Group also invests in property that is held for sale in the ordinary course of business or property in the process of construction or development for such sale. This property is presented as 'Other assets' and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories.

The cost of acquiring inventory includes not only the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised to the extent to which they directly relate to the acquisition of real estate.

Sales of these assets are recognised as revenues under the statement of income line item 'Other operating result', together with costs of sales and other costs incurred in selling the assets.

Intangible assets

In addition to goodwill, Erste Group's intangible assets include computer software and customer relationships, the brand and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Costs of internally generated software are capitalised if Erste Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the case of Erste Group, these are brands and customer relationships, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

Useful life in years	
Computer software	4-8
Customer relationships	10-20

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are tested for impairment annually within the cash-generating unit to which they belong, and impairment is recognised if appropriate. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion as to indefinite life. In the event of impairment, impairment losses are recognised in the statement of income under the line item 'Other operating result'.

Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter 'Business combinations and goodwill', part (ii) Goodwill and goodwill impairment testing.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the statement of income under the line item 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of classification as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the balance sheet line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the balance sheet under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. Erste Group recognises this difference as a provision under the balance sheet line item 'Provisions'.

Financial guarantees

In the ordinary course of business, Erste Group provides financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39, a financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If Erste Group is in a position of being a guarantee holder, the financial guarantee is not recorded on the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset.

Erste Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party (i.e. when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. If no premium is received at contract inception (i.e. the initial transaction price is zero), this is the price that would be paid to transfer the liability in an orderly transaction between market participants. As a result, the fair value of such a financial guarantee and thus the initial measurement is nil. Subsequent to initial recognition, the financial guarantee contract is reviewed for the possibility that provisioning will be required under IAS 37. Such provisions are presented on the balance sheet under the line 'Provisions'. The premium received is recognised in the statement of income under the line item 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

Defined employee benefit plans

Defined employee benefit plans operated by Erste Group are for pensions, severance and jubilee benefits. From IAS 19 categorisation perspective pension and severance benefits qualify as post-employment defined benefits plans whereas jubilee benefits are other long-term employee benefits.

In Austria, the defined benefit pension plans relate only to retired employees. The pension obligations for current employees were transferred to external pension funds in previous years. Remaining with Erste Group is a defined-benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect, and for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements. Also included are entitlements to resulting survivor pensions.

Severance benefit obligations exist in relation to Austrian employees who entered the Group's employment before 1 January 2003. The severance benefit is one-time remuneration to which employees are entitled when their employment relationship ends. The entitlement to this severance payment arises after three years of employment.

Defined-benefit plans include jubilee benefits. Jubilee payments (payments for long service and/or loyal service) are remuneration tied to the length of an employee's service to the employer. The entitlement to jubilee benefits is established by the applicable collective agreement, which defines both the conditions and amount of the entitlement.

In addition, there are defined employee benefit plans for foreign subsidiaries and branches, mainly in Romania, Croatia, Serbia and Slovakia.

Obligations ensuing from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, pensions and vested rights to future pension payments known as of the balance sheet date but also anticipated future rates of increase in salaries and pensions.

The liability recognised under a defined-benefit plan represents the present value of the defined benefit obligation less the fair value of the plan assets available for the direct settlement of obligations. For all plans, the present value of the obligation exceeds the fair value of the plan assets. The resulting defined benefit liability is reported on the balance sheet under the line item ‘Provisions’. At Erste Group, the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions. Plan assets for pension provision are held by a long-term employee benefit fund.

Remeasurements consist of actuarial gains and losses on the defined benefit obligations and the return on plan assets. Remeasurements of pension and severance defined-benefit plans are recognised in other comprehensive income. Remeasurements of jubilee defined-benefit plans are recognised in the statement of income under the line item ‘Personnel expenses’.

Erste Group board members bonus program

Every year Erste Group grants to its board members a bonus program. It relates to the services rendered by the Board Members in this year (i.e. ‘service year’). The actual payments are conditional on Erste Group performance in the service year and following 5 years. In this respect, they are split into a first tranche and five deferred tranches. Fifty percent of the bonuses are paid out in cash and meet the definition other long-term employee benefits in IAS 19. Remaining fifty percent depend on changes in the average share price of Erste Group Bank, AG and thus meet the conditions of cash-settled share-based payment in IFRS 2.

For both parts of the program, the full bonus is recognised as an expense against a liability in the estimated amount in the service year. The liability from the cash-settled share-based payment part is recognised in the balance sheet under ’Other liabilities’. The liability from the employee benefit part is recognised in the balance sheet under ’Provisions’. The expenses including any subsequent adjustments to the liability reflecting the decisions about the actual amount of the bonuses, fulfilment of performance conditions and share price changes are presented in the statement of income under ‘Personnel expenses’.

Further details about the bonus program and relevant disclosures about can be found in Note 40 Related-party transaction and principal shareholders, section ‘Performance-linked remuneration’.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. On the balance sheet, provisions are reported under the line item ‘Provisions’. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions are reported in the statement of income under the line item ‘Other operating result’.

Levies

Erste Group recognises a liability or a provision for the levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

Income taxes

i. Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

ii. Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is reversed or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed. For the subsidiaries, local tax environments apply.
Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Treasury shares and contracts on treasury shares
Equity instruments of Erste Group that it or any of its subsidiaries acquire (referred to as treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of Erste Group's own equity instruments, including transaction costs, is recognised directly in equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of its own equity instruments.

Fiduciary assets
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of Erste Group.

Dividends on own equity instruments
Dividends on own equity instruments are recognised as a liability and deducted from equity when their payment is confirmed by the Annual General Meeting.

Recognition of income and expenses
Revenue is recognised to the extent that the economic benefits will flow to the entity and the revenue can be reliably measured. The description and revenue recognition criteria of the line items reported in the statement of income are as follows:

i. Net interest income
Interest income and interest expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Interest income includes interest income on loans and receivables to credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all financial liabilities categories. Net interest income also includes interest on derivative financial instruments held in the banking book. In addition, net interest cost on severance payment, pension and jubilee obligations is presented here.

Furthermore negative interest from financial liabilities and financial assets are presented in 'Net interest income'.

ii. Net fee and commission income
Erste Group earns fee and commission income from a diverse range of services that it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction.

iii. Dividend income
Dividend income is recognised when the right to receive the payment is established. This line item includes dividend from shares and other equity-related securities in all portfolios as well as income from other investments in companies categorised as available for sale.

iv. Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, for derivative financial instruments held in the trading book, the net trading result also contains interest income or expense. However, interest income or expenses related to non-derivative trading assets and liabilities and to derivatives held in the banking book are not part of the net trading result as they are reported as 'Net interest income'. The net trading result also includes any ineffective portions recorded in fair value and cash flow hedge transactions as well as foreign exchange gains and losses.

v. Result from financial assets and liabilities designated at fair value through profit or loss

The gains and losses presented in this line item relate to changes in the clean price of assets and liabilities designated at fair value through profit or loss.

vi. Net result from equity method investments

The line item contains result from associates and joint ventures recorded by applying the equity method (measured as the investor's share of profit or loss in the associates and joint ventures). However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line item 'Other operating result'.

vii. Rental income from investment properties & other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

viii. Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment, pension and jubilee obligations and remeasurements of jubilee obligations. Furthermore, restructuring provisions expenses may be part of personnel expenses.

ix. Other administrative expenses

Other administrative expenses include primarily information technology expenses, expenses for office space, office operating expenses, advertising and marketing and expenditures for legal and other consultants. Furthermore, the line item contains deposit insurance contributions expenses. Restructuring provisions expenses may also be presented in other administrative expenses.

x. Depreciation and amortisation

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

xi. Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

This line item includes selling and other derecognition gains or losses on available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of net impairment loss.

xii. Net impairment loss on financial assets

Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio (incurred but not reported) level. Direct write-offs are considered as part of impairment losses. This line item also includes recoveries on written-off loans removed from the balance sheet.

xiii. Other operating result

The other operating result reflects all other income and expenses not directly attributable to Erste Group's ordinary activities. Furthermore, levies on banking activities are considered as part of the other operating result. The other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets. Also included here are any impairment losses on goodwill. In addition, the other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.

d) Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

Control

IFRS 10 'Consolidated Financial Statements' defines the investor's control over an investee in terms of the investor having all of the following:

- power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as:

- power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
- exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
- variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter).

In the case of Erste Group, such accounting judgements, assumptions and estimates have been primarily relevant for the assessment of the following cases:

i. The savings bank members of the Austrian cross-guarantee system (Haftungsverbund)

Erste Group Bank AG is a member of the Haftungsverbund (cross-guarantee system) of the Austrian savings bank sector. As of the balance sheet date, all of Austria's savings banks, in addition to Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, formed part of this cross-guarantee system. The provisions of the agreement governing the Haftungsverbund are implemented by the steering company Haftungsverbund GmbH. Erste Group Bank AG always holds directly and indirectly at least 51% of the voting rights of the steering company, through Erste Bank der oesterreichischen Sparkassen AG and through savings banks in which the Group holds the majority of voting rights.

For all savings banks in which Erste Group holds less than 50% of the voting rights, an assessment of whether control is achieved through the provisions of the Haftungsverbund agreement has been performed.

Based on the contractual agreement, Haftungsverbund GmbH as the steering company is vested with the following substantive rights related to the savings banks:

- participation in the appointment of board members;
- approval of budgets including capital decisions;
- provision of binding guidelines in the areas of risk and liquidity management as well as internal audit; and
- determination of thresholds for capital requirement including the payout of dividends.

Furthermore, taking into account the magnitude of Erste Group's involvement with the member banks - whether in the form of synergies, investments, commitments, guarantees, or access to common resources - the Group has significant exposure to each of the member banks' variable returns. As Haftungsverbund GmbH is able to affect the variable returns through its power, it has been assessed that Haftungsverbund GmbH has control over the savings banks.

As Erste Group Bank AG controls the steering company, it exercises control over the members of the cross-guarantee system.

ii. Investment funds under own management

The Group has assessed whether the investment funds it manages through its asset management subsidiaries are controlled and hence shall be consolidated. This assessment has been made on the basis that power over such investment funds is generally conferred based on the contractual arrangements appointing an Erste Group subsidiary as fund manager, without any substantive removal rights the by fund's investors. Furthermore, Erste Group made the conclusive judgement that its exposure to such own-managed funds' variable returns is basically considered as significant if, additionally to the exposure through management fees, the Group is also exposed in the form of at least 20% investment in the fund. Furthermore, in its capacity as fund manager, Erste Group is also able to affect the returns of the funds through its power. Following this assessment, investment funds under own management in which the Group – directly or through its subsidiaries – has significant unit holdings are deemed to be controlled and included in the scope of consolidation.

iii. Pension funds under own management

The Group has assessed whether the contractual arrangements appointing an Erste Group subsidiary as pension fund manager (with no substantive removal rights by the fund's participants) are generally expected to confer power over such funds, followed by an assessment of the Group's exposure/rights to the pension fund's variable returns. The relevant legal requirements regulating the activities of such pension funds in their respective jurisdictions were also considered, notably in assessing the significance of the rights to variable returns from management fees, as well as of the exposure to losses from any guarantees that the fund manager may be legally bound to. As a result of this review, the Czech pension fund 'Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a.s' (the 'Transformed pension fund') is not consolidated. There are no further cases of application in Erste Group.

Significant influence

IAS 28 'Investments in Associates and Joint Ventures' defines significant influence as the power to participate in the financial and operating policy decisions of the investee without having control or joint control of those policies. Furthermore, IAS 28 indicates that if an entity holds, directly or indirectly 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case.

In the case of Erste Group, all equity method investments are direct or indirect investments in associates and joint ventures over which the Group exercises significant influence or joint control stemming from voting power higher than 20% up to 50%.

Interests in structured entities

IFRS 12 'Interests in Other Entities' defines structured entities as entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements. IFRS 12 defines the interests as contractual and non-contractual involvements exposing an entity to the variability of returns from the performance of the other entity.

Hence, assessing which entities are structured entities, and which involvements in such entities are interests, may require considerable accounting judgements and assumptions.

In the case of Erste Group, such accounting judgements, assumptions and estimates have been primarily relevant for assessing involvements with securitisation vehicles and investment funds. In respect to securitisation vehicles, Erste Group assessed that on-balance or off-balance exposures to entities involved in securitisation activities meet the definition of interests in structured entities.

For investment funds, Erste Group reached the conclusion that direct Group exposure would typically indicate an interest in these structured entities, irrespective of whether such exposure comes from on-balance financial assets, off-balance commitments given or management fees varying in relation to the assets under management (for own-managed funds in general). In alignment with the accounting judgement described under the paragraph 'Investment funds under own management' above, own-managed funds where the Group cumulatively holds less than 20% of the related fund units in issue are not consolidated due to lack of control and thus are subject to specific disclosures for unconsolidated structured entities. All on-balance or off-balance exposures to investment funds - mostly in the form of units held in such funds - were considered as being interests in structured entities.

For the ensuing IFRS 12-driven disclosures applicable to structured entities, please refer to Note 24 Unconsolidated structured entities.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 46 Fair value of financial instruments. Based on an analysis performed in 2016 it was decided that for the valuation of OTC derivatives no Funding Value Adjustment (FVA) would be considered.

Impairment of financial assets

Erste Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the statement of income. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss.

Disclosures concerning impairment are provided in Note 44 Risk management in the subsection 'Credit risk' – 'Non-performing credit risk exposure and credit risk provisions'. The development of loan loss provisions is described in Note 21 Impairment loss for financial instruments.

Impairment of non-financial assets

Erste Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss that should be recorded in the statement of income. Furthermore, cash-generating units to which goodwill is allocated are tested for impairment on a yearly basis. Judgement and estimates are required to determine the value in use and fair value less costs of disposal by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used for impairment on non-financial asset calculations are described in the parts 'Business combinations and goodwill' and 'Impairment of non-financial assets (property and equipment, investment property, intangible assets)' in the Accounting Policies. Inputs used for goodwill impairment testing and their sensitivities can be found in Note 27 Intangible assets in the section 'Development of goodwill'.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. For this purpose a planning period of 5 years is used. Disclosures concerning deferred taxes are in Note 28 Tax assets and liabilities.

Defined benefit obligation plans

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumptions, estimates and sensitivities used for the defined benefit obligation calculations as well as related amounts are disclosed in Note 34 a) Long-term employee provisions.

Provisions

Recognition of provisions requires judgement with respect to whether Erste Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Provisions are disclosed in Note 34 Provisions and further details on provisions for contingent credit liabilities in Note 44.4 Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 50 Contingent liabilities.

e) Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning after 1 January 2017. As regards new standards and interpretations and their amendments, only those that are relevant for the business of Erste Group are listed below.

Effective standards and interpretations

The following standards and their amendments have become mandatory for our financial year 2017, endorsed by the EU:

- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses
- Annual Improvements to IFRSs 2014-2016 Cycle (amendments to IFRS 12)

Application of the above mentioned amendments did not have a significant impact on Erste Group's financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are already endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- IFRS 16: Leases
- Annual Improvements to IFRSs 2014-2016 Cycle (amendments to IAS 28 and IFRS 1)

Following standards, amendments and interpretations have not yet been endorsed by the EU until 23 February 2018:

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- IFRIC 23: Uncertainty over Income Tax Treatments

IFRS 9: Financial Instruments. IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses the classification and measurement of financial assets and liabilities, introduces new principles for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and financial liabilities in order to evaluate the impact of the first application of IFRS 9 on Group's equity and regulatory capital as of 1 January 2018 ('transition impact'). This review involved iterative financial impact studies across the Group which continued throughout 2017. Furthermore, starting with the second half of 2017, a fully-fledged parallel run of the IAS 39 production environment and the IFRS 9 test environment has been undertaken in multiple iterations. This parallel run provided significant benefits with regards to ensuring a technically correct transition to IFRS 9, but also with regards to refining the transition impact expectations. At the same time, the parallel run outputs bear an inherent degree of approximation that has been reducing along with different IFRS 9-driven functionalities being user-tested and transferred into production. Post-transition activities will continue throughout the year 2018, notably in respect of:

- finalisation of the testing and assessment of controls over new IT-systems and changes to their governance framework;
- validation and potential refinement of the models for expected credit loss calculations;
- updating the policy landscape at Group and local entity level, in all business lines directly or indirectly affected by IFRS 9.

IFRS 9 introduces two criteria for classification and measurement of financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost ('AC') only if both of the following conditions are met: a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows ('held to collect') and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding. Measurement at fair value through other comprehensive income ('FVOCI') is applicable to financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling the assets ('hold and sell') while the condition b) is also fulfilled. All other financial assets are measured at fair value through profit or loss ('FVTPL'). The main impacts resulting from the classification and measurement model upon transition to IFRS 9 are described below.

In respect of the business model criterion, the main changes relate to financial assets classified as available-for-sale and thus measured at FVOCI under IAS 39. Debt securities which are part of the portfolios connected to asset and liability management activities at a carrying amount EUR 4 billion will be classified and measured at AC under IFRS 9 due to insignificant or infrequent sales expected. Further, financial assets held by investment funds consolidated by Erste Group at a carrying amount of approximately EUR 1 billion will be measured at FVTPL due to being managed and evaluated on a fair value basis.

In applying the business model criterion Erste Group has to assess the expected selling activity of financial assets. At Erste Group, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory environment, severe liquidity crisis) are considered as not contradicting the 'held to collect' business model. Other kinds of sales are expected to be insignificant as to their volume. As a result, sales are incidental in the 'held to collect' business model. On the other hand, in the 'hold and sell' business model the sales of debt securities are significant and frequent and thus they are integral to meeting the business model objectives. Erste Group will carry out such sales in order to optimise the liquidity position or to realise the fair value gains or losses.

Regarding the contractual cash flows characteristics criterion Erste Group concluded that the vast majority of its loan portfolio amounting to EUR 149 billion which is currently classified as loans and receivables will continue to be measured at AC. The carrying amount of loans that will be measured at FVTPL is below EUR 0.5 billion; such loans typically bear interest mismatch features (e.g. floating rate loans with interest rate reset every year but their tenor being linked to a long term secondary market interest rate). This outcome reflects completion of all mitigation activities undertaken since 2015 across Erste Group to reduce the volume of loans which would otherwise have been subject to FVTPL measurement. Further, investments in non-consolidated funds at a fair value amount of EUR 0.6 billion classified as available-for-sale and measured at FVOCI under IAS 39 will be measured at FVTPL.

Investments in equity instruments at a carrying amount of approximately EUR 0.3 billion currently categorised as available-for-sale will be categorised as FVTPL. The new standard provides an option to designate non-trading equity instruments at FVOCI at initial recognition. Erste Group will make use of this option for some equity investments that represent strategic business relationships.

Regarding classification and measurement of financial liabilities, upon transition to IFRS 9, Erste Group will designate a large portion of the portfolio of own bond issues measured at AC under IAS 39 and subject to portfolio fair value hedges of interest rate risk in carrying amount of approximately EUR 11 billion as measured at FVTPL. The effect of fair value changes resulting from credit risk of the financial liabilities designated at FVTPL which, based on IFRS 9 requirements, are recognised in other comprehensive income (OCI) amounts to approximately EUR 0.7 billion, thereof EUR 0.6 billion attributable to newly designated own issues.

Erste Group does not expect any effects of the new standard resulting from its accounting for hedges as it will continue to apply the requirements in IAS 39. However, the new designations of bond liabilities as FVTPL as discussed above will result in the termination of existing portfolio fair value hedges of interest rate risk.

The new impairment model requires recognition of credit loss allowances ('CLA') based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under IAS 39. It applies to credit risk exposures stemming from debt instruments classified at AC or FVOCI, lease receivables, financial guarantee contracts and certain loan commitments.

For credit risk exposures that are not credit-impaired at initial recognition, Erste Group will recognise CLA at an amount equal to 12-month ECL (referred to as 'Stage 1') for as long as no significant increase in credit risk since initial recognition ('SICR') is identified at the reporting date. In the other cases, the CLA is measured at lifetime ECL and the related instruments are referred to as 'Stage 2', unless they are found to be credit-impaired at the reporting date (referred to as 'Stage 3'). For purchased or originated credit-impaired financial assets ('POCI'), only adverse changes in lifetime ECL after the initial recognition are distinctly recognised as CLA, whilst favourable changes are recognized as impairment gains increasing the carrying amount of the related POCI assets. The measurement of ECL reflects a probability-weighted outcome, the time value of money and reasonable and supportable forward-looking information.

For lease receivables and trade receivables containing a significant financing component (where Erste Group also includes its factoring receivables), IFRS 9 allows a simplified impairment approach, whereby credit loss allowances are always measured at lifetime ECL. Erste Group will not apply this simplification.

In the area of ECL modelling and CLA calculation, Erste Group has identified a number of key drivers, as follows:

a) the 'credit-impaired' definition
In respect of applying the 'credit-impaired' concept of IFRS 9, Erste Group generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. If the default status exists already at an exposure's initial recognition (e.g. in the context of a significant distressed restructuring), then that exposure is identified as POCI.

b) the SICR indicators applicable to not credit-impaired exposures
Across portfolios and product types, a number of quantitative and qualitative SICR indicators have been defined, in addition to the SICR indicator of 30 days-past-due.

SICR is quantitatively measured by reference to the adverse change, since instrument's initial recognition, in the current annualised remaining lifetime probability of default ('PD') and in the current 12-month PD. Significance of such change is assessed by reference to a combination of relative and absolute change thresholds. Current PDs are determined to reflect the current default risk as a 'point-in-time' measure. The thresholds are established at PD segment level or client rating level, as appropriate, and are subject to initial and on-going validation.

Qualitative SICR indicators include forbearance-type flags, a work-out transfer flag, information from early-warning-system that is not sufficiently reflected in the rating grades, as well as fraud indicators. The assignment of some specific qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and timely. Besides the qualitative indicators defined on client level, the assessment of significant increase in credit risk is performed on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag or is observable exclusively on portfolio level.

Upon transition to IFRS 9 the SICR has to be determined in respect of PDs which existed at instruments' initial recognition. Where retro-spective identification PDs at initial recognition was not possible without undue cost or effort, Erste Group implemented the following sequence of approximation methods: closest rating to initial recognition, re-rating based on historic data with current rating model, best possible rating for the relevant portfolio at the instrument's initial recognition, first available rating.

Application of the 'low credit risk exemption' allowed by IFRS 9 for 'investment grade' or other 'low risk'-deemed assets (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) will be limited to particular types of debt securities and counterparty categories, and only if supported by sufficient 'low risk' evidence at local level.

c) ECL modelling
The key risk parameters used in the measurement of ECLs - PD, loss given default ('LGD') and exposure at default ('EAD') - are derived from internally developed statistical models and other historical data that leverage regulatory models.
The PD describes a probability that a client will default on the related loan obligation. The 12-month PD reflects the estimated probability of default within one year from the reporting date, whilst the lifetime PD indicates the estimated probability of default until instrument's maturity and cumulates conditional marginal 12-month PD estimates attributable to each year until maturity. The PD estimation methods used in Erste Group depend on the segmentation criteria defined by the relevant local strategic risk management units. The applicable estimation methods include average default rate analysis and internal/external migration matrices and consider adjustments to the point-in-time-estimate.
The LGD captures the loss rate in the case of default. In general, the selection of estimation method depends on portfolio, and whether the curve is defined on LGD segment, client or account level. The LGD estimation methods applicable in Erste Group include a simple scenario approach and an advanced multiple scenario approach. For defaulted exposures, the calculation methodology provides for a probability-weighted average of pre-defined work-out scenarios (Austria: cure, restructuring or liquidation; CEE: cooperative or non-cooperative client).
The EAD that is attributable to any given future year throughout an on-balance exposure's remaining maturity is approximated on the basis of exposure's current gross carrying amount multiplied by an amortization coefficient that depends on exposure's contractual repayment type. For off-balance not credit-impaired exposures, the EAD approximation is based on the current nominal amount of the exposure, multiplied by the credit conversion factor.

d) Consideration of forward-looking information ('FLI')
Measurement of ECLs and SICR assessment require further consideration of FLI, which Erste Group has addressed by introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Erste Group's research department. Given multiple scenarios, the 'neutral' PD (and also LGD, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market.

e) Period of exposure to credit risk
Apart from using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options). This extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for revolving credit facilities with unspecified maturity and/or cancellable at short notice and for which the day-to-day internal credit risk management activities are customarily performed on a portfolio basis only, best estimates of the period of exposure to credit risk have been developed at entity level across the Group, based on the available data history and expert judgement. Such estimates generally range from 2 to 4 years, with few exceptions, and vary depending on product type, client segment and lender entity. Retail credit cards and overdrafts are among the exposure types the most relevant for such estimates.

Transition to IFRS 9 is expected to result in an increase of the 2018 opening balance of credit loss allowances compared to the 2017 closing balance of loan loss provisions under IAS 39 (including provisions for off-balance exposures treated under IAS 37) in the range of 4 to 5 %. This expected change includes both equity-neutral changes and changes that impact accounting equity. Also, it combines effects due to changes in the scope of impairment and changes triggered by the adoption of the expected loss model.

Overall, the IFRS 9 transition is expected to result in a before-tax decrease of Group's consolidated accounting equity by approximately EUR 0.8 billion, thereof approximately EUR 0.4 billion represents an increase retained earnings (accumulated effects which would have impacted profit or loss in previous periods, in connection with all financial instruments subject to classification-driven re-measurement and/or ECL calculation upon transition) and approximately EUR 1.1 billion represents a negative impact to accumulated OCI (accumulated effects which would have impacted other comprehensive income in previous periods, in connection with both financial assets classified at FVOCI and financial liabilities retrospectively designated at FVTPL upon transition). Further, the associated decrease of the CET1 ratio (before consideration of tax effects) is estimated below 20 basis points. This decrease in CET1 is less significant than the decrease in the accounting equity due to two main factors. The first factor is the accounting adverse change in accumulated OCI due to fair value changes resulting from credit risk of the financial liabilities retrospectively designated at FVTPL upon transition to IFRS 9, which would be added back for CET1 purposes. The second factor is the reduction in the IRB shortfall-related CET1 deduction, in response to the increase in the accounting impairments.

The related deferred tax impact depends on the fiscal treatment of the incremental differences between the tax values and the IFRS 9-based re-measured accounting values of the affected assets and liabilities, which can vary across the tax jurisdictions of Erste Group and which, in several of these jurisdictions is yet to be decided by the relevant fiscal authorities. Currently, Erste Group estimates that the consolidated deferred tax impact upon transition to IFRS 9 is likely to be favourable, meaning that it would mitigate the above estimates of decrease in accounting equity and CET1. Erste Group does not apply the transitional provisions for IFRS 9 acc. to Art. 473a CRR when calculating regulatory own funds.

The new standard also resulted in amended IFRS requirements regarding presentation and disclosure. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. In anticipation of such changes, Erste Group has already implemented significant updates of the structure of the financial statements (both main components and explanatory notes). Such updates have also taken into account the applicable changes in the regulatory reporting requirements (notably FINREP related) as stipulated by the EU Commission or the relevant national regulators, respectively.

IFRS 15: Revenue from Contracts with Customers. IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. Clarifications to IFRS 15 were issued in April 2016. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Also in the areas of variable considerations and capitalisation of cost IFRS 15 provides modified regulations. The standard is not focused on recognition of revenues from financial instruments. Hence, on the basis of the analyses performed throughout 2017, the application of this standard is not expected to have a significant impact on Erste Group's financial statements.

IFRS 16: Leases. In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognise a right of use asset on the debit side of the balance sheet as well as a corresponding lease liability on the credit side of the balance sheet except for immateriality in cases of short term leasing arrangements and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

The analysis and planning of proper IT solutions for the requirements of IFRS 16 have continued throughout 2017. At the same time the assessment of the contracts has been in focus. The role out of proper IT structure is planned to be realised in 2018.

Since the analysis of the impact of IFRS 16 has not yet been completed, no quantitative estimates with respect to the effects of the transition to IFRS 16 can be made at this time. However an immaterial enhancement of the balance sheet is expected.

Regarding the transition method Erste Group is planning to follow the modified retrospective approach with recognition of the adjustments arising out of the first time application of IFRS 16, if any, in equity at the date of initial application. The applicable discount rate will be the one determined at the date of initial application.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions. Amendments to IFRS 2 were issued in June 2016 and are effective for annual periods beginning on or after 1 January 2018. The amendments clarify treatment for the effects of vesting conditions on a cash-settled share-based payment transaction, the classification of a share-based payment with net settlement features for withholding tax obligations and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement. Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments require that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures. Amendments to IAS 39 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that a company applies IFRS 9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IAS 40: Transfers of Investment Property. Amendments to IAS 40 were issued in December 2016 and are effective for annual periods beginning on or after 1 January 2018. The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 and specify that such a transfer should only be made when there has been a change in use of the property. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle. In December 2016, the IASB issued a set of amendments to various standards. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle. In December 2017, the IASB issued a set of amendments to various standards. The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are effective for annual periods beginning on or after 1 January 2019. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration. IFRIC 22 was issued in December 2016 and is effective for annual periods beginning on or after 1 January 2018. The interpretation relates to considerations denominated in a foreign currency received or paid in advance of the recognition of the related asset, expense or income. It clarifies, that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability in such cases. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Application of the interpretation is not expected to have a significant impact on Erste Group's financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments. IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. If the entity concludes that it is not probable that a particular tax treatment is accepted by a taxation authority, the entity has to use the most likely amount or the expected value of the tax treatment. Otherwise the treatment used in the tax filings is applied. An entity has to reassess its judgements and estimates if facts and circumstances change. Application of the interpretation is not expected to have a significant impact on Erste Group's financial statements.

C. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE BALANCE SHEET OF ERSTE GROUP

1. Net interest income

in EUR million	1-12 16	1-12 17
Interest income		
Financial assets - held for trading	701.6	622.2
Financial assets - at fair value through profit or loss	9.1	13.2
Financial assets - available for sale	423.9	340.1
Financial assets - held to maturity	552.0	531.6
Loans and receivables	4,177.0	4,049.6
Derivatives - hedge accounting, interest rate risk	-5.9	-25.7
Other assets	27.7	28.7
Total interest income	**5,885.3**	**5,559.5**
Interest expenses		
Financial liabilities - held for trading	-433.2	-329.0
Financial liabilities - at fair value through profit or loss	-55.4	-52.4
Financial liabilities measured at amortised cost	-1,369.1	-1,179.3
Derivatives - hedge accounting, interest rate risk	393.2	375.7
Other liabilities	-29.4	-26.5
Total interest expense	**-1,493.9**	**-1,211.4**
Negative interest from financial liabilities	24.9	64.9
Negative interest from financial assets	-41.7	-59.9
Net interest income	**4,374.5**	**4,353.2**

For financial assets or liabilities that are not measured at fair value through profit or loss, the total interest income amounted to EUR 4,949.9 million (2016: EUR 5,180.5 million) and the total interest expense to EUR 1,205.8 million (2016: EUR 1,398.5 million). Net interest income for these items was therefore EUR 3,744.1 million (2016: EUR 3,782.0 million).

Since December 2014, important benchmark interest rates – particularly Euribor – turned negative. As Euro is the functional currency for Erste Group, this development affected interest income and interest expense of the Group. Negative interest from financial liabilities and financial assets are shown in a separate line. The amounts relate to the interbank business and deposits with central banks only.

2. Net fee and commission income

in EUR million	1-12 16	1-12 17
Securities	164.4	195.8
Issues	22.5	32.6
Transfer orders	132.6	156.4
Other	9.2	6.7
Clearing and settlement	6.5	7.2
Asset management	256.4	293.2
Custody	78.2	81.6
Fiduciary transactions	2.8	3.4
Payment services	867.5	874.8
Card business	187.7	186.6
Other	679.8	688.2
Customer resources distributed but not managed	159.4	177.6
Collective investment	15.5	12.3
Insurance products	103.8	120.3
Building society brokerage	17.1	19.7
Foreign exchange transactions	22.7	23.6
Other	0.2	1.7
Structured finance	0.0	0.0
Servicing fees from securitization activities	0.0	0.0
Lending business	176.5	152.5
Guarantees given, guarantees received	59.8	58.0
Loan commitments given, loan commitments received	25.0	24.3
Other lending business	91.7	70.3
Other	71.2	65.4
Net fee and commission income	**1,783.0**	**1,851.6**
Fee and commission income	2,225.6	2,329.4
Fee and commission expenses	-442.6	-477.8

The fee and commission income and expense, which are presented in this table, are not an integral part of the effective interest rate.

3. Dividend income

in EUR million	1-12 16	1-12 17
Financial assets - held for trading	0.6	0.7
Financial assets - at fair value through profit or loss	4.7	2.1
Financial assets - available for sale	39.9	41.0
Dividend income	**45.2**	**43.7**

4. Net trading and fair value result

Net trading result

in EUR million	1-12 16	1-12 17
Securities and derivatives trading	37.2	-90.8
Foreign exchange result	233.8	316.7
Result from hedge accounting	12.8	-3.1
Net trading result	**283.8**	**222.8**

Result from financial assets and liabilities designated at fair value through profit or loss

in EUR million	1-12 16	1-12 17
Result from measurement/repurchase of financial assets designated at fair value through profit or loss	-2.5	10.3
Result from measurement/repurchase of financial liabilities designated at fair value through profit or loss	-9.0	-22.6
Result from financial assets and liabilities designated at fair value through profit or loss	**-11.5**	**-12.3**

The amounts of the fair value changes that are attributable to changes in own credit risk is presented in Note 32 Financial liabilities – at fair value through profit and loss. Additional information to hedge relationships are described in detail in Note 45 Hedge accounting.

5. Rental income from investment properties & other operating leases

in EUR million	1-12 16	1-12 17
Investment properties	93.0	82.6
Other operating leases	114.3	111.6
Rental income from investment properties & other operating leases	**207.2**	**194.2**

6. General administrative expenses

in EUR million	1-12 16	1-12 17
Personnel expenses	**-2,339.3**	**-2,388.6**
Wages and salaries	-1,748.7	-1,815.1
Compulsory social security	-456.3	-458.1
Long-term employee provisions	-18.0	-12.9
Other personnel expenses	-116.3	-102.4
Other administrative expenses	**-1,235.8**	**-1,309.6**
Deposit insurance contribution	-88.8	-82.8
IT expenses	-339.3	-425.9
Expenses for office space	-242.4	-243.4
Office operating expenses	-111.5	-117.2
Advertising/marketing	-162.4	-174.2
Legal and consulting costs	-151.7	-165.7
Sundry administrative expenses	-139.6	-100.3
Depreciation and amortisation	**-453.1**	**-460.0**
Software and other intangible assets	-166.1	-167.8
Owner occupied real estate	-82.0	-76.4
Investment properties	-106.7	-107.0
Customer relationships	-5.1	-8.6
Office furniture and equipment and sundry property and equipment	-93.2	-100.2
General administrative expenses	**-4,028.2**	**-4,158.2**

Personnel expenses include expenses of EUR 44.6 million (2016: EUR 48.1 million) for defined contribution plans, of which EUR 1.2 million (2016: EUR 1.7 million) relate to members of the management board.

Average number of employees during the financial year (weighted according to the level of employment)

	1-12 16	1-12 17
Domestic	**15,833**	**16,383**
Erste Group, EB Oesterreich and subsidiaries	8,595	9,185
Haftungsverbund savings banks	7,238	7,198
Abroad	**31,122**	**31,276**
Česká spořitelna Group	10,371	10,248
Banca Comercială Română Group	7,120	7,102
Slovenská sporiteľňa Group	4,247	4,227
Erste Bank Hungary Group	2,902	3,099
Erste Bank Croatia Group	2,935	3,169
Erste Bank Serbia Group	992	1,029
Savings banks subsidiaries	1,251	1,181
Other subsidiaries and foreign branch offices	1,305	1,221
Total	**46,955**	**47,659**

7. Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net

in EUR million	1-12 16	1-12 17
From sale of financial assets available for sale	157.2	147.6
From sale of financial assets held to maturity	3.4	2.7
From sale of loans and receivables	-0.1	4.8
From repurchase of liabilities measured at amortised cost	-12.5	1.3
Gains/losses from disposal of financial assets and liabilities not measured at fair value through profit or loss, net	**148.0**	**156.4**

The carrying amount of investments in equity instruments measured at cost that were sold during the period was EUR 0.9 million (2016: EUR 0.9 million). The resulting gain on sale was EUR 0.6 million (2016: EUR 3.3 million).

8. Net impairment loss on financial assets

in EUR million	1-12 16	1-12 17
Financial assets - available for sale	-10.0	-27.1
Loans and receivables	-184.2	-105.0
Allocation to risk provisions	-2,089.9	-2,069.1
Release of risk provisions	1,720.8	1,851.9
Direct write-offs	-226.2	-80.3
Recoveries recorded directly to the income statement	411.1	192.6
Financial assets - held to maturity	-1.4	0.1
Net impairment loss on financial assets	**-195.7**	**-132.0**

9. Other operating result

in EUR million	1-12 16	1-12 17
Other operating expenses	**-1,030.5**	**-747.9**
Allocation to other provisions	-182.6	-209.0
Allocation to provisions for commitments and guarantees given	-312.4	-329.3
Levies on banking activities	-388.8	-105.7
Banking tax	-351.2	-63.2
Financial transaction tax	-37.6	-42.4
Other taxes	-19.8	-37.7
Recovery and resolution fund	-65.6	-65.8
Impairment of goodwill	-61.3	-0.5
Other operating income	**365.6**	**290.5**
Release of other provisions	84.8	75.4
Release of provisions for commitments and guarantees given	284.4	346.8
Result from properties/movables/other intangible assets other than goodwill	-54.5	-40.6
Result from other operating expenses/income	51.0	-91.1
Other operating result	**-665.0**	**-457.4**

Operating expenses (including repair and maintenance) for 'Investment properties' not held for rental income totalled to EUR 0.8 million (2016: EUR 1.0 million). Operating expenses (including repair and maintenance) for 'Investment properties' held for rental income totalled to EUR 12.5 million (2016: EUR 13.6 million).

The amount of impairment loss on assets held for sale recognised in the result from other operating expenses/income is EUR 1.0 million (2016: EUR 29.5 million).

In result of properties/moveables/other intangible assets, the impairment losses of property plant and equipment, investment properties, intangible assets and foreclosed assets are included.
The main classes of assets affected by impairment losses can be summarized as:

- the intention to sell fixed assets and accordingly their re-measurement before reclassifying them based on IFRS 5,
- not fully occupied buildings that triggered a lower recoverable amount
- recurring measurement for foreclosed assets at the balance sheet date and
- recurring measurement for internally used items of property at the balance sheet date and
- concessions and other intangibles for which measurable economic benefits are no longer expected in the future

Recovery and Resolution Fund

In the line 'Result from other operating expenses/income' contributions to the national resolution funds in amount of EUR 65.8 million (2016: EUR 65.6 million) are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. As a consequence, banks are required to contribute annually to a resolution fund, which in a first step is installed on a national level. According to these regulations, until 31 December 2024 the available financial means of the resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorized within the European Union. Therefore the resolution funds have to be built over a period of 10 years, during which the contributions shall be spread out as even as possible unil the target level is reached. The application of the Directive in the European member state requires the transposition into national law. In Czech Republic the Recovery and Resolution Directive was implemented into national law in 2016, therefore subsidiaries in Czech Republic paid for the first time contributions to resolution funds in 2016. All the remaining subsidiaries have already paid the corresponding contributions in 2015.

Consequences of a negative reference rate in variable interest rate consumer loans in Austria

With regard to the legal disputes between a consumer organisation and banks in Austria on the consequences of a reference rate (such as the EURIBOR) being negative on the variable interest rate in loans to consumers, the Austrian Supreme Court has held in several judgments published in 2017 that banks are under a duty, in the case of variable-interest consumer loans where there exists no explicit contractual agreement with the customer as to a minimum interest rate, to pass on the negative reference rate to consumers. Based on analysis of the legal situation before these landmark decisions were handed down, Erste Group's Austrian member banks had so far taken the view that they are entitled to floor the interest rate in such consumer loans in EUR at the agreed margin. In mid-July 2017, the Supreme Court has published a decision in a case by a consumer organisation against a competitor bank regarding consumer credits which contain explicitly a flooring of the reference rate EURIBOR at zero in case of the EURIBOR being negative. This ruling established that a bank is not permitted to stipulate in a consumer credit a flooring of the interest rate at the margin if it does not also provide for an upper limit as well. Erste Group's Austrian member banks have typically used such floor clauses without a cap in their variable interest rate credit contracts since 2013 and calculated interest accordingly. Erste Group's Austrian banks have honored in full the impact of the legal clarifications by the Supreme Court and reimbursed its retail customers the amount of interest which was overcharged. Reimbursed interest relating to the interest period until 30 June 2017 amounted to EUR 45 million and was recognised in the line item 'Allocations to other provisions'.

One-time payment according to Stability Tax Act in Austria

In December 2016, an amendment of the Stability Tax Act, which regulates banking levies in Austria, was approved. According to the legislative amendment, the amount of the current banking levies ('banking tax') was reduced, and furthermore a single one-time payment was prescribed. The one-time payment was fully paid in 2017. However according to IFRIC 21, the obligating event for the recognition of a liability to pay the one-time payment already existed in 2016. As a consequence as of 31 December 2016 Erste Group recognised an expense of EUR 200.9 million which is disclosed in the line item 'Levies on banking activities'.

Impairment of goodwill

In Slovakia, the increase of regulatory charges in 2016 – banking tax was not decreased due to an update of the related law during the year 2016 – led to higher future expenses. Further to this, a new law limiting the early repayment fee to be charged by banks led to a massive repricing of the housing loan portfolio in 2016. In addition to the lasting low interest rate environment and the strong competition, this resulted in a decrease of the budgeted results and further to the a partial impairment of the goodwill for Slovenská sporitel'ňa a.s. ('SLSP') in 2016 in amount of EUR 61.3 million.

Provision for litigations in Romania

In addition, a relase of provision is shown in the balance sheet item 'additions / reversals - Other provisions' for risks related to Romanian consumer protection claims Act amounting to EUR 10.1 million. In 2016, EUR 62.3 million were allocated.

10. Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years and the change in deferred taxes.

in EUR million	1-12 16	1-12 17
Current tax expense / income	-363.4	-364.8
current period	-338.3	-399.7
prior period	-25.1	35.0
Deferred tax expense / income	-50.2	-45.3
current period	-39.8	3.9
prior period	-10.4	-49.2
Total	**-413.6**	**-410.1**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal Austrian tax rate.

in EUR million	1-12 16	1-12 17
Pre-tax profit/loss	1,950.4	2,077.8
Income tax expense for the financial year at the domestic statutory tax rate (25%)	-487.6	-519.4
Impact of different foreign tax rates	98.4	115.3
Impact of tax-exempt earnings of investments and other tax-exempt income	108.2	97.9
Tax increases due to non-deductible expenses, additional business tax and similar elements	-88.0	-153.1
Impact on deferred taxes from topics on Group level	-121.0	-9.2
Tax loss carry-forward non-recoverable at the end of the prior period, reducing the current tax expense for the current period	17.1	17.1
Current period's impairment of deferred tax assets recognized in prior periods through profit or loss	-4.2	-3.5
Current period's recognition/reversal of impairment through profit or loss of deferred tax assets non-recoverable at the end of the prior period	145.3	171.7
Impact of current non-recoverable fiscal losses and temporary differences for the year	-40.8	-140.4
Tax income/(expense) not attributable to the reporting period	-35.5	17.8
Tax income/(-expense) out of changes of the tax rate or the imposition of new taxes	-5.5	-0.2
Tax income/(expense) attributable to other effects	0.0	-3.9
Total	**-413.6**	**-410.1**

The following table shows the tax effects relating to each component of other comprehensive income:

	1-12 16			1-12 17		
in EUR million	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
Available for sale-reserve	-4.6	4.4	-0.2	-184.6	45.2	-139.4
Cash flow hedge-reserve	-13.3	4.4	-8.9	-105.3	22.1	-83.2
Remeasurement of net liability of defined pension plans	-36.1	-9.1	-45.2	-7.4	6.7	-0.6
Currency translation	28.8	0.0	28.8	237.6	0.0	237.6
Other comprehensive income	**-25.2**	**-0.3**	**-25.5**	**-59.6**	**74.0**	**14.4**

Taxes on income within other comprehensive income referring to the positions net liability of defined pension plans and to available for sale-reserve are influenced by the consideration of impairment effects. Besides, the change of deferred taxes on the available for sale-reserve is influenced by differences of tax rates applicable on contrary changes within the available for sale-reserve.

11. Appropriation of profit

For the year 2017, Erste Group Bank AG posted a post-tax profit of EUR 954.5 million under the Austrian accounting regulations, which increased its distributable capital accordingly (2016: EUR 1,111.5 million post-tax profit).

A dividend distribution amounting to EUR 1.20 per share will be proposed at the forthcoming annual general meeting of Erste Group Bank AG (for 2016: EUR 1.0 per share dividend distribution).

12. Cash and cash balances

in EUR million	Dec 16	Dec 17
Cash on hand	3,738	4,303
Cash balances at central banks	13,333	16,466
Other demand deposits	1,282	1,028
Cash and cash balances	**18,353**	**21,796**

A part of 'Cash balances at central banks' represents the mandatory minimum reserve requirement deposits which amounted to EUR 3,598.8 million (2016: EUR 2,552.6 million) at the reporting date.

The mandatory minimum reserve requirement deposit is generated out of certain balance sheet items and this calculated average has to be fulfilled through an extended period of time. Therefore, the mandatory minimum reserve requirement deposits are not subject to any restraints.

13. Derivatives – held for trading

in EUR million	Dec 16 Notional value	Dec 16 Positive fair value	Dec 16 Negative fair value	Dec 17 Notional value	Dec 17 Positive fair value	Dec 17 Negative fair value
Derivatives held in the trading book	**160,050**	**4,364**	**3,754**	**177,692**	**3,433**	**3,063**
Interest rate	119,263	3,940	3,503	115,445	2,929	2,611
Equity	685	25	8	494	5	2
Foreign exchange	39,538	386	225	61,294	496	443
Credit	324	1	5	403	2	7
Commodity	240	13	12	56	0	0
Other	0	0	0	0	0	0
Derivatives held in the banking book	**32,436**	**916**	**1,407**	**30,555**	**795**	**958**
Interest rate	16,347	675	902	15,069	526	731
Equity	2,820	113	76	2,990	127	59
Foreign exchange	12,328	87	418	11,580	102	153
Credit	460	11	10	436	15	14
Commodity	1	0	0	2	0	0
Other	480	31	1	479	25	1
Total gross amounts	**192,486**	**5,281**	**5,161**	**208,247**	**4,228**	**4,021**
Offset		-806	-977		-895	-1,087
Total		**4,475**	**4,185**		**3,333**	**2,934**

Erste Group undertakes a part of interest rate derivative and credit derivative transactions via Clearing Houses. These derivatives and related cash margin balances fulfil the requirements for balance sheet offsetting in accordance with the criteria described in Chapter 'B. Significant accounting policies'.

14. Other trading assets

in EUR million	Dec 16	Dec 17
Equity instruments	80	129
Debt securities	3,128	2,887
General governments	2,322	2,167
Credit institutions	496	507
Other financial corporations	141	41
Non-financial corporations	169	172
Loans and advances	268	0
Other trading assets	**3,476**	**3,016**

15. Financial assets - at fair value through profit or loss

in EUR million	Dec 16	Dec 17
Equity instruments	144	140
Debt securities	333	400
General governments	31	68
Credit institutions	298	281
Other financial corporations	5	52
Non-financial corporations	0	0
Loans and advances	3	3
Financial assets - at fair value through profit or loss	**480**	**543**

16. Financial assets - available for sale

in EUR million	Dec 16	Dec 17
Equity instruments	1,364	1,164
Debt securities	18,522	14,896
General governments	12,778	10,090
Credit institutions	2,478	1,922
Other financial corporations	742	724
Non-financial corporations	2,524	2,161
Financial assets - available for sale	**19,886**	**16,060**

In 2017, valuation models for unquoted equity instruments were developed as part of the IFRS 9 implementation. As a result, equity instruments previously valued at cost were measured at fair value as of 31 December 2017. The valuation at fair value resulted in gains of EUR 11.8 million.

In 2016, the carrying amount of investments in equity instruments measured at cost is EUR 36 million. Of this, Erste Group intends to dispose of investments in carrying amount of EUR 4 million through direct sales.

For further details about equity instruments measeured at cost, see Note 7 Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net.

17. Financial assets – held to maturity

	Gross carrying amount		Collective allowances		Net carrying amount	
in EUR million	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16	Dec 17
General governments	17,700	18,074	-2	-2	17,699	18,072
Credit institutions	1,022	1,279	-1	-1	1,021	1,279
Other financial corporations	177	125	0	0	177	125
Non-financial corporations	375	325	-1	-1	374	325
Total	**19,274**	**19,804**	**-4**	**-3**	**19,270**	**19,800**

18. Securities

	Dec 16					Dec 17				
			Financial assets					Financial assets		
in EUR million	Loans and advances to customers and credit institutions	Trading assets	At fair value through profit or loss	Available for sale	Held to maturity	Loans and advances to customers and credit institutions	Trading assets	At fair value through profit or loss	Available for sale	Held to maturity
Bonds and other interest-bearing securities	**289**	**3,128**	**333**	**18,522**	**19,270**	**146**	**2,887**	**400**	**14,896**	**19,800**
Listed	0	2,630	303	17,230	18,464	0	2,368	387	13,574	18,921
Unlisted	289	498	31	1,292	806	146	519	14	1,323	879
Equity-related securities	**0**	**80**	**144**	**1,328**	**0**	**0**	**129**	**140**	**1,164**	**0**
Listed	0	57	15	771	0	0	99	15	655	0
Unlisted	0	22	129	557	0	0	29	125	509	0
Equity holdings at cost	0	0	0	36	0	0	0	0	0	0
Total	**289**	**3,208**	**477**	**19,886**	**19,270**	**146**	**3,016**	**540**	**16,060**	**19,800**

Investment funds are disclosed within equity-related securities.

Held-to-maturity financial assets include bonds and other interest-bearing securities that are quoted in active markets and are intended to be held to maturity. Securities lending and repurchase transactions are disclosed in Note 42 Transfers of financial assets – repurchase transactions and securities lending.

During the financial year 2017, bond investments with a carrying amount of EUR 182.8 million (2016: EUR 390.8 million) were reclassified from the category Financial assets – held to maturity to Financial assets – available for sale, of which EUR 182.8 million (2016: EUR 389.6 million) was sold up to year-end. In 2016 reclassifications (and subsequent sales) in the amount of EUR 150.4 million were made for investments considering that the related securities were maturing within 3 months from the sale dates.

Consequently, a total net effect of EUR 1.4 million (2016: EUR 3.2 million) was recognised in the income statement for the year. In 2016, a negative effect of EUR 0.1 million was reflected in other comprehensive income from reclassified bonds not yet sold at year-end.

19. Loans and receivables to credit institutions

Loans and receivables to credit institutions

in EUR million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 December 2017				
Debt securities	102	0	-1	101
Central banks	0	0	0	0
Credit institutions	102	0	-1	101
Loans and advances	9,031	-2	-4	9,025
Central banks	5,864	0	0	5,864
Credit institutions	3,167	-2	-4	3,161
Total	**9,133**	**-2**	**-5**	**9,126**
As of 31 December 2016				
Debt securities	199	0	-1	198
Central banks	0	0	0	0
Credit institutions	199	0	-1	198
Loans and advances	3,279	-2	-5	3,272
Central banks	666	0	0	665
Credit institutions	2,614	-2	-5	2,606
Total	**3,478**	**-2**	**-6**	**3,469**

In the balance sheet, loans and receivables to credit institutions are disclosed with the carrying amount net of any impairments.

Allowances for loans and receivables to credit institutions

in EUR million	Dec 16	Allocations	Use	Releases	Interest income from impaired loans	Exchange rate and other changes (+/-)	Dec 17	Amounts written off	Recoveries of amounts previously written off
Specific allowances	**-2**	**0**	**0**	**0**	**0**	**0**	**-2**	**-5**	**5**
Debt securities	0	0	0	0	0	0	0	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0	0
Loans and advances	-2	0	0	0	0	0	-2	-5	5
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-2	0	0	0	0	0	-2	-5	5
Collective allowances	**-5**	**-9**	**0**	**9**	**0**	**1**	**-4**	**0**	**0**
Debt securities	-1	-1	0	1	0	0	-1	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-1	-1	0	1	0	0	-1	0	0
Loans and advances	-5	-8	0	8	0	1	-3	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-5	-8	0	8	0	1	-4	0	0
Total	**-7**	**-10**	**0**	**10**	**0**	**1**	**-6**	**-5**	**5**
	Dec 15						**Dec 16**		
Specific allowances	**-8**	**0**	**7**	**0**	**0**	**-1**	**-2**	**-12**	**5**
Debt securities	0	0	0	0	0	0	0	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0	0
Loans and advances	-8	0	7	0	0	-1	-2	-12	5
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-8	0	7	0	0	-1	-2	-12	5
Collective allowances	**-5**	**-7**	**0**	**6**	**0**	**0**	**-5**	**0**	**0**
Debt securities	-2	0	0	1	0	0	-1	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-2	0	0	1	0	0	-1	0	0
Loans and advances	-3	-7	0	6	0	0	-5	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-4	-7	0	6	0	0	-5	0	0
Total	**-13**	**-8**	**7**	**7**	**0**	**-1**	**-7**	**-12**	**5**

20. Loans and receivables to customers

Loans and receivables to customers

in EUR million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 December 2017				
Debt securities with customers	47	0	-1	46
General governments	8	0	0	7
Other financial corporations	0	0	0	0
Non-financial corporations	39	0	-1	38
Loans and advances to customers	143,462	-3,272	-704	139,487
General governments	7,001	-2	-14	6,985
Other financial corporations	3,698	-105	-17	3,576
Non-financial corporations	62,594	-1,767	-413	60,414
Households	70,169	-1,398	-260	68,511
Total	**143,509**	**-3,272**	**-705**	**139,532**
As of 31 December 2016				
Debt securities with customers	92	0	-1	91
General governments	58	0	0	58
Other financial corporations	0	0	0	0
Non-financial corporations	34	0	-1	33
Loans and advances to customers	135,175	-3,887	-725	130,564
General governments	7,350	-6	-13	7,332
Other financial corporations	3,643	-94	-23	3,526
Non-financial corporations	58,273	-2,207	-401	55,664
Households	65,909	-1,580	-288	64,042
Total	**135,267**	**-3,887**	**-726**	**130,654**

In the balance sheet, loans and receivables to customers are disclosed with the carrying amount net of any impairments.

Allowances for loans and receivables to customers

in EUR million	Dec 16	Allocations	Use	Releases	Interest income from impaired loans	Exchange rate and other changes (+/-)	Dec 17	Amounts written off	Recoveries of amounts previously written off
Specific allowances	**-3,887**	**-1,503**	**816**	**1,270**	**70**	**-38**	**-3,272**	**-76**	**187**
Debt securities with customers	0	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0	0	0	0
Loans and advances to customers	-3,887	-1,503	816	1,270	70	-38	-3,272	-76	187
General governments	-6	0	0	4	0	0	-2	0	0
Other financial corporations	-94	-48	11	20	2	4	-105	0	0
Non-financial corporations	-2,207	-815	530	705	33	-13	-1,767	-53	119
Households	-1,580	-640	275	540	34	-28	-1,398	-23	68
Collective allowances	**-726**	**-557**	**0**	**572**	**0**	**6**	**-705**	**0**	**0**
Debt securities with customers	-1	0	0	0	0	0	-1	0	0
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0
Non-financial corporations	-1	0	0	0	0	0	-1	0	0
Loans and advances to customers	-725	-556	0	572	0	5	-704	0	0
General governments	-13	-10	0	9	0	0	-14	0	0
Other financial corporations	-23	-16	0	20	0	2	-17	0	0
Non-financial corporations	-401	-284	0	275	0	-2	-413	0	0
Households	-288	-246	0	267	0	7	-260	0	0
Total	**-4,613**	**-2,060**	**816**	**1,842**	**70**	**-32**	**-3,977**	**-76**	**187**
	Dec 15						**Dec 16**		
Specific allowances	**-5,276**	**-1,596**	**1,671**	**1,222**	**106**	**-14**	**-3,887**	**-215**	**406**
Debt securities with customers	-14	0	12	2	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0
Non-financial corporations	-14	0	12	2	0	0	0	0	0
Loans and advances to customers	-5,262	-1,596	1,660	1,220	106	-14	-3,887	-215	406
General governments	-7	-1	0	3	0	-1	-6	0	0
Other financial corporations	-154	-31	57	21	3	10	-94	0	0
Non-financial corporations	-3,195	-907	1,159	672	50	14	-2,207	-148	233
Households	-1,907	-657	444	525	53	-38	-1,580	-67	172
Collective allowances	**-733**	**-486**	**0**	**492**	**0**	**2**	**-726**	**0**	**0**
Debt securities with customers	-2	-3	0	4	0	0	-1	0	0
General governments	-2	0	0	1	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0
Non-financial corporations	0	-3	0	3	0	0	-1	0	0
Loans and advances to customers	-731	-483	0	488	0	2	-725	0	0
General governments	-14	-11	0	13	0	-1	-13	0	0
Other financial corporations	-26	-19	0	21	0	1	-23	0	0
Non-financial corporations	-424	-214	0	231	0	5	-401	0	0
Households	-268	-239	0	223	0	-4	-288	0	0
Total	**-6,009**	**-2,082**	**1,671**	**1,714**	**106**	**-12**	**-4,613**	**-215**	**406**

21. Impairment loss for financial instruments

The following table shows impairment losses according to the respective financial instruments. The disclosed amounts comprise allocations of risk provisions and provisions as well as direct write off expenses. However, releases of risk provisions and provisions together with recoveries on written-off loans are not included.

in EUR million	Dec 16	Dec 17	Position in Statement of Comprehensive Income
Allocations to risk provisions	2,090	2,069	Net impairment loss on financial assets
Direct write offs	226	80	Net impairment loss on financial assets
Impairment of loans and advances to credit institutions and customers	**2,316**	**2,149**	**Net impairment loss on financial assets**
Financial assets - available for sale	10	27	Net impairment loss on financial assets
Financial assets - held to maturity	2	1	Net impairment loss on financial assets
Contingent credit risk liabilities	312	329	Other operating result (Note 9)
Total	**2,640**	**2,507**	

The amount of contingent credit risk liabilities for 2016 was corrected.

22. Derivatives – hedge accounting

	Dec 16			Dec 17		
in EUR million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**22,378**	**1,980**	**586**	**19,715**	**1,373**	**414**
Interest rate	22,378	1,980	586	19,715	1,373	414
Equity	0	0	0	0	0	0
Foreign exchange	0	0	0	0	0	0
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	0	0	0	0	0	0
Cash flow hedges	**987**	**14**	**3**	**2,288**	**10**	**67**
Interest rate	987	14	3	2,288	10	67
Equity	0	0	0	0	0	0
Foreign exchange	0	0	0	0	0	0
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total gross amounts	**23,365**	**1,994**	**589**	**22,003**	**1,383**	**480**
Offset		-570	-116		-498	-120
Total		**1,424**	**473**		**884**	**360**

Erste Group undertakes a part of interest rate derivative and credit derivative transactions via Clearing Houses. These derivatives and related cash margin balances fulfil the requirements for balance sheet offsetting in accordance with the criteria described in chapter 'B. Significant accounting policies'.

23. Equity method investments

in EUR million	Dec 16	Dec 17
Credit institutions	84	85
Financial institutions	73	77
Non-credit institutions	36	36
Total	**193**	**198**

The table below shows the aggregated financial information of companies accounted for using the equity method:

in EUR million	Dec 16	Dec 17
Total assets	4,569	4,818
Total liabilities	4,042	4,267
Income	224	266
Profit/loss	30	49

None of Erste Group's investments accounted for using the equity method published price quotations.

Significant equity method investments where the Erste Group has strategic interest

in EUR million	Dec 16 Prvá stavebná	Dec 16 Global Payments s.r.o.	Dec 16 VBV - Betriebliche Altersvorsorge AG	Dec 17 Prvá stavebná	Dec 17 Global Payments s.r.o.	Dec 17 VBV - Betriebliche Altersvorsorge AG
Country of Incorporation	Slovakia	Czech Republic	Austria	Slovakia	Czech Republic	Austria
Place of business	Slovakia	Czech Republic	Austria	Slovakia	Czech Republic	Austria
Main business activity	Financing building society	Payment services	Insurance	Financing building society	Payment services	Insurance
Ownership% held	35%	49%	30%	35%	49%	30%
Voting rights held%	35%	49%	27%	35%	49%	27%
IFRS Classification (JV/A)	Associate	Associate	Associate	Associate	Associate	Associate
Reporting currency	Euro	Czech crowns	Euro	Euro	Czech crowns	Euro
Dividend income received	0	0	6	0	0	6
Impairment loss recognized (cumulative basis)	0	0	0	0	0	0
Impairment loss recognized (for the reporting year)	0	0	0	0	0	0
Loan commitments, financial guarantees and other commitments given	0	0	0	0	0	0
Investee's financial information for the reporting year						
Cash and cash balances	0	2	9	0	2	4
Other current assets	602	51	8	566	53	9
Non-current assets	2,178	60	40	2,377	63	45
Current liabilities	732	54	0	464	58	0
Non-current liabilities	1,815	0	2	2,244	0	2
Operating Income	69	14	2	68	27	2
Post-tax result from continuing operations	17	1	6	20	1	6
Post-tax result from discontinued operations	0	0	0	0	0	0
Other comprehensive income	3	0	0	1	0	0
Total comprehensive income	19	1	6	21	1	6
Depreciation and amortization	-4	-4	0	-4	-8	0
Interest income	105	0	0	99	0	0
Interest expense	-50	0	0	-45	0	0
Tax expense/income	-6	-1	0	-5	-1	0
Reconciliation of investee's net assets against equity investment's carrying amount						
Net assets attributable to Erste Group	81	28	16	82	30	17
Carrying goodwill included in the cost of investment	0	0	0	0	0	0
Impairments (cumulative basis)	0	0	0	0	0	0
Carrying amount	81	28	16	82	30	17

The classification of current and non-current financial assets and liabilities are based on the expected remaining maturities of assets and liabilities.

Insignificant equity method investments

in EUR million	Dec 16 Associates	Dec 16 Joint Ventures	Dec 17 Associates	Dec 17 Joint Ventures
Investees' aggregated key financial information				
Post-tax result from continuing operations	8	0	6	16
Post-tax result from discontinued operations	0	0	0	0
Other comprehensive income	0	0	0	0
Total comprehensive income	**8**	**0**	**6**	**16**
Loan commitments, financial guarantees and other commitments given	**0**	**0**	**0**	**0**
Carrying amount	**60**	**7**	**30**	**40**

24. Unconsolidated structured entities

Erste Group uses structured entities in the course of its business activity. The definition of structured entities as well as of interests in structured entities is outlined in chapter 'B. Significant Accounting Policies'.

Investment funds

Direct investments in own-managed and third-party-managed investment funds as well as management fees earned for the management of investment funds by subsidiaries of Erste Group are classified as interests unconsolidated structured entities, if they are not consolidated.

Direct investments in investment funds. Erste Group is invested in several mutual funds as well as in private investment funds which are registered in Austria, Central- and Eastern Europe or other countries. The majority of those funds is managed by subsidiaries of Erste Group, the smaller part of the funds being managed by independent third parties. The investments in funds held by Erste Group do not constitute material investments (basically below 20%) and mostly take the form of redeemable fund unit investments. They are measured at fair value on the Group's balance sheet, and are disclosed as equity instruments either under line item 'Financial assets - available for sale' or 'Financial assets - held for trading'.

Management Fees. Moreover, Erste Group earnes management fees for providing investment management services as fund manager (by subsidiaries of Erste Group); meaning for making the investment decision for the funds under management of the relevant investment fund.

Beside the management fees for the services as fund manager Erste Group also receives dividend income for their investments in fund units. On the other side stand expenses for the administration of investment funds and fees for the business activity of investment funds, especially custodian fees and fees for securities trading transactions. In the normal course of business activity Erste Group enters into derivative transactions with own-managed unconsolidated investment funds. Moreover, own-managed unconsolidated investment funds are also invested – over different time periods - in debt securities issued by or deposits of Erste Group. In restricted cases Erste Group offers capital guarantees for own-managed unconsolidated investment funds.

The magnitude of the Group's equity interests in unconsolidated investment funds may vary in the future depending on the future performance of their respective underlying assets, relevant market circumstances and opportunities, or regulatory requirements.

Securitization vehicles

Erste Group is also involved as an investor in a number of unconsolidated securitization vehicles sponsored and managed by unrelated third parties in foreign jurisdictions. These interests are asset backed securities with the purpose to securitize certain assets, usually loan receivables, into tradeable interest-bearing securities. The securitization vehicles are financed by the issuance of different tranches of asset backed securities. Investors of those securities cover the default risk of the underlying assets. Erste Group is invested in tranches with investment grade, which are all classified as available for sale and therefore measured at fair value on the balance sheet. All of the investments in unconsolidated securitizations relates to bond investments maturing beyond 1 year. At year end the remaining, weighted average maturity of those debt securities is slightly more than 11.8 years. The interests in securitization vehicles include Collateralized Mortgage Obligations (CMO) and securitized student loans from the US, which will be disposed in the next years.

Others

To a lesser extent, Erste Group is also exposed (notably as lender) to unconsolidated structured entities having other business activities, primarily real estate project-based.

Maximum exposure to unconsolidated structured entities

Erste Group's maximum exposure to losses from its interests in unconsolidated structured entities is equal to the total fair value of its fund units, bond investments, trading derivative assets, provided loans and off-balance sheet commitments and guarantees as of the respective balance sheet date. The maximum exposure corresponds to the carrying amounts after risk provisions as of the balance sheet date. For off-balance sheet loan commitments and guarantees the maximum exposure corresponds to the respective nominal value.

The table below summarises the Group's business relations to unconsolidated structured entities per balance sheet line item, business activity and business location. The summary includes the assets identified as impaired at year-end, as well as related net impairment losses/gains incurred during the year. The carrying amounts of the exposures summarized below are mostly referring to assets already measured at fair value in the balance sheet of the Group. The carrying amounts of the remaining exposures (notably 'Loans and receivables') are materially similar to their fair values.

Dec 17 in EUR million	Investment Funds Own-managed	Third-party managed	Total	Securitization vehicles Own-managed	Third-party managed	Total	Other	Total
Assets								
Equity instruments, thereof:	660	73	732	0	0	0	0	732
Available for sale	522	61	583	0	0	0	0	583
Fair value through profit or loss	137	12	149	0	0	0	0	149
Debt securities, thereof:	0	0	0	0	119	119	0	119
Available for sale	0	0	0	0	119	119	0	119
Fair value through profit or loss	0	0	0	0	0	0	0	0
Held to maturity	0	0	0	0	0	0	0	0
Loans and receivables	5	0	5	0	0	0	115	121
Trading derivatives	7	0	7	0	0	0	1	8
Total assets	**672**	**73**	**745**	**0**	**119**	**119**	**116**	**980**
thereof impaired	27	0	27	0	0	0	0	27
Net Impairment (losses)/gains for the year	0	0	0	0	0	0	0	0
On-balance sheet exposure analysis per jurisdiction								
Austria	628	15	643	0	0	0	116	759
Central and Eastern Europe	45	1	45	0	0	0	0	45
Other jurisdictions	0	57	57	0	119	119	0	176
	672	**73**	**745**	**0**	**119**	**119**	**116**	**980**
Liabilities								
Equity Instruments	115	0	115	0	0	0	7	122
Debt securities issued	269	0	269	0	0	0	3	272
Deposits	1,625	0	1,625	0	0	0	32	1,657
Trading derivatives	56	0	56	0	0	0	0	56
Total liabilities	**2,065**	**0**	**2,065**	**0**	**0**	**0**	**42**	**2,107**
Off balance-sheet commitments	**111**	**0**	**111**	**0**	**0**	**0**	**5**	**116**

Dec 16 in EUR million	Investment Funds Own-managed	Third-party managed	Total	Securitization vehicles Own-managed	Third-party managed	Total	Other	Total
Assets								
Equity instruments, thereof:	698	114	812	0	0	0	0	812
Available for sale	549	103	652	0	0	0	0	652
Fair value through profit or loss	149	11	160	0	0	0	0	160
Debt securities, thereof:	0	0	0	0	340	340	0	340
Available for sale	0	0	0	0	340	340	0	340
Fair value through profit or loss	0	0	0	0	0	0	0	0
Held to maturity	0	0	0	0	0	0	0	0
Loans and receivables	26	0	26	0	0	0	81	108
Trading derivatives	69	0	69	0	0	0	2	72
Total assets	**793**	**114**	**907**	**0**	**340**	**340**	**84**	**1,331**
thereof impaired	9	5	14	0	0	0	0	14
Net Impairment (losses)/gains for the year	0	0	0	0	0	0	0	0
On-balance sheet exposure analysis per jurisdiction								
Austria	739	24	763	0	0	0	84	847
Central and Eastern Europe	53	16	69	0	0	0	0	69
Other jurisdictions	0	74	74	0	340	340	0	414
	793	**114**	**907**	**0**	**340**	**340**	**84**	**1,331**
Liabilities								
Equity Instruments	145	0	145	0	0	0	0	145
Debt securities issued	299	0	299	0	0	0	3	302
Deposits	1,015	0	1,015	0	0	0	15	1,030
Trading derivatives	14	0	14	0	0	0	0	14
Total liabilities	**1,472**	**0**	**1,472**	**0**	**0**	**0**	**19**	**1,491**
Off balance-sheet commitments	**0**	**0**	**0**	**0**	**0**	**0**	**5**	**5**

25. Non controlling interest

Dec 17		Haftungsverbund Savings Banks, thereof:		
in EUR million	Total	Sparkasse Oberösterreich	Sparkasse Steiermark	Sparkasse Kärnten
Country of Incorporation	Austria	Austria	Austria	Austria
Place of business	Austria	Austria	Austria	Austria
Main business activity	Banking	Banking	Banking	Banking
Ownership% held by NCI	50.1%-100%	60%	75%	75%
Reporting currency	Euro	Euro	Euro	Euro
Dividends paid to equity holders of the parent	21	4	4	1
Net result attributable to non-controlling interests	273	32	74	8
Accumulated NCI	3,916	491	900	209
Subsidiary-level stand-alone key financial information				
Current assets	16,285	4,172	2,603	709
Non-current assets	46,307	7,836	10,590	3,332
Current liabilities	39,935	7,997	6,729	2,006
Non-current liabilities	16,865	3,081	5,179	1,716
Operating income	1,553	293	334	100
Profit or loss from continuing operations	402	52	143	13
Total comprehensive income	**477**	**71**	**147**	**26**

Dec 16		Haftungsverbund Savings Banks, thereof:		
in EUR million	Total	Sparkasse Oberösterreich	Sparkasse Steiermark	Sparkasse Kärnten
Country of Incorporation	Austria	Austria	Austria	Austria
Place of business	Austria	Austria	Austria	Austria
Main business activity	Banking	Banking	Banking	Banking
Ownership% held by NCI	50.1%-100%	60%	75%	75%
Reporting currency	Euro	Euro	Euro	Euro
Dividends paid to equity holders of the parent	46	4	4	1
Net result attributable to non-controlling interests	180	15	51	8
Accumulated NCI	3,691	462	824	205
Subsidiary-level stand-alone key financial information				
Current assets	14,446	4,119	2,192	563
Non-current assets	46,158	7,930	10,334	3,334
Current liabilities	37,145	8,364	6,328	1,756
Non-current liabilities	18,136	2,819	5,056	1,847
Operating income	1,525	283	311	108
Profit or loss from continuing operations	254	27	76	18
Total comprehensive income	**298**	**24**	**73**	**21**

26. Property, equipment and Investment properties

a) At cost

in EUR million	Property and equipment - acquisition and production costs					Investment properties
	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	
Balance as of 1 January 2016	**2,791**	**1,052**	**624**	**581**	**5,049**	**1,183**
Additions in current year (+)	85	117	61	174	437	164
Disposals (-)	-114	-117	-88	-110	-429	-186
Acquisition of subsidiaries (+)	-1	1	0	0	0	416
Disposal of subsidiaries (-)	0	0	0	-8	-8	-170
Reclassification (+/-)	-7	7	1	-7	-6	8
Assets held for sale (-)	62	0	0	0	62	-34
Currency translation (+/-)	1	0	-1	7	6	1
Balance as of 31 December 2016	**2,817**	**1,061**	**597**	**638**	**5,112**	**1,383**
Additions (+)	87	45	56	114	302	94
Disposals (-)	-94	-53	-47	-111	-305	-38
Acquisition of subsidiaries (+)	0	0	0	0	1	0
Disposal of subsidiaries (-)	0	0	0	0	0	0
Reclassification (+/-)	-41	55	-56	-2	-44	41
Assets held for sale (-)	-6	-7	0	0	-13	13
Currency translation (+/-)	38	8	3	-31	17	8
Balance as of 31 December 2017	**2,802**	**1,109**	**553**	**606**	**5,070**	**1,501**

b) Accumulated depreciation

in EUR million	Property and equipment - accumulated depreciation					Investment properties
	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	
Balance as of 1 January 2016	**-1,123**	**-802**	**-510**	**-212**	**-2,647**	**-429**
Amortisation and depreciation (-)	-81	-50	-45	-71	-247	-23
Disposals (+)	77	74	84	70	305	46
Acquisition of subsidiaries (-)	0	-1	0	0	-1	-42
Disposal of subsidiaries (+)	0	0	0	0	0	71
Impairment (-)	-53	0	0	0	-53	-3
Reversal of impairment (+)	2	0	0	0	2	7
Reclassification (+/-)	0	1	1	5	7	-6
Assets held for sale (+)	0	0	0	0	0	20
Currency translation (+/-)	0	0	2	-3	-2	0
Balance as of 31 December 2016	**-1,179**	**-778**	**-468**	**-211**	**-2,636**	**-360**
Amortisation and depreciation (-)	-78	-57	-47	-85	-267	-21
Disposals (+)	76	60	48	59	244	11
Acquisition of subsidiaries (-)	0	0	0	0	-1	0
Disposal of subsidiaries (+)	0	0	0	0	0	0
Impairment (-)	-34	0	0	-1	-35	0
Reversal of impairment (+)	4	0	0	0	4	2
Reclassification (+/-)	14	-46	50	0	18	-15
Assets held for sale (+)	4	4	0	0	9	-3
Currency translation (+/-)	-24	-6	-2	12	-20	-3
Balance as of 31 December 2017	**-1,217**	**-822**	**-420**	**-225**	**-2,684**	**-390**

c) Carrying amounts

in EUR million	Property and equipment - carrying amounts					Investment properties
	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	
Balance as of 31 December 2016	**1,638**	**283**	**129**	**427**	**2,477**	**1,023**
Balance as of 31 December 2017	**1,585**	**286**	**134**	**382**	**2,387**	**1,112**

The carrying amount of investment properties includes investment properties under operating leases in the amount of EUR 225.7 million (2016: EUR 177.7 million).

In the reporting period, borrowing costs of EUR 0.7 million (2016: EUR 1.3 million) were capitalised. The related interest rate was 2.0% (2016: from 0.1%).

The carrying amount of expenditures recognised in the items fixed assets and investment properties during their construction are EUR 29.5 million (2016: EUR 26.4 million). The contractual commitments for purchase of fixed assets are EUR 9.7 million (2016: EUR 11.5 million).

For further details about fair value of investment properties, see Note 47.

In 2017, land and buildings were impaired in the amount of EUR 26.7 million (2016: EUR 51.4 million) in Ceská spořitelna a.s.. As of 31 December 2017, the recoverable amount of these impaired assets amounted to EUR 20.4 million (2016: EUR 10.7 million).

27. Intangible assets

a) At cost

	Intangible assets - acquisition and production costs						
in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 1 January 2016	**3,912**	**769**	**288**	**1,356**	**498**	**396**	**7,219**
Additions in current year (+)	0	0	0	136	45	9	190
Disposals (-)	0	-24	-2	-48	-54	-15	-142
Acquisition of subsidiaries (+)	0	0	0	0	0	0	0
Disposal of subsidiaries (-)	0	0	0	0	5	0	5
Reclassification (+/-)	0	0	0	-20	33	-16	-2
Assets held for sale (-)	0	0	0	0	0	0	0
Currency translation (+/-)	-6	-1	-1	2	0	0	-7
Balance as of 31 December 2016	**3,905**	**744**	**285**	**1,427**	**527**	**375**	**7,263**
Additions (+)	18	28	0	137	139	14	334
Disposals (-)	0	0	0	-53	-27	-95	-175
Acquisition of subsidiaries (+)	0	0	0	0	0	0	0
Disposal of subsidiaries (-)	0	0	0	0	0	0	0
Reclassification (+/-)	0	0	0	-16	9	7	0
Assets held for sale (-)	0	0	0	-1	0	0	-1
Exchange-rate changes (+/-)	-54	-15	-7	23	0	11	-42
Balance as of 31 December 2017	**3,869**	**756**	**278**	**1,517**	**648**	**312**	**7,379**

b) Accumulated depreciation

	Intangible assets - accumulated depreciation						
in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 1 January 2016	**-3,142**	**-712**	**-288**	**-994**	**-338**	**-280**	**-5,753**
Amortisation and depreciation (-)	0	-5	0	-102	-48	-19	-174
Disposals (+)	0	24	2	48	41	12	127
Acquisition of subsidiaries (-)	0	0	0	-3	0	0	-3
Disposal of subsidiaries (+)	0	0	0	5	-5	0	0
Impairment (-)	-61	0	0	-4	-9	0	-74
Reversal of impairment (+)	0	0	0	0	0	0	0
Reclassification (+/-)	0	0	0	-5	-19	24	-1
Assets held for sale (+)	0	0	0	0	0	0	0
Currency translation (+/-)	6	2	1	-1	0	0	8
Balance as of 31 December 2016	**-3,197**	**-692**	**-285**	**-1,057**	**-378**	**-263**	**-5,872**
Amortisation and depreciation (-)	0	-9	0	-105	-46	-18	-178
Disposals (+)	-15	0	0	43	54	94	176
Acquisition of subsidiaries (-)	0	0	0	0	0	0	0
Disposal of subsidiaries (+)	0	0	0	0	0	0	0
Impairment (-)	0	0	0	-12	-20	0	-31
Reversal of impairment (+)	0	0	0	0	0	0	0
Reclassification (+/-)	0	0	0	13	-9	-4	0
Assets held for sale (+)	0	0	0	0	0	0	0
Currency translation (+/-)	54	15	7	-17	0	-10	50
Balance as of 31 December 2017	**-3,156**	**-686**	**-278**	**-1,135**	**-398**	**-202**	**-5,855**

c) Carrying amounts

in EUR million	Intangible assets - carrying amounts: Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 31 December 2016	**710**	**51**	**0**	**369**	**148**	**112**	**1,390**
Balance as of 31 December 2017	**712**	**70**	**0**	**382**	**249**	**110**	**1,524**

The contractual commitments for the purchase of intangible assets amounted to EUR 0.8 million (2016: EUR 3.7 million).

As of 31 December 2017 the customer relationship Ringturm Kapitalanlagegesellschaft m.b.H. amounted to EUR 44.5 million (2016: EUR 48.7 million). The remaining amortization period of the customer relationship in Ringturm Kapitalanlagegesellschaft m.b.H. was 10.8 years.

Development of goodwill

The changes in the carrying amount of goodwill, as well as gross amounts and accumulated impairment losses of goodwill, for the financial years 2017 and 2016 of the respective subsidiaries (cash generating units, CGU) are shown by country of domicile of the relevant subsidiary in the following table.

in EUR million	Romania	Czech Republic	Slovakia	Hungary	Croatia	Austria	Other countries	Total
Balance as of 1 January 2016	**0**	**544**	**226**	**0**	**0**	**0**	**0**	**771**
Acquisitions	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
Impairment losses	0	0	-61	0	0	0	0	-61
Exchange rate changes	0	0	0	0	0	0	0	0
Balance as of 31 December 2016	**0**	**544**	**165**	**0**	**0**	**0**	**0**	**710**
Gross amount of goodwill	2,251	544	226	313	114	363	120	3,931
Cumulative impairment	-2,251	0	-61	-313	-114	-363	-120	-3,222
Balance as of 1 January 2017	**0**	**544**	**165**	**0**	**0**	**0**	**0**	**710**
Acquisitions	0	2	0	0	0	0	0	2
Disposals	0	0	0	0	0	0	0	0
Impairment losses	0	0	0	0	0	0	0	0
Exchange rate changes	0	0	0	0	0	0	0	0
Balance as of 31 December 2017	**0**	**546**	**165**	**0**	**0**	**0**	**0**	**712**
Gross amount of goodwill	2,251	546	226	313	114	363	120	3,933
Cumulative impairment	-2,251	0	-61	-313	-114	-363	-120	-3,222

The gross amounts of the goodwill elements are the amounts as determined at the time of the related acquisitions, less accumulated impairments until 31 December 2017, including the effects of exchange rate changes.

The goodwill elements having a carrying amount of zero as of 31 December 2016 have been assessed for objective evidence of impairment on a quarterly basis throughout the year 2017. Due to the lack of objective evidence, the goodwill impairment assessment for the year 2017 addressed the following subsidiaries (cash generating units):

_ Česká spořitelna a.s. (‘CSAS’)
_ Slovenská sporiteľňa a.s. (‘SLSP’)

The analysis per subsidiary (cash generating unit) of both the carrying goodwill as at 31 December 2017 and of the impairment losses recognized for the year 2017 is presented in the table below. The table also summarizes the key elements of the approach taken in designing and performing the goodwill impairment test as at the end of 2017.

	CSAS	SLSP
Carrying amount of goodwill as of 1 January 2017	544	165
Effect of exchange rate changes for the year 2017	0	0
Basis upon which recoverable amount has been determined	Value in Use (discounted cash flow model based)	
Key interest input parameters into the discounted cash flow model	Risk Free Rate, Terminal Growth Rate, β Factor, Market Risk Premium	
Description of approach to determining value assigned to risk free rate	Risk Free Rate has been set at 1.33% p.a. throughout relevant Group's CGUs based on relevant financial statistics published by Deutsche Bundesbank as at the reference date 31 October 2017	
Description of approach to determining values assigned to terminal growth rate	For non-Austrian (CEE) CGUs: Terminal Growth Rate has been equated to 3.00%, representing the recommended cap level for the Terminal Growth Rate, as per the report ESMA/2013/2 'European Enforcers Review of Impairment of Goodwill and Other Intangible Assets in the IFRS Financial Statements' published by the European Securities and Markets Authority (ESMA).	
Description of approach to determining values assigned to β factor	Set as the median value of a group of levered β factors attributable to a sample of 'peer banks' representative of the tested banks (CGUs), as published by Capital IQ as of the reference date 31 October 2017.	
Description of approach to determining values assigned to market risk premium	Set at 7.0 % throughout relevant Group's CGUs based on published evaluations by the Austrian Chamber of Commerce (Kammer der Steuerberater und Wirtschaftsprüfer).	
Period of cash flow projection (years)	5 years (2018 - 2022); extrapolation to perpetuity based on Terminal Growth Rate	
Discount rate applied to cash flow projections (pre-tax)	12.6%	13.3%
The value assigned to β Factor	1.16	1.16
Amount of goodwill impairment loss recognised in profit or loss for the year 2017	0	0
Post-impairment carrying amount of goodwill as of 31 December 2017	544	165

In respect of the assessed cash generating units located outside the euro-zone, an inflation differential has been considered in the determination of the discount rates applicable to the related 2018-2022 cash flow projections.

The comparative summary at subsidiary-level as of 31 December 2016 is presented below:

	CSAS	SLSP
Carrying amount of goodwill as of 1 January 2016	544	226
Effect of exchange rate changes for the year 2016	0	0
Basis upon which recoverable amount has been determined	Value in Use (discounted cash flow model based)	
Key interest input parameters into the discounted cash flow model	Risk Free Rate, Terminal Growth Rate, β Factor, Market Risk Premium	
Description of approach to determining value assigned to risk free rate	Risk Free Rate has been set at 0.90% p.a. throughout relevant Group's CGUs based on relevant financial statistics published by Deutsche Bundesbank as at the reference date 31 October 2016	
Description of approach to determining values assigned to terminal growth rate	For non-Austrian (CEE) CGUs: Terminal Growth Rate has been equated to 3.00%, representing the recommended cap level for the Terminal Growth Rate, as per the report ESMA/2013/2 'European Enforcers Review of Impairment of Goodwill and Other Intangible Assets in the IFRS Financial Statements' published by the European Securities and Markets Authority (ESMA).	
Description of approach to determining values assigned to β factor	Set as the median value of a group of levered β factors attributable to a sample of 'peer banks' representative of the tested banks (CGUs), as published by Capital IQ as of the reference date 31 October 2016.	
Description of approach to determining values assigned to market risk premium	Set at 7.0% throughout relevant Group's CGUs based on publicly available evaluations by the Austrian Chamber of Commerce (Kammer der Wirtschaftstreuhänder).	
Period of cash flow projection (years)	5 years (2017 - 2021); extrapolation to perpetuity based on Terminal Growth Rate	
Discount rate applied to cash flow projections (pre-tax)	12.6%	12.9%
The value assigned to β Factor	1.16	1.16
Amount of goodwill impairment loss recognised in profit or loss for the year 2016	0	-61
Post-impairment carrying amount of goodwill as of 31 December 2016	544	165

In connection with those tested cash-generating units for which no goodwill impairment loss was determined as of 31 December 2017, the table below summarizes the outcome of the sensitivity analysis performed to determine by how much the key input parameters into the applied discounted cash flow models would need to vary in order to cause the unit's calculated recoverable amount to equal its related carrying amount:

Growth rates	SLSP	CSAS
Amount by which recoverable amount exceeds/fall short the carrying amount	608	2,088
Risk free rate increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	257	312
Terminal growth rate increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	-919	-1263
β factor increase/decrease that would cause recoverable amount to equal carrying amount (coefficient value)	0.365	0.445
Market risk premium increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	222	269

As of 31 December 2016, the comparative sensitivity analysis figures were as follows:

Growth rates	CSAS
Amount by which recoverable amount exceeds/fall short the carrying amount	1,435
Risk free rate increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	229
Terminal growth rate increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	-794
β factor increase/decrease that would cause recoverable amount to equal carrying amount (coefficient value)	0.327
Market risk premium increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	197

28. Tax assets and liabilities

In the following table the major components of deferred tax assets and deferred tax liabilities are shown.

	Tax assets		Tax liabilities		Net variance 2017		
in EUR million	2017	2016	2017	2016	Total	Through profit or loss	Through other comprehensive income
Temporary differences relate to the following items:							
Financial assets and liabilities - held for trading	330	371	-239	-281	1	1	0
Loans and advances to credit institutions and customers	210	259	-30	-109	32	32	0
Financial assets - available for sale	28	39	-248	-319	60	15	45
Derivatives - hedge accounting	77	100	-209	-342	109	87	22
Property and equipment (useful life in tax law different)	34	50	-27	-40	-2	-2	0
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	212	384	-8	-331	152	152	0
Financial liabilities measured at amortised cost (deposits and debt securities issued)	62	104	-52	-42	-52	-52	0
Long-term employee provisions (tax valuation different)	93	119	-4	-7	-23	-23	0
Other provisions (tax valuation different)	71	84	-10	-13	-10	-10	0
Tax loss carry-forward	56	77	0	0	-21	-21	0
Customer relationships, brands and other intangibles	75	15	-67	-47	39	39	0
Other	297	685	-128	-111	-406	-406	0
Impairment	-330	-479	0	0	150	143	7
Effect of netting gross deferred tax position	-958	-1,574	958	1,574	0	0	0
Total deferred taxes	**258**	**234**	**-61**	**-68**	**29**	**-45**	**74**
Current taxes	**108**	**124**	**-101**	**-66**	**-365**	**-365**	**0**
Total taxes	**366**	**358**	**-163**	**-133**	**-336**	**-410**	**74**

The deferred tax assets and liabilities are presented prior to subsidiary-level balance-sheet netting of attributable gross deferred tax assets and gross deferred tax liabilities. The amounts shown in the table are gross amounts before impairment consideration except for the position deferred tax assets resulting from tax loss carry-forward. The remainder of the impairment recordings is considered in the position 'Impairment' in the table. The position 'Other' comprises all deferred tax positions not being shown as separate positions in the table above.

Out of the total net deferred tax variance of EUR 29 million (2016: EUR -48 million) an amount of EUR 45 million (2016: EUR 50 million) is reflected as net deferred tax expense in the Group's income statement for the year 2017, whilst an income amount of EUR 74 million (2016: expense EUR 0.3 million) represents the impact in the Group's other comprehensive income for the year.

The Group's consolidated deferred tax asset position in amount of EUR 258 million as of 31 December 2017 (2016: EUR 234 million) is expected to be recoverable in the foreseeable future. In spite of losses in the current or prior period for the components of the group affected this recoverability is also expected to be the case for their amounts of deferred tax assets which are exceeding their deferred tax liabilities by an amount of EUR 11 million as of 31 December 2017 (2016: EUR 16 million). These expectations result from year-end recoverability assessments undertaken by the Group's entities, either at individual level, or at relevant tax group level. Such assessments are comparing net temporary deductible differences and available fiscal losses at year-end – after offsetting with deferred tax liabilities at individual level or at relevant tax group level - with fiscal profit forecasts for a group-wide unified and unchanged time horizon of a maximum 5 years depending on the fiscal jurisdiction and applicable facts and circumstances. If the result of these assessments is negative, the deferred tax asset positions are correspondingly not recorded and the already existing deferred tax asset positions are correspondingly depreciated.

Further information on total tax expense is provided in Note 10.

In accordance with IAS 12.39, no deferred tax liabilities were recognized for temporary differences relating to investments in subsidiaries with an amount of EUR 1,379 million (2016: EUR 1,134 million), as they are not expected to reverse in the foreseeable future. As of 31 December 2017, no deferred tax assets were recognized for tax loss carry-forward and deductible temporary differences with a total amount of EUR 5,019 million (2016: EUR 5,290 million), of which EUR 2,218 million (2016: EUR 2,163 million) relates to tax loss carry-forward, as they are not expected to be realized in the foreseeable future. The figure comprises an amount of EUR 1,500 million (2016: EUR 1,511 million) representing temporary differences in connection with investments in subsidiaries no deferred tax assets have been recognized for in accordance with IAS 12.44.

From the total of the not recorded deferred tax assets related to tax loss carry-forward in the following period EUR 1 million will expire (2016: EUR 1 million) and in later periods EUR 61 million (2016: EUR 76 million), EUR 442 million (2016: EUR 341 million) will not expire.

29. Assets held for sale and liabilities associated with assets held for sale

in EUR million	Dec 16	Dec 17
Assets held for sale	279	214
Liabilities associated with assets held for sale	5	3

As of the end of 2017, 'Assets held for sale' include mainly land and buildings in amount of EUR 122.2 million (2016: EUR 162.7 million).

For the assets which have been classified under IFRS 5 since the year 2016, the twelve-month deadline had been exceeded. Despite of intense sales negotiations and the related sales intentions, circumstances that had been outside the control of Erste Group occurred, and had prevented the sale of the assets until the end of the twelve-month period. The sales process could not be completed in 2017.

For this reason, the classification in accordance with IFRS 5 has been reversed in accordance with the applicable requirements. The assets concerned, in amount of EUR 18 million (2016: EUR 73 million) were reclassified to the original balance sheet items.

In 2017, no effect from the reclassification is shown in the other operating result. In 2016, the effect of the adjustment of the carrying amount of the assets upon the reclassification was a loss of EUR 1.1 million included in the other operating result.

30. Other assets

in EUR million	Dec 16	Dec 17
Prepayments and accrued income	177	149
Inventories	253	187
Sundry assets	590	433
Other assets	**1,020**	**769**

'Sundry assets' mainly consist of outstanding settlement receivables from securities- and payment transactions as well as advance payments for assets under construction. Real estate project developments are a main part of 'Inventories'.

The impairments of inventories, shown as expense in the reporting period amount to EUR 1.4 million (2016: EUR 12.0 million).

31. Other trading liabilities

in EUR million	Dec 16	Dec 17
Short positions	366	430
Equity instruments	240	188
Debt securities	126	242
Debt securities issued	59	59
Sundry trading liabilities	152	0
Other trading liabilities	**577**	**489**

The decrease in other trading liabilities concerns deposits which were classified as financial liabilities held for trading.

32. Financial liabilities – at fair value through profit and loss

	Carrying amount		Amount repayable		Delta between carrying amount and amount repayable	
in EUR million	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16	Dec 17
Financial liabilities - at fair value through profit or loss	**1,763**	**1,801**	**1,720**	**1,717**	**43**	**85**
Deposits from banks	0	0	0	0	0	0
Deposits from customers	74	49	74	49	0	0
Debt securities issued	1,689	1,753	1,646	1,668	43	85
Other financial liabilities	0	0	0	0	0	0

Fair value changes that are attributable to changes in own credit risk

	For reporting period		Cumulative amount	
in EUR million	1-12 16	1-12 17	Dec 16	Dec 17
Financial liabilities - at fair value through profit or loss	**18.0**	**90.9**	**57.1**	**145.8**
Deposits from banks	0.0	0.0	0.0	0.0
Deposits from customers	-0.1	0.0	0.1	0.1
Debt securities issued	18.2	90.9	57.0	145.7
Other financial liabilities	0.0	0.0	0.0	0.0

In 2017, the fair value of 'financial liabilities at fair value through profit or loss' increased due to changes in own credit risk in the amount of EUR 90.9 million (2016: increase of EUR 18.0 million). The cumulative increase due to the change of own credit risk amounts to EUR 145.8 million as of 31 December 2017 (2016: EUR 57.1 million).

Debt securities issued

in EUR million	Dec 16	Dec 17
Subordinated liabilities	556	880
Subordinated issues and deposits	556	880
Hybrid issues	0	0
Other debt securities issued	1,133	873
Bonds	763	502
Certificates of deposit	0	0
Registered bonds/other certificates	69	55
Mortgage covered bonds	302	316
Public sector covered bonds	0	0
Other	0	0
Debt securities issued	**1,689**	**1,753**

33. Financial liabilities measured at amortised costs

Deposits from banks

in EUR million	Dec 16	Dec 17
Overnight deposits	3,557	3,460
Term deposits	9,540	11,893
Repurchase agreements	1,534	996
Deposits from banks	**14,631**	**16,349**

Deposits from customers

in EUR million	Dec 16	Dec 17
Overnight deposits	**85,707**	**99,278**
Savings deposits	21,873	24,494
General governments	0	0
Other financial corporations	267	134
Non-financial corporations	1,344	1,531
Households	20,262	22,829
Non-savings deposits	63,834	74,785
General governments	4,637	5,502
Other financial corporations	4,774	5,409
Non-financial corporations	19,288	22,716
Households	35,135	41,158
Term deposits	**52,076**	**50,576**
Deposits with agreed maturity	46,925	44,966
Savings deposits	32,091	30,472
General governments	0	0
Other financial corporations	757	409
Non-financial corporations	1,333	1,447
Households	30,001	28,616
Non-savings deposits	14,834	14,494
General governments	1,740	2,123
Other financial corporations	2,460	2,631
Non-financial corporations	3,214	3,424
Households	7,420	6,316
Deposits redeemable at notice	5,151	5,610
General governments	1	8
Other financial corporations	70	79
Non-financial corporations	69	97
Households	5,011	5,426
Repurchase agreements	**156**	**1,066**
General governments	52	0
Other financial corporations	0	1,030
Non-financial corporations	104	36
Households	0	0
Deposits from customers	**137,939**	**150,921**
General governments	**6,429**	**7,633**
Other financial corporations	**8,327**	**9,693**
Non-financial corporations	**25,353**	**29,250**
Households	**97,829**	**104,345**

Debt securities issued

in EUR million	Dec 16	Dec 17
Subordinated liabilities	5,542	4,937
Subordinated issues and deposits	5,542	4,937
Hybrid issues	0	0
Other debt securities issued	19,960	18,405
Bonds	9,762	8,474
Certificates of deposit	441	164
Other certificates of deposits/name certificates	847	830
Mortgage covered bonds	7,351	7,610
Public sector covered bonds	1,456	1,187
Other	103	141
Debt securities issued	**25,503**	**23,342**

In 1998, Erste Group Bank AG launched a EUR 30,000,000,000 Debt Issuance Programme (DIP). The current DIP is a programme for issuing debt instruments in various currencies and maturities with a limited range of interest rate structures. In 2017, 24 DIP new bonds (2016: 55) with a total volume of approximately EUR 1.13 billion (2016: EUR 1.23 billion) were issued under the DIP.

In July 2014, the Credit Linked Notes Programme was implemented. In 2017, 9 new bonds (2016: 21) with a total volume of EUR 11 million (2016: EUR 29 million) were issued. At the same time the Equity Linked Notes Programme was implemented, under which 153 new bonds (2016: 130) with a total volume of EUR 383 million (2016: EUR 240 million) were issued.

Furthermore, secured and senior unsecured registered notes ('Namenspfandbriefe' and 'Namensschuldverschreibungen'), as well as other bonds that were not part of the above mentioned programmes were issued with a volume of EUR 93 million (2016: EUR 17 million). Starting with August 2008, the Euro Commercial Paper and Certificates of Deposit Programme has an overall volume of EUR 10 billion. In all, 20 issues (2016: 16) amounting to EUR 780 million (2016: EUR 384 million) were placed in 2017. Issues totalling approximately EUR 691 million (2016: EUR 384 million) were redeemed over the same period.

Erste Group Bank AG, through its branch in NY and through its fully consolidated subsidiary Erste Finance Delaware LLC, issues commercial papers and certificates of deposit into the US money market. The Dollar Certificate of Deposit Program of the New York branch has a maximum issuance volume of EUR 4.16 billion (USD 5.0 billion), with a total balance as of 31 December 2017 of EUR 38 million (USD 45 million) and as of 31 December 2016 EUR 212 million (USD 223 million). The Dollar Commercial Paper Program of Erste Finance Delaware LLC has a maximum issuance volume of EUR 6.2 billion (USD 7.5 billion), with a total balance as of 31 December 2017 of EUR 75 million (USD 91 million) and as of 31 December 2016 EUR 227 million (USD 239 million).

34. Provisions

in EUR million	Dec 16	Dec 17
Long-term employee provisions	969	914
Pending legal issues and tax litigation	332	351
Commitments and guarantees given	339	323
Provisions for guarantees - off balance sheet (defaulted customers)	208	181
Provisions for guarantees - off balance sheet (non-defaulted customers)	131	141
Other provisions	62	60
Provisions for onerous contracts	4	4
Other	58	57
Provisions	**1,702**	**1,648**

a) Long-term employee provisions

in EUR million	Pensions	Severance payments	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 Dec 2013	**787**	**395**	**76**	**1,258**
Present value of long-term employee benefit obligations, 31 Dec 2014	**858**	**466**	**87**	**1,411**
Present value of long-term employee benefit obligations, 31 Dec 2015	**741**	**430**	**87**	**1,258**
Increase	0	0	0	0
Decrease	0	0	0	0
Settlements / Curtailments	0	0	0	0
Service cost	0	12	5	17
Interest cost	17	10	2	29
Payments	-65	-22	-5	-92
Exchange rate difference	0	0	0	0
Components recognised in other comprehensive income (Remeasurements)	**21**	**16**	**0**	**37**
Adjustments in financial assumptions	17	19	0	36
Experience adjustments	4	-3	0	1
Actuarial gains/losses recognised in income	**0**	**0**	**1**	**1**
Adjustments in financial assumptions	0	0	4	4
Experience adjustments	0	0	-3	-3
Present value of long-term employee benefit obligations, 31 Dec 2016	**714**	**446**	**90**	**1,250**
Obligations covered by plan assets	0	233	48	281
Obligations covered by provisions	0	213	42	255
Less fair value of plan assets	**0**	**233**	**48**	**281**
Provisions as of 31 Dec 2016	**714**	**213**	**42**	**969**
Present value of long-term employee benefit obligations, 31 Dec 2016	**714**	**446**	**90**	**1,250**
Increase	20	0	0	20
Decrease	0	0	0	0
Settlements / Curtailments	1	-2	0	-1
Service cost	1	12	6	19
Interest cost	12	8	2	22
Payments	-65	-28	-5	-98
Exchange rate difference	0	0	0	0
Components recognised in other comprehensive income (Remeasurements)	**17**	**-5**	**0**	**12**
Adjustments in financial assumptions	-1	-2	0	-3
Experience adjustments	18	-3	0	15
Actuarial gains/losses recognised in income	**0**	**0**	**-5**	**-5**
Adjustments in financial assumptions	0	0	0	0
Experience adjustments	0	0	-5	-5
Present value of long-term employee benefit obligations, 31 Dec 2017	**700**	**431**	**88**	**1,219**
Obligations covered by plan assets	22	233	49	304
Obligations covered by provisions	678	198	39	915
Less fair value of plan assets	**22**	**233**	**49**	**304**
Provisions as of 31 Dec 2017	**678**	**198**	**39**	**915**

Actuarial assumptions

For Austrian subsidiaries the actuarial calculation of pension obligations is based on the following assumptions:

in %	Dec 16	Dec 17
Interest rate	1.80	1.82
Expected increase in retirement benefits	1.50	1.50

The expected retirement age for each employee was individually calculated on the basis of the changes set out in the Budget Implementation Act of 2003 (Austrian Federal Law Gazette Vol. I No. 71/2003) regarding the increase in the minimum retirement age. The currently applicable legislation on the gradual raising of the retirement age for men and women to 65 was taken into consideration.

For Austrian subsidiaries the actuarial calculation of severance payment and jubilee provisions is based on the following assumptions:

in %	Dec 16	Dec 17
Interest rate	1.80	1.82
Average increase in salary (incl. career trend and collective agreement trend)	2.40	2.40

For the non-Austrian subsidiaries and branches interest rates in the following ranges 1.46% (previously: 0.65%) to 4.41% (previously: 4.4%) were used.

Obligations were calculated based on the Pagler & Pagler mortality tables entitled 'AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung' or comparable mortality tables.

The movement in plan assets during the reporting period was as follows:

in EUR million	Pension payments	Severance payments	Jubilee payments	Total
Fair value of plan assets as of 31 December 2015	**0**	**215**	**33**	**248**
Addition	0	16	15	31
Interest income on plan assets	0	5	1	6
Contributions by the employer	0	19	3	22
Benefits paid	0	-15	-4	-19
Return on plan assets recognised in other comprehensive income (excluding amounts already recognised in interest income) - remeasurements	0	-7	0	-7
Return on plan assets recognised in P&L	0	0	0	0
Fair value of plan assets as of 31 December 2016	**0**	**233**	**48**	**281**
Addition	20	0	0	20
Interest income on plan assets	2	4	1	7
Contributions by the employer	0	15	4	19
Benefits paid	0	-21	-5	-26
Return on plan assets recognised in other comprehensive income (excluding amounts already recognised in interest income) - remeasurements	0	2	0	2
Return on plan assets recognised in P&L	0	0	1	1
Fair value of plan assets as of 31 December 2017	**22**	**233**	**49**	**304**

In 2018, the expected contributions for the severance and jubilee benefit obligations will amount to EUR 10.2 million (2016: EUR 10.5 million). The contributions shown in the table include not only regular contributions but also one-time payments at the end of the year. The actual gain (loss) on plan assets amounted to EUR 9.7 million (2016: EUR -1.2 million).

Investment strategy

The primary investment strategy of Erste Group is the continuous optimization of plan assets and the effective coverage of existing entitlements. The Group works with professional fund managers for the investment of plan assets. The Investment Fund Act applies as a requirement with respect to specific investment guidelines relating to the investment of plan assets. Additionally, the Investment Committee which is composed of senior staff in the financial sector and representatives of the S-Versicherung and Erste Asset Management meets once a year.

Erste Group's severance payments and jubilee payments are partially covered by the fair value of plan assets, while defined benefit pension plans are not financed with segregated assets. Majority of defined benefit pension plans only exist for already retired employees. Majority of pension plans are dedicated to former employees of Austrian entities of Erste Group and are unfunded. In total 75% of the plans (sum over severance payments, defined benefit pension plans and jubilee payments) are not matched with dedicated assets.

For the yearly pension payments of the unfunded defined benefit plans and the unfunded part of severance payments Erste Group generally takes care within its asset-liability management strategy covering the funding plan and interest rate risk position of the Group. The payments for 2018 are expected with EUR 82.0 million (2016: EUR 79.2 million) for both plans.

The average duration of these provisions are assumed to be 10.56 years for severance payments and 8.38 years for defined benefit pension plans.

Control and risk

The effective allocation of plan assets is determined by the administering body including the relevant existing economic and market conditions as well as considering specific risks of the individual asset classes and the risk profile. Moreover the Investment Committee is responsible for monitoring the mandate guidelines and the investment structure, the supervision, which may arise from regulatory or other legal requirements, as well as the monitoring of demographic changes. As an additional steering tool the fund management generates a report, which is transmitted on a quarterly basis to the Group. Overall, the Group tries to minimize the impact caused by market movements on the pension plans.

Asset allocation in the different asset classes

The following table presents the asset allocation of plan assets in the different asset classes:

	Dec 16					Dec 17				
in EUR million	Europe-EMU	Europe-non EMU	USA	Other countries	Total	Europe-EMU	Europe-non EMU	USA	Other countries	Total
Cash and cash equivalents	17	0	0	0	17	13	0	1	0	14
Equity instruments	3	2	8	7	20	6	6	42	12	67
Investment-grade bonds										
Government	41	4	4	8	57	35	5	2	12	54
Non-government bonds	34	23	14	3	74	31	20	23	14	88
Non-investment-grade bonds										
Government	3	1	13	5	21	0	1	11	8	20
Non-government bonds	43	7	19	7	77	9	2	15	22	47
Alternatives										
Commodities	0	0	0	0	0	0	0	0	0	0
Other	1	0	0	5	6	1	0	0	7	8
Derivatives (Market risk)										
Interest rate risk	0	0	0	0	0	0	0	0	0	0
Credit risk	0	0	0	0	0	0	0	0	0	0
Equity price risk	0	0	0	0	0	0	0	0	0	0
Foreign exchange risk	0	0	0	0	0	0	0	0	0	0
Other	8	0	0	0	8	6	0	0	0	6
Plan assets	**150**	**37**	**58**	**35**	**281**	**101**	**34**	**95**	**75**	**304**

In the table above, Investment-grade refers to BBB and above.

The plan assets shown in the table above include mainly assets that are quoted and traded on acitve markets.

As of 31 December 2017, the plan assets did not include material amounts of securities issued by the Group or other claims upon it. Moreover none of the mortgage securities used by the Group are included.

The following table presents profit or loss effects of defined post-employment benefit plans (pensions and severance payments).

in EUR million	Dec 16	Dec 17
Settlements / Curtailments	0	1
Service cost	-17	-19
Net interest	-23	-15
Total	**-40**	**-33**

Settlements and curtailments as well as service costs are included in the income statement in the line item ‘Personnel expenses’. Net interest includes interest expenses for long-term employee benefits as well as the expected return on plan assets.These are disclosed in the income statement in the line item ‘Net interest income’ and ‘Net interest expense’. As of 31 December 2017, the cumulative amount of remeasurements recognised in other comprehensive income was EUR -515,5 million (2016: EUR -508.1 million).

Sensitivity to key assumption

For the Austrian subsidiaries the following table presents a sensitivity analysis for each significant actuarial assumptions showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at the balance sheet date.

in EUR million	Dec 16 Pension obligation	Dec 16 Severance payment obligation	Dec 16 Total	Dec 17 Pension obligation	Dec 17 Severance payment obligation	Dec 17 Total
Change in discount rate + 1.0 %	652	377	1,029	614	367	981
Change in discount rate -1.0 %	769	467	1,236	723	450	1,173
Change in future salary increases + 0.5 %	706	442	1,148	665	426	1,091
Change in future salary increases -0.5 %	706	397	1,103	665	385	1,050
Change in future benefit increases + 0.5 %	761	419	1,180	713	405	1,118
Change in future benefit increases -0.5 %	655	419	1,074	620	405	1,025
Increase in survival rate by aprox. 10%	747	0	747	705	0	705

Impact on cash flows

The following table reflects the benefits expected to be paid by the defined benefit plans in each of the respective periods:

in EUR million	Pensions	Severance payments	Total
2018	62	20	82
2019	58	22	80
2020	54	28	82
2021	51	31	82
2022	47	32	79
2023-2027	187	174	361

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year-end 2017:

in years	Pensions	Severance payments	Total
Duration	8.38	10.56	9.20

b) Sundry provisions

Sundry provisions 2017

in EUR million	As of Dec 16	Allocations	Use	Releases	Unwind of discount	Exchange rate and other changes (+/-)	As of Dec 17
Pending legal issues and tax litigation	330	176	-109	-46	0	0	351
Commitments and guarantees given	339	329	-1	-347	1	-1	323
Provisions for guarantees - off balance sheet (defaulted customers)	208	168	-1	-196	1	1	181
Provisions for guarantees - off balance sheet (non-defaulted customers)	132	162	0	-151	0	-2	141
Other provisions	60	34	-13	-30	1	8	60
Provisions for onerous contracts	5	0	-1	-1	0	1	4
Other	54	34	-11	-29	1	8	57
Provisions	**729**	**539**	**-122**	**-423**	**3**	**7**	**734**

Under position pending legal issues and tax litigations out of lending business, asset management or litigations with customer protection association, which normally occur in banking business, are disclosed.

In 2017, a provision for risks related to Romanian consumer protection claims Act was partially released in amount of EUR 10.1 million (2016: EUR 62.3 million allocated). The total amount of the provision as of 31 December 2017 was EUR 133.5 million (2016: EUR 156.2 million).

The level of sundry provisions is the best possible estimate of expected outflow of economic benefits at the reporting date, while taking into account the risks and uncertainties underlying the commitment to fulfill the obligation. Risks and uncertainties are taken into account in the estimate.

Sundry provisions 2016

in EUR million	As of Dec 15	Allocations	Use	Releases	Unwind of discount	Exchange rate and other changes (+/-)	As of Dec 16
Pending legal issues and tax litigation	258	159	-9	-77	0	-1	330
Commitments and guarantees given	297	312	-1	-284	1	14	339
Provisions for guarantees - off balance sheet (defaulted customers)	179	185	-1	-169	1	12	208
Provisions for guarantees - off balance sheet (non-defaulted customers)	118	127	0	-116	0	2	132
Other provisions	171	25	-127	-7	0	-2	60
Provisions for onerous contracts	5	0	0	0	0	-1	5
Other	166	25	-128	-7	0	-2	54
Provisions	**725**	**496**	**-137**	**-368**	**2**	**11**	**729**

35. Other liabilities

in EUR million	Dec 16	Dec 17
Deferred income and accrued fee expenses	220	173
Sundry liabilities	2,716	2,423
Other liabilities	**2,936**	**2,596**

The item ‘Other liabilities’ mainly contains outstanding settlement receivables from securities- and payment transactions.

36. Total equity

in EUR million	Dec 16	Dec 17
Subscribed capital	860	860
Additional paid-in capital	1,478	1,477
Retained earning and other reserves	9,626	10,542
Owners of the parent	**11,963**	**12,879**
Additional paid-in capital	497	993
Non-controlling interests	4,142	4,416
Total	**16,602**	**18,288**

As of 31 December 2017, subscribed capital (also known as registered capital) consists of 429.800.000 (2016: 429.800.000) voting bearer shares (ordinary shares). The pro rata amount of registered capital, per no-par value share, was EUR 2.00. Additional paid-in capital (or share premium) represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognised in other comprehensive income.

In June 2016 and in April 2017 Erste Group Bank AG issued additional tier 1 capital (AT1 bonds) each with a total nominal value of EUR 500 million. These bonds include non-cumulative coupon payments of 8.875% (issuance in June 2016) respectively 6.5% (issuance in April 2017) per annum. The interest payments are carried out twice a year on 15 April and 15 October.

Changes in number of outstanding shares

	Dec 16	Dec 17
Shares outstanding as of 1 January	**410,487,814**	**409,497,646**
Acquisition of treasury shares	-6,974,500	-7,429,508
Disposal of treasury shares	5,984,332	7,138,768
Shares outstanding as of 31 December	**409,497,646**	**409,206,906**
Treasury shares	20,302,354	20,593,094
Number of shares issued as of 31 December	**429,800,000**	**429,800,000**
Weighted average number of outstanding shares	426,668,132	426,679,572
Weighted average diluted number of outstanding shares	426,668,132	426,679,572

Transactions and shares held by the management board and supervisory board

The shares of management- and supervisory board member, whose office term began or ended during the financial year, held as at the date of inception or termination of their term in office were recognized as additions or disposals.

Information on shares held and transactions in Erste Group Bank AG shares by members of the management board (in number of shares):

Managing board member	Dec 16	Additions	Disposals	Dec 17
Andreas Treichl	164,640	0	0	164,640
Peter Bosek	1,000	0	0	1,000
Petr Brávek	600	0	0	600
Willibald Cernko	0	0	0	0
Andreas Gottschling (until 31 December 2016)	0	0	0	0
Gernot Mittendorfer	10,000	0	0	10,000
Jozef Síkela	6,300	0	0	6,300

The amount of shares of opening balance in the line of Mr. Brávek has been adjusted.

Supervisory board members held the following numbers of Erste Group Bank AG shares as of the balance sheet date of 31 December 2017:

Supervisory board member	Dec 16	Additions	Disposals	Dec 17
Friedrich Rödler	1,702	0	0	1,702
Jan Homan	4,400	0	0	4,400
Bettina Breiteneder (until 17 May 2017)	0	0	0	0
Maximilian Hardegg	40	0	0	40
Elisabeth Bleyleben Koren	10,140	0	0	10,140
Gunter Griss	0	0	0	0
Jordi Gual Solé	0	0	0	0
Marion Khüny	0	0	0	0
Elisabeth Krainer Senger-Weiss	0	0	0	0
Antonio Massanell Lavilla (until 15 September 2017)	0	0	0	0
Brian D. O'Neill	0	0	0	0
Wilhelm Rasinger	21,303	0	0	21,303
John James Stack	32,761	0	0	32,761
Markus Haag	160	0	0	160
Regina Haberhauer	188	0	0	188
Andreas Lachs	52	0	0	52
Barbara Pichler	281	0	0	281
Jozef Pinter	0	0	0	0
Karin Zeisel	35	0	0	35

As of 31 December 2017, supervisory board members did not hold options in Erste Group Bank AG shares. Persons related to members of the management board or supervisory board held 3,366 shares (2016: 3,366 shares) of Erste Group Bank AG.

Remaining authorised and contingent capital as of 31 December 2017

Clause 5 of the articles of association authorises the management board until 21 May 2019, to increase the registered capital of the company with the consent of the supervisory board – including in several tranches – by an amount of up to EUR 171,800,000 by issuing up to 85,900,000 voting no-par value bearer shares in return for contributions in cash and/or in kind, with the issue price and the issuing conditions being determined by the management board with the consent of the supervisory board.

Furthermore, the management board is authorized to fully or partly exclude the statutory subscription right of the shareholders with the consent of the supervisory board if the capital increase is in return for a cash contribution and the shares issued while excluding the subscription right of the shareholders, taken together, do not exceed EUR 43,000,000 and/or if the capital increase is in return for contributions in kind.

The measures in sections 5.1.1 (capital increase against cash contribution) to 5.1.2 (capital increase against contributions in kind) can also be combined. The aggregate pro rata amount of registered capital represented by shares in respect of which the shareholders' subscription rights are excluded under this authorization in section 5.1 (authorized capital) together with the pro rata amount of registered capital attributable to shares to which conversion or subscription rights or obligations relate under bonds that were issued and sold on the basis of the authorization in section 8.3, subject to an exclusion of subscription rights, on or after 21 May 2014 must not, however, exceed the amount of EUR 171,800,000.

Clause 6.3 of the articles of association states that conditional capital based on the resolutions of the management board in 2002 and 2010 with a nominal value of EUR 21,923,264 persists that can be consumed by issuing up to 10,961,632 ordinary bearer shares or ordinary registered shares (ordinary share) with an issue price of at least EUR 2.00 per share against cash contribution and by excluding the subscription rights of the current shareholders. This conditional capital is used for granting options to staff, management and members of the management board of the entity of one of its related undertakings.

Under clause 6.4 of the articles of association, the company has conditional capital of EUR 124,700,000.00 available, which may be utilized by issuing up to 62,350,000 pieces bearer shares. This conditional capital can be used for granting conversion or subscription rights to holders of convertible bonds. In case the terms and conditions of the convertible bonds provide for a mandatory conversion, it shall also serve to cover the mandatory conversion. The issue price and exchange ratio shall be determined pursuant to a recognized pricing method on the basis of accepted finance-mathematical methods and the share price of the company.

According to clause 7 of the articles of association, currently no authorized conditional capital exists.

37. Segment reporting

Erste Group's segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within Erste Group the function of the chief operating decision maker is exercised by the management board.

Erste Group's segment reporting is based on the matrix organisation (business and geographical information) and provides comprehensive information to assess the performance of the business and geographical segments.

Business segmentation

The segment reporting comprises six business segments reflecting Erste Group's management structure and its internal management reporting in 2017.

Erste Group – business segments						
Retail	Corporates	Group Markets	Asset/Liability Management & Local Corporate Center	Savings Banks	Group Corporate Center	Intragroup Elimination

Retail

The Retail segment comprises the business with private individuals, micros and free professionals within the responsibility of account managers in the retail network. This business is operated by the local banks in cooperation with their subsidiaries such as leasing and asset management companies with a focus on simple products ranging from mortgage and consumer loans, investment products, current accounts, savings products to credit cards and cross selling products such as leasing, insurance and building society products.

Corporates

The Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SME) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies within defined annual turnover thresholds. Local Large Corporates (LLC) are clients with specific annual turnover thresholds (lying above SME thresholds) which are not defined as Group Large Corporate customers according to the Group Large Corporate client list. Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group. GLC clients can be found on the GLC client list. Commercial Real Estate (CRE) covers for example investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale etc. Public Sector consists of three sets of customers: public sector, public corporations and non-profit sector.

Group Markets
The Group Markets (GM) segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Group, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade & export finance).

Asset/Liability Management & Local Corporate Center
The Asset/Liability Management & Local Corporate Center (ALM & LCC) segment includes all asset/liability management functions – local and of Erste Group Bank AG (Holding) – as well as the local corporate centers which comprise internal service providers that operate on a non-profit basis and reconciliation items to local entity results. The corporate center of Erste Group Bank AG is included in the Group Corporate Center segment.

Savings Banks
The Savings Banks segment includes those savings banks which are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector and in which Erste Group does not hold a majority stake but which are fully controlled according to IFRS 10. The fully or majority owned Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse, and Sparkasse Hainburg are not part of the Savings Banks segment.

Group Corporate Center
The Group Corporate Center (GCC) segment covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), non-profit internal service providers (facility management, IT, procurement), the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments).

Intragroup Elimination
Intragroup Elimination (IC) is not defined as a segment but is the reconciliation to the consolidated accounting result. It includes all in-tragroup eliminations between participations of Erste Group (e.g. intragroup funding, internal cost charges). Intragroup eliminations within partial groups are disclosed in the respective segments.

Geographical segmentation
For the purpose of segment reporting by geographical areas the information is presented based on the location of the booking entity (not the country of risk). In case of information regarding a partial group, the allocation is based on the location of the respective parent entity according to the local management responsibility.

Geographical areas are defined according to the country markets in which Erste Group operates. Based on the locations of the banking and other financial institution participations, the geographical areas consist of two core markets, Austria and Central and Eastern Europe and a residual segment Other that comprises the remaining business activities of Erste Group outside its core markets as well as the reconciliation to the consolidated accounting result.

The geographical area Austria consists of the following three segments:
- The **Erste Bank Oesterreich & Subsidiaries** (EBOe & Subsidiaries) segment comprises Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).
- The **Savings banks** segment is identical to the business segment Savings banks.

- The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Corporates and Group Markets business, Erste Group Immorent GmbH, Erste Asset Management GmbH and Intermarket Bank AG.

The geographical area Central and Eastern Europe (CEE) consists of six segments covering Erste Group's banking subsidiaries located in the respective CEE countries:
- **Czech Republic** (comprising Česká spořitelna Group)
- **Slovakia** (comprising Slovenská sporitel'ňa Group)
- **Romania** (comprising Banca Comercială Română Group)
- **Hungary** (comprising Erste Bank Hungary Group)
- **Croatia** (comprising Erste Bank Croatia Group), and
- **Serbia** (comprising Erste Bank Serbia Group).

The residual segment **Other** covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), internal non-profit service providers (facility management, IT, procurement), the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments). Asset/Liability Management of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intercompany eliminations, dividend eliminations) are also part of the segment Other.

In 2017, the goodwill impairment of Diners Club International Macedonia in the amount of EUR 0.5 million was recognized in business segment ALM & LCC/geographical segment Croatia. In 2016 the goodwill impairment of Slovenská sporitel'ňa in the amount of EUR 61.3 million was recognized in business segment GCC/ geographical segment Other.

Measurement

The profit and loss statement of the segment report is based on the measures reported to the Erste Group management board for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report of Erste Group are based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated financial statements of accounting.

Interest revenues are not reported separately from interest expenses for each reportable segment. Those measures are reported on the net basis within the position 'Net interest income' as interest revenues and interest expenses are neither included into the measure of segment profit or loss reviewed by the chief operating decision maker nor otherwise regularly provided to the chief operating decision maker. Chief operating decision maker relies solely on net interest income to assess the performance of the segments and make decisions about resources to be allocated to the segments.

Net fee and commission income and Other operating result are reported on a net basis according to the regular reporting to the chief operating decision maker.

Capital consumption per segment is regularly reviewed by the management of Erste Group to assess the performance of the segments. The average allocated capital is determined by the credit risk, market risk and operational risk.

According to the regular internal reporting to Erste Group management board, total assets and total liabilities as well as risk weighted assets and allocated capital are disclosed per segment. Total average allocated capital for the Group equals average total equity of the Group.

For measuring and assessing the profitability of segments within Erste Group, such key measures as return on allocated capital and cost/income ratio are used.

Return on allocated capital is defined as net result for the period before minorities in relation to the average allocated capital of the respective segment. Cost/income ratio is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading result, result from financial assets and liabilities designated at fair value through profit or loss, net result from equity method investments, rental income from investment properties and other operating lease).

Business segments (1)

	Retail		Corporates		Group Markets		ALM&LCC	
in EUR million	**1-12 16**	**1-12 17**	**1-12 16**	**1-12 17**	**1-12 16**	**1-12 17**	**1-12 16**	**1-12 17**
Net interest income	2,198.2	2,155.7	1,015.6	993.9	212.1	196.8	-93.7	-55.4
Net fee and commission income	958.4	1,003.8	259.1	256.2	203.7	223.0	-64.4	-87.4
Dividend income	2.5	1.0	1.2	0.6	2.3	1.2	11.4	13.4
Net trading result	99.6	114.0	90.7	91.6	94.3	123.8	-10.2	-74.3
Result from financial assets and liabilities designated at fair value through profit or loss	-1.1	0.0	1.0	1.8	2.6	9.2	-12.3	-23.4
Net result from equity method investments	7.3	8.4	0.0	0.2	0.0	0.0	2.4	4.4
Rental income from investment properties & other operating leases	21.4	21.6	137.1	125.6	0.0	0.0	31.6	31.5
General administrative expenses	-1,892.8	-1,995.8	-562.4	-577.0	-223.4	-229.5	-117.3	-86.0
thereof depreciation and amortization	-189.6	-211.2	-70.7	-68.6	-15.4	-12.7	-25.0	-13.5
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	0.9	0.3	4.8	7.0	1.6	1.7	132.0	47.0
Net impairment loss on financial assets	-19.1	9.5	-61.9	-135.3	11.4	3.6	-9.6	-8.3
Other operating result	-111.7	-60.7	-14.9	-20.9	3.4	-13.3	-160.2	-189.9
Levies on banking activities	-43.5	-50.6	-19.1	-14.9	-1.7	-1.6	-62.2	-18.9
Pre-tax result from continuing operations	**1,263.6**	**1,257.7**	**870.3**	**743.7**	**308.1**	**316.7**	**-290.3**	**-428.4**
Taxes on income	-261.1	-237.0	-173.8	-136.9	-67.4	-65.2	74.0	37.7
Net result for the period	**1,002.5**	**1,020.8**	**696.5**	**606.8**	**240.6**	**251.5**	**-216.4**	**-390.7**
Net result attributable to non-controlling interests	37.9	60.1	43.5	26.5	5.0	5.8	-1.9	-31.4
Net result attributable to owners of the parent	**964.6**	**960.7**	**653.0**	**580.3**	**235.6**	**245.7**	**-214.4**	**-359.3**
Operating income	3,286.3	3,304.4	1,504.7	1,469.9	515.1	554.1	-135.2	-191.2
Operating expenses	-1,892.8	-1,995.8	-562.4	-577.0	-223.4	-229.5	-117.3	-86.0
Operating result	**1,393.5**	**1,308.6**	**942.4**	**892.9**	**291.7**	**324.6**	**-252.5**	**-277.2**
Risk-weighted assets (credit risk, eop)	17,113	19,097	34,527	37,029	4,850	3,405	4,202	4,546
Average allocated capital	2,390	2,518	3,125	3,222	640	682	2,259	2,210
Cost/income ratio	57.6%	60.4%	37.4%	39.3%	43.4%	41.4%	-86.6%	-45.0%
Return on allocated capital	42.0%	40.5%	22.3%	18.8%	37.6%	36.9%	-9.6%	-17.7%
Total assets (eop)	53,822	58,952	47,707	49,661	28,552	31,106	49,477	58,619
Total liabilities excluding equity (eop)	74,588	80,446	25,660	28,032	21,322	28,592	47,598	49,041
Impairments and risk provisions	**-24.4**	**-0.3**	**-140.5**	**-96.5**	**10.8**	**4.7**	**-66.1**	**-68.3**
Net impairment loss on loans and receivables to credit institutions/customers	-19.2	9.5	-61.8	-135.0	11.3	3.3	-7.2	-6.4
Net impairment loss on other financial assets	0.1	0.0	-0.2	-0.3	0.2	0.3	-2.4	-2.0
Allocations/releases of provisions for contingent credit risk liabilities	-1.4	-6.6	-55.0	34.3	-0.6	0.4	7.4	1.1
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5
Net impairment loss on other non-financial assets	-3.8	-3.2	-23.6	4.5	0.0	0.7	-63.9	-60.6

Business segments (2)

in EUR million	Savings Banks		Group Corporate Center		Intragroup Elimination		Total Group	
	1-12 16	1-12 17	1-12 16	1-12 17	1-12 16	1-12 17	1-12 16	1-12 17
Net interest income	955.8	982.0	77.4	74.9	9.0	5.2	4,374.5	4,353.2
Net fee and commission income	429.7	446.2	6.4	13.0	-9.9	-3.2	1,783.0	1,851.6
Dividend income	16.4	16.7	11.6	11.0	-0.2	-0.2	45.2	43.7
Net trading result	5.3	10.2	3.7	-41.5	0.4	-0.9	283.8	222.8
Result from financial assets and liabilities designated at fair value through profit or loss	0.0	0.0	-1.7	0.1	0.0	0.0	-11.5	-12.3
Net result from equity method investments	0.0	0.0	-0.6	2.9	0.0	0.0	9.0	15.9
Rental income from investment properties & other operating leases	38.8	37.8	15.3	12.7	-37.0	-35.0	207.2	194.2
General administrative expenses	-1,021.8	-1,051.2	-871.5	-996.4	660.9	777.6	-4,028.2	-4,158.2
thereof depreciation and amortization	-76.2	-73.0	-76.2	-81.0	0.0	0.0	-453.1	-460.0
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	8.5	30.4	1.0	70.0	-0.8	0.0	148.0	156.4
Net impairment loss on financial assets	-54.2	12.6	-62.2	-14.1	0.0	0.0	-195.7	-132.0
Other operating result	-65.3	-68.4	306.3	639.2	-622.4	-743.4	-665.0	-457.4
Levies on banking activities	-47.0	-4.4	-215.3	-15.3	0.0	0.0	-388.8	-105.7
Pre-tax result from continuing operations	**313.1**	**416.3**	**-514.4**	**-228.2**	**0.0**	**0.0**	**1,950.4**	**2,077.8**
Taxes on income	-116.0	-101.3	130.7	92.5	0.0	0.0	-413.6	-410.1
Net result for the period	**197.2**	**315.0**	**-383.6**	**-135.7**	**0.0**	**0.0**	**1,536.8**	**1,667.7**
Net result attributable to non-controlling interests	163.1	263.1	24.5	27.4	0.0	0.0	272.0	351.5
Net result attributable to owners of the parent	**34.1**	**51.9**	**-408.1**	**-163.2**	**0.0**	**0.0**	**1,264.7**	**1,316.2**
Operating income	1,446.0	1,492.9	112.0	73.1	-37.8	-34.1	6,691.2	6,669.0
Operating expenses	-1,021.8	-1,051.2	-871.5	-996.4	660.9	777.6	-4,028.2	-4,158.2
Operating result	**424.2**	**441.7**	**-759.4**	**-923.3**	**623.2**	**743.5**	**2,663.0**	**2,510.8**
Risk-weighted assets (credit risk, eop)	20,930	21,625	1,433	1,083	0	0	83,056	86,784
Average allocated capital	2,120	2,136	5,326	6,776	0	0	15,859	17,544
Cost/income ratio	70.7%	70.4%	>100%	>100%	>100%	>100%	60.2%	62.4%
Return on allocated capital	9.3%	14.7%	-7.2%	-2.0%			9.7%	9.5%
Total assets (eop)	58,357	60,108	3,762	2,797	-33,450	-40,583	208,227	220,659
Total liabilities excluding equity (eop)	54,038	55,486	1,838	1,328	-33,420	-40,555	191,625	202,371
Impairments and risk provisions	**-44.8**	**0.2**	**-117.2**	**-24.7**	**0.0**	**0.0**	**-382.1**	**-184.9**
Net impairment loss on loans and receivables to credit institutions/customers	-51.6	17.8	-55.7	5.7	0.0	0.0	-184.2	-105.0
Net impairment loss on other financial assets	-2.6	-5.2	-6.5	-19.8	0.0	0.0	-11.4	-27.0
Allocations/releases of provisions for contingent credit risk liabilities	10.5	-11.7	11.1	0.0	0.0	0.0	-28.1	17.5
Impairment of goodwill	0.0	0.0	-61.3	0.0	0.0	0.0	-61.3	-0.5
Net impairment loss on other non-financial assets	-1.0	-0.7	-4.8	-10.6	0.0	0.0	-97.1	-69.9

Geographical segmentation - overview

	Austria		Central and Eastern Europe		Other		Total Group	
in EUR million	1-12 16	1-12 17	1-12 16	1-12 17	1-12 16	1-12 17	1-12 16	1-12 17
Net interest income	2,017.9	1,985.4	2,227.3	2,262.3	129.3	105.5	4,374.5	4,353.2
Net fee and commission income	962.0	1,016.6	864.8	865.0	-43.9	-30.0	1,783.0	1,851.6
Dividend income	28.6	28.1	5.2	4.8	11.4	10.8	45.2	43.7
Net trading result	39.7	79.7	245.8	263.4	-1.7	-120.3	283.8	222.8
Result from financial assets and liabilities designated at fair value through profit or loss	2.3	10.5	-3.9	-3.0	-9.9	-19.8	-11.5	-12.3
Net result from equity method investments	2.2	3.9	7.5	9.1	-0.6	2.9	9.0	15.9
Rental income from investment properties & other operating leases	132.4	130.4	58.4	48.1	16.4	15.8	207.2	194.2
General administrative expenses	-2,044.1	-2,104.6	-1,726.2	-1,784.0	-257.9	-269.6	-4,028.2	-4,158.2
thereof depreciation and amortization	-162.5	-155.8	-213.6	-222.7	-77.0	-81.6	-453.1	-460.0
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	30.2	43.6	122.4	30.0	-4.6	82.9	148.0	156.4
Net impairment loss on financial assets	-107.0	-1.2	-17.2	-118.2	-71.5	-12.6	-195.7	-132.0
Other operating result	-80.0	-105.6	-273.7	-231.4	-311.2	-120.4	-665.0	-457.4
Levies on banking activities	-91.3	-7.7	-82.1	-82.6	-215.3	-15.3	-388.8	-105.7
Pre-tax result from continuing operations	**984.2**	**1,086.7**	**1,510.5**	**1,346.0**	**-544.3**	**-354.9**	**1,950.4**	**2,077.8**
Taxes on income	-286.6	-268.7	-264.9	-266.7	137.9	125.4	-413.6	-410.1
Net result for the period	**697.5**	**818.0**	**1,245.7**	**1,079.3**	**-406.4**	**-229.5**	**1,536.8**	**1,667.7**
Net result attributable to non-controlling interests	187.0	284.2	60.7	40.0	24.3	27.3	272.0	351.5
Net result attributable to owners of the parent	**510.5**	**533.8**	**1,184.9**	**1,039.3**	**-430.7**	**-256.8**	**1,264.7**	**1,316.2**
Operating income	3,185.1	3,254.6	3,405.2	3,449.6	100.9	-35.2	6,691.2	6,669.0
Operating expenses	-2,044.1	-2,104.6	-1,726.2	-1,784.0	-257.9	-269.6	-4,028.2	-4,158.2
Operating result	**1,141.0**	**1,150.0**	**1,679.0**	**1,665.6**	**-157.0**	**-304.8**	**2,663.0**	**2,510.8**
Risk-weighted assets (credit risk, eop)	46,970	47,237	34,061	37,909	2,025	1,637	83,056	86,784
Average allocated capital	4,929	4,918	4,538	5,031	6,392	7,595	15,859	17,544
Cost/income ratio	64.2%	64.7%	50.7%	51.7%	>100%	>100%	60.2%	62.4%
Return on allocated capital	14.2%	16.6%	27.4%	21.5%	-6.4%	-3.0%	9.7%	9.5%
Total assets (eop)	138,778	143,757	85,624	101,036	-16,175	-24,134	208,227	220,659
Total liabilities excluding equity (eop)	114,205	118,263	75,976	90,816	1,444	-6,708	191,625	202,371
Impairments and risk provisions	**-114.9**	**-14.0**	**-146.7**	**-141.0**	**-120.5**	**-30.0**	**-382.1**	**-184.9**
Net impairment loss on loans and receivables to credit institutions/customers	-104.3	3.4	-15.0	-115.6	-65.0	7.2	-184.2	-105.0
Net impairment loss on other financial assets	-2.7	-4.6	-2.2	-2.6	-6.5	-19.8	-11.4	-27.0
Allocations/releases of provisions for contingent credit risk liabilities	9.6	-7.9	-55.1	26.1	17.5	-0.7	-28.1	17.5
Impairment of goodwill	0.0	0.0	0.0	-0.5	-61.3	0.0	-61.3	-0.5
Net impairment loss on other non-financial assets	-17.4	-4.9	-74.4	-48.4	-5.3	-16.7	-97.1	-69.9

Geographical area - Austria

in EUR million	EBOe & Subsidiaries 1-12 16	EBOe & Subsidiaries 1-12 17	Savings Banks 1-12 16	Savings Banks 1-12 17	Other Austria 1-12 16	Other Austria 1-12 17	Austria 1-12 16	Austria 1-12 17
Net interest income	660.5	631.2	955.8	982.0	401.6	372.2	2,017.9	1,985.4
Net fee and commission income	334.6	353.8	429.7	446.2	197.8	216.6	962.0	1,016.6
Dividend income	8.0	9.8	16.4	16.7	4.2	1.6	28.6	28.1
Net trading result	16.1	18.9	5.3	10.2	18.3	50.7	39.7	79.7
Result from financial assets and liabilities designated at fair value through profit or loss	0.1	1.3	0.0	0.0	2.2	9.2	2.3	10.5
Net result from equity method investments	1.7	2.7	0.0	0.0	0.5	1.2	2.2	3.9
Rental income from investment properties & other operating leases	36.5	36.1	38.8	37.8	57.1	56.5	132.4	130.4
General administrative expenses	-666.9	-679.6	-1,021.8	-1,051.2	-355.5	-373.8	-2,044.1	-2,104.6
thereof depreciation and amortization	-44.9	-45.3	-76.2	-73.0	-41.4	-37.5	-162.5	-155.8
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	15.2	4.1	8.5	30.4	6.5	9.1	30.2	43.6
Net impairment loss on financial assets	-29.3	26.1	-54.2	12.6	-23.5	-40.0	-107.0	-1.2
Other operating result	-33.8	-31.6	-65.3	-68.4	19.1	-5.7	-80.0	-105.6
Levies on banking activities	-44.4	-3.3	-47.0	-4.4	0.0	0.0	-91.3	-7.7
Pre-tax result from continuing operations	**342.8**	**372.7**	**313.1**	**416.3**	**328.2**	**297.7**	**984.2**	**1,086.7**
Taxes on income	-95.0	-102.2	-116.0	-101.3	-75.6	-65.3	-286.6	-268.7
Net result for the period	**247.8**	**270.6**	**197.2**	**315.0**	**252.6**	**232.4**	**697.5**	**818.0**
Net result attributable to non-controlling interests	19.4	17.4	163.1	263.1	4.5	3.7	187.0	284.2
Net result attributable to owners of the parent	**228.4**	**253.2**	**34.1**	**51.9**	**248.1**	**228.6**	**510.5**	**533.8**
Operating income	1,057.5	1,053.7	1,446.0	1,492.9	681.7	708.0	3,185.1	3,254.6
Operating expenses	-666.9	-679.6	-1,021.8	-1,051.2	-355.5	-373.8	-2,044.1	-2,104.6
Operating result	**390.6**	**374.1**	**424.2**	**441.7**	**326.2**	**334.2**	**1,141.0**	**1,150.0**
Risk-weighted assets (credit risk, eop)	11,523	11,621	20,930	21,625	14,517	13,992	46,970	47,237
Average allocated capital	1,285	1,285	2,120	2,136	1,525	1,497	4,929	4,918
Cost/income ratio	63.1%	64.5%	70.7%	70.4%	52.2%	52.8%	64.2%	64.7%
Return on allocated capital	19.3%	21.1%	9.3%	14.7%	16.6%	15.5%	14.2%	16.6%
Total assets (eop)	41,484	43,141	58,357	60,108	38,936	40,509	138,778	143,757
Total liabilities excluding equity (eop)	39,738	41,260	54,038	55,486	20,429	21,516	114,205	118,263
Impairments and risk provisions	**-21.2**	**27.9**	**-44.8**	**0.2**	**-49.0**	**-42.1**	**-114.9**	**-14.0**
Net impairment loss on loans and receivables to credit institutions/customers	-28.9	26.0	-51.6	17.8	-23.8	-40.5	-104.3	3.4
Net impairment loss on other financial assets	-0.4	0.1	-2.6	-5.2	0.3	0.5	-2.7	-4.6
Allocations/releases of provisions for contingent credit risk liabilities	8.8	2.6	10.5	-11.7	-9.7	1.2	9.6	-7.9
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impairment loss on other non-financial assets	-0.7	-0.8	-1.0	-0.7	-15.7	-3.4	-17.4	-4.9

Geographical area - Central and Eastern Europe

in EUR million	Czech Republic		Romania		Slovakia		Hungary		Croatia		Serbia		Central and Eastern Europe	
	1-12 16	1-12 17	1-12 16	1-12 17	1-12 16	1-12 17	1-12 16	1-12 17	1-12 16	1-12 17	1-12 16	1-12 17	1-12 16	1-12 17
Net interest income	914.3	942.3	374.9	365.5	453.0	434.3	173.4	198.4	264.9	270.5	46.8	51.3	2,227.3	2,262.3
Net fee and commission income	344.3	334.4	157.9	153.4	121.7	112.7	141.8	157.4	88.0	95.8	11.1	11.3	864.8	865.0
Dividend income	3.1	2.4	0.6	0.9	1.2	1.1	0.1	0.3	0.2	0.1	0.0	0.0	5.2	4.8
Net trading result	107.2	103.9	70.3	77.3	13.5	13.8	22.2	37.7	29.5	26.6	3.3	4.1	245.8	263.4
Result from financial assets and liabilities designated at fair value through profit or loss	-1.6	-0.3	-0.3	0.4	-0.9	-0.5	-1.1	-2.6	0.0	0.0	0.0	0.0	-3.9	-3.0
Net result from equity method investments	-0.4	0.3	0.4	0.2	6.1	7.1	0.0	0.0	1.2	1.3	0.2	0.2	7.5	9.1
Rental income from investment properties & other operating leases	17.7	10.3	11.9	13.9	0.9	0.3	4.0	3.8	23.7	19.6	0.3	0.1	58.4	48.1
General administrative expenses	-671.2	-692.8	-349.8	-338.0	-275.1	-281.1	-195.6	-220.8	-194.3	-206.3	-40.2	-45.1	-1,726.2	-1,784.0
thereof depreciation and amortization	-78.2	-77.7	-37.6	-36.6	-43.9	-44.8	-20.4	-30.7	-31.3	-30.5	-2.2	-2.4	-213.6	-222.7
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	52.6	10.3	24.9	0.0	27.0	0.3	9.3	18.6	8.7	0.7	0.0	0.0	122.4	30.0
Net impairment loss on financial assets	-70.5	-1.3	62.4	-7.1	-48.2	-30.1	91.7	35.1	-48.4	-116.1	-4.1	1.2	-17.2	-118.2
Other operating result	-24.8	-45.5	-115.6	-88.9	-16.1	-39.8	-102.7	-47.2	-13.9	-9.7	-0.6	-0.3	-273.7	-231.4
Levies on banking activities	0.0	0.0	0.0	0.0	-25.1	-27.4	-57.0	-55.3	0.0	0.0	0.0	0.0	-82.1	-82.6
Pre-tax result from continuing operations	**670.6**	**664.2**	**237.6**	**177.5**	**283.1**	**218.0**	**143.0**	**180.8**	**159.5**	**82.6**	**16.7**	**22.8**	**1,510.5**	**1,346.0**
Taxes on income	-122.8	-125.8	-24.5	-48.6	-69.8	-51.9	-9.4	-15.9	-37.6	-22.9	-0.7	-1.6	-264.9	-266.7
Net result for the period	**547.8**	**538.4**	**213.1**	**128.9**	**213.3**	**166.2**	**133.6**	**164.9**	**121.9**	**59.7**	**16.0**	**21.2**	**1,245.7**	**1,079.3**
Net result attributable to non-controlling interests	5.8	5.5	13.7	8.2	0.0	0.0	0.0	0.0	38.2	22.1	3.1	4.1	60.7	40.0
Net result attributable to owners of the parent	**542.0**	**532.9**	**199.5**	**120.7**	**213.3**	**166.2**	**133.6**	**164.9**	**83.7**	**37.7**	**12.8**	**17.0**	**1,184.9**	**1,039.3**
Operating income	1,384.5	1,393.4	615.7	611.5	595.4	568.7	340.3	395.0	407.4	414.0	61.7	67.0	3,405.2	3,449.6
Operating expenses	-671.2	-692.8	-349.8	-338.0	-275.1	-281.1	-195.6	-220.8	-194.3	-206.3	-40.2	-45.1	-1,726.2	-1,784.0
Operating result	**713.3**	**700.6**	**266.0**	**273.5**	**320.4**	**287.6**	**144.8**	**174.2**	**213.1**	**207.7**	**21.5**	**21.9**	**1,679.0**	**1,665.6**
Risk-weighted assets (credit risk, eop)	15,285	17,615	5,369	5,409	4,737	5,560	3,470	3,826	4,256	4,357	943	1,143	34,061	37,909
Average allocated capital	1,761	2,049	987	1,034	633	673	493	563	548	575	117	137	4,538	5,031
Cost/income ratio	48.5%	49.7%	56.8%	55.3%	46.2%	49.4%	57.5%	55.9%	47.7%	49.8%	65.2%	67.3%	50.7%	51.7%
Return on allocated capital	31.1%	26.3%	21.6%	12.5%	33.7%	24.7%	27.1%	29.3%	22.2%	10.4%	13.6%	15.5%	27.4%	21.5%
Total assets (eop)	39,470	52,055	14,875	15,228	14,819	16,338	6,606	7,151	8,654	8,840	1,199	1,423	85,624	101,036
Total liabilities excluding equity (eop)	34,965	47,317	13,375	13,631	13,263	14,807	5,699	6,057	7,621	7,758	1,051	1,245	75,976	90,816
Impairments and risk provisions	**-124.0**	**-29.1**	**54.1**	**-46.1**	**-44.5**	**-34.7**	**40.8**	**89.8**	**-68.7**	**-121.7**	**-4.3**	**0.8**	**-146.7**	**-141.0**
Net impairment loss on loans and receivables to credit institutions/customers	-70.6	-1.4	62.8	-6.9	-48.2	-30.0	92.7	36.6	-47.5	-115.4	-4.1	1.6	-15.0	-115.6
Net impairment loss on other financial assets	0.2	0.1	-0.4	-0.2	0.0	0.0	-1.0	-1.4	-0.9	-0.7	0.0	-0.4	-2.2	-2.6
Allocations/releases of provisions for contingent credit risk liabilities	-11.8	-2.4	4.7	-27.3	4.4	-3.6	-45.8	58.3	-6.0	1.4	-0.6	-0.4	-55.1	26.1
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	0.0	0.0	0.0	-0.5
Net impairment loss on other non-financial assets	-41.8	-25.4	-13.0	-11.6	-0.7	-1.1	-5.1	-3.6	-14.3	-6.6	0.4	-0.1	-74.4	-48.4

38. Assets and liabilities denominated in foreign currencies and outside Austria and return on assets

Assets and liabilities not denominated in EUR were as follows:

in EUR million	Dec 16	Dec 17
Assets	69,639	80,849
Liabilities	57,598	64,731

The assets and liabilities outside Austria are given below:

in EUR million	Dec 16	Dec 17
Assets	114,050	127,310
Liabilities	88,658	95,039

Return on assets (net profit for the year divided by average total assets) was 0.78% at 31 December 2017 (2016: 0.75%). The amount for 2016 was corrected.

39. Leases

Finance leases

Finance leases receivables are included under the balance sheet item 'Loans and advances to customers'.

Erste Group leases both movable property and real estate to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in EUR million	Dec 16	Dec 17
Outstanding minimum lease payments	3,394	3,212
Non-guaranteed residual values	1,005	958
Gross investment	**4,399**	**4,170**
Unrealised financial income	392	358
Net investment	**4,007**	**3,812**
Present value of non-guaranteed residual values	713	650
Present value of minimum lease payments	**3,294**	**3,162**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

	Gross investment		Present value of minimum lease payments	
in EUR million	Dec 16	Dec 17	Dec 16	Dec 17
< 1 year	907	863	750	679
1 - 5 years	2,157	2,202	1,702	1,746
> 5 years	1,336	1,105	842	737
Total	**4,399**	**4,170**	**3,294**	**3,162**

In the reporting period, the total amount of accumulated allowance for uncollectable minimum lease payments, presented as risk provisions for loans and advances, was EUR 124.7 million (2016: EUR 156.8 million). The total amount of contingent rents from finance leases recognised as income in the period was EUR 31.6 million (2016: EUR 32.1 million).

Operating leases

Under operating leases, Erste Group leases both real estate and movable property to other parties.

Operating leases from the view of Erste Group as lessor

Minimum lease payments from non-cancellable operating leases are as follows:

in EUR million	Dec 16	Dec 17
< 1 year	64	57
1 - 5 years	175	152
> 5 years	83	55
Total	**322**	**265**

The total amount of contingent rents from operating leases recognised as income in the period was EUR 10.7 million (2016: EUR 10.2 million).

Operating leases from the view of Erste Group as lessee

Minimum lease payments from non-cancellable operating leases are as follows:

in EUR million	Dec 16	Dec 17
< 1 year	54	80
1 - 5 years	115	205
> 5 years	88	111
Total	**257**	**396**

Lease payments from operating leases recognised as expense in the period amounted to EUR 85.5 million (2016: EUR 77.5 million).

40. Related-party transactions and principal shareholders

In addition to principal shareholders, Erste Group also defines as related parties subsidiaries that are not consolidated due to non-materiality and associates that are included in the consolidated financial statements by the equity method. Furthermore, related parties consist of management and supervisory board members of Erste Group Bank AG. Moreover, Erste Group defines close family members of management and supervisory board members of Erste Group Bank AG, as well as companies over which management and supervisory board members of Erste Group Bank AG have significant influence, as other related parties.

Transactions between Erste Group Bank AG and fully consolidated companies are not recognised in the consolidated financial statements as they have been eliminated.

Principal shareholders

As of 31 December 2017, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ('ERSTE Foundation'), a foundation, holds together with its partners to shareholder agreements approximately 29.62% of the shares in Erste Group Bank AG and is with 15.62% main shareholder. The Erste Foundation is holding 6.50% of the shares directly, the indirect participation of the ERSTE Foundation amounts to 9.12 % of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated company of the ERSTE Foundation. 1.00% are held directly by Austrian savings banks respectively saving banks foundations acting together with the ERSTE Foundation and affiliated with Erste Group Bank AG through the Haftungsverbund. 9.92% of the subscribed capital is held by the ERSTE Foundation on the basis of a shareholder agreement with CaixaBank S.A. 3.08% are held by other partners to other shareholder agreements.

In 2017 (for the financial year 2016), ERSTE Foundation received a dividend of EUR 47.5 million (2016: EUR 23.8 million) on its stake in Erste Group Bank AG. The purpose of the Erste Foundation, to be achieved notably by way of the participating interest in Erste Group Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. As of 31 December 2017, Bernhard Spalt (chairman), Boris Marte and Franz Portisch were members of Erste Foundation's management board. The supervisory board of ERSTE Foundation had nine members at the end of 2017, two of whom are also members of the supervisory board of Erste Group Bank AG.

Under article 15.1 of the articles of association, for the duration of its assumption of liability for all current and future debts in the event of default on payment by the company, the Erste Foundation is entitled, pursuant to Section 92 (9) of the Austrian Banking Act, to delegate up to one-third of the supervisory board members to be elected at the Annual General Meeting. Until now, the Erste Foundation has not exercised this right.

As of 31 December 2017, Erste Group had in relation to the ERSTE Foundation accounts payable of EUR 8.8 million (2016: EUR 3.0 million). In addition, no standard derivative transactions for hedging purposes were in place between Erste Group and the ERSTE Foundation as of the end of 2017 (2016: EUR 103.0 million). As of the end of 2017, the ERSTE Foundation held bonds issued by Erste Group Bank AG in the amount of EUR 10.2 million (2016: EUR 10.2 million), and Erste Group held no debt securities issued by the ERSTE Foundation (2016: EUR 0.3 million).

In 2017, the interest income of Erste Group for the reporting period amounted to EUR 0.3 million (2016: EUR 6.3 million) while the interest expenses amounted to EUR 0.5 million (2016: EUR 3.9 million), resulting from the said accounts receivable and accounts payable.

As of 31 December 2017 CaixaBank S.A. with headquarters in Valencia, Spain (was relocated from Barcelona beginning of October 2017), held a total of 42,634,248 (2016: 42,634,248) Erste Group Bank AG shares, equivalent to 9.92% (2016: 9.92%) of the share capital of Erste Group Bank AG. Antonio Massanell Lavilla (deputy chairman of CaixaBank S.A.) resigned his seat at the supervisory board of Erste Group Bank AG mid of September 2017. The other seat for which CaixaBank S.A. has a nomination right according to the shareholders agreement is occupied since the annual general meeting from 17 May 2017 by Jordi Gual Sole (chairman of CaixaBank S.A.).

In addition, the shareholders' agreement between CaixaBank S.A. and the ERSTE Foundation which had been in effect since 2009, was renewed on 15 December 2014 (Preferred Partnership Agreement). On the basis of this agreement, CaixaBank S.A. joined the ranks of the core shareholders, which include ERSTE Foundation as well as the savings banks, their foundations as well as Wiener Städtische Wechselseitige Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group. As member of this syndicate, CaixaBank S.A. will abide by the recommendations of the ERSTE Foundation when electing new supervisory board members. Moreover CaixaBank S.A. gets the right to nominate a second member of the supervisory board.

In 2017 (for the financial year 2016), CaixaBank S.A. received a dividend of EUR 42.6 million (2016:EUR 21.3 million) based on its stake in Erste Group Bank AG.

Balances and off-balance exposures with related parties

	Dec 16		Dec 17	
in EUR million	Investments in subsidaries - not consolidated	Investments in associates and Investments in joint ventures	Investments in subsidaries - not consolidated	Investments in associates and Investments in joint ventures
Selected financial assets	**141**	**531**	**115**	**770**
Equity instruments	24	5	17	30
Debt securities	0	28	0	28
Loans and advances	117	498	98	711
Loans and advances with credit institutions	23	120	1	10
Loans and advances with customers	95	378	97	701
of which: Impaired selected assets	3	0	0	0
Selected financial liabilities	**49**	**135**	**40**	**118**
Deposits	49	135	40	118
Deposits from banks	0	14	0	10
Deposits from customers	49	120	40	107
Debt securities issued	0	0	0	0
Loan commitments, financial guarantees and other commitments given [notional amount]	27	154	36	335
of which: defaulted	5	0	1	0
Loan commitments, financial guarantees and other commitments received	0	0	0	0
Derivatives [notional amount]	0	0	0	0
Allowances and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	**3**	**0**	**2**	**0**

Expenses/Income generated by transactions with related parties

in EUR million	Dec 16		Dec 17	
	Investments in subsidaries - not consolidated	Investments in associates and Investments in joint ventures	Investments in subsidaries - not consolidated	Investments in associates and Investments in joint ventures
Interest Income	4	11	2	9
Fee and commission income	0	6	0	5
Dividend income	0	13	2	19
Realised gains on financial assets and liabilities not measured at fair value through profit or loss	0	0	0	0
Gains on derecognition of non-financial assets	0	0	0	3
Interest expenses	0	0	0	0
Fee and commission expenses	0	-2	-1	-2
Realised losses on financial assets and liabilities not measured at fair value through profit or loss	0	0	0	0
Losses on derecognition of non-financial assets	0	0	0	0
Increase during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	-7	-1	-1	-1
Decrease during the period in impairment and provisions for impaired debt instruments, defaulted guarantees and defaulted commitments	0	1	10	1

Transactions with related parties are done at arm's length.

Remuneration of management and supervisory board members

The remuneration paid to the management board in 2017 is as follows:

Fixed salaries

in EUR thousand	1-12 16	1-12 17
Andreas Treichl	1,475	1,475
Peter Bosek	700	700
Petr Brávek	700	700
Willibald Cernko (starting with 1 January 2017)	0	700
Andreas Gottschling (until 31 December 2016)	700	0
Gernot Mittendorfer	700	700
Jozef Síkela	700	700
Total	**4,975**	**4,975**

Until 31 January 2016, Peter Bosek was a management board member of the Holding as well as of Erste Bank Oesterreich. Therefore, the remuneration was split equally between both entities for that period.

Since the financial year 2010, the variable part of the management board's remuneration, including both cash payments and share-equivalents, is distributed over five years in accordance with legal requirements and is paid out only under certain conditions. Share-equivalents are not exchange-traded shares but phantom shares that are paid out in cash after a one-year vesting period based on defined criteria.

In 2017, performance-linked remuneration and share-equivalents were paid out or vested for the financial year 2016 and for previous financial years.

Performance-linked remuneration

	1-12 16				1-12 17			
	Upfront Bonus for performance period 2015		Deferred Bonus for previous performance periods		Upfront Bonus for performance period 2016		Deferred Bonus for previous performance periods	
	cash	share-equivalents	cash	share-equivalents	cash	share-equivalents	cash	share-equivalents
	in EUR tsd	in units	in EUR tsd	in units	in EUR tsd	in units	in EUR tsd	in units
Andreas Treichl	219	10,505	157	6,953	311	14,408	171	7,923
Peter Bosek	97	4,775	0	0	132	6,512	36	1,433
Petr Brávek	112	4,775	0	0	150	6,512	36	1,433
Willibald Cernko (starting with 1 January 2017)	0	0	0	0	0	0	0	0
Andreas Gottschling (until 31 December 2016)	118	5,094	4	168	n/a	n/a	n/a	n/a
Gernot Mittendorfer	120	4,775	27	1,424	156	6,349	63	2,857
Jozef Síkela	102	4,775	0	0	140	6,512	36	1,433
Total	**768**	**34,699**	**188**	**8,545**	**889**	**40,293**	**342**	**15,079**

Until 31 January 2016, Peter Bosek was a management board member of the Holding as well as of Erste Bank Oesterreich. Therefore, the remuneration was split equally between both entities for that period.

The share-equivalents were firmly promised due to the performance of the previous year. Pay-outs will be made in the year 2018 after the one-year vesting period. The valuation is based on the average weighted daily share price of Erste Group Bank AG of the year 2017 in the amount of EUR 32.97 (2016: EUR 24.57) per share.

Erste Group has implemented a bonus program for bonus payments higher than EUR 60,000.00. The actual bonus payments are divided into a first tranche in the following year and five deferred tranches in the subsequent years. The decision to pay out the first and deferred tranches depends on the results and the capital ratios of Erste Group Bank AG (further 'performance conditions') in the preceding business year (further 'performance period). This decision is taken by a remuneration committee. If in the current year the remuneration committee decides that the performance conditions in the performance period have not been fulfilled the tranches are cancelled.

The total amount of the bonus related to the previous performance period is decided by the remuneration committee in April of the current year. This decision also means that the first tranche will be paid out. The first tranche, depending on the bonus amount granted accounts for 40% or 60% of the total volume. The remaining part is split into 5 deferred tranches, each covering 8% or 12%. The payout decision for the first deferred tranche is taken in April after the performance period. The payout takes place after the one-year vesting period. The same logic applies to the remaining deferred tranches.

Both, the first tranche and the deferred tranches are split into two equal parts 50% of the bonuses are paid out in cash (the 'cash part') and 50% is paid out as phantom shares (the 'share-equivalents part'). The cash part will be paid out in May after the bonus payout decision is taken by the remuneration committee in a specific year. The share-equivalents part of the bonuses are paid with one year delay after the payout decision and they depend on the changes in the average Erste Group Bank AG share price between the year in which the payout decision of the tranche is taken and the performance period. E.g. if the second deferred tranche is 10,000 share equivalents (the number of the share equivalents is determined based on the average share price in the performance period then the actual amount of cash paid would be EUR 10,000 times the average price of the shares in the year the payout decision is taken (e.g. share price of 30 would result in EUR 300,000 cash amount = EUR 10,000 times 30).

The share equivalent part meets the definition of the cash-settled share based payment in IFRS 2. Under the standard an entity shall recognise an expense and a liability in a cash-settled share-based payment transaction when the services are received. With the deferred tranches the bank remunerates sustainable decisions taken by the bonus receivers in the performance period that impact the later business years. Thus the bank receives the full service, that is compensated with the first and the deferred tranches, and recognises the full bonus in the performance period as a liability in the estimated amount which will be decided by the remuneration committee in April of the following year. Only after the vesting of the bonus a liability according to IFRS 2 is recognized, which is measured in the future periods by using the average stock price.

The cash part of the bonuses meets the definition of other long-term employee benefits in IAS 19. Under the standard the current service cost is attributed to the periods in which the obligation to provide benefits arises which is the period in which services are rendered by the employees. As for the share-payment part, the full amount of bonus is recognised in the performance period in the estimated amount.

The amount of the liability is fixed in the next year. If the effect is significant, the liability is measured at present value discounted at a market yield of high quality corporate bonds.

The outstanding amount of liability related to the performance period 2016 and unpaid deferred tranches from the previous years was EUR 24.4 million (comparative figures are not available) for the share-equivalents part (IFRS 2). For the service year 2017 there is no liability assigned to the share-equivalents part (IFRS 2).

Other remuneration

in EUR thousand	1-12 16	1-12 17
Andreas Treichl	1,132	644
Peter Bosek	132	136
Petr Brávek	133	136
Willibald Cernko (starting with 1 January 2017)	0	129
Andreas Gottschling (until 31 December 2016)	164	0
Gernot Mittendorfer	134	137
Jozef Síkela	153	135
Total	**1,848**	**1,317**

The item 'other remuneration' comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind.

The remuneration of the members of the management board represented 0.3% (2016: 0.3%) of the total personnel expenses of Erste Group.

In 2017, EUR 2,097,781.93 (2016: EUR 2,892,922.18) was paid in cash and 12,894 (2016: 8,390) share-equivalents were assigned to former members of the management bodies and their dependents. The remuneration of Andreas Gottschling for 2016 are also included.

Principles governing the pension scheme for management board members. Members of the management board participate in the defined contribution pension plan of Erste Group on the basis of the same principles as employees. For one member of the management board, compensatory payments have to be made to the pension fund in case the management board member's tenure ends before he reaches the age of 65 by no fault of the member.

Principles governing vested benefits and entitlements of management board members in case of termination of the position. Regarding vested benefits and entitlements of management board members in the event of termination of their position, the standard legal severance benefit provisions of section 23 of the Austrian Salaried Employees Act (Angestelltengesetz) still apply to one member of the management board. All other members of the management board are not entitled to receive any severance benefits.

The remuneration granted to the management board members complies with the banking rules on management remuneration.

Breakdown of supervisory board remuneration

in EUR thousand	1-12 16	1-12 17
Supervisory board compensation	664	691
Meeting fees	243	259
Total	**907**	**950**

In 2017, the members of the supervisory board of Erste Group Bank AG were paid EUR 950.2 thousand (2016: EUR 907.4 thousand) for their board function. The following members of the supervisory board received the following remuneration for their board function in fully consolidated subsidiaries of Erste Group Bank AG: Friedrich Rödler EUR 86,700.00, Jan Homan EUR 17,900.00, Gunter Griss EUR 63,800.00, Maximilian Hardegg EUR 63,953.00, Brian D. O'Neill EUR 51,000.00 und John James Stack EUR 96,675.00.

Pursuant to the decision at the Annual General Meeting of 17 May 2017, the supervisory board adopted in its meeting immediately held after the end of the Annual General Meeting the following remuneration structure for the financial year 2016:

in EUR	Number	Allowance per person	Total allowance
President	1	100,000	100,000
Vice Presidents	2	75,000	150,000
Members	9	50,000	450,000
Total	**12**		**700,000**

The supervisory board consists of at least three and a maximum of twelve members elected by the Annual General Meeting. Unless the Annual General Meeting has determined a shorter term of office for individual, several or all supervisory board members on the occasion of their appointment, the term of office of the members of the supervisory board ends at the close of the Annual General Meeting that resolves on the approvals of their actions for the fourth business year following their election; re-election is permitted. In addition, membership of the supervisory board ceases upon death, revocation, resignation or in the event of an impediment defined in the Articles of Association. Revocation requires a majority of three quarter of valid votes cast and a majority of three quarters of the registered capital represented at the time of the resolution.

Banking transactions with key management employees and persons and companies related to key management employees

As of the end of 2017, loans and advances granted to members of the management board and supervisory board totalled EUR 2,478 thousand (2016: EUR 2,404 thousand). Deposits of members of the management board and supervisory board at Erste Group amounted to EUR 7,184 thousand (2016: EUR 4,296 thousand) in total. As of 31 December 2017, members of the management and supervisory board held bonds issued by Erste Group in the amount of EUR 688 thousand (2016: EUR 366 thousand). Loan commitments and financial guarantees, issued in favour of members of the management and supervisory board totalled EUR 3,908 thousand (2016: EUR 4,231 thousand) as of the end of 2017. From banking transactions with members of the management board and supervisory board Erste Group received interest income and fee income of EUR 39 thousand (2016: EUR 53 thousand) in total, and paid interest expense of EUR 12 thousand (2016: EUR 33 thousand).

Loans and advances to close family members of key management employees and companies over which key management employees have control or significant influence (hereinafter referred to ‘other related parties’) totalled EUR 899 thousand (2016: EUR 15,708 thousand) as of 31 December 2017. As of the end of 2017, deposits of other related parties at Erste Group amounted to EUR 3,421 thousand (2016: EUR 2,755 thousand) in total. As of 31 December 2017 other related parties held bonds issued by companies of Erste Group in the total amount of EUR 12,440 thousand (2016: EUR 10,267 thousand). Loan commitments and financial guarantees, issued in favour of other related parties totalled EUR 798 thousand (2016: EUR 316 thousand) as of the end of 2017. From banking transactions with other related parties Erste Group received interest income and fee income of EUR 34 thousand (2016: EUR 274 thousand) in total, and paid interest expense of EUR 23 thousand (2016: EUR 47 thousand).

The applicable interest rates and other terms (maturity dates and collateral) represent market conditions.

41. Collaterals

The following assets were pledged as collateral for liabilities.

in EUR million	Dec 16	Dec 17
Loans and advances to credit institutions	0	53
Loans and advances to customers	18,440	14,841
Trading assets	53	284
Financial assets - at fair value through profit or loss	0	0
Financial assets - available for sale	1,254	813
Financial assets - held to maturity	1,379	1,348
Total	**21,126**	**17,339**

The financial assets pledged as collateral consist of loan receivables, bonds and other interest-bearing securities.

Collaterals were pledged as a result of repo transactions, refinancing transactions with the European Central Bank, loans backing issued mortgage bonds and other collateral arrangements.

The fair value of collateral received which may be repledged or resold even without the security provider's default was EUR 8,387.7 million (2016: EUR 3,654.4 million). Collateral with fair value of EUR 867.7 million (2016: EUR 253.5 million) was re-sold. Collateral with fair value of EUR 57.2 million (2016: EUR 132.2 million) was repledged. The bank is obliged to return the resold and repledged collateral.

42. Transfers of financial assets – repurchase transactions and securities lending

	Dec 16		Dec 17	
in EUR million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements				
Loans and advances to credit institutions	0	0	0	0
Loans and advances to customers	0	0	0	0
Trading assets	35	29	190	164
Financial assets - at fair value through profit or loss	0	0	0	0
Financial assets - available for sale	446	440	106	103
Financial assets - held to maturity	575	542	804	772
Total - repurchase agreements	**1,055**	**1,011**	**1,100**	**1,040**
Securities lendings				
Loans and advances to credit institutions	0	0	0	0
Loans and advances to customers	0	0	0	0
Trading assets	22	0	52	0
Financial assets - at fair value through profit or loss	0	0	0	0
Financial assets - available for sale	232	0	650	0
Financial assets - held to maturity	339	0	764	0
Total - securities lendings	**593**	**0**	**1,467**	**0**
Total	**1,648**	**1,011**	**2,567**	**1,040**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount EUR 2,412.4 million (2016: EUR 1,648.1 million) represents the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledge.

Liabilities from repo transaction in the amount of EUR 1,039.8 million (2016: EUR 1,010.5 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows fair values of the transferred assets and associated liabilities for repo transactions with an existing recourse right only on the transferred assets.

in EUR million	Dec 16 Fair value of transferred assets	Fair value of associated liabilities	Net position	Dec 17 Fair value of transferred assets	Fair value of associated liabilities	Net position
Loans and advances to credit institutions	0	0	0	0	0	0
Loans and advances to customers	0	0	0	0	0	0
Trading assets	35	29	6	190	164	26
Financial assets - at fair value through profit or loss	0	0	0	0	0	0
Financial assets - available for sale	446	440	6	106	103	3
Financial assets - held to maturity	588	542	46	832	772	60
Total	**1,068**	**1,011**	**58**	**1,128**	**1,040**	**88**

43. Offsetting of financial instruments

The following table shows netting effects on the balance sheet of Erste Group as well as the impacts of offsetting financial instruments which are subject to offsetting agreements.

Financial assets subject to offsetting and potential offsetting agreements

Dec 17 in EUR million	Financial assets (gross)	Amounts offset (gross)	Financial assets in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	5,611	-1,393	4,217	2,203	1,558	0	457
Reverse repurchase agreements	7,194	0	7,194	0	15	7,107	72
Total	**12,805**	**-1,393**	**11,411**	**2,203**	**1,573**	**7,107**	**529**

Financial liabilities subject to offsetting and potential offsetting agreements

Dec 17 in EUR million	Financial liabilities (gross)	Amounts offset (gross)	Financial liabilities in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting Financial instruments	Cash collateral provided	Non-cash financial collateral provided	Net amount after potential offsetting
Derivatives	4,501	-1,207	3,294	2,200	244	35	815
Repurchase agreements	2,063	0	2,063	0	2	2,058	3
Total	**6,564**	**-1,207**	**5,357**	**2,200**	**246**	**2,093**	**818**

Financial assets subject to offsetting and potential offsetting agreements

Dec 16 in EUR million	Financial assets (gross)	Amounts offset (gross)	Financial assets in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	7,275	-1,376	5,899	3,352	1,549	15	984
Reverse repurchase agreements	1,218	0	1,218	0	0	1,213	5
Total	**8,493**	**-1,376**	**7,117**	**3,352**	**1,549**	**1,228**	**989**

Financial liabilities subject to offsetting and potential offsetting agreements

Dec 16 in EUR million	Financial liabilities (gross)	Amounts offset (gross)	Financial liabilities in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting Financial instruments	Cash collateral provided	Non-cash financial collateral provided	Net amount after potential offsetting
Derivatives	5,750	-1,093	4,657	3,352	422	25	858
Repurchase agreements	1,837	0	1,837	0	0	1,829	8
Total	**7,587**	**-1,093**	**6,494**	**3,352**	**422**	**1,854**	**866**

An analysis in 2017 showed that for derivatives not all existing netting agreements as well as collaterals received and provided have been considered in the previous year. The table for 2016 was adapted accordingly.

Erste Group undertakes a part of interest rate derivative and credit derivative transactions via Clearing Houses. These derivatives and related variation margin balances fulfil the requirements for balance sheet offsetting in accordance with the criteria described in chapter 'B. Significant accounting policies'. The impact of offsetting is shown in the column 'Amounts offset'. The net position between the offset derivative amounts EUR 186 million (2016: EUR 283 million) is further offset with variation margin balances presented under balance sheet items 'Cash and cash balances' in amount EUR 32 million (2016: EUR 2 million) and 'Financial liabilities measured at amortised cost ', sub-item 'Deposits from banks' in amount of EUR 218 million (2016: EUR 285 million).

Erste Group employs repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the values of assets and liabilities that would be set off as a result of master netting agreements are presented in the column Financial instruments. If the net position is further secured by cash collateral or non-cash financial collaterals the effects are disclosed in columns Cash collateral received/pledged and Non-cash financial collaterals received/pledged respectively.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities remain in the hands of the lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged respectively. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from being used it by the transferor during the time of the pledge.

44. Risk management

44.1 Risk policy and strategy

A core function of each bank is taking risks in a conscious and selective manner and professionally steer those risks. Adequate risk policy and risk strategy is essential to a bank's fundamental financial health and operational business success.

Erste Group has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed across the group. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

The risk strategy defines the current and the targeted risk profile for the main risk types and sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy is executed within a clear defined governance structure. This structure applies also monitoring the risk appetite, additional metrics, as well as escalation of limit breaches.

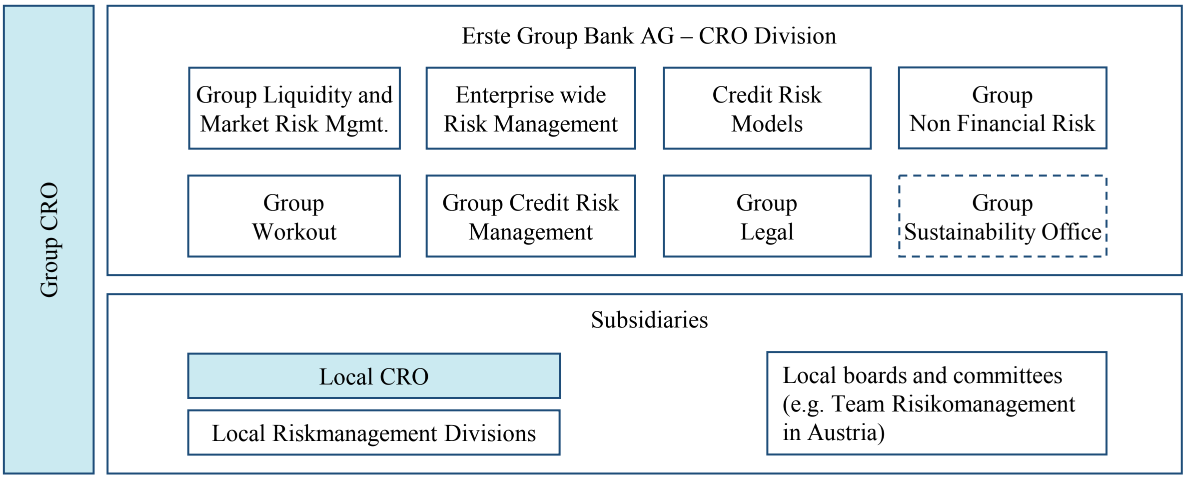
In 2017, management has continued to steer critical portfolios, including active management of non-performing exposures to further strengthen the risk profile. This has been particularly demonstrated by the continuous improvement of the credit quality and the ongoing decrease of non-performing loans and risk costs.

Erste Group Bank AG uses the Internet as the medium for publishing disclosures of Erste Group under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR). Details are available on the website of Erste Group at www.erstegroup.com/ir. Relevant disclosures are included in the annual report in the section 'Reports' or published as separate documents in the section 'Regulatory disclosure'.

44.2 Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

The following chart presents an overview of Erste Group's risk management organization:



In 2017, it has been decided to streamline the Group CRO area's structure aiming to reduce complexity and to ensure more efficient processes and clear responsibilities, with focus on risk types. The changes addressed the following:

- Group Liquidity and Market Risk Management was founded to cover all related topics with respect to liquidity risk and market risk;
- Risk Methods and Models and Group Validation were integrated into the new division Credit Risk Models;
- Group Retail and SME Risk Management was integrated into Group Credit Risk Management;
- Group Sustainability Office was moved in Group CRO area as a staff unit;
- Group EGI Real Estate Risk Management was integrated into existing dedicated functions and structure, i.e. Group Workout and Group Credit Risk Management;
- Group Risk Operating Office has been shifted to the COO (Chief Operating Officer) divisions.

Risk management structure

The management board and in particular Erste Group's Chief Risk Officer (Group CRO) perform the oversight function within Erste Group's risk management structure. Risk control and risk steering within Erste Group are performed based on the business strategy and risk appetite approved by the management board. The Group CRO, working together with the chief risk officers of the subsidiaries, is responsible for the implementation and adherence to the risk control and risk management strategies across all risk types and business lines.

The management board and, in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect; the actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed on the operating entity level within Erste Group.

At group level, the management board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities. The following risk management functions report directly to the Group CRO:

- Group Liquidity and Market Risk Management;
- Enterprise wide Risk Management;
- Credit Risk Models;
- Group Non Financial Risk;
- Group Workout;
- Group Credit Risk Management;
- Group Legal;
- Group Sustainability Office;
- Local Chief Risk Officers.

Group Liquidity and Market Risk Management

The newly formed division Group Liquidity and Market Risk Management (GLMRM) comprises all market and liquidity risk functions. This division is responsible for steering, measurement, and controlling of liquidity and market risk of Erste Group. It covers both banking book and trading book and comprises the departments Banking Book Risk Management, Trading Book Risk Management, Market and Liquidity Risk Methods and Models, and Market and Liquidity Risk Model Validation.

Banking Book Risk Management is responsible for the group wide governance of market and liquidity risk of the banking book. This includes the identification, measurement and controlling of market and liquidity risk. Furthermore, this department is responsible for setting, controlling, and monitoring of group wide liquidity and market risk limits in the banking book and respective limit escalation procedures.

Trading Book Risk Management is responsible for the group wide governance of market risk of the trading book. It acts independently of the trading units and takes responsibility for identifying, measuring, and monitoring of all market risks arising from capital market business. The scope of this department also comprises setting, controlling, and monitoring of group wide market risk limits in the trading book and respective limit escalation procedures.

Market and Liquidity Risk Methods and Models covers the development of risk models related to Pillar 1 (i.e. the calculation of the regulatory capital requirements for market risk in the trading book) and Pillar 2 capital requirements as well as valuation and various internal steering purposes.

Market and Liquidity Risk Model Validation is responsible for the independent review and validation of market and liquidity risk related methods and models.

Enterprise wide Risk Management

Enterprise wide Risk Management (ERM) enables an increased focus on holistic risk management and ensures comprehensive cross-risk group-wide risk portfolio steering, monitoring, analysis, and reporting. ERM drives key strategic initiatives to establish greater cohesion between risk strategy (including risk appetite and limit steering) and operational execution. Furthermore, ERM works together with all risk functions and key divisions to strengthen oversight group-wide risk to cover capital, credit, liquidity, market, operational, and business risk. The Enterprise wide Risk Management division consists of the departments Credit RWA Management and Simulation, Group ICAAP, Group Recovery and Resolution Planning, Risk Cost Management, and Risk Monitoring and Reporting.

The Credit RWA Management and Simulation department is responsible for the group-wide management and steering of risk-weighted assets for credit risk (credit RWA) according to the Basel framework as well as for carrying out credit risk stress tests according to the regulatory stress testing framework. The unit Credit RWA Management and Control performs the central credit RWA computation (Pillar 1/Pillar 2), the analysis and steering as well as the control of the group-wide credit RWA. The Credit RWA Methodology and Projects team's main responsibilities are the methodology of credit RWA calculation, the provision and maintenance of an optimised credit RWA calculation infrastructure as well as the implementation of regulatory changes. The main tasks of the unit Credit Risk Simulations are the simulation of the impact on credit RWA resulting from planned changes in the RWA calculation and the preparation of a credit risk stress testing framework as part of the overall ERM framework that is applied for the optimisation of the Group's risk/return profile.

The department Group ICAAP (Internal Capital Adequacy Assessment Process) encompasses next to risk planning and stress testing also ICAAP methods and limit steering. The responsibility of the unit Risk Planning and Stresstesting includes design, governance, organization and implementation of the risk planning and stress testing processes as well as governance, design and execution of the risk concentration analysis. Risk planning processes ensure delivery of the risk side inputs to regular planning rounds and cover monthly and quarterly forecasts of selected key risk indicators. With the ICAAP framework the department Group ICAAP supports the management in ensuring adequate capital capacity that reflects the nature and magnitude of the Group's risk portfolio. The mission of the unit ICAAP Methods and Limit Steering is to maintain and further enhance a robust enterprise wide risk management framework as well as to compile the operational components of the Group's risk strategy.

Group Recovery and Resolution Planning is responsible for the annual update of the recovery plan of Erste Group and coordinates the departments involved. This department supports entities of the Group in recovery planning and aligns local recovery plans with the group recovery plan. Moreover, it provides information required for the resolution plan to the resolution authorities. For this purpose, the unit delivers data templates on a regular basis, participates in workshops with the authorities and coordinates all departments and group entities involved.

Risk Cost Management is responsible for group wide standards in determining credit risk provisions and pricing for credit risk as well as determining and monitoring credit risk provisions for Erste Group Bank AG. These responsibilities include preparation for compliance with IFRS9 impairment requirements effective from 1 January 2018. The Risk Cost Governance team is responsible for group policies for determining credit risk provisions and for policies setting out and for supervision of the back testing of credit risk provisions as well as policies for setting credit risk components in pricing.

Risk Monitoring and Reporting is responsible for the coordination of complex risk reports as well as for the generation of credit risk relevant reports/information for the bank's senior management, regulators, external auditors and rating agencies, at Group and Erste Group Bank AG level. Beyond these recurring tasks the unit is also involved in change the bank activities: implementation of new regulatory and financial reporting requirements, change management process and maintenance of risk reporting framework and tools as well as implementation of dedicated projects for improving data quality and refining data granularity. Furthermore, this department provides group-wide governance for risk data aggregation and risk reporting practices. Acting within its responsibilities, Risk Monitoring and Reporting supports group-wide risk steering and monitoring. Group Credit Risk Reporting, one of the four teams of the department, is in charge with data extraction, consistency and plausibility checks, analysis and reporting to senior management, regulators, auditors, and rating agencies. Its tasks also comprise the coordination and preparation of comprehensive risk reports covering all risk types. Furthermore, this unit is involved in the implementation of regulatory and financial reporting requirements. The Analytics, Processes and Project team is responsible for the change management process and the maintenance of the Group's standardised credit risk reporting systems and tools. Risk Data Steering is a dedicated team aim to develop a group-wide aligned central data management process from data origination to reporting, with special focus on credit risk. Group Retail Risk Analytics ensures oversight and independent management control through providing regular retail risk management information. This unit defines the operative reporting requirements across the Group, monitors and analyses the retail loan portfolio, and identifies risk mitigation measures.

Credit Risk Models

The Credit Risk Models division covers development and validation responsibilities in the area of credit risk. It is responsible for all the policies, standards, and procedures across the full credit risk model lifecycle. This area provides adequate risk measurement methodologies and tools as well as an appropriate framework for relevant risk policies.

Model development follows subsidiarity model that means responsibilities are split depending on model perimeter. Local models are developed locally following group standards and group-wide models are developed centrally. Model validation is fully centralized function, independent in line with regulatory requirements.

Model validation is responsible to independently challenge model development and make certain all IRB models used by the Group are fit for purpose. They are responsible for verifying that models are performing as expected, in line with their design objectives, and intended business uses as well as in line with regulatory requirement and internal group standards. It is fully centralized function. That means all validation responsibilities are bundled within the validation unit of Erste Bank Group AG. Subsidiaries remain responsible for the results and take care of adequate measures. This design will ensure independence and control of model validation as well as enforce adherence to uniform standards.

Group Non Financial Risk

Group Non Financial Risk (Group NFR) is responsible for the management of reputational and operational risks including compliance risks, IT and communication technology risks, conduct risks, model risks, and legal risks as well as security issues. These tasks support and protect the first line activities with special focus on the business areas. The division consists of three departments Group Compliance, Group Security Management, and Group NFR Governance and Operational Risk.

Group Compliance is responsible for the management of risks stemming from the non-compliance with regulatory obligations, in particular concerning money laundering, terrorism financing, financial sanctions, market abuse, fraud and rules of conduct.

Group Security Management protects bank personnel and assets (including information assets), and preserves the safety and security of these, and is responsible for the definition of security standards, quality assurance and the monitoring and further development of security-related issues at Erste Group, e.g. cybersecurity.

The department Group NFR Governance and Operational Risk ensures the effective, integrative and holistic implementation of the NFR objectives. This comprises the steering and controlling, alignment of procedures as well as support regarding regulatory requirements and their impact on NFR. Providing a service for a robust NFR process and the identification of synergies complete the spectrum of tasks of NFR governance. The unit Operational Risk acts as the central and independent risk management unit for identification, measurement and steering of operational risk within Erste Group.

Group Workout

Group Workout (GWO) acts as single point of contact for the group's NPL strategy in line with the overall strategy of the group and all group related initiatives on NPLs and NPL management. It is responsible for the implementation of the group NPL strategy, the definition of strategic targets on group level, and ensures that these targets are met on by means of monitoring, reporting, and steering. It coordinates and communicates any group-wide initiatives and requirements to the subsidiaries. Furthermore, Group Workout assumes group-wide responsibility for management of clients allocated to the business segments Large Corporates, Commercial Real Estate, and Other Corporate that are rated non-performing or are specifically defined as workout clients.

It undertakes the direct workout management function for corporate workout clients of Erste Group Bank AG and Erste Group Immorent GmbH. Additionally, Group Workout acts as a competence centre by issuing expert opinions for corporate workout clients of the subsidiaries exceeding local management's approval level, and by managing the divestment processes of NPLs, as an alternative to client-by-client workout management. It also ensures the management of repossessed assets (final stage of the problem assets management), setting-up and implementing the strategy for repossessed real estate asset management).

Based on regulatory requirements, Group Workout is responsible for generating group-wide workout policies, the design of guidelines for the preparation of local workout reports and the preparation of Erste Group Bank AG workout reports. Additionally, the division organizes expert training programs as well as workshops to ensure knowledge transfer across Erste Group entities. Another important task of the division is its responsibility for group-wide collateral management. This includes the set-up of standards for collateral management, the framework for a group collateral catalogue, and principles for collateral evaluation and revaluation.

Group Credit Risk Management

Group Credit Risk Management is the operative risk management function for both retail and non-retail portfolios (medium-sized enterprises, large corporate and real estate customers, as well as institutional clients and counterparties). In addition, the division is responsible for setting standards and steering the group's non-retail and retail lending portfolios. It ensures that only credit risk which is in line with the risk appetite, risk strategy, and limits set by ERM are taken on the books of Erste Group. Group Credit Risk Management consists of six departments Group EBA - Erste Business Analysis, Credit Underwriting Corporates, Credit Underwriting Financial Institutions and Sovereigns, Credit Underwriting Real Estate, Corporate Portfolio Monitoring and Management, and Group Portfolio Steering Corporate and Retail.

The department Group EBA - Erste Business Analysis defines group-wide standards for company analyses, generates these analyses for Erste Group Bank AG and Erste Group Immorent GmbH, and is responsible for the group financial analysis tool SABINE. Corporate Rating Unit Desk, as part of Group EBA, acts as single point of contact for all operative issues related to corporate ratings within Group Credit Risk Management.

Credit Underwriting Corporates is responsible for the group-wide underwriting of credit risks associated with large corporate customers and for the management of credit applications and training activities. It is the first line risk management unit for all corporate business booked in Erste Group Bank AG and, above defined thresholds, the second line risk management unit for corporate business booked in Erste Group's subsidiaries and the 'Haftungsverbund'.

Credit Underwriting Financial Institutions and Sovereigns is responsible for ratings, analysis, operative credit risk management (risk assessment, approval of transactions and limits, policies, watch lists and early warning systems) and workout activities related to financial institutions (banks, insurance companies and funds), regional governments, sovereigns, and structured products.

Credit Underwriting Real Estate is responsible for the underwriting of credit risks in the real estate business. The area of responsibility includes all real estate customers doing international business as well as the local and regional large-volume business of Erste Group's subsidiaries with corporate customers in the real estate sector. This organisational unit is the first line risk management unit for all real estate lending and leasing business of Erste Group Bank AG and Erste Group Immorent GmbH as well as the second line risk management unit for business booked in banking subsidiaries and exceeding defined thresholds.

Corporate Portfolio Monitoring and Management is responsible for corporate risk policies and procedures along the credit process, the optimization of corporate credit processes and the operative monitoring of credit risk (counterparty and country limit management).

Group Credit Portfolio Steering Corporate and Retail is responsible for the group-wide steering of the corporate and retail lending portfolios. This includes the definition of the retail lending framework, the operative corporate and retail portfolio analytical framework as well as the group-wide early warning system and credit monitoring requirements for the corporate portfolio. In the latter case, it also ensures the operative implementation and management in the parent company Erste Group Bank AG. In addition, this department conducts regular in-depth portfolio reviews together with risk management units of subsidiaries in order to identify and analyse portfolio dynamics.

Group Legal

Group Legal, with its three sub-units Banking Legal, Markets Legal, and Corporate Legal, acts as the central legal department of Erste Group Bank AG. This division provides legal support and counsel for the management board, the business units and the central functions, and mitigates legal risk. It also attends to legal sourcing and to dispute resolution and litigation.

Legal support for the business activities of the banking subsidiaries in the respective jurisdictions in which they operate is performed by separate locally established legal departments. While reporting to the local management, typically the local CRO, the heads of the local legal department also report to the head of Group Legal in a functional dotted line matrix responsibility.

Group Sustainability Office

Due to the growing impact of non-financial issues on the reputation of a bank, Group Sustainability Office (GSO) became a staff unit within the CRO division on June 1 2017. The main tasks of the GSO include implementing the diversity and environmental policy, adapting and communicating the Erste Group 'Code of Conduct', and further developing the 'Time Bank' in Austria (a corporate volunteering platform for co-operation between NGOs and Erste employees). In addition, the GSO is involved in the evaluation of non-financial risks in connection with corporate business, and is the main contact for sustainability ratings and the Erste Group sustainability report.

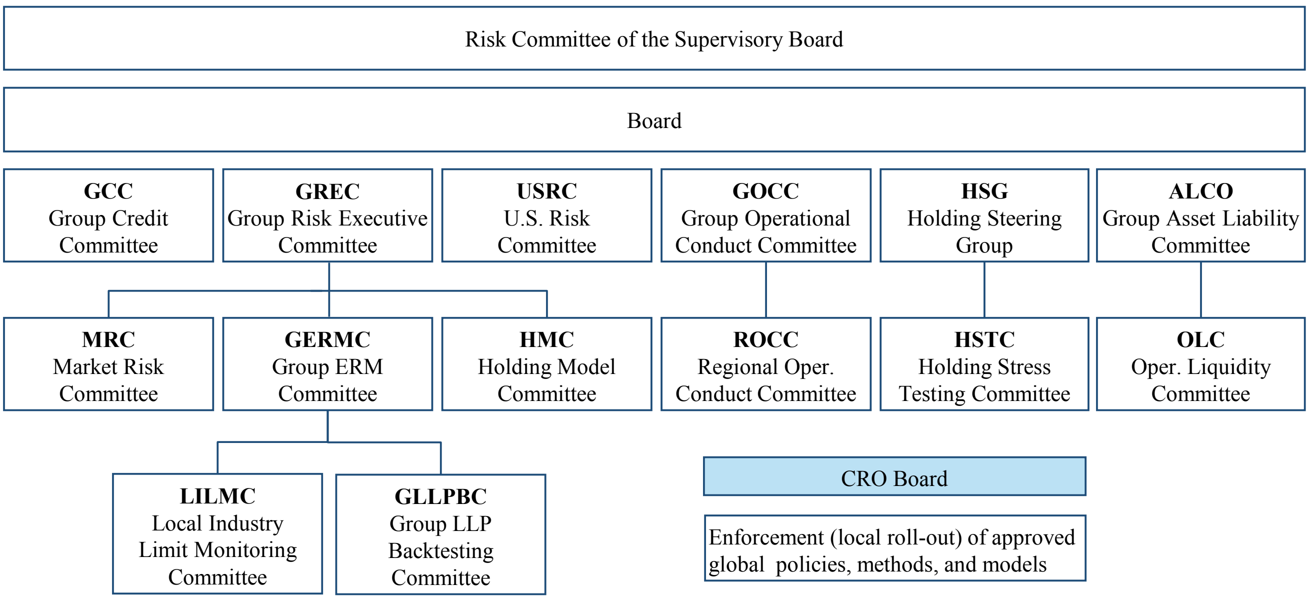
Local Chief Risk Officers

Each subsidiary has separate risk control and management units with responsibilities tailored to the local requirements, which are headed by the respective local chief risk officer (Local CRO).

Group coordination of risk management activities

The management board regularly deals with risk issues of all risk types in its regular board meetings. Actions are discussed and taken when needed.

Furthermore, certain cross-divisional committees were established with the purpose of carrying out risk management activities in Erste Group. They are shown in the following diagram:



The **Risk Committee of the Supervisory Board** is responsible for granting approval in all cases in which loans and exposures reach an amount exceeding the approval authority of the management board according to the Credit Risk Approval Authority Regulations. It is in charge of granting approval to large exposures pursuant to Article 392 CRR, if such a claim is equal to or exceeds 10% of the eligible capital of a credit institution. Within the competence assigned to it, the committee may grant advance approvals to the extent permitted by law.

In addition, it is responsible for supervising the risk management of Erste Group Bank AG. The risk committee meets regularly. As the central risk control body, the risk committee is regularly briefed on the risk status across all risk types.

The **CRO Board** is responsible for the consistent coordination and implementation of risk management activities within Erste Group, including joint liabilities. The CRO Board consists of the Group CRO, the chief risk officers of major subsidiaries within Erste Group and the senior area managers of the CRO division of Erste Group Bank AG. Chaired by the Group CRO, the CRO Board is responsible for group-wide coordination of risk management and for ensuring the roll-out of group policies to the subsidiaries.

The **Group Credit Committee** (GCC) is the supreme operative decision-making body for approvals of credit risks according to the existing regulations. Based on the advice of GCC, decisions of significant exposures and extended risks are decided by the risk management board of the supervisory committee. The GCC is headed by the Group CRO and comprises the chairman of Corporates & Markets, the head of Group Credit Risk Management, the head of Group Workout, and the head of the requesting business line. Each subsidiary equips their own local credit committee established by the same principles.

The **Group Risk Executive Committee** (GREC) is the central forum for all joint resolutions and acknowledgements in the Erste Group Bank AG CRO division. Its purpose is the division-wide coordination of all the risk management functions of Erste Group Bank AG. It discusses and decides on key risk management issues and overarching regulatory topics. In particular, it defines the division's strategy and ensures implementation of common risk management standards (e.g. pertaining to processes, systems, reporting and governance).

The **Group Operational Conduct Committee** (GOCC) is an executive-level committee responsible for enforcement of the Code of Conduct as well as the management of non-financial risks. Moreover, the GOCC serves as an escalation and decision-making committee for the Regional Operational Conduct Committee (ROCC).

The **United States Risk Committee** (USRC) has been established to meet the requirements of the United States Federal Reserve Board (FRB) regulation, which has been in force since 1 July 2016. The objective is to involve the management board as key governance and control function for the U.S. trade portfolio which has been specified in the Combined U.S. Operations (CUSO) guidance.

The **Holding Steering Group** (HSG) is responsible for the monitoring of the group's Risk Appetite Statement (especially with regard to capital and liquidity adequacy, under both normal and stressed conditions), the review of proposed group and local capital measures and the proposal of remediation actions. Furthermore, it monitors recovery triggers and indicators and, when appropriate advises the management board to trigger recovery governance. The oversight of the implementation of the risk-return strategy and the proposal of actions to reinforce the risk-return steering also belong to the HSG's tasks and responsibilities.

The **Holding Stress Testing Committee** (HSTC) is the sole forum for all joint resolutions, decisions and acknowledgements in the stress testing area for group-wide stress testing activities.

The **Group Asset/Liability Committee** (ALCO) manages the consolidated Erste Group balance sheet, focusing on trade-offs between all affected consolidated balance sheet risks (interest rate, exchange rate and liquidity risks), and takes care of the setting of group standards and limits for the members of Erste Group. In addition, it approves policies and strategies for controlling liquidity risk as well as interest rate risk (net interest income) and examines proposals, statements and opinions of ALM, risk management, controlling and accounting functions. The approved investment strategy complies with the guidelines agreed with Risk Management.

The **Operational Liquidity Committee** (OLC) is responsible for the day-to-day management of the global liquidity position of Erste Group. It analyses the liquidity situation of Erste Group on a regular basis and reports directly to the ALCO. It also proposes measures to the ALCO within the scope of the management policies and principles laid down in the Liquidity Risk Management Rule Book. Furthermore, members of the Group OLC are points of contact for other departments or Erste Group members for liquidity-related matters. Each local bank has its own local operational liquidity committee.

The **Market Risk Committee** (MRC) is the main steering body for market risk and trading book related issues of Erste Group. MRC approves group-wide market risk limits and elaborates on the current market situation. Furthermore, it approves market risk methodologies and models, model changes, and related validation results.

The **Group ERM Committee** (GERMC) is the sole forum for all joint decisions and acknowledgements in the Enterprise wide Risk Management (ERM) area across all Erste Group entities and Erste Group Bank AG. Its purpose is the group-wide coordination of the ERM functions, in particular on ICAAP and economic capital, stress testing, RWA, risk appetite and limit steering, risk strategies and alignment of risk input for capital planning as well as pricing/provisioning. Furthermore, the GERMC ensures alignment on key ERM topics and the group-wide implementation of common ERM standards. The Group Loan Loss Provisions Back testing Committee (GLL-PBC), as a subcommittee of GERMC, agrees and approves back-testing results and remedial actions. In addition the Local Industry Limit

Monitoring Committee (LILMC), as a subcommittee of the GERMC, is the steering and monitoring body to ensure comprehensive control of local Industry limits and oversight of their breaches as well as any escalations to the Credit and/or Group ERM Committee.

The **Holding Model Committee** (HMC) is the steering and control body for the model development, validation and monitoring. All new or changed models and model related aspects (e.g. risk parameters, group-wide methodology standards) are reviewed by the Holding Model Committee and require its approval.

The **Regional Operational Conduct Committee** (ROCC) decides on business applications and implements group-wide corrective measures to steer non-financial risks (NFR). This is done based on a risk-return evaluation. Furthermore, ROCC defines group-wide standards for non-financial risk topics. The ROCC is a forum for joint alignments, decisions, and escalations in non-financial risk areas across Erste Group entities and Erste Group Bank AG itself.

In addition, committees are established at local level, such as the 'Team Risikomanagement' in Austria. It is responsible for a common risk approach with the Austrian savings banks.

44.3 Group-wide risk and capital management

Enterprise wide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to ensure that the bank holds at all times adequate capital for the nature and magnitude of the bank's risk profile. The framework is tailored to the Erste Group's business and risk profile and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring the sustainability of the organisation.

ERM framework is a modular and comprehensive management and steering system within Erste Group and is an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular to fulfil regulatory requirements and to provide an effective internal steering tool, can be clustered as follows:

_ Risk Appetite Statement (RAS), limits and Risk Strategy;
_ portfolio and risk analytics including risk materiality assessment, concentration risk management, and stress testing;
_ risk-bearing Capacity Calculation (RCC);
_ planning of key risk indicators;
_ recovery and resolution planning.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

Risk appetite

Erste Group defines the maximum level of risk it is willing to accept in order to deliver its business objectives within the Group's risk appetite (Group RAS). The Group RAS acts as a binding constraint to Erste Group's business activities within its overall risk appetite through triggers and limits approved by the management board. The Group RAS consists of a set of core risk metrics providing quantitative direction for overall risk-return steering and qualitative statements in the form of key risk principles that form part of guidelines for managing risks. The core risk metrics are set as ultimate boundaries for the group risk-return target setting and form a key input into the annual strategic planning / budgeting process, creating a holistic perspective on capital, liquidity and risk-return trade-offs. The key objective of the RAS is to:

_ ensure that Erste Group has sufficient resources to support its business at any given point in time and absorb stress events;
_ set boundaries for the Group's risk target setting;
_ support maintaining the Group's financial strength and the robustness of its systems and controls.

To foster risk-return steering and ensure proactive management of the risk profile, Erste Group sets its RAS on a forward-looking basis. External constraints such as regulatory requirements set the ceiling for the RAS and therefore the amount of risk Erste Group is willing to accept. In order to ensure that the group remains within the targeted risk profile, a traffic light system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. The RAS traffic light system is defined as follows:

_ RAS is green: The target risk profile is inside the specified boundaries.

_ RAS is amber: The undershooting or overshooting of a pre-defined threshold leads to an escalation to the designated governance and the discussion of potential remediation actions.
_ RAS is red: The undershooting or overshooting of a pre-defined limit initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress indicators are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported as early warning signals to the management board to support proactive management of the risk and capital profile.

In addition, based on the Group RAS, supporting metrics and principles are defined by material risk type in the group risk strategy. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the group risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the group remains within its RAS.

The Group RAS 2017 was approved by the management board and the supervisory board. The group further developed an aggregated and consolidated risk appetite dashboard (RAS Monitor) illustrating the group's and local entities' risk profile developments by comparing the risk exposure and risk limits. The RAS Monitor is regularly presented to the Risk Committee of the supervisory board and supervisory board to support its review, oversight, and monitoring of the group risk profile and the risk profile of its local entities.

The Group RAS is also broken down to local entities. The local RAS is approved by the local management board to ensure alignment with local regulatory requirements, as well as by the management board to ensure compliance with the Group RAS. The group may also decide to include further compulsory constraints and limits in the local RAS to ensure alignment with the Group RAS and Group Risk Strategy.

The Group RAS framework streamlines core capital, liquidity, and risk/earnings metrics as well as reinforces key risk principles that form part of guidelines for managing risks. In addition, the Group RAS strengthens internal governance responsible for oversight of the risk profile development, embeds RAS into strategic planning and budgeting processes as well as day-to-day management, and ensures timely management actions in case of adverse developments.

Portfolio and risk analytics

Erste Group uses dedicated infrastructure, systems and processes to actively identify, measure, control, report, and manages risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk materiality assessment

The Risk Materiality Assessment (RMA) determines the materiality of risk types and consequently the risk profile across Erste Group and its entities. RMA is an annual process with the purpose of systematically identifying new and assessing all existing material risks for Erste Group. As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.

Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the group. The assessment also serves as an input for the design and definition of the group's Risk Strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

Risk concentration analysis

Erste Group has implemented a process to identify measure, control and manage risk concentrations. This process is essential to ensure the long-term viability of Erste Group, especially in times of an adverse business environment and stressed economic conditions.

The risk concentration analysis at Erste Group covers credit risk, market risk, operational risk, liquidity risk and inter-risk concentrations. Identified risk concentrations are considered in the scenario design of the comprehensive stress test and measured under stressed conditions. The output of the risk concentration analysis additionally contributes to the identification of material risks within the risk materiality assessment as well as to the Risk Appetite Statement and to the setting/calibration of Erste Group's limit system.

The result of the concentration analysis helps also to detect major risks within the risk materiality assessment for developing the RAS as well as for defining and calibrating the limit system of Erste Group.

Stress testing

Modelling sensitivities of the group's assets, liabilities and profit or loss provide management steering impulses and help to optimise Erste Group's risk-return profile. Stress tests help to factor in severe but plausible scenarios providing further robustness to the measurement, steering and management. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Finally, sensitivities and stress scenarios are considered within the group's planning process.

Erste Group's most complex stress testing activities are scenario stress tests that take a comprehensive account of the impact of various economic scenarios, including second-round effects on all risk types (credit, market, liquidity and operational) and in addition impacts on the associated volumes of assets and liabilities as well as on profit and loss sensitivities. In addition to the standard scenario driven stress testing exercises, reverse stress tests are performed to identify a scenario or a combination of scenarios in which viability of the current business model can be questioned.

Erste Group has developed specific tools to translate macroeconomic variables (e.g. GDP or unemployment rate) into risk parameters in order to support the stress testing process, which combines bottom-up and top-down approaches. For adapting the stress parameters, Erste Group additionally leverages the experience of its local professionals and uses, where appropriate, their statistical models to simulate the impacts of macroeconomic variables on the probabilities of default in the respective markets. Special attention is given to account for adequate granularity and special characteristics (i.a. countries and industries) when determining the segmentation in which the stressed parameters are defined.

Results from Erste Group's comprehensive stress tests are analysed in order to decide on appropriate measures. The Comprehensive Stress Test performed in 2017 indicated no breach of stressed RAS triggers.

Additionally, Erste Group will participate in the European-Wide Stress Test executed by the European Central Bank (ECB) in cooperation with the European Banking Authority (EBA) in 2018.

Risk-bearing capacity calculation

The Risk-bearing Capacity Calculation (RCC) defines the capital adequacy required by the Internal Capital Adequacy Assessment Process (ICAAP). In contrast to the regulatory view of Pillar 1, the RCC is based on an economic view and determines whether the bank has sufficient capital for covering all risks it is exposed to. Based on the results of the RMA, economic capital is considered for all relevant risk types. The aggregated capital requirement is then compared to internally available capital, as reflected by the coverage potential. The integral forecast, risk appetite limit and a traffic light system support management in its discussions and decision processes.

The traffic light system embedded in Erste Group's RCC helps to alert the management in case there is a need to decide on, plan and execute actions either to replenish the capital base or to take measures for reducing risk.

The management board and risk management committees are briefed on a quarterly basis in relation to the results of the capital adequacy calculation. The report includes movements in risks, available capital and coverage potential, consideration of potential losses in stress situations, the degree of the risk limit utilisation and the overall status of capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks), in the context of Pillar 2, interest rate risk in the banking book, foreign exchange risk arising from equity investments, credit spread risk in the banking book, risk from foreign currency loans, risk from repayment vehicles as well as business and strategic risk are explicitly considered within the economic capital requirement via internal models. During 2017 the utilisation of the economic capital was between 55% and 57%. The methodologies that are applied for the different risk types are diverse and range from historical simulations and other value at risk approaches to the regulatory approach for residual portfolios. Moreover, calculations for portfolios under the Standardised Approach for credit risk are extended by risk parameters from the Internal Ratings-Based approach in order to give a better economic view.

In addition to the Risk-bearing Capacity Calculation, liquidity, concentration and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and traffic light systems.

Credit risk accounts for approximately 67% of the total economic capital requirement. Reflecting Erste Group's conservative risk management policy and strategy, the group does not offset diversification effects between these three risk types. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.95% confidence level, which reflects the implied default risk as well as Erste Group's conservative approach and high risk management standards.

The capital or coverage potential required to cover economic risks and unexpected losses is based on Basel 3 fully loaded regulatory own funds adjusted by held-to-maturity reserves and the year-to-date profit. The coverage potential must be sufficient to absorb unexpected losses resulting from the group's operations at any point in time.

Risk planning

Group Risk Planning framework is essential for the capital allocation and overall financial planning processes and supports the adequate reflection of risks within the strategy, steering and management processes of the group.
Key risk indicators covered by the Risk Planning framework include indicators that provide an overview of incurred or potential risks, with respect to both portfolio and economic environment developments. Indicators include RWA (and related indicators), portfolio quality indicators (impairments, NPL/NPE and relevant performance indicators etc.), as well as indicators required by the regulatory authorities under the responsibility of the Risk division.

Planning activities are performed in close cooperation with all stakeholders in the group's overall process, and follow a clear governance structure to ensure sound risk planning process.

Risk-weighted asset management

As risk-weighted assets (RWA) determine the actual regulatory capital requirement of a bank and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targets and to the planning and forecasting capacity for this parameter. Insights from RWA analyses are used to improve the calculation infrastructure and the quality of input parameters and data.

There is a process in place for tracking developments with RWA targets, forecasting their future development and thereby defining further targets. The management board is also informed about the current status, and findings are taken into account in the context of Erste Group's regular steering process. Furthermore, RWA targets are included in the Risk Appetite Statement.

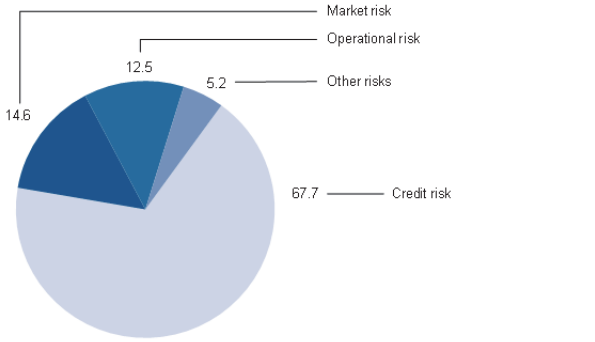
Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close cooperation between Risk Management and Controlling. Methodology for allocation reflects risk and controlling processes in order to allocate capital with risk-return considerations.

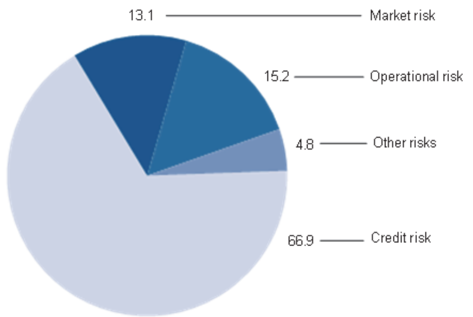
Erste Group's aggregate capital requirement by risk type

The following diagrams present the composition of the economic capital requirement according to type of risk:

Economic capital allocation in %, 31.12.2016



Economic capital allocation in %, 31.12.2017



Other risks include business and strategic risk.

Leverage ratio

The leverage ratio represents the relationship between core capital (tier 1) and leverage exposure according to Article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on- and off-balance-sheet positions considering valuation and risk adjustments as defined within the CRR.

The calculation and disclosure of the leverage ratio is based on the European Commission's delegated regulation ((EU) 2015/62 of 10 October 2014), which was published in the Official Journal of the European Union on 17 January 2015.

Recovery and resolution plans

In compliance with the Austrian Banking Recovery and Resolution Law ('Bundesgesetz über die Sanierung und Abwicklung von Banken – BaSAG') Erste Group annually submits an updated Group Recovery Plan to ECB.

The Group Recovery Plan identifies options for restoring financial strength and viability in case Erste Group comes under severe economic stress. The plan specifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress.

Erste Group collaborates with the resolution authorities in the drawing up of resolution plans based on BaSAG and EU Regulation No 806/2014 establishing the Single Resolution Mechanism (SRM Regulation).

44.4 Credit risk

Credit risk arises in Erste Group's traditional lending and investment businesses. It involves losses incurred as a result of default by borrowers and the need to set aside allowances as a result of the deteriorating credit quality of certain borrowers as well as due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk is also recognised in the calculation of credit risk. Operative credit decisions are made by the credit risk management units in each of the banking subsidiaries locally and by Group Credit Risk Management at group level. A detailed explanation of the role and responsibilities of Group Credit Risk Management is covered in section 'Risk management organisation'.

In contrary to large corporates, banks and governments managing credit risk in retail involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs or to micro companies in line with the Basel definitions. Credit risk related to retail loan portfolios is managed at group and at local entity with a common interest to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities supported by underlying profitability.

The central database used for credit risk management is the Business Intelligence data warehouse (BI-DWH). All data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement is regularly loaded into this database. Relevant subsidiaries not yet integrated into the Group data pool regularly deliver reporting packages.

The Risk Monitoring and Reporting department uses mainly the BI-DWH for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across Erste Group as a whole. Credit risk reporting comprises regular reports on Erste Group's credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management boards of Erste Group Bank AG as well as the risk managers, business unit directors and internal audit staff.

The unit Corporate Portfolio Monitoring & Management, which is part of Group Credit Risk Management, is in charge of operating, supervising and continuously improving the group-wide online limit system for the control of counterparty credit risk arising from treasury transactions, as well as for the monitoring of credit risk from exposures in the asset classes corporates, financial institutions and sovereigns.

Internal rating system

Erste Group has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at a minimum on an annual basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within Erste Group is based on the customer's probability of default (PD). For each credit exposure and lending decision, Erste Group assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review). Ratings of workout customers are reviewed with higher frequency.

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. Internal ratings also determine the level of credit-approval authority within Erste Group and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, risk allowances and risk-weighted assets under Pillar 1 or 2.

For entities of Erste Group that use the internal ratings-based (IRB) approach, internal ratings are a key input into the risk-weighted assets calculation. They are also used in the group's assessment of the economic capital requirement according to Pillar 2. For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within a calibration process that is performed individually for each rating method and each regional portfolio. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade. The bank assigns margins of conservatism to the calculated PDs.

Internal ratings take into account all available significant information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment behaviour versus the bank and, where applicable, credit bureau information, supplemented with information provided by the respective client and general demographic information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and the country of main economic activity (applicable to cross-border financing facilities).

Internal specialist teams develop and improve internal rating models and risk parameters in cooperation with risk managers. Model development follows an internal group-wide methodological standard and utilises relevant data covering the respective market. In this way, Erste Group ensures the availability of rating models with the best possible prediction across its core regions.

All rating models and their components (scorecards), whether retail or non-retail, are regularly validated by the central validation unit based on a group-wide standard methodology. Validation uses statistical techniques to evaluate the accuracy of default prediction, rating stability, data quality, completeness and relevance and reviews the quality of documentation and degree of user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the group applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

A Holding Model Committee (HMC) is established as the primary steering and control body for the model development and validation process and is a delegated committee of the Group Risk Executive Committee (GREC). All new models, model changes, and changes to risk parameters in the group as well as group-wide methodology standards are reviewed by the Holding Model Committee and require its approval. This ensures group-wide integrity and consistency of models and methodologies. Furthermore, the Holding Model Committee organises the group-wide validation process, reviews validation results and approves remedial actions. All development and validation activities are coordinated by the Credit Risk Models division.

Risk grades and categories

The classification of credit assets into risk grades is based on Erste Group's internal ratings. Erste Group uses two internal risk scales for risk classification of non-defaulted customer:

- a risk scale of 8 risk grades for private clients and
- a risk scale of 13 risk grades for all other segments.

Defaulted customers are classified into a separate risk grade.

For the purpose of aggregated portfolio reporting, internal rating grades of Erste Group are grouped into the following four risk categories:

Low risk. Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention. Vulnerable non-retail clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard. The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing. One or more of the default criteria under Article 178 of the CRR are met: among others, full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. Erste Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.

Credit risk review and monitoring

In order to manage the credit risk for large corporates, banks, sovereigns and country risk, credit limits are established to reflect the maximum exposure that Erste Group is willing to have towards a particular customer or group of connected clients. An upper boundary for such limits is given by the entity-specific maximum lending limit (MLL), which is derived from the respective group and local Risk Appetite Statement (RAS). All credit limits and the transactions booked within the limits are reviewed at least once a year. During the year, early warning signals are monitored continuously. In case of adverse developments, the exposure strategy is reviewed immediately and adapted accordingly.

Credit portfolio reports for asset classes and business lines are prepared on a regular basis and a group-wide early warning system was introduced. Watch-list meetings and remedial committee meetings are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures to help a particular debtor avoid default.

For smaller enterprises (micro) and retail customers, the monitoring and credit review are based on an automated early warning system. In retail risk management the early warning signals for adverse portfolio developments include, for instance, a quality deterioration in new business or a decreasing collections effectiveness and require appropriate countermeasures.

The early warning signals are monitored at group level by Group Credit Risk Management and at subsidiary level by the local units for retail risk and collections management. Adverse developments identified during the monitoring are discussed and the need for risk mitigation is addressed jointly.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances - other demand deposits;
- financial assets - held for trading (without equity instruments);
- financial assets - at fair value through profit or loss (without equity instruments);
- financial assets - available for sale (without equity instruments);
- financial assets - held to maturity;
- loans and receivables to credit institutions;
- loans and receivables to customers;
- positive fair value of derivatives;
- off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:

- account loan loss allowances;
- provisions for guarantees;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

Between 31 December 2016 and 31 December 2017, the credit risk exposure increased from EUR 214,938 million to EUR 226,172 million. This is an increase of 5.2% or EUR 11,234 million.

Reconciliation between the gross carrying amount and the carrying amount of the separate components of the credit risk exposure

in EUR million	Gross carrying amount	Credit risk provisions	Carrying amount
As of 31 December 2017			
Cash and cash balances – other demand deposits	1,028	0	1,028
Loans and receivables to credit institutions	9,133	7	9,126
Loans and receivables to customers	143,509	3,977	139,532
Financial assets - held to maturity	19,804	3	19,800
Financial assets - held for trading	2,887	-	2,887
Financial assets - at fair value through profit or loss	403	-	403
Financial assets - available for sale	14,896	-	14,896
Positive fair value of derivatives	4,217	-	4,217
Contingent liabilities	30,295	323	-
Total	**226,172**	**4,310**	**191,890**
As of 31 December 2016			
Cash and cash balances – other demand deposits	1,282	0	1,282
Loans and receivables to credit institutions	3,478	8	3,469
Loans and receivables to customers	135,267	4,613	130,654
Financial assets - held to maturity	19,274	4	19,270
Financial assets - held for trading	3,396	-	3,396
Financial assets - at fair value through profit or loss	336	-	336
Financial assets - available for sale	18,522	-	18,522
Positive fair value of derivatives	5,899	-	5,899
Contingent liabilities	27,484	338	-
Total	**214,938**	**4,963**	**182,829**

The gross carrying amount of contingent liabilities refers to the nominal value, while credit risk provisions refer to provisions for guarantees. A carrying amount is not presented in the case of contingent liabilities.

Breakdown of credit risk exposure

On the next pages the credit risk volume is categorized in the following way:

- Basel 3 exposure class and financial instrument;
- contingent liabilities by product;
- industry and financial instrument;
- risk category;
- industry and risk category;
- region and risk category;
- business segment and risk category;
- geographical segment and risk category;
- non-performing credit risk exposure by business segment and credit risk provisions;
- non-performing credit risk exposure by geographical segment and credit risk provisions;
- composition of allowances;
- credit risk exposure, forbearance exposure, and credit risk provisions;
- types of forbearance exposure, the development of forbearance exposure, and credit risk provisions;
- credit quality of forbearance exposure by geographical segments;
- business segment and collateral;
- geographical segment and collateral;
- financial instrument and collateral;
- past due and not covered by specific allowances by financial instruments and collateralisation.

Credit risk exposure by Basel 3 exposure class and financial instrument

The assignment of obligors to Basel 3 exposure classes is based on legal requirements. For reasons of clarity, individual Basel 3 exposure classes are aggregated in the tables below. In addition to central governments, central banks, international organisations, and multinational development banks, the aggregated exposure class 'sovereigns' contains regional and local governments as well as public sector entities. Institutions include banks and recognised investment firms.

				Debt securities						
	Cash and cash balances – other demand deposits	Loans and receivables to credit institutions	Loans and receivables to customers	Financial assets - held to maturity	Financial assets - held for trading	Financial assets - at fair value through profit or loss	Financial assets - available for sale	Positive fair value of derivatives	Contingent liabilities	Total credit risk exposure
in EUR million		At amortised cost			At fair value					
As of 31 Dec 2017										
Sovereigns	8	5,893	6,557	18,743	2,242	79	11,495	282	1,296	46,595
Institutions	997	2,988	726	807	467	137	1,456	3,638	544	11,762
Corporates	23	251	62,962	254	178	186	1,946	296	20,649	86,744
Retail	0	0	73,265	0	0	0	0	1	7,806	81,071
Total	**1,028**	**9,133**	**143,509**	**19,804**	**2,887**	**403**	**14,896**	**4,217**	**30,295**	**226,172**
As of 31 Dec 2016										
Sovereigns	6	680	7,347	18,459	2,549	42	14,823	330	1,639	45,876
Institutions	1,270	2,080	149	538	467	139	1,646	5,120	251	11,659
Corporates	6	717	59,010	277	380	155	2,053	448	19,002	82,048
Retail	0	0	68,761	0	0	0	0	1	6,592	75,354
Total	**1,282**	**3,478**	**135,267**	**19,274**	**3,396**	**336**	**18,522**	**5,899**	**27,484**	**214,938**

Contingent liabilities by product

in EUR million	Dec 16	Dec 17
Financial guarantees	6,577	6,985
Irrevocable commitments	20,907	23,310
Total	**27,484**	**30,295**

Credit risk exposure by industry and financial instrument

in EUR million	Cash and cash balances – other demand deposits	Loans and receivables to credit institutions (At amortised cost)	Loans and receivables to customers (At amortised cost)	Debt securities: Financial assets - held to maturity (At amortised cost)	Debt securities: Financial assets - held for trading (At fair value)	Debt securities: Financial assets - at fair value through profit or loss (At fair value)	Debt securities: Financial assets - available for sale (At fair value)	Positive fair value of derivatives	Contingent liabilities	Total credit risk exposure
As of 31 December 2017										
Agriculture and forestry	0	0	2,642	0	0	0	0	1	295	2,937
Mining	0	0	364	0	6	0	17	1	398	787
Manufacturing	0	0	10,734	1	8	0	259	40	4,688	15,729
Energy and water supply	0	0	3,270	0	9	0	142	49	758	4,227
Construction	0	0	6,451	100	2	0	231	2	3,680	10,466
Development of building projects	0	0	3,834	0	1	0	8	1	1,156	5,001
Trade	0	0	8,298	0	0	0	56	9	2,995	11,358
Transport and communication	0	0	3,913	135	58	0	1,013	36	1,746	6,901
Hotels and restaurants	0	0	3,709	0	0	0	1	4	554	4,269
Financial and insurance services	1,027	9,094	3,789	1,411	548	335	2,657	3,802	1,806	24,468
Holding companies	0	0	1,718	41	12	0	160	5	523	2,458
Real estate and housing	0	0	23,121	32	31	0	78	66	3,282	26,610
Services	0	1	8,375	31	60	0	338	39	2,782	11,626
Public administration	0	34	5,713	18,067	2,165	68	9,788	160	1,065	37,060
Education, health and art	0	0	2,813	0	0	0	7	8	403	3,232
Private households	0	0	60,298	0	0	0	0	0	5,555	65,854
Other	1	3	19	27	2	0	307	0	288	648
Total	**1,028**	**9,133**	**143,509**	**19,804**	**2,887**	**403**	**14,896**	**4,217**	**30,295**	**226,172**
As of 31 December 2016										
Agriculture and forestry	0	0	2,367	0	0	0	0	4	268	2,638
Mining	0	0	435	0	6	0	17	0	421	880
Manufacturing	0	0	10,089	1	18	0	262	98	4,428	14,895
Energy and water supply	0	0	3,032	0	10	0	120	62	617	3,841
Construction	0	0	6,236	150	1	0	283	8	3,323	10,002
Development of building projects	0	0	3,567	0	0	0	8	3	975	4,553
Trade	0	0	7,912	0	0	0	29	14	2,990	10,945
Transport and communication	0	0	3,622	145	55	0	1,060	35	1,694	6,612
Hotels and restaurants	0	0	3,699	6	0	0	2	6	481	4,193
Financial and insurance services	1,282	3,473	3,833	1,187	904	305	3,603	5,254	1,756	21,596
Holding companies	0	0	1,975	19	19	0	151	13	557	2,734
Real estate and housing	0	0	21,842	24	21	0	146	155	2,348	24,535
Services	0	2	7,044	46	50	0	311	50	2,468	9,971
Public administration	0	0	6,004	17,700	2,322	31	12,330	174	1,375	39,935
Education, health and art	0	0	2,704	0	0	0	3	12	416	3,136
Private households	0	0	56,415	0	0	0	0	1	4,621	61,037
Other	0	3	33	15	9	0	358	27	278	723
Total	**1,282**	**3,478**	**135,267**	**19,274**	**3,396**	**336**	**18,522**	**5,899**	**27,484**	**214,938**

Credit risk exposure by risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 December 2017	**200,788**	**16,904**	**2,207**	**6,273**	**226,172**
Share of credit risk exposure	88.8%	7.5%	1.0%	2.8%	
As of 31 December 2016	**188,031**	**17,733**	**2,072**	**7,102**	**214,938**
Share of credit risk exposure	87.5%	8.3%	1.0%	3.3%	
Change in credit risk exposure	12,757	-829	135	-829	11,234
Change	6.8%	-4.7%	6.5%	-11.7%	5.2%

From 31 December 2016 to 31 December 2017, the share of credit risk exposure in the low risk category increased significantly. Non-performing claims as a percentage of total credit risk exposure (NPE ratio) decreased from 3.3% to 2.8%. During the year 2017, the combined proportion of the two weakest risk categories, substandard and non-performing, declined by 0.5 percentage points from 4.3% to 3.8% of total credit risk exposure.

Credit risk exposure by industry and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 December 2017					
Agriculture and forestry	2,207	487	41	202	2,937
Mining	690	30	6	61	787
Manufacturing	13,541	1,363	228	597	15,729
Energy and water supply	3,684	392	34	118	4,227
Construction	8,514	1,126	261	564	10,466
Development of building projects	4,351	475	24	151	5,001
Trade	8,956	1,420	183	798	11,358
Transport and communication	6,140	551	79	131	6,901
Hotels and restaurants	2,945	873	91	360	4,269
Financial and insurance services	23,333	887	83	165	24,468
Holding companies	2,183	113	30	131	2,458
Real estate and housing	23,150	2,532	230	698	26,610
Services	9,865	1,156	126	479	11,626
Public administration	36,833	217	1	9	37,060
Education, health and art	2,514	477	23	219	3,232
Private households	58,056	5,387	539	1,872	65,854
Other	359	5	284	0	648
Total	**200,788**	**16,904**	**2,207**	**6,273**	**226,172**
As of 31 December 2016					
Agriculture and forestry	1,966	495	28	149	2,638
Mining	704	60	4	112	880
Manufacturing	12,422	1,389	190	895	14,895
Energy and water supply	3,352	351	29	111	3,843
Construction	7,994	1,251	100	657	10,002
Development of building projects	3,875	437	20	220	4,553
Trade	8,524	1,568	160	693	10,945
Transport and communication	5,957	455	36	164	6,612
Hotels and restaurants	2,787	852	150	405	4,193
Financial and insurance services	20,503	881	61	146	21,592
Holding companies	2,453	126	41	114	2,734
Real estate and housing	20,563	2,770	238	966	24,537
Services	8,397	1,069	140	354	9,960
Public administration	39,403	500	7	24	39,935
Education, health and art	2,433	431	28	244	3,136
Private households	52,632	5,658	574	2,174	61,037
Other	393	1	330	10	734
Total	**188,031**	**17,733**	**2,072**	**7,102**	**214,938**

Credit risk exposure by region and risk category

The geographic analysis of credit exposure is based on the country of risk of the borrower and counterparty. It comprises obligors domiciled in other countries if the economic risk exists in the respective country of risk. The distribution by regions differs from the composition of the credit risk exposure by geographical segments of Erste Group.

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 December 2017					
Core markets	**175,189**	**14,952**	**1,990**	**5,698**	**197,828**
Austria	87,413	7,659	1,268	2,291	98,631
Croatia	7,281	920	144	930	9,275
Romania	12,477	1,744	139	753	15,114
Serbia	1,615	135	7	84	1,843
Slovakia	17,095	1,161	67	595	18,918
Czech Republic	41,016	2,725	258	785	44,784
Hungary	8,291	607	106	260	9,264
Other EU	**18,842**	**1,205**	**176**	**404**	**20,627**
Other industrialised countries	**3,809**	**137**	**9**	**51**	**4,007**
Emerging markets	**2,949**	**610**	**32**	**119**	**3,710**
South-Eastern Europe/CIS	1,492	418	26	99	2,035
Asia	856	104	3	0	963
Latin America	50	26	1	15	92
Middle East/Africa	551	62	2	5	620
Total	**200,788**	**16,904**	**2,207**	**6,273**	**226,172**

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 December 2016					
Core markets	**160,052**	**15,679**	**1,914**	**6,409**	**184,055**
Austria	84,766	8,035	1,233	2,400	96,435
Croatia	7,075	1,035	142	821	9,073
Romania	12,059	1,891	82	1,058	15,090
Serbia	865	410	12	138	1,425
Slovakia	16,282	1,184	128	629	18,222
Czech Republic	32,414	2,441	177	910	35,942
Hungary	6,592	683	140	453	7,868
Other EU	**20,744**	**1,299**	**91**	**455**	**22,590**
Other industrialised countries	**4,176**	**167**	**5**	**58**	**4,406**
Emerging markets	**3,059**	**588**	**61**	**180**	**3,888**
South-Eastern Europe/CIS	1,400	376	54	156	1,986
Asia	1,099	124	4	0	1,228
Latin America	61	33	2	18	114
Middle East/Africa	499	54	1	6	560
Total	**188,031**	**17,733**	**2,072**	**7,102**	**214,938**

The credit risk exposure increased by EUR 2,196 million, or 2.3% in Austria, and by EUR 11,577 million, or 13.2%, in the CEE core markets. In the other EU member states (EU 28 excluding core markets), the credit risk exposure declined by EUR 1,963 million, or 8.7%, from EUR 22,590 million to EUR 20,627 million between the two balance sheet dates. A decrease was also recorded in other industrialised countries (EUR -399 million) and in emerging markets (EUR -178 million). In total, Erste Group's core markets and the EU accounted for 96.6% (2016: 96.1%) of credit risk exposure as of 31 December 2017. At 1.6% (2016: 1.8%), the share of emerging markets remained of minor importance.

Credit risk exposure by reporting segment and risk category

The segment reporting of Erste Group is based on the matrix organisation by business segment as well as by geographical segment. The geographical segmentation follows the country markets in which Erste Group operates and the locations of the banking and other financial institutions participations.

Credit risk exposure by business segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 December 2017					
Retail	51,988	5,475	522	1,723	59,708
Corporates	56,366	4,529	579	2,641	64,114
Group Markets	15,515	372	31	3	15,921
Asset/Liability Management and Local Corporate Center	28,183	96	185	15	28,479
Savings Banks	48,683	6,321	801	1,891	57,696
Group Corporate Center	54	109	90	1	254
Total	**200,788**	**16,904**	**2,207**	**6,273**	**226,172**
As of 31 December 2016					
Retail	46,061	5,428	512	1,971	53,972
Corporates	53,019	4,906	438	3,048	61,411
Group Markets	14,839	664	36	4	15,542
Asset/Liability Management and Local Corporate Center	27,234	260	173	16	27,682
Savings Banks	46,827	6,384	849	2,062	56,122
Group Corporate Center	51	91	65	1	208
Total	**188,031**	**17,733**	**2,072**	**7,102**	**214,938**

Credit risk exposure by geographical segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 December 2017					
Austria	**111,426**	**9,675**	**1,352**	**3,397**	**125,849**
Erste Bank Oesterreich & Subsidiaries	35,681	2,523	444	681	39,329
Savings Banks	48,683	6,321	801	1,891	57,696
Other Austria	27,062	830	106	825	28,823
Central and Eastern Europe	**84,561**	**7,120**	**766**	**2,851**	**95,298**
Czech Republic	41,616	2,741	254	575	45,186
Romania	11,411	1,753	182	729	14,076
Slovakia	15,641	1,110	63	507	17,320
Hungary	7,094	461	105	215	7,875
Croatia	7,433	961	154	792	9,341
Serbia	1,365	94	7	33	1,500
Other	**4,801**	**109**	**90**	**25**	**5,025**
Total	**200,788**	**16,904**	**2,207**	**6,273**	**226,172**
As of 31 December 2016					
Austria	**109,040**	**10,272**	**1,362**	**3,616**	**124,291**
Erste Bank Oesterreich & Subsidiaries	35,090	2,713	394	827	39,025
Savings Banks	46,827	6,384	849	2,062	56,122
Other Austria	27,123	1,174	119	727	29,144
Central and Eastern Europe	**71,867**	**7,364**	**645**	**3,453**	**83,329**
Czech Republic	33,144	2,509	146	747	36,546
Romania	11,071	1,937	81	1,010	14,097
Slovakia	14,032	1,035	132	525	15,723
Hungary	5,660	544	111	396	6,711
Croatia	7,167	978	164	717	9,025
Serbia	794	362	12	59	1,227
Other	**7,124**	**96**	**65**	**33**	**7,318**
Total	**188,031**	**17,733**	**2,072**	**7,102**	**214,938**

Non-performing credit risk exposure and credit risk provisions

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection 'Internal rating system'. Credit risk provisions include specific and collective allowances and provisions for guarantees.

Credit risk allowances (specific and collective allowances) and provisions for guarantees covered 68.7% (2016: 69.9%) of the reported non-performing credit risk exposure as of 31 December 2017. For the portion of the non-performing credit risk exposure that is not covered by allowances, Erste Group assumes there are sufficient levels of collateral and expected other recoveries.

During 2017, the non-performing credit risk exposure decreased by EUR 829 million, or 11.7%, from EUR 7,102 million to EUR 6,273 million. The substantial improvement of asset quality resulted on the one side from a strong decline of new non-performing loans, and on the other side from high recoveries and write-offs, including from sales of non-performing loans. The credit risk allowances for loans and advances together with provisions for guarantees decreased by EUR 653 million, or 13.2%, from EUR 4,963 million as of 31 December 2016 to EUR 4,310 million as of 31 December 2017. This development resulted in a decrease of 1.2 percentage points in the coverage of the non-performing credit risk exposure by credit risk provisions.

The following tables show the coverage of the non-performing credit risk exposure by credit risk provisions (without taking into consideration collateral) as of 31 December 2017 and 31 December 2016. The differences in provisioning levels between the reporting segments result from the risk situation in the respective markets, different levels of collateralisation as well as the local legal environment and regulatory requirements.

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk exposure while the NPE coverage ratio (excl. collateral) is computed as the credit risk provisions divided by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Non-performing credit risk exposure by business segment and credit risk provisions

	Total credit risk exposure						
in EUR million	Non-performing	Total credit risk exposure	Total credit risk provisions	Specific allowances & provisions	Collective allowances & provisions	NPE ratio	NPE coverage ratio (excl. collateral)
As of 31 December 2017							
Retail	1,723	59,708	1,349	1,081	267	2.9%	78.3%
Corporates	2,641	64,114	1,798	1,421	377	4.1%	68.1%
Group Markets	3	15,921	7	2	5	0.0%	266.0%
Asset/Liability Management and Local Corporate Center	15	28,479	44	12	32	0.1%	302.3%
Savings Banks	1,891	57,696	1,112	923	188	3.3%	58.8%
Group Corporate Center	1	254	0	0	0	0.3%	16.8%
Total	**6,273**	**226,172**	**4,310**	**3,440**	**870**	**2.8%**	**68.7%**
As of 31 December 2016							
Retail	1,971	53,972	1,489	1,195	294	3.7%	75.5%
Corporates	3,048	61,411	2,201	1,843	358	5.0%	72.2%
Group Markets	4	15,542	12	2	10	0.0%	300.0%
Asset/Liability Management and Local Corporate Center	16	27,682	33	7	26	0.1%	206.3%
Savings Banks	2,062	56,122	1,225	1,033	192	3.7%	59.4%
Group Corporate Center	1	208	4	0	4	0.5%	400.0%
Total	**7,102**	**214,938**	**4,963**	**4,080**	**884**	**3.3%**	**69.9%**

Non-performing credit risk exposure by geographical segment and credit risk provisions

in EUR million	Total credit risk exposure: Non-performing	Total credit risk exposure: Total credit risk exposure	Total credit risk provisions	Specific allowances & provisions	Collective allowances & provisions	NPE ratio	NPE coverage ratio (excl. collateral)
As of 31 December 2017							
Austria	**3,397**	**125,849**	**1,917**	**1,602**	**316**	**2.7%**	**56.5%**
Erste Bank Oesterreich & Subsidiaries	681	39,329	400	329	71	1.7%	58.7%
Savings Banks	1,891	57,696	1,112	923	188	3.3%	58.8%
Other Austria	825	28,823	406	350	56	2.9%	49.2%
Central and Eastern Europe	**2,851**	**95,298**	**2,375**	**1,826**	**549**	**3.0%**	**83.3%**
Czech Republic	575	45,186	518	381	137	1.3%	90.0%
Romania	729	14,076	663	505	158	5.2%	90.9%
Slovakia	507	17,320	380	298	82	2.9%	75.1%
Hungary	215	7,875	198	126	72	2.7%	92.1%
Croatia	792	9,341	577	493	84	8.5%	72.8%
Serbia	33	1,500	39	23	16	2.2%	119.5%
Other	**25**	**5,025**	17	**12**	**5**	**0.5%**	**69.4%**
Total	**6,273**	**226,172**	**4,310**	**3,440**	**870**	**2.8%**	**68.7%**
As of 31 December 2016							
Austria	**3,616**	**124,291**	**2,211**	**1,854**	**357**	**2.9%**	**61.1%**
Erste Bank Oesterreich & Subsidiaries	827	39,025	504	419	85	2.1%	60.9%
Savings Banks	2,062	56,122	1,225	1,033	192	3.7%	59.4%
Other Austria	727	29,144	482	402	80	2.5%	66.3%
Central and Eastern Europe	**3,453**	**83,329**	**2,714**	**2,195**	**519**	**4.1%**	**78.6%**
Czech Republic	747	36,546	603	482	121	2.0%	80.7%
Romania	1,010	14,097	844	697	147	7.2%	83.6%
Slovakia	525	15,723	355	255	100	3.3%	67.6%
Hungary	396	6,711	324	269	55	5.9%	81.8%
Croatia	717	9,025	531	450	81	7.9%	74.1%
Serbia	59	1,227	58	42	16	4.8%	98.3%
Other	**33**	**7,318**	**39**	**32**	**7**	**0.5%**	**118.2%**
Total	**7,102**	**214,938**	**4,963**	**4,080**	**884**	**3.3%**	**69.9%**

The general principles and standards for credit risk provisions within Erste Group are described in the internal policies. Credit risk provisions are calculated:

_ for financial assets carried at amortised cost (loans and receivables, financial assets held to maturity) in accordance with IAS 39 and
_ for contingent liabilities (financial guarantees, loan commitments) in accordance with IAS 37.

Credit risk provisions are created in a process performed on customer level. The process includes the identification of default and impairment and the type of assessment (individual or collective) to be applied. 'On customer level' means in this context that if one of the customer's exposures is classified as defaulted, typically all of this customer's exposures are classified as defaulted. Depending on the characteristics of the exposure and the respective expected cash flows (e.g. considering collateral), some exposures may not be impaired.

The bank distinguishes between two types of allowances:

_ specific allowances calculated for exposures to defaulted customers that are deemed to be impaired and
_ collective allowances (allowances for incurred but not reported losses) calculated for exposures to non-defaulted customers or defaulted customers that are not deemed to be impaired.

For the calculation of specific allowances, the discounted cash flow method is applied. This means that a difference between gross carrying amount and net present value (NPV) of the expected cash flows leads to an impairment and defines the amount of any allowance requirement. All estimated interest and redemption payments as well as estimated collateral recoveries and costs for selling and obtaining collateral are considered as expected cash flows. The effective interest rate is used as the discount rate in the calculation of the NPV of the expected cash flows.

The calculation of specific allowances is performed either on an individual basis or as a collective assessment (rule-based approach). In the case of significant customers, expected cash flows are estimated individually by workout or risk managers. A customer is considered as significant if the total exposure defined as the sum of all on- and off-balance-sheet exposures exceeds a defined materiality limit. Otherwise, the customer is considered as insignificant and a rule-based approach is used for the calculation of the specific allowance.

Under this approach, specific allowances are calculated as the product of carrying amount and loss given default (LGD), where LGD depends on relevant characteristics such as time in default or the stage of the workout process.

Collective allowances are calculated on on-balance and off-balance sheet exposures to non-defaulted customers for which a default has not been detected or reported. The level of collective allowances depends on the gross carrying amount, the probability of default (PD), the loss given default (LGD), the credit conversion factors (CCF) in case of off-balance-sheet exposures, and the loss identification period (LIP). The LIP corresponds to the average period between the occurrence and the detection of the loss and ranges from four months to one year. The result of discounting future cash flows to their present values is taken into consideration in the LGD calculation.

Generally, risk parameters used in the calculation of collective allowances may be different to the Basel 3 Pillar 1 or Pillar 2 risk parameters if the properties of the respective portfolio in combination with IAS/IFRS standards necessitate this.

Collective allowances are also calculated in case of exposures to defaulted customers that are not identified as impaired. For these customers, no specific allowances are allocated. Collective allowances are calculated based on the historical loss experience for the relevant customer segment.

Erste Group regularly reviews its specific and collective allowances. These exercises comprise the parameters and methodologies used in its provision calculation. In 2017, adjustments took place in the context of changes in underlying processes (e.g. local implementation of Group Default Definition policy) and routine maintenance of parameters (e.g. regular calibration) or rating models.

Composition of credit risk provisions

in EUR million	Dec 16	Dec 17
Specific allowances	3,889	3,274
Collective allowances	736	713
Provisions for guarantees	338	323
Total	**4,963**	**4,310**

Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principal amount due or a combination thereof. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the bank's valuable, good clientele.

Forbearance

The definition of 'forbearance' is included in Regulation (EU) 2015/227. A restructuring is considered 'forbearance' if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments. A borrower is in financial difficulties if any of the following conditions are met:

- the customer was more than 30 days past due in the past 3 months;
- the customer would be 30 days past due or more without receiving forbearance;
- the customer is in default;
- the modified contract was classified as non-performing or would be non-performing without forbearance;
- the contract modification involves total or partial cancellation by write-off of the debt on any of the customer's credit obligations while at customer level open credit exposure still remains.

Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:
- _ modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- _ there is a difference in favour of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- _ the modified/refinanced contract includes more favourable terms than other customers with a similar risk profile would have obtained from the same institution.

Forbearance can be initiated by the bank or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.

Forbearance measures are divided and reported as:
- _ performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance) and
- _ non-performing forbearance (incl. non-performing forbearance and defaulted/impaired forbearance).

Forborne exposures are considered performing when:
- _ the exposure did not have non-performing status at the time the extension of or application for forbearance was approved and
- _ granting the forbearance has not led to classifying the exposure as non-performing or default.

Performing forborne exposures become non-performing when during the monitoring period of a minimum of two years one of the following forbearance classifications is fulfilled:
- _ an additional forbearance measure is extended and in the past the customer was in the non-performing forbearance category;
- _ the customer becomes more than 30 days past due on forborne exposure and in the past the customer was in the non-performing forbearance category;
- _ the customer meets any of the default event criteria defined in the default definition;
- _ for corporate customers, when a final restructuring agreement cannot be concluded within 18 months after the first forbearance measure.

The performing forbearance classification can be discontinued and the account can become a non-forborne account when all of the following conditions are met:
- _ a minimum of two years have passed from the date of classifying the exposure as performing forbearance (probation period);
- _ under the forborne payment plan, at least 50% of the original (pre-forbearance) instalment has been regularly repaid at least during half of the probation period (in the case of retail customers);
- _ regular repayments in a significant amount during at least half of the probation period have been made (in the case of corporate customers);
- _ none of the exposure of the customer is more than 30 days past due at the end of the probation period.

The non-performing forbearance classification can be discontinued and reclassified as performing under probation when all of the following conditions are met:
- _ one year has passed from the date of classifying the exposure as non-performing forbearance;
- _ the forbearance has not led the exposure to be classified as non-performing;
- _ retail customers: the customer has demonstrated the ability to comply with the post-forbearance conditions by either of the following:
  - _ the customer has never been more than 30 days past due during the last 6 months and there is no delinquent amount;
  - _ the customer has repaid the full past due amount or the written-off amount (if there was any).
- _ corporate customer: analysis of the financial development, which leaves no concern about future compliance with post-forbearance terms and conditions. Furthermore, the customer has never been more than 30 days past due during the monitoring period and there is no delinquent amount.

In the corporate segment, recognition of forbearance measures typically leads to the involvement of the responsible local workout unit. The largest part of the forbearance measures are set within the responsibility of the local workout units and the affected clients are managed and monitored according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as trigger events for carrying out impairment tests according to the internal regulations and standards based on the IFRS requirements.

Credit risk exposure, forbearance exposure and credit risk provisions

in EUR million	Loans and receivables	Financial assets	Other balance-sheet positions	Contingent liabilities	Total
As of 31 December 2017					
Gross exposure	**152,642**	**37,990**	**5,245**	**30,295**	**226,172**
thereof gross forborne exposure	3,033	0	0	178	3,210
Performing exposure	146,863	37,985	5,244	29,807	219,899
thereof performing forborne exposure	1,188	0	0	36	1,224
Credit risk provisions for performing exposure	710	3	0	141	854
thereof credit risk provisions for performing forborne exposure	42	0	0	0	43
Non-performing exposure	5,778	5	2	488	6,273
thereof non-performing forborne exposure	1,845	0	0	142	1,986
Credit risk provisions for non-performing exposure	3,274	0	0	181	3,455
thereof credit risk provisions for non-performing forborne exposure	929	0	0	14	944
As of 31 December 2016					
Gross exposure	**138,745**	**41,528**	**7,181**	**27,484**	**214,938**
thereof gross forborne exposure	3,370	0	0	123	3,493
Performing exposure	132,064	41,527	7,176	27,068	207,836
thereof performing forborne exposure	1,356	0	0	43	1,399
Credit risk provisions for performing exposure	703	4	0	131	838
thereof credit risk provisions for performing forborne exposure	48	0	0	1	49
Non-performing exposure	6,680	1	5	416	7,102
thereof non-performing forborne exposure	2,014	0	0	79	2,094
Credit risk provisions for non-performing exposure	3,918	0	0	208	4,126
thereof credit risk provisions for non-performing forborne exposure	990	0	0	13	1,003

Types of forbearance exposure

in EUR million	Gross forborne exposure	Modification in terms and conditions	Refinancing
As of 31 December 2017			
Loans and receivables	3,033	2,730	302
Financial assets	0	0	0
Contingent liabilities	178	159	18
Total	**3,210**	**2,890**	**321**
As of 31 December 2016			
Loans and receivables	3,370	3,066	304
Financial assets	0	0	0
Contingent liabilities	123	105	17
Total	**3,493**	**3,171**	**322**

Credit quality of forbearance exposure by geographical segment

in EUR million	Gross forborne exposure	Neither past due nor impaired	Past due but not impaired	Impaired	Collateral	Credit risk provisions
As of 31 December 2017						
Austria	**1,847**	**771**	**51**	**1,025**	**914**	**488**
Erste Bank Oesterreich & Subsidiaries	371	188	12	171	207	74
Savings Banks	1,041	481	39	521	581	250
Other Austria	434	102	0	332	126	164
Central and Eastern Europe	**1,364**	**513**	**56**	**795**	**391**	**498**
Czech Republic	160	53	8	98	43	60
Romania	633	311	12	310	123	223
Slovakia	294	72	12	211	141	109
Hungary	71	37	8	26	34	18
Croatia	189	37	15	137	46	78
Serbia	17	3	1	14	4	10
Other	**0**	**0**	**0**	**0**	**0**	**0**
Total	**3,210**	**1,283**	**107**	**1,820**	**1,304**	**986**
As of 31 December 2016						
Austria	**1,910**	**880**	**58**	**973**	**998**	**516**
Erste Bank Oesterreich & Subsidiaries	410	226	13	171	236	101
Savings Banks	1,041	521	45	475	645	220
Other Austria	460	133	0	327	117	195
Central and Eastern Europe	**1,583**	**697**	**58**	**828**	**701**	**536**
Czech Republic	224	86	0	138	69	85
Romania	657	346	19	292	309	201
Slovakia	332	130	15	187	206	117
Hungary	142	76	8	58	48	47
Croatia	205	55	14	136	62	73
Serbia	23	4	2	17	6	12
Other	**0**	**0**	**0**	**0**	**0**	**0**
Total	**3,493**	**1,577**	**116**	**1,801**	**1,699**	**1,052**

Collaterals

Recognition of collateral

The Collateral Management department is a staff unit within the Group Workout division. The Group Collateral Management Policy defines, among other things, uniform valuation standards for credit collateral across the entire group. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All collateral types acceptable within the group are contained in the Group Collateral Catalogue. Locally permitted collateral is defined by the respective bank in accordance with applicable national legal provisions. The valuation and revaluation of collateral is done according to the principles defined in the Group Collateral Catalogue broken down by collateral type and based on the internal work instructions in accordance with the individual supervisory requirements. Whether a type of collateral or a specific collateral asset is accepted for credit risk mitigation is decided by Enterprise-wide Risk Management after determining if the applicable regulatory requirements are met. Credit underwriting monitors adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available.

Main types of collateral

The following types of collateral are accepted:
- real estate: residential and commercial real estate;
- financial collateral: securities, cash deposits and life insurance policies;
- guarantees: given by sovereigns, public sector entities, financial institutes, companies and individuals. All guarantors must have a minimum credit rating, which is reviewed annually.
- movables: equipment, investment goods, machineries and motor vehicles;
- claims and rights: account receivables of trade, leasehold rights and shares in a company's capital.

Protection by credit default swaps is only marginally used in the banking book.

Collateral valuation and management

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and their IT-supported technical application is performed by Collateral Management at group level and by authorised staff in each country with the assistance of software applications. The allocated collateral values are capped by the amount of the secured transaction. Therefore, imputed excess collateral values are not possible. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined. For quality assurance purposes, the real estate evaluation mechanism and real estate valuations itself are validated on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on recoveries from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries.

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software applications. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry, or type of collateral. Erste Group is a retail bank, and, due to its customer structure and the markets in which it operates, it does not have any concentrations with respect to collateral from customers. All guarantee liabilities and loans of a corporate guarantee provider are taken into consideration in the credit application process in order to prevent possible concentrations. Guarantees provided by sovereigns, a public sector entity or financial institutions have to lie within the approved limit of the guarantor. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, Erste Group does not occupy repossessed properties for its own business use. The main part of assets taken onto its own books is commercial land and buildings. In addition, residential real estate properties and transport vehicles are taken into Erste Group's possession. As of 31 December 2017, the carrying value of these assets amounted to EUR 167 million (2016: EUR 142 million).

The following tables compare the credit risk exposure broken down by business and geographical segments to the allocated collateral. The amount of allocated collateral corresponds to the accepted value after internal haircuts capped by the exposure amount.

Credit risk exposure by business segment and collateral

			Collateralised by			
in EUR million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
As of 31 December 2017						
Retail	59,708	33,829	1,199	30,236	2,393	25,879
Corporates	64,114	23,122	4,794	14,246	4,082	40,992
Group Markets	15,921	5,578	631	31	4,916	10,343
Asset/Liability Management and Local Corporate Center	28,479	4,366	741	2	3,624	24,112
Savings Banks	57,696	27,302	1,418	22,503	3,381	30,394
Group Corporate Center	254	18	0	0	18	235
Total	**226,172**	**94,215**	**8,783**	**67,018**	**18,414**	**131,957**
As of 31 December 2016						
Retail	53,972	31,430	1,180	28,098	2,152	22,542
Corporates	61,411	23,773	4,962	14,103	4,708	37,638
Group Markets	15,542	3,476	496	56	2,924	12,066
Asset/Liability Management and Local Corporate Center	27,682	809	686	2	121	26,873
Savings Banks	56,122	26,222	1,396	21,361	3,466	29,900
Group Corporate Center	208	19	0	2	16	189
Total	**214,938**	**85,729**	**8,720**	**63,622**	**13,387**	**129,209**

Credit risk exposure by geographical segment and collateral

in EUR million	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral
As of 31 December 2017						
Austria	**125,849**	**60,060**	**5,620**	**43,962**	**10,478**	**65,789**
Erste Bank Oesterreich & Subsidiaries	39,329	23,358	2,224	18,520	2,614	15,972
Savings Banks	57,696	27,302	1,418	22,503	3,381	30,394
Other Austria	28,823	9,401	1,978	2,940	4,483	19,423
Central and Eastern Europe	**95,298**	**33,773**	**2,830**	**23,056**	**7,887**	**61,525**
Czech Republic	45,186	16,935	811	10,083	6,041	28,251
Romania	14,076	4,075	1,138	2,365	571	10,001
Slovakia	17,320	7,279	92	6,898	289	10,041
Hungary	7,875	2,078	170	1,604	305	5,797
Croatia	9,341	2,976	605	1,766	605	6,365
Serbia	1,500	430	15	340	75	1,070
Other	**5,025**	**382**	**333**	**0**	**49**	**4,643**
Total	**226,172**	**94,215**	**8,783**	**67,018**	**18,414**	**131,957**
As of 31 December 2016						
Austria	**124,291**	**57,465**	**5,455**	**42,450**	**9,560**	**66,825**
Erste Bank Oesterreich & Subsidiaries	39,025	22,386	2,159	17,798	2,429	16,639
Savings Banks	56,122	26,222	1,396	21,361	3,466	29,900
Other Austria	29,144	8,858	1,900	3,292	3,665	20,286
Central and Eastern Europe	**83,329**	**27,766**	**2,898**	**21,169**	**3,699**	**55,563**
Czech Republic	36,546	10,294	817	8,604	874	26,252
Romania	14,097	4,949	989	2,426	1,533	9,148
Slovakia	15,723	6,974	116	6,617	241	8,749
Hungary	6,711	2,156	249	1,576	331	4,555
Croatia	9,025	2,998	697	1,673	628	6,027
Serbia	1,227	395	30	273	92	832
Other	**7,318**	**497**	**368**	**2**	**127**	**6,821**
Total	**214,938**	**85,729**	**8,720**	**63,622**	**13,387**	**129,209**

Credit risk exposure by financial instrument and collateral

in EUR million	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral	Neither past due nor impaired	Past due but not impaired	Impaired
As of 31 December 2017									
Cash and cash balances – other demand deposits	1,028	193	0	0	193	835	1,021	7	0
Loans and receivables to credit institutions	9,133	6,862	207	0	6,654	2,271	9,121	10	2
Loans and receivables to customers	143,509	80,383	6,335	64,893	9,155	63,126	135,165	2,777	5,566
Financial assets - held to maturity	19,804	362	362	0	0	19,442	19,790	14	0
Financial assets - held for trading	2,887	71	47	0	23	2,817	2,887	0	0
Financial assets - at fair value through profit or loss	403	19	19	0	0	384	403	0	0
Financial assets - available for sale	14,896	766	766	0	0	14,130	14,891	0	5
Positive fair value of derivatives	4,217	1,453	0	0	1,453	2,764	4,216	0	1
Contingent liabilities	30,295	4,107	1,046	2,125	935	26,188	29,780	194	320
Total	**226,172**	**94,215**	**8,783**	**67,018**	**18,414**	**131,957**	**217,275**	**3,002**	**5,895**
As of 31 December 2016									
Cash and cash balances – other demand deposits	1,282	320	0	0	320	961	1,274	7	0
Loans and receivables to credit institutions	3,478	952	137	0	815	2,526	3,470	5	3
Loans and receivables to customers	135,267	77,187	6,466	61,567	9,155	58,080	126,141	2,850	6,276
Financial assets - held to maturity	19,274	248	230	8	10	19,026	19,273	1	0
Financial assets - held for trading	3,396	194	45	0	150	3,202	3,396	0	0
Financial assets - at fair value through profit or loss	336	22	22	0	0	314	336	0	0
Financial assets - available for sale	18,522	855	855	0	0	17,667	18,521	1	1
Positive fair value of derivatives	5,899	1,713	0	0	1,713	4,186	5,896	0	3
Contingent liabilities	27,484	4,237	966	2,047	1,224	23,247	27,086	119	279
Total	**214,938**	**85,729**	**8,720**	**63,622**	**13,387**	**129,209**	**205,395**	**2,982**	**6,561**

In the case of contingent liabilities, the impaired credit risk exposure corresponds to positions for which provisions for credit risks were created.

Credit risk exposure past due and not covered by specific allowances by financial instrument and collateralisation

in EUR million	Total credit risk exposure						Thereof collateralised					
	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due	Total	Thereof 1-30 days past due	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
As of 31 December 2017												
Cash and cash balances – other demand deposits	7	7	0	0	0	0	0	0	0	0	0	0
Loans and receivables to credit institutions	10	6	0	0	0	3	0	0	0	0	0	0
Loans and receivables to customers	2,777	2,197	317	156	32	76	1,365	1,068	165	80	13	38
Financial assets - held to maturity	14	0	14	0	0	0	0	0	0	0	0	0
Financial assets - held for trading	0	0	0	0	0	0	0	0	0	0	0	0
Financial assets - at fair value through profit or loss	0	0	0	0	0	0	0	0	0	0	0	0
Financial assets - available for sale	0	0	0	0	0	0	0	0	0	0	0	0
Positive fair value of derivatives	0	0	0	0	0	0	0	0	0	0	0	0
Contingent liabilities	194	186	5	1	0	1	37	35	0	1	0	0
Total	**3,002**	**2,396**	**336**	**157**	**32**	**80**	**1,402**	**1,103**	**166**	**81**	**13**	38
As of 31 December 2016												
Cash and cash balances – other demand deposits	7	7	0	0	0	0	0	0	0	0	0	0
Loans and receivables to credit institutions	5	4	0	0	0	0	0	0	0	0	0	0
Loans and receivables to customers	2,850	2,096	385	208	71	90	1,579	1,101	232	144	42	60
Financial assets - held to maturity	1	0	0	0	0	1	0	0	0	0	0	0
Financial assets - held for trading	0	0	0	0	0	0	0	0	0	0	0	0
Financial assets - at fair value through profit or loss	0	0	0	0	0	0	0	0	0	0	0	0
Financial assets - available for sale	1	0	0	0	0	1	0	0	0	0	0	0
Positive fair value of derivatives	0	0	0	0	0	0	0	0	0	0	0	0
Contingent liabilities	119	112	6	1	0	0	35	32	2	0	0	0
Total	**2,982**	**2,220**	**391**	**209**	**71**	**92**	**1,614**	**1,133**	**234**	**144**	**42**	**60**

In the case of contingent liabilities, the impaired credit risk exposure corresponds to positions for which provisions for credit risks were created.

All claims presented in the table above were classified as non-performing if they were more than 90 days past due. Allowances are, as a rule, established for assets that are more than 90 days past due. However, specific allowances are not established if the loans and other receivables are covered by adequate collateral.

Loans and receivables to customers

This section presents the customer loan book excluding loans to financial institutions and commitments. The results depicted in the tables below are divided by reporting segment and risk category.

Breakdown of loans and receivables to customers

On the following pages the loans and receivables to customers are categorized as:
_ business segment and risk category;
_ geographical segment and risk category;
_ Non-performing loans and receivables to customers by business segment and coverage by loan loss allowances and collateral;
_ Non-performing loans and receivables to customers by geographical segment and coverage by loan loss allowances and collateral;
_ business segment and currency;
_ geographical segment and currency.

Loans and receivables to customers by business segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Gross customer loans
As of 31 December 2017					
Retail	45,516	5,025	501	1,691	52,734
Corporates	40,790	3,729	417	2,312	47,249
Group Markets	933	231	5	0	1,169
Asset/Liability Management and Local Corporate Center	111	30	51	14	206
Savings Banks	34,551	5,159	654	1,758	42,122
Group Corporate Center	20	4	5	1	30
Total	**121,921**	**14,179**	**1,633**	**5,776**	**143,509**
As of 31 December 2016					
Retail	41,013	5,034	487	1,946	48,480
Corporates	37,692	3,956	334	2,738	44,720
Group Markets	975	285	5	0	1,265
Asset/Liability Management and Local Corporate Center	97	23	38	13	171
Savings Banks	32,504	5,417	710	1,980	40,611
Group Corporate Center	15	1	2	1	19
Total	**112,297**	**14,715**	**1,577**	**6,678**	**135,267**

Loans and receivables to customers by geographical segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Gross customer loans
As of 31 December 2017					
Austria	**74,809**	**7,960**	**1,019**	**3,112**	**86,900**
Erste Bank Oesterreich & Subsidiaries	28,681	2,181	294	631	31,787
Savings Banks	34,551	5,159	654	1,758	42,122
Other Austria	11,578	620	71	723	12,991
Central and Eastern Europe	**46,934**	**6,214**	**609**	**2,639**	**56,396**
Czech Republic	22,481	2,298	183	525	25,487
Romania	5,452	1,559	116	632	7,759
Slovakia	10,514	1,014	62	458	12,048
Hungary	3,038	416	103	209	3,766
Croatia	4,601	849	138	783	6,371
Serbia	848	79	6	32	965
Other	**179**	**4**	**5**	**25**	**212**
Total	**121,921**	**14,179**	**1,633**	**5,776**	**143,509**
As of 31 December 2016					
Austria	**71,069**	**8,668**	**1,003**	**3,447**	**84,186**
Erste Bank Oesterreich & Subsidiaries	27,705	2,316	244	781	31,046
Savings Banks	32,504	5,417	710	1,980	40,611
Other Austria	10,859	936	48	686	12,529
Central and Eastern Europe	**41,159**	**6,047**	**572**	**3,198**	**50,975**
Czech Republic	19,067	2,046	130	695	21,939
Romania	5,297	1,594	71	928	7,890
Slovakia	9,028	948	102	475	10,552
Hungary	2,552	476	111	339	3,478
Croatia	4,563	870	147	704	6,285
Serbia	653	111	12	56	832
Other	**70**	**1**	**2**	**33**	**105**
Total	**112,297**	**14,715**	**1,577**	**6,678**	**135,267**

In the following tables, the non-performing loans and receivables to customers divided by reporting segment are contrasted with allowances for customer loans (specific and collective allowances) and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio (excl. collateral), and the NPL total coverage ratio are also included. The NPL total coverage ratio specifies the coverage of non-performing loans by specific and collective allowances as well as by collateral for non-performing loans.

Non-performing loans and receivables to customers by business segment and coverage by loan loss allowances and collateral

in EUR million	Non-performing	Gross customer loans	Allowances for customer loans	Specific allowances	Collective allowances	NPL ratio	NPL coverage ratio (excl. collateral)	Collateral for NPL	NPL total coverage ratio
As of 31 December 2017									
Retail	1,691	52,734	1,319	1,075	244	3.2%	78.0%	714	120.2%
Corporates	2,312	47,249	1,605	1,310	294	4.9%	69.4%	807	104.3%
Group Markets	0	1,169	2	0	2	0.0%	>500.0%	0	>500.0%
Asset/Liability Management and Local Corporate Center	14	206	25	12	14	6.6%	187.7%	0	190.5%
Savings Banks	1,758	42,122	1,026	875	151	4.2%	58.3%	850	106.7%
Group Corporate Center	1	30	0	0	0	2.3%	16.5%	1	115.5%
Total	**5,776**	**143,509**	**3,977**	**3,272**	**705**	**4.0%**	**68.8%**	**2,372**	**109.9%**
As of 31 December 2016									
Retail	1,946	48,480	1,463	1,190	273	4.0%	75.2%	849	118.8%
Corporates	2,738	44,721	1,979	1,698	281	6.1%	72.3%	1,094	112.2%
Group Markets	0	1,265	3	0	3	0.0%	0.0%	0	0.0%
Asset/Liability Management and Local Corporate Center	13	171	18	6	12	7.6%	138.5%	1	146.2%
Savings Banks	1,980	40,611	1,150	993	157	4.9%	58.1%	967	106.9%
Group Corporate Center	1	19	0	0	0	5.3%	0.0%	1	100.0%
Total	**6,678**	**135,267**	**4,613**	**3,887**	**726**	**4.9%**	**69.1%**	**2,913**	**112.7%**

Non-performing loans and receivables to customers by geographical segment and coverage by loan loss allowances and collateral

in EUR million	Non-performing	Gross customer loans	Allowances for customer loans	Specific allowances	Collective allowances	NPL ratio	NPL coverage ratio (excl. collateral)	Collateral for NPL	NPL total coverage ratio
As of 31 December 2017									
Austria	**3,112**	**86,900**	**1,749**	**1,503**	**246**	**3.6%**	**56.2%**	**1,437**	**102.4%**
Erste Bank Oesterreich & Subsidiaries	631	31,787	360	310	50	2.0%	57.1%	324	108.4%
Savings Banks	1,758	42,122	1,026	875	151	4.2%	58.3%	850	106.7%
Other Austria	723	12,991	363	318	44	5.6%	50.2%	263	86.6%
Central and Eastern Europe	**2,639**	**56,396**	**2,214**	**1,757**	**457**	**4.7%**	**83.9%**	**935**	**119.3%**
Czech Republic	525	25,487	486	381	105	2.1%	92.5%	120	115.3%
Romania	632	7,759	586	449	137	8.1%	92.7%	222	127.8%
Slovakia	458	12,048	365	290	75	3.8%	79.7%	200	123.3%
Hungary	209	3,766	186	125	61	5.5%	89.3%	122	147.5%
Croatia	783	6,371	556	490	66	12.3%	70.9%	262	104.3%
Serbia	32	965	36	22	14	3.3%	112.0%	10	143.4%
Other	**25**	**212**	**14**	**12**	**2**	**11.7%**	**56.6%**	**1**	**59.4%**
Total	**5,776**	**143,509**	**3,977**	**3,272**	**705**	**4.0%**	**68.8%**	**2,372**	**109.9%**
As of 31 December 2016									
Austria	**3,447**	**84,186**	**2,052**	**1,769**	**283**	**4.1%**	**59.5%**	**1,599**	**105.9%**
Erste Bank Oesterreich & Subsidiaries	781	31,046	463	401	62	2.5%	59.3%	366	106.1%
Savings Banks	1,980	40,611	1,150	993	157	4.9%	58.1%	967	106.9%
Other Austria	686	12,529	438	375	63	5.5%	63.8%	266	102.6%
Central and Eastern Europe	**3,198**	**50,975**	**2,529**	**2,086**	**443**	**6.3%**	**79.1%**	**1,281**	**119.1%**
Czech Republic	695	21,939	575	482	93	3.2%	82.7%	220	114.4%
Romania	928	7,890	792	660	132	11.8%	85.3%	329	120.8%
Slovakia	475	10,552	343	254	89	4.5%	72.2%	240	122.7%
Hungary	339	3,478	254	203	51	9.7%	74.9%	177	127.1%
Croatia	704	6,285	510	447	63	11.2%	72.4%	299	114.9%
Serbia	56	832	56	42	14	6.7%	100.0%	16	128.6%
Other	**33**	**105**	**32**	**32**	**0**	**31.4%**	**97.0%**	**33**	**197.0%**
Total	**6,678**	**135,267**	**4,613**	**3,887**	**726**	**4.9%**	**69.1%**	**2,913**	**112.7%**

The NPL ratio in this section (loans and receivables to customers) is calculated by dividing non-performing loans and receivables by total loans and receivables to customers. Consequently, it differs from the NPE ratio in section 'Credit risk exposure'. Collaterals for non-performing loans mainly consist of real estates.

Loans and receivables to customers by business segment and currency

in EUR million	EUR	CEE-local currencies	CHF	USD	Other	Gross customer loans
As of 31 December 2017						
Retail	29,642	21,228	1,466	18	380	52,734
Corporates	34,500	9,164	405	2,269	911	47,249
Group Markets	706	306	0	156	1	1,169
Asset/Liability Management and Local Corporate Center	147	57	0	1	1	206
Savings Banks	38,853	392	2,237	83	557	42,122
Group Corporate Center	11	19	0	0	0	30
Total	**103,858**	**31,166**	**4,107**	**2,528**	**1,849**	**143,509**
As of 31 December 2016						
Retail	27,227	19,162	1,858	20	213	48,480
Corporates	33,240	8,050	501	2,413	517	44,721
Group Markets	809	271	6	176	3	1,265
Asset/Liability Management and Local Corporate Center	137	31	0	1	2	171
Savings Banks	36,662	0	2,988	80	881	40,611
Group Corporate Center	0	19	0	0	0	19
Total	**98,075**	**27,533**	**5,353**	**2,690**	**1,617**	**135,267**

Loans and receivables to customers by geographical segment and currency

in EUR million	EUR	CEE-local currencies	CHF	USD	Other	Gross customer loans
As of 31 December 2017						
Austria	**78,985**	**0**	**4,005**	**2,147**	**1,763**	**86,900**
Erste Bank Oesterreich & Subsidiaries	30,040	0	1,590	46	112	31,787
Savings Banks	38,853	0	2,237	83	949	42,122
Other Austria	10,093	0	178	2,018	702	12,991
Central and Eastern Europe	**24,697**	**31,135**	**102**	**375**	**86**	**56,396**
Czech Republic	3,392	21,866	1	164	64	25,487
Romania	3,413	4,202	0	143	0	7,759
Slovakia	12,004	0	0	28	16	12,048
Hungary	886	2,850	27	3	0	3,766
Croatia	4,264	2,005	63	33	6	6,371
Serbia	738	212	11	4	0	965
Other	**176**	**31**	**0**	**6**	**0**	**212**
Total	**103,858**	**31,166**	**4,107**	**2,528**	**1,849**	**143,509**
As of 31 December 2016						
Austria	**75,200**	**0**	**5,205**	**2,261**	**1,521**	**84,187**
Erste Bank Oesterreich & Subsidiaries	28,729	0	2,089	86	142	31,046
Savings Banks	36,662	0	2,988	80	881	40,611
Other Austria	9,810	0	128	2,095	497	12,529
Central and Eastern Europe	**22,823**	**27,487**	**149**	**421**	**96**	**50,976**
Czech Republic	2,846	18,930	1	96	65	21,939
Romania	3,807	3,875	0	208	0	7,890
Slovakia	10,487	0	0	42	23	10,552
Hungary	638	2,765	52	24	0	3,478
Croatia	4,405	1,744	82	45	8	6,285
Serbia	641	172	14	5	0	832
Other	**51**	**46**	**0**	**8**	**0**	**105**
Total	**98,075**	**27,533**	**5,353**	**2,690**	**1,617**	**135,267**

Securitisations

As of 31 December 2017, Erste Group held a further reduced residual portfolio of securitisations; there were no new investments undertaken and all repayments were made as scheduled in 2016.

As of year-end 2017, the carrying amount of Erste Group's securitisation portfolio totalled EUR 69.2 million. The entire exposure is investment-grade rated.

EUR 63.6 million consist of US student loans. All securitisations have been issued and bought before the financial crisis.

44.5 Market risk

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived from them. These market value changes might appear in the profit and loss account, in the statement of comprehensive income or in hidden reserves. At Erste Group, market risk is divided into interest rate risk, credit spread risk, currency risk, equity risk, commodity risk, and volatility risk. This concerns both trading and banking book positions.

Methods and instruments employed

At Erste Group, potential losses that may arise from market movements are assessed using the value at risk (VaR). The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under historically observed market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VaR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years, and calculates the

VaR for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at Erste Group. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: stressed VaR (SVaR) is derived from the normal VaR calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period that constitutes a relevant period of stress for the current portfolio mix. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables Erste Group on the one hand to hold sufficient own funds available for the trading book even in periods of elevated market volatility, while on the other hand also enabling it to incorporate these resulting effects into the management of trading positions.

Standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at Erste Group for interest rates, stock prices, exchange rates and volatilities. Historic scenarios are a modification of the concept of standard scenarios. In this case, risk factor movements after certain events such as '9/11'or the 'Lehman bankruptcy' form the basis of the stress calculation. In order to calculate historical probabilistic scenarios, the most significant risk factors for the current portfolio are determined and their most adverse movement during the last years is applied. For the probabilistic scenarios, shifts of important market factors are determined for various quantiles of their distributions, and these values are then used to calculate stress results. These analyses are made available to the management board and the supervisory board within the scope of the monthly market risk reports.

The implemented market risk model was approved by ECB in December 2016 as an internal model to determine the own funds requirements for the trading books of Erste Group Bank AG and Ceská spořitelna, a.s. on an individual level and additionally for the trading books of Slovenská sporitel'ňa a.s., Erste Bank Hungary Zrt., and Erste Befektetési Zrt. on consolidated basis. The infrastructure brought significant improvements with regards to flexible shift methodologies of historical scenarios, product- and market data coverage, and the reporting infrastructure.

Methods and instruments of risk mitigation

At Erste Group, market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of VaR for the trading book is allocated by the management board in the Risk Appetite Statement while taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Market Risk Committee (MRC) on the basis of a proposal from the Trading Book Risk Management unit.

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the overall VaR limit. The VaR limit is assigned in a top-down procedure to the individual trading units. This is done down to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned to even smaller units all the way down to the desk level. These are then aggregated and applied as a second limit layer to the VaR limits.

Limit compliance is verified at two levels: by the appropriate local decentralised risk management unit and by the Trading Book Risk Management unit. The monitoring of sensitivity limits is performed on both intraday and end of day basis. On demand, limit reports can also be triggered by individual traders or chief traders on an ad hoc basis.

The VaR is calculated every day at group level and made available to the individual trading units as well as to the superior management levels all the way up to the management board.

Banking book positions are subjected to a monthly VaR analysis. In this manner, the total Vary is determined with exactly the same methodology as for the trading book. In addition to Vary, a long-horizon risk measure is used to gauge the interest rate risk; credit spread risk of the banking book, and foreign exchange risk of equity participations. For this purpose, a historical simulation approach looking back ten years and with a one-year holding period was chosen. The result of these calculations is presented in the monthly Group ALCO to the management board.

Analysis of market risk

The following tables show the Vary amounts at the 99% confidence level using equally weighted market data and with a holding period of one day:

Value at Risk of banking book and trading book

in EUR million	Total	Interest	Currency	Shares	Commodity	Volatility
As of 31 December 2017						
Erste Group	21,050	20,531	701	1,039	656	411
Banking book	16,066	16,066	0	0	0	0
Trading book	4,984	4,465	701	1,039	656	411
As of 31 December 2016						
Erste Group	18,460	18,147	998	1,358	287	344
Banking book	15,069	15,163	118	0	0	0
Trading book	3,391	2,984	880	1,358	287	344

The method used is subject to limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved. This restriction applies to the inclusion of credit spreads in the calculation of the VaR. Credit spreads are only applied to sovereign issuers. For all other positions, only the general market risk is considered.

Interest rate risk in the banking book

Interest rate risk is the risk of an adverse change in the fair value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised on the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment. Positions without a fixed maturity (e.g. demand deposits) are included on the basis of modelled deposit rates that are determined by means of statistical methods.

To the low or even negative interest rate environment since 2015, which poses a challenge for the interest rate risk measurement and management of banks, Erste Group responded in the last years by adjusting its methodologies for measuring the interest rate risk. No floor on interest rates is applied for internal risk calculations. For the regulatory interest rate risk measure, the result of the downward shock is floored at the level of the current negative rate or at zero in case the current rate is positive (in line with EBA requirements).

The following tables list the open fixed-income positions held by Erste Group in the four currencies that carry a significant interest rate risk: EUR, CZK, HUF and RON.

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e. a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book

in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
As of 31 December 2017					
Fixed-interest gap in EUR positions	-2,317.2	-3,777.9	-2,540.8	-2,322.4	2,136.9
Fixed-interest gap in CZK positions	3,138.4	1,017.7	-656.8	-2,795.9	150.0
Fixed-interest gap in HUF positions	-164.2	514.4	18.0	-460.5	1.0
Fixed-interest gap in RON positions	470.6	521.2	46.7	100.6	0.4
As of 31 December 2016					
Fixed-interest gap in EUR positions	-1,368.1	-1,575.1	-1,080.8	208.7	2,583.3
Fixed-interest gap in CZK positions	3,367.0	-357.3	-1,265.7	-2,594.3	49.2
Fixed-interest gap in HUF positions	-164.6	310.3	96.8	-341.2	-0.3
Fixed-interest gap in RON positions	318.0	596.5	-2.4	-99.2	87.0

Credit spread risk

Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market. Erste Group is exposed to credit spread risk with respect to its securities portfolio, both in the trading as well as in the banking book.

For the trading book, credit spread risk for government bonds is part of the general market risk covered by VaR and SVaR. Corporate bonds are allocated to benchmark spread curves depending on sector, rating, and currency as part of the general risk covered by Var and

SVaR. The issuer specific risk is covered by the standardized approach for Pillar 1 of regulatory capital requirements. For the issuer specific risk of the trading book in Pillar 2, the spread risk is decomposed in a systematic and a residual part risk and reported on aggregated.

The quantification of the credit spread risk of the securities in the banking book is based on a historical simulation. The maximum (hypothetical) drawdown that can be attributed to credit related risk factors over one-year horizon is calculated. It is based on credit spread sensitivities (CR01) and the risk factors used are mainly asset swap spreads for sovereigns and iTRAXX CDS indices for financials and corporates. The resulting amount is used as part of the Pillar 2 calculations to determine the capital consumption of the banking book portfolio.

Exchange rate risk
The bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.

Risk from open foreign exchange positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are set by the Market Risk Committee.

Erste Group separately measures and manages other types of risks relating to the group's balance sheet and earnings structure. The translation risk related to the valuation of the balance sheet items, earnings, dividends and participations/net investments in local currency or foreign exchange has an impact on consolidated earnings and consolidated capital. Erste Group is also reducing the negative impact related to volatility of foreign exchange rates on asset performance (for example as a result of foreign exchange lending in the CEE countries that was stopped for clients not having sufficient regular income in the respective loan currency).

In order to manage its multi-currency earnings structure, Erste Group regularly discusses hedging opportunities and takes decisions in the Group Asset Liability Committee (ALCO). Asset Liability Management (ALM) uses as the usual source of information the current financial results and the financial budget prepared for the upcoming period to obtain as much information as possible on the future foreign currency cash flows. The proposal, which mainly includes the volume, hedging level, hedge ratio and timeline of the hedging, is submitted by ALM to ALCO. The impact of translation on consolidated capital is monitored and reported to ALCO. The ALCO decisions are then implemented by ALM and the implementation status is reported on a monthly basis to ALCO.

The following table shows the largest open foreign currency positions of Erste Group as of 31 December 2017 and the corresponding open positions of these currencies as of 31 December 2016 (excluding foreign currency positions arising from equity participation).

Open foreign currency positions

in EUR thousand	Dec 16	Dec 17
US Dollar (USD)	27,555	79,473
Czech Koruna (CZK)	-170,654	40,548
Hungarian Forint (HUF)	-4,862	-26,170
Romanian Leu (RON)	6,387	19,270
British Pound (GBP)	2,291	-10,685
Polish Zloty (PLN)	527	-5,424
Serbian Dinar (RSD)	6,824	5,397
Swedish Krona (SEK)	166	3,505
Japanese Yen (JPY)	109	-3,308
Norwegian Krone (NOK)	396	1,607

Hedging
Banking book market risk management consists of optimising Erste Group's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on the balance sheet development, economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. The steering body responsible for interest rate risk management is ALCO. ALM submits proposals for actions to steer the interest rate risk to ALCO and implements ALCO's decisions.

In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging refers to an economic activity that mitigates risk but does not necessarily qualify for hedge accounting under IFRS rules. IFRS hedge accounting is applied, if possible, to avoid accounting mismatches due to hedging activity. Within the scope of IFRS-compliant hedge accounting, cash flow hedges and fair value hedges are used. If IFRS-compliant hedge accounting is not possible, the fair value option is applied, where appropriate, for the hedging of market values. Most of the hedging within Erste Group concerns hedging of interest rate risk. The remainder is hedging of foreign exchange rate risk.

44.6 Liquidity risk

The liquidity risk in Erste Group is defined in line with the principles set out by the Basel Committee on Banking Supervision as well as the European and Austrian regulations (Capital Regulations Requirement (CRR) - Regulation (EU) No 575/2013, Delegated Regulation (EU) 2015/61, Kreditinstitute-Risikomanagement-Verordnung - KI-RMV). Accordingly, a distinction is made between market liquidity risk, which is the risk that the group entities cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks in the group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

Liquidity strategy

In 2017, client deposits remained the primary source of funding for Erste Group: the volume of client deposits increased to EUR 150.9 billion as of year-end 2017 (2016: EUR 138.0 billion), amounting to 68% (2016: 66%) of the balance sheet total. Due to the fact that client deposits inflows surpassed the growth of loan production, the loan-to-deposit ratio was further decreasing to 92% (2016: 95%). The increased excess liquidity was placed to central banks.

With regards to own issuance, Erste Group Bank AG issued EUR 2.1 billion in bonds in 2017 (2016: EUR 2.0 billion) which in net terms was in accordance with the size of the budgeted figure. EUR 750 million (2016: EUR 750 million) was collected via a mortgage covered bond in benchmark size. EUR 577 million (2016: EUR 578 million) was collected by issuing senior unsecured bonds via private placements or the retail network. Tier 2 subordinated debt issuance was in the size of EUR 273 million (2016: EUR 219 million). This was offset by repurchases of EUR 147 million (2016: EUR 219 million). Erste Group Bank AG issued its second Additional Tier 1 (AT1) transaction (EUR 500 million benchmark) (2016: EUR 500 million) which is compliant with CRD IV (Capital Requirements Directive IV) and CRR (Capital Requirements Regulation). The average tenor of all new issues in 2017 is approximately 7.5 years (2016: 6.5 years).

Since 2014, the ECB supports bank lending to the non-financial sector through a series of targeted longer-term refinancing operations (TLTROs) with a maturity of up to four years and an early repayment option. Erste Group's total TLTRO participation increased in 2017 to EUR 3.5 billion (2016: EUR 2.3 billion).

Liquidity ratios

With the implementation of the CRR at the beginning of 2014, new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced as ratios relevant for reporting purposes. For the LCR, the European Commission released a Delegated Regulation (EU) 2015/61 of 10 October 2014 (LCR DA), published in the Official Journal of the European Union on 17 January 2015, specifying details on the ratio and setting a binding minimum requirement for the ratio as of 1 October 2015. Since 30 September 2016 the LCR has to be reported according to the LCR DA. The LCR represents a ratio of highly liquid assets vis-à-vis net cash outflows over a 30 day time horizon. The minimum ratio has been set at 60% for 2015 (from 1 October), 70% for 2016, 80% for 2017 and 100% from 2018. The NSFR remains for the time being a reporting requirement only, with a binding minimum requirement potentially introduced from 2018. The NSFR represents a ratio of available stable funding vis-à-vis required stable funding within a 12 month time horizon. Both, LCR according LCR DA and NSFR have been implemented within Erste Group.

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period for each currency on both entity and group levels. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of customer, as well as the potential outflows from collateralised derivative transactions estimating the effect of collateral outflows in the case of adverse market movements. To reflect the reputational risk from callable own issues, the principal outflows from these liabilities are modelled to the next call date in all stress scenarios.

Erste Group successfully implemented a new software solution for the calculation of the Liquidity Coverage Ratio according to the delegated regulation (EU) 2015/61 and is reporting this ratio on a monthly basis to the authorities on solo and group level. Additionally, Erste Group is calculating the Net Stable Funding Ratio (NSFR) according to the CRR based on the weights of the 'Basler Ausschusses für Bankenaufsicht' (BCBS) and is constantly participating and reporting the QIS monitoring according to the BCBS guidelines. Internally, these ratios are monitored on entity level as well as on group level. Since 2014 the LCR (from 2014 to 2016 LCR according to CRR, since 2017 LCR according to the delegated LCR DA) is part of the internal Risk Appetite Statement, targeting to be above the future regulatory requirement. Erste Group is reporting the NSFR according to the CRR in the quarterly Short Term Exercise to the regulator.

Legal lending limits exist in all CEE countries where Erste Group is represented. As they restrict liquidity flows between Erste Group's subsidiaries in different countries they are taken into account for the assessment of liquidity risk in the survival period model as well as in the calculation of the Liquidity Coverage Ratio at group level.

Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches) of the subsidiaries and the group as a whole are reported and monitored regularly. Concentration risks in the 'Counterbalancing Capacity' (CBS), in terms of funds and assets are regularly monitored and reported to the regulator. Erste Group's funds transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

In 2017, Erste Group successfully enhanced the new reporting system and thus ensures a further improvement of the granularity and flexibility in the reporting of many aspects of the liquidity risk besides the reporting of regulatory requirements. New liquidity measures and limits such as a short term liquidity limit and structural liquidity limits will be valid from 2018 onwards. Updated regulatory requirements, such as the reporting of the maturity ladder in the Additional Liquidity Monitoring Metrics are currently in the focus of further improvements in the reporting framework.

Methods and instruments of risk mitigation

Short-term liquidity risk is managed by limits resulting from the survival period model, internal stress testing and by internal LCR targets at both entity and group level. Limit breaches are reported to the Group Asset Liability Committee (ALCO). Another important instrument for managing the liquidity risk within Erste Group Bank AG and in relation to its subsidiaries is the FTP system. Important information for liquidity management can be obtained by the process of planning funding needs. Therefor a detailed overview of funding needs is prepared on a quarterly basis for the planning horizon across Erste Group.

The Comprehensive Contingency Plan of the Erste Group ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis. The contingency plans of the subsidiaries are coordinated as part of the plan for Erste Group Bank AG.

Analysis of liquidity risk

In Erste Group, the liquidity risk is analysed by the following methods.

Liquidity coverage ratio

Erste Group uses the regulatory liquidity coverage ratio according the delegated regulation (EU) 2015/61 (LCR according LCR DA) for internal monitoring and steering of the liquidity position as well. In order to keep the LCR according LCR DA above both limits, the regulatory limit and the internal limit, Erste Group closely monitors its short-term liquidity inflows and outflows as well as its available counterbalancing capacity.

The following table shows the LCR DA as of 31 December 2017:

Liquidity coverage ratio

in EUR million	Dec 17
Liquidity buffer	39,849
Net liquidity outflow	27,439
Liquidity coverage ratio	145.2%

Liquidity gaps

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each material currency and based on the assumption of ordinary business activity. Fulfilment of the internal and regulatory liquidity risk requirements as well as the current and expected market environment is also taken into account.

Expected cash flows are broken down by contractual maturities in accordance with the amortisation schedule and arranged in maturity ranges. All products without contractual maturities (such as demand deposits and overdrafts) are shown in the first time bucket, irrespective of the statistically observed client behaviour.

The following table shows the liquidity gaps as of 31 December 2017 and 31 December 2016:

Liquidity gap

	< 1 month		1-12 months		1-5 years		> 5 years	
in EUR million	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16	Dec 17
Liquidity gap	-25,550	-36,581	-12,049	-7,183	9,220	14,336	28,379	29,428

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The callable own issues are modelled to their next call dates. The cash inflows from liquid securities amounting to EUR 33.9 billion (2016: EUR 37.2 billion), which are accepted as collateral by the central banks to which Erste Group has access, are taken into account in the first time bucket rather than considering them at their contractual maturity.

Counterbalancing capacity

Erste Group regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserves at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including impacts from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the group's counterbalancing capacity as of year-end 2017 and year-end 2016 are shown in the tables below:

Term structure of counterbalancing capacity

in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
As of 31 December 2017					
Cash, excess reserve	10,651	-224	0	-63	0
Liquid assets	33,289	-2,704	-270	302	703
Other central bank eligible assets	5,184	0	463	0	0
Thereof retained covered bonds	3,579	0	463	0	0
Thereof credit claims	1,605	0	0	0	0
Counterbalancing capacity	**49,124**	**-2,929**	**193**	**239**	**703**
As of 31 December 2016					
Cash, excess reserve	15,370	-119	0	0	0
Liquid assets	29,120	185	-1,029	-710	248
Other central bank eligible assets	5,474	48	465	367	367
Thereof retained covered bonds	3,245	0	465	367	367
Thereof credit claims	2,229	48	0	0	0
Counterbalancing capacity	**49,964**	**114**	**-564**	**-343**	**616**

The figures above show the total amount of potential liquidity available for the group in a going concern situation, taking into account the applicable central bank haircuts. In a crisis situation adverse market movements and legal transfer restrictions among group members can decrease this amount. Taking into account these effects, the initial counterbalancing capacity available at group level is reduced by additional haircuts and liquidity transfer constraints (e.g. legal lending limits). Negative figures are maturing positions of the counterbalancing capacity. Positive figures after 1 week are positions not immediately available as counterbalancing capacity.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2017 and 31 December 2016 respectively, were as follows:

Financial liabilities

in EUR million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
As of 31 December 2017						
Non-derivative liabilities	**192,424**	**195,823**	**112,336**	**32,193**	**36,506**	**14,788**
Deposits by banks	16,349	16,455	7,602	1,563	5,897	1,393
Customer deposits	150,921	151,746	104,232	26,800	16,837	3,877
Debt securities in issue	19,337	20,929	477	3,070	10,107	7,275
Subordinated liabilities	5,817	6,692	25	760	3,664	2,243
Derivative liabilities	**2,937**	**3,406**	**229**	**947**	**1,719**	**511**
Contingent liabilities	**0**	**30,295**	**30,295**	**0**	**0**	**0**
Financial guarantees	0	6,985	6,985	0	0	0
Irrevocable commitments	0	23,310	23,310	0	0	0
Total	**195,362**	**229,523**	**142,860**	**33,140**	**38,225**	**15,299**
As of 31 December 2016						
Non-derivative liabilities	**179,821**	**184,429**	**95,548**	**35,032**	**37,448**	**16,402**
Deposits by banks	14,631	14,717	7,015	1,951	4,601	1,151
Customer deposits	137,939	138,750	87,632	28,755	18,978	3,385
Debt securities in issue	21,153	23,927	409	3,945	10,882	8,691
Subordinated liabilities	6,098	7,036	492	381	2,987	3,175
Derivative liabilities	**4,185**	**4,566**	**282**	**1,182**	**2,387**	**714**
Contingent liabilities	**0**	**27,484**	**27,484**	**0**	**0**	**0**
Financial guarantees	0	6,577	6,577	0	0	0
Irrevocable commitments	0	20,907	20,907	0	0	0
Total	**184,005**	**216,479**	**123,314**	**36,215**	**39,835**	**17,116**

As of year-end 2017, the currency composition of the non-derivative liabilities consisted of approximately 70% EUR, 18% CZK, 4% RON, 4% USD, and 4% in other currencies (2016: 72% EUR, 16% CZK, 4% RON, 4% USD, 4% in other currencies).

Besides the contingent liabilities from unused credit lines and guarantees, material potential cash outflow is estimated from the collateralised derivative transactions for the stress testing, which amounted to EUR 406.1 million (2016: EUR 474.1 million) in the worst-case scenario as of 31 December 2017.

As of 31 December 2017, the volume of customer deposits due on demand amounted to EUR 93.8 billion (2016: EUR 77.0 billion). According to customer segments, the customer deposits are composed as follows: 63% private individuals, 15% large corporates, 14% small and medium-sized enterprises, 5% public sector, and 3% non-banking financial institutions (2016: 68% private individuals, 15% large corporates, 9% small and medium-sized enterprises, 4% public sector, and 4% non-banking financial institutions). The deposits by banks include the top five providers of funds.

44.7 Operational risk

In line with Article 4 Section 52 of regulation (EU) 575/2013 (CRR), Erste Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which is collected across Erste Group using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. Erste Group sources external data from a leading non-profit risk-loss data consortium.

Erste Group has the regulatory approval for the Advanced Measurement Approach (AMA). AMA is a sophisticated approach to measuring operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors. Additionally, Erste Group received the approval to use insurance contracts for mitigation within the AMA pursuant to Article 323 CRR.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk assessment surveys. The results and suggestions for risk control in these surveys, which are conducted by experts, are reported to the line management and thus help to reduce operational risks. Furthermore, to ensure early detection of changes in risk potential that may lead to losses, Erste Group periodically assesses a number of key risk indicators like, system availability, staff turnover, or customer complaints.

Erste Group uses a group-wide insurance program which has reduced the cost of meeting Erste Group's traditional property insurance needs and made it possible to buy additional insurance for previously uninsured bank-specific risks. This program uses a captive reinsurance entity as a vehicle to share losses within the group and access the external market. The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above, form the operational risk framework of Erste Group. Information on operational risk is periodically communicated to the management board via various reports, including the quarterly top management reports, which describe the recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for Erste Group.

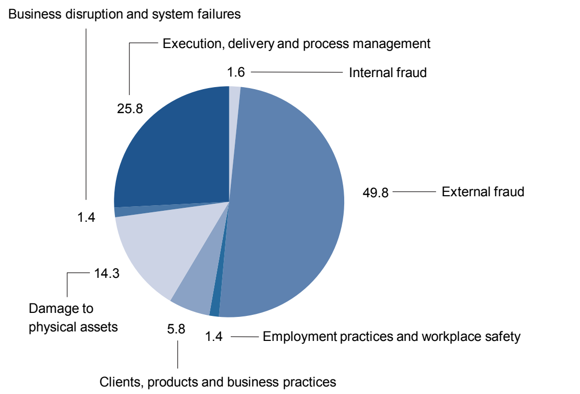
Distribution of operational risk events

Detailed below is the percentage composition by type of event of operational risk sources as defined by Article 324 CRR. The observation period is from 1 January 2013 to 31 December 2017.

The event type categories are as follows:

- internal fraud: Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity or discrimination events that involve at least one internal party.
- external fraud: Losses due to acts by a third party of a type intended to defraud, misappropriate property or circumvent the law.
- employment practices and workplace safety: Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity or discrimination events.
- clients, products and business practices: Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.
- damage to physical assets: Losses arising from loss of or damage to physical assets caused by natural disaster or other events.
- business disruption and system failures: Losses arising from disruption of business or system failures.
- execution, delivery and process management: Losses from failed transaction processing or process management. Losses pertaining to relationships with trading counterparties and vendors or suppliers.

Event type categories in %, 1.1.2013 – 31.12.2017



45. Hedge accounting

The interest rate risk of the banking book is managed by Group ALM. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives usually applied in accordance with IFRS. The main guideline for interest rate risk positioning is the Group Interest Rate Risk Strategy that is approved by the Group ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Erste Group balance sheet. In general, Erste Group policy is to swap all substantial fixed or structured issued bonds to floating items and as such to manage the

targeted interest rate risk profile by other balance sheet items. Interest rate swaps are the most common instruments used for fair value hedges. Concerning loans, purchased securities and securities in issuance, fair value is also hedged by means of swaptions, caps, floors and other types of derivative instruments.
In the second quarter of 2016 Erste Group has terminated all its EUR denominated IFRS cash flow hedge relationships (total notional of the hedged items: EUR 2.8 bn, residual maturity: slightly above 4 years) on the balance sheets of Austrian subsidiaries. The decision for the early termination has been driven by the expected hedge inefficiency coming from the floored interest rate (set at zero) on client loans. The termination value of the cash flow hedges, which is amortized through net interest income over the residual maturity, was EUR 48.9 million. As of 31 December 2017 the notional amount of the remaining hedged items in cash flow hedges on Group level amounts to EUR 2,288 million (2016: EUR 988 million). The majority of the hedged cash flows are likely to occur within the next six years and will then be recognised in the consolidated income statement.

In the reporting period, EUR 31.4 million (2016: EUR 31.6 million) was taken from the cash flow hedge reserve and recognised as income in the consolidated income statement; while EUR -73.9 million (2016: EUR 18.2 million) was recognised directly in other comprehensive income. Inefficiency from cash flow hedges amounting to EUR -1.6 million (2016: EUR 27.4 million) is reported in the net trading result. In 2016 this inefficiency was mainly caused by the zero percent interest rate floor in the hedged client loans until the early termination of the respective cash flow hedges.

Fair value hedges in 2017 resulted in losses of EUR 407.5 million (2016: losses of EUR 17.8 million) on hedging instruments and gains of EUR 406.0 million on hedged items (2016: gains of EUR 3.3 million).

Fair values of hedging instruments are disclosed in the following table:

	Dec 16		Dec 17	
in EUR million	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Hedging instrument - fair value hedge	1,980	586	1,373	414
Hedging instrument - cash flow hedge	14	3	10	67

46. Fair value of financial instruments

All financial instruments are measured at fair value on recurring basis.

Financial instruments carried at fair value

The measurement of fair value at Erste Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Description of valuation models and parameters

Erste Group uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. In case of a negative interest rate environment Erste Group uses models which are able to deal sufficiently with the presented market conditions. Consequently, such negative interest rates do not restrict the valuation models.

Securities. For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. for more complex debt securities (e.g. including option-like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modeling techniques including methods described for OTC-derivatives.

Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price. For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters. These models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method.

The adjusted net asset method requires an investor to measure the fair value of the individual assets and liabilities recognized in an investee's statement of financial position as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting fair values of the recognized and unrecognized assets and liabilities should therefore represent the fair value of the investee's equity. The dividend discount model assumes that the price of equity instruments issued by an entity equals the present value of all its expected future dividends in perpetuity. Similar to the dividend discount model, the simplified income approach estimates the fair value based on the future income. However, it can be used also when only one year planned income is available. The simplified income approach and the dividend discount model discount future income and dividends using the cost of equity. The cost of equity is dependent on the risk-free rate, the market risk premium, the relevered beta and the country risk premium. The relevered beta is derived from the industry classification which is published and maintained by Damodaran. In rare cases, techniques for non-trading equity instruments may also include models based on multiples. The comparable company multiple method is a valuation technique within the market approach that uses prices and other relevant information generated by market transactions involving comparable company peers of an investee to derive a valuation multiple from which the indicated fair value of the investee's equity or enterprise value can be inferred.

The fair value of financial liabilities designated at fair value through profit or loss under the fair value option is determined in consistency with similar instruments held as assets. The spread adjustment for Erste Group's own credit risk is derived from buy-back levels of own issuances.

OTC-derivative financial instruments. Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps and commodity swaps) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes- and Hull-White-type as well as hazard rate models. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

Erste Group values derivatives at mid-market levels. To reflect the potential bid-ask-spread of the relevant positions an adjustment based on market liquidity is performed. The adjustment parameters depend on product type, currency, maturity and notional size. Parameters are reviewed on a regular basis or in case of significant market moves. Netting is not applied when determining the bid-ask-spread adjustments.

Credit value adjustments (CVA) for counterparty risk and debit value adjustments (DVA) for own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and Erste Group's credit quality. Erste Group has implemented an approach, where the modeling of the expected exposure is based on option replication strategies. For products where an option replication is not feasible the exposure is computed with Monte-Carlo simulation techniques. One of the two modeling approaches is considered for the most relevant portfolios and products. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default by counterparties that are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles present in the central European market. Market based valuation concepts are incorporated for this. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. Erste Group's probability of default has been derived from the buy-back levels of Erste Group's issuances. Netting has only been considered for a few counterparties where the impact was material. In these cases, netting has been applied for both CVA and DVA. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with immaterial threshold amounts.

According to the described methodology the accumulated CVA-adjustments amounts to EUR 10.8 million (2016: EUR 26 million) and the total DVA-adjustment amounts to EUR 3.9 million (2016: EUR 8.2 million).

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent of the trading units. In addition, Erste Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value measurement and validation. The aim of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

These include exchange traded derivatives (futures, options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

These include OTC derivatives, less liquid shares, bonds and funds as well as collateralized mortgage obligations (CMO), US-american student loan securities and own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

These include shares, participations and funds not quoted, illiquid bonds as well as collateralized mortgage obligations (CMO) as well as loans, participations, own issues and deposits.

A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level.

The following table shows the classification of financial instruments carried at fair value with respect to levels of the fair value hierarchy.

in EUR million	Dec 16 Level 1	Dec 16 Level 2	Dec 16 Level 3	Dec 16 Total	Dec 17 Level 1	Dec 17 Level 2	Dec 17 Level 3	Dec 17 Total
Assets								
Financial assets - held for trading	2,335	5,477	138	7,950	2,043	4,241	65	6,349
Derivatives	3	4,376	96	4,475	9	3,302	22	3,333
Other trading assets	2,332	1,102	42	3,476	2,034	939	43	3,016
Financial assets - at fair value through profit or loss	385	66	28	480	496	26	21	543
Financial assets - available for sale	16,774	2,208	867	19,850	13,591	1,702	767	16,060
Derivatives - hedge accounting	0	1,424	0	1,424	0	884	0	884
Assets held for sale	0	0	0	0	0	0	0	0
Total assets	**19,494**	**9,176**	**1,034**	**29,704**	**16,130**	**6,853**	**853**	**23,836**
Liabilities								
Financial liabilities - held for trading	378	4,382	1	4,762	439	2,981	3	3,423
Derivatives	13	4,171	1	4,185	9	2,922	3	2,934
Other trading liabilities	366	211	0	577	430	59	0	489
Financial liabilities - at fair value through profit or loss	0	1,673	90	1,763	0	1,801	0	1,801
Deposits from customers	0	74	0	74	0	49	0	49
Debt securities issued	0	1,599	90	1,689	0	1,753	0	1,753
Other financial liabilities	0	0	0	0	0	0	0	0
Derivatives - hedge accounting	0	472	0	473	0	360	0	360
Total liabilities	**378**	**6,528**	**91**	**6,997**	**439**	**5,142**	**3**	**5,584**

The chosen method for the allocation of positions to levels is the following: all the levels and level changes are reflected at the end of the reporting period.

Valuation process for financial instruments categorised as Level 3

The valuation of financial instruments categorised as Level 3 involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking for similar transactions, among others. This involves estimation and expert judgment.

Changes in volumes of Level 1 and Level 2

The following table shows the changes in volumes of Level 1 and Level 2 of financial instruments carried at fair value in the balance sheet.

in EUR million	Dec 16 Level 1	Dec 16 Level 2	Dec 17 Level 1	Dec 17 Level 2
Securities				
Net transfer from Level 1	0	247	0	-203
Net transfer from Level 2	-247	0	203	0
Net transfer from Level 3	-23	-208	-6	126
Purchases/sales/expiries/changes in fair value	-1,017	333	-3,567	-633
Changes in derivatives	1	-1,549	6	-1,588
Total year-to-date change	**-1,286**	**-1,177**	**-3,364**	**-2,298**

Movements in 2017. The total amount of Level 1 financial assets decreased by EUR 3,364 million compared to last year. The change in volume of Level 1 securities (decreased by EUR 3,370 million) was determined on the one hand by matured or sold assets in the amount of EUR 5,407 million and on the other hand by new investments in the amount of EUR 2,749 million. The decrease in volume for securities that were allocated to Level 1 at both reporting dates (2017 and 2016) amounted to EUR 982 million (due to partial purchases and sales and fair value changes caused by market movements). Due to improved market liquidity, assets in the amount of EUR 346 million could be reclassified from Level 2 to Level 1. This applied mainly to securities issued by other corporates (EUR 147 million), but also to securities issued by governments (EUR 110 million) and financial institutions (EUR 90 million). Due to lower market activity and change to modelled fair value, securities in total of EUR 143 million have been moved from Level 1 to Level 2. This applies mainly to securities issued by financial institutions (EUR 83 million), governments (EUR 53 million) and as well as securities issued by other corporates (EUR 7 million). Level 1 instruments in the amount of EUR 7 million were reclassified to Level 3. The remaining change in the amount of EUR 73 million was due to partial sales and fair value changes of reclassified instruments.

Movements in 2016. The total amount of Level 1 financial assets decreased by EUR 1,286 million compared to previous year. The change in volume of Level 1 securities (decreased by EUR 1,287 million) was determined on the one hand by matured or sold assets in the amount of EUR 4,519 million and on the other hand by new investments in the amount of EUR 3,639 million. The decrease in volume for securities that were allocated to Level 1 at both reporting dates (2016 and 2015) amounted to EUR 130 million (due to partial purchases and sales and fair value changes caused by market movements). Due to improved market liquidity, assets in the amount of EUR 325 million could be reclassified from Level 2 to Level 1. This applied mainly to securities issued by financial institutions (EUR 256 million), but also to securities issued by governments (EUR 53 million) and other corporates (EUR 16 million). Due to lower market activity and change to modelled fair value, securities in total of EUR 571 million have been moved from Level 1 to Level 2. This applies mainly to securities issued by other corporates (EUR 337 million), financial institutions (EUR 140 million) and as well as securities issued by governments (EUR 94 million). Level 1 instruments in the amount of EUR 23 million were reclassified to Level 3. The remaining decrease in the amount of EUR 8 million was due to partial sales and fair value changes of reclassified instruments.

The reclassifications between Level 1 and Level 2, broken down to measurement categories and instruments, are shown below.

in EUR million	From Level 1 to Level 2 in 2016	From Level 1 to Level 2 in 2017
Financial assets - available for sale	**484**	**121**
Bonds	421	44
Funds	46	77
Other	16	0
Stocks	1	0
Financial assets - at fair value through profit or loss	**8**	**4**
Funds	8	2
Bonds	**0**	**2**
Financial assets - held for trading	**79**	**19**
Bonds	79	15
Funds	0	4
Other	0	0
Stocks	0	0
Total	**571**	**143**

in EUR million	From Level 2 to Level 1 in 2016	From Level 2 to Level 1 in 2017
Financial assets - available for sale	**293**	**270**
Bonds	151	238
Funds	138	22
Other	**0**	**9**
Stocks	4	1
Financial assets - at fair value through profit or loss	**7**	**27**
Bonds	6	4
Funds	1	8
Other	0	15
Financial assets - held for trading	**25**	**50**
Bonds	15	50
Funds	9	0
Other	0	0
Stocks	0	0
Total	**325**	**346**

Movements in 2017. The total value of Level 2 financial assets decreased between 2017 and 2016 by EUR 2,298 million. The Level 2 fair value change of securities and other receivables (down by EUR 709 million) can be explained for the most part by matured or sold positions in the amount of EUR 1,229 million and new investments in the amount of EUR 982 million. The reduction in volume for securities that have been allocated to Level 2 at both reporting dates 2017 and 2016 amounted to EUR 122 million due to purchases sales and changes in market values. Due to reduced market depth a total volume of EUR 143 million was reclassified from Level 1 to Level 2 in 2017. This applies mainly to securities issued by financial institutions (EUR 82 million), securities issued by governments (EUR 53 million) and other corporates (EUR 7 million). Securities in the amount of EUR 346 million were reclassified from Level 2 to Level 1 for the reporting date. Due to the use of significant non-observable valuation parameters a total volume of EUR 121 million was reclassified from Level 2 to Level 3. Due to a change to valuation models with significant observable parameters a total volume of EUR 247 million was reclassified from Level 3 to Level 2. The remaining increase in the amount of EUR 4 million was due to partial sales and fair value changes of reclassified instruments. The holding of loans and advances which are measured at fair value decreased by EUR 268 million in the current reporting period. The decrease on the asset side derivatives in Level 2 by EUR 1,588 million are caused by changes in market values and by netting effects.

On the liability side, as far as securities are concerned, there were no significant movements between the levels. Changes in the amounts were caused either by purchases, sales or changes in market value. The changes of derivatives were mainly caused by changes in the market value and netting effects.

Movements in 2016. The total value of Level 2 financial assets decreased between 2016 and 2015 by EUR 1,177 million. The Level 2 fair value change of securities and other receivables (up by EUR 372 million) can be explained for the most part by matured or sold positions in the amount of EUR 650 million and new investments in the amount of EUR 788 million. The reduction in volume for securities that have been allocated to Level 2 at both reporting dates 2016 and 2015 amounted to EUR 103 million.
Due to reduced market depth a total volume of EUR 571 million was reclassified from Level 1 to Level 2 in 2016. This applies mainly to securities issued by other corporates (EUR 337 million) and financial institutions (EUR 140 million) as well as securities issued by governments (EUR 94 million). Securities in the amount of EUR 325 million were reclassified from Level 2 to Level 1 for the reporting date. Due to the use of significant non-observable valuation parameters a total volume of EUR 243 million was reclassified from Level 2 to Level 3. Due to a change to valuation models with significant observable parameters a total volume of EUR 35 million was reclassified from Level 3 to Level 2. The remaining increase in the amount of EUR 34 million was due to partial sales and fair value changes of reclassified instruments. The holding of loans and advances which are measured at fair value increased by EUR 264 million in the current reporting period. The decrease on the asset side derivatives in Level 2 by EUR 1,549 million are caused by changes in market values and by netting effects.

On the liability side, as far as securities are concerned, there were no significant movements between the levels. Changes in the amounts were caused either by purchases, sales or changes in market value. The changes of derivatives were mainly caused by changes in the market value and netting effects.

Movements in Level 3 of financial instruments carried at fair value

The following tables show the development of fair value of financial instruments in the Level 3 category.

in EUR million	As of	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales	Settlements	Additions to the group	Disposals out of the group	Transfers into Level 3	Transfers out of Level 3	Currency translation	As of
Assets	**Dec 16**											**Dec 17**
Financial assets - held for trading	138	-5	-2	47	-8	-19	0	0	35	-124	2	65
Derivatives	96	-5	-2	0	-1	-2	0	0	0	-67	2	22
Other trading assets	42	0	0	47	-7	-18	0	0	35	-57	0	43
Financial assets - at fair value through profit or loss	28	1	0	2	0	0	0	0	0	-10	0	21
Financial assets - available-for-sale	867	12	20	27	-55	-37	0	-2	243	-314	4	767
Derivatives - hedge accounting	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	**1,034**	**8**	**18**	**76**	**-63**	**-57**	**0**	**-2**	**279**	**-448**	**7**	**853**

in EUR million	As of	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales	Settlements	Additions to the group	Disposals out of the group	Transfers into Level 3	Transfers out of Level 3	Currency translation	As of
Assets	**Dec 15**											**Dec 16**
Financial assets - held for trading	150	-21	0	30	-23	-4	0	0	87	-81	0	138
Derivatives	143	-21	0	1	0	-2	0	0	33	-58	0	96
Other trading assets	7	0	0	29	-22	-2	0	0	54	-24	0	42
Financial assets - at fair value through profit or loss	50	-1	0	4	-4	-6	0	0	0	-14	0	28
Financial assets - available-for-sale	627	2	12	262	-216	-193	0	0	438	-64	0	867
Derivatives - hedge accounting	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	**827**	**-20**	**12**	**295**	**-243**	**-203**	**0**	**0**	**525**	**-160**	**0**	**1,034**

The profit or loss of Level 3 financial instruments classified as ‘Financial assets – held for trading’ and ‘Derivatives – hedge accounting’ is disclosed in the income statement line item ‘Net trading result’. Likewise, profit or loss of Level 3 financial instruments classified as ‘Financial assets – at fair value through profit or loss’ is disclosed in the income statement line item ‘Result from financial assets and liabilities designated at fair value through profit or loss’. Profit or loss from derecognition of ‘Financial assets – available for sale’ is shown in the income statement line item 'Gains/Losses from financial assets and liabilities not measured at fair value through profit or loss, net'. Impairments of 'Financial assets – available for sale' is disclosed in the line item 'Net impairment loss on financial assets'. Gains or losses in other comprehensive income of Level 3 financial instruments disclosed in the balance sheet line item 'Financial assets – available for sale' are reported directly in equity under 'Available for sale reserve'.

Movements in 2017. The reclassification of securities to Level 3 was caused by a decrease in market liquidity and was based on an in-depth analysis of broker quotes. In addition to the assessment of the parameters used for the fair value determination, the external market values of securitizations were subject to an internal validation process, which is based on observable market inputs. Based on the described analysis securities in the amount of EUR 121 million were reclassified from Level 2 to Level 3. The change is coming from securities issued by financial institutions (EUR 88 million) and securities from other corporates in the amount of EUR 33 million. On the other hand securities in the amount of EUR 247 million were reclassified from Level 3 to Level 2. Thereof EUR 124 million are securities issued by financial institutions, EUR 81 million by sovereigns and EUR 42 million are securities issued by other corporates. Out of Level 1 EUR 7 million were reclassified to Level 3. The additional change in Level 3 positions was on the one hand caused by an decrease in derivative exposure of EUR 74 million and on the other hand by a decrease caused by the purchase, sale and market value change of securities in the amount of EUR 31 million.

Movements in 2016. The reclassification of securities to Level 3 was caused by a decrease in market liquidity and was based on an in-depth analysis of broker quotes. In addition to the assessment of the parameters used for the fair value determination, the external market values of securitizations were subject to an internal validation process, which is based on observable market inputs. Based on the described analysis securities in the amount of EUR 243 million were reclassified from Level 2 to Level 3. The change is coming from securities issued by financial institutions (EUR 152 million), securities from corporates (EUR 53 million) and securities from sovereigns in the amount of EUR 39 million. On the other hand securities in the amount of EUR 35 million were reclassified from Level 3 to Level 2. Thereof EUR 19 million are securities issued by financial institutions and EUR 16 million are securities issued by sovereigns. Out of Level 1 EUR 23 million were reclassified to Level 3. The additional change in Level 3 positions was on the one hand caused by an decrease in derivative exposure of EUR 47 million and on the other hand by a decrease caused by the purchase, sale and market value change of securities in the amount of EUR 23 million.The change in Level 3 debt securities issued on the liabilities side is caused by purchases of EUR 35 million on the one hand and EUR 55 million on the other hand.

During the second quarter of 2016 shares in VISA Europe were sold to VISA Inc. The sales price included a cash payment, VISA Inc preferred shares and a future payment 3 years after the transaction. The overall sales price of EUR 139 million comprising cash payment, VISA Inc preferred shares and the future payment was considered as a Level 3 sale.

As of 31 December 2017, the fair valuation of VISA Inc preferred shares was based on reasonable assumptions and estimations and was consequently classified in Level 3. The shares cannot be sold before a minimum holding period of 12 years and are limited to certain conditions which may restrict the conversion of preferred shares into tradeable VISA Inc shares. Based on these limiting conditions the fair value of the preferred shares was capped based on assumptions compared to free tradeable VISA Inc. common shares.

Gains or losses on Level 3 instruments held at the reporting period's end and which are included in profit or loss are as follow.

	Gain / loss in profit or loss	
in EUR million	Dec 16	Dec 17
Assets		
Financial assets - held for trading	-5.0	-6.7
Derivatives	-7.0	-6.2
Other trading assets	2.0	-0.4
Financial assets designated at fair value through profit or loss	-3.2	1.0
Derivatives hedge accounting	0.0	0.0
Total	**-8.2**	**-5.7**

For Level 3 financial assets classified as 'available for sale', no material impairments were recorded in the year 2017 (2016: EUR -1.5 million). For financial liabilities measured at fair value in the Level 3 category there was no material effect posted via income statement during the year 2017 (2016: EUR -1.5 million).

The volume of Level 3 financial assets can be allocated to the following two categories:

_ Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).

_ Illiquid bonds, shares and funds not quoted in an active market where either valuation models with unobservable parameters have been used (e.g. credit spreads, cost of equity) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.

Unobservable inputs and sensitivity analysis for Level 3 measurements

In case the fair value of a financial asset is retrieved from input parameters which are not observable in the market, those parameters can be retrieved from a range of alternative parameters. For the preparation of the balance sheet the parameters where chosen to reflect the market situation at the reporting date.

The range of unobservable valuation parameters used in Level 3 measurements is shown in the following table.

Financial assets	Type of instrument	Fair value in EUR million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
As of 31 December 2017					
Positive fair value of derivatives	Forwards, swaps, options	23.2	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	0.76% -100% (10.5%)
				LGD	60%
Financial assets - available for sale	Fixed and variable coupon bonds	154.2	Discounted cash flow	Credit Spread	0.8% -8.0% (2.3%)
	Non-trading equity instruments (participations)	142.5	Dividend Discount Model; Simplified Income Approach	Beta relevered	Industry Life Insurance: 1.99-2.02 Industry Real Estate (General/Diversified): 0.8 Financial Services (Non-bank & Insurance): 0.95 Restaurant: 0.95
				Country risk premium	Croatia: 3.47% Austria: 0.46% Czech Republic: 0.81% Romania: 2.32% Spain: 2.01% Resulting Cost of equity based on above inputs: 7.24% - 18.87%
		144.3	Adjusted Net Asset Value	Adjusted Equity	Depending on accounting equity of investment.
		33.1	Market comparable companies	EV / SALES EV / EBITDA EV / EBIT P/E P/E (implicit) P/B	Depending on industry classification according to Damodaran.
As of 31 December 2016					
Positive fair value of derivatives	Forwards, swaps, options	95.8	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	0.78% -100% (8.0%)
				LGD	60%
Financial assets - at fair value through profit or loss	Fixed and variable coupon bonds	3.4	Discounted cash flow	Credit Spread	0.1% -1.5% (0.4%)
Financial assets - available for sale	Fixed and variable coupon bonds	149.4	Discounted cash flow	Credit Spread	0.1% -5.3% (1.8%)

For equity instruments other than participations classified as Level 3, the amount of EUR 70.8 million is presented in the statement of financial position using the criteria of availability and quality of broker quotes.

In the course of preparation of IFRS 9 implementation, significant improvements regarding valuation models of unquoted equity instruments have been achieved during the year 2017. As a consequence, for unquoted equity instruments which have been measured at cost as of December 31, 2016 the measurement was changed to fair value as of December 31, 2017 and the significant unobservable input parameters used have been incorporated in the table above accordingly.

The following table shows the sensitivity analysis using reasonably possible alternatives per product type.

in EUR million	Dec 16 Fair value changes Positive	Dec 16 Fair value changes Negative	Dec 17 Fair value changes Positive	Dec 17 Fair value changes Negative
Derivatives	5.4	-5.3	1.9	-1.9
Income statement	5.4	-5.3	1.9	-1.9
Other comprehensive income	0.0	0.0	0.0	0.0
Debt securities	29.5	-39.4	26.2	-34.9
Income statement	1.7	-2.3	1.9	-2.6
Other comprehensive income	27.9	-37.1	24.2	-32.3
Equity instruments	9.8	-19.5	66.0	-51.9
Income statement	0.4	-0.8	28.4	-22.8
Other comprehensive income	9.4	-18.7	37.6	-29.0
Total	**44.7**	**-64.2**	**94.1**	**-88.7**
Income statement	**7.5**	**-8.3**	**32.2**	**-27.3**
Other comprehensive income	**37.2**	**-55.9**	**61.8**	**-61.3**

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding fair values. Positive correlation effects between PDs and LGDs were not taken into account in the sensitivity analysis. For non-trading equity instruments increases (decreases) in any of the inputs used for the cost of equity calculation in isolation would result in a lower (higher) fair value.

For the calculation of the fair value of unquoted equity instruments, new models have been introduced during the year 2017. The sensitivity analysis was done using input parameters for the new models starting from the year 2017.

The following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

_ for debt securities range of credit spreads between +100 basis points and -75 basis points,
_ for equity related instruments the price range between -10% and +5%,
_ for unquoted equity instruments measured by the adjusted net asset value the price range between -10% and +10% (considered in the sensitivity analyses since 2017)
_ for unquoted equity instruments measured by dividend discount model/simplified income approach the cost of equity range beween -2% and +2% (considered in the sensitivity analyses since 2017)
_ for CVA on derivatives PDs rating upgrade/downgrade by one notch, as well as the change of LGD by -5% and +10%.

Financial instruments not carried at fair value with fair value disclosed in the notes

The following table shows fair values and the fair value hierarchy of financial instruments for which fair value is disclosed in the notes.

Dec 17 in EUR million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and cash balances	21,796	21,796	0	0	0
Financial assets - held to maturity	19,800	20,969	19,903	1,014	52
Loans and receivables to credit institutions	9,126	9,145	0	78	9,068
Loans and receivables to customers	139,532	141,431	0	0	141,431
Liabilities					
Deposits from banks	16,349	16,421	0	0	16,421
Deposits from customers	150,921	151,168	0	0	151,168
Debt securities issued	23,342	24,876	1,780	22,282	814
Other financial liabilities	1,099	1,105	0	0	1,105
Financial guarantees and commitments					
Financial guarantees	n/a	-50	0	0	-50
Irrevocable commitments	n/a	43	0	0	43

Dec 16 in EUR million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and cash balances	18,353	18,353	0	0	0
Financial assets - held to maturity	19,270	20,918	19,886	945	86
Loans and receivables to credit institutions	3,469	3,489	0	174	3,315
Loans and receivables to customers	130,654	132,855	0	54	132,800
Liabilities					
Deposits from banks	14,631	14,622	0	0	14,622
Deposits from customers	137,939	138,165	0	0	138,165
Debt securities issued	25,503	27,010	2,659	22,651	1,701
Other financial liabilities	836	820	0	0	820
Financial guarantees and commitments					
Financial guarantees	n/a	92	0	0	92
Irrevocable commitments	n/a	124	0	0	124

In the table above, positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign.

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows. The spread adjustment for Erste Group's own credit risk is derived from buy-back levels of own issuances. Moreover optionality is taken into account when calculating the fair value.

For off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) the following fair value approaches are applied: the fair value of unused loan commitments is estimated using regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated total fair value and the notional amount of the hypothetical loan equivalents represents the fair value of the unused loan commitments. In case of the total fair value being higher than the notional amount of the hypothetical loan equivalents the unused loan commitments have a positive fair value. The fair value of financial guarantees is estimated in analogy to credit default swaps. The fair value of the guarantee is the sum of the present value of the protection leg and the present value of the premium leg. The value of the protection leg is estimated using the PDs and LGDs of the respective customers, whereas the value of the premium leg is estimated by the present value of the future fee payments to be received. If the protection leg is higher than the premium leg, financial guarantees have a negative fair value.

47. Fair values of non-financial assets

The following table shows fair values and fair value hierarchy of non-financial instruments.

Dec 17 in EUR million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets whose Fair Value is disclosed in the notes					
Investment property	899	1,041	0	0	1,041
Assets whose Fair Value is presented in the Balance sheet					
Assets held for sale	87	90	0	0	90

Dec 16 in EUR million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets whose Fair Value is disclosed in the notes					
Investment property	899	907	0	300	607
Assets whose Fair Value is presented in the Balance sheet					
Assets held for sale	104	119	0	65	54

Investment property is measured at fair value on recurring basis. Assets held for sale, which consist mainly of property, are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell.

The fair values of non-financial assets are determined by experts with recognised and relevant professional qualification. Notwithstanding, for residential property of non-profit housing entities, the fair values are deemed to be equal to the carrying amounts.

Fair values of commercial real estate in Austria and CEE owned by Erste Group through Austrian companies are based on valuation reports relying essentially, but not solely, on observable market inputs (such as selling price per square meter charged in recent market observable transactions for similar assets).

For all other property owned by Erste Group through subsidiaries located in CEE countries the valuations are carried out mainly using the comparative and investment methods. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors.

Due to a changed intensity in the market of properties and its effect on valuation of non-financial assets, the disclosure of the level has been ammended retrospectively to level 3.

The book value related to investment property for which no disclosure according to IFRS 13 is required amounts to EUR 212 million as of 31 December 2016. The corresponding fair value amounts to EUR 214 million.

The book value related to assets held for sale for which no disclosure according to IFRS 13 is required amounts to EUR 60 million as of 31 December 2016. The corresponding fair value amounts to EUR 70 million.

48. Financial instruments per category according to IAS 39

Dec 17 in EUR million	Category of financial instruments Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Derivatives designated as hedging instruments	Finance lease according to IAS 17	Total
Assets										
Cash and cash balances	17,494	0	0	0	0	0	4,303	0	0	21,796
Loans and receivables to credit institutions	9,126	0	0	0	0	0	0	0	0	9,126
Loans and receivables to customers	135,845	0	0	0	0	0	0	0	3,688	139,532
Derivatives - hedge accounting	0	0	0	0	0	0	0	884	0	884
Financial assets - held for trading	0	0	6,349	0	0	0	0	0	0	6,349
Financial assets - at fair value through profit or loss	0	0	0	543	0	0	0	0	0	543
Financial assets - available for sale	0	0	0	0	16,060	0	0	0	0	16,060
Financial assets - held to maturity	0	19,800	0	0	0	0	0	0	0	19,800
Total financial assets	**162,464**	**19,800**	**6,349**	**543**	**16,060**	**0**	**4,303**	**884**	**3,688**	**214,091**
Net gains / losses of financial instruments per category										
Net gains / losses recognized through profit or loss	-100	3	184	10	123	0				
Net gains / losses recognized through OCI	0	0	0	0	-185	0				
Liabilities										
Financial liabilities - held for trading	0	0	3,423	0	0	0	0	0	0	3,423
Financial liabilities - at fair value through profit or loss	0	0	0	1,801	0	0	0	0	0	1,801
Financial liabilities measured at amortised cost	0	0	0	0	0	191,711	0	0	0	191,711
Derivatives - hedge accounting	0	0	0	0	0	0	0	360	0	360
Total financial liabilities	**0**	**0**	**3,423**	**1,801**	**0**	**191,711**	**0**	**360**	**0**	**197,296**
Net gains/ losses recognized through profit or loss	0	0	53	-23	0	1				

Net gains/losses recognised through profit or loss include impairments.

Dec 16 in EUR million	Category of financial instruments: Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Derivatives designated as hedging instruments	Finance lease according to IAS 17	Total
Assets										
Cash and cash balances	14,614	0	0	0	0	0	3,738	0	0	18,353
Loans and receivables to credit institutions	3,469	0	0	0	0	0	0	0	0	3,469
Loans and receivables to customers	126,804	0	0	0	0	0	0	0	3,850	130,654
Derivatives - hedge accounting	0	0	0	0	0	0	0	1,424	0	1,424
Financial assets - held for trading	268	0	7,683	0	0	0	0	0	0	7,950
Financial assets - at fair value through profit or loss	0	0	0	480	0	0	0	0	0	480
Financial assets - available for sale	0	0	0	0	19,886	0	0	0	0	19,886
Financial assets - held to maturity	0	19,270	0	0	0	0	0	0	0	19,270
Total financial assets	**145,156**	**19,270**	**7,683**	**480**	**19,886**	**0**	**3,738**	**1,424**	**3,850**	**201,487**
Net gains / losses of financial instruments per category										
Net gains/ losses recognized through profit or loss	-184	-1	119	-2	147	0				
Net gains / losses recognized through OCI	0	0	0	0	-5	0				
Liabilities										
Financial liabilities - held for trading	0	0	4,762	0	0	0	0	0	0	4,762
Financial liabilities - at fair value through profit or loss	0	0	0	1,763	0	0	0	0	0	1,763
Financial liabilities measured at amortised cost	0	0	0	0	0	178,909	0	0	0	178,909
Derivatives - hedge accounting	0	0	0	0	0	0	0	473	0	473
Total financial liabilities	**0**	**0**	**4,762**	**1,763**	**0**	**178,909**	**0**	**473**	**0**	**185,906**
Net gains/ losses recognized through profit or loss	0	0	41	-9	0	-12				

Net gains/losses recognised through profit or loss include impairments.

49. Audit fees and tax consultancy fees

The following table contains fees charged by the auditors of Erste Group Bank AG and subsidiaries for the financial years 2017 and 2016; the auditors being Sparkassen-Prüfungsverband (auditing agency), Price Waterhouse Coopers (2017), Ernst & Young (2016) and Deloitte (auditor for some subsidiaries). The values for PricewaterhouseCoopers comprise the services of 'PwC Wirtschaftsprüfung GmbH' as well as the PwC network.

in EUR thousand	Dec 16	Dec 17
Statutory audit of financial statements/consolidated financial statements	**15,155**	**12,647**
Audit fees - PwC	0	5,248
Audit fees - E&Y	7,857	0
Audit fees - Spk.Pr.V	6,459	7,395
Audit fees - Others	839	3
Other assurance services	**3,401**	**1,552**
Other assurance services - PwC	0	822
Other assurance services - E&Y	1,797	0
Other assurance services - Spk.Pr.V	782	730
Other assurance services - Other	822	0
Tax consulting	**2,947**	**27**
Tax consulting - PwC	0	12
Tax consulting - E&Y	922	0
Tax consulting - Spk.Pr.V	0	0
Tax consulting - Others	2,025	15
Other services	**10,505**	**3,446**
Other services - PwC	0	3,425
Other services - E&Y	3,074	0
Other services - Spk.Pr.V	30	21
Other services - Others	7,401	0
Total	**32,008**	**17,672**

The Sparkassen-Prüfungsverband (Austrian Savings Bank Auditing Association) provided audit services for an amount of EUR 2,058 thousand to Erste Group Bank AG and EUR 5,337 thousand for the subsidiaries. For other assurance services EUR 41 thousand were charged to the subsidiaries of Erste Group Bank AG while EUR 21 thousand is the amount for other services provided to the subsidiaries. The auditor 'PwC Wirtschaftsprüfung GmbH' provided audit services to Erste Group Bank AG for EUR 1,040 thousand and to the subsidiaries for EUR 699 thousand. An amount of EUR 3,509 thousand was charged for audit services of the PricewaterhouseCoopers network to the subsidiaries. The total amount for other assurance services provided by 'PwC Wirtschaftsprüfung GmbH' is EUR 305 thousand.

50. Contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do involve credit risk and are therefore part of the overall risk of the Bank (see Note 44.4 Credit risk).

Legal proceedings

Erste Group Bank AG and some of its subsidiaries are involved in legal disputes, most of which have arisen in the course of ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of Erste Group or Erste Group Bank AG. In particular there may also sustain losses from legal risks where the occurrence of a loss is not probable, but also not improbable, and for which no provisions have been recognised. Neither for the date on which the risk may materialise nor for any potential reimbursements a reliable estimate can be made.

Erste Group is also subject to the following ongoing proceedings, some of which, if adversely adjudicated, may have a significant impact on the financial position or profitability of Erste Group or Erste Group Bank AG.

Consumer protection claims

Several banking subsidiaries of Erste Group have been named in their respective jurisdictions as defendants in a number of lawsuits and in regulatory proceedings, filed by individual customers, regulatory authorities or consumer protection agencies and associations. Some of the lawsuits are class actions. The lawsuits mainly relate to allegations that certain contractual provisions, particularly in respect of consumer loans, violate mandatory consumer protection laws and regulations and that certain fees charged to customers in the past must be repaid. The allegations relate to the enforceability of certain fees as well as of contractual provisions for the adjustment of interest rates and currencies. In some jurisdictions the legal risks in connection with loans granted in the past to consumers are also increased by the enactment of politically motivated laws impacting existing lending relationships, which may result in repayment obligations towards customers, and a level of unpredictability of judicial decisions beyond the level of uncertainty generally imminent in court proceedings. The following consumer protection issues are deemed particularly noteworthy:

In Romania, BCR is, besides being a defendant in a substantial number of individual law suits filed by consumers, among several local banks pursued by the consumer protection authority for alleged abusive clauses pertaining to pre-2010 lending practices. In connection therewith, BCR is currently a defendant in individual litigation claims filed by the local consumer protection authority, in each case on behalf of a single or several borrowers. Only few of these cases have so far been finally decided by the courts, none of them with an adverse result for BCR. If one of these cases on the validity of certain clauses becomes adversely adjudicated, this may have the impact of invalidating such clauses also in similar agreements of BCR with other consumers.

In Hungary, foreign currency loan related invalidity lawsuits by consumers against banks, including EBH, have been suspended by the regulations of the 2014 consumer loan law. After the completion of the settlement and the refund process with the customers concerned with the litigation, only a part of the proceedings has been continued so far. However, there is a steady tendency of consumers initiating further court cases after and irrespective of the settlement process completed fully in line with the 2014 consumer loan regulations. In the new statements of claim frequently legal issues are raised which have not been affected and resolved by the 2014 consumer loan regulations. It is expected that EBH will remain a defendant in a number of these litigations and that consumers will continue and initiate further court cases, creating a high level of legal uncertainty. In a number of lawsuits against banks, some of them with EBH as a party, a preliminary ruling of the European Court of Justice ('ECJ') has been initiated by local courts. The questions referred to the ECJ mainly examine the compliance of FX loan agreements with European regulations on consumer protection. As a result of these pending procedures, numerous pending lawsuits have been suspended until the ECJ adopts the preliminary rulings. Furthermore, in case the ECJ's rulings would be favorable for the plaintiffs, this might lead to an increase of the number of pending lawsuits against EBH.

In Croatia, the Supreme Court of Croatia, in a proceeding initiated by a local consumer protection association against several banks, among them EBC, declared in 2015 that FX clauses in loan agreements with consumers are valid but contractual provisions permitting unilateral change of the variable interest rates in CHF denominated consumer loans, used by the majority of banks until 2008, are null and void. In late 2016, the Croatian Constitutional Court rescinded the part of the Supreme Court decision relating to the validity of FX clauses, while it upheld the verdict regarding the (in)validity of the interest rate clause. The Supreme Court has been ordered to amend its decision as it allegedly violated the constitutional right to fair trial by not providing sufficient explanation for its decision regarding FX clauses. In late 2017 the Supreme Court rescinded the second instance decision and returned the case with respect to the FX clause for a retrial to the court of second instance. The outcome of such further judicial review is highly unpredictable and so is its impact, if any, on legal disputes with individual clients related to CHF denominated loan agreements in light of the laws enacted in 2015 that forced banks to accept requests from clients that are consumers or individual professionals to convert their CHF denominated loans into EUR with retroactive effect.

Corporate Bond investors's prospectus claims

Since 2014 a number of investors in corporate bonds, issued by a large Austrian construction group in the years 2010, 2011 and 2012, have filed claims with the courts of Vienna against Austrian banks, among them Erste Group Bank AG, requesting compensation for their losses as bond-holders following the bankruptcy of the issuer in 2013. The plaintiffs argue in essence that the defendant banks, who acted as joint-lead managers in the issuing of the respective bond, already knew of the insolvency status of the issuer at such time and should be liable for the issuing prospectus failing to state this. Erste Group Bank AG, together with a second Austrian bank, acted as joint-lead manager of the bond issuance in 2011. Erste Group Bank AG rejects the claims. In 2017 the public prosecutor charged with criminal investigations into the insolvency has terminated investigations against unknown responsible officers of the banks involved in the issuing of the bonds for lack of indication for any criminal wrongdoing, stating that there were neither hints for a deception of investors nor hints that the banks had information on the allegedly bad financial situation of the issuer at the time of the issuing of the bonds.

BCR Banca pentru Locuinte dispute

In 2015, the Romanian Court of Accounts ('CoA') conducted an audit review in BCR Banca Pentru Locuinte ('BpL') in order to assess whether the credit institution has allocated the state subsidies to its clients in accordance with the applicable legal provisions. Following the review, the CoA claims that several deficiencies were identified and that conditions for state subsidies have not been met. BpL did not accept the position taken by the CoA and initiated a contestation process which is currently ongoing. In early 2017, the court of first instance announced its decision: it accepted the BpL contestation on the most relevant counts, while also upholding a few of the findings of the CoA report. The obligation of repayment of subsidies under the CoA decision has been temporary suspended through an injunction granted to the credit institution in the court of first instance.

51. Analysis of remaining maturities

This table contains information about the expected remaining maturities of assets and liabilities:

in EUR million	Dec 16		Dec 17	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	18,353	0	21,796	0
Financial assets - held for trading	2,668	5,283	1,851	4,498
Derivatives	1,011	3,463	981	2,352
Other trading assets	1,657	1,819	870	2,146
Financial assets - designated at fair value through profit or loss	55	425	28	515
Financial assets - available-for-sale	2,963	16,922	1,796	14,264
Financial assets - held to maturity	2,086	17,184	1,519	18,281
Loans and receivables to credit institutions	3,238	232	8,682	443
Loans and receivables to customers	23,500	107,155	24,815	114,717
Derivatives - hedge accounting	214	1,211	110	774
Property and equipment	0	2,477	0	2,387
Investment properties	0	1,023	0	1,112
Intangible assets	0	1,390	0	1,524
Investments in associates and joint ventures	0	193	0	198
Current tax assets	124	0	108	0
Deferred tax assets	0	234	0	258
Assets held for sale	279	0	214	0
Other assets	809	211	584	185
Total Assets	**54,288**	**153,939**	**61,504**	**159,155**
Finanacial liabilities - held for trading	1,084	3,677	878	2,545
Derivatives	918	3,266	863	2,071
Other trading liabilities	166	411	15	474
Financial liabilities designated at fair value through profit or loss	343	1,420	273	1,529
Deposits from banks	0	0	0	0
Deposits from customers	74	0	49	0
Debt securities issued	269	1,420	224	1,529
Other financial liabilities	0	0	0	0
Financial liabilities measured at amortised cost	117,923	60,986	124,732	66,979
Deposits from banks	9,994	4,638	10,871	5,478
Deposits from customers	103,154	34,785	109,847	41,074
Debt securities issued	3,948	21,554	2,928	20,415
Other financial liabilities	827	9	1,087	13
Derivatives - hedge accounting	132	340	128	232
Changes in fair value of portfolio hedged items	95	847	81	585
Provisions	169	1,533	137	1,511
Current tax liabilities	66	0	101	0
Deferred tax liabilities	0	68	0	61
Liabilities associated with assets held for sale	5	0	3	0
Other liabilities	1,926	1,010	1,906	690
Total Liabilites	**121,744**	**69,881**	**128,238**	**74,133**

52. Own funds and capital requirements

Own funds and capital requirements
Among others, Erste Group fulfils hereinafter the disclosure requirements according to the Capital Requirements Regulation (CRR), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR. References to chapters refer to the financial statements.

Regulatory Requirements
Since 1 January 2014, Erste Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements were implemented within the EU by the Capital Requirements Regulation (CRR) and the Capital Requirement Directive (CRD IV). The CRD IV was enacted in national law in the Austrian Banking Act (ABA). Erste Group applies these rules and calculates the capital ratios according to Basel 3, taking into consideration the Austrian transitional provisions which are defined in the CRR 'Begleitverordnung', published by the Austrian regulator. Starting with 1 October 2016 the European Regulation on the exercise of options and discretions available in Union law entered into force, which is applied by Erste Group as well.

All requirements as defined in the CRR, the ABA , in technical standards issued by the European Banking Authority (EBA) and EBA guidelines are applied by Erste Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles
The financial and regulatory figures published by Erste Group are based on IFRS. Eligible capital components are derived from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation. Further details are explained in the section 'Regulatory scope of consolidation'. The uniform closing date of the consolidated regulatory figures of Erste Group is the 31 December of the respective year.

Comparison of consolidation for accounting purposes and regulatory purposes
Disclosure requirements: Article 436 (b) CRR

Scope of Consolidation
Further details regarding the IFRS scope of consolidation are disclosed in chapter 'B. Significant accounting policies' under the section 'scope of consolidation'.

The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR and the ABA, which introduces the requirements of the CRD IV into national law.

Regulatory scope of consolidation and institutional protection scheme
The consolidated regulatory capital and the consolidated regulatory capital requirements are calculated based on the scope of consolidation stipulated in the Capital Requirements Regulation (CRR). Based on Art. 4 para 1 (3), (16) to (27) CRR in line with Art. 18 and 19 CRR, the scope consists of credit institutions, investment firms, financial institutions and ancillary service undertakings. This definition differs from the scope of consolidation according to IFRS, which also includes insurance companies and other entities.

The Austrian savings banks are included as subsidiaries in Erste Group's regulatory scope of consolidation based on the cross-guarantee contract of the 'Haftungsverbund'. Furthermore, Erste Group Bank AG together with the savings banks forms an institutional protection scheme (IPS) according to Art. 113 (7) CRR. Disclosure requirements for the institutional protection scheme according to Art. 113 (7) e CRR are met by the publication of the consolidated financial statements, which cover all entities included in the institutional protection scheme.

Main differences between the IFRS- and the regulatory scope of consolidation based on the different requirements as defined in IFRS and CRR as well as the ABA
- Based on the CRR and ABA, mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. On the contrary under IFRS all controlled entities, irrespectively of their business purpose, have to be consolidated.
- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower amount of either EUR 10 million or 1% of the total amount and off-balance sheet items of the parent company. Erste Group applies Article 19 (1) CRR.

_ According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. For entities that exceed the limits as defined in Article 19 (1) CRR by insignificant amounts, Erste Group applies Article 19 (2) CRR and follows the requirements for the approval process as defined within this article. Erste Group does not apply Article 19 (1) and (2) CRR for credit institutions and investment firms.

Consolidation methods

Main differences between the IFRS- and the regulatory consolidation method, considering regulatory adjustments

For the calculation of consolidated own funds, Erste Group generally applies the same consolidation methods as used for accounting purposes. The difference relates to Article 18 (4) CRR only, which requires proportional consolidation of entities and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where the liability of those undertakings is limited to the share of the equity held by the institution. Based on Article 18 (4) CRR, Erste Group applies proportional consolidation for two entities.

Consideration of consolidation methods for the calculation of consolidated own funds according to the CRR

The amounts used for the calculation of the own funds derive from the balance sheet according to IFRS. The amounts that are used as the basis for the calculation of own funds are recalculated based on the definition of the regulatory scope of consolidation according to the CRR. The difference between the IFRS balance sheet and the regulatory balance sheet arises from the different scopes of consolidation (see table regarding balance sheet reconciliation). Amounts that relate to the own shares as well as to the minority interests in fully consolidated entities are therefore determined based on the regulatory scope of consolidation according to CRR. Minority interests are calculated based on the requirements as defined in Articles 81 to 88 CRR. Minority interests that relate to entities other than credit institutions are excluded from the own funds. Minority interests that relate to credit institutions are limited to capital requirements that relate to the minority interests in the relevant credit institutions. Erste Group applies Article 84 CRR. According to the European Regulation on the exercise of options and discretions available in Union law, 80% of the non-eligible minorities have to be excluded from consolidated own funds in 2017. As Erste Group applies these transitional provisions on group-level this percentage has been applied to the exclusion of minority interests in own funds as of 31 December 2017. Amounts that relate to minority interests in other comprehensive income are neither included in the consolidated own funds of Erste Group according to the final CRR provisions nor during the transitional period.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated common equity tier 1 of Erste Group

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR that are not fully consolidated or considered by using the at equity method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), 45 and 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity tier 1 (CET1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET1 of the relevant financial sector entities. To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Article 56 (c) and 59 CRR and tier 2 items according to Article 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. The deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the Risk Weighted Assets (RWAs) based on the requirements according to Article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities have to be deducted only if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% RW according to Article 48 (4) CRR.

At the reporting date, Erste Group did not exceed any of the aforementioned thresholds. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of Erste Group and therefore are considered in RWAs.

Threshold calculations according to Articles 46 and 48 CRR

in EUR million	Dec 16	Dec 17
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	1,326	1,445
Holdings in CET1	–150	–168
Holdings in AT1	–16	–15
Holdings in T2	–395	–342
Distance to threshold	**765**	**919**
Significant investments in financial sector entities		
Threshold (10% of CET1)	1,326	1,445
Holdings in CET1	–306	–302
Distance to threshold	**1,019**	**1,143**
Deferred tax assets		
Threshold (10% of CET1)	1,326	1,445
Deferred tax assets that are dependent on future profitability and arise from temporary differences	–157	–203
Distance to threshold	**1,168**	**1,241**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	2,340	2,550
Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	–463	–506
Distance to threshold	**1,876**	**2,044**

Presentation of the scope of consolidation

Number of entities within the different scopes of consolidation

	IFRS		CRR			
Dec 17	Full	Equity	Full	Proportional	De Minimis	Equity
Credit institutions	67	2	67	1	0	1
Financial institutions, financial holding companies and mixed financial holding companies	201	36	199	1	40	18
Ancillary service undertakings, investment firms and asset management companies	70	1	42	0	56	1
Others	84	12	0	0	0	0

	IFRS		CRR			
Dec 16	Full	Equity	Full	Proportional	De Minimis	Equity
Credit institutions	67	2	67	1	0	1
Financial institutions, financial holding companies and mixed financial holding companies	214	35	211	1	43	17
Ancillary service undertakings, investment firms and asset management companies	78	1	50	0	57	1
Others	89	13	0	0	0	0

As of 31 December 2017 the number of companies consolidated according to IFRS was 473. The number of companies consolidated according to regulatory capital requirements, except those entities which are covered by Article 19 (1) and (2) CRR was 330.

Impediments to the transfer of own funds

Disclosure requirement: Article 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital known for Erste Group. Further details are disclosed in chapter 'B. Significant accounting policies'.

Total capital shortfall of all subsidiaries not included in the consolidation

Disclosure requirement: Article 436 (d) (e) CRR

As of 31 December 2017, there was no capital shortfall at any of the companies included in Erste Group's consolidation.

Own funds

Own funds according to CRR consist of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk.

The items of own funds as disclosed are also used for internal capital management purpose. Erste Group fulfilled the capital requirements.

The regulatory minimum capital ratios including the regulatory buffers as of December 2017 amount to

- 6.4% for CET1 (4.5% CET1, +1.25% capital conservation buffer, +0.5% buffer for systemic vulnerability and for systemic concentration risk and +0.15% countercyclical capital buffer),
- 7.9% for tier 1 capital (sum of CET1 and AT1) and
- 9.9% for total own funds.

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP).

Capital buffer requirements are set out in sections 23 (capital conservation buffer), 23a (countercyclical buffer), 23b (Global Systemic Important Institution (G-SII) buffer), 23c (Other Systemic Important Institution (O-SII) buffer) and 23d (systemic risk buffer) of the ABA and further specified in the regulation of the Financial Market Authority (FMA) on the establishment and recognition of the countercyclical buffer rate in accordance with section 23a para 3 ABA, on the establishment of the systemic risk buffer in accordance with section 23d para 3 ABA as well as on the detailed definition of the bases of calculation in accordance with section 23a para 3 clause 1 ABA and section 24 para 2 ABA (capital buffers regulation). All capital buffers have to be met entirely with CET1 capital and relate, accept the countercyclical buffer, to total risk.

Sections 23, 23a, 23b and 23c ABA as well as the capital buffers regulation entered into force on 1 January 2016. The capital buffers regulation was amended on 23 May 2016 to include requirements for O-SII buffers. As of the reporting date 31. December 2017, Erste Group has to fulfil the following capital buffer requirements.

According to section 23 para 1 ABA, Erste Group has to establish a capital conservation buffer in the amount of 2.5%.
The transitional provisions for capital conservation buffers, by way of derogation from the requirements under section 23 ABA, are regulated in section 103q para 11 ABA as follows

- For the period from 1 January 2016 until 31 December 2016: 0.625%;
- For the period from 1 January 2017 until 31 December 2017: 1.25%;
- For the period from 1 January 2018 until 31 December 2018: 1.875%.

According to section 23a ABA the capital buffer requirement for the countercyclical capital buffer is regulated in section 4 capital buffers regulation as follows

- The institution specific requirement for the countercyclical buffer in accordance with section 23a para 1 ABA results from the weighted average of the rates of the countercyclical capital buffer that apply in the jurisdictions where significant credit risk positions are situated in accordance with section 5 of the credit institution, multiplied by the total amount of risk in accordance with Art. 92 (3), of the Regulation (EU) no. 575/2013
- For the calculation of the weighted average according to para 1 capital buffer requirement, the countercyclical buffer quota for the national area as defined by the respective authority is multiplied with the result out of the comparison of the capital requirement relat-

ed to significant credit risk positions within the national area and the total capital requirement as defined within Part 3, Title II and IV of Regulation (EU) no. 575/2013.
_ Starting from 1 January 2016 is for the purposes of section 23a para 3 clause 2 ABA the capital buffer rate for the home country allocated, significant credit risk positions 0%.
_ If the competent authority of another member state or a third country for the national legal area determines a rate of over 2.5% for the purposes of para 1 for significant credit risk positions in this legal area, a rate of 2.5% has to be applied.
_ If the responsible third country authority establishes a national buffer rate, this rate is valid twelve months after the date on which the relevant third country authority has announced a change in the buffer rate.

The transitional provisions for the countercyclical buffer, by way of derogation from the requirements under section 23a ABA, are regulated in section 103q para 11 ABA as follows
_ For the period from 1 January 2016 until 31 December 2016: maximum of 0.625%;
_ For the period from 1 January 2017 until 31 December 2017: maximum of 1.25%;
_ For the period from 1 January 2018 until 31 December 2018: maximum of 1.875%.

Erste Group is not obliged to establish a G-SII buffer in line with section 23b ABA. According to Section 7b of the capital buffers regulation, Erste Group has to establish an O-SII buffer under section 23c ABA in the amount of 2%. However, Erste Group is only required to hold the higher of the O-SII and the systemic risk buffer under section 23d ABA. As the size of the O-SII buffer as well as the transitional arrangements for its introduction are identical to the provisions for the systemic risk buffer as set out below, no additional buffer requirements arise for Erste Group.

With respect to the systemic risk buffer under section 23d ABA, the capital buffers regulation specifies
_ According to section 7 para 1 (2) capital buffers regulation, Erste Group has to establish a capital buffer for systemic vulnerability in the amount of 1%.
_ According to section 7 para 2 (1) capital buffers regulation, Erste Group has to establish a capital buffer for the systemic concentration risk in the amount of 1%.

In accordance with section 10 capital buffers regulation systemic risk buffer is phased in according to the schedule below
_ from 1 January to 31 December 2016 with 0.25%,
_ from 1 January to 31 December 2017 with 0.5%,
_ from 1 January to 31 December 2018 with 1%.

As a result of the 2016 SREP performed by the European Central Bank (ECB), Erste Group on a consolidated level is required to meet a transitional common equity tier 1 (CET1) ratio of 6.25% as of 31. December 2017. This minimum CET1 ratio of 6.25% includes Pillar 1 minimum requirement (4.5%) and Pillar 2 requirement (P2R, 1.75% valid as of 1 January 2017). In addition, Erste Group is subject to combined buffer requirement consisting of phasing in capital conservation buffer (1.25%), the institution specific countercyclical capital buffer (0.15%) and the systemic risk buffer (0.5%) requirements. Thus, overall transitional CET1 capital requirement amounts to 8.15%. In addition, ECB expects Erste Group to meet a Pillar 2 Guidance (P2G, 1.66% valid as of 1 January 2017), fully in CET1 capital. The Pillar 2 Guidance is not MDA (maximum distributable amount) relevant.

Overview of capital requirements and buffers

	Dec 16	Dec 17
Pillar 1		
Minimum CET1 requirement	4.50%	4.50%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirement	8.00%	8.00%
Combined buffer requirement (CBR)	0.88%	1.90%
Capital conservation buffer	0,625%	1.25%
Countercyclical capital buffer	0,003%	0.15%
Systemic risk buffer (SRB)	0.25%	0.50%
O-SII capital buffer	0.25%	0.50%
Pillar 2		
Pillar 2 requirement (P2R)	4.38%	1.75%
Total CET1 requirement for Pillar 1 and Pillar 2	**9.75%**	**8.15%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**n.a**	**9.65%**
Total Capital requirement for Pillar 1 and Pillar 2	**n.a**	**11.65%**

The combined buffer requirement is the sum of the capital conservation buffer, the countercyclical capital buffer and the maximum of the O-SII capital buffer or the systemic risk buffer.

The Pillar 2 requirement has to be fulfilled with CET1 capital and excludes the P2G.

The Pillar 2 requirement of 4.38% for 2016 % (without the Pillar 1 requirement of 4.5% and the capital conservation buffer requirement of 0.625%) is calculated based on the CET1 requirement of 9.5% defined by ECB.

Capital structure according to EU regulation 575/2013 (CRR)

		Dec 16		Dec 17	
in EUR million	Article pursuant to CRR	Phased-in	Final	Phased-in	Final
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	2,336	2,336	2,336	2,336
Retained earnings	26 (1) (c), 26 (2)	9,518	9,518	10,266	10,266
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	−276	−276	−233	−233
Minority interest recognised in CET1	4 (1) (120) 84	3,581	3,581	3,909	3,909
Transitional adjustments due to additional minority interests	479, 480	72	0	37	0
Common equity tier 1 capital (CET1) before regulatory adjustments		**15,232**	**15,160**	**16,315**	**16,278**
Own CET1 instruments	36 (1) (f), 42	−35	−35	−105	−105
Prudential filter: cash flow hedge reserve	33 (1) (a)	−88	−88	−5	−5
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	−57	−57	146	146
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	−8	−8	−4	−4
Value adjustments due to the requirements for prudent valuation	34, 105	−90	−90	−83	−83
Regulatory adjustments relating to unrealised gains (20%)	468	−346	0	−154	0
Regulatory adjustments relating to unrealised losses (20%)	467	43	0	16	0
Securitizations with a risk weight of1,250%	36 (1) (k)	−29	−29	−29	−29
Goodwill	4 (1) (113), 36 (1) (b), 37	−709	−709	−712	−712
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	−646	−646	−801	−801
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	36 (1) (c), 38	−74	−74	−49	−49
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	−168	−168	−187	−187
Other transitional adjustments CET1	469 to 472, 478, 481	659	0	365	0
Goodwill (20%)		284	0	142	0
Other intangible assets (20%)		258	0	160	0
IRB shortfall of provisions to expected losses (20%)		67	0	37	0
Deferred tax assets allocated up to December 2013, that rely on future profitability and do not arise from temporary differences net of associated tax liabilities (70%)		33	0	1	0
Deferred tax assets allocated on or after January 2014 that rely on future profitability and do not arise from temporary differences net of associated tax liabilities (20%)		13	0	9	0
Own CET1 instruments (20%)	36 (1) (f)	3	0	14	0
Excess of deduction from AT1 items over AT1	36 (1) (j)	−82	0	0	0
Common equity tier 1 capital (CET1)	**50**	**13,602**	**13,256**	**14,712**	**14,448**
Additional tier 1 capital (AT1)					
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	497	497	993	993
Instruments issued by subsidiaries that are given recognition in AT1	85, 86	2	2	0	0
Additional tier 1 capital (AT1) before regulatory adjustments		**499**	**499**	**993**	**993**
Own AT1 instruments	52 (1) (b), 56 (a), 57	−2	−2	−2	−2
Transitional adjustments due to grandfathered AT1 instruments	483 (4) (5), 484 to 487, 489, 491	0	0	0	0
AT1 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 56 (d), 59, 79	0	0	0	0
Other transitional adjustments AT1	474, 475, 478, 481	−579	0	−336	0
Goodwill (20%)		−284	0	−142	0
Other intangibles (20%)		−258	0	−160	0
IRB shortfall of provisions to expected losses (10%)		−34	0	−19	0
Own CET1 instruments (20%)	36 (1) (f)	−3	0	−14	0
Excess of deduction from AT1 items over AT1	36 (1) (j)	82	0	0	0
Additional tier 1 capital (AT1)	**61**	**0**	**497**	**656**	**992**
Tier 1 capital = CET1 + AT1	**25**	**13,602**	**13,753**	**15,368**	**15,440**

The table will be continued on the subsequent page.

Continuation of the table:

in EUR million	Article pursuant to CRR	Dec 16 Phased-in	Dec 16 Final	Dec 17 Phased-in	Dec 17 Final
Tier 1 capital = CET1 + AT1	**25**	**13,602**	**13,753**	**15,368**	**15,440**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	4,580	4,580	4,385	4,385
Instruments issued by subsidiaries recognised in T2	87, 88	217	217	219	219
Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries	480	128	0	61	0
Transitional adjustments due to grandfathered T2 instruments and subordinated loans	483 (6) (7), 484, 486, 488, 490, 491	0	0	0	0
IRB excess of provisions over expected losses eligible	62 (d)	402	402	344	344
Tier 2 capital (T2) before regulatory adjustments		**5,326**	**5,199**	**5,010**	**4,948**
Own T2 instruments	63 (b) (i), 66 (a), 67	−58.3	−58.3	−50	−50
Standardised approach general credit risk adjustments	62 (c)	0	0	0	0
Other transitional adjustments to T2	476, 477, 478, 481	−34	0	−19	0
IRB shortfall of provisions to expected losses (10%)		−34	0	−19	0
T2 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 66 (d), 68, 69, 79	−0.6	−0.6	−0.6	−0.6
Tier 2 capital (T2)	**71**	**5,234**	**5,140**	**4,940**	**4,898**
Total own funds	**4 (1) (118) and 72**	**18,836**	**18,893**	**20,309**	**20,337**
Capital requirement	**92 (3), 95, 96, 98**	**8,145**	**8,291**	**8,802**	**8,926**
CET1 capital ratio	**92 (2) (a)**	**13.4%**	**12.8%**	**13.4%**	**12.9%**
Tier 1 capital ratio	**92 (2) (b)**	**13.4%**	**13.3%**	**14.0%**	**13.8%**
Total capital ratio	**92 (2) (c)**	**18.5%**	**18.2%**	**18.5%**	**18.2%**

Retained earnings include EUR 728 million of total comprehensive income attributable to owners of the parent.
Minority interest recognised in CET1includes interim result from saving banks in an amount of EUR 216 million.

The capital structure table above is based on EBA's final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Positions, which are not relevant for Erste Group are not disclosed. The full EBA ITS are shown further back. Basel 3 final figures (fully loaded) are calculated based on the current requirements according to CRR.

Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available.

The percentage rates of the transitional provisions refer to the current year.

For 2016 the following percentages applied for CET1: Regulatory adjustments relating to unrealised gains (40%) and losses (40%); Other transitional adjustments – goodwill, intangible assets, IRB shortfall of provisions to expected losses (40%) and deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities unti December 2013 (80%) and since January 2014 (40%); on AT1 the following percentages applied: Other transitional adjustments – goodwill and other intangible assets (40%) and IRB shortfall of provisions to expected losses (20%); on tier 2 Other transitional adjustments for IRB shortfall of provisions to expected losses of 20% applied.

The consolidated financial statements have not been reviewed and noticed by the supervisory board and the financial statements of Erste Group Bank AG have not been reviewed by the supervisory board yet.

Likewise financial statements of single entities within the group have not been noticed by the supervisory board yet. In addition, no resolution on the appropriation of the profit has yet been made by the general meeting of the single entity.

Internal models adopted to compute credit RWA in Pillar 1 and respective validations have been assessed by the competent authorities during the last months. These internal models are currently subject to a revision in the context of a comprehensive project with the specific view of addressing identified findings and incorporating regulatory changes. The project comprises a review of the estimation and validation methodologies of the parameters PD, LGD and CCF, the definition of default and changes in rating methods and their validation.

Erste Group reports since the end of the second quarter of 2017 on consolidated level an RWA-add-on in view of the calculation of risk-weighted assets for credit risk in Banca Comercială Română (BCR) in the amount of around EUR 2.4 billion. This RWA increase frontloads the expected difference in BCR between the treatments of exposures under the Standardised Approach compared to the treatment under IRB and is limited in time until the authorization of the IRB-approach in BCR.

Furthermore Erste Group is reporting on consolidated level since Q3 2017 - due to a decision of the European Central Bank in the context of its supervisory assessments in view of deficiencies in credit risk models – a RWA-Add-On of around EUR 1.7 billion until these deficiencies will be addressed in the course of an update of these models.

With a CET1 ratio as of 31 December 2017 of 13.4% (Basel 3 phased-in) on consolidated level, Erste Group Bank AG is robustly capitalized.

Risk structure according to EU regulation 575/2013 (CRR)

		Dec 16		Dec 17	
in EUR million	Article pursuant to CRR	Total risk (calculation base, phased-in)	Capital requirement (phased-in)	Total risk (calculation base, phased-in)	Capital requirement (phased-in)
Total Risk Exposure Amount	92 (3), 95, 96, 98	101,809	8,145	110,028	8,802
Risk weighted assets (credit risk)	92 (3) (a) (f)	81,915	6,553	86,162	6,893
Standardised approach		14,998	1,200	15,640	1,251
IRB approach		66,918	5,353	70,522	5,642
Settlement Risk	92 (3) (c) (ii), 92 (4) (b)	0	0	1	0
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	3,612	289	2,914	233
Operational Risk	92 (3) (e), 92 (4) (b)	15,140	1,211	17,911	1,433
Exposure for CVA	92 (3) (d)	1,141	91	622	50
Other exposure amounts (incl. Basel 1 floor)	3, 458, 459, 500			2,419	194

		Dec 16		Dec 17	
in EUR million	Article pursuant to CRR	Total risk (calculation base, final)	Capital requirement (final)	Total risk (calculation base, final)	Capital requirement (final)
Total Risk Exposure Amount	92 (3), 95, 96, 98	103,639	8,291	111,571	8,926
Risk weighted assets (credit risk)	92 (3) (a) (f)	83,746	6,700	87,705	7,016
Standardised approach		14,998	1,200	15,640	1,251
IRB approach		68,748	5,500	72,065	5,765
Settlement Risk	92 (3) (c) (ii), 92 (4) (b)	0	0	1	0
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	3,612	289	2,914	233
Operational Risk	92 (3) (e), 92 (4) (b)	15,140	1,211	17,911	1,433
Exposure for CVA	92 (3) (d)	1,141	91	622	50
Other exposure amounts (incl. Basel 1 floor)	3, 458, 459, 500	0	0	2,419	194

Own funds reconciliation

For the disclosure of own funds, Erste Group follows the requirements according to Art. 437 CRR as well as the requirements defined in the Implementing Technical Standards (EU) No 1423/2013, which were published in the Official Journal of the European Union on 20 December 2013. Furthermore Ertse Group applies the EBA Guideline No 2014/14 of more frequents disclosure regarding own funds.

Based on the requirements defined by the EBA in the Implementing Technical Standards, the following information must be provided:

_ A full reconciliation of CET1 items - additional tier 1 (AT1) items, tier 2 (T2) items, filters and deductions applied pursuant to Art. 32 to 35,36, 56, 66 and 79 CRR- to the own funds of the institution's balance sheet in accordance with Art. 437 (1) (a) CRR (see the following tables: Balance sheet, Total equity, Intangible assets, Tax assets and liabilities, Subordinated liabilities).

_ A table designed by the EBA in order to show the capital structure of regulatory capital. The table includes details on the capital structure of Erste Group including the capital components as well as any regulatory deductions and prudential filters. Disclosures in this table cover the disclosure requirements as defined in Art. 437 (1) (d) CRR, separate disclosure of the nature and amounts of each prudential filter applied pursuant to Art. 32 to 35 CRR, each deduction according to Art. 36, 56 and 66 CRR as well as items not deducted in accordance with Art. 47, 48, 56, 66 and 79 CRR.

The tables in the following sections may contain rounding differences.

Balance sheet reconciliation

Disclosure requirement: Art. 437 (1) (a) CRR

The table below represents the difference between the IFRS - and the regulatory scope of consolidation. Details regarding the number of entities within the different scopes of consolidation are disclosed in the aforementioned ‘Presentation of the scope of consolidation’ table.

Balance Sheet

	Dec 16			Dec 17		
in EUR million	IFRS	Effects - scope of consolidation	CRR	IFRS	Effects - scope of consolidation	CRR
Assets						
Cash and cash balances	18,353	–6	18,347	21,796	–2	21,794
Financial assets - held for trading	7,950	–2	7,949	6,349	–6	6,343
Derivatives	4,475	2	4,477	3,333	–2	3,331
Other trading assets	3,476	–4	3,471	3,016	–4	3,012
Financial assets - at fair value through profit or loss	480	–58	422	543	–29	514
Financial assets - available for sale	19,886	–463	19,423	16,060	–495	15,565
Financial assets - held to maturity	19,270	–1	19,269	19,800	–1	19,799
Loans and receivables to credit institutions	3,469	–13	3,457	9,126	–4	9,122
Loans and receivables to customers	130,654	513	131,167	139,532	337	139,869
Derivatives - hedge accounting	1,424	0	1,424	884	0	884
Changes in fair value of portfolio hedged items	0	0	0	0	0	0
Property and equipment	2,477	–100	2,377	2,387	–109	2,278
Investment properties	1,023	–247	776	1,112	–283	828
Intangible assets	1,390	–8	1,383	1,524	–9	1,515
Investments in associates and joint ventures	193	–23	170	198	–25	174
Current tax assets	124	0	124	108	0	107
Deferred tax assets	234	–3	231	258	–6	252
Assets held for sale	279	–125	154	214	–78	136
Other assets	1,020	112	1,132	769	92	860
Total assets	**208,227**	**–422**	**207,805**	**220,659**	**–619**	**220,041**
Liabilities and equity						
Financial liabilities - held for trading	4,762	4	4,766	3,423	1	3,424
Derivatives	4,185	3	4,187	2,934	1	2,935
Other trading liabilities	577	1	578	489	0	489
Financial liabilities - at fair value through profit or loss	1,763	0	1,763	1,801	0	1,801
Deposits from banks	0	0	0	0	0	0
Deposits from customers	74	0	74	49	0	49
Debt securities issued	1,689	0	1,689	1,753	0	1,753
Other financial liabilities	0	0	0	0	0	0
Financial liabilities measured at amortised costs	178,909	–281	178,628	191,711	–411	191,300
Deposits from banks	14,631	178	14,809	16,349	–4	16,345
Deposits from customers	137,939	158	138,097	150,921	162	151,082
Debt securities issued	25,503	–80	25,423	23,342	–35	23,307
Other financial liabilities	836	–538	298	1,099	–534	566
Derivatives - hedge accounting	473	0	473	360	0	360
Changes in fair value of portfolio hedged items	942	0	942	666	0	666
Provisions	1,702	–8	1,694	1,648	–10	1,638
Current tax liabilities	66	–2	63	101	–2	99
Deferred tax liabilities	68	–9	59	61	–12	50
Liabilities associated with assets held for sale	5	–5	0	3	0	3
Other liabilities	2,936	–24	2,912	2,596	–104	2,492
Total equity	**16,602**	**–96**	**16,506**	**18,288**	**–82**	**18,206**
Equity attributable to non-controlling interests	4,142	2	4,144	4,416	–13	4,403
Equity attributable to owners of the parent	12,460	–98	12,362	13,872	–69	13,803
Total liabilities and equity	**208,227**	**–422**	**207,805**	**220,659**	**–619**	**220,041**

The following tables represent, as far as possible, a reconciliation between the IFRS balance sheet items to the items of CET1, AT1 and T2, as well as information on the regulatory adjustments arising from correction items in accordance with Art. 32 to 35 CRR and the deductions according to Art. 36, 56, 66 and 79 CRR.

The last column contains a letter that sets the derived amount from IFRS figures with the appropriate eligible amount of own funds presentation during the transitional provisions in conjunction.

Total equity

in EUR million	IFRS	Effects - scope of consolidation	CRR	IPS adjustments	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 17							
Subscribed capital	860	0	860	0	0	860	
Capital reserve	1,477	0	1,477	0	−1	1,476	
Capital instruments and the related share premium accounts	2,336	0	2,336	0	−1	2,336	a
Retained earnings	10,918	−61	10,857	0	−591	10,266	b
Other comprehensive income (OCI)	−375	−8	−383	192	−41	−233	c
Cash flow hedge reserve	4	0	4	1	0	5	g
Available for sale reserve	545	−2	543	340	−186	697	
thereof 20% prudential filter according to 467 CRR	0	0	0	0	0	16	i
thereof 20% prudential filter according to 468 CRR	0	0	0	0	0	−154	h
Currency translation	−503	−6	−509	0	−13	−521	
Remeasurement of net liability of defined pension plans	−364	0	−364	−150	107	−407	
Deferred tax	−57	0	−57	0	57	0	
Other	0	0	0	0	−7	−7	
Equity attributable to the owners of the parent	**12,879**	**−69**	**12,810**	**192**	**−633**	**12,369**	
Additional Tier 1 (AT1)	993	0	993	0	−993	0	
Equity attributable to non-controlling interests	4,416	−13	4,403	−196	−261	3,946	d
Total equity	**18,288**	**−82**	**18,206**	**−5**	**−1,887**	**16,315**	

in EUR million	IFRS	Effects - scope of consolidation	CRR	IPS adjustments	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 16							
Subscribed capital	860	0	860	0	0	860	
Capital reserve	1,478	0	1,478	0	−2	1,476	
Capital instruments and the related share premium accounts	2,338	0	2,338	0	−2	2,336	a
Retained earnings	10,090	−94	9,995	0	−477	9,518	b
Other comprehensive income (OCI)	−464	−4	−468	263	−70	−276	c
Cash flow hedge reserve	107	0	107	2	−22	88	g
Available for sale reserve	632	−1	631	410	−235	806	
thereof 40% prudential filter according to 467 CRR						43	i
thereof 40% prudential filter according to 468 CRR						−346	h
Currency translation	−734	−4	−738	0	−20	−757	
Remeasurement of net liability of defined pension plans	−357	0	−357	−149	101	−405	
Deferred tax	−112	0	−112	0	112	0	
Other	0	0	0	0	−7	−7	
Equity attributable to the owners of the parent	**11,963**	**−98**	**11,865**	**263**	**−550**	**11,578**	
Additional Tier 1 (AT1)	497	0	497	0	−497	0	
Equity attributable to non-controlling interests	4,142	2	4,144	−193	−298	3,653	d
Total equity	**16,602**	**−96**	**16,506**	**70**	**−1,344**	**15,231**	

IPS adjustments include the amounts for entities that are consolidated due to the Institutional Protections Scheme according to Art. 113 (7) CRR.
Further details regarding the development of IFRS equity are disclosed under section Group Statement of Changes in Total Equity.

Intangible assets

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 17						
Intangible assets	1,524	−9	1,515	−2	1,513	
80% deductible from CET1 acc. to transitional provisions					1,210	e
20% deductible from AT1 acc. to transitional provisions					303	k
Intangible assets	**1,524**	**−9**	**1,515**	**−2**	**1,513**	

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 16						
Intangible assets	1.390	-8	1.383	-27	1.355	
60% deductible from CET1 acc. to transitional provisions					813	e
40% deductible from AT1 acc. to transitional provisions					542	k
Intangible assets	**1.390**	**-8**	**1.383**	**-27**	**1.355**	

Details regarding the development of intangible assets are disclosed under Note 27 Intangible assets.

Deferred Taxes

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 17						
Deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	49	0	49	−11	38	f
Related DTA allocated on or after Jan 14 for which 80% CET1 deduction is required according to CRR transitional provisions			47	−9	38	
Related DTA allocated up to Dec 13 for which 30% deduction from CET1 is required according to CRR transitional provisions			2	−1	1	
Deferred tax assets that rely on future profitability and arise from temporary differences	209	−6	203	−203	0	
Deferred tax assets	**258**	**−6**	**252**	**−214**	**38**	

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 16						
Deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	74	0	74	−46	28	f
Related DTA allocated on or after Jan 14 for which 60%CET1 deduction is required according to CRR transitional provisions			33	−13	20	
Related DTA allocated up to Dec 13 for which 20% deduction from CET1 is required according to CRR transitional provisions			41	−33	8	
Deferred tax assets that rely on future profitability and arise from temporary differences	160	−3	157	−157	0	
Deferred tax assets	**234**	**−3**	**231**	**−203**	**28**	

Details regarding deferred tax assets are disclosed under Note 28 Tax assets and liabilities.

Based on the threshold definition according to Art. 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for Erste Group at 31 December 2017. In accordance with Art. 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

Subordinated liabilities and additional tier 1 issuances

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 17						
Subordinated issues, deposits and supplementary capital	5,948	2	5,949	- 1,333	4,616	
Tier 2 capital instruments (including related share premium) issued by the parent company					4,335	l
Qualifying own funds instruments included in consolidated tier 2 capital issued by subsidiaries and held by third parties					281	m
thereof instruments issued by subsidiaries subject to phase-out					61	n
Additional Tier 1 (AT1) issuances	995	0	995	4	992	j
Subordinated liabilities	**6,943**	**2**	**6,944**	**–1,335**	**5,608**	

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 16						
Subordinated issues, deposits and supplementary capital	6.310	3	6.313	-1.446	4.866	
Tier 2 capital instruments (including related share premium) issued by the parent company					4.522	l
Qualifying own funds instruments included in consolidated tier 2 capital issued by subsidiaries and held by third parties					345	m
thereof instruments issued by subsidiaries subject to phase-out					128	n
Additional Tier 1 (AT1) issuances	499	0	499	-2	497	j
Subordinated liabilities	**6.809**	**3**	**6.812**	**-1.448**	**5.364**	

Details regarding subordinated liabilities are disclosed under Note 32 Financial liabilities-at fair value through profit or loss and Note 33 Financial liabilities measured at amortised cost. EUR 131 million subordinated debt in form of deposits are included in the balance sheet position Financial liabilities measured at amortised cost and are not explicitly shown in Note 33. Details for AT1 issuances can be found under section III Group Statement of Changes in Total Equity. Furthermore, EUR 2 million AT1 from Bausparkasse are considered, which are regulatory not taken into account.

Transitional provisions

The Transitional Provisions which are applied by Erste Group, are based on CRR-Supplementary Regulation according to BGBl II Nr. 425/2013, and the regulation of the European Central Bank on the exercise of options and discretions, ECB/2016/4

Own funds template during the transitional period

Disclosure requirements: Art. 437 (1) (d) (e) CRR

Erste Group does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.

The table below presents the composition of the regulatory capital during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU.

In column (A), the current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation. Column (D) provides information of data comparable figures related to IFRS equity, intangible assets, deferred tax assets and subordinated liabilities as previously displayed.

in EUR million		(A) Dec 17	Regulation (EU) No 575/2013 article reference (B)	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) 575/2013 (C)	Reference to reconciliation tables (D)
1	Capital instruments and the related share premium accounts	2,336	26 (1), 27, 28, 29, EBA list 26 (3)	0	a
	of which: ordinary shares	2,336	EBA list 26 (3)	0	a
2	Retained earnings	10,266	26 (1) (c)	0	b
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	–233	26 (1)	0	c
3a	Fund for general banking risk	0	26 (1) (f)	0	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	486 (2)	0	
	Public sector capital injections grandfathered until Jan 18	0	483 (2)	0	
5	Minority interests (amount allowed in consolidated CET1)	3,946	84, 479, 480	–37	d
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)	0	
6	**CET1 capital before regulatory adjustments**	**16,315**		**–37**	
Common Equity Tier 1 (CET1): regulatory adjustments					
7	Additional value adjustments (negative amount)	–83	34, 105	0	
8	Intangible assets (net of related tax liability) (negative amount)	–1,210	36 (1) (b), 37, 472 (4)	–303	e, k
9	Empty set in the EU				
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	–38	36 (1) (c), 38, 472 (5)	–11	f
11	Fair value reserves related to gains or losses on cash flow hedges	–5	33 (a)	0	g
12	Negative amounts resulting from the calculation of expected loss amounts	–150	36 (1) (d), 40, 159, 472 (6)	–37	
13	Any increase in equity that results from securitised assets (negative amount)	0	32 (1)	0	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	142	33 (b)	0	
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41, 472 (7)	0	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–91	36 (1) (f), 42, 472 (8)	–14	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36 (1) (g), 44, 472 (9)	0	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	0	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	0	
20	Empty set in the EU				
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	–29	36 (1) (k)	0	
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 to 91	0	
20c	of which: securitisation positions (negative amount)	–29	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	0	
20d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)	0	

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Continuation of the table

in EUR million		(A) Dec 17	(B)	(C)	(D)
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	0	
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)	0	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) (i), 48 (1) (b), 470, 472 (11)	0	
24	Empty set in the EU				
25	of which: deferred tax assets arising from temporary differences	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	0	
25a	Losses for the current financial year (negative amount)	0	36 (1) (a), 472 (3)	0	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)	0	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0		0	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	–138		138	
	of which: unrealised losses	16	467	–16	i
	of which: unrealised gains	–154	468	154	h
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	0	481	0	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	0	36 (1) (j)	0	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**–1,603**		**–227**	
29	**CET1 capital**	**14,712**		**–265**	
Additional Tier 1 (AT1) capital: instruments			**0**		
30	Capital instruments and the related share premium accounts	993	51, 52	0	
31	of which: classified as equity under applicable accounting standards	993		0	
32	of which: classified as liabilities under applicable accounting standards	0		0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	486 (3)	0	
	Public sector capital injections grandfathered until Jan 18	0	483 (3)	0	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	0	85, 86, 480	0	
35	of which: instruments issued by subsidiaries subject to phase-out	0	486 (3)	0	
36	**AT1 capital before regulatory adjustments**	**993**		**0**	**j**
Additional Tier 1 (AT1) capital: regulatory adjustments					
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	–2	52 (1) (b), 56 (a), 57, 475 (2)	0	j
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56 (b), 58, 475 (3)	0	
39	Holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79, 475 (4)	0	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (d), 59, 79, 475 (4)	0	

The table is continued on the next page.

Continuation of the table

	in EUR million	(A) Dec 17	(B)	(C)	(D)
41	Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e. CRR residual amounts)	0		0	
41a	Residual amounts deducted from AT1 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–336	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	336	
	of which: interim loss	0		0	
	of which: intangible assets	–303		303	k
	of which: shortfall of provisions to expected loss	–19		19	
	of which: own CET1 Instruments	–14		14	
41b	Residual amounts deducted from AT1 with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	477, 477 (3), 477 (4) (a)		
	of which: reciprocal cross holdings in T2 instruments	0		0	
	of which: direct holdings of non-significant investments in the capital of other financial sector entities	0		0	
41c	Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre- CRR	0	467, 468, 481	0	
	of which: possible filter to unrealised losses	0	467	0	
	of which: possible filter to unrealised gains	0	468	0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)	0	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**–337**		**336**	
44	**Additional Tier 1 (AT1) capital**	**656**		**336**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**15,368**		**71**	
Tier 2 (T2) capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	4,385	62, 63	0	l
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0	486 (4)	0	
	Public sector capital injections grandfathered until Jan 18	0	483 (4)	0	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	281	87, 88, 480	–61	m
49	of which: instruments issued by subsidiaries subject to phase-out	61	486 (4)	–61	n
50	Credit risk adjustments	344	62 (c) (d)	0	
51	**Tier 2 (T2) capital before regulatory adjustment**	**5,010**		**–61**	
T2 capital: regulatory adjustments					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–50	63 (b) (i), 66 (a), 67, 477 (2)	0	l
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	66 (b), 68, 477 (3)	0	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	0	66 (c), 69, 70, 79, 477 (4)	0	
54a	of which: new holdings not subject to transitional arrangements	0		0	
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	0		0	

The table is continued on the next page.

Continuation of the table

in EUR million		(A) Dec 17	(B)	(C)	(D)
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	–0.6	66 (d), 69, 79, 477 (4)	0	
56	Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0		0	
56a	Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–19	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	19	
	of which: shortfall of provisions to expected loss	–19	472 (6)	19	
	of which: non-significant investments	0	472 (10)	0	
56b	Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	475, 475 (2) (a), 475 (3), 475 (4) (a)	0	
	of which: reciprocal cross holdings in T1 instruments	0		0	
	of which: direct holdings of non-significant investments in the capital of other financial sector entities	0		0	
56c	Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre- CRR	0	467, 468, 481	0	
	of which possible filter to unrealised losses	0	467	0	
	of which: possible filter to unrealised gains	0	468	0	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–69**		**19**	
58	**Tier 2 (T2) capital**	**4,940**		**–43**	
59	**Total capital (TC = T1 + T2)**	**20,309**		**29**	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	0		0	
	of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	0	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	0	
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	0	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	0	
	of which: items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	0	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	0	
60	**Total risk-weighted assets**	**110,028**		**1,543**	
Capital ratios and buffers					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.4%	92 (2) (a), 465	–0.4%	
62	Tier 1 (as a percentage of total risk exposure amount)	14.0%	92 (2) (b), 465	–0.1%	
63	Total capital (as a percentage of total risk exposure amount)	18.5%	92 (2) (c)	–0.2%	

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Continuation of the table

	in EUR million	(A) Dec 17	(B)	(C)	(D)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	1.90%	CRD 128, 129, 130	0	
65	of which: capital conservation buffer requirement	1.25%		0	
66	of which: countercyclical buffer requirement	0.15%		0	
67	of which: systemic risk buffer requirement	0.50%		0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.50%	CRD 131	0	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.1%	CRD 128	0	
69	[non-relevant in EU regulation]				
70	[non-relevant in EU regulation]				
71	[non-relevant in EU regulation]				
Amounts below the thresholds for deduction (before risk-weighting)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	526	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	0	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	302	36 (1) (i), 45, 48, 470, 472 (11)	0	
74	Empty set in the EU				
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	203	36 (1) (c), 38, 48, 470, 472 (5)	0	
Applicable caps on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62	0	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	195	62	0	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	344	62	0	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	423	62	0	
Capital instruments subject to phase-out arrangements (only applicable between January 2013 and January 2022)					
80	Current cap on CET1 instruments subject to phase-out arrangements	50%	484 (3), 486 (2) & (5)	0	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)	0	
82	Current cap on AT1 instruments subject to phase-out arrangements	50%	484 (4), 486 (3) & (5)	0	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)	0	
84	Current cap on T2 instruments subject to phase-out arrangements	50%	484 (5), 486 (4) & (5)	0	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)	0	

	in EUR million	(A) Dec 16	Regulation (EU) No 575/2013 article reference (B)	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) 575/2013 (C)	Reference to reconciliation tables (D)
1	Capital instruments and the related share premium accounts	2,336	26 (1), 27, 28, 29, EBA list 26 (3)	0	a
	of which: ordinary shares	2,336	EBA list 26 (3)	0	a
2	Retained earnings	9,518	26 (1) (c)	0	b
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	–276	26 (1)	0	c
3a	Funds for general banking risk	0	26 (1) (f)	0	
4	Amount of qualifying items referred to in article 484 (3) and the related share premium accounts subject to phase out from CET1	0	486 (2)	0	
	Public sector capital injections grandfathered until Jan 18	0	483 (2)	0	
5	Minority interests (amount allowed in consolidated CET1)	3,653	84, 479, 480	–72	d
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)	0	
6	**CET1 capital before regulatory adjustments**	**15,232**		**–72**	
Common equity tier 1 (CET1): regulatory adjustments					
7	Additional value adjustments (negative amount)	–90	34, 105	0	
8	Intangible assets (net of related tax liability) (negative amount)	–813	36 (1) (b), 37, 472 (4)	–542	e, k
9	Empty set in the EU				
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	–28	36 (1) (c), 38, 472 (5)	–46	f
11	Fair value reserves related to gains or losses on cash flow hedges	–88	33 (a)	0	g
12	Negative amounts resulting from the calculation of expected loss amounts	–101	36 (1) (d), 40, 159, 472 (6)	–67	
13	Any increase in equity that results from securitised assets (negative amount)	0	32 (1)	0	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–65	33 (b)	0	
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41, 472 (7)	0	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–31	36 (1) (f), 42, 472 (8)	–3	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36 (1) (g), 44, 472 (9)	0	
18	Direct and, indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	0	
19	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	0	
20	Empty set in the EU				
20a	Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative	–29	36 (1) (k)	0	
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 to 91	0	
20c	of which: securitisation positions (negative amount)	–29	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	0	
20d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)	0	

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Continuation of the table

	in EUR million	(A) Dec 16	(B)	(C)	(D)
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	0	
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)	0	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) (i), 48 (1) (b), 470, 472 (11)	0	
24	Empty set in the EU				
25	of which: deferred tax assets arising from temporary differences	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	0	
25a	Losses for the current financial year (negative amount)	0	36 (1) (a), 472 (3)	0	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)	0	
26	Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-CRR treatment	0		0	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	–302		302	
	of which: unrealised losses	43	467	–43	i
	of which: unrealised gains	–346	468	346	h
26b	Amount to be deducted from or added to common equity tier 1 capital with regard to additional filters and deductions required pre CRR	0	481	0	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	–82	36 (1) (j)	82	
28	**Total regulatory adjustments to common equity tier 1 (CET1)**	**–1,629**		**–275**	
29	**CET1 capital**	**13,602**		**–346**	
Additional tier 1 (AT1) capital: instruments					
30	Capital instruments and the related share premium accounts	497	51, 52	0	
31	of which: classified as equity under applicable accounting standards	497		0	
32	of which: classified as liabilities under applicable accounting standards	0		0	
33	Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1	0	486 (3)	0	
	Public sector capital injections grandfathered until Jan 18	0	483 (3)	0	
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	2	85, 86, 480	0	
35	of which: instruments issued by subsidiaries subject to phase-out	0	486 (3)	0	
36	**AT1 capital before regulatory adjustments**	**499**		**0**	**j**
Additional tier 1 (AT1) capital: regulatory adjustments					
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	–2	52 (1) (b), 56 (a), 57, 475 (2)	0	j
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56 (b), 58, 475 (3)	0	
39	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79, 475 (4)	0	
40	Direct and indirect holdings by the institution AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (d), 59, 79, 475 (4)	0	

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Continuation of the table

in EUR million		(A) Dec 16	(B)	(C)	(D)
41	Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0		0	
41a	Residual amounts deducted from AT1 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–579	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	579	
	of which: material net interim loss	0		0	
	of which: intangible assets	–542		542	k
	of which: shortfall of provisions to expected loss	–34		34	
	of which: own CET1 Instruments	–3		3	
41b	Residual amounts deducted from AT1 capital with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	477, 477 (3), 477 (4) (a)		
	of which: reciprocal cross holdings in T2 instruments	0		0	
	of which: direct holdings of non-significant investments in the capital of other financial sector entities	0		0	
41c	Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre-CRR	0	467, 468, 481	0	
	of which: possible filter to unrealised losses	0	467	0	
	of which: possible filter to unrealised gains	0	468	0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)	0	
43	**Total regulatory adjustments to additional tier 1 (AT1) capital**	**–580**		**579**	
44	**Additional tier 1 (AT1) capital**	**0**		**497**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**13,602**		**151**	
Tier 2 (T2) capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	4,580	62, 63	0	l
47	Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2	0	486 (4)	0	
	Public sector capital injections grandfathered until Jan 18	0	483 (4)	0	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	345	87, 88, 480	–128	m
49	of which: instruments issued by subsidiaries subject to phase-out	128	486 (4)	–128	n
50	Credit risk adjustments	402	62 (c) (d)	0	
51	**Tier 2 (T2) capital before regulatory adjustments**	**5,326**		**–128**	
T2 capital: regulatory adjustments					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–58	63 (b) (i), 66 (a), 67, 477 (2)	0	l
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	66 (b), 68, 477 (3)	0	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	0	66 (c), 69, 70, 79, 477 (4)	0	
54a	of which: new holdings not subject to transitional arrangements	0		0	
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements	0		0	

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Continuation of the table

	in EUR million	(A) Dec 16	(B)	(C)	(D)
55	Direct and indirect holdings by the insitution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	−0.6	66 (d), 69, 79, 477 (4)	0	
56	Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0		0	
56a	Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	−34	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	34	
	of which: shortfall of provisions to expected loss	−34	472 (6)	34	
	of which: non-significant investments	0	472 (10)	0	
56b	Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	475, 475 (2) (a), 475 (3), 475 (4) (a)	0	
	of which: reciprocal cross holdings in AT1 instruments	0		0	
	of which: direct holdings of non-significant investments in the capital of other financial sector entities	0		0	
56c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	0	467, 468, 481	0	
	of which possible filter to unrealised losses	0	467	0	
	of which: possible filter to unrealised gains	0	468	0	
57	**Total regulatory adjustments to tier 2 (T2) capital**	**−92**		**34**	
58	**Tier 2 (T2) capital**	**5,234**		**−94**	
59	**Total capital (TC = T1 + T2)**	**18,836**		**57**	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	0		0	
	of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	0	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	0	
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	0	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	0	
	of which: items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.)	0	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	0	
60	**Total risk-weighted assets**	**101,809**		**1,831**	
Capital ratios and buffers					
61	Common equity tier 1 (as a percentage of risk exposure amount)	13.4%	92 (2) (a), 465	−0.6%	
62	Tier 1 (as a percentage of risk exposure amount)	13.4%	92 (2) (b), 465	−0.1%	
63	Total capital (as a percentage of risk exposure amount)	18.5%	92 (2) (c)	−0.3%	

The table is continued on the next page.

Continuation of the table

	in EUR million	(A) Dec 16	(B)	(C)	(D)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	0.878%	CRD 128, 129, 130	0	
65	of which: capital conservation buffer requirement	0.625%		0	
66	of which: countercyclical buffer requirement	0.003%		0	
67	of which: systemic risk buffer requirement	0.25%		0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.25%	CRD 131	0	
68	Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	3.0%	CRD 128	0	
69	[non-relevant in EU regulation]				
70	[non-relevant in EU regulation]				
71	[non-relevant in EU regulation]				
Amounts below the thresholds for deduction (before risk-weighting)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	561	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	0	
73	Direct and indirect holdings by the intitution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	306	36 (1) (i), 45, 48, 470, 472 (11)	0	
74	Empty set in the EU				
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	157	36 (1) (c), 38, 48, 470, 472 (5)	0	
Applicable caps on the inclusion of provisions in tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62	0	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	187	62	0	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	587	62	0	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	402	62	0	
Capital instruments subject to phase-out arrangements (only applicable between January 2013 and January 2022)					
80	Current cap on CET1 instruments subject to phase-out arrangements	60%	484 (3), 486 (2) & (5)	0	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)	0	
82	Current cap on AT1 instruments subject to phase-out arrangements	60%	484 (4), 486 (3) & (5)	0	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)	0	
84	Current cap on T2 instruments subject to phase-out arrangements	60%	484 (5), 486 (4) & (5)	0	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)	0	

53. Events after the balance sheet date

There are no significant events after the balance sheet date.

54. Country by country reporting

Starting with 2014 Erste Group publishes information about Group's country by country activities as required by Article 89 of the EU Capital Requirements Directive IV.

Dec 17 in EUR million	Operating income	Pre-tax result from continuing operations	Taxes on income	Taxes paid
Austria	3,072	665	-136	-165
Croatia	390	54	-23	-9
Czech Republic	1,195	489	-123	-146
Hungary	386	178	-17	-13
Romania	694	285	-53	0
Serbia	81	35	-2	0
Slovakia	596	249	-55	-71
Other locations	255	123	-1	-3
Total	**6,669**	**2,078**	**-410**	**-407**

Dec 16 in EUR million	Operating income	Pre-tax result from continuing operations	Taxes on income	Taxes paid
Austria	2,922	328	-131	-167
Croatia	414	139	-40	-8
Czech Republic	1,375	674	-130	-135
Hungary	346	151	-12	-12
Romania	685	311	-29	-9
Serbia	72	26	-1	0
Slovakia	628	245	-74	-75
Other locations	249	76	3	-2
Total	**6,691**	**1,950**	**-414**	**-408**

For information regarding the relevant country of residence of each fully consolidated entity refer to Note 55 Details of the companies wholly or partly owned by Erste Group as of 31 December 2017.

For the periods reported above, Erste Group did not receive any kind of public or state subsidies.

Information about the geographical split of the average number of headcounts employed in Erste Group throughout 2017 is disclosed in Note 6 General administrative expenses.

55. Details of the companies wholly or partly owned by Erste Group as of 31 December 2017

The table below presents material, fully consolidated subsidiaries, investments in associates accounted for at equity and other investments.

Company name, registered office		Interest of Erste Group in % Dec 16	Dec 17
Fully consolidated subsidiaries			
Credit institutions			
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft	Linz	39.8	39.2
Banca Comerciala Romana Chisinau S.A.	Chişinău	93.6	93.6
Banca Comerciala Romana SA	Bucharest	93.6	93.6
Banka Sparkasse d.d.	Ljubljana	28.0	28.0
Bankhaus Krentschker & Co. Aktiengesellschaft	Graz	25.0	25.0
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft	Vienna	95.0	95.0
BCR Banca pentru Locuinte SA	Bucharest	93.9	93.6
Ceska sporitelna, a.s.	Prague	99.0	99.0
Die Zweite Wiener Vereins-Sparcasse	Vienna	0.0	0.0
Dornbirner Sparkasse Bank AG	Dornbirn	0.0	0.0
Erste & Steiermärkische Bank d.d.	Rijeka	69.3	69.3
ERSTE BANK AD PODGORICA	Podgorica	69.3	69.3
ERSTE BANK AKCIONARSKO DRUŠTVO, NOVI SAD	Novi Sad	80.5	80.5
Erste Bank der oesterreichischen Sparkassen AG	Vienna	100.0	100.0
Erste Bank Hungary Zrt	Budapest	70.0	85.0
Erste Group Bank AG	Vienna	0.0	0.0
ERSTE Jelzálogbank Zártkörüen Müködö Részvénytársaság	Budapest	70.0	85.0
Erste Lakas-Takarekpenztar Zartkoruen Mukodo Reszvenytarsasag	Budapest	70.0	85.0
Kärntner Sparkasse Aktiengesellschaft	Klagenfurt	25.0	25.0
KREMSER BANK UND SPARKASSEN AKTIENGESELLSCHAFT	Krems a. d. Donau	0.0	0.0
Lienzer Sparkasse AG	Lienz	0.0	0.0
s Wohnbaubank AG	Vienna	91.5	100.0
Salzburger Sparkasse Bank Aktiengesellschaft	Salzburg	98.7	100.0
Slovenska sporitelna, a. s.	Bratislava	100.0	100.0
Sparkasse Baden	Baden bei Wien	0.0	0.0
Sparkasse Bank dd Bosna i Hercegovina	Sarajevo	24.3	24.3
SPARKASSE BANK MAKEDONIJA AD SKOPJE	Skopje	24.9	24.9
Sparkasse Bludenz Bank AG	Bludenz	0.0	0.0
Sparkasse Bregenz Bank Aktiengesellschaft	Bregenz	0.0	0.0
Sparkasse der Gemeinde Egg	Egg	0.0	0.0
Sparkasse der Stadt Amstetten AG	Amstetten	0.0	0.0
Sparkasse der Stadt Feldkirch	Feldkirch	0.0	0.0
Sparkasse der Stadt Kitzbühel	Kitzbühel	0.0	0.0
Sparkasse Eferding-Peuerbach-Waizenkirchen	Eferding	0.0	0.0
Sparkasse Feldkirchen/Kärnten	Feldkirchen	0.0	0.0
SPARKASSE FRANKENMARKT AKTIENGESELLSCHAFT	Frankenmarkt	0.0	0.0
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft	Hainburg a. d. Donau	75.0	75.0
Sparkasse Haugsdorf	Haugsdorf	0.0	0.0
Sparkasse Herzogenburg-Neulengbach Bank Aktiengesellschaft	Herzogenburg	0.0	0.0
Sparkasse Horn-Ravelsbach-Kirchberg Aktiengesellschaft	Horn	0.0	0.0
Sparkasse Imst AG	Imst	0.0	0.0
Sparkasse Korneuburg AG	Korneuburg	0.0	0.0
Sparkasse Kufstein Tiroler Sparkasse von 1877	Kufstein	0.0	0.0
Sparkasse Lambach Bank Aktiengesellschaft	Lambach	0.0	0.0
Sparkasse Langenlois	Langenlois	0.0	0.0
Sparkasse Mittersill Bank AG	Mittersill	0.0	0.0
Sparkasse Mühlviertel-West Bank Aktiengesellschaft	Rohrbach	40.0	40.0
Sparkasse Mürzzuschlag Aktiengesellschaft	Mürzzuschlag	0.0	0.0
Sparkasse Neuhofen Bank Aktiengesellschaft	Neuhofen	0.0	0.0
Sparkasse Neunkirchen	Neunkirchen	0.0	0.0
SPARKASSE NIEDERÖSTERREICH MITTE WEST AKTIENGESELLSCHAFT	St. Pölten	0.0	0.0
Sparkasse Pöllau AG	Pöllau	0.0	0.0
Sparkasse Pottenstein N.Ö.	Pottenstein a. d. Triesting	0.0	0.0
Sparkasse Poysdorf AG	Poysdorf	0.0	0.0
Sparkasse Pregarten - Unterweißenbach AG	Pregarten	0.0	0.0
Sparkasse Rattenberg Bank AG	Rattenberg	0.0	0.0
Sparkasse Reutte AG	Reutte	0.0	0.0
Sparkasse Ried im Innkreis-Haag am Hausruck	Ried im Innkreis	0.0	0.0
Sparkasse Salzkammergut AG	Bad Ischl	0.0	0.0
Sparkasse Scheibbs AG	Scheibbs	0.0	0.0
Sparkasse Schwaz AG	Schwaz	0.0	0.0
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft	Voitsberg	5.0	4.2
Stavebni sporitelna Ceske sporitelny, a.s.	Prague	99.0	99.0
Steiermärkische Bank und Sparkassen Aktiengesellschaft	Graz	25.0	25.0
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck	Innsbruck	75.0	75.0
Waldviertler Sparkasse Bank AG	Zwettl	0.0	0.0
Wiener Neustädter Sparkasse	Wiener Neustadt	0.0	0.0

Company name, registered office		Interest of Erste Group in % Dec 16	Dec 17
Financial institutions			
"DIE EVA" Grundstückverwaltungsgesellschaft m.b.H.	Vienna	100.0	100.0
"Die Kärntner" Trust- Vermögensverwaltungsgesellschaft m.b.H. & Co KG	Klagenfurt	25.0	25.0
"Die Kärntner" Trust-Vermögensverwaltungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
"Nare" Grundstücksverwertungs-Gesellschaft m.b.H.	Vienna	100.0	100.0
"SELIMMO" - Sparkasse Mühlviertel-West - DIE ERSTE Leasing - Immobilienvermietung GmbH	Rohrbach	69.4	69.4
Alea-Grundstückverwaltung Gesellschaft m.b.H.	Vienna	100.0	100.0
Altstadt Hotelbetriebs GmbH	Vienna	100.0	100.0
AS-Alpha Grundstücksverwaltung Gesellschaft m.b.H.	Vienna	39.8	39.2
Asset Management Slovenskej sporitelne, správ. spol., a. s.	Bratislava	98.8	98.8
AVION-Grundverwertungsgesellschaft m.b.H.	Vienna	51.0	51.0
AWEKA - Kapitalverwaltungsgesellschaft m.b.H.	Graz	25.0	25.0
BCR Leasing IFN SA	Bucharest	93.6	93.6
BCR Payments Services SRL	Sibiu	93.6	93.6
BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA	Bucharest	93.6	93.6
BOOTES-Immorent Grundverwertungs-Gesellschaft m.b.H.	Vienna	100.0	100.0
brokerjet Ceské sporitelny, a.s. v likvidaci	Prague	99.0	99.0
BTV-Beteiligungs-, Treuhand-, Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
C&C Atlantic Limited	Dublin	100.0	100.0
CEE Property Development Portfolio 2 a.s.	Prague	99.0	99.0
CEE Property Development Portfolio B.V.	Amsterdam	19.8	19.8
Ceska sporitelna - penzijni spolecnost, a.s.	Prague	99.0	99.0
Cinci-Immorent Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
CS Property Investment Limited	Nicosia	99.0	99.0
Czech and Slovak Property Fund B.V.	Amsterdam	19.8	19.8
Czech TOP Venture Fund B.V.	Groesbeek	83.1	83.1
DENAR-Immorent Grundverwertungsgesellschaft m.b.H.	Vienna	62.5	62.5
DIE ERSTE Leasing Grundaufschließungs- und Immobilienvermietungsgesellschaft m.b.H.	Vienna	100.0	100.0
DIE ERSTE Leasing Grundbesitzgesellschaft m.b.H.	Vienna	100.0	100.0
DIE ERSTE Leasing Grundstückverwaltungsgesellschaft m.b.H.	Vienna	100.0	100.0
DIE ERSTE Leasing Immobilien Vermietungsgesellschaft m.b.H.	Vienna	100.0	100.0
DIE ERSTE Leasing Immobilienbesitzgesellschaft m.b.H.	Vienna	100.0	100.0
DIE ERSTE Leasing Immobilienverwaltungs- und -vermietungsgesellschaft m.b.H.	Vienna	100.0	100.0
DIE ERSTE Leasing Realitätenverwaltungsgesellschaft m.b.H.	Vienna	100.0	100.0
DIE EVA - Liegenschaftsverwaltunggesellschaft m.b.H.	Vienna	100.0	100.0
DIE EVA-Gebäudeleasinggesellschaft m.b.H.	Vienna	100.0	100.0
DIE EVA-Immobilienleasing und -erwerb Gesellschaft m.b.H.	Vienna	100.0	100.0
Diners Club International Mak d.o.o.e.l. in Skopje	Skopje	0.0	69.3
Drustvo za lizing nekretnina, vozila, plovila i masina "S-Leasing" doo Podgorica	Podgorica	62.5	62.5
EB Erste Bank Internationale Beteiligungen GmbH	Vienna	100.0	100.0
EBB-Epsilon Holding GmbH	Vienna	100.0	100.0
EB-Grundstücksbeteiligungen GmbH	Vienna	100.0	100.0
EKZ-Immorent Vermietung GmbH	Vienna	100.0	100.0
Epsilon Immorent s.r.o.	Prague	100.0	100.0
Erste & Steiermärkische S-Leasing drustvo s ogranicenom odgovornoscu za leasing vozila i strojeva	Zagreb	47.1	47.1
Erste Asset Management d.o.o.	Zagreb	98.8	98.8
Erste Asset Management GmbH	Vienna	98.8	98.8
Erste Asset Management Ltd. (vm Erste Alapkezelo Zrt.)	Budapest	98.8	98.8
Erste Bank und Sparkassen Leasing GmbH	Vienna	100.0	100.0
Erste Befektetesi Zrt.	Budapest	70.0	85.0
ERSTE CARD CLUB d.o.o.	Zagreb	69.3	69.3
ERSTE CARD poslovanje s kreditnimi karticami, d.o.o.	Ljubljana	69.3	69.3
ERSTE FACTORING d.o.o.	Zagreb	76.9	76.9
Erste Group Immorent CR s.r.o.	Prague	100.0	100.0
Erste Group Immorent GmbH	Vienna	100.0	100.0
Erste Group Immorent International Holding GmbH	Vienna	100.0	100.0
Erste Group Immorent Korlátolt Felelösségü Társaság "végelszámolás alatt"	Budapest	100.0	100.0
Erste Group Immorent Lízing Zártkörüen Müködö Részvénytársaság	Budapest	100.0	100.0
ERSTE GROUP IMMORENT POLSKA SPOLKA Z OGRANICZONA ODPOWIEDZIALNOSCIA	Warsaw	100.0	100.0
ERSTE GROUP IMMORENT Real Estate srl	Bucharest	100.0	100.0
Erste Group Immorent Slovensko s.r.o.	Bratislava	100.0	100.0
ERSTE GROUP IMMORENT SRL	Bucharest	100.0	100.0
ERSTE Immobilien Kapitalanlagegesellschaft m.b.H.	Vienna	74.3	74.3
Erste Lakaslizing Zrt.	Budapest	70.0	85.0
Erste Leasing, a.s.	Znojmo	99.0	99.0
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.	Vienna	86.0	85.7
EVA-Immobilienvermietungs- und -verwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Eva-Immobilienverwaltungsgesellschaft m.b.H.	Vienna	100	100
Eva-Realitätenverwaltungsgesellschaft m.b.H.	Vienna	100.0	100.0
F & S Leasing GmbH	Klagenfurt	100.0	100.0
Factoring Ceske sporitelny a.s.	Prague	99.0	99.0
Gémeskút Ingatlanforgalmazó és Beruházó Kft. "végelszámolás alatt"	Budapest	100.0	100.0
GIROLEASING-Mobilienvermietungsgesellschaft m.b.H.	Vienna	62.5	62.5

Company name, registered office		Interest of Erste Group in % Dec 16	Dec 17
GLADIATOR LEASING IRELAND LIMITED	Dublin	100.0	100.0
Gladiator Leasing Limited	Pieta	100.0	100.0
GLL 1551 TA Limited	Pieta	100.0	100.0
GLL 29235 LIMITED	Pieta	100.0	100.0
GLL A319 AS LIMITED	Pieta	100.0	100.0
GLL A330 Limited	Dublin	100.0	100.0
GLL CLASSIC 400 LIMITED	Pieta	100.0	100.0
GLL Engine Leasing Limited	Pieta	100.0	100.0
GLL MSN 038 / 043 LIMITED	Pieta	100.0	100.0
GLL MSN 2118 LIMITED	Dublin	100.0	100.0
good.bee credit IFN S.A.	Bucharest	60.0	60.0
good.bee Holding GmbH	Vienna	60.0	60.0
Holding Card Service, s.r.o.	Prague	99.3	99.3
Hotel- und Sportstätten Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	54.5	54.5
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H.	Vienna	38.0	38.0
ILGES - Immobilien- und Leasing - Gesellschaft m.b.H.	Rohrbach	40.0	40.0
IMMORENT - ANDROMEDA Grundverwertungsgesellschaft m.b.H.	Vienna	41.9	41.9
Immorent - Immobilienleasing Gesellschaft m.b.H.	Vienna	100.0	100.0
Immorent - Kagraner Grundstücksverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent - Weiko Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent - Wörgler Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT ALFA leasing druzba, d.o.o.	Ljubljana	50.0	50.0
IMMORENT DELTA, leasing druzba, d.o.o.	Ljubljana	50.0	50.0
ImmoRent Einkaufszentren Verwaltungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT EPSILON, leasing druzba, d.o.o.	Ljubljana	50.0	50.0
IMMORENT INPROX Budweis s.r.o. v likvidaci	Prague	100.0	100.0
Immorent Lehrbauhöfeerrichtungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent Oktatási Ingatlanhasznosító és Szolgáltató Kft.	Budapest	56.0	56.0
IMMORENT PPP Ingatlanhasznosító és Szolgáltató Korlátolt Felelösségü Társaság	Budapest	100.0	100.0
IMMORENT PTC, s.r.o.	Prague	100.0	100.0
IMMORENT RIED GmbH	Vienna	100.0	100.0
IMMORENT SPARKASSE ST.PÖLTEN Leasinggesellschaft m.b.H.	St. Pölten	50.0	50.0
IMMORENT Térinvest Ingatlanhasznosító és Szolgáltató Korlátolt Felelösségü Társaság	Budapest	100.0	100.0
IMMORENT West Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-ANUBIS Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-ASTRA Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-BRAUGEBÄUDE-Leasinggesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-CHEMILEN Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent-Clio-Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent-Gamma-Grundstücksverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent-Gebäudeleasinggesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-GREKO Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent-Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-JULIA Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent-Kappa Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-KRABA Grundverwertungsgesellschaft m.b.H.	Vienna	90.0	100.0
IMMORENT-LEANDER Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent-Lispa Grundverwertungsgesellschaft m.b.H. in Liqu.	Innsbruck	51.0	51.0
IMMORENT-MARCO Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-MOMO Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-MÖRE Grundverwertungsgesellschaft m.b.H.	Vienna	69.8	69.5
Immorent-Mytho Grundverwertungsgesellschaft m.b.H.	Innsbruck	50.0	50.0
IMMORENT-NERO Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-Objektvermietungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-OSIRIS Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-PAN Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-RAFI Grundverwertungsgesellschaft m.b.H. in Liqu.	Vienna	62.5	62.5
IMMORENT-Raiffeisen Fachhochschule Errichtungs- und BetriebsgmbH	Vienna	55.0	55.0
IMMORENT-RAMON Grundverwertungsgesellschaft m.b.H.	Vienna	62.5	62.5
IMMORENT-RASTA Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-REMUS Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-RIALTO Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-RIO Grundverwertungsgesellschaft m.b.H.	Vienna	55.0	55.0
IMMORENT-RIWA Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-RONDO Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-RUBIN Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
IMMORENT-SARI Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent-Sigre Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent-Smaragd Grundverwertung GmbH	Schwaz	0.0	0.0
Immorent-Theta-Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0

Company name, registered office		Interest of Erste Group in % Dec 16	Dec 17
IMMORENT-TRIAS Grundverwertungsgesellschaft m.b.H.	Vienna	62.5	62.5
IMMORENT-UTO Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Immorent-WBV Grundverwertungsgesellschaft m.b.H.	Innsbruck	50.0	50.0
IMMORENT-WEBA Grundverwertungsgesellschaft m.b.H. in Liqu.	Vienna	75.0	100.0
IMNA-Immorent Immobilienleasing GmbH	Vienna	100.0	100.0
Imobilia Kik s.r.o.	Prague	100.0	100.0
Intermarket Bank AG	Vienna	84.9	93.8
IR Beteiligungsverwaltungsgesellschaft mbH	Vienna	100.0	100.0
IR Domestic Project Development Holding GmbH	Vienna	100.0	100.0
IR REAL ESTATE LEASING d.o.o. u likvidaciji	Zagreb	92.5	92.5
Jersey Holding (Malta) Limited	Pieta	100.0	100.0
Kärntner Sparkasse Vermögensverwaltungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
KS-Beteiligungs- und Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
Lassallestraße 7b Immobilienverwaltung GmbH	Vienna	100.0	100.0
Lighthouse 449 Limited	Pieta	100.0	100.0
LogCap Immorent Uno s.r.o.	Bratislava	51.0	51.0
LogCap-IR Grundverwertungsgesellschaft m.b.H.	Vienna	51.0	51.0
MEKLA Leasing Gesellschaft m.b.H.	Vienna	100.0	100.0
MOPET CZ a.s.	Prague	99.0	99.0
NAXOS-Immorent Immobilienleasing GmbH	Vienna	100.0	100.0
NÖ-Sparkassen Beteiligungsgesellschaft m.b.H.	Vienna	2.5	2.5
Ölim-Grundverwertungsgesellschaft m.b.H.	Graz	25.0	25.0
OMEGA IMMORENT s.r.o.	Prague	100.0	100.0
OREST-Immorent Leasing GmbH	Vienna	100.0	100.0
Österreichisches Volkswohnungswerk, Gemeinnützige Gesellschaft mit beschränkter Haftung	Vienna	100.0	100.0
PAROS-Immorent Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Pischeldorfer Straße 221 Liegenschaftsverwertungs GmbH	Vienna	100.0	100.0
PONOS-Immorent Immobilienleasing GmbH	Graz	62.5	62.5
PREDUZECE ZA FINANSIJSKI LIZING S-LEASING DOO, BEOGRAD	Belgrade	66.6	66.6
REICO investicni spolecnost Ceske sporitelny, a.s.	Prague	99.0	99.0
RHEA-Immorent Holding GmbH	Vienna	100.0	100.0
s Autoleasing a.s.	Prague	99.0	99.0
s Autoleasing SK, s.r.o.	Bratislava	99.0	99.0
S IMMORENT KAPPA drustvo s ogranicenom odgovornoscu za poslovanje nekretninama	Zagreb	100.0	100.0
S IMMORENT OMIKRON drustvo s ogranicenom odgovornoscu za poslovanje nekretninama	Zagreb	100.0	100.0
S Slovensko, spol. s r.o.	Bratislava	100.0	100.0
SAL Liegenschaftsverwaltungsgesellschaft m.b.H. in Liqu.	Vienna	69.3	69.0
Salzburger Sparkasse Leasing Gesellschaft m.b.H.	Vienna	99.0	100.0
SCIENTIA Immorent GmbH	Vienna	100.0	100.0
S-Factoring, faktoring druzba d.d.	Ljubljana	28.0	28.0
Sieben-Tiroler-Sparkassen Beteiligungsgesellschaft m.b.H.	Kufstein	0.0	0.0
S-Leasing Gesellschaft m.b.H.	Kirchdorf a. d. Krems	69.9	69.6
S-Leasing Immobilienvermietungsgesellschaft m.b.H.	Wiener Neustadt	33.3	33.3
SOLIS-CIVITAS-IMMORENT GmbH in Liqu.	Vienna	100.0	100.0
SPARKASSE IMMORENT Grundverwertungsgesellschaft m.b.H.	Vienna	99.0	100.0
Sparkasse Kufstein Immobilien GmbH	Kufstein	0.0	0.0
Sparkasse Leasing d.o.o., Sarajevo	Sarajevo	24.6	24.6
Sparkasse Leasing d.o.o., Skopje	Skopje	25.0	25.0
Sparkasse Leasing S,družba za financiranje d.o.o.	Ljubljana	28.0	28.0
Sparkasse Mühlviertel-West Holding GmbH	Rohrbach	40.0	40.0
Sparkassen IT Holding AG	Vienna	31.1	31.1
SPARKASSEN LEASING druzba za financiranje d.o.o.	Ljubljana	50.0	50.0
Sparkassen Leasing Süd GmbH	Graz	51.3	51.3
Sparkassen Leasing Süd GmbH & Co KG	Graz	46.4	46.4
S-RENT DOO BEOGRAD	Belgrade	35.5	35.5
Strabag Oktatási PPP Ingatlanhasznosító és Szolgáltató Korlátolt Felelösségü Társaság	Budapest	70.0	70.0
Subholding Immorent GmbH	Vienna	100.0	100.0
SVJETILJKA drustvo s ogranicenom odgovornoscu za trgovinu i promet nekretninama	Zagreb	100.0	100.0
TAURIS-Immorent Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Tempo Projekt Ingatlanhasznosító Korlátolt Felelösségü Társaság	Budapest	100.0	100.0
Theta Immorent s.r.o.	Prague	100.0	100.0
Theuthras-Immorent Grundverwertungsgesellschaft m.b.H.	Vienna	62.5	62.5
TIPAL Immobilien GmbH in Liquidation	Bozen	92.5	92.5
UBG-Unternehmensbeteiligungsgesellschaft m.b.H.	Vienna	100.0	100.0
VIA Immobilien Errichtungsgesellschaft m.b.H.	Vienna	100.0	100.0
Vorarlberger Sparkassen Beteiligungs GmbH	Dornbirn	0.0	0.0
WIESTA-Immorent Immobilienleasing GmbH	Vienna	100.0	100.0
XENIA-Immorent Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Zeta Immorent s.r.o.	Prague	100.0	100.0

Company name, registered office		Interest of Erste Group in % Dec 16	Dec 17
Other			
"SGL" Grundstücksverwaltungs- und Leasing Gesellschaft m.b.H.	Vienna	100.0	100.0
BCR Fleet Management SRL	Bucharest	93.6	93.6
BeeOne GmbH	Vienna	100.0	100.0
BGA Czech, s.r.o. v likvidaci	Prague	19.8	19.8
brokerjet Ceské sporitelny, a.s. v likvidaci	Prague	99.0	99.0
BRS Büroreinigungsgesellschaft der Steiermärkischen Bank und Sparkassen Aktiengesellschaft Gesellschaft m.b.H.	Graz	25.0	25.0
CIT ONE SRL	Bucharest	93.6	93.6
Collat-real Korlátolt Felelösségü Társaság	Budapest	70.0	85.0
CP Praha s.r.o., v likvidaci	Prague	19.8	19.8
CPDP 2003 s.r.o.	Prague	99.0	99.0
CPP Lux S. 'ar.l.	Luxembourg	19.8	19.8
CS DO DOMU, A.S. V LIKVIDACI	Prague	99.0	99.0
DIE ERSTE Immobilienvermietungsgesellschaft m.b.H.	Vienna	100.0	100.0
DIE ERSTE Vermietungs GmbH in Liqu.	Vienna	100.0	100.0
Dienstleistungszentrum Leoben GmbH	Graz	51.0	51.0
EBB Beteiligungen GmbH	Vienna	100.0	100.0
EB-Restaurantsbetriebe Ges.m.b.H.	Vienna	100.0	100.0
Energie CS, a.s.	Prague	99.0	99.0
Erste Befektetesi Zrt.	Budapest	70.0	85.0
ERSTE CAMPUS Immobilien GmbH & Co KG	Vienna	100.0	100.0
Erste Campus Mobilien GmbH & Co KG	Vienna	100.0	100.0
Erste Finance (Delaware) LLC	Wilmington	100.0	100.0
Erste Grantika Advisory, a.s.	Brno	99.0	99.0
Erste Group Card Processor d.o.o. (vm.MBU)	Zagreb	100.0	100.0
ERSTE GROUP IMMORENT HRVATSKA drustvo s ogranicenom odgovornoscu za upravljanje	Zagreb	100.0	100.0
ERSTE GROUP IMMORENT LJUBLJANA, financne storitve, d.o.o.	Ljubljana	100.0	100.0
Erste Group IT HR društvo s ogranicenom odgovornošcu za usluge informacijskih tehnologija	Bjelovar	75.4	75.4
Erste Group IT International GmbH	Vienna	99.9	99.9
Erste Group Services GmbH	Vienna	100.0	100.0
Erste Group Shared Services (EGSS), s.r.o.	Hodonin	99.6	99.6
Erste Ingatlan Fejleszto, Hasznosito es Mernoki Kft. (vm. PB Risk Befektetesi es Szolgaltato Kft).	Budapest	70.0	85.0
ERSTE NEKRETNINE d.o.o. za poslovanje nekretninama	Zagreb	69.3	69.3
Erste Reinsurance S.A.	Bertrange	100.0	100.0
Erste Securities Istanbul Menkul Degerler AS	Istanbul	100.0	100.0
Erste Securities Polska S.A.	Warsaw	100.0	100.0
Flottenmanagement GmbH	Vienna	51.0	51.0
FUKO-Immorent Grundverwertungsgesellschaft m.b.H.	Vienna	100.0	100.0
Haftungsverbund GmbH	Vienna	63.9	63.9
HBF Eins Holding GmbH	Vienna	100.0	100.0
HBM Immobilien Kamp GmbH	Vienna	100.0	100.0
HP Immobilien Psi GmbH	Vienna	100.0	100.0
HT Immobilien Tau GmbH	Vienna	100.0	100.0
HT Immobilien Theta GmbH	Vienna	100.0	100.0
HV Immobilien Hohenems GmbH	Vienna	100.0	100.0
IBF-Anlagenleasing 95 Gesellschaft m.b.H.	Vienna	100.0	100.0
IGP Industrie und Gewerbepark Wörgl Gesellschaft m.b.H.	Kufstein	0.0	0.0
Immobilienverwertungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
IMMOKOR BUZIN drustvo s ogranicenom odgovornoscu za poslovanje nekretninama	Zagreb	84.9	100.0
IMMORENT Alpha Ingatlanbérbeadó és Üzemeltetö Karlátolt Felelösségü Társaság	Budapest	100.0	100.0
IMMORENT Orion, s.r.o.	Prague	100.0	100.0
IMMORENT Österreich GmbH	Vienna	100.0	100.0
Immorent Singidunum d.o.o.	Belgrade	100.0	100.0
IMMORENT Treuhand- und Vermögensverwaltunggesellschaft m.b.H. in Liqu.	Vienna	100.0	100.0
IMMORENT Vega, s.r.o.	Prague	100.0	100.0
IMMORENT-HATHOR Grundverwertungsgesellschaft m.b.H	Vienna	62.5	62.5
Immorent-Mobilienvermietungs-Gesellschaft m.b.H., Liegenschaftsverwaltung Penzing & Co KG	Vienna	100.0	100.0
IMMORENT-STIKÖ Leasinggesellschaft m.b.H.	Vienna	100.0	100.0
Invalidovna centrum a.s.	Prague	100.0	100.0
IPS Fonds Gesellschaft bürgerlichen Rechts	Vienna	64.5	64.1
IR CEE Project Development Holding GmbH	Vienna	100.0	100.0
IR REAL ESTATE SIGMA društvo s ogranicenom odgovornošcu za poslovanje nekretninama u likvidaciji	Zagreb	62.5	62.5
IZBOR NEKRETNINA D.O.O. ZA USLUGE	Zagreb	69.3	69.3
Jura GrundverwertungsgmbH	Graz	25.0	25.0
K1A Kft	Budapest	100.0	100.0
KS - Dienstleistungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
KS-Immo Italia GmbH	Klagenfurt	25.0	25.0
LANED a.s.	Bratislava	100.0	100.0
LBG 61 LiegenschaftsverwaltungsgmbH	Vienna	100.0	100.0
LEDA-Immorent Grundverwertungsgesellschaft m.b.H.	Vienna	69.9	69.6
LIEGESA Immobilienvermietung GmbH Nfg OG	Graz	25.0	25.0
MCS 14 Projektentwicklung GmbH & Co KG	Vienna	100.0	100.0
OM Objektmanagement GmbH	Vienna	100.0	100.0
Österreichische Sparkassenakademie GmbH	Vienna	45.5	45.6

Company name, registered office		Interest of Erste Group in %	
		Dec 16	Dec 17
ÖVW Bauträger GmbH	Vienna	100.0	100.0
Procurement Services CZ s.r.o.	Prague	99.5	99.5
Procurement Services GmbH	Vienna	99.9	99.9
Procurement Services HR d.o.o.	Zagreb	99.9	99.9
Procurement Services HU Kft.	Budapest	99.9	99.9
Procurement Services RO srl	Bucharest	99.9	99.9
Procurement Services SK, s.r.o.	Bratislava	99.9	99.9
Project Development Vest s.r.l	Bucharest	100.0	100.0
Proxima IMMORENT s.r.o.	Prague	100.0	100.0
QBC Management und Beteiligungen GmbH	Vienna	65.0	65.0
QBC Management und Beteiligungen GmbH & Co KG	Vienna	65.0	65.0
Realia Consult Magyarország Beruházás Szervezési KFT	Budapest	100.0	100.0
Realitna spolocnost Slovenskej sporitelne, a.s.	Bratislava	100.0	100.0
Real-Service für oberösterreichische Sparkassen Realitätenvermittlungsgesellschaft m.b.H.	Linz	68.9	68.6
Real-Service für steirische Sparkassen, Realitätenvermittlungsgesellschaft m.b.H.	Graz	61.7	61.7
s ASG Sparkassen Abwicklungs- und Servicegesellschaft mbH	Graz	25.0	25.0
S IMMORENT LAMBDA drustvo s ogranicenom odgovornoscu za poslovanje nekretninama	Zagreb	100.0	100.0
S IMMORENT ZETA drustvo s ogranicenom odgovornoscu za poslovanje nekretninama	Zagreb	84.9	84.9
s IT Solutions AT Spardat GmbH	Vienna	72.7	72.7
s IT Solutions, s.r.o. v likvidaci	Prague	99.0	99.0
s REAL Immobilienvermittlung GmbH	Vienna	100.0	100.0
s ServiceCenter GmbH (vm. CSSC)	Vienna	58.4	58.4
s Wohnbauträger GmbH	Vienna	91.5	100.0
s Wohnfinanzierung Beratungs GmbH	Vienna	75.4	95.0
sBAU Holding GmbH	Vienna	100.0	100.0
Schauersberg Immobilien Gesellschaft m.b.H.	Graz	25.0	25.0
sDG Dienstleistungsgesellschaft mbH	Linz	58.7	58.7
SILO DREI next LBG 57 Liegenschaftsverwertung GmbH & Co KG	Vienna	100.0	100.0
SILO II LBG 57 – 59 Liegenschaftsverwertung GmbH & Co KG	Vienna	100.0	100.0
S-Invest Beteiligungsgesellschaft m.b.H.	Vienna	70.0	70.0
Sio Ingatlan Invest Kft.	Budapest	70.0	85.0
SK - Immobiliengesellschaft m.b.H.	Krems a. d. Donau	0.0	0.0
SK Immobilien Epsilon GmbH	Vienna	100.0	100.0
Sluzby SLSP, s.r.o.	Bratislava	100.0	100.0
sMS Marktservice für Sparkassen GmbH	Krems	0.0	0.0
Solaris City Kft.	Budapest	100.0	100.0
Solaris Park Kft.	Budapest	100.0	100.0
SPARDAT - Bürohauserrichtungs- und Vermietungsgesellschaft m.b.H.	Vienna	100.0	100.0
Sparfinanz-, Vermögens-, Verwaltungs- und Beratungs- Gesellschaft m.b.H.	Wiener Neustadt	0.0	0.0
Sparkasse Kufstein Immobilien GmbH & Co KG	Kufstein	0.0	0.0
Sparkasse S d.o.o.	Ljubljana	25.0	25.0
Sparkassen Real Vorarlberg Immobilienvermittlung GmbH	Dornbirn	50.0	50.0
Sparkassen-Haftungs Aktiengesellschaft	Vienna	61.0	61.0
Sparkassen-Real-Service für Kärnten und Osttirol Realitätenvermittlungs-Gesellschaft m.b.H.	Klagenfurt	57.6	57.6
Sparkassen-Real-Service -Tirol Realitätenvermittlungs-Gesellschaft m.b.H.	Innsbruck	68.7	68.7
SPK - Immobilien- und Vermögensverwaltungs GmbH	Graz	25.0	25.0
S-Real, Realitätenvermittlungs- und -verwaltungs Gesellschaft m.b.H.	Wiener Neustadt	0.0	0.0
Steiermärkische Verwaltungssparkasse Immobilien & Co KG	Graz	25.0	25.0
STRAULESTI PROPERTY DEVELOPMENT SRL	Bucharest	100.0	100.0
Suport Colect SRL	Bucharest	93.6	93.6
Toplice Sveti Martin d.d.	Saint Martin	99.2	99.2
VERNOSTNI PROGRAM IBOD, a.s.	Prague	99.0	99.0
Wallgasse 15+17 Projektentwicklungs GmbH	Vienna	100.0	100.0
Wirtschaftspark Siebenhirten Entwicklungs- und Errichtungs GmbH	Vienna	60.0	100.0
ZWETTLER LEASING Gesellschaft m.b.H.	Zwettl	0.0	0.0
Funds			
Bee First Finance S.A. acting for and on behalf of its compartment Edelweiss 2013-1	Luxembourg	0.0	0.0
ESPA BOND DURATION SHIELD	Vienna	0.0	0.0
ESPA BOND EURO-RESERVA	Vienna	0.0	0.0
ESPA CORPORATE BASKET 2020	Vienna	0.0	0.0
ESPA RESERVE CORPORATE	Vienna	0.0	0.0
ESPA RESERVE EURO MÜNDEL	Vienna	0.0	0.0
K 3000	Vienna	0.0	0.0
SPARKASSEN 19	Vienna	0.0	0.0
SPARKASSEN 2	Vienna	0.0	0.0
SPARKASSEN 21	Vienna	0.0	0.0
SPARKASSEN 26	Vienna	0.0	0.0
SPARKASSEN 4	Vienna	0.0	0.0
SPARKASSEN 5	Vienna	0.0	0.0
SPARKASSEN 8	Vienna	0.0	0.0
SPARKASSEN 9	Vienna	0.0	0.0
SPARRENT	Vienna	0.0	0.0

Company name, registered office		Interest of Erste Group in % Dec 16	Dec 17
Equity method investments			
Credit institutions			
Prva stavebna sporitelna, a.s.	Salzburg	50.0	50.0
SPAR-FINANZ BANK AG	Bratislava	35.0	35.0
Financial institutions			
Adoria Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
Aventin Grundstücksverwaltungs Gesellschaft m.b.H.	Horn	24.5	24.5
CALDO Grundstücksverwertungsgesellschaft m.b.H.	Vienna	31.2	31.2
Epsilon - Grundverwertungsgesellschaft m.b.H.	Vienna	50.0	50.0
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
Fondul de Garantare a Creditului Rural IFN SA	Bucharest	31.2	31.2
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
Global Payments s.r.o.	Praha	48.6	48.6
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	33.3	33.3
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H.	Innsbruck	50.0	50.0
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
MELIKERTES Raiffeisen-Mobilien-Leasing Gesellschaft m.b.H.	Vienna	20.0	20.0
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	28.4	28.4
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H.	Eisenstadt	50.0	50.0
NÖ Bürgschaften und Beteiligungen GmbH	Vienna	14.4	14.4
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	28.4	28.4
O.Ö. Kommunalgebäude-Leasing Gesellschaft m.b.H.	Linz	40.0	40.0
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	33.3	33.3
Steirische Gemeindegebäude Leasing Gesellschaft m.b.H.	Vienna	50.0	50.0
Steirische Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	50.0	50.0
Steirische Leasing für Gebietskörperschaften Gesellschaft m.b.H.	Vienna	50.0	50.0
Steirische Leasing für öffentliche Bauten Gesellschaft m.b.H.	Vienna	50.0	50.0
STUWO Gemeinnützige Studentenwohnbau Aktiengesellschaft	Vienna	50.3	50.3
SUPRIA Raiffeisen-Immobilien-Leasing Gesellschaft m.b.H.	Vienna	50.0	50.0
SWO Kommunalgebäudeleasing Gesellschaft m.b.H.	Vienna	50.0	50.0
TKL V Grundverwertungsgesellschaft m.b.H.	Innsbruck	33.3	33.3
TKL VIII Grundverwertungsgesellschaft m.b.H.	Innsbruck	33.3	33.3
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.	Vienna	25.0	25.0
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
VBV - Betriebliche Altersvorsorge AG	Vienna	27.1	27.6
Viminal Grundstücksverwaltungs Gesellschaft m.b.H.	Vienna	25.0	25.0
VKL II Grundverwertungsgesellschaft m.b.H.	Dornbirn	33.3	33.3
VKL III Gebäudeleasing-Gesellschaft m.b.H.	Dornbirn	33.3	33.3
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	35.0	35.0
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H.	Dornbirn	33.3	33.3
Wohnbauinvestitionsbank GmbH	Vienna	31.9	34.2
Other			
APHRODITE Bauträger Aktiengesellschaft	Vienna	45.7	50.0
Bio-Wärme Scheifling GmbH	Scheifling	49.0	49.0
CII Central Investments Imobiliare SRL	Bucharest	47.0	47.0
EBB-Gamma Holding GmbH	Vienna	49.0	49.0
ERSTE d.o.o.	Zagreb	45.2	45.2
Erste ÖSW Wohnbauträger GmbH	Vienna	46.1	50.3
Garage Eisenstadt Betriebsgesellschaft m.b.H.	Vienna	50.0	50.0
GELUP GmbH	Vienna	33.3	33.3
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m. b. H.	Korneuburg	0.8	0.8
Hochkönig Bergbahnen GmbH	Mühlbach	45.3	46.0
Immobilien West GmbH	Salzburg	49.3	50.0
KWC Campus Errichtungsgesellschaft m.b.H.	Klagenfurt	12.5	12.5
Slovak Banking Credit Bureau, s.r.o.	Bratislava	33.3	33.3
Other investments			
Credit institutions			
EUROAXIS BANK AD Moskva	Moscow	1.6	1.6
JUBMES BANKA AD BEOGRAD	Belgrade	0.0	0.0
Oesterreichische Kontrollbank Aktiengesellschaft	Vienna	12.9	12.9
Public Joint-stock company commercial Bank "Center-Invest"	Rostov-on-Don	9.1	9.1
Sparkasse Bank Malta Public Limited Company	Sliema	0.0	0.0
Südtiroler Sparkasse AG	Bozen	0.1	0.1
Swedbank AB	Sundbyberg	0.1	0.1
Financial institutions			
"Wohnungseigentum", Tiroler gemeinnützige Wohnbaugesellschaft m.b.H.	Innsbruck	19.1	19.1
"Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H.	Mödling	12.9	12.9
AB Banka, a.s. v likvidaci	Mlada Boleslav	4.4	4.4
ACP Financial Solutions GmbH	Vienna	75.0	75.0
ARWAG Holding-Aktiengesellschaft	Vienna	19.2	19.2
AS-WECO 4 Grundstückverwaltung Gesellschaft m.b.H.	Salzburg	39.9	39.3
C+R Projekt spol. s r.o.	Prague	100.0	100.0
CaixaBank Electronic Money E.D.E., S.L.	Barcelona	10.0	10.0

Company name, registered office		Interest of Erste Group in % Dec 16	Dec 17
Casa de Compensare Bucuresti SA	Bucharest	0.3	0.3
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
CULINA Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	25.0	25.0
Diners Club BH d.o.o. Sarajevo	Sarajevo	69.3	69.3
Diners Club Bulgaria AD	Sofia	3.6	3.6
Diners Club International Belgrade d.o.o. Beograd	Belgrade	0.0	69.3
Diners Club International Montenegro d.o.o. in Podgorica	Podgorica	0.0	69.3
DINESIA a.s.	Prague	99.0	99.0
DRUŠTVO ZA KONSALTING I MENADŽMENT POSLOVE TRŽIŠTE NOVCA A.D. BEOGRAD (SAVSKI VENAC)	Belgrade	0.8	0.8
EBV-Leasing Gesellschaft m.b.H.	Vienna	51.0	51.0
EFH-Beteiligungsgesellschaft m.b.H. in Liqu.	Vienna	50.0	50.0
EUROPEAN INVESTMENT FUND	Luxembourg	0.1	0.1
EWU Wohnbau Unternehmensbeteiligungs-Aktiengesellschaft	St. Pölten	12.8	12.8
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii privati SA	Bucharest	8.9	8.9
Garantiqa Hitelgarancia Zrt.	Budapest	1.5	1.8
GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H.	Maria Enzersdorf	12.2	12.2
Gemeinnützige Bau- und Siedlungsgenossenschaft "Waldviertel" registrierte Genossenschaft mit beschränkter Haftung	Raabs a. d. Thaya	0.0	0.0
Gemeinnützige Wohn- und Siedlungsgesellschaft Schönere Zukunft, Gesellschaft m.b.H.	Vienna	15.0	15.0
Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft	Mödling	12.7	12.7
GWG - Gemeinnützige Wohnungsgesellschaft der Stadt Linz GmbH	Linz	5.0	5.0
GWS Gemeinnützige Alpenländische Gesellschaft für Wohnungsbau und Siedlungswesen m.b.H.	Graz	7.5	7.5
I+R Projekt Fejlesztési Korlátolt Felelösségü Társaság	Budapest	100.0	100.0
K+R Projekt s.r.o.	Prague	100.0	100.0
KERES-Immorent Immobilienleasing GmbH	Vienna	25.0	25.0
Kisvallalkozas-fejlesztö Penzügyi Zrt.	Budapest	0.8	1.0
LBH Liegenschafts- und Beteiligungsholding GmbH	Innsbruck	75.0	75.0
MIGRA Gemeinnützige Wohnungsges.m.b.H.	Vienna	19.8	19.8
O.Ö. Kommunal-Immobilienleasing GmbH	Linz	40.0	40.0
O.Ö. Leasing für Gebietskörperschaften Ges.m.b.H.	Linz	33.3	33.3
O.Ö. Leasing für öffentliche Bauten Gesellschaft m.b.H.	Linz	33.3	33.3
Oberösterreichische Kreditgarantiegesellschaft m.b.H.	Linz	5.7	5.6
Oberösterreichische Unternehmensbeteiligungsgesellschaft m.b.H.	Linz	5.6	5.6
Objekt-Lease Grundstücksverwaltungs-Gesellschaft m.b.H. in Liqu.	Vienna	50.0	50.0
Old Byr Holding ehf.	Reykjavik	1.5	1.5
Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H.	Vienna	18.8	18.8
ÖSW Wohnbauvereinigung Gemeinnützige Gesellschaft m.b.H.	Salzburg	15.4	15.4
ÖWB Gemeinnützige Wohnungsaktiengesellschaft	Salzburg	25.1	25.1
ÖWGES Gemeinnützige Wohnbaugesellschaft m.b.H.	Graz	2.5	2.5
REWE Magyarország Ingatlankezelö és - forgalmazó Korlátolt Felelössegü Társaság	Budapest	100.0	100.0
S IMMOKO Holding GesmbH	Korneuburg	0.0	0.0
S IMMOKO Leasing GesmbH	Korneuburg	0.0	0.0
S Rail Lease s.r.o.	Bratislava	0.0	100.0
S Servis, s.r.o.	Znojmo	99.0	99.0
Salzburger Kreditgarantiegesellschaft m.b.H.	Salzburg	18.0	18.2
Sapor Beteiligungsverwaltungs GmbH	Vienna	100.0	100.0
Seilbahnleasing GmbH	Innsbruck	33.3	33.3
Societatea de Transfer de Fonduri si Decontari TransFonD SA	Bucharest	3.0	3.0
Sparkasse (Holdings) Malta Ltd.	Sliema	0.0	0.0
SPRON ehf.	Reykjavik	4.9	4.9
T+R Projekt Fejelsztési Korlátolt Felelösségü Társaság	Budapest	100.0	100.0
Tiroler Kommunalgebäudeleasing Gesellschaft m.b.H.	Innsbruck	33.3	33.3
Tiroler Landesprojekte Grundverwertungs GmbH	Innsbruck	33.3	33.3
TKL II. Grundverwertungsgesellschaft m.b.H.	Innsbruck	33.3	33.3
TKL VI Grundverwertungsgesellschaft m.b.H.	Innsbruck	28.2	28.2
TKL VII Grundverwertungsgesellschaft m.b.H.	Innsbruck	28.4	28.4
Trziste novca d.d.	Zagreb	8.6	8.6
UNDA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	25.0	25.0
WKBG Wiener Kreditbürgschafts- und Beteiligungsbank AG (vorm.Kapital-Beteiligungs Aktiengesellschaft)	Vienna	14.3	14.3
WNI Wiener Neustädter Immobilienleasing Ges.m.b.H.	Wiener Neustadt	0.0	0.0
Other			
"Die Kärntner - Förderungs- und Beteiligungsgesellschaft für die Stadt Friesach Gesellschaft m.b.H.	Friesach	25.0	25.0
"Die Kärntner" - Förderungsgesellschaft für das Gurktal Gesellschaft m.b.H.	Gurk	25.0	25.0
"Die Kärntner"-BTWF-Beteiligungs- und Wirtschaftsförderungsgesellschaft für die Stadt St. Veit/Glan Gesellschaft m.b.H.	St. Veit a. d. Glan	25.0	25.0
"Die Kärntner"-Förderungs- und Beteiligungsgesellschaft für den Bezirk Wolfsberg Gesellschaft m.b.H.	Wolfsberg	25.0	25.0
"Gasthof Löwen" Liegenschaftsverwaltung GmbH & Co., KG	Feldkirch	0.0	0.0
"Photovoltaik-Gemeinschaftsanlage" der Marktgemeinde Wolfurt	Wolfurt	0.0	0.0
"SIMM" Liegenschaftsverwertungsgesellschaft m.b.H.	Graz	25.0	25.0
"S-PREMIUM" Drustvo sa ogranicenom odgovornoscu za posredovanje i zastupanje u osiguranju d.o.o. Sarajevo	Sarajevo	24.5	24.6
"TBG" Thermenzentrum Geinberg Betriebsgesellschaft m.b.H.	Geinberg	1.5	18.7
"THG" Thermenzentrum Geinberg Errichtungs-GmbH	Linz	1.5	1.5
Achenseebahn-Aktiengesellschaft	Jenbach	0.0	0.0

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Achtundsechzigste Sachwert Rendite-Fonds Holland GmbH & Co KG	Hamburg	0.0	0.0
AD SPORTSKO POSLOVNI CENTAR MILLENNIUM VRŠAC	Vršac	0.2	0.2
Agrargemeinschaft Kirchschlag	Kirchschlag	0.0	0.0
AKCIONARSKO DRUŠTVO ZA PROIZVODNJU DELOVA ZA MOTORE GARANT, FUTOG - U STECAJU	Futog	6.2	6.2
AKCIONARSKO DRUŠTVO ZA PROIZVODNJU KABLOVA I PROVODNIKA NOVOSADSKA FABRIKA KABELA NOVI SAD	Novi Sad	1.1	1.1
Alpbacher Bergbahn Gesellschaft m.b.H.	Alpbach	0.0	0.0
ALPENDORF BERGBAHNEN AG	St. Johann	0.0	0.0
AREALIS Liegenschaftsmanagement GmbH	Vienna	50.0	50.0
Argentum Immobilienverwertungs Ges.m.b.H.	Linz	39.8	39.2
ÄRZTEHAUS GMUNDEN IMMOBILIEN GmbH	Bad Wimsbach-Neydharting	0.0	0.0
AS LEASING Gesellschaft m.b.H.	Linz	39.8	39.2
AS-WECO Grundstückverwaltung Gesellschaft m.b.H.	Linz	39.8	39.2
Austrian Reporting Services GmbH	Vienna	14.3	14.3
AWEKA-Beteiligungsgesellschaft m.b.H.	Graz	25.0	25.0
aws Gründerfonds Equity Invest GmbH & Co KG	Vienna	49.0	49.0
Bäder - Betriebs - Gesellschaft m.b.H. der Stadt Schladming & Co Kommanditgesellschaft	Schladming	0.0	0.0
BAMCARD d.d. Sarajevo	Sarajevo	0.0	1.1
Bäuerliches Blockheizkraftwerk reg. Gen.m.b.H.	Kautzen	0.0	0.0
BCR Asigurari de Viata Vienna Insurance Group SA	Bucarest	5.1	5.1
Beogradska Berza, Akcionarsko Drustvo Beograd	Belgrade	12.6	12.6
Berg- und Schilift Schwaz-Pill Gesellschaft m.b.H.	Schwaz	0.0	0.0
Bergbahn Aktiengesellschaft Kitzbühel	Kitzbühel	0.0	0.0
Bergbahn Lofer GmbH	Lofer	7.8	7.9
Bergbahnen Oetz Gesellschaft m.b.H.	Oetz	0.0	0.0
Bergbahnen Westendorf Gesellschaft m.b.H.	Westendorf	0.0	0.0
BGM - IMMORENT Aktiengesellschaft & Co KG	Vienna	0.0	0.0
Biogenrohstoffgenossenschaft Kamptal und Umgebung registrierte Genossenschaft mit beschränkter Haftung	Maiersch	0.0	0.0
Biomasse Heizwerk Zürs GmbH	Zürs	0.0	0.0
Biroul de credit SA	Bucharest	18.2	18.2
Biroul de Credit SRL	Chişinău	6.3	6.3
Brauerei Murau eGen	Murau	0.6	0.6
Bregenz Tourismus & Stadtmarketing GmbH	Bregenz	0.0	0.0
Budapesti Értéktozsde Zártköruen Muködo Részvénytársaság	Budapest	1.6	2.0
Burza cennych papierov v Bratislave, a.s.	Bratislava	3.9	3.9
Business Capital for Romania - Opportunity Fund Coöperatief UA	Amsterdam	77.4	77.4
C.I.M. Beteiligungen 1998 GmbH in Liquidation	Vienna	41.1	41.1
C.I.M. Verwaltung und Beteiligungen 1999 GmbH in Liquidation	Vienna	26.7	26.7
Camelot Informatik und Consulting Gesellschaft.m.b.H.	Villach	3.6	3.6
Camping- und Freizeitanlagen Betriebsgesellschaft m.b.H.	St. Pölten	0.0	0.0
CAMPUS 02 Fachhochschule der Wirtschaft GmbH	Graz	3.8	3.8
Cargo-Center-Graz Betriebsgesellschaft m.b.H.	Werndorf	1.6	1.6
Cargo-Center-Graz Betriebsgesellschaft m.b.H. & Co KG	Werndorf	1.6	1.6
Carlyle Europe Partners,L.P. (in Liquidation)	Vale	0.6	0.6
Casa Romana de Compensatie Sibiu	Sibiu	0.4	0.4
CBCB-Czech Banking Credit Bureau, a.s.	Prague	19.8	19.8
CEESEG Aktiengesellschaft	Vienna	11.8	11.8
D.C. Travel d.o.o Beograd	Belgrade	0.0	69.3
Dachstein Tourismus AG	Gosau	0.0	0.0
DC TRAVEL d.o.o. putnicka agancija	Zagreb	69.3	69.3
Die Kärntner Sparkasse - Förderungsgesellschaft für den Bezirk Hermagor Gesellschaft m.b.H.	Hermagor	25.0	25.0
Dolomitencenter Verwaltungs GmbH	Lienz	50.0	50.0
Dolomitengolf Osttirol GmbH	Lavant	0.0	0.0
DONAU Versicherung AG Vienna Insurance Group	Vienna	0.8	0.8
Dornbirner Seilbahn GmbH	Dornbirn	0.0	0.0
EBB-Delta Holding GmbH	Vienna	100.0	100.0
EBB-Zeta Holding GmbH	Vienna	100.0	100.0
EBSPK-Handelsgesellschaft m.b.H.	Vienna	31.1	31.1
EC Energie Center Lipizzanerheimat GmbH	Bärnbach	0.1	0.0
Egg Investment GmbH	Egg	0.0	0.0
E-H Liegenschaftsverwaltungs-GmbH	Etsdorf am Kamp	0.0	0.0
Einlagensicherung AUSTRIA Ges.m.b.H.	Vienna	0.0	1.4
Einlagensicherung der Banken und Bankiers GmbH	Vienna	0.3	0.2
ELAG Immobilien AG	Linz	1.9	1.9
Energie AG Oberösterreich	Linz	0.2	0.2
Erste Asset Management Deutschland GmbH	Vaterstetten	98.8	98.8
Erste Campus Mobilien GmbH	Vienna	100.0	100.0
Erste Corporate Finance, a.s.	Prague	99.0	99.0
ERSTE Immobilien Alpha "WE-Objekte" GmbH & Co KG	Vienna	0.0	0.0
ERSTE Immobilien Alpha APS 85 GmbH & Co KG	Vienna	0.0	0.0

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ERSTE Immobilien Alpha Brünner Straße 124 Liegenschaftsverwaltung GmbH & Co KG	Vienna	0.0	0.0
ERSTE Immobilien Alpha Eggenberger Gürtel GmbH & Co KG	Graz	0.0	0.0
ERSTE Immobilien Alpha GmbH	Vienna	74.3	74.3
ERSTE Immobilien Alpha Kerensstraße GmbH & Co KG	Vienna	0.0	0.0
ERSTE Immobilien Alpha Lastenstraße GmbH & Co KG	Vienna	0.0	0.0
ERSTE Immobilien Alpha Monte Laa GmbH & Co. KG	Vienna	0.0	0.0
ERSTE Immobilien Alpha W175 GmbH & Co KG	Vienna	0.0	0.0
ERSTE Immobilien Aspernbrückengasse 2 GmbH & Co KG	Vienna	0.1	0.1
ERSTE Immobilien Beta GmbH	Vienna	74.3	74.3
ERSTE Immobilien Beta GS 131 GmbH & Co KG	Vienna	0.0	0.0
ERSTE Immobilien Gamma GmbH	Vienna	74.3	74.3
ERSTE Immobilien Gamma Seepark Campus West GmbH & Co KG	Vienna	0.0	0.0
ERSTE OSIGURANJE VIENNA INSURANCE GROUP D.D.	Zagreb	3.5	3.5
ERSTE Vienna Insurance Group Biztosito Zrt.	Budapest	3.5	4.3
FINAG D.D. INDUSTRIJA GRADJEVNOG MATERIJALA BANKRUPTCY	Garesnica	18.2	18.2
Finanzpartner GmbH	Vienna	50.0	50.0
Freizeitpark Zell GmbH	Zell am Ziller	0.0	0.0
Freizeitzentrum Zillertal GmbH	Fügen	0.0	0.0
Fund of Excellence Förderungs GmbH	Vienna	49.0	49.0
FWG-Fernwärmeversorgung Engelbrechts registrierte Genossenschaft mit beschränkter Haftung	Kautzen	0.0	0.0
FWG-Fernwärmeversorgung Raabs a.d. Thaya registrierte Genossenschaft mit beschränkter Haftung	Raabs a. d. Thaya	0.0	0.0
Gasteiner Bergbahnen Aktiengesellschaft	Bad Hofgastein	13.2	13.4
GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H.	Vienna	1.0	1.0
GEMDAT Oberösterreichische Gemeinde-Datenservice Gesellschaft m.b.H.	Linz	10.7	10.6
GEMDAT Oberösterreichische Gemeinde-Datenservice Gesellschaft m.b.H. & Co.KG	Linz	11.9	11.8
Gerlitzen - Kanzelbahn - Touristik Gesellschaft m.b.H.&Co KG	Sattendorf	0.0	0.0
Gewerbe- und Dienstleistungspark der Stadtgemeinde Bad Radkersburg Kommanditgesellschaft	Bad Radkersburg	12.5	12.5
Gladiator Aircraft Management Limited	Pieta	100.0	100.0
Gletscherbahnen Kaprun Aktiengesellschaft	Kaprun	0.0	0.0
Golf Ressort Kremstal GmbH	Kematen a. d. Krems	0.0	0.0
Golf Ressort Kremstal GmbH & Co. KG.	Kematen a. d. Krems	0.0	0.0
Golfclub Bludenz-Braz GmbH	Bludenz - Braz	0.0	0.0
Golfclub Brand GmbH	Brand bei Bludenz	0.0	0.0
Golfclub Pfarrkirchen im Mühlviertel GesmbH	Pfarrkirchen	0.2	0.2
Golfplatz Hohe Salve - Brixental Errichtergesellschaft m.b.H. & Co KG	Westendorf	0.0	0.0
Golfresort Haugschlag GmbH & Co KG	Haugschlag	0.0	0.0
Graben 21 Liegenschaftsverwaltung GmbH	Vienna	0.0	100.0
Großarler Bergbahnen Gesellschaft mit beschränkter Haftung & Co. KG.	Großarl	0.5	0.5
GW St. Pölten Integrative Betriebe GmbH	St.Pölten-Hart	0.0	0.0
GXT Vermögensverwaltung GmbH & Co KG	Vienna	0.0	0.0
GZ-Finanz Leasing Gesellschaft m.b.H.	Vienna	100.0	100.0
HAPIMAG AG	Baar	0.0	0.0
Harkin Limited	Dublin	100.0	100.0
Hauser Kaibling Seilbahn- und Liftgesellschaft m.b.H. & Co. KG.	Haus im Ennstal	0.4	0.4
HDL Fiecht GmbH	Vomp	0.0	0.0
Health and Fitness International Holdings N.V.	Willemstad	3.5	3.5
Heiltherme Bad Waltersdorf GmbH	Bad Waltersdorf	4.5	4.5
Heiltherme Bad Waltersdorf GmbH & Co KG	Bad Waltersdorf	4.1	4.1
Hinterstoder-Wurzeralm Bergbahnen Aktiengesellschaft	Hinterstoder	0.4	0.4
HOLDING RUDARSKO METALURŠKO HEMIJSKI KOMBINAT TREPCA AD ZVECAN - U RESTRUKTUIRANJU	Zvecan	0.0	0.0
Hrvatski olimpijski centar Bjelolosica d.o.o. (Kroatisches Olympiazentrum) in bankruptcy	Jesenak	1.2	1.2
Hrvatski registar obveza po kreditima d.o.o. (HROK)	Zagreb	7.3	7.3
HV-Veranstaltungsservice GmbH	St. Lorenzen	100.0	100.0
ILGES - Liegenschaftsverwaltung G.m.b.H.	Rohrbach	40.0	40.0
IMMO Primum GmbH	St. Pölten	0.0	0.0
IMMORENT S-Immobilienmanagement GesmbH	Vienna	100.0	100.0
Immorent-Hackinger Grundverwertungsgesellschaft m.b.H.	Vienna	10.0	10.0
Informativni centar Bjelovar d.o.o.	Bjelovar	1.4	1.4
Investicniweb s.r.o.	Prague	99.0	99.0
JADRAN dionicko drustvo za hotelijerstvo i turizam	Crikvenica	3.4	3.4
JAVNO SKLADIŠTE SLOBODNA CARINSKA ZONA NOVI SAD AD NOVI SAD	Novi Sad	5.2	5.2
JUGOALAT-JAL AD NOVI SAD	Novi Sad	5.0	5.0
Kaiser-Ebersdorfer Straße 8 GmbH & Co	Vienna	0.0	0.0
Kapruner Freizeitzentrum Betriebs GmbH	Kaprun	0.0	0.0
Kapruner Promotion und Lifte GmbH	Kaprun	6.4	6.5
Kitzbüheler Anzeiger Gesellschaft m.b.H.	Kitzbühel	0.0	0.0
Kleinkraftwerke-Betriebsgesellschaft m.b.H.	Vienna	100.0	100.0
Kommanditgesellschaft MS "SANTA LORENA" Offen Reederei GmbH & Co.	Hamburg	0.0	0.0

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Kommanditgesellschaft MS "SANTA LUCIANA" Offen Reederei GmbH & Co.	Hamburg	0.0	0.0
Kreco Realitäten Aktiengesellschaft	Vienna	19.7	19.8
'KULSKI ŠTOFOVI' FABRIKA ZA PROIZVODNJU VUNENIH TKANINA I PREDIVA AKCIONARSKO DRUŠTVO IZ KULE - U STECAJU	Kula	6.1	6.1
Kurzentrum "Landsknechte" Bad Schönau Gesellschaft m.b.H.	Bad Schönau	0.0	0.0
ländleticket marketing gmbh	Bregenz	0.0	0.0
Landzeit Restaurant Angath GmbH	St. Valentin	0.0	0.0
Langenloiser Liegenschaftsverwaltungs-Gesellschaft m.b.H.	Langenlois	0.0	0.0
Lantech Innovationszentrum GesmbH	Landeck	0.0	0.0
Latifundium Holding Gesellschaft m.b.H.	Vienna	100.0	100.0
Lebens.Resort & Gesundheitszentrum GmbH	Ottenschlag	0.0	0.0
Lebensquell Bad Zell Gesundheits- und Wellnesszentrum GmbH & Co KG	Bad Zell	0.0	0.0
Lienzer-Bergbahnen-Aktiengesellschaft	Gaimberg	0.0	0.0
Liezener Bezirksnachrichten Gesellschaft m.b.H.	Liezen	1.1	1.1
LOCO 597 Investment GmbH	Egg	0.0	0.0
Luitpoldpark-Hotel Betriebs- und Vermietungsgesellschaft mbH in Liquidation	Füssen	75.0	75.0
LV Holding GmbH	Linz, Donau	35.7	35.4
M Schön Wohnen Immorent GmbH	Vienna	100.0	100.0
Maissauer Amethyst GmbH	Maissau	0.0	0.0
MAJEVICA HOLDING AKCIONARSKO DRUŠTVO, BACKA PALANKA	Bačka Palanka	5.2	0.6
Marktgemeinde Bad Mitterndorf Thermalquelle Erschließungsges. m.b.H.	Bad Mitterndorf	0.6	0.6
MasterCard Incorporated	Wilmington	0.0	0.0
Mayer Immobilien Korlátolt Felelosségu Társaság "végelszámolás alatt"	Budapest	100.0	100.0
Mayer Interplan Korlátolt Felelosségu Társaság "végelszámolás alatt"	Budapest	100.0	100.0
Mayer Property Alpha d.o.o.	Zagreb	100.0	100.0
Mayer Property Beta d.o.o.	Zagreb	100.0	100.0
Mayrhofner Bergbahnen Aktiengesellschaft	Mayrhofen	0.0	0.0
MCG Graz e.gen.	Graz	1.4	1.4
MEG-Liegenschaftsverwaltungsgesellschaft m.b.H. in Liqu.	Vienna	100.0	100.0
Mittersiller Golf- und Freizeitanlagen Gesellschaft m.b.H.	Mittersill	0.0	0.0
MPC Rendite-Fonds Leben plus spezial III GmbH & Co KG	Quickborn	0.0	0.0
MUNDO FM & S GmbH	Vienna	100.0	100.0
Murauer WM Halle Betriebsgesellschaft m.b.H.	Murau	3.1	3.1
Musikkonservatoriumserrichtungs- und vermietungsgesellschaft m.b.H.	St. Pölten	0.0	0.0
Natursee und Freizeitpark Wechselland GmbH	Pinggau	0.4	0.4
Natursee und Freizeitpark Wechselland GmbH & Co KG in Liqu.	Pinggau	0.1	0.1
Neo Investment B.V.	Amsterdam	0.0	0.0
Neubruck Immobilien GmbH	St. Anton	0.0	0.0
Neuhofner Bauträger GmbH	Neuhofen	0.0	0.0
Newstin, a.s.	Prague	17.6	17.6
Oberpinzgauer Fremdenverkehrsförderungs- und Bergbahnen AG	Neukirchen	0.0	0.0
Obertilliacher Bergbahnen-Gesellschaft m.b.H.	Obertilliach	0.0	0.0
Öhlknecht-Hof Errichtungs- und Verwaltungsgesellschaft m.b.H.	Horn	0.0	0.0
ÖKO-Heizkraftwerk GmbH	Pöllau	0.0	0.0
ÖKO-Heizkraftwerk GmbH & Co KG	Pöllau	0.0	0.0
Omniasig Vienna Insurance Group SA	Bucharest	0.1	0.1
OÖ HightechFonds GmbH	Linz	7.8	7.8
Ortswärme Fügen GmbH	Fügen	0.0	0.0
Österreichische Wertpapierdaten Service GmbH	Vienna	32.5	32.7
Osttiroler Wirtschaftspark GesmbH	Lienz	0.0	0.0
PANORAMABAHN KITZBÜHELER-ALPEN GMBH	Hollersbach	0.0	0.0
Planai - Hochwurzen - Bahnen Gesellschaft m.b.H.	Schladming	0.7	0.7
Planung und Errichtung von Kleinkraftwerken Aktiengesellschaft	Vienna	98.9	98.9
Poistovna Slovenskej sporitelne, a.s. Vienna Insurance Group	Bratislava	5.0	5.0
Pojistovna Ceske sporitelny, a.s., Vienna Insurance Group	Pardubice	4.9	4.9
POSLOVNO UDRUŽENJE DAVAOCA LIZINGA "ALCS" BEOGRAD	Belgrade	8.3	8.3
PREDUZECE ZA PRUŽANJE CONSULTING USLUGA BANCOR CONSULTING GROUP DOO NOVI SAD	Novi Sad	2.6	2.6
Prvni certifikacni autorita, a.s.	Prague	23.0	23.0
PSA Payment Services Austria GmbH	Vienna	18.4	18.5
Radio Osttirol GesmbH	Lienz	0.0	0.0
Rätikon-Center Errichtungs- und Betriebsgesellschaft m.b.H.	Bludenz	0.0	0.0
Realitäten und Wohnungsservice Gesellschaft m.b.H.	Köflach	4.8	4.0
Realitni spolecnost Ceske sporitelny, a.s.	Prague	99.0	99.0
REGIONALNA AGENCIJA ZA RAZVOJ MALIH I SREDNJIH PREDUZECA ALMA MONS D.O.O.	Novi Sad	3.3	3.3
RIBA D.D. BANKRUPTCY	Garesnica	17.1	17.1
Riesneralm - Bergbahnen Gesellschaft m.b.H. & Co. KG.	Donnersbach	0.0	0.0
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A.	Amsterdam	77.4	77.4
RTG Tiefgaragenerrichtungs und -vermietungs GmbH	Graz	25.0	25.0
RVG Czech, s.r.o.	Prague	19.8	19.8

Company name, registered office		Interest of Erste Group in % Dec 16	Dec 17
S - Leasing und Vermögensverwaltung - Gesellschaft m.b.H.	Peuerbach	0.0	0.0
S IMMO AG	Vienna	10.7	0.5
SAINETE GmbH & Co KG	Vienna	0.0	100.0
SALIX-Grundstückserwerbs Ges.m.b.H.	Eisenstadt	50.0	50.0
SALZBURG INNENSTADT, Vereinigung zur Förderung selbständiger Unternehmer der Salzburger Innenstadt, registrierte Genossenschaft mit beschränkter Haftung	Salzburg	2.0	2.0
S-AMC1 DOOEL Skopje	Skopje	24.9	24.9
Schweighofer Gesellschaft m.b.H. & Co KG	Friedersbach	0.0	0.0
S-City Center Wirtschaftsgütervermietungsgesellschaft m.b.H.	Wiener Neustadt	0.0	0.0
S-Commerz Beratungs- und Handelsgesesellschaft m.b.H.	Neunkirchen	0.0	0.0
SEG Sport Event GmbH	Hohenems	0.0	0.0
Seniorenresidenz "Am Steinberg" GmbH	Graz	25.0	25.0
Senningerfeld Projektenwicklungs und Verwertungs GmbH	Bramberg	0.0	0.0
S-Finanzservice Gesellschaft m.b.H.	Baden bei Wien	0.0	0.0
SILO DREI Beteiligungsverwaltungs GmbH & Co KG	Vienna	100.0	100.0
SILO ZWEI Beteiligungsverwaltungs GmbH & Co KG	Vienna	100.0	100.0
Silvrettaseilbahn Aktiengesellschaft	Ischgl	0.0	0.0
SK 1 Properties s.r.o.	Bratislava	0.0	0.0
SK 2 Properties s.r.o.	Bratislava	0.0	0.0
Skilifte Unken - Heutal Gesellschaft m.b.H. & Co, KG	Unken	0.0	0.0
Skilifte Unken Heutal Gesellschaft m.b.H.	Unken	2.2	2.2
SM-Immobiliengesellschaft m.b.H.	Melk	0.0	0.0
SN Immobilienprojekt GmbH	St.Pölten	0.0	0.0
Society for Worldwide Interbank Financial Telecommunication scrl	La Hulpe	0.2	0.2
Sparkasse Amstetten Service- und Verwaltungsgesellschaft m. b. H.	Amstetten	0.0	0.0
Sparkasse Bludenz Beteiligungsgesellschaft mbH	Bludenz	0.0	0.0
Sparkasse Bludenz Immoblienverwaltungsgesellschaft mbH	Bludenz	0.0	0.0
Sparkasse Imst Immobilienverwaltung GmbH	Imst	0.0	0.0
Sparkasse Imst Immobilienverwaltung GmbH & Co KG	Imst	0.0	0.0
Sparkasse Lambach Versicherungsmakler GmbH	Lambach	0.0	0.0
Sparkasse Nekretnine d.o.o.	Sarajevo	26.5	26.5
Sparkasse Niederösterreich Mitte West Beteiligungsgesellschaft m.b.H.	St. Pölten	0.0	0.0
Sparkasse Niederösterreich Mitte West Stadtentwicklungs GmbH	St. Pölten	0.0	0.0
Sparkasse Reutte Liegenschaftsverwertungs GmbH	Reutte	0.0	0.0
Sparkassen - Betriebsgesellschaft mbH.	Linz	39.7	39.1
Sparkassen Bankbeteiligungs GmbH	Dornbirn	0.0	0.0
Sparkassen Beteiligungs GmbH & Co KG	Vienna	8.2	7.8
Sparkassen Facility Management GmbH	Innsbruck	75.0	75.0
Sparkassen Versicherung AG Vienna Insurance Group	Vienna	5.0	5.0
Sparkassengarage Imst Errichtungs- und Betriebs GmbH	Imst	0.0	0.0
Sparkassengarage Imst Errichtungs- und Betriebs GmbH & Co KG	Imst	0.0	0.0
SPES GmbH & Co. KG	Schlierbach	0.0	0.0
SPKB Beteiligungs- und Verwaltungsgesellschaft m.b.H.	Bregenz	0.0	0.0
Sport- und Freizeitanlagen Gesellschaft m.b.H.	Schwanenstadt	13.1	12.9
SREDISNJE KLIRINSKO DEPOZITARNO DRUSTVO D.D.(CENTRAL DEPOZITORY & CLEARING COMPANY Inc.)	Zagreb	0.1	0.1
Stadtgemeinde Weiz - Wirtschaftsentwicklung KG	Weiz	0.5	0.0
Stadtmarketing-Ternitz Gmbh	Ternitz	0.0	0.0
STECAJNA MASA SARTID-A SMEDEREVO	Smederevo	0.0	0.0
Sternstein Sessellift Gesellschaft m.b.H.	Bad Leonfelden	7.2	7.2
Stoderzinken - Liftgesellschaft m.b.H. & Co. KG.	Gröbming	0.4	0.4
Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (STUZZA) G.m.b.H.	Vienna	10.7	10.7
SZG-Dienstleistungsgesellschaft m.b.H.	Salzburg	98.7	100.0
Tannheimer Bergbahnen GmbH & Co KG	Tannheim	0.0	0.0
Tauern SPA World Betriebs- Gmbh & Co KG	Kaprun	9.8	11.0
Tauern SPA World Betriebs-GmbH	Kaprun	12.0	12.2
Tauern SPA World Errichtungs- Gmbh & Co KG	Kaprun	9.8	11.0
Tauern SPA World Errichtungs-GmbH	Kaprun	12.0	12.2
TDZ Technologie- und Dienstleistungszentrum Donau-Böhmerwald Bezirk Rohrbach GmbH.	Neufelden	1.0	1.0
TECH21 Bürohaus und Gewerbehof Errichtungs- und Betriebsgesellschaft mbH & Co KG	Vienna	0.1	0.1
Technologie- und Dienstleistungszentrum Ennstal GmbH	Reichraming	0.0	0.0
TECHNOLOGIE- und GRÜNDERPARK ROSENTAL GmbH	Rosental	0.3	0.3
Technologie- und Innovationszentrum Kirchdorf GmbH	Schlierbach	0.0	0.0
Technologiezentrum Deutschlandsberg GmbH	Deutschlandsberg	7.3	7.3
Technologiezentrum Freistadt-Mühlviertel-Errichtungs- und Betriebsgesellschaft m.b.H.	Freistadt	1.6	1.5
Technologiezentrum Inneres Salzkammergut GmbH	Bad Ischl	0.0	0.0
Technologiezentrum Kapfenberg Vermietungs-GmbH	Kapfenberg	6.0	6.0
Technologiezentrum Perg GmbH	Perg	1.5	1.2
Technologiezentrum Salzkammergut GmbH	Gmunden	0.6	0.6
Technologiezentrum Salzkammergut-Bezirk Vöcklabruck GmbH	Attnang-Puchheim	0.0	0.0

Company name, registered office		Interest of Erste Group in % Dec 16	Dec 17
Techno-Z Ried Technologiezentrum GmbH	Ried im Innkreis	0.0	0.0
Tennis-Center Hofkirchen i. M. GmbH	Hofkirchen	7.3	7.3
TGZ Technologie- und Gründerzentrum Schärding GmbH	Schärding	4.0	3.9
Thermalquelle Loipersdorf Gesellschaft m.b.H. & Co KG	Loipersdorf	0.0	0.0
Therme Wien Ges.m.b.H.	Vienna	15.0	15.0
Therme Wien GmbH & Co KG	Vienna	15.0	15.0
Tiefgarage Anger, Gesellschaft m.b.H. & Co. KG.	Lech	0.0	0.0
Tiroler Zugspitzbahn Gesellschaft m.b.H.	Ehrwald	0.0	0.0
TIZ Landl - Grieskirchen GmbH	Grieskirchen	0.0	0.0
TONDACH GLEINSTÄTTEN AG	Gleinstätten	9.6	9.6
Tourismus- u. Freizeitanlagen GmbH	Hinterstoder	0.0	0.0
TPK-18 Sp. z o.o.	Warsaw	100.0	100.0
Transformovany fond penzijniho pripojisteni se statnim prispevkem Ceska sporitelna - penzijni spolecnost, a.s.	Prague	0.0	0.0
TSG EDV-Terminal-Service Ges.m.b.H.	Vienna	0.1	0.1
Unzmarkter Kleinkraftwerk-Aktiengesellschaft	Vienna	99.3	99.3
Valtecia Achizitii S.R.L.	Bucharest	100.0	100.0
Vasudvar Hotel Kft.	Budapest	100.0	100.0
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH	Vienna	25.6	25.6
VISA INC.	Wilmington	0.0	0.0
VMG Versicherungsmakler GmbH	Vienna	5.0	5.0
Waldviertler Leasing s.r.o.	Jindřřichuův Hradec	0.0	0.0
Wärmeversorgungsgenossenschaft Tamsweg registrierte Genossenschaft mit beschränkter Haftung	Tamsweg	0.3	0.3
Wassergenossenschaft Mayrhofen	Mayrhofen	0.0	0.0
WBV Beteiligungs- und Vermögensverwaltungsgesellschaft m.b.H.	Feldkirch	0.0	0.0
WEB Windenergie AG	Pfaffenschlag	0.0	0.0
Weißsee-Gletscherwelt GmbH	Uttendorf	0.0	0.0
WEVA - Veranlagungs- und Beteiligungsgesellschaft m.b.H.	Linz	39.8	39.2
Wien 3420 Aspern Development AG	Vienna	24.5	24.5
WIEPA-Vermögensverwaltungsgesellschaft m.b.H.	Dornbirn	0.0	0.0
Wirtschaftspark Kleinregion Fehring Errichtungs- und Betriebsgesellschaft m.b.H.	Fehring	2.0	2.0
Zagreb Stock Exchange, Inc.	Zagreb	2.3	2.3
Zelina Centar d.o.o.	Saint Helena	100.0	100.0
Zweite Beteiligungsgesellschaft Reefer-Flottenfonds mbH & Co KG	Hamburg	0.0	0.0

Management board

Andreas Treichl mp, Chairman	**Peter Bosek mp, Member**
Petr Brávek mp, Member	**Willibald Cernko mp, Member**
Gernot Mittendorfer mp, Member	**Jozef Síkela mp, Member**

Vienna, 28 February 2018

AUDITOR’S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

Sparkassen-Prüfungsverband (Prüfungsstelle) and PwC Wirtschaftsprüfung GmbH, Vienna, – hereinafter referred to as “we” – have audited the consolidated financial statements of Erste Group Bank AG, Vienna, and its subsidiaries (the Group), which comprise the Group balance sheet as at December 31, 2017, the Group statement of comprehensive income, the Group statement of changes in total equity and the Group cash flow statement for the fiscal year then ended, and the notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements under Section 59a Austrian Banking Act (BWG) in conjunction with Section 245a Austrian Commercial Code (UGB).

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report.

We are independent of the Group in accordance with Austrian Generally Accepted Accounting Principles, the provisions of the Austrian Banking Act and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have structured key audit matters as follows:
- Description
- Audit approach
- Reference to related disclosures

1. Impairment of loans and advances

Description:

Loan loss provisions are made by impairing loans and advances in order to take into account risks of losses with regard to the credit portfolio. As at December 31, 2017, Erste Group Bank AG, Vienna, set up loan loss provisions in the amount of EUR 4.3 billion for a credit volume totaling EUR 182.9 billion (loans and advances to customers and credit institutions as well as contingent liabilities). These loan loss provisions represent management’s best estimate with regard to losses incurred in the credit portfolio at the balance sheet date. Determining the amount of the loan loss provisions involves a high degree of judgment given the assumptions and estimates used.

As defined in the internal guidelines for determining loan loss provisions for the lending business of Erste Group Bank AG, Vienna, the following methods are applied to determine the level of loan loss provisions required:

- The loan loss provision is determined on a case-by-case basis for defaulted loans and advances considered to be significant at customer level.
- The loan loss provision is calculated based on statistical models for those defaulted loans and advances with a comparable risk profile that are not considered to be individually significant.
- For losses having already occurred until the balance sheet date but which the Company failed to identify, loan loss provisions are made on a portfolio basis (impairment on a portfolio basis). These collectively assessed loan loss provisions are calculated using mod-

els based on estimated probabilities of default and loss ratios as well as the period elapsing between the occurrence of the loss event and its identification by the Company.

Specific provisions for impairment losses are calculated using the discounted cash flow method, meaning that the expected cash flows as well as the expected proceeds from the realization of collateral are estimated. These estimates are made on a case-by-case basis (significant loans and advances) or are collectively assessed (rule-based approach for loans and advances that are not significant).

Determining the impairment of loans and advances represents an estimate that significantly depends on the identification of the loss event and on the estimated loan loss provision to be set up. Given the volume of the loan loss provisions and the uncertainties involved regarding the estimates, we determined this matter to be a key audit matter.

Audit approach:
With a view to assess the appropriateness of the loan loss provisions set up, we:
- evaluated the significant lending business processes.
- identified and tested the internal control system, particularly the key controls involved in approving loans, in the ongoing monitoring and the early detection process at the level of Erste Group Bank AG, Vienna, and significant subsidiaries, as well as audited the internal control system for the correct use of the rating models and measurement of collateral.
- tested, by using samples, if loss events were fully identified, and assessed if events occurred that significantly affect the borrower's repayment ability with regard to loans and advances that are not considered as defaulted. We also evaluated the appropriateness of the risk assessment made by Erste Group Bank AG, Vienna, as well as individual loan loss provisions for a sample of loans and advances. With regard to these loans and advances, we critically assessed the cash flows estimated by the Group to be received from interest, redemption and collateral so as to be able to assess the appropriateness of the loan loss provisions stated in the consolidated financial statements.
- referred to the below elements of the internal control system so as to assess the reliability of the statistical models used to calculate the collective loan loss provisions:
  - Comparison of loan loss provision estimates made using statistical models against realized losses (backtesting),
  - Ongoing monitoring and consistent validation of internal rating-based models and parameters,
  - Assessment of the appropriateness of the lending values applied to the collaterals used, and
  - Annual revision of estimates concerning the model parameters based on updated data sets.
- evaluated, involving our credit risk experts in the audit, the reliability of the estimates made with regard to material regulatory models – which are also used for setting up collective loan loss provisions – based on their stability, performance and user acceptance.
- assessed the information brought to the attention of the management in regular intervals at meetings of the Holding Model Committee, the Group Executive Risk Committee as well as comparable local Risk Committees and regularly monitored the decisions of these Committees, reperformed the analyses presented on backtesting and revised estimates, as well as critically assessed the model and parameter validations performed. Both Committees are responsible for taking crucial decisions regarding recalibrations or changes to the models that might be necessary.

Reference to related disclosures:
With regard to the above, we refer to management's disclosures in section 44.4 in the notes.

2. Fair values of securities and derivatives

Description:
The consolidated financial statements of Erste Group Bank AG, Vienna, include financial assets at a carrying amount of EUR 23.7 billion as well as financial liabilities at a carrying amount of EUR 5.5 billion, accounted for at their fair values. Erste Group Bank AG, Vienna, uses observable market prices and valuation models to determine the fair values. The valuation models also play a significant role in determining the hedged risk in hedge accounting.

When measuring the fair values using valuation models, the choice of these models, the input parameters used, as well as the relating discretionary decisions made by management are decisive as regards the calculation of the market values. The measurement of securities and derivatives is subject to significant uncertainties as regards the estimates involved given the complexity of individual measurement models and the assumptions made on the measurement parameters by management.

Taking into account that securities and derivatives measured at fair value represent a large portion of the balance sheet both on the assets side and the liabilities and equity side, and given the existing uncertainties with regard to the estimates involved, we determined this matter to be a key audit matter.

Audit approach:

With a view to evaluate the appropriateness of the fair values of the financial assets and liabilities, we used valuation experts and:

- identified the process used to determine the fair values inquiring with the responsible employees and reviewed the relevant guidelines and documentation, particularly with regard to the valuation process, valuation models and market data.
- tested select key controls with regard to the processes above.
- tested, by using samples, if appropriate valuation methods were selected and consistently applied.
- reconciled the reference rates used for securities against external market data and used this information to assess if the fair value levels chosen comply with the internally defined criteria.
- performed plausibility checks based on a sample for those securities with regard to which the deviation between the external market data available to us and the reference rates used by Erste Group Bank AG, Vienna, exceeded a certain threshold.
- critically assessed for a sample of securities for which no external market data were available the most important model inputs and reperformed the valuation approaches used based on our independent valuation.
- critically assessed for a sample of derivatives measured using a model the most important model inputs and determined the valuation approaches used based on our independent valuation.
- tested, by using samples, if the input data (yield curves) are applied in full and in a correct manner.
- requested and analyzed the collateral reconciliation documents, the records on profits or losses from the termination of derivative contracts, as well as other documents which may help assess the appropriateness of the valuation models applied.

Reference to related disclosures:

With regard to the carrying amounts and the distribution to the fair value levels of the securities and derivatives accounted for at their fair values, we refer to management's disclosure in section 46 in the notes. With regard to the description of the valuation methods as well as the valuation models used, we refer to management's disclosure in section 46 in the notes. With regard to changes in the value of specific parameters, we also refer to section 46 in the notes.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 59a BWG in conjunction with Section 245a UGB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

_ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
_ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
_ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
_ evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
_ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the audit committee with a statement that we have complied with all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Group

Pursuant to the Austrian Commercial Code, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report for the Group in accordance with the Austrian Commercial Code and the special legal requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the management report for the Group was prepared in accordance with the applicable legal requirements, includes accurate disclosures pursuant to Section 243a UGB and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other Information

Management is responsible for other information. Other information comprises any information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Additional Information in Accordance with Article 10 of the EU Regulation

Pursuant to Sections 23 and 24 Austrian Savings Bank Act (SpG), Sparkassen-Prüfungsverband (Prüfungsstelle) is the statutory auditor of Austrian savings banks. In accordance with Section 23 (3) SpG in conjunction with Sections 60 and 61 BWG, the Company is subject to an audit, the consolidated financial statements are also subject to a statutory audit.

At the ordinary general meeting dated May 11, 2016 and pursuant to Section 1 (1) of the Auditing Rules for Savings Banks, Annex to Section 24 SpG, PwC Wirtschaftsprüfung GmbH, Vienna, was appointed as additional auditor for the first time. PwC Wirtschaftsprüfung GmbH, Vienna, was engaged by the supervisory board.

We confirm that the audit opinion in the "Report on the Consolidated Financial Statements" section is consistent with the additional report to the audit committee referred to in Article 11 of the EU Regulation.

We declare that we did not provide any prohibited non-audit services (Article 5 (1) of the EU Regulation) and that we remained independent of the audited company in conducting the audit.

Responsible Engagement Partner

Responsible for the proper performance of the engagement are Mr. Gerhard Margetich, Austrian Certified Public Accountant (Sparkassen-Prüfungsverband), and Ms. Dorotea-E. Rebmann, Austrian Certified Public Accountant (PwC Wirtschaftsprüfung GmbH, Vienna).

Vienna, 28 February 2018

Sparkassen-Prüfungsverband

Prüfungsstelle

(Bank Auditor)

Gerhard Margetich
Austrian Certified Public Accountant

Stephan Lugitsch
Austrian Certified Public Accountant

PwC Wirtschaftsprüfung GmbH

Timo Steinmetz
Austrian Certified Public Accountant

Dorotea-E. Rebmann
Austrian Certified Public Accountant

This report is a translation of the original report in German, which is solely valid. Publication and sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. For deviating versions, the provisions of Section 281 (2) UGB apply.

STATEMENT OF ALL MEMBERS OF THE MANAGEMENT BOARD

We confirm that to the best of our knowledge the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties to which the Group is exposed.

Management board

Andreas Treichl mp, Chairman	**Peter Bosek mp, Member**
Petr Brávek mp, Member	**Willibald Cernko mp, Member**
Gernot Mittendorfer mp, Member	**Jozef Síkela mp, Member**

Vienna, 28 February 2018

Glossary

Book value per share
Shareholders' equity (equity attributable to owners of the parent) divided by the number of shares issued at the end of the period.

Cash return on equity (cash ROE)
Net result for the year attributable to owners of the parent adjusted for dividends on additional tier 1 capital, goodwill impairments and amortisation of customer relationships, as a percentage of average equity attributable to owners of the parents. The average is calculated on a quarterly basis.

Cash earnings per share
Net result for the year attributable to owners of the parent adjusted for dividends on additional tier 1 capital, goodwill impairments and amortisation of customer relationships, divided by the weighted average number of shares outstanding.

CEE (Central and Eastern Europe)
Encompasses the new member states of the EU that joined in 2004 and 2007, the CIS countries, states that evolved from the former Yugoslavia, as well as Albania.

Common equity ratio (CET1 ratio)
Common equity tier 1 capital (CET1) as a percentage of the total risk amount (according to CRR).

Cost/income ratio
Operating expenses as a percentage of operating income.

Dividend yield
Dividend payment of the financial year as a percentage of the year-end closing price or in general of the most recent share price.

Earnings per share
Net result for the year attributable to owners of the parent adjusted for dividends of additional tier 1 capital, divided by the weighted average number of shares outstanding.

Interest-bearing assets
Total assets less cash and balances, derivatives, property and equipment, investment properties, intangible assets, tax assets, assets held for sale and other assets.

Loan-to-deposit ratio
Loans and receivables to customers (net) in relation to deposits to customers.

Market capitalisation
Overall value of a company calculated by multiplying the share price by the number of shares outstanding.

Miscellaneous assets
The total of the balance sheet items derivatives-hedge accounting, property and equipment, investment properties, investments in associates and joint ventures associates, current and deferred tax assets, assets held for sale and other assets.

Miscellaneous liabilities
The total of the balance sheet items other financial liabilities, derivatives – hedge accounting, changes in fair value of portfolio hedged items, provisions, current and deferred tax liabilities, liabilities associated with assets held for sale and other liabilities.

Net interest margin
Net interest income as a percentage of average interest-bearing assets, calculated on a quarterly basis.

Non financial risk
Non financial risks contain reputational and operational risks. Operational risks are losses that occur as a result from failure of internal processes, human failure or system failure. This can also include external events including legal risks.

NPE coverage ratio (non-performing exposure coverage ratio)
Risk provisions for the credit risk exposure (specific and collective allowances plus provisions for guarantees) as a percentage of the non-performing credit risk exposure.

NPE ratio (non-performing exposure ratio)
Non-performing credit risk exposure as a percentage of total credit risk exposure.

NPL coverage ratio (non-performing loans coverage ratio)
Specific and collective allowances for customer loans as a percentage of non-performing loans and advances to customers.

NPL ratio (non-performing loans ratio)
Non-performing loans and advances to customers as a percentage of total loans and advances to customers.

NPL total coverage ratio (non-performing loans total coverage ratio)
Specific and collective allowances for customer loans and collateral for non-performing loans as a percentage of non-performing loans and advances to customers.

Operating expenses (general administrative expenses)
The total of personnel expenses, other administrative expenses as well as depreciation and amortisation.

Operating income
Consists of net interest income, net fee and commission income, dividend income, net trading result, result from financial assets and liabilities designated at fair value through profit or loss, net result from equity method investments and rental income from investment properties & other operating leases.

Operating result
Operating income less operating expenses.

Own funds
Own funds according to CRR consist of common equity tier 1 capital (CET1), additional tier 1 capital (AT1) and tier 2 capital (T2).

Price/earnings ratio
Closing share price of the financial year divided by earnings per share.

Return on equity (ROE)
Net result for the year attributable to owners of the parent minus dividends on additional tier 1 capital, as a percentage of average equity attributable to owners of the parents. The average is calculated on a quarterly basis.

Return on equity excluding intangible assets (ROTE)
Net result for the year attributable to owners of the parent minus dividends on additional tier 1 capital, as a percentage of average equity attributable to owners of the parents excluding intangible assets. The average is calculated on a quarterly basis.

Risk Appetite Statement (RAS)
The RAS is a strategic document, which concludes the maximum level of risk an organization is willing to accept in order to reach its business objectives.

Risk categories
The classification of credit assets into risk grades is based on Erste Group's internal ratings. Defaulted customers are classified into a separate risk grade.

Risk category – low risk
Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Risk category – management attention
Vulnerable non-retail clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Risk category – substandard
The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Risk category – non-performing
One or more of the default criteria under Article 178 of the CRR are met: among others, full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. Erste Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.

Share capital
Total equity attributable to owners of the parent of a company, subscribed to by the shareholders at par.

Tax rate
Taxes on income as a percentage of pre-tax result from continuing operations.

Texas ratio
Total equity pursuant to IFRS minus additional tier 1 capital instruments and intangible assets plus allowances for loans and receivables to customers as a percentage of non-performing loans.

Tier 1 capital ratio (T1 ratio)
Tier 1 capital as a percentage of the total risk amount (according to CRR).

Total capital ratio
Total own funds as a percentage of the total risk amount (according to CRR).

Total risk amount (risk-weighted assets, RWA)
Includes credit, market and operational risk (according to CRR).

Total shareholder return
Annual performance of an investment in Erste Group Bank AG-shares including all income streams (e.g. dividend for the year) in a given year as a percentage of the share price at the end of the prior period.

Important addresses

ERSTE GROUP BANK AG
Am Belvedere 1
A-1100 Vienna
Tel: +43 (0) 50100 10100
SWIFT/BIC: GIBAATWGXXX
E-Mail: contact@erstegroup.com
Website: www.erstegroup.com

AUSTRIA
Erste Bank der oesterreichischen Sparkassen AG
(Erste Bank Oesterreich)
Am Belvedere 1
A-1100 Vienna
Tel: +43 (0) 50100 10100
SWIFT/BIC: GIBAATWWXXX
E-Mail: service@s-servicecenter.at
Website: www.erstebank.at

CZECH REPUBLIC
Česká spořitelna, a.s.
Olbrachtova 1929/62
CZ-140 00 Prague 4
Tel: +420 956 777901
SWIFT/BIC: GIBACZPX
E-Mail: csas@csas.cz
Website: www.csas.cz

SLOVAKIA
Slovenská sporiteľňa, a.s.
Tomášikova 48
SK-832 37 Bratislava
Tel: +421 2 582681 11
SWIFT/BIC: GIBASKBX
E-Mail: info@slsp.sk
Website: www.slsp.sk

ROMANIA
Banca Comercială Română S.A.
5, Regina Elisabeta Blvd
RO-030016 Bucharest 3
Tel: +40 21 4074200
SWIFT/BIC: RNCBROBU
E-Mail: contact.center@bcr.ro
Website: www.bcr.ro

HUNGARY
Erste Bank Hungary Zrt.
Népfürdő u. 24-26
H-1138 Budapest
Tel: +36 12980221
SWIFT/BIC: GIBAHUHB
E-Mail: erste@erstebank.hu
Website: www.erstebank.hu

CROATIA
Erste&Steiermärkische Bank d.d.
(Erste Bank Croatia)
Jadranski trg 3A
HR-51000 Rijeka
Tel: +385 51 365591
SWIFT/BIC: ESBCHR22
E-Mail: erstebank@erstebank.hr
Website: www.erstebank.hr

SERBIA
Erste Bank a.d. Novi Sad
(Erste Bank Serbia)
Bulevar oslobođenja 5
SRB-21000 Novi Sad
Tel: +381 66 89669000
SWIFT/BIC: GIBARS22XXX
E-Mail: info@erstebank.rs
Website: www.erstebank.rs

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SPV-Druck Gesellschaft m. b. H.
Leopoldauerstrasse 175, A-1210 Vienna

Contact:

Erste Group Bank AG,
Am Belvedere 1, A-1100 Vienna

Phone: +43 (0)5 0100 - 17693
Email: investor.relations@erstegroup.com
Internet: www.erstegroup.com/investorrelations

Thomas Sommerauer
Phone: +43 (0)5 0100 - 17326
Email: thomas.sommerauer@erstegroup.com

Peter Makray
Phone: +43 (0)5 0100 - 16878
Email: peter.makray@erstegroup.com

Simone Pilz
Phone: +43 (0)5 0100 - 13036
Email: simone.pilz@erstegroup.com

Gerald Krames
Phone: +43 (0)5 0100 - 12751
Email: gerald.krames@erstegroup.com

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