

Erste Group Bank AG

(Incorporated as a stock corporation in the Republic of Austria under registered number FN 33209 m)

EUR 2,000,000,000

Additional Tier 1 Notes Programme

On 23 June 2014, Erste Group Bank AG (the "**Issuer**" or "**Erste Group Bank**") entered into an Additional Tier 1 Notes Programme (the "**Programme**") which has been updated on 14 October 2015. The Programme was amended and updated on the date hereof. Under the Programme, the Issuer, subject to compliance with all relevant laws, regulations and directives, may from time to time issue direct, unsecured and subordinated debt securities constituting Additional Tier 1 instruments pursuant to Article 52 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*, as amended from time to time, the "**CRR**"), as further specified in the relevant Final Terms (as defined herein) in the English language under German law (the "**Notes**"). The Programme foresees two different options of terms & conditions under which Notes may be issued depending on the type of distribution which applies to the Notes as specified in the relevant Final Terms. Accordingly, the following types of Notes may be issued under the Programme: (i) Notes which commence with a fixed distribution rate which is superseded by a different fixed distribution rate (Option I), and (ii) Notes which commence with a fixed distribution rate which is superseded by a floating distribution rate (Option II). The Notes will have a perpetual term and a minimum denomination of EUR 100,000 (or the equivalent in other currencies). The aggregate principal amount of Notes outstanding (i.e. Notes not redeemed) under the Programme will not at any one time exceed EUR 2,000,000,000 (or the equivalent in other currencies).

This Prospectus (the "**Prospectus**") has been drawn up in accordance with Annexes XI, XII and XIII of Commission Regulation (EC) No 809/2004 dated 29 April 2004, as lastly amended by Commission Regulation (EU) No 759/2013 dated 30 April 2013 (the "**Prospectus Regulation**") and has been approved by the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde*, the "**FMA**") in its capacity as competent authority under the Austrian Capital Market Act (*Kapitalmarktgesetz*, the "**KMG**") for approval of this Prospectus. **The accuracy of the information contained in this Prospectus does not fall within the scope of examination by the FMA under applicable Austrian law and the Directive 2003/71/EC of the European Parliament and the Council of 4 November 2003, as amended (including amendments made by Directive 2010/73/EU, as amended, the "Prospectus Directive"). The FMA has examined this Prospectus only in respect of its completeness, coherence and comprehensibility pursuant to § 8a of the KMG.**

Application may be made for the Programme and/or the Notes to be admitted to the "*Amtlicher Handel*" (Official Market) and the "*Geregelter Freiverkehr*" (Second Regulated Market) (together, the "**Markets**") of the *Wiener Börse* (the "**Vienna Stock Exchange**"). References in this Prospectus to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Markets, each of which is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments, as amended ("**MiFID**"). Unlisted Notes may also be issued pursuant to this Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be admitted to trading on the Markets (or, upon provision of the competent authorities in other host Member States within the European Economic Area ("**EEA**") with a certificate of approval of the FMA attesting that this Prospectus has been drawn up in accordance with Article 5(4) of the Prospectus Directive, any other market and/or stock exchange in such other Member State).

The Issuer has requested the FMA to provide the competent authority in the Grand Duchy of Luxembourg with a certificate of approval attesting that this Prospectus has been drawn up in accordance with Article 5(4) of the Prospectus Directive and the KMG. The Issuer may from time to time request the FMA to provide to competent authorities of Member States of the European Economic Area further notifications concerning the approval of this Prospectus.

Each Tranche (as defined herein) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (a "**temporary Global Note**") or a permanent global note in bearer form (a "**permanent Global Note**") and each of the temporary Global Note and permanent Global Note, a "**Global Note**"). Global Notes will be deposited on the issue date with a common depository on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depository**") or with OeKB CSD GmbH ("**OeKB CSD**") or with a depository on behalf of OeKB CSD or with or on behalf of the Issuer.

Tranches of Notes may be rated or unrated. Where a Tranche of Notes is rated, such rating will be specified in the relevant Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**") will be disclosed in the relevant Final Terms. The European Securities and Markets Authority ("**ESMA**") is obliged to maintain on its website (www.esma.europa.eu) a list of credit rating agencies registered and certified in accordance with the CRA Regulation. This list must be updated within 5 working days of ESMA's adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation. The ESMA website is not incorporated by reference into, nor does it form part of, this Prospectus.

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Prospectus. This Prospectus does not describe all of the risks of an investment in the Notes, but the Issuer believes that all material risks relating to an investment in the Notes have been described.

The Notes are not intended to be sold and should not be sold to retail clients in the European Economic Area ("EEA**")**, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "*Restrictions on Marketing and Sales to Retail Investors*" on pages 3 *et seq.* of this Prospectus for further information.

Arranger

Erste Group Bank AG

Dealers

Erste Bank der oesterreichischen Sparkassen AG

Erste Group Bank AG



Prospectus dated 14 October 2015

*This Prospectus comprises a base prospectus for the purposes of Article 5(4) of the Prospectus Directive and the KMG, and for the purpose of giving information with regard to the Issuer and its subsidiaries and affiliates taken as a whole (the "**Erste Group**") and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.*

This Prospectus is to be read in conjunction with any supplement hereto and all documents which are incorporated herein by reference (see "Documents Incorporated by Reference" below). Such documents shall be incorporated in, and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall, except as so modified or superseded, not constitute a part of this Prospectus. Full information on the Issuer and any Tranches of Notes is only available on the basis of the combination of this Prospectus, as supplemented, and the relevant Final Terms.

*No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or Erste Group Bank AG in its capacity as arranger (the "**Arranger**") or the Dealers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Erste Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Erste Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.*

*The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required to inform themselves about and to observe any such restriction. For a description of restrictions applicable in certain jurisdictions see "12. Subscription and Sale". The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may include Notes in bearer form that are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered within the United States or to U.S. persons except in certain transactions permitted by US tax regulations and the Securities Act. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see "12. Subscription and Sale".*

This Prospectus does not constitute an offer of, or an invitation by or on behalf of any of the Issuer, the Arranger or the Dealers to subscribe for, or purchase, any Notes.

The Dealers have not independently verified the information contained in this Prospectus. None of the Dealers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any financial statements supplied in connection with the Programme or any Notes are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Prospectus or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus or any financial statements and its purchase of Notes should be based upon any such investigation as it deems necessary. None of the Dealers undertakes to review the financial condition or affairs of the Issuer or the Erste Group during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the

applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin at any time after the adequate public disclosure of the terms of the offer of the relevant Tranche of Notes and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

Unless increased (as described below), the maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed EUR 2,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into Euro in accordance with the provisions of the Programme Agreement, as defined under "12. Subscription and Sale"). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Programme Agreement.

Restrictions on Marketing and Sales to Retail Investors

The Notes issued pursuant to this Prospectus are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "FCA") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "PI Instrument").

Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "PI Rules"):

- (i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Notes, must not be sold to retail clients in the EEA; and*
- (ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.*

The Dealers are required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in the Notes) from the Issuer and/or the Dealers each prospective investor represents, warrants, agrees with and undertakes to the Issuer and each of the Dealers that:

- 1. it is not a retail client in the EEA (as defined in the PI Rules);*
- 2. whether or not it is subject to the PI Rules, it will not:*
 - (A) sell or offer the Notes (or any beneficial interest therein) to retail clients in the EEA; or*
 - (B) communicate (including the distribution of the Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules),*

in any such case other than (i) in relation to any sale or offer to sell Notes (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (a) the prospective investor has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Notes (or such beneficial interests therein) and (b) the prospective investor has at all times acted in relation to such sale or offer in compliance with Directive 2004/39/EC (Markets in Financial Instruments Directive - "MiFID") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

3. *it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.*

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Dealers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

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DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following parts of the following documents which are incorporated by reference into this Prospectus and which have been filed with the FMA:

Document/Heading	Page reference in the relevant financial report
English translation of the Audited Consolidated Financial Statements of the Issuer for the financial year ended 31 December 2014 – Annual Report 2014 (the "Audited Consolidated Financial Statements 2014")	
Consolidated Income Statement	90 – 91
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English translation of the Audited Consolidated Financial Statements of the Issuer for the financial year ended 31 December 2013 – Annual Report 2013 (the "Audited Consolidated Financial Statements 2013")	
Consolidated Income Statement	90 – 91
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Consolidated Statement of Changes in Total Equity	93 – 94
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Auditors' Report	226 – 227
English translation of the Unaudited Interim Condensed Consolidated Financial Statements of the Issuer for the first half year ended 30 June 2015 – Interim Report First Half Year 2015 (the "Unaudited Interim Condensed Consolidated Financial Statements 30 June 2015")	
Condensed Statement of Comprehensive Income	17 – 19
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For the avoidance of doubt, such parts of the annual reports of the Issuer for the financial years 2014 and 2013 respectively as well as of the interim report for the first half year in 2015 which are not

explicitly listed in the table above, are not incorporated by reference into this Prospectus as these parts are either not relevant for the investor or covered elsewhere in this Prospectus.

Any information not listed above but included in the documents incorporated by reference is given for information purposes only.

Such parts of the documents which are explicitly listed above shall be deemed to be incorporated in, and form part of this Prospectus, save that any statement contained in such a document shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in this Prospectus modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Electronic versions of the following documents will be available on the website of the Issuer under "www.erstegroup.com" or the link set out below in brackets:

- (i) the Audited Consolidated Financial Statements 2014 and 2013 as well as the Unaudited Interim Condensed Consolidated Financial Statements 30 June 2015 incorporated by reference into this Prospectus;
- (ii) each set of Final Terms admitted to trading on a Market or on any other market or stock exchange ("www.erstegroup.com/de/Capital-Markets/Prospekt/Anleihen");
- (iii) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus ("www.erstegroup.com/de/Capital-Markets/Prospekt/Anleihen"); and
- (iv) the articles of association of the Issuer.

The document mentioned above under item (iv) will also be available during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for inspection at the registered office of the Issuer (Erste Group Bank AG, Graben 21, A-1010, Vienna, Austria).

SUPPLEMENT TO THIS PROSPECTUS

The Issuer has given an undertaking to the Dealers, and is obliged by the provisions of the Prospectus Directive and the KMG, that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes and which arises or is noted between the time when this Prospectus is approved, and the final closing of an offer of such Notes to the public or, as the case may be, the time when trading on a regulated market begins, whichever occurs later, the Issuer shall prepare a supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer and to the FMA and the stock exchange operating the Markets such number of copies of such supplement hereto or replacement hereof as such Dealer may request and relevant applicable legislation require.

SOURCES OF INFORMATION

Unless otherwise stated, statistical and other data provided in this Prospectus has been extracted from the Audited Consolidated Financial Statements 2014 and the Annual Report thereon as well as the Unaudited Interim Condensed Consolidated Financial Statements 30 June 2015. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Furthermore, certain statistical and other data provided in this Prospectus has been extracted from reports and other documents of certain statistical offices and/or national banks in countries where the Issuer operates and the sources of any such information are included in the relevant section of this Prospectus. The Issuer confirms that such information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by the sources of such information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is a statement that does not relate to historical facts and events. They are based on analyses or forecasts of future results and estimates of amounts not yet determinable or foreseeable. These forward-looking statements are identified by the use of terms and phrases such as "*anticipate*", "*believe*", "*could*", "*estimate*", "*expect*", "*intend*", "*may*", "*plan*", "*predict*", "*project*", "*will*" and similar terms and phrases,

including references and assumptions. This applies, in particular, to statements in this Prospectus containing information on future earning capacity, plans and expectations regarding the Issuer's business and management, its growth and profitability, and general economic and regulatory conditions and other factors that affect it.

Forward-looking statements in this Prospectus are based on current estimates and assumptions that the Issuer makes to the best of its present knowledge. These forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results, including the Issuer's financial condition and results of operations, to differ materially from and be worse than results that have expressly or implicitly been assumed or described in these forward-looking statements. The Issuer's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in this Prospectus to become inaccurate. Accordingly, investors are strongly advised to read the following sections of this Prospectus: "*Risk Factors*" and "*Erste Group Bank AG*". These sections include more detailed descriptions of factors that might have an impact on the Issuer's business and the markets in which it operates.

In light of these risks, uncertainties and assumptions, future events described in this Prospectus may not occur. In addition, neither the Issuer nor the Arranger nor the Dealers assume any obligation, except as required by law, to update any forward-looking statement or to conform these forward-looking statements to actual events or developments.

1. RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Prospective investors should note that the risks described below are not the only risks the Issuer faces. The Issuer has described only those risks relating to its business, operations, financial condition or prospects that it considers to be material and of which it is currently aware. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and should consult with their own professional advisers (including their financial, accounting, legal and tax advisers) and reach their own views prior to making any investment decision.

Words and expressions defined in the sections entitled "Terms and Conditions of the Notes" shall have the same meanings in this section "Risk Factors".

1.1 FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

Each of the Issuer related risks highlighted below could have a material adverse effect on the Issuer's business, operations, financial condition or prospects which, in turn, could have a material adverse effect on the amount of principal and distributions which investors will receive in respect of the Notes. In addition, each of the Issuer related risks highlighted below could adversely affect the trading price of the Notes or the rights of investors under the Notes and, as a result, investors could lose some or all of their investment.

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes to be issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purposes of assessing the market risks associated with Notes to be issued under the Programme are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes to be issued under the Programme, but the inability of the Issuer to pay distributions, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

1.1.1 Risks related to the business of Erste Group

Difficult macroeconomic and financial market conditions may have a material adverse effect on Erste Group's business, financial condition, results of operations and prospects.

From the second half of 2007 through 2009, disruptions in global capital and credit markets, coupled with the re-pricing of credit risk, created difficult conditions in financial markets and continue to have considerable effects on these markets. These conditions resulted in historically high levels of volatility across many markets (including capital markets), volatile commodity prices, decreased or no liquidity, widening of credit spreads and lack of price transparency in certain markets. These conditions also significantly reduced the availability of private financing for both financial institutions and their customers, compelling many financial institutions and industrial companies to turn to governments and central banks to provide

liquidity. Among other factors, significant write-downs of asset values by financial institutions on mortgage-backed securities and other financial instruments, combined with the imposition of higher capital and other regulatory requirements, have led many financial institutions to seek additional capital, to merge or be merged with larger and stronger institutions, to be nationalised and, in some cases, to fail. Although the global economy recovered slightly in 2011 and 2012, widespread concerns about levels of public sector debt around the world and the stability of numerous banks in certain European countries, including, in particular Spain, Greece, Portugal, Italy and Ireland and more recently Cyprus and Slovenia, and - in addition to the Eurozone - Ukraine and Russia, had a negative impact on macroeconomic conditions. By end of 2014, the Eurozone was close to stagnation with weaknesses apparent also in the core Euro area countries. Many European economies continued to face structural challenges as unemployment and structural debt levels remained high. With inflation expectations potentially falling further, the risk of Euro area deflation remains present. Since 2014 geopolitical threats, such as events in the wake of the Crimean crisis, as well as risks arising from diverging monetary policy objectives across regions and a sharp drop in oil prices, add uncertainty to the current global outlook. Furthermore, the recent and unparalleled devaluation of the Chinese Renminbi has caused jitter in markets and may affect the competitiveness as well as profitability of export-oriented European companies, thus, further dampening the economic recovery.

In response to the global financial crisis, unprecedented steps have been taken to help stabilise the financial system and increase the flow of credit in the global economy. There can be no assurances as to the actual impact that these measures and related actions will have on the financial markets, on consumer and corporate confidence generally and on Erste Group specifically. Since the second half of 2010, the indebtedness of certain Eurozone countries has raised concerns about the stability of the European financial sector and has contributed and may continue to contribute to a slowdown in economic growth in many countries across the region. Additionally, restructuring programmes adopted by some highly indebted EU countries, which include cuts in governmental spending, may result in lower growth rates in these countries as well as the Eurozone in the short and medium term. In 2011, the anxieties about the Eurozone situation increased and the ratings of Eurozone countries and banks were lowered at the end of 2011 and the beginning of 2012. In 2012, such anxieties continued due to the requirement to recapitalize the Spanish banking sector and growing concerns about the effectiveness and consequences of the restructuring programmes adopted by certain Eurozone countries, as well as due to the uncertainty as to the necessity for further financial aid for certain Eurozone countries or the Eurozone banking sector.

Since September 2012, there has been an increase in the scale of global central bank intervention in an attempt to prevent further deterioration of economic growth and to respond to concerns about the effects of the European sovereign debt crisis. In 2012, the European Central Bank ("**ECB**") announced a plan to buy unlimited amounts of government bonds of distressed countries, such as Spain and Italy, partially in exchange for their request for and acceptance of a formal programme including certain austerity reforms. Since then, monetary policy objectives have decoupled significantly across countries: while the U.S. Federal Reserve Bank gradually reduced its bond-buying program (referred to as "tapering") and ceased its program in October 2014, eventually it is set to increase interest rates in the near-term. On the contrary, the ECB commenced the broad-based asset purchase program in March 2015, which is currently intended to last until September 2016. The current ultra-low interest environment creates further pressure on the financial sectors globally. The impact of the ECB's or any other entity's actions in the future is currently unknown and these actions may or may not result in the expected benefits for the relevant economies. Variances in monetary policy may result in increased volatility in debt and foreign exchange markets. Moreover, excesses in both advanced and particularly emerging economies, may be exposed.

Erste Group's performance will continue to be influenced by conditions in the global, and especially European, economy. The outlook for the European and global economy over the near to medium term remains challenging, which also impacts prospects for stabilisation and improvement of economic and financial conditions in Central and Eastern Europe. In general,

should economic conditions affecting Erste Group's operating markets remain subdued, Erste Group's results and operations may be materially and adversely affected.

Erste Group has been and may continue to be affected by the European sovereign debt crisis, and it may be required to take impairments on its exposures to the sovereign debt of certain countries.

In recent years, the sovereign debt markets in the Eurozone have experienced substantial stress as the financial markets have begun to perceive a number of countries as presenting an increased credit risk. These concerns have been particularly prominent with respect to Greece, Ireland, Italy, Portugal and Spain, more recently Cyprus, Slovenia, and - in addition to the Eurozone - Ukraine and Russia and were threatening the recovery from the global financial and economic crisis. These concerns have persisted in light of increasing public debt loads and stagnating economic growth in these and other European countries both within and outside the Eurozone, including countries in Central and Eastern Europe. Despite a number of measures taken by European governments, the ECB and European regulators to control and mitigate the negative effects of the crisis, the business environment in general, and the financial markets in particular, weakened as the uncertainty surrounding the sovereign debt crisis and EU efforts to resolve the crisis continued to intensify.

The effects of the sovereign debt crisis have especially impacted the financial sector as a large portion of the sovereign debt of Eurozone countries is held by financial institutions, including Erste Group. Concerns over the ability of highly indebted Eurozone sovereigns to manage their debt levels could continue to intensify, debt restructuring negotiations similar to those with Greece could take place with respect to the sovereign debt of other affected countries, and the outcome of any negotiation regarding changed terms (including reduced principal amounts or extended maturities) of such sovereign debt may result in Erste Group suffering additional impairments. Any such negotiations are highly likely to be subject to political and economic pressures beyond Erste Group's control.

Erste Group is also exposed to the credit risk of financial institutions which may be dependent on governmental support to continue their operations. The availability of government funds or the willingness of governments for such support is unclear given current levels of public debt in several Eurozone countries. In addition, hedging instruments, including credit default swaps, could provide ineffective if restructurings of outstanding sovereign debt avoid credit events that would trigger payment under such instruments or if the amounts ultimately paid under such instruments do not correspond to the full amount of net exposure after hedging. Any restructuring of outstanding sovereign debt may result in potential losses for Erste Group and other participants in transactions that are not covered by pay-outs on hedging instruments that Erste Group has entered or may enter into to protect against the risk of default.

Erste Group has experienced and may in the future continue to experience a deterioration in credit quality, particularly as a result of financial crises or economic downturns.

Erste Group is, and may in the future continue to be, exposed to the risk that borrowers may not repay their loans according to their contractual terms, that the collateral or income stream securing the payment of these loans may be insufficient, or that legislation is imposed setting fixed exchange rates for loans in foreign currencies.

The effects of the global economic and financial crisis, such as stagnating or declining growth rates or negative gross domestic product ("**GDP**") development, significantly reduced private consumption and corporate investment, rising unemployment rates and decreasing private and commercial property values in certain regions, have had in recent years a particularly negative effect on the credit quality of Erste Group's loan portfolio in certain countries in which it operates, particularly in Romania, Hungary and Croatia. This is particularly true for customer loans in currencies other than the local currency of the customer's jurisdiction, i.e. many of Erste Group's retail and corporate customers in Hungary, Romania, Croatia, Serbia and Austria have taken out loans which are denominated in currencies other than their relevant local currencies (primarily in EUR, USD and CHF) ("**FX loans**"). As the value of the local currency declines versus the foreign currencies of such loans, as occurred in certain

CEE countries during the economic downturn, the effective cost of the foreign currency denominated loan to the local customer may increase substantially, which can lead to delinquent payments on customer loans, migration of previously highly-rated loans into lower-rated categories and, ultimately, increases in non-performing loans and impairment charges.

A proportion of FX loans, especially the mortgage loans in CHF in Austria, are bullet repayment loans (*endfällige Verbraucherkredite*) which are secured by a repayment vehicle (*Tilgungsträger*). Adverse movements in the market value of such instruments for accumulating capital for bullet repayment and foreign currency risk applicable to repayment vehicles denominated in currencies other than the currency of the customer's jurisdiction may negatively affect the position of the loan secured by such repayment vehicle. This may increase the risk of a debtor defaulting under the loan.

Deterioration in the quality of Erste Group's credit portfolio and increases in non-performing loans may result in increased risk costs for Erste Group. Erste Group's risk costs are based on, among other things, its analysis of current and historical probabilities of default and loan management methods and the valuation of underlying assets and expected available income of clients, as well as other management assumptions. Erste Group's analyses and assumptions may prove to be inadequate and might result in inaccurate predictions of credit performance.

In line with regulatory requirements and accounting standards Erste Group evaluates the need and allocates credit risk provisions on its balance sheet to cover expected losses on its loan portfolio. Credit risk provisions are calculated for financial assets carried at amortised cost (loans and advances, financial assets held to maturity) in accordance with IAS 39 and for contingent liabilities (financial guarantees, loan commitments) in accordance with IAS 37.

Credit loss provisioning is done on customer level. The process includes the default and impairment identification and the type of assessment (individual or collective); it also includes the decision of responsibilities. Customer level means, if one of the customer's exposures is classified as defaulted then normally, all of that customer's exposure are classified as defaulted.

During the process the bank distinguishes between

- specific provisions calculated for exposures to defaulted customers that are deemed to be impaired, and
- portfolio provisions (provisions for incurred but not reported losses) calculated for exposures to non-defaulted customers or defaulted customers that are not deemed to be impaired.

These provisions reflect Erste Group's estimates of losses in its loan portfolio. If a higher than expected proportion of Erste Group's customers default or if the average amount lost as a result of defaults is higher than expected or if individual corporate customers unexpectedly default, actual losses due to customer defaults will exceed the amount of provisions already taken and Erste Group's operating result will be adversely affected.

In 2014, Erste Group focused its efforts on implementing adequate measures and clean up the bank's balance sheet. These included higher risk provisions in Romania accompanied by accelerated reduction of non-performing loans; in Hungary, the new consumer loan law and in Croatia the introduction of the new solvency legislation drove slightly higher provisioning activity.

Despite an overall increase in risk costs, the NPL ratio decreased at the group level in 2014 as a result of intensified NPL sales and write-offs and the non-performing loans ("**NPL**") coverage ratio (ratio of risk provisions for loans and advances to customers on Erste Group's balance sheet as a percentage of non-performing loans and advances to customers) has also improved as a result of higher allowed for loan losses. Erste Group seeks to maintain an NPL coverage ratio that, in management's judgement, is appropriate to cover potential credit losses. However, there can be no assurances that the current NPL coverage ratio will not decline in the future, that annual risk costs will not rise or that the NPL coverage ratio will prove to be sufficient.

A deterioration in credit quality may continue in certain countries where Erste Group operates and could even intensify if economic conditions remain difficult or if improving business climates are temporary. In addition, unanticipated political events or a lack of liquidity in certain CEE economies could result in credit losses which exceed the amount of Erste Group's loan loss provisions.

Each of the above factors has had in the past and could have in future periods a material adverse effect on Erste Group's results of operations, financial condition and capital base.

Erste Group is subject to significant counterparty risk, and defaults by counterparties may lead to losses that exceed Erste Group's provisions.

In the ordinary course of its business, Erste Group is exposed to the risk that third parties who owe it money, securities or other assets will not perform their obligations. This exposes Erste Group to the risk of counterparty defaults, which have historically been higher during periods of economic downturn.

In the ordinary course of its business, Erste Group is exposed to a risk of non-performance by counterparties in the financial services industry. This exposure can arise through trading, lending, deposit-taking, clearance and settlement and many other activities and relationships. These counterparties include brokers and dealers, custodians, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these relationships expose Erste Group to credit risk in the event of default of a counterparty. In addition, Erste Group's credit risk may be exacerbated when the collateral it holds cannot be realised or is liquidated at prices below the level necessary to recover the full amount of the loan or cover the full amount of derivative exposure. Many of the hedging and other risk management strategies utilised by Erste Group also involve transactions with financial services counterparties. A weakness or insolvency of these counterparties may impair the effectiveness of Erste Group's hedging and other risk management strategies. Erste Group will incur losses if its counterparties default on their obligations. If a higher than expected proportion of Erste Group's counterparties default, or if the average amount lost as a result of defaults is higher than expected, actual losses due to counterparty defaults will exceed the amount of provisions already taken and results of operation will be adversely affected. If losses due to counterparty defaults significantly exceed the amounts of Erste Group's provisions or require an increase in provisions, this could have a material adverse effect on Erste Group's business, financial condition and results of operations.

Counterparty risk between financial institutions has increased from time to time in recent years as a result of volatility in the financial markets and may increase in the future if the challenging economic and/or political environment continues, especially in core markets where Erste Group or its main competitors operate. Concerns about potential defaults by one financial institution can lead to significant liquidity problems, losses or defaults by other financial institutions as the commercial and financial soundness of many financial institutions is interrelated due to credit, trading and other relationships. Even a perceived lack of creditworthiness may lead to market-wide liquidity problems. This risk is often referred to as "systemic risk", and it affects banks and all other types of intermediaries in the financial services industry. Systemic risk could lead to a need for Erste Group as well as other banks in the markets in which Erste Group operates to raise additional capital while at the same time making it more difficult to do so. Systemic risk could therefore have a material adverse effect on Erste Group's business, financial condition, results of operations, liquidity or prospects.

Erste Group's hedging strategies may prove to be ineffective.

Erste Group utilises a range of instruments and strategies to hedge risks. Unforeseen market developments may have a significant impact on the effectiveness of hedging measures. Instruments used to hedge interest and currency risks can result in losses if the underlying financial instruments are sold or if valuation adjustments must be undertaken. Gains and losses from ineffective risk-hedging measures can increase the volatility of the results generated by Erste Group, which could have a material adverse effect on Erste Group's business, financial condition and results of operations.

Erste Group is exposed to declining values of the collateral supporting commercial and residential real estate loans.

Erste Group has significant exposure to commercial and residential real estate loans. Commercial and residential property prices in many of the countries where Erste Group operates declined in recent years, reflecting economic uncertainty and rising vacancy rates. Commercial and residential property developers were forced to cease or delay construction of planned projects due to a lack of customers or, as a result of declining values of the collateral supporting the projects, their inability to finance construction. This led to reductions in prices of residential and commercial real estate and contractions in the residential mortgage and commercial lending markets in many countries. Erste Group's commercial property and residential real estate loan portfolios may suffer additional impairment losses if property values decline further in the future, collateral cannot be enforced or, as a result of weaknesses in Erste Group's collateral management or work-out processes, collateral values prove to be insufficient. Increasing unemployment rates could also lead to higher default rates and impairment losses on non-property commercial and consumer loans. If either of these risks were to materialise, it could have a material adverse effect on Erste Group's financial condition and results of operations.

Market fluctuations and volatility may adversely affect the value of Erste Group's assets, reduce profitability and make it more difficult to assess the fair value of certain of its assets.

Financial markets have been subject to significant stress conditions since mid-2007, where steep falls in perceived or actual values of assets held by banks and other financial institutions have been accompanied by a severe reduction in market liquidity. These events have negatively affected the value of the financial assets available for sale and the financial assets held-to-maturity particularly in 2011, adversely affecting Erste Group's results of operations for that period. Future deteriorations in economic and financial market conditions could lead to additional impairment charges or revaluation losses in future periods. Despite a recovery in economic and financial market conditions over last three years in most of the markets in which Erste Group is active, the value of financial assets may continue to fluctuate significantly or materially impact Erste Group's capital and comprehensive income if the fair value of financial assets declines.

Market volatility and illiquidity may make revaluation of certain exposures difficult, and the value ultimately realised by Erste Group may be materially different from the current or estimated fair value. In addition, Erste Group's estimates of fair value may differ materially both from similar estimates made by other financial institutions and from the values that would have been used if a market for these assets had been readily available. Any of these factors could require Erste Group to recognise further revaluation losses or realise impairment charges, any of which may adversely affect its business, financial condition, results of operations, liquidity or prospects.

Erste Group is subject to the risk that liquidity may not be readily available.

Erste Group, like many other banks, relies on customer deposits to meet a substantial portion of its funding requirements. The majority of Erste Group's deposits are retail deposits, a significant proportion of which are demand deposits. Such deposits are subject to fluctuation due to factors outside Erste Group's control, and Erste Group can provide no assurances that it will not experience a significant outflow of deposits within a short period of time. Because a significant portion of Erste Group's funding comes from its deposit base, any material decrease in deposits could have a negative impact on Erste Group's liquidity unless corresponding actions were taken to improve the liquidity profile of other deposits or to reduce liquid assets, which may not be possible on economically beneficial terms, if at all.

As credit providers, group companies of Erste Group are exposed to market liquidity risk, which arises from an inability to easily sell an asset because there is inadequate market liquidity or market disruption. They are also exposed to funding liquidity risk, which is an exposure to losses arising out of a change in the cost of refinancing, or from a spread over a certain horizon and confidence level, or from insolvency of counterparties, which may result in

difficulties in meeting future payment obligations, either in full, on time or on economically beneficial terms.

Credit and money markets worldwide have experienced and continue to experience a reluctance of banks to lend to each other because of uncertainty as to the creditworthiness of the borrowing bank. Even a perception among market participants that a financial institution is experiencing greater liquidity risk may cause significant damage to the institution, since potential lenders may require additional collateral or other measures that further reduce the financial institution's ability to secure funding. This increase in perceived counterparty risk has led to further reductions in the access of Erste Group, along with other banks, to traditional sources of liquidity, and may be compounded by further regulatory restrictions on funding and capital structures as well as calculation of regulatory capital and liquidity ratios.

If Erste Group has difficulty in securing adequate sources of short- and long-term liquidity or if there were material deposit outflows this would have a material adverse effect on its business, financial condition and results of operations.

Rating agencies may suspend, downgrade or withdraw a rating of Erste Group Bank and/or a local entity that is part of Erste Group or a country where Erste Group is active, and such action might negatively affect the refinancing conditions for Erste Group Bank, in particular its access to debt capital markets.

Erste Group Bank's credit ratings are important to its business. A rating is the opinion of a rating agency on the credit standing of an issuer, i.e., a forecast or an indicator of a possible credit loss due to insolvency, delay in payment or incomplete payment to the investors. It is not a recommendation to buy, sell or hold securities. Such credit ratings have been issued by credit rating agencies established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009. Erste Group Bank's long-term credit ratings are: Standard & Poor's, BBB+ (outlook negative); Moody's, Baa2 (outlook positive); and Fitch, BBB+ (outlook stable).

A rating agency may in particular suspend, downgrade or withdraw a rating. A rating may also be suspended or withdrawn if Erste Group were to terminate the agreement with the relevant rating agency or to determine that it would not be in its interest to continue to supply financial data to a rating agency. A downgrading of the rating may lead to a restriction of access to funds and, consequently, to higher refinancing costs. A rating could also be negatively affected by the soundness or perceived soundness of other financial institutions.

A rating agency may also suspend, downgrade or withdraw a rating concerning one or more countries where Erste Group operates or may publish unfavourable reports or outlooks for a region or country where Erste Group operates. Moreover, if a rating agency suspends, downgrades or withdraws a rating or publishes unfavourable reports or outlooks on Austria, such as Fitch's downgrade of Austria in February 2015, or a country where Erste Group operates, this could increase the funding costs of Erste Group.

Rating actions of rating agencies may also be triggered by changes in their respective rating methodology, their assessment of government support, as well as by regulatory activities (e.g. introduction of bail-in regimes).

Any downgrade of the credit rating of Erste Group Bank or any member of Erste Group, or of the Republic of Austria or any other country in which Erste Group has significant operations, could have a material adverse effect on its liquidity and competitive position, undermine confidence in Erste Group, increase its borrowing costs, limit its access to funding and capital markets or limit the range of counterparties willing to enter into transactions with Erste Group and would as a consequence have a material adverse effect on its business, financial condition and results of operations.

New governmental or regulatory requirements and changes in perceived levels of adequate capitalisation and leverage could subject Erste Group to increased capital requirements or standards and require it to obtain additional capital or liquidity in the future.

In response to the global financial crisis and the European sovereign debt crisis, a number of initiatives relating to the regulatory requirements applicable to European credit institutions, including Erste Group, have been (and are currently being) implemented, adopted, or developed. These include the following:

- *Basel III and CRD IV/CRR.* In June 2011 and January 2013, the Basel Committee on Banking Supervision (BCBS) published its (final) international regulatory framework for credit institutions (known as "**Basel III**"), which is a comprehensive set of reform measures to strengthen the regulation, supervision and risk management of the banking sector. On 27 June 2013, the "Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC" (*Capital Requirements Directive IV* - "**CRD IV**") and the "Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012" (*Capital Requirements Regulation* - "**CRR**") transposing (main parts of) Basel III into EU-law, have been published.

CRD IV/CRR in particular (further) increased the qualitative and quantitative requirements for regulatory capital (own funds) and the required capital for derivative positions as well as newly introduced requirements for liquidity standards and a leverage ratio.

Almost the complete CRR (an EU-regulation which directly applies in all EU-Member States without any national implementation) as well as the Austrian federal law implementing the CRD IV into Austrian law, which includes amendments to the BWG (and certain relating regulations), are applicable since 1 January 2014.

- *European Banking Authority's EU-Wide Stress Tests.* In order to ensure the orderly functioning and integrity of financial markets and the stability of the financial system in the EU, to monitor and assess market developments as well as to identify trends, potential risks and vulnerabilities stemming from the micro-prudential level, the European Banking Authority ("**EBA**") regularly conducts EU-wide stress tests, using consistent methodologies, scenarios and key assumptions developed in cooperation with the European Systemic Risk Board (ESRB), the ECB and the European Commission.
- *Changes in Recognition of Own Funds.* Due to regulatory changes, certain existing capital instruments (which have been issued in the past) will be subject to (gradual) exclusion from own funds (grandfathering) or reclassification as a lower category form of own funds. For example, existing hybrid capital instruments will, over time, be phased out as additional tier-1 capital ("**AT 1**").
- *Stricter and Changing Accounting Standards.* Prospective changes in accounting standards (such as IFRS 9) as well as those imposing stricter or more extensive requirements to carry assets at fair value, could also impact Erste Group's capital needs.
- *Bank Recovery and Resolution Legislation.* The "Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms" (*Bank Recovery and Resolution Directive* - "**BRRD**") has been

implemented in Austria into national law by the Austrian Recovery and Resolution Act (*Sanierungs- und Abwicklungsgesetz* – "**BaSAG**") which entered into force on 1 January 2015 entirely (i.e. including the bail-in tool). The BRRD/BaSAG establishes a framework for the recovery and resolution of credit institutions and, *inter alia*, requires institutions to draw up "recovery plans" which set out certain arrangements and measures that may be taken to restore the long-term viability of the financial institution in the event of a material deterioration of its financial position. In addition, institutions are required to have at all times an aggregate amount of own funds and subordinated and senior liabilities subject to the bail-in tool as defined by the resolution authority on a case-by-case basis. Measures undertaken under the BRRD/BaSAG may also have a negative impact on debt instruments (in particular subordinated notes, such as the Notes, but under certain circumstances also senior notes) by allowing resolution authorities to write-down such instruments or convert them into CET 1 instruments (see also the risk factor "*The Notes may be subject to write down or conversion to equity upon the occurrence of a certain trigger event, which may result in Holders losing some or all of their investment in the Notes (statutory loss absorption)*"). Besides of potentially being subject to resolution tools as set out under the BRRD/BaSAG, the Issuer may also be subject to national insolvency proceedings.

- *Single Resolution Mechanism for European Banks.* On 15 April 2014, the European Parliament adopted the Single Resolution Mechanism ("**SRM**") for the Banking Union. The mechanism complements the Single Supervisory Mechanism (SSM) pursuant to which the ECB directly supervises credit institutions in the Euro area (including Erste Group) and in other EU-Member States which decide to join the Banking Union.

The SRM is governed by: (i) a SRM regulation covering the main aspects of the mechanism and broadly replicating the BRRD rules on the recovery and resolution of credit institutions; and (ii) an intergovernmental agreement related to some specific aspects of the Single Resolution Fund (SRF) ("**Fund**").

The Fund shall be constituted by contributions of all credit institutions in the participating EU-Member States. The Fund has a target level of covering at least 1% of covered deposits which shall be reached over an eight year period. During this transitional period, the Fund comprises national compartments corresponding to each participating EU-Member State. The resources accumulated in those compartments are progressively mutualised over a period of eight years, starting with 40% of these resources in the first year (i.e. 2015).

The SRM which will operationally start from January 2016 generally applies to those institutions supervised by the ECB.

- *Structural Reform of the European Banking Sector.* On 29 January 2014, the EU-Commission has proposed new rules on structural measures to improve the resilience of EU-credit institutions. The proposal aims at further strengthening the stability and resilience of the EU-banking system and shall complete the financial regulatory reforms undertaken over the last few years by setting out rules on structural changes for "too-big-to-fail banks". Therefore, the proposal focuses mainly on credit institutions with significant trading activities, whose failure could have a detrimental impact on the rest of the financial system and the whole economy. For the time being, it remains unclear whether the Issuer would be subject to the proposal once implemented.

The proposal shall:

- (i) ban proprietary trading in financial instruments and commodities (i.e. trading on own account for the sole purpose of making profit for the credit institution);
- (ii) grant supervisors the power and, in certain instances, the obligation to require the transfer of other high-risk trading activities (such as market-making, complex derivatives and securitisation operations) to separate legal trading entities within the group; credit institutions shall have the possibility of not separating activities if they can show to the satisfaction of their supervisor that the risks generated are mitigated by other means; and

- (iii) provide rules on the economic, legal, governance, and operational links between the separated trading entity and the rest of the banking group.

These proposed structural separation measures shall be accompanied by provisions improving the transparency of shadow banking and foresee respective transition periods: the proprietary trading ban would apply as of 1 January 2017 and the effective separation of other trading activities as of 1 July 2018.

- *Austrian FMA Supervisory Guidance.* In March 2012, the FMA and the Austrian National Bank (*Oesterreichische Nationalbank – OeNB*) published supervisory guidance on the strengthening of the sustainability of the business models of large, internationally active Austrian credit institutions. The supervisory guidance foresees increased capitalisation requirements for certain banking groups (including Erste Group) reflected in the anticipating full implementation of the quantitative and qualitative Basel III rules (without any transitional provisions) with respect to CET 1. In this respect, the FMA and the OeNB indicated that they will implement an additional CET 1 requirement to banking groups at a consolidated basis of up to 3% beginning in 2016, while the level of such an additional CET 1 requirement will depend on the systemic relevance of the particular banking group. In addition, strengthened local stable funding bases of subsidiaries through so-called "loan-to-local stable funding ratios", i.e., the funding of loans through the local deposit base will be required.
- *Capital buffers.* Articles 128 to 140 of the CRD IV introduce provisions that may require institutions to maintain newly defined specific capital buffers in addition to the CET 1 capital maintained to meet the own funds requirements imposed by the CRR. In Austria, these provisions have been implemented into national law in §§ 23 to 23d of the BWG. Most of these buffer requirements will be gradually phased in starting from 1 January 2016 until 1 January 2019; only § 23d of the BWG entered into force already. For the time being, the combined buffer requirement remains unclear, as it will mainly depend on the macro-economic situation (in the case of the (institution-specific) countercyclical buffer: the credit cycle and risks due to excess credit growth in an EU-Member State, taking into account specificities of the national economy), the existence of systemic risks (in case of the systemic risk buffer) or the assessment of Erste Group as systemically important institution (in the case of the global systemically important institution ("**G-SII**") buffer and the other systemically important institution ("**O-SII**") buffer). As of the date of this Prospectus, none of these apply to Erste Group. However, on 25 September 2015, the FMA has published a draft for the Austrian Capital Buffers Regulation (*Kapitalpuffer-Verordnung – "KP-V"*) which stipulates the determination and recognition of the countercyclical buffer rate pursuant to § 23a (3) of the BWG, the determination of the systemic risk buffer pursuant to § 23d (3) of the BWG and the more precise elaboration of the calculation basis pursuant to § 23a (3)(1) of the BWG and § 24 (2) of the BWG (the latter concerning the calculation of the Maximum Distributable Amount). The KP-V shall enter into force on 1 January 2016. Pursuant to the draft KP-V, for a credit institution with its seat in Austria, the countercyclical buffer rate amounts to 0.00% for significant credit exposures situated in Austria. If the competent authority of another EU-Member State or a third country determines a national countercyclical buffer rate above 2.50%, in case of a credit institution with its seat in Austria, a countercyclical buffer rate amounting to 2.50% is used for significant credit exposures situated in such foreign countries. Furthermore, the draft KP-V implements the amended recommendation of the Austrian Financial Market Stability Board (*Finanzmarktstabilitätsgremium – "FMSG"*) from 7 September 2015 for imposing a systemic risk buffer. According to the draft KP-V, the FMA will impose on Erste Group a systemic risk buffer amounting to 0.25% (as of 1 January 2016), 0.50% (as of 1 January 2017), 1.00% (as of 1 January 2018) and 2.00% (as of 1 January 2019).

Additional, stricter and/or new regulatory requirements may be adopted in the future, and the existing regulatory environment in many markets in which Erste Group operates continues to develop, implement and change, including, for example, the SSM and the Banking Union within the EU. The substance and scope of any such (new or amended) laws and regulations as well as the manner in which they are (or will be) adopted, enforced or interpreted may

increase Erste Group's financing costs and could have an adverse effect on Erste Group's business, financial condition, results of operations and prospects.

In addition to complying with capital requirements on a consolidated basis, Erste Group Bank itself is also subject to capital requirements on an unconsolidated basis. Furthermore, members of Erste Group which are subject to local supervision in their country of incorporation may, on an individual and on a consolidated basis, be required to comply with applicable local regulatory capital requirements. It is therefore possible that individual entities within Erste Group or sub-groups require more own funds, even though the own funds of Erste Group on a consolidated basis is sufficient.

In the course of the global financial crisis, the rules on own funds for credit institutions have come under scrutiny by legislators, regulators and advisory bodies (e.g., the BCBS). Legislative or regulatory changes in the current definitions of what is deemed to qualify as CET 1 capital could (further) reduce Erste Group's CET 1-ratio or otherwise reduce the (eligible) own funds or increase the RWA of Erste Group Bank or Erste Group both on an individual or a consolidated basis. There can be no assurance that, in the event of any further changes of the applicable rules, adequate grandfathering or transition periods will be implemented to allow Erste Group to repay or replace such derecognised CET 1 or other own funds instruments in a timely fashion or on favourable terms.

Erste Group may therefore need to obtain additional own funds or other eligible capital in the future. Such funds, whether in the form of ordinary shares or other capital, may not be available on attractive terms or at all. Further, any such regulatory development may expose Erste Group to additional costs and liabilities, may require Erste Group to change how to conduct its business or otherwise have a negative impact on its business, the offered products and services as well as the value of its assets. There can be no assurance that Erste Group would be able to increase its own funds and eligible capital (the capital ratios respectively) sufficiently or on time. If Erste Group is unable to increase its capital ratios sufficiently, its ratings may drop and its cost of funding may increase, the occurrence of which could have a material adverse effect on its business, financial condition and results of operations.

Risk of changes in the tax framework, in particular regarding bank tax and the introduction of a financial transaction tax.

The future development of the Issuer's assets, financial and profit position, inter alia, depends on the tax framework. Every future change in legislation, case law and the tax authorities' administrative practice may negatively impact on the Issuer's assets, financial and profit position.

The Issuer is subject to bank tax (*Stabilitätsabgabe*) pursuant to the Austrian Bank Tax Act (*Stabilitätsabgabegesetz*). The tax basis is the average unconsolidated balance sheet total of the financial year ending before the calendar year in which bank tax falls due. It is reduced by secured deposits, subscribed capital and reserves, certain liabilities of credit institutions that are being wound up or that are being restructured, certain export finance related liabilities for which the Republic of Austria has posted a guarantee and certain liabilities resulting from the holding of assets on trust. The tax rate is 0.09% for that part of the tax basis exceeding EUR 1 billion but not exceeding EUR 20 billion and 0.11% for that part exceeding EUR 20 billion. In addition, for calendar years including 2017 a surcharge to bank tax is levied.

Pursuant to the proposal by the EU-Commission for a "Council Directive implementing enhanced cooperation in the area of financial transaction tax" eleven EU Member States, i.e. Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, the Slovak Republic, Slovenia and Spain ("**Participating Member States**") shall charge a financial transaction tax ("**FTT**") on financial transactions as defined if at least one party to the transaction is established in the territory of a Participating Member State and a financial institution established in the territory of a Participating Member State is party to the transaction, acting either for its own account or for the account of another person, or is acting in the name of a party to the transaction (residency principle). In addition, the proposal contains rules pursuant to which a financial institution and, respectively, a person which is not a financial institution are deemed to be established in the territory of a Participating Member State if they are

parties to a financial transaction in certain instruments issued within the territory of that Participating Member State (issuance principle). Financial transactions related to derivatives contracts shall be taxed at a minimum rate of 0.01% on the notional amount referred to in the derivatives contract; all other financial transactions (e.g. the purchase and sale of shares, bonds and equivalent securities, money market instruments or fund units) shall be taxed at a minimum rate of 0.1% with the taxable amount being everything which constitutes consideration paid or owed from the counterparty or a third party in return for the transfer. The proposal provides for the FTT to apply as of 1 January 2014 (which deadline, however, has obviously not been met). It is unclear whether the FTT will be introduced in the proposed form at all. The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. If the FTT is introduced, due to higher costs for investors there is a risk that it would result in fewer transactions taking place, thereby negatively affecting the earnings of the Issuer. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

The Issuer may not be able to meet the minimum requirement for own funds and eligible liabilities.

In line with the BRRD pursuant to the BaSAG, each institution has to ensure that it meets at all times (on an individual basis and in the case of EU parent undertakings (such as Erste Group) also on a consolidated basis) a minimum requirement for own funds and eligible liabilities. Such minimum requirement shall be determined by the resolution authority and shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution. There is a risk that the Issuer may not be able to meet these minimum requirements for own funds and eligible liabilities which could materially adversely affect the Issuer's ability to make payments on the Notes.

The Issuer is obliged to contribute amounts to the Single Resolution Fund and to *ex ante* financed funds of the deposit guarantee schemes; this could result in additional financial burdens for the Issuer and thus, materially adversely affect the financial position of the Issuer and the results of its business, financial condition and results of operations.

The Single Resolution Mechanism (SRM) includes establishing a Single Resolution Fund (SRF) ("**Fund**") to which all the banks in the participating EU-Member States have to contribute.

Furthermore, the (recast) "Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit-guarantee schemes" (*Directive on Deposit Guarantee Schemes – "DGSD"*) stipulates financing requirements for the Deposit Guarantee Schemes ("**DGS**") for the first time since the introduction of mandatory DGS in 1994. In principle, the target level of *ex ante* financed funds for DGS is 0.8% of covered deposits to be collected from credit institutions until the final date (3 July 2024). According to the Austrian Deposit Guarantee and Investor Protection Act (*Einlagensicherungs- und Anlegerentschädigungsgesetz – ESAEG*), which implements the DGSD in Austria, the deposit guarantee fund must therefore be established until 3 July 2024 (final date), whereas in 2015, an amount of a half year's contribution is payable.

In addition to *ex ante* contributions, if necessary, credit institutions will have to pay additional (*ex post*) contributions to a certain extent, which will be limited in order to avoid pro-cyclicality and worsening financial situation of healthy credit institutions.

In the past, the Austrian mandatory DGS did not require *ex-ante* funding, but merely has obliged the respective DGS-members (*ex post*) to contribute after deposits of any member have become unavailable (protection event). Therefore, the implementation of the DGSD into Austrian law which stipulates *ex ante* contributions triggers an additional financial burden for the Issuer.

The obligation to contribute amounts for the establishment of the Fund and the *ex ante* funds to the DGS quite likely will result in additional financial burdens for the Issuer and thus,

materially adversely affect the financial position of the Issuer and the results of its business, financial condition and results of operations.

In future, the Issuer may be obliged to stop proprietary trading and/or separate certain trading activities from its core banking business.

The new rules on structural reform of EU credit institutions proposed by the EU-Commission shall apply to "too-big-to-fail banks", i.e. only to the largest and most complex of EU credit institutions whose failure could have a detrimental impact on the rest of the financial system and the whole economy.

In order to prevent this risk from materialising, the proposed regulation would impose a ban on speculative activities (proprietary trading, i.e. trading using own money as opposed to on behalf of customers) and caters for the potential separation of other risky trading activities carried out by these credit institutions.

Provided that the Issuer will be subject to these new rules, this could reduce potential implicit subsidies and profits from trading activities, may lead to higher funding costs for these trading activities and also trigger operational costs related to the separation of some trading activities in a specific legal entity and thus may materially adversely affect the financial position of the Issuer and the results of its business, financial condition and results of operations.

Erste Group's risk management strategies, techniques and internal control procedures may leave it exposed to unidentified or unanticipated risks.

Erste Group's risk management techniques and strategies have not been, and may in the future not be, fully effective in mitigating Erste Group's risk exposure in all economic market environments or against all types of risks, including risks that it fails to identify or anticipate. Furthermore, regulatory audits or other regular reviews of the risk management procedures and methods have in the past detected, and may in the future detect, weaknesses or deficiencies in Erste Group's risk management systems. Some of Erste Group's quantitative tools and metrics for managing risks are based upon its use of observed historical market behaviour. Erste Group applies statistical and other tools to these observations to arrive at quantifications of risk exposures. During the recent financial crisis, the financial markets experienced unprecedented levels of volatility (rapid changes in price direction) and the breakdown of historically observed correlations (the extent to which prices move in tandem) across asset classes, compounded by extremely limited liquidity. In this volatile market environment, Erste Group's risk management tools and metrics failed to predict some of the losses it experienced and may in the future under similar conditions of market disruption fail to predict future important risk exposures. In addition, Erste Group's quantitative modelling does not necessarily take all risks into account and makes numerous assumptions regarding the overall environment and/or the implicit consideration of risks in the quantification approaches, which may or may not materialise. As a result, risk exposures have arisen and could continue to arise from factors not anticipated or correctly evaluated in Erste Group's statistical models. This has limited and could continue to limit Erste Group's ability to manage its risks, especially in light of the European sovereign debt crisis, many of the outcomes of which are currently unforeseeable. If circumstances arise that Erste Group did not identify, anticipate or correctly evaluate in developing its statistical models, losses could be greater than the maximum losses envisaged under its risk management system. Furthermore, the quantifications do not take all risks or market conditions into account. If the measures used to assess and mitigate risks prove insufficient, Erste Group may experience material unanticipated losses, which could have a material adverse effect on its business, financial condition and results of operations.

Erste Group's business entails operational risks.

Erste Group is exposed to operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including in particular legal, regulatory, compliance, and outsourcing risk. Erste Group is susceptible to, among other things, fraud by employees or outsiders, including unauthorised transactions and operational errors, clerical or record-keeping errors and errors resulting from faulty computer or telecommunications systems. Given Erste Group's high volume of transactions, fraud or

errors may be repeated or compounded before they are discovered and rectified. Consequently, any inadequacy of Erste Group's internal processes or systems in detecting or containing such risks could result in unauthorised transactions and errors, which may have a material adverse effect on Erste Group's business, financial condition, results of operations and prospects. Erste Group may also suffer service interruptions from time to time due to failures by third-party service providers and natural disasters, which are beyond its control. Such interruptions may result in interruptions in services to Erste Group's subsidiaries and branches and may impact customer service.

Any failure or interruption in or breach of Erste Group's information systems, and any failure to update such systems, may result in lost business and other losses.

Erste Group relies heavily on information systems to conduct its business. Any failure or interruption or breach in security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing or loan origination systems. If Erste Group's information systems, including its back-up systems, were to fail, even for a short period of time, or its business continuity plans for cases of emergency would prove ineffective, it could be unable to serve some customers' needs on a timely basis and could thus lose their business.

Likewise, a temporary shutdown of Erste Group's information systems could result in costs that are required for information retrieval and verification. There can be no assurances that such failures or interruptions will not occur or that Erste Group can adequately address them if they do occur. Accordingly, the occurrence of such failures or interruptions could have a material adverse effect on Erste Group's business, financial condition, results of operations and prospects. In addition, there can be no assurances that the rollout or implementation of any new systems or processes will provide the desired benefit to Erste Group's business, or will not involve failures or business interruptions that could have a material adverse effect on its business, financial condition, results of operations and prospects. To a limited extent, Erste Group has outsourced certain IT services and operations to external service providers and may in the future expand the scope of outsourcing arrangements in order to optimise its costs structure and increase flexibility. Unsatisfactory quality of the external providers' services could heighten or exacerbate risks associated with the failure or interruption of its information systems as well as result in additional operational deficiencies or reputational risk.

Erste Group may have difficulty recruiting new talent or retaining qualified employees.

Erste Group's existing operations and ability to enter new markets depend on its ability to retain existing employees and to recruit additional talents with the necessary qualifications and level of experience in banking. In many of the CEE markets in which Erste Group currently operates, the pool of individuals with the required set of skills is still limited however growing due to increased focus of local universities and governments on implementation of competitive educational programs and development of a skilled workforce. Increasing competition for labour in Erste Group's core markets from other international financial institutions may also make it more difficult for Erste Group to attract and retain qualified employees and may lead to rising labour costs in the future. Moreover, if caps or further restrictions under CRD IV were to be imposed on salaries or bonuses paid to executives of Erste Group Bank or its subsidiaries (including caps imposed by governments in connection with extending support to Erste Group), Erste Group's ability to attract and retain high-quality personnel could be limited and could result in losses of qualified personnel. If Erste Group is unable to attract and retain new talent in key strategic markets or if competition for qualified employees increases its labour costs, this could have a material adverse effect on Erste Group's business, financial condition and results of operations.

Erste Group Bank may be required to provide financial support to troubled banks in the *Haftungsverbund*, which could result in significant costs and a diversion of resources from other activities.

In 2002, the *Haftungsverbund* was formed pursuant to the *Grundsatzvereinbarung* among the majority of Austrian savings banks. The purpose of the *Haftungsverbund* was to establish a joint early-warning system as well as a cross-guarantee for certain liabilities of the member

savings banks and to strengthen the cooperation of the Savings Banks sector (except UniCredit Austria AG) in the Austrian market.

In 2013, the cooperation between the savings banks was intensified. The aim of the new agreement which entered into force on 1 January 2014, is the intensification of the group steering, the setting up of an institutional protection scheme (Article 113(7) CRR) and a cross-guarantee scheme (Article 4(1)(127) CRR) in order to fulfil the requirements of Article 84(6) CRR to recognize any minority interest arising within the cross-guarantee scheme in full and in light of IFRS 10 to strengthen Erste Group Bank's power in the provisions of the agreement governing the *Haftungsverbund*.

Under the *Haftungsverbund*, Erste Group Bank and all other member savings banks are obliged to provide financially troubled members with specified forms of financial and management support and, in the event of a member's insolvency, to contribute to the repayment of certain protected deposits. The member savings banks agreed that a part of the funds has to be *ex-ante* financed in the form of special funds, whereas the Steering Company alone has access to these special funds and is obliged to use all other options available before availing itself of the special funds. In order to build up the special fund, all savings banks contribute on a quarterly basis until it reaches its final size of EUR 250 million after 10 years. Under the *Haftungsverbund*, member savings banks are also required to follow specific credit and risk management guidelines for providing and managing loans and for identifying, measuring, managing and limiting risks. This is effectively set and monitored indirectly by Erste Group Bank although Erste Group Bank does not exercise direct operational control over the management of the member savings banks. These requirements are often more detailed and strict than those previously in place at certain of the individual savings banks. Erste Group Bank may be required to provide support and repay certain protected deposits even where there has been non-compliance by one or more members of the *Haftungsverbund* with the risk management requirements, although Erste Group Bank may exercise little direct control over the management of the member savings bank. Consequently, Erste Group Bank's ability to manage the risk associated with the financial obligations it has assumed under the *Haftungsverbund* will depend on its ability to enforce the risk management requirements of the system. Erste Group Bank may be obliged to provide liquidity, take other measures and incur significant costs in the event that another savings bank in the *Haftungsverbund* experiences financial difficulties or becomes insolvent or in order to prevent one of the savings banks from experiencing financial difficulties. This could require Erste Group Bank to utilise resources in a manner that could have a material adverse effect on Erste Group Bank's business, financial condition and results of operations.

Changes in interest rates are caused by many factors beyond Erste Group's control, and such changes can have significant adverse effects on its financial results, including net interest income.

Erste Group derives the majority of its operating income from net interest income. Interest rates are sensitive to many factors beyond Erste Group's control, such as inflation, monetary policies set by central banks and national governments, the liberalisation of financial services and increased competition in the markets in which Erste Group operates, domestic and international economic and political conditions, as well as other factors. Changes in interest rates can affect the spread between the rate of interest that a bank pays to borrow funds from its depositors and other lenders and the rate of interest that it charges on loans it extends to its customers. If the interest margin decreases, net interest income will also decrease unless Erste Group is able to compensate such decrease by increasing the total amount of funds it lends to its customers. A decrease in rates charged to customers will often have a negative effect on margins, particularly when interest rates on deposit accounts are already very low, since a bank may have little ability to make a corresponding reduction in the interest it pays to lenders. Additionally, in a very low or negative interest rate environment, Erste Group will have increased costs of maintaining the regulatory and prudential liquidity buffers held in cash and low yield liquid assets. An increase in rates charged to customers can also negatively impact interest income if it reduces the amount of customer borrowings. For competitive reasons, Erste Group may also choose to raise rates of interest it pays on deposits without being able to make a corresponding increase in the interest rates it charges to its customers. Finally, a mismatch in the structure of interest-bearing assets and interest-bearing liabilities in

any given period could, in the event of changes in interest rates, reduce Erste Group's net interest margin and have a material adverse effect on its net interest income and, thereby, its business, results of operation and financial condition.

Since a large part of Erste Group's operations, assets and customers are located in CEE countries that are not part of the Eurozone, Erste Group is exposed to currency risks.

A large part of Erste Group Bank's and Erste Group's operations, assets and customers are located in CEE countries that are not part of the Eurozone (i.e., that do not use the Euro as their legal tender), and financial transactions in currencies other than the Euro give rise to foreign currency risks. Local governments may undertake measures that affect currency levels and exchange rates and impact Erste Group's credit exposure to such currencies, such as the Swiss National Bank's setting of a minimum exchange rate against the Euro in September 2011 and in January 2015 reversing its support measures, or Hungary's introduction of a new law in 2014 regulating how banks change loan interest and convert FX loans into local currency. Croatia has recently fixed the exchange rate of Croatian Kuna against Swiss francs for a term of one year, and there is no assurance that after such time the exchange rate will not remain fixed or will be converted at a lower rate into Croatian Kuna. Moreover, there can be no assurances that similar measures will not be introduced or imposed on other customer segments or countries as well.

In addition, the equity investments that Erste Group Bank has in its non-Eurozone subsidiaries, and the income and assets, liabilities and equity of non-Eurozone subsidiaries, when translated into Euro, may also be lower due to devaluation of their local or foreign currencies vis-à-vis the Euro. Erste Group hedges its foreign currency exposure related to capital investments and dividends in its foreign subsidiaries only to a limited extent. These and other effects of currency devaluation could have a material adverse effect on Erste Group Bank's and Erste Group's business, financial condition, regulatory capital ratios, results of operations and prospects.

Erste Group may be unable to achieve the return to profitability of Erste Group Bank

Erste Group's results of operations in the current financial year and in the future will depend in part on the profitability of its subsidiaries. Erste Group Bank (i.e. the holding company of Erste Group) may not be able to significantly decrease its risk provisions for loans and advances or may receive lower than planned dividend payments from its subsidiaries. Erste Group may be unable to achieve the return to profitability of Erste Group Bank which impairs the Group's ability to pay dividends which could have a material adverse effect on the Notes.

Depending on the size of the reduction in profitability, such a reduction could have a material adverse effect on Erste Group's results of operations in that period, on the reported amount of its assets and on its equity, and on Erste Group's ability to make payments on the Notes.

A change of the ECB's collateral standards could have an adverse effect on the funding of Erste Group and access to liquidity.

As a result of the funding pressures arising from the European sovereign debt crisis, there has been increased intervention by a number of central banks, in particular the ECB. Among other measures, the ECB has agreed to provide low-interest secured loans to European financial institutions for up to three years and lowered the requirements for collateral. As of the date of this Prospectus, the ECB accepts certain instruments, including Pfandbriefe, issued by Erste Group Bank as collateral for its tenders. If the ECB were to restrict its collateral standards or if it would increase the rating requirements for collateral securities, this could increase Erste Group's funding costs and limit Erste Group's access to liquidity, especially where deposits or other sources of liquidity are inadequate in the short term, and accordingly have an adverse effect on Erste Group's business, financial condition and results of operations.

Erste Group operates in highly competitive markets and competes against large international financial institutions as well as established local competitors.

Erste Group faces significant competition in all aspects of its business, both in Austria and Central and Eastern Europe. Erste Group competes with a number of large international financial institutions and local competitors. If Erste Group is unable to respond to the competitive environment in these markets with product and service offerings that are profitable, it may lose market shares in important parts of its business or incur losses on some or all of its activities.

The trend towards consolidation in the global financial services industry, which has increased due to the last financial and economic crisis, is creating competitors with extensive ranges of product and service offerings, increased access to capital and greater efficiency and pricing power. These global financial institutions may be more appealing to customers, especially large corporate customers, because of their larger international presence or financial resources. In addition, in some markets, in particular Austria and Hungary, Erste Group faces competition from established local banks which operate a larger number of branches, offer customers a broader range of banking and financial products and services, and benefit from relationships with a large number of existing customers.

Erste Group faces strong competition in Austria not only from UniCredit Bank Austria AG ("**Bank Austria**") and the Raiffeisen banks, but also from large international banks and new entrants from neighbouring countries. As a result of this competition, in particular in the retail segment, net interest margins have historically been very low. Failure to maintain net interest margins at current levels may have a significant negative impact on the Group's financial condition and results of operations.

As banking markets in CEE mature, Erste Group expects increased competition from global financial institutions and local competitors, with the level of increased competition likely to vary from country to country. Erste Group's ability to compete effectively will depend on the ability of its businesses to adapt quickly to market and industry trends. If Erste Group fails to compete effectively, or if governmental action in response to financial crises or economic downturns results in it being placed at a competitive disadvantage, Erste Group's business, financial condition and results of operations may be adversely affected.

Erste Group Bank's major shareholder may be able to control shareholder actions.

As of the date of this Prospectus, 30.0% of the shares in Erste Group Bank (including 9.9% that were held by CaixaBank) were attributed to Erste Stiftung. Erste Stiftung has the right to appoint one third of the members of the Supervisory Board of Erste Group Bank who were not delegated by the employees' council, however, Erste Stiftung has not exercised its appointment right, so that all of the Supervisory Board members who were not delegated by the employees' council have been elected by the shareholders' meeting.

In addition, because voting is based on the number of shares present or represented at a shareholders' meeting rather than the total number of shares outstanding, the ability of major shareholders to influence a shareholder vote on subjects which require a majority vote will often be greater than the percentage of outstanding shares owned by them. Under Austrian corporate law and the articles of association of the Issuer, a shareholder that holds more than 25% of Erste Group Bank's shares is able to block a variety of corporate actions requiring shareholder approval, such as the creation of authorised or conditional capital, changes in the purpose of Erste Group Bank's business, mergers, spin-offs and other business combinations. As a result, Erste Stiftung will be able to exert significant influence on the outcome of any shareholder vote and may, depending on the level of attendance at a shareholders' meeting, be able to control the outcome of most decisions requiring shareholder approval. Therefore, it is possible that in pursuing these objectives Erste Stiftung may exercise or be expected to exercise influence over Erste Group in ways that may not be in the interest of other shareholders.

Compliance with anti-money laundering, anti-corruption and anti-terrorism financing rules involve significant costs and efforts and non-compliance may have severe legal and reputational consequences.

Erste Group is subject to rules and regulations regarding money laundering, sanctions, corruption and the financing of terrorism. These rules and regulations have been tightened in recent years and will be further tightened and more strictly enforced in the future, in particular by implementing the 4th anti-money laundering directive. Monitoring compliance with anti-money laundering, sanctions, anti-corruption and anti-terrorism financing rules can result in a significant financial burden on banks and other financial institutions and can pose significant technical problems. Erste Group cannot guarantee that it is in compliance with all applicable anti-money laundering, sanctions, anti-corruption and anti-terrorism financing rules at all times or that its Group-wide anti-money laundering, sanctions, anti-corruption and anti-terrorism financing standards are being consistently applied by its employees in all circumstances. Any violation of anti-money laundering, sanctions, anti-corruption or anti-terrorism financing rules, or even alleged violations, may have severe legal, monetary and reputational consequences and could have a material adverse effect on Erste Group's business, financial condition and results of operations.

Changes in consumer protection laws as well as the application or interpretation of such laws might limit the fees and other pricing terms that Erste Group may charge for certain banking transactions and might allow consumers to claim back certain of those fees already paid in the past.

Changes in consumer protection laws or the interpretation of consumer protection laws by courts or governmental authorities (i.e. Fair Banking Act in Hungary) could limit the fees that Erste Group may charge for certain of its products and services and thereby result in lower commission income. Moreover, as new laws and amendments to existing laws are adopted in order to keep pace with the continuing transition to market economies in some of the CEE countries in which Erste Group operates, existing laws and regulations as well as amendments to such laws and regulations may be applied inconsistently or interpreted in a manner that is more restrictive. Several subsidiaries of Erste Group in CEE countries 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. The allegations relate to the enforceability of certain fees as well as of contractual provisions for the adjustment of interest rates and currencies. Moreover, any such changes in consumer protection laws or the interpretation of such laws by courts or governmental authorities could impair Erste Group's ability to offer certain products and services or to enforce certain clauses and reduce Erste Group's net commission income and have an adverse effect on its results of operations.

The integration of potential future acquisitions may create additional challenges.

Erste Group may in the future seek to make acquisitions to support its business objectives and complement the development of its business in its existing and new geographic markets. Such strategic transactions demand significant management attention and require Erste Group to divert financial and other resources that would otherwise be available for its existing business, and the benefits of potential future acquisitions may take longer to realise than expected and may not be realised fully or at all. There can be no assurance that Erste Group will be able to successfully pursue, complete and integrate any future acquisition targets. In addition, there can be no assurance that it will be able to identify all actual and potential liabilities to which an acquired business is exposed prior to its acquisition. Any of these factors could lead to unexpected losses following the acquisition, which may have a material adverse effect on Erste Group's business, financial condition and results of operations.

1.1.2 Risks related to the markets in which Erste Group operates

The departure of any one or more countries from the Eurozone could have unpredictable consequences for the financial system and the greater economy, potentially leading to declines in business levels, write-downs of assets and losses across Erste Group's business.

Should a Eurozone country conclude that it must exit the common currency, the resulting need to reintroduce a national currency and restate existing contractual obligations could have unpredictable financial, legal, political and social consequences. Given the highly interconnected nature of the financial system within the Eurozone and the levels of exposure Erste Group has to public and private counterparties across Europe, its ability to plan for such a contingency in a manner that would reduce its exposure to non-material levels is limited. If the overall economic climate deteriorates as a result of one or more departures from the Eurozone, nearly all of Erste Group's segments could be materially adversely affected.

If European policymakers are unable to contain the European sovereign debt crisis, Erste Group's results of operations and financial position would likely be materially adversely affected as Erste Group may be required to take further write-downs on its sovereign debt exposures and other assets as the macroeconomic environment deteriorates. In addition, the possibility exists that one or more members of the Eurozone may leave the common currency, resulting in the reintroduction of one or more national currencies in such countries. The effects of such an event are difficult to anticipate and may have a substantial negative effect on Erste Group's business and outlook, including as a consequence of adverse impacts on economic activity both within and outside the Eurozone.

The deterioration of the sovereign debt market in the Eurozone and Central and Eastern Europe, particularly the increasing costs of borrowing affecting many Eurozone states late in 2011 and downgrades in credit rating of most Eurozone countries in 2011 and 2012, indicate that the sovereign debt crisis can affect even the financially most stable countries in the Eurozone. While the costs of sovereign borrowing in the euro area reached new lows in late 2014, considerable doubt remains whether actions taken by European policymakers will be sufficient to contain or overcome the crisis over the medium to longer term. In particular, further credit rating downgrades of EU Member States, such as France and Austria, may threaten the effectiveness of the European Financial Stability Facility ("**EFSF**") or the European Stability Mechanism ("**ESM**"). Since the EFSF's and ESM's credit ratings are based on the ratings of its financing members, the reduction of these members' ratings may increase the borrowing costs of the EFSF or ESM such that its ability to raise funds to assist Eurozone governments would be reduced. In addition, the austerity programmes introduced by a number of countries across the Eurozone in response to the sovereign debt crisis may have the effect of dampening economic growth over the short, medium or long term. Declining rates of economic growth in Eurozone countries could exacerbate their difficulties in refinancing their sovereign debt as it comes due, further increasing pressure on other Eurozone governments.

Erste Group operates in emerging markets that may experience rapid economic or political changes, either of which may adversely impact its financial performance and results of operations.

Erste Group operates directly or indirectly in emerging markets throughout Central and Eastern Europe. In recent years, some of these countries have undergone substantial political, economic and social change. As is typical for emerging markets, they do not have in place the full business, legal and regulatory structures that would commonly exist in more mature free market economies. As a result, Erste Group's operations are exposed to risks common to regions undergoing rapid political, economic and social change, including – but not limited to - currency fluctuations, exchange control restrictions, an evolving regulatory environment, inflation, economic recession, local market disruption and labour unrest or even military disputes. Macroeconomic events, such as recession, deflation or hyper-inflation, may lead to an increase in defaults by Erste Group's customers, which would adversely impact Erste Group's results of operations and financial condition. Political or economic instability

resulting from, or causing, the occurrence of any of these risks would also adversely affect the market for Erste Group's products and services. Based on concerns about declining foreign investment flows, emerging market volatility has increased significantly since 2013. However, the level of risk that Erste Group faces differs significantly by country.

Regarding the crisis to the Russian military intervention in Ukraine in 2014, the Russian economy and currency have been hit severely as a result of falling oil prices and persistent international sanctions against Russia. Currently further developments are subject to uncertainty, as are the ultimate political and economic effects of a protracted crisis on Russia and Ukraine as well as on the whole CEE region.

Committed EU funds may not be released or further aid programmes may not be adopted by the EU and/or international credit institutions.

In addition to Greece, Ireland and Portugal, some of the CEE countries in which Erste Group operates (i.e. Slovakia, Romania, Hungary, Czech Republic and Croatia), and to a lesser extent EU candidates such as Serbia, have been promised funds for infrastructure and other projects in substantial amounts by the EU and international credit institutions, including the European Bank for Reconstruction and Development ("EBRD"), the International Monetary Fund ("IMF") and the European Investment Bank ("EIB"). If these funds are not released, are released only in part or with delay as the absorption rate of these funds still poses a significant challenge in the CEE countries, or if no further aid will be made available by the EU and the international credit institutions, the relevant national economies could be adversely affected, which would, in turn, negatively affect Erste Group's business prospects in the respective countries.

Loss of customer confidence in Erste Group's business or in banking businesses generally could result in unexpectedly high levels of customer deposit withdrawals, which could have a material adverse effect on the Group's results, financial condition and liquidity.

The availability of Erste Group's customer deposits to fund its loan portfolio is subject to potential changes in certain factors outside Erste Group's control, such as a loss of confidence of depositors in either the economy in general, the financial services industry or Erste Group specifically, ratings downgrades, low interest rates and significant further deterioration in economic conditions. These factors could lead to a reduction in Erste Group's ability to access customer deposit funding on appropriate terms in the future and to sustained deposit outflows, both of which would adversely impact Erste Group's ability to fund its operations. Any loss in customer confidence in Erste Group's banking businesses, or in banking businesses generally, could significantly increase the amount of deposit withdrawals in a short period of time. Should Erste Group experience an unusually high level of withdrawals, this may have an adverse effect on Erste Group's results, financial condition and prospects and could, in extreme circumstances, prevent Erste Group from funding its operations. In such extreme circumstances Erste Group may not be in a position to continue to operate without additional funding support, which it may be unable to access. A change in the funding structure towards less stable and more expensive funding sources would also result in higher liquidity buffer requirements and an adverse impact on net interest income.

Liquidity problems experienced by certain CEE countries may adversely affect the broader CEE region and could negatively impact Erste Group's business results and financial condition.

Certain countries where Erste Group has operations may encounter severe liquidity problems. In the past, Romania and Serbia have all turned to international institutions for assistance, and other countries in the CEE may be forced to do the same. If such liquidity problems should occur, this could have significant consequences throughout the region, including foreign banks withdrawing funds from their CEE subsidiaries and regulators imposing further limitations to the free transfer of liquidity, thereby weakening local economies and affecting customers of Erste Group who borrow from a number of different banks and weakening Erste Group's liquidity position. This could also lead to an increase of defaults throughout the economy or by Erste Group customers and, accordingly, could have a material adverse effect on Erste Group's business, financial condition and results of operation.

Governments in countries in which Erste Group operates may react to financial and economic crises with increased protectionism, nationalisations or similar measures.

Governments in CEE countries in which Erste Group operates could take various protectionist measures to protect their national economies, currencies or fiscal income in response to financial and economic crises, including among other things:

- force for loans denominated in foreign currencies like EUR, USD or CHF to be converted into local currencies at set interest and/or exchange rates, in some cases below market rates, as happened in Hungary, or allow loans to be assumed by government entities, potentially resulting in a reduction in value for such loans;
- set limitations on the repatriation of profits (either through payment of dividends to their parent companies or otherwise) or export of foreign currency;
- set out regulations limiting interest rates and fees for services that can be charged and other terms and conditions;
- prohibit money transfers abroad by banks receiving state support measures (e.g., loans granted to banks from sovereigns or covered by sovereign deposit guarantees);
- introduce or increase banking taxes or legislation imposing levies on financial transactions or income generated through banking services or extend such measures previously introduced on a temporary basis; and
- nationalisation of local banks, with or without compensation, in order to stabilise the banking sector and the economy.

Any of these or similar state actions could have a material adverse effect on Erste Group's business, financial condition and results of operations.

Erste Group may be adversely affected by slower growth or recession in the banking sector in which it operates as well as slower expansion of the Eurozone and the EU.

Banking sector growth in the countries in which Erste Group operates has significantly declined compared to years prior to 2008. As the economies in Central and Eastern Europe mature, particularly in the Czech Republic and Slovakia, growth in the banking sector can be expected to slow down further in these regions. Of the countries in which Erste Group has significant operations, the Czech Republic, Hungary, Slovakia and Slovenia joined the EU in 2004; Romania joined the EU in 2007, and Croatia in July 2013. Economic growth in the region may be further constrained in the coming years by continuing effects of the last financial crisis and recession, as well as a slowing expansion of the Eurozone and the EU and increasing constraints on the EU budget, which may reduce various subsidies to CEE countries. In addition, EU legal, fiscal and monetary regulations may limit a country's ability to respond to local economic conditions. Moreover, some of these countries are expected to raise tax rates and levies to EU standards or introduce new taxes in order to provide social protection for unemployed workers and others affected by the economic downturn and to put public sector finance on a more sustainable basis, which could also limit their growth rates.

The legal systems and procedural safeguards in many CEE countries and, in particular, in the Eastern European countries are not yet fully developed.

The legal and judicial systems in some of the markets where Erste Group operates are less developed than those of other European countries. Commercial law, competition law, securities law, company law, bankruptcy law and other areas of law in these countries have been and continue to be subject to constant changes as new laws are being adopted in order to keep pace with the transition to market economies. In this regard, the laws of some of the jurisdictions where Erste Group operates may not be as favourable to investors' interests as the laws of Western European countries or other jurisdictions with which prospective investors may be familiar. Existing laws and regulations in some countries in which Erste Group operates may be applied inconsistently or may be interpreted in a manner that is restrictive and non-commercial. It may not be possible, in certain circumstances, to obtain legal remedies in a timely manner in these countries. The relatively limited experience of a significant number of judges and magistrates practising in these markets, particularly with

regard to securities laws issues, and the existence of a number of issues relating to the independence of the judiciary may lead to unfounded decisions or to decisions based on considerations that are not founded in the law. In addition, resolving cases in the judicial systems of some of the markets where Erste Group operates may at times involve very considerable delays. This lack of legal certainty and the inability to obtain effective legal remedies in a timely manner may adversely affect Erste Group's business.

Applicable bankruptcy laws and other laws and regulations governing creditors' rights in various CEE countries may limit Erste Group's ability to obtain payments on defaulted loans and advances.

Bankruptcy laws and other laws and regulations governing creditors' rights vary significantly among countries in the CEE. In some countries, the laws offer significantly less protection for creditors than the bankruptcy regimes in Western Europe. In addition, it is often difficult to locate all of the assets of an insolvent debtor in CEE countries. Erste Group's local subsidiaries have at times had substantial difficulties receiving payouts on claims related to, or foreclosing on collateral that secures, extensions of credit that they have made to entities that have subsequently filed for bankruptcy protection. In the event of further economic downturns, these problems could intensify, including as a result of changes in law or regulations intended to limit the impact of economic downturns on corporate and retail borrowers. These problems, if they were to persist or intensify, may have an adverse effect on Erste Group's business, results of operations and financial condition.

Erste Group may be required to participate in or finance governmental support programs for credit institutions or finance governmental budget consolidation programmes, including through the introduction of banking taxes and other levies.

If a major bank or other financial institution in Austria or the CEE markets where Erste Group has significant operations were to suffer significant liquidity problems, risk defaulting on its obligations or otherwise potentially risk declaring bankruptcy, the local government might require Erste Group Bank or a member of Erste Group to provide funding or other guarantees to ensure the continued existence of such institution. This might require Erste Group Bank or one of its affiliates to allocate resources to such assistance rather than using such resources to promote other business activities that may be financially more productive, which could have an adverse effect on Erste Group's business, financial condition or results of operations.

1.2 FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

The Notes may not be a suitable investment for investors if they do not have sufficient knowledge and/or experience in the financial markets and/or access to information and/or financial resources and liquidity to bear all the risks of an investment and/or a thorough understanding of the terms of the Notes and/or the ability to evaluate possible scenarios for economic, interest rate and other factors that may affect their investment.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement hereto;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation and the investment(s) it is considering, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or distribution payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

1.2.1 Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

The Notes are complex instruments that may not be suitable for certain investors.

The Notes are newly developed and complex financial instruments and may not be a suitable investment for certain investors. Each potential investor in the Notes should determine the suitability of such investment in light of its own circumstances and have sufficient financial resources and liquidity to bear the risks of an investment in the Notes, including the possibility that the entire principal amount of the Notes could be lost. A potential investor should not invest in the Notes unless it has the knowledge and expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the likelihood of cancellation of payment of principal, payment of distributions or a Write-down and the market value of the Notes, and the impact of this investment on the potential investor's overall investment portfolio.

Fixed to Fixed Distribution Rate Notes and Fixed to Floating Distribution Rate Notes bear distributions at a rate that converts from a fixed distribution rate to a different fixed distribution rate or from a fixed distribution rate to a floating distribution rate, respectively. A Holder bears the risk that after such conversion, the new distribution rate may be lower than the then prevailing distribution rates or the spread may be less favourable than the then prevailing spreads on comparable floating distribution rate notes relating to the same reference rate.

Fixed to Fixed Distribution Rate Notes and Fixed to Floating Distribution Rate Notes bear distributions at a rate that converts from a fixed distribution rate to a different fixed distribution rate or from a fixed distribution rate to a floating distribution rate, respectively. The conversion of the distribution rate will affect the market value of the Notes. If the distribution rate converts from a fixed distribution rate to a different fixed distribution rate, such fixed distribution rate may be lower than the then prevailing distribution rates payable on fixed distribution rate notes. If the distribution rate converts from a fixed distribution rate to a floating distribution rate, the spread on such Notes may be less favourable than then prevailing spreads on comparable floating distribution rate notes relating to the same reference rate(s). In addition, the new floating distribution rate may at any time be lower than the distribution rates payable on other notes.

In periods for which a fixed rate of distributions is applicable, Holders are exposed to the risk that the price of such Notes falls as a result of changes in the market interest rate.

In periods for which a fixed rate of distributions is applicable, Holders are exposed to the risk that the price of such Notes falls as a result of changes in the market interest rate. While the nominal distribution rate of Notes as specified in the applicable Final Terms is fixed for the relevant fixed distribution period, the current interest rate on the capital market for issues of the same maturity (the "market interest rate") typically changes on a daily basis. As the market interest rate changes, the price of the Notes also changes, but in the opposite direction. If the market interest rate increases, the price of the Notes typically falls, until the yield of such Notes is approximately equal to the market interest rate.

In periods for which a floating rate of distributions is applicable, Holders may be exposed to the risk of fluctuating interest rate levels which make it impossible to determine the yield of such Notes in advance, and are exposed to the risk of uncertain interest income.

Floating rate Notes tend to be volatile investments. In periods for which a floating rate of distributions is applicable, a holder of Notes is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the profitability of Notes for periods for which a floating rate of distributions is applicable in advance.

The obligations of the Issuer under the Notes constitute unsecured and subordinated obligations which are subordinated to the claims of all unsubordinated and subordinated creditors (other than subordinated claims ranking *pari passu* with the Notes) of the Issuer.

The Notes to be issued by the Issuer under the Programme are intended to qualify as Additional Tier 1 instruments pursuant to Article 52 of the CRR. They constitute direct, unsecured and deeply subordinated obligations of the Issuer. In the insolvency or liquidation of the Issuer, the obligations of the Issuer under the Notes will rank:

- (i) junior to all present or future (a) unsubordinated instruments or obligations of the Issuer; and (b) (x) obligations under any Tier 2 Instruments; and (y) all other instruments or obligations of the Issuer ranking or expressed to rank subordinated to the unsubordinated obligations of the Issuer (other than instruments or obligations ranking or expressed to rank *pari passu* with or subordinated to the Notes);
- (ii) *pari passu* (a) among themselves; (b) with all present or future obligations under any other AT 1 Instruments; and (c) with all other present or future instruments or obligations ranking or expressed to rank *pari passu* with the Notes, including the Existing Hybrid Instruments (other than Existing Hybrid Instruments ranking or expressed to rank senior to the Notes); and
- (iii) senior to all present or future (a) ordinary shares of the Issuer and any other CET 1 Instruments; and (b) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank (x) subordinated to the obligations of the Issuer under the Notes or (y) *pari passu* with the ordinary shares of the Issuer and any other CET 1 Instruments.

Although the Notes may pay a higher rate of distributions than notes which are not subordinated, there is a substantial risk that investors in deeply subordinated notes such as the Notes will lose all or some of their investment, should the Issuer become insolvent or, following a Write-down, either have insufficient profit to write up the Notes or decide in its sole discretion to not (or not fully) write up its Notes at all.

Furthermore, claims of the Issuer are not permitted to be offset against payment obligations of the Issuer under the Notes which are not, and may not become secured or subject to a guarantee or any other arrangement that enhances the seniority of the claim. A Holder should therefore not expect to be able to set off any obligations of the Issuer under the Notes against obligations of the Holder vis-à-vis the Issuer.

The Notes do not contribute to the determination of over-indebtedness of the Issuer.

The Holders are entitled to payments, if any, under the Notes only once any negative equity (*negatives Eigenkapital*) within the meaning of § 225(1) of the Austrian Commercial Code (*Unternehmensgesetzbuch*) has been removed (*beseitigt*) or if, in the event of the liquidation of the Issuer, all other creditors (other than creditors whose claims rank or are expressed to rank *pari passu* or junior to the Notes) of the Issuer have been satisfied first.

In the Terms and Conditions, no insolvency proceedings against the Issuer are required to be opened in relation to the obligations of the Issuer under the Notes. The Notes do not contribute to a determination that the liabilities of the Issuer exceed its assets, and will therefore be disregarded for purposes of determining whether the Issuer is over-indebted (*überschuldet*) in accordance with § 67(3) of the Austrian Insolvency Code (*Insolvenzordnung – IO*).

Holders should therefore note that their claims under the Notes, when due but unpaid, will not result in an insolvency of the Issuer, and that they have no means to request the institution of insolvency proceedings against the Issuer on the basis of any claims under the Notes.

The Issuer is not prohibited from issuing further debt which may rank *pari passu* with or senior to the Notes.

The Terms and Conditions of the Notes place no restriction on the amount of debt that the Issuer may issue or guarantee that ranks senior to, or *pari passu* with, the Notes. The Issuer may also issue debt instruments with trigger levels for write-down or conversion that are lower than those of the Notes (to the extent permitted by the Applicable Supervisory Regulations), so that such debt instruments absorb losses after the Notes.

The issue or guaranteeing of any such debt instruments may reduce the amount recoverable by Holders upon the Issuer's insolvency. If the Issuer's financial condition were to deteriorate, the Holders could suffer direct and materially adverse consequences, including cancellation of distributions and reduction of the principal amount of the Notes and, if the Issuer were liquidated, the Holders could suffer loss of their entire investment.

In addition, the Issuer is not prohibited from issuing or guaranteeing other instruments that share in, or are depending upon, Distributable Items, thereby reducing the amount available for distributions under the Notes. This could result in distributions on the Notes being reduced or cancelled at all.

The Issuer may, in its full discretion cancel payments of distributions on the Notes and may, in certain circumstances (including insufficient or no Distributable Items, order from Competent Authority or non-compliance with Maximum Distributable Amount), be required to cancel such payments. The cancellation of distribution payments will be definitive and non-cumulative.

The Issuer, at its full discretion, may, at all times cancel (in whole or in part) any payment of distributions on the Notes scheduled to be paid on any distribution payment date for an unlimited period and on a non-cumulative basis. The Issuer may use such cancelled distribution payments without restrictions to meet its obligations as they fall due.

Without prejudice to such full discretion of the Issuer, any payment of distributions on the Notes scheduled to be paid on any distribution payment date shall be cancelled, in whole or in

part, if and to the extent:

- (i) the distribution payment scheduled to be paid together with any further Relevant Distributions would exceed the available Distributable Items, provided that, for such purpose, the available Distributable Items shall be increased by an amount equal to what has been accounted for as expenses for payments of interest, dividends or distributions on Tier 1 Instruments (including payments of distributions on the Notes) in the calculation of the profit (*Gewinn*) on which the available Distributable Items are based;
- (ii) the Competent Authority orders the relevant distribution payment scheduled to be paid to be cancelled in whole or in part; or
- (iii) on the relevant distribution payment date such distribution payment aggregated with any other distributions of the kind referred to in § 24(2) of the BWG (implementing Article 141(2) of the CRD IV in Austria) would not be in compliance with the restrictions relating to the Maximum Distributable Amount.

Any distribution payment so cancelled will not accumulate or compound and all rights and claims in respect of such amounts will be fully and irrevocably forfeited and no payments will be made nor shall any Holder be entitled to any payment or indemnity in respect thereof. Any such cancellation of distributions does not constitute an event of default of the Issuer and imposes no restrictions on the Issuer.

The Maximum Distributable Amount is a recently introduced concept which will apply when the combined capital buffer requirements are not (or not fully) met, and its determination is subject to considerable uncertainty (see also the risk factor "*Many aspects of the manner in which CRR/CRD IV will be implemented remain uncertain.*").

The Distributable Items of the Issuer will, *inter alia*, depend on its profits and those of its Subsidiaries, including the dividends that it receives from its Subsidiaries. If the Issuer's profits are weak, and/or if it does not receive any (or only small) dividends from its Subsidiaries, the Distributable Items may not be sufficient to permit full (or any) payment of distributions on the Notes.

The Distributable Items will be determined on the basis of the audited (*geprüft*) and adopted (*festgestellt*) unconsolidated annual financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer and accounting regulations then in effect, for the latest financial year of the Issuer ended prior to the relevant distribution payment date. If such audited and adopted unconsolidated annual financial statements of the Issuer are not available at the relevant distribution payment date, the Distributable Items will be determined on the basis of unaudited unconsolidated pro forma financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer in relation to its unconsolidated annual financial statements and accounting regulations then in effect in relation to the Issuer's unconsolidated annual financial statements.

There is however a risk, that these pro forma financial statements may deviate substantially from the audited financial statements for the same accounting period, and Holders are therefore exposed to the risk that they will not receive any distributions even if the audited financial statements show sufficient Distributable Items to make payments on the Notes.

Because the Issuer is entitled to cancel distribution payments in its full discretion, it may do so even if it could make such payments without exceeding the limits described above and even if it was intrinsically profitable. Distribution payments on the Notes may be cancelled even if the Issuer's shareholders continue to receive dividends and/or distributions are made on any instruments ranking *pari passu* or junior to, the Notes. Even if the Issuer was willing to make distribution payments, it could be prevented from doing so by regulatory provisions and/or regulatory action. In all such instances, Holders would receive no, or only reduced, distributions on the Notes.

Any actual or anticipated cancellation of distributions payments on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the distribution cancellation provisions of the Notes, the market price of the Notes may be more volatile than

the market prices of other debt securities on which distributions accrue that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition. Likewise, as the Maximum Distributable Amount is linked to the combined capital buffer requirements, any indication that the Issuer may not (or not fully) meet such combined buffer capital requirement may have an adverse effect on the market price of the Notes.

Holders of Notes should be aware that there will be no circumstances under which distribution payments on the Notes will be compulsory for the Issuer. Holders should therefore not rely on receiving any distribution payments on the Notes, regardless of whether the Issuer has sufficient Distributable Items, and Holders should be aware that the market price of the Notes is subject to volatility and downturn, in particular in case of any indication that distribution payments on the Notes are or might be cancelled.

The Issuer may be required to reduce the initial principal amount of the Notes to absorb losses, which would reduce any redemption amount and any distribution payable on the Notes while the Notes are written down.

The Notes are issued in order to meet regulatory capital requirements with the intention and purpose of being eligible as own funds of the Issuer. The Notes shall constitute AT 1 Instruments of the Issuer, i.e. Additional Tier 1 instruments pursuant to Article 52 CRR on a solo and/or group level of the Issuer. Such eligibility depends on a number of statutory conditions being satisfied. One of these conditions relates to the ability of the Notes and the proceeds of their issue to be available to absorb any losses of the Issuer. Accordingly, under the Terms and Conditions of the Notes, if it has been determined that: (i) the Group CET 1 Capital Ratio and/or (ii) the Issuer CET 1 Capital Ratio fall to an amount that is lower than the applicable minimum trigger level (a "**Trigger Event**"), the Issuer will reduce the then Current Principal Amount (as defined in the Terms and Conditions) of the Notes by the Write-down Amount.

For the avoidance of doubt, a Trigger Event may be calculated at any time and may occur on more than one occasion and each Note may be subject to a Write-down on more than one occasion. The occurrence of a Trigger Event, which would result in a Write-down of the Current Principal Amount of the Notes, is inherently unpredictable and depends on a number of factors, many of which may be outside the Issuer's control. A Trigger Event could occur at any time.

The Write-down Amount shall be the higher of (i) the *pro rata* share of the Note in the Required Loss Absorption Amount and (ii) if the amount in (i) is insufficient to fully restore or maintain the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio to the Minimum Trigger Level, an amount necessary to reduce the Current Principal Amount to 0.01 or such lower amount set out in the Terms and Conditions in the Specified Currency of the Note; whereas the "**Required Loss Absorption Amount**" means the amount by which, upon the occurrence of a Trigger Event, a write-down of the aggregate Current Principal Amount of the Notes shall be effected *pro rata* with the aggregate (current) principal amount of any other AT 1 Instruments whose trigger events for a write-down or conversion (loss absorption) pursuant to their terms have occurred and whose minimum trigger levels have not been restored, irrespective of the opening of any insolvency proceedings. For such purpose, the total amount of the write-downs to be allocated *pro rata* shall be equal to the amount required to fully restore or maintain the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio to at least the Minimum Trigger Level, as applicable, but shall not exceed the sum of the principal amounts of AT 1 Instruments whose trigger events for a write-down or conversion pursuant to their terms have occurred and whose minimum trigger levels have not been restored and which are outstanding at the time of occurrence of the Trigger Event.

To the extent the write-down (or write-off) or conversion into Common Equity Tier 1 instruments of any other AT 1 Instrument whose trigger events for a write-down or conversion pursuant to their terms have occurred is not, or within one month from the determination that the relevant trigger event has occurred will not be, effective for any reason:

- (i) the ineffectiveness of any such write-down (or write-off) or conversion into Common Equity Tier 1 instruments shall not prejudice the requirement to effect a Write-down of

the Notes (loss absorption); and

- (ii) the write-down (or write-off) or conversion into Common Equity Tier 1 instruments of any other AT 1 Instrument whose trigger events for a write-down or conversion pursuant to their terms have occurred which is not, or within one month from the determination that the relevant Trigger Event has occurred will not be, effective shall not be taken into account in determining such Write-down of the Notes.

During the period of any Write-down pursuant to the Terms and Conditions, distributions will accrue (subject in certain circumstances to the Maximum Distributable Amount, as defined in the Terms and Conditions) on the Current Principal Amount of the Notes, which will be lower than the Specified Denomination unless and until the Notes are subsequently written up (following a Write-up) in full.

Holders may lose all or some of their investment as a result of a Write-down. If the Issuer is liquidated or becomes insolvent prior to the Notes being written up in full (if at all) pursuant to the Terms and Conditions, Holders' claims for principal and distributions will be based on the reduced Current Principal Amount of the Notes.

The Issuer is under no obligation to reinstate any principal amounts which have been subject to any Write-down up to a maximum of the Specified Denomination, even if certain conditions (further described in the Terms and Conditions) that would permit the Issuer to do so, were met. Any Write-up of the Notes is at the full discretion of the Issuer.

Moreover, the Issuer will, *inter alia*, only have the option to Write-up the Current Principal Amount of the Notes if, at a time when the Current Principal Amount of the Notes is less than their Specified Denomination, positive Profit is recorded on an individual basis and consolidated basis, and if the Maximum Distributable Amount (if any) (when the amount of the Write-up is aggregated together with other distributions of the Issuer or the Erste Group, as applicable, of the kind referred to in Article 141(2) of the CRD IV) would not be exceeded when operating a Write-up (see also the risk factor "*Many aspects of the manner in which CRR/CRD IV will be implemented remain uncertain.*").

No assurance can be given that these conditions will ever be met or that the Issuer will ever write up (fully or partially) the principal amount (i.e. the then Current Principal Amount) of the Notes following a Write-down.

Furthermore, any Write-Up must be undertaken on a pro rata basis with all other Notes and any Similar AT 1 Instruments (i.e. means any (directly or indirectly issued) Additional Tier 1 instrument pursuant to Article 52 of the CRR (other than the Notes) of the Issuer or, as applicable, any instrument issued by a member of the Erste Group and qualifying as Additional Tier 1 instruments pursuant to Article 52 of the CRR of the Issuer and/or the Erste Group, that includes a similar write-down mechanism (permanent or temporary) and which has an identical trigger level as set out in "Trigger Event"). A "Trigger Event" occurs if it has been determined that: (i) the Group CET 1 Capital Ratio and/or (ii) the Issuer CET 1 Capital Ratio fall to an amount that is lower than the applicable minimum trigger level.

The market price of the Notes is expected to be affected by fluctuations in the Common Equity Tier 1 capital ratio of both, the Issuer and Erste Group. Any indication that the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio are approaching the level that would trigger a Trigger Event may have an adverse effect on the market price of the Notes.

The calculation of the Common Equity Tier 1 capital ratios will be affected by a number of factors, many of which may be outside the Issuer's control.

The calculation of the Common Equity Tier 1 capital ratios of the Issuer and/or of Erste Group could be affected by a wide range of factors, including, among other things, factors affecting the level of earnings or dividend payments, the mix of its businesses, its ability to effectively manage the risk-weighted assets in its ongoing businesses, losses in the context of its banking activities or other businesses, changes in Erste Group's structure or organization. The calculation of the ratios also may be affected by changes in the applicable laws and regulations or applicable accounting rules and the manner in which accounting policies are

applied, including the manner in which permitted discretion under the applicable accounting rules is exercised.

Holders are, due to the Notes being subject to Write-down in case of the occurrence of a Trigger Event, directly exposed to any changes of the Common Equity Tier 1 capital ratios and will, unless and until the Notes are written-up, lose all or part of their investment in case of a redemption of the Notes or in the liquidation or insolvency of the Issuer.

Due to the uncertainty regarding whether a Trigger Event will have occurred, it will be difficult to predict when, if at all, the Current Principal Amount of the Notes may need to be written down. Accordingly, the trading behavior of the Notes may not necessarily follow the trading behavior of other types of subordinated instruments. Any indication that the Common Equity Tier 1 capital ratios of the Issuer and/or of Erste Group are approaching the level that would trigger a Trigger Event may have an adverse effect on the market price and liquidity of the Notes. Under such circumstances, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to more conventional investments.

Many aspects of the manner in which CRR/CRD IV will be implemented remain uncertain.

Many of the provisions of the Terms and Conditions of the Notes depend on the final interpretation and implementation of CRR/CRD IV (including any regulations promulgated thereunder).

CRR/CRD IV is a recently-adopted set of rules and regulations that imposes a series of new requirements, many of which will be phased in over a number of years. Although the CRR will be directly applicable in each EU-Member State, the CRR leaves a number of important interpretational issues to be resolved through binding technical standards that will be adopted in the future, and leaves certain other matters to the discretion of the Competent Authority. In addition, since November 2014, the Issuer and Erste Group are subject to direct supervision of the ECB. The ECB may interpret CRR/CRD IV, or exercise discretion accorded to the Competent Authority under CRR/CRD IV (including options with respect to the treatment of assets of other affiliates) in a different manner than the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde – FMA*) did. The manner in which many of the new concepts and requirements under CRR/CRD IV will be applied to the Issuer and Erste Group remains uncertain. Furthermore, at this point in time, there is no clear guidance by the ECB on the interplay between the Supervisory Review and Evaluation Process ("**SREP**") requirements and the Maximum Distributable Amount

In particular, the determination of the Maximum Distributable Amount is complex. The Maximum Distributable Amount imposes a cap on the Issuer's ability to pay distributions on the Notes, on the Issuer's ability to reinstate the Current Principal Amount of the Notes following a Write-down and on its ability to redeem or repurchase Notes. There are a number of factors that render the application of the Maximum Distributable Amount particularly complex:

- (i) It applies when certain capital buffers are not maintained. A "capital buffer" is an amount of capital that a credit institution is required to maintain beyond the minimum amount required by applicable regulations. If the institution fails to meet the capital buffer, it becomes subject to restrictions on payments and distributions on Tier 1 instruments (including its ability to make payments on and to redeem and purchase Additional Tier 1 instruments such as the Notes), and on the payment of certain bonuses to employees. There are several different buffers, some of which are intended to encourage countercyclical behavior (with extra capital retained when profits are robust), and others of which are intended to provide additional capital cushions for institutions whose failure would result in a significant systemic risk. At this point in time, there is no clear guidance on the interplay between SREP requirements and restrictions on payments to holders of Tier 1 instruments.
- (ii) Certain capital buffers (in any case the capital conservation buffer, but possibly also the systemic risk buffer and the countercyclical buffer) will apply from

1 January 2016 and be gradually phased in until 2019 (subject to certain discretion of the competent authorities). Whether some capital buffers will apply (either in general or at least to the Issuer and Erste Group) has not yet been finally determined, as this will also depend on the macro-economic situation (in case of the (institution-specific) countercyclical buffer: the credit cycle and risks due to excess credit growth in an EU-Member State, taking into account specificities of the national economy), the existence of systemic risks (in case of the systemic risk buffer) or because of the assessment of a credit institution/its group as global or other systemically important institution (in case of the G-SII buffer and the O-SII buffer). As a result, it is difficult to predict when the Maximum Distributable Amount will apply to the Notes, and to what extent. The G-SII buffer, the O-SII buffer and the systemic risk buffer (each as they will become relevant for the Issuer/Erste Group respectively, subject to phasing-in and discretion of the competent authorities) may be applicable on different levels (i.e. solo, consolidated, sub-consolidated). At present, the FMA has published a draft regulation on capital buffers, the KP-V, which would stipulate a gradual phase-in of a systemic risk buffer of up to 2.00% for Erste Group (see also the risk factor "*New governmental or regulatory requirements and changes in perceived levels of adequate capitalisation and leverage could subject Erste Group to increased capital requirements or standards and require it to obtain additional capital or liquidity in the future.*")

- (iii) The Issuer will have the discretion to determine how to allocate the Maximum Distributable Amount among the different types of payments contemplated in Article 141(2) of the CRD IV. Moreover, payments made earlier in the relevant period will reduce the remaining Maximum Distributable Amount available for payments later in the relevant period, and the Issuer will have no obligation to preserve any portion of the Maximum Distributable Amount for payments scheduled to be made later in a given period. Even if the Issuer attempts to do so, there can be no assurance that it will be successful, because the Maximum Distributable Amount will depend on the amount of profits earned during the course of the relevant period, which will necessarily be difficult to predict.
- (iv) Certain technicalities of the calculation of the Maximum Distributable Amount as referred to in Article 141(2) of the CRD IV have not yet been implemented into Austrian law. For instance, the FMA shall issue a regulation stipulating further details of the calculation of the Maximum Distributable Amount pursuant to Article 141(4) of the CRD IV; for the time being, the FMA has published a draft for such regulation, the KP-V, which shall enter into force on 1 January 2016.

These issues and other possible issues of interpretation make it difficult to determine how the Maximum Distributable Amount will apply as a practical matter to limit distribution payments on the Notes, the reinstatement of the Current Principal Amount of the Notes following a Write-down and the ability of the Issuer to redeem and repurchase Notes.

This uncertainty and the resulting complexity may adversely impact the trading price and the liquidity of the Notes.

The application of CRR requirements might be waived by the competent authorities. As a result of such waiver, investors may be left with Common Equity Tier 1 capital ratios on the level of the Erste Group and interaction with buffer requirements applicable on a solo level is unclear. As a result, the operation of a Trigger Event, a Write-up and the Maximum Distributable Amount are difficult to predict under such circumstances.

The Notes are perpetual and may not be redeemed at the option of the Holders, any rights of the Issuer to redeem or repurchase Notes are subject to the prior permission of the competent authority, and redemption may occur at a time when the redemption proceeds are less than the market price of the Notes.

The Notes are perpetual and have no scheduled maturity date. The Issuer is under no obligation to redeem the Notes at any time before liquidation or insolvency.

The Issuer may at its sole discretion, redeem the Notes at any time either for tax or regulatory reasons at the Redemption Amount. In addition, the Issuer may at its sole discretion redeem the Notes, but not before five years after the date of their issuance, on specified Call Redemption Dates at the applicable Call Redemption Amount plus accrued distributions. Such optional redemption features are likely to limit the market value of the Notes, as during any period when the Issuer may decide to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed (see also the risk factor "*The Issuer may be required to reduce the initial principal amount of the Notes to absorb losses, which would reduce any redemption amount and any distribution payable on the Notes while the Notes are written down.*").

Any such redemption and any repurchase of the Notes (including any repurchase for market making purposes) are subject to the prior permission of the competent authority pursuant to Article 4(1)(40) of the CRR which is responsible to supervise the Issuer and/or the Erste Group (the "**Competent Authority**") and compliance with regulatory capital rules applicable from time to time to the Issuer. Under the CRR, the Competent Authority may only permit institutions to redeem Additional Tier 1 instruments such as the Notes if certain conditions prescribed by the CRR are complied with. These conditions, as well as a number of other technical rules and standards relating to regulatory capital requirements applicable to the Issuer, should be taken into account by the Competent Authority in its assessment of whether or not to permit any redemption or repurchase. It is uncertain how the Competent Authority will apply these criteria in practice and such rules and standards may change during the maturity of the Notes. It is therefore difficult to predict whether, and if so, on what terms, the Competent Authority will grant its prior permission for any redemption or repurchase of the Notes.

Furthermore, even if the Issuer would be granted the prior permission of the Competent Authority, any decision by the Issuer as to whether it will redeem the Notes will be made at the absolute discretion of the Issuer, and the Issuer may have regard to external factors such as the economic and market impact of exercising a redemption right, regulatory capital requirements and prevailing market conditions. The Issuer disclaims, and investors should therefore not expect, that the Issuer will exercise any redemption right in relation to the Notes. Holders of the Notes should therefore be aware that they may be required to bear the financial risks of an investment in the Notes perpetually.

The Holders of the Notes have no rights to call for redemption of their Notes and should not invest in the Notes in the expectation that any redemption right will be exercised by the Issuer. Excluding the Holders' right to demand for a redemption of the Notes is mandatory due to the Applicable Supervisory Regulations. Thus, without redemption by Holders being excluded, the Issuer would not be able to issue the Notes at all. Investors should therefore carefully consider whether they think that a right of redemption only for the Issuer would be to their detriment, and should, if they think that this is the case, not invest in the Notes.

Even if the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes, which may result in a crystallisation of a loss for the Holders, in particular if the Current Principal Amount is less than the Specified Denomination.

In the event that any Notes are redeemed, a Holder of such Notes may be exposed to risks, including the risk that his investment will have a lower than expected yield (Risk of Redemption).

According to the Terms and Conditions, the Issuer has the right to call the Notes in certain circumstances. If the Issuer redeems the Notes, a Holder of such Notes is exposed to the risk that, due to such redemption, its investment will have a lower than expected yield. The Issuer might exercise its call right if the yield on comparable notes in the capital markets falls, which means that the Holder may only be able to reinvest the redemption proceeds in notes with a lower yield or with a similar yield of a higher risk, in particular if the Current Principal Amount is less than the Specified Denomination.

There are no events of default under the Notes.

The Terms and Conditions of the Notes do not provide for events of default allowing acceleration of the Notes if certain events occur. Accordingly, if the Issuer fails to meet any obligations under the Notes (notwithstanding that payments of distributions are at the discretion of the Issuer) investors will not have a right of acceleration of the Notes. Upon a payment default, the sole remedy available to Holders for recovery of amounts owing in respect of any payment of principal or distributions on the Notes will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, the Issuer will not, by virtue of the opening of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

The Issuer's interests may not be aligned with those of investors in the Notes.

The Issuer CET 1 Capital Ratio as well as the Group CET 1 Capital Ratio, the Distributable Items and the Maximum Distributable Amount will depend in part on decisions made by the Issuer and other members of the Erste Group relating to their businesses and operations, as well as the management of their capital position. The Issuer and other members of the Erste Group will have no obligation to consider the interests of Holder in connection with their strategic decisions, including in respect of capital management and the relationship among the various members of Erste Group and Erste Group's structure.

The Issuer may decide not to raise capital at a time when it is feasible to do so, even if that would result in the occurrence of a Trigger Event. Moreover, in order to avoid the use of public resources, the Competent Authority may decide that the Issuer should allow a Trigger Event to occur at a time when it is feasible to avoid it.

Holders will not have any claim against the Issuer and other members of the Erste Group relating to decisions that affect the capital position of the Issuer or Erste Group, regardless of whether they result in the occurrence of a Trigger Event. Such decisions could cause Holders to lose all or part of their investment in the Notes.

The Notes may be subject to write down or conversion to equity upon the occurrence of a certain trigger event, which may result in Holders losing some or all of their investment in the Notes (statutory loss absorption).

On 12 June 2014, the Bank Recovery and Resolution Directive ("**BRRD**") has been published.

The stated aim of the BRRD is to provide relevant authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses.

The BRRD requires EU-Member States to transpose the BRRD into national law by 31 December 2014 at the latest and to apply the provisions (including the write-down or conversion of capital instruments) from 1 January 2015, those adopted to implement the bail-in tool shall be applied by EU-Member States from 1 January 2016 at the latest.

The Austrian Recovery and Resolution Act (*Sanierungs- und Abwicklungsgesetz – "**BaSAG**"*) implementing BRRD fully entered into force on 1 January 2015 including the respective provisions relating to the bail-in tool.

The powers provided to "resolution authorities" (in Austria the FMA) include write down and conversion powers to ensure that, *inter alia*, relevant capital instruments fully absorb losses at the point of non-viability (defined below) of the issuing institution and applying the bail-in tool with the objective of restoring the capital of the failing institution to enable it to continue to operate as a going concern. Accordingly, resolution authorities will be required to write down such capital instruments on a permanent basis, or convert them into Common Equity Tier 1 items ("**CET 1**"), at the point of non-viability and before any other resolution tool (except the resolution authority decides to apply the bail-in tool) is made use of (statutory loss absorption). Resolution authorities shall exercise the write-down in relation to statutory loss absorption in a way that results in (i) CET 1 items being reduced first in proportion to the relevant losses and (ii) thereafter, if CET 1 is not sufficient to cover the relevant losses, the principal amount of Additional Tier 1

instruments ("**AT 1**") (such as the Notes) being reduced, (iii) thereafter, if CET 1 and AT 1 are not sufficient to cover the relevant losses, the principal amount of Tier 2 instruments ("**Tier 2**") being reduced; and in case of a bail-in tool also: (iv) thereafter, if CET 1, AT 1 and Tier 2 are not sufficient to cover the relevant losses, other subordinated debt (in accordance with the hierarchy of claims in the normal insolvency proceedings), and (v) if still insufficient, the rest of eligible liabilities including certain senior debt (in accordance with the hierarchy of claims in the normal insolvency proceedings) being reduced down to zero on a permanent basis. When the bail-in tool is applied for the purpose of restoring the capital of the institution, conversion of non-equity instruments into CET 1 items is to be made in the same order.

As safeguard, no creditor shall by use of these measures (either the bail-in tool or the write-down and conversion powers) be in a worse position than in ordinary insolvency proceedings ("no creditor worse off principle").

For the purposes of the statutory loss absorption, the point of non-viability is the point at which the following conditions are met:

1. the competent authority or the resolution authority determines that the institution is failing or likely to fail, i.e.:
 - (a) the conditions for the withdrawal of the authorisation by the competent authority are met or there are objective elements to support a determination that this will be the case in the near future, including but not limited to because the institution has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds;
 - (b) the assets of the institution are or there are objective elements to support a determination that the assets of the institution will, in the near future, be less than its liabilities;
 - (c) the institution is or there are objective elements to support a determination that the institution will, in the near future, be unable to pay its debts or other liabilities as they fall due;
 - (d) extraordinary public financial support is required except when, the extraordinary public financial support takes certain forms in order to remedy a serious disturbance in the economy of a Member State and preserve financial stability; and
2. having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector measures, including measures by an institutional protection scheme, or supervisory action, including early intervention measures or the write down or conversion of relevant capital instruments taken in respect of the institution, would prevent the failure of the institution within a reasonable timeframe; and
3. in case of the application of the bail-in tool, a resolution action is necessary in the public interest.

Any write-down or conversion of all or part of the principal amount of any instrument, including accrued but unpaid interest in respect thereof, in accordance with the bail-in tool respectively the write-down and conversion powers would not constitute an event of default under the terms of the relevant instruments. Consequently, any amounts so written down or converted would be irrevocably lost and the holders of such instruments would cease to have any claims thereunder, regardless whether or not the institution's financial position is restored.

The resolution authorities may also amend or alter the maturity of certain instruments or the amount of interest payable under such instruments, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

Hence, the Notes may be subject to write down or conversion into CET 1 upon the occurrence of the relevant trigger event, which may result in Holders losing some or all of

their investment in the Notes. According to the sequence of write-down and conversion under the BRRD and the BaSAG, the Notes would be subject to any such measure before instruments having a lesser degree of subordination, including Tier 2 would be affected. The exercise of any such power or any suggestion or anticipation of such exercise could, therefore, materially adversely affect the price or value of the Notes.

Besides of potentially being subject to resolution tools as set out above, the Issuer may also be subject to national insolvency proceedings.

Under the EU Savings Directive, if a payment were to be made or collected through a paying agent in a state which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Notes as a result of the imposition of such withholding tax (no gross-up).

Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments, as amended (the "**EU Savings Directive**") obliges EU Member States to provide to the tax authorities of other EU Member States details of payments of interest or similar income paid by a paying agent within its jurisdiction to an individual resident in that other EU Member State, except that originally Austria, Belgium and Luxembourg had instead imposed a withholding system for a transitional period (the ending of such transitional period being dependent upon the conclusion of agreements relating to information exchange with certain other countries). Belgium and Luxembourg in the meantime switched from the withholding system to the exchange of information system. A number of other non-EU countries and territories, including Switzerland, have agreed to adopt measures similar to those contained in the EU Savings Directive (a withholding system in the case of Switzerland) with effect from the adoption of the EU Savings Directive.

Council Directive 2014/48/EU of 24 March 2014 amending Directive 2003/48/EC on taxation of savings income in the form of interest payments broadens the definition of interest income (thereby including, *inter alia*, income from instruments equivalent to debt claims and certain life insurance products) and extends the scope to interest income derived by individuals via certain entities and legal arrangements.

On 18 March 2015 the European Commission published a proposal for a Council Directive repealing Council Directive 2003/48/EC. Pursuant thereto, the EU Savings Directive shall in general be repealed with effect from 1 January 2016. However, pursuant to detailed grandfathering provisions, Austria shall in general continue to apply it until 31 December 2016.

If a payment were to be made or collected through a paying agent in a state which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Notes as a result of the imposition of such withholding tax.

Credit ratings of Notes may not adequately reflect all risks of the investment in such Notes and may be suspended, downgraded or withdrawn which could have an adverse effect on the market value and trading price of the Notes.

A rating of Notes may not adequately reflect all risks of the investment in such Notes. Equally, ratings may be suspended, downgraded or withdrawn. Such suspension, downgrading or withdrawal may have an adverse effect on the market value and trading price of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

The Notes are governed by German law (with the provisions on status being governed by Austrian law), and changes in applicable laws, regulations or regulatory policies may have an adverse effect on the Issuer, the Notes and the Holders.

The Terms and Conditions of the Notes will be governed by German law, except that the provisions on status are governed by Austrian law. Holders should thus note that the

governing law may not be the law of their own home jurisdiction and that the law applicable to the Notes may not provide them with similar protection as their own law. Furthermore, no assurance can be given as to the impact of any possible judicial decision or change to German (and, in relation to the provisions on status, Austrian) law, or administrative practice after the date of this Prospectus.

The statutory presentation period provided under German law will be reduced under the Terms and Conditions applicable to the Notes in which case Holders may have less time to assert claims under the Notes.

Pursuant to the Terms and Conditions of the Notes the regular presentation period of 30 years (as provided in § 801 (1) sentence 1 of the German Civil Code (*Bürgerliches Gesetzbuch – BGB*)) will be reduced. In case of partial or total non-payment of amounts due under the Notes the Holder will have to arrange for the presentation of the relevant Global Note to the Issuer. Due to the abbreviation of the presentation period the likelihood that the Holder will not receive the amounts due to him increases since the Holder will have less time to assert his claims under the Notes in comparison to holders of debt instruments the terms and conditions of which do not shorten the statutory presentation period at all or to a lesser degree than the Terms and Conditions of the Notes.

An Austrian court can appoint a trustee (*Kurator*) for the Notes to exercise the rights and represent the interests of Holders on their behalf in which case the ability of Holders to pursue their rights under the Notes individually may be limited.

Pursuant to the Austrian Notes Trustee Act (*Kuratorenengesetz*), a trustee (*Kurator*) can be appointed by an Austrian court upon the request of any interested party (e.g. a Holder) or upon the initiative of the competent court, for the purposes of representing the common interests of the Holders in matters concerning their collective rights. In particular, this may occur if insolvency proceedings are initiated against the Issuer, in connection with any amendments to the terms and conditions of the Notes or changes relating to the Issuer, or under other similar circumstances. If a trustee is appointed, it will exercise the collective rights and represent the interests of the Holders and will be entitled to make statements on their behalf which shall be binding on all Holders. Where a trustee represents the interests and exercises the rights of Holders, this may conflict with or otherwise adversely affect the interests of individual or all Holders.

1.2.2 Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Holders are exposed to the risk of partial or total inability of the Issuer to make distribution and/or redemption payments under the Notes.

Holders are subject to the risk of a partial or total inability of the Issuer to make distribution and/or redemption payments that the Issuer may, subject to the limitations described in the Terms and Conditions, be obliged to make under the Notes. The worse the creditworthiness of the Issuer, the higher the risk of loss. A materialisation of the credit risk may result in partial or total inability of the Issuer to make distribution and/or redemption payments.

Holders assume the risk that the credit spread of the Issuer widens resulting in a decrease in the price of the Notes.

A credit spread is the margin payable by the Issuer to the holder of an instrument as a premium for the assumed credit risk. Credit spreads are offered and sold as premiums on current risk-free interest rates or as discounts on the price.

Factors influencing the credit spread include, among other things, the creditworthiness and rating of the Issuer, probability of default, recovery rate, remaining term to maturity of the Notes and obligations under any collateralisation or guarantee and declarations as to any preferred payment or subordination. The liquidity situation of the market, the general level of

interest rates, overall economic developments, and the currency, in which the relevant obligation is denominated may also have a negative effect.

Holders are exposed to the risk that the credit spread of the Issuer widens resulting in a decrease in the price of the Notes.

The Holder may be exposed to the risk that due to future money depreciation (inflation), the real yield of an investment may be reduced.

Inflation risk describes the possibility that the value of assets such as the Notes or income therefrom will decrease as inflation reduces the purchasing power of a currency. Inflation causes the rate of return to decrease in value. If the inflation rate exceeds the distribution paid on any Notes (if any) the yield on such Notes will become negative.

There can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. In an illiquid market, a Holder may not be able to sell his Notes at fair market prices.

Application may be made to admit the Programme to the Markets, each of which appears on the list of regulated markets issued by the European Commission. In addition, the Programme provides that Notes may be listed on an alternative market or stock exchange or may not be listed at all.

Regardless of whether the Notes are listed or not, there can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. The fact that the Notes may be listed does not necessarily lead to greater liquidity as compared to unlisted Notes. If the Notes are not listed on any stock exchange, pricing information for such Notes may, however, be more difficult to obtain, which may adversely affect the liquidity of the Notes. In an illiquid market, a Holder might not be able to sell its Notes at any time at fair market prices or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. Generally, these types of Notes would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market value of Notes. The possibility to sell the Notes might additionally be restricted by country-specific reasons.

There is a risk that trading in the Notes will be suspended, interrupted or terminated, which may have an adverse effect on the price of such Notes.

If the Notes are listed on one (or more) markets (which may be regulated or unregulated), the listing of such Notes may – depending on the rules applicable to such stock exchange - be suspended or interrupted by the respective stock exchange or a competent regulatory authority upon the occurrence of a number of reasons, including violation of price limits, breach of statutory provisions, occurrence of operational problems of the stock exchange or generally if deemed required in order to secure a functioning market or to safeguard the interests of Holders. Furthermore, trading in the Notes may be terminated, either upon decision of the stock exchange, a regulatory authority or upon application by the Issuer. Holders should note that the Issuer has no influence on trading suspension or interruptions (other than where trading in the Notes is terminated upon the Issuer's decision) and that Holders in any event must bear the risks connected therewith. In particular, Holders may not be able to sell their Notes where trading is suspended, interrupted or terminated, and the stock exchange quotations of such Notes may not adequately reflect the price of such Notes. Finally, even if trading in Notes is suspended, interrupted or terminated, Holders should note that such measures may neither be sufficient nor adequate nor in time to prevent price disruptions or to safeguard the Holders' interests; for example, where trading in Notes is suspended after price-sensitive information relating to such Notes has been published, the price of such Notes may already have been adversely affected. All these risks would, if they materialise, have a material adverse effect on the Holders.

Holders are exposed to the risk of an unfavourable development of market prices of their Notes which materialises if the Holder sells the Notes.

The development of market prices of the Notes depends on various factors, such as changes of market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the relevant type of Instrument. The Holder is therefore exposed to the risk of an unfavourable development of market prices of its Notes which materialises if the Holder sells the Notes. Holders should also be aware that Notes may be issued at a price higher than the market price at issue and/or the redemption amount. This will increase the impact that unfavourable market price developments may have on the Notes. If the Holder decides to hold the Notes, the Notes will be redeemed at the amount set out in the relevant Final Terms.

Exchange rate risks may occur, if a Holder's financial activities are denominated in a currency or currency unit other than the Specified Currency in which the Issuer will make principal and distribution payments. Furthermore, government and monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate.

The Issuer will pay principal and distributions on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if a Holder's financial activities are denominated principally in a currency or currency unit (the "**Holder's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Holder's Currency) and the risk that authorities with jurisdiction over the Holder's Currency may impose or modify exchange controls. An appreciation in the value of the Holder's Currency relative to the Specified Currency would decrease (i) the Holder's Currency-equivalent yield on the Notes, (ii) the Holder's Currency-equivalent value of the principal payable on the Notes, and (iii) the Holder's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, Holders may receive less distributions or principal than expected, or no distributions or principal.

If a loan or credit is used to finance the acquisition of the Notes, the loan or credit may significantly increase the amount of a loss.

If a loan is used to finance the acquisition of the Notes by a Holder and the Issuer is subsequently unable to repay any or all of the principal and distributions otherwise payable under the Notes, or if the trading price diminishes significantly, the Holder may not only have to face a potential loss on its investment, but it will also have to repay the loan and pay interest thereon. A loan may therefore significantly increase the amount of a potential loss. Holders should not assume that they will be able to repay the loan or pay interest thereon from the profits of a transaction. Instead, Holders should assess their financial situation prior to an investment, as to whether they are able to pay interest on the loan, repay the loan on demand, and that they may suffer losses instead of realising gains.

Incidental costs related in particular to the purchase and sale of the Notes may have a significant impact on the profit potential of the Notes.

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) may be incurred in addition to the purchase or sale price of the Notes. These incidental costs may significantly reduce or eliminate any profit from holding the Notes. Credit institutions as a rule charge commissions which are either fixed minimum commissions or *pro-rata* commissions, depending on the order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Holders may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of Notes (direct costs), investors must also take into account any follow-up costs (such as custody fees). Investors should

inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Potential investors should note that the purchase price applicable to the Notes on a given day will often include a bid-ask spread so that the purchase price will be higher than the price at which Holders are able to sell any such Notes on that given day.

Holders have to rely on the functionality of the relevant clearing system.

The Notes are purchased and sold through different clearing systems, such as Clearstream Banking S.A., Euroclear Bank SA/NV or OeKB CSD GmbH. The Issuer does not assume any responsibility as to whether the Notes are actually transferred to the securities portfolio of the relevant investor. Holders have to rely on the functionality of the relevant clearing system.

Holders should note that the applicable tax regime may change to the disadvantage of the Holders and therefore, the tax impact of an investment in the Notes should be carefully considered.

Distribution payments on Notes, or profits realised by a Holder upon the sale or repayment of Notes, may be subject to taxation in its home jurisdiction or in other jurisdictions in which it is required to pay taxes. Prospective investors should contact their own tax advisors for advice on the tax impact of an investment in the Notes. Furthermore, the applicable tax regime may change to the disadvantage of the investors in the future.

Legal investment considerations may restrict certain investments, in particular as the Notes are subordinated and loss absorbing instruments

The investment activities of certain Holders are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Furthermore, the Terms and Conditions of the Notes may contain certain exclusions or restrictions of the Issuer's or other parties' (e.g. the Calculation Agent, the Paying Agent etc.) liability for negligent acts or omissions in connection with the Notes, which could result in the Holders not being able to claim (or only to claim partial) indemnification for damage that has been caused to them. Holders should therefore inform themselves about such exclusions or restrictions of liability and consider whether these are acceptable for them.

The Issuer is exposed to conflicts of interest which might adversely affect the Holders.

The Issuer may from time to time act in other capacities with regard to the Notes, such as calculation agent, which allows the Issuer to make calculations in respect of the Notes (e.g. the amount of distributions to be paid) which are binding for the Holders. This fact could generate conflicts of interest and may affect the value of the Notes.

The Issuer may use all or some of the proceeds received from the sale of the Notes to enter into hedging transactions which may affect the value of the Notes. However, it cannot be assured that the Issuer's hedging activities will not affect the value of the Notes.

1.2.3 Risks related to FATCA

Payments, including principal, on the Notes to Holders and beneficial owners of interests in the Notes that: (i) fail to comply with tax certification or identification requirements (including providing a waiver of any laws prohibiting the disclosure of such information to a taxing authority); or (ii) are financial institutions that fail to comply with certain provisions commonly referred to as the U.S. Foreign Account Tax Compliance Act or any analogous provisions of non-U.S. laws, including any voluntary agreements entered into with a taxing authority pursuant thereto, may be subject to a withholding tax of 30%. The Issuer will not be obligated to make any additional payments in respect of any such amounts withheld by the Issuer or an intermediary paying agent.

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), an agreement entered into with the U.S. Internal Revenue Service pursuant to such sections of the Code, or an intergovernmental agreement between the United States and another jurisdiction in furtherance of such sections of the Code (including any non-US laws implementing such an intergovernmental agreement) (collectively referred to as "**FATCA**") imposes a new reporting regime and potentially a 30% withholding tax with respect to certain payments to: (i) any non-US financial institution (a foreign financial institution or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors, unless otherwise exempt from or deemed to be in compliance with FATCA, or, where applicable, the FFI complies with any local laws enacted in respect of an intergovernmental agreement with the United States; and (ii) any investor that (unless otherwise exempted) does not provide certain tax certifications or ownership information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" (or, in certain cases, a waiver of any laws prohibiting disclosure of such information to a taxing authority) (a "**Recalcitrant Holder**"). There can be no assurances that the Issuer, a financial intermediary, or the Notes will not be subject to the requirements imposed under FATCA.

The United States has negotiated several intergovernmental agreements (each, an "**IGA**") with other jurisdictions, including Austria, to facilitate the implementation of FATCA. FFIs in a jurisdiction which has entered into an IGA are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make on securities that do not make payments of U.S. source income such as the Notes. Austria and the United States have entered into a "Model 2" IGA, pursuant to which an Austrian FFI can be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Under the terms of the IGA with Austria (the "**Austrian IGA**"), an Austrian FFI is required to register with the IRS and agree to comply with the terms of FATCA, as modified by the Austrian IGA. Under the IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to the IRS. As at the date of this Prospectus, the Issuer has registered with the IRS and certified its status as a "Reporting Model 2 FFI" and, accordingly, does not expect withholding on payments to it. Similarly, a financial institution, broker, agent or other intermediary (together, the "**Intermediaries**") through which a beneficial owner of Notes holds its interests may also enter into a FATCA Agreement to avoid the U.S. withholding tax.

The Issuer expects to comply with FATCA, including any applicable IGAs. There is no assurance, however, that the Issuer will always be able to comply with the relevant requirements or that it or a financial intermediary through which payments on the Notes are made would not be required to deduct FATCA withholding from payments on the Notes.

In the event that the Issuer or an Intermediary is required to deduct a withholding tax on payments on a Note in compliance with FATCA, no additional amounts will be payable to the Holder or beneficial owner of a Note under the Terms and Conditions of the Notes.

FATCA is particularly complex and the full extent of its application to the Issuer, Intermediaries and the Notes is uncertain. The Issuer's ability to avoid the withholding taxes

under FATCA may not be within its control. In addition, there can be no assurance that payments on an Instrument will not be subject to withholding under FATCA. The above description is based in part on regulations, official guidance and IGAs, all of which are subject to change or may be implemented in a materially different form. Accordingly, potential investors should consult their own tax advisers about how FATCA may affect an investment in the Notes.

2. GENERAL INFORMATION

Listing and admission to trading. Application may be made to admit the Programme and/or Notes to the Markets or as otherwise specified in the relevant Final Terms and references to listing shall be construed accordingly. As specified in the relevant Final Terms, a Series may, but need not be, listed on the Markets or any other market or stock exchange.

Approvals. The Issuer has obtained all necessary consents, approvals and authorisations in Austria in connection with the issue and performance of Notes. Tranches of Notes will be issued under the Programme in accordance with internal approvals, as in force from time to time, provided that, unless otherwise specified in the Final Terms, issues of Notes from 1 January 2015 until 31 December 2015 will be made in accordance with a resolution of the Management Board of the Issuer passed on 5 December 2014 and by a resolution of the Supervisory Board of the Issuer passed on 11 December 2014, and issues of Notes in 2016 will be made in accordance with resolutions of the Management Board, the Risk Management Committee of the Supervisory Board (if any) and the Supervisory Board of the Issuer which are expected to be adopted in December 2015.

Significant and material adverse changes. Except as disclosed under "6.5 *Current regulatory topics*" on page 112, and "6.7 *Recent Developments*" on page 114 of this Prospectus, there has been no significant change in the financial position of the Erste Group since 30 June 2015 and no material adverse change in the prospects of the Issuer since 31 December 2014.

ISIN. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

Currencies. Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency if the Issuer and the relevant Dealers so agree.

Audit and Auditors' Reports. Sparkassen-Prüfungsverband Prüfungsstelle (statutory auditor) at Grimmelshausengasse 1, A-1030 Vienna, and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (a member of "Kammer der Wirtschaftstreuhänder Österreich") at Wagramer Straße 19, A-1220 Vienna, have audited the German language consolidated financial statements of Erste Group Bank as of 31 December 2014 and 2013 and issued unqualified audit opinions for the Audited Consolidated Financial Statements 2014 (dated 27 February 2015) and 2013 (dated 28 February 2014). The financial year of Erste Group Bank is the calendar year.

Agents. The Issuer may, subject to the terms of the Agency Agreement dated 14 October 2015, from time to time, remove the Fiscal Agent and/or any paying agent and/or may appoint other or additional paying agents, as set out in the Final Terms. Such other paying agents will be appointed in accordance with applicable statutory requirements and/or the rules of the stock exchanges where Notes of the respective Series (as defined in the Terms and Conditions) are listed, and will either be banks or other entities licensed in the EEA or another market where Erste Group is active to act as paying agents.

Selling restrictions. Selling restrictions apply for the United States, the European Economic Area, the United Kingdom, Hong Kong, The People's Republic of China, Japan and Singapore, and such other restrictions as may be required in connection with a particular issue. See "12. *Subscription and Sale*". The Notes to be offered and sold will be subject to the restrictions of Category 2 for the purposes of Regulation S under the Securities Act. Notes treated as issued in bearer form for U.S. federal income tax purposes having a maturity of more than one year will be subject to the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**") and will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor U.S. Treasury Regulation section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "**D Rules**") unless: (i) Part B of the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor U.S. Treasury Regulation section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "**C Rules**"); or (ii) the Notes are issued

other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration-required obligations" under TEFRA, which circumstances will be referred to in Part B of the relevant Final Terms as a transaction to which TEFRA is not applicable.

Clearing systems. Euroclear, Clearstream, Luxembourg and, in relation to any Tranche such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer will be the clearing system. Notes may be cleared through OeKB CSD (and may be settled through Euroclear and Clearstream, Luxembourg).

Restrictions on the free transferability of the securities. The Notes are freely transferable.

3. TERMS AND CONDITIONS OF THE NOTES

INTRODUCTION

The Issuer and the relevant Dealer will agree on the terms and conditions applicable to each particular Tranche of Notes (the "**Conditions**"). These Conditions will be constituted by the relevant set of terms and conditions set out in this section entitled "*Terms and Conditions of the Notes*" (the "**Terms and Conditions**") as further specified by the Final Terms (the "**Final Terms**") as described below.

A separate set of Terms and Conditions shall apply to each type of Notes, as set out below. The Final Terms shall provide for the Issuer to choose among the following Options:

Option I – Terms and Conditions for Notes with a fixed to fixed distribution rate;

Option II – Terms and Conditions for Notes with a fixed to floating distribution rate.

The Final Terms shall determine whether Option I or Option II and whether certain further options contained in Option I or Option II shall be applicable to the individual issue of Notes by replicating the relevant provisions of, and completing the relevant placeholders set out in, Option I or Option II in the Final Terms. The replicated and completed provisions of the set of Terms and Conditions alone shall constitute the Conditions (the "**Integrated Conditions**"). The Integrated Conditions shall be attached to each global note representing the Notes of the relevant Tranche.

**[OPTION I – TERMS AND CONDITIONS FOR NOTES WITH A FIXED TO FIXED
DISTRIBUTION RATE**

**§ 1
CURRENCY, DENOMINATION, FORM,
CERTAIN DEFINITIONS**

(1) *Currency, Denomination.* This tranche (the "**Tranche**") of subordinated notes (the "**Notes**") is being issued by Erste Group Bank AG (the "**Issuer**") in **[insert specified currency]** (the "**Specified Currency**") in the aggregate principal amount of **[insert specified currency and aggregate principal amount]** (in words: **[insert aggregate principal amount in words]**) in the denomination of **[insert specified currency and specified denomination]** (the "**Specified Denomination**").

(2) *Form.* The Notes are being issued in bearer form.

[In case of Notes which are exclusively represented by a Permanent Global Note insert:

(3) *Permanent Global Note.* The Notes are represented by a permanent global note (the "**Permanent Global Note**" or the "**Global Note**") without coupons; the claim for distribution payments under the Notes is represented by the Permanent Global Note. The Permanent Global Note shall be signed by authorised representatives of the Issuer and shall be authenticated by or on behalf of the Fiscal Agent. Definitive Notes and coupons will not be issued.]

[In case of Notes which are initially represented by a Temporary Global Note, which will be exchangeable for a Permanent Global Note, insert:

(3) *Temporary Global Note – Exchange for Permanent Global Note.*

(a) The Notes are initially represented by a temporary global note (the "**Temporary Global Note**") without coupons. The Temporary Global Note will be exchangeable for Notes in the Specified Denomination represented by a permanent global note (the "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**") without coupons; any claim for distribution payments under the Notes is represented by the relevant Global Note. The Global Notes shall each be signed by authorised representatives of the Issuer and shall each be authenticated by or on behalf of the Fiscal Agent. Definitive Notes and coupons will not be issued.

(b) The Temporary Global Note shall be exchangeable for the Permanent Global Note in the form and subject to the conditions provided in subparagraph (a) above from a date (the "**Exchange Date**") not earlier than 40 calendar days after the issue date of the Temporary Global Note. Such exchange shall only be made to the extent that certifications have been delivered to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note is (are) not (a) U.S. person(s) (other than certain financial institutions or certain persons holding Notes through such financial institutions). Payment of distributions on Notes represented by a Temporary Global Note will be made only after delivery of such certifications. A separate certification shall be required in respect of each such payment of distributions. Any such certification received on or after the 40th calendar day after the issue date of the Temporary Global Note will be treated as a request to exchange such Temporary Global Note pursuant to subparagraph (b) of this § 1 (3). Any securities delivered in exchange for the Temporary Global Note shall be delivered only outside of the United States (as defined in § 6 (5)).]

(4) *Clearing System.* The Global Note(s) will be kept in custody by or on behalf of a Clearing System until all obligations of the Issuer under the Notes have been satisfied. "**Clearing System**" means **[if more than one Clearing System insert: each of]** [OeKB CSD GmbH, Strauchgasse 1-3, A-1010 Vienna, Austria ("**OeKB CSD**") [.] [and] [Clearstream Banking, société anonyme, Luxembourg, 42 Avenue J.F. Kennedy, LUX-1855 Luxembourg, Grand Duchy of Luxembourg ("**CBL**") and Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium ("**Euroclear**" and, together with CBL, the "**ICSDs**") [.] [and] **[specify other Clearing System]** and any successor in such capacity. **[In case of Notes to be kept in custody on behalf of the ICSDs insert:** The Notes shall be kept in custody by a common

depository on behalf of both ICSDs.]

(5) *Holder of Notes*. "**Holder**" means any holder of a proportionate co-ownership or other comparable right in the Global Note which may be transferred to a new Holder in accordance with the provisions of the Clearing System.

(6) *Business Day*. "**Business Day**" means a calendar day (other than a Saturday or a Sunday) on which [*insert, as applicable*: commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in [*insert all relevant financial centres*]] [*insert, as applicable*: [and] the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("**TARGET**") is open].

§ 2 STATUS

(1) *Ranking*. The Notes constitute direct, unsecured and subordinated obligations of the Issuer and constitute AT 1 Instruments.

In the insolvency or liquidation of the Issuer, the obligations of the Issuer under the Notes will rank:

- (i) junior to all present or future (a) unsubordinated instruments or obligations of the Issuer; and (b) (x) obligations under any Tier 2 Instruments; and (y) all other instruments or obligations of the Issuer ranking or expressed to rank subordinated to the unsubordinated obligations of the Issuer (other than instruments or obligations ranking or expressed to rank *pari passu* with or subordinated to the Notes);
- (ii) *pari passu* (a) among themselves; (b) with all present or future obligations under any other AT 1 Instruments; and (c) with all other present or future instruments or obligations ranking or expressed to rank *pari passu* with the Notes, including the Existing Hybrid Instruments (other than Existing Hybrid Instruments ranking or expressed to rank senior to the Notes); and
- (iii) senior to all present or future (a) ordinary shares of the Issuer and any other CET 1 Instruments; and (b) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank (x) subordinated to the obligations of the Issuer under the Notes or (y) *pari passu* with the ordinary shares of the Issuer and any other CET 1 Instruments.

Where:

"**AT 1 Instruments**" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Additional Tier 1 instruments pursuant to Article 52 of the CRR, including any capital instruments that qualify as Additional Tier 1 instruments pursuant to transitional provisions under the CRR.

"**CET 1 Instruments**" means any capital instruments of the Issuer that qualify as Common Equity Tier 1 instruments pursuant to Article 28 of the CRR.

"**CRR**" means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*), as amended from time to time.

"**Existing Hybrid Instruments**" means the following (directly or indirectly issued) capital instruments of the Issuer, including any guarantees of the Issuer in relation to obligations under such instruments: [(i) the Series H Non-cumulative Non-voting Preference Shares issued by Finance (Jersey) (4) Limited (ISIN: XS0188305741); (ii) the Series J 5.25% Non-cumulative Non-voting Preference Shares issued by Erste Finance (Jersey) (6) Limited (ISIN: XS0215338152); and (iii) the Non-cumulative Fixed/Floating Rate Perpetual Subordinated Notes issued by Erste Capital Finance (Jersey) Tier 1 PC under the €1,000,000,000 Perpetual Subordinated Debt Issuance Programme (ISIN: XS0268694808)] [*insert other*].

"Tier 2 Instruments" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Tier 2 instruments pursuant to Article 63 of the CRR, including any capital instruments that qualify as Tier 2 instruments pursuant to transitional provisions under the CRR.

For the avoidance of doubt, Holders will not participate in any reserves of the Issuer in case of its liquidation.

The rights of the Holders of the Notes to payment of principal on the Notes are at any time limited to a claim for the prevailing Current Principal Amount (as defined below).

(2) *No Negative Equity and Waiver of Petition.* The Holders will be entitled to payments, if any, under the Notes only once any negative equity (*negatives Eigenkapital* within the meaning of § 225(1) of the Austrian Commercial Code (*Unternehmensgesetzbuch - UGB*)) has been removed (*beseitigt*) or if, in the event of the liquidation of the Issuer, all other creditors (other than creditors whose claims rank or are expressed to rank *pari passu* or junior to the Notes) of the Issuer have been satisfied first.

No insolvency proceedings against the Issuer are required to be opened in relation to the obligations of the Issuer under the Notes. The Notes do not contribute to a determination that the liabilities of the Issuer exceeds its assets; therefore the obligations of the Issuer under the Notes, if any, will not contribute to the determination of over-indebtedness (*Überschuldung*) in accordance with § 67(3) of the Austrian Insolvency Code (*Insolvenzordnung - IO*).

(3) *No Set-off or Security.* Claims of the Issuer are not permitted to be set-off against repayment obligations of the Issuer under these Notes, and no contractual collateral may be provided by the Issuer or any third person for the liabilities constituted by the Notes. The Notes are neither secured nor subject to a guarantee that enhances the seniority of the claims under the Notes. The Notes are not subject to any arrangement, contractual or otherwise, that enhances the seniority of the claims under the Notes in insolvency or liquidation. No subsequent agreement may limit the subordination pursuant to this § 2 or amend the perpetuity of the Notes.

§ 3 DISTRIBUTIONS

(1) *Distribution Rates and Distribution Payment Dates.* The Notes shall bear distributions on the Current Principal Amount (as defined below) at the rate of **[insert First Rate of Distributions]** per cent. *per annum* (the "**First Rate of Distributions**") from and including **[insert Distribution Commencement Date]** (the "**Distribution Commencement Date**") to, but excluding, **[insert First Reset Date]** (the "**First Reset Date**") (the "**First Period**") and thereafter at the relevant Reset Rate of Distributions (as determined according to § 3 (4)) from and including each Reset Date to but excluding the next following Reset Date. **[In case of a short or long first distribution period insert:** With the exception of the first payment of distributions, distributions] **[in case of Notes which have only regular fixed distribution payments insert:** Distributions] shall be scheduled to be paid **[in case of quarterly fixed distribution payments insert:** quarterly] **[in case of semi-annual fixed distribution payments insert:** semi-annually] **[in case of annual fixed distribution payments insert:** annually] in arrear on **[insert Distribution Payment Dates]** in each year (each such date, a "**Distribution Payment Date**"), commencing on **[insert first Distribution Payment Date]**. Distributions will fall due in accordance with the provisions set out in § 4 (4).

(2) *Calculation of Amount of Distributions.* If the amount of distributions scheduled to be paid under the Notes is required to be calculated for any period of time in the First Period such amount of distributions shall be calculated by applying the First Rate of Distributions to the Current Principal Amount and if the amount of distributions payable under the Notes is required to be calculated for any period of time in any Reset Period such amount of distributions shall be calculated by applying the applicable Reset Rate of Distributions to the Current Principal Amount, in each case multiplying such sum by the applicable Day Count Fraction (as defined below), and rounding the resultant figure to the nearest sub-unit of the Specified Currency, half of such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention.

(3) *Day Count Fraction*. "**Day Count Fraction**" means, in respect of the calculation of an amount of distributions on any Note for any period of time (the "**Calculation Period**"):

[In case Actual/Actual (ICMA) applies, insert:

1. if the Calculation Period is equal to or shorter than the Determination Period during which the Calculation Period ends, the number of calendar days in such Calculation Period divided by the product of (x) the number of calendar days in such Determination Period and (y) the number of Determination Dates (as specified below) that would occur in one calendar year; or
2. if the Calculation Period is longer than the Determination Period during which the Calculation Period ends, the sum of
 - (A) the number of calendar days in such Calculation Period falling in the Determination Period in which the Calculation Period begins divided by the product of (x) the number of calendar days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of calendar days in such Calculation Period falling in the next Determination Period divided by the product of (x) the number of calendar days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year.

"**Determination Period**" means the period from, and including, a Determination Date to, but excluding, the next Determination Date (including, where the Distribution Commencement Date is not a Determination Date, the period commencing on the first Determination Date prior to the Distribution Commencement Date, and where the final Distribution Payment Date is not a Determination Date, the first Determination Date falling after the final Distribution Payment Date, as the case may be).

"**Determination Date**" means [●] in each year. The number of Determination Dates per calendar year is **[insert number of regular fixed distribution payment dates per calendar year].**

[In case Actual/Actual (ISDA) or Actual/365 applies, insert: the actual number of calendar days in the Calculation Period divided by 365 (or, if any calculation portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of calendar days in that portion of the Calculation Period falling in a leap year divided by 366 and (2) the actual number of calendar days in that portion of the Calculation Period falling in a non-leap year divided by 365).]

[In case Actual/365 (Fixed) applies, insert: the actual number of calendar days in the Calculation Period divided by 365.]

[In case Actual/360 applies, insert: the actual number of calendar days in the Calculation Period divided by 360.]

[In case 30/360, 360/360 or Bond Basis applies, insert: the number of calendar days in the Calculation Period divided by 360, the number of calendar days to be calculated on the basis of a year of 360 calendar days with twelve 30-calendar day months (unless (1) the last calendar day of the Calculation Period is the 31st calendar day of a month but the first calendar day of the Calculation Period is a calendar day other than the 30th or 31st calendar day of a month, in which case the month that includes that last calendar day shall not be considered to be shortened to a 30-calendar day month, or (2) the last calendar day of the Calculation Period is the last calendar day of the month of February in which case the month of February shall not be considered to be lengthened to a 30-calendar day month).]

[In case 30E/360 or Eurobond Basis applies, insert: the number of calendar days in the Calculation Period divided by 360 (the number of calendar days to be calculated on the basis of a year of 360 calendar days with twelve 30-calendar day months, without regard to the date of the first calendar day or last calendar day of the Calculation Period unless, in the case of the final Calculation Period, the date of redemption is the last calendar day of the month of February, in which case the month of February shall not be considered to be lengthened to a

30- calendar day month).]

(4) *Determination of the Reset Rate of Distributions.*

(a) *Reset Rate of Distributions.* The rate of distributions for each Reset Period (each a "**Reset Rate of Distributions**") shall be the **[insert number, term and name of relevant swap rate]** *per annum* (the "**Reference Rate**") **[in case of a Margin insert: [plus] [minus]** the Margin (as defined below)].

Such Reference Rate in respect of each Reset Period shall be the swap rate (expressed as a percentage rate *per annum*) for swap transactions in the Specified Currency with a term **[of insert relevant term]** [equalling the term of the Reset Period starting on the relevant Reset Date] which appears on the Screen Page (as defined below) as of **[insert relevant time]** (**[insert relevant financial centre]** time) on the relevant Reset Determination Date (as defined below), all as determined by the Calculation Agent (as specified in § 6 (1)).

[In case of a Margin insert: "Margin" means **[insert credit spread as of the pricing date (which shall not include any increase of the rate of distribution or other incentive to redeem the Notes)]** per cent. *per annum*.]

"**Reset Date**" means the First Reset Date and [each **[insert term]** anniversary thereof for as long as the Notes remain outstanding] **[insert other Reset Dates]**.

"**Reset Period**" means the period from, and including, a Reset Date to, but excluding, the next following Reset Date.

"**Reset Determination Date**" means the [first] [second] **[insert other relevant number of Business Days]** Business Day [(as defined in § 1 (6))] prior to any Reset Date. **[if a definition is required, which differs from the "Business Day" definition applicable in § 1, insert:** For the purposes of this § 3 (4) only, "**Business Day**" means a calendar day (other than a Saturday or a Sunday **[in case the Reference Rate is the USD-Swap Rate, insert:** or a day on which the Securities Industry and Financial Markets Association (or any successor thereto) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities)] [,] [,] **[if applicable, insert:** on which **[in case TARGET shall be open, insert:** the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("**TARGET**") is open] **[and]** commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in **[insert relevant financial centres]**].

"**Screen Page**" means **[insert relevant Screen Page]** or the successor page displayed by the same information provider or any other information provider nominated by the Calculation Agent as the replacement information provider for the purposes of displaying the Reference Rate.

If the Screen Page is unavailable or if the Reference Rate does not appear on the Screen Page as at such time on the relevant Reset Determination Date, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its mid-market swap rate (expressed as a percentage rate *per annum*) at approximately **[insert relevant time]** (**[insert relevant financial centre]** time) on the relevant Reset Determination Date. "**Mid-market swap rate**" means the mean of the bid and offered rates for the fixed leg of a fixed-for-floating rate swap transaction in the Specified Currency where the floating leg is equivalent to [the applicable Reference Rate] **[insert other rate]** *per annum*, which appears on **[insert relevant screen page]** (or the successor page displayed by the same information provider or any other information provider nominated by the Calculation Agent as the replacement information provider for the purposes of displaying the [applicable Reference Rate] **[insert other rate]**).

If three or more of the Reference Banks provide the Calculation Agent with such rates, the Reference Rate for the relevant Reset Period shall be deemed to be the arithmetic mean (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards) of such rates eliminating the highest rate (or, in the event of equality, one of the highest) and the lowest rate (or, in the event of equality, one of the lowest),

all as determined by the Calculation Agent.

If the Reference Rate cannot be determined in accordance with the foregoing provisions of this paragraph, the Reference Rate for the relevant Reset Period shall be deemed to be the rate determined by the Calculation Agent in its reasonable discretion (§ 315 of the German Civil Code; the Calculation Agent shall take general market practice into account when determining such rate.

"German Civil Code" means the German Civil Code (*Bürgerliches Gesetzbuch - BGB*), as amended from time to time.

"Reference Banks" means [*insert relevant number*] major banks in the [*if the Reference Rate is not a Euro swap rate, insert relevant financial centre*] interbank market [*if the Reference Rate is a Euro swap rate, insert: of the Euro-zone interbank market*].

[*If the Reference Rate is a Euro swap rate, insert: "Euro-zone"* means the region comprised of those member states of the European Union that have adopted, or will have adopted from time to time, the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992), the Amsterdam Treaty of 2 October 1997 and the Treaty of Lisbon of 13 December 2007, as further amended from time to time.]

(b) *Notification of Reset Rate of Distributions.* The Calculation Agent will cause the Reset Rate of Distributions to be notified to the Issuer, any stock exchange on which the Notes are from time to time listed (if required by the rules of such stock exchange) and to the Holders in accordance with § 10 as soon as possible after its determination.

(c) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this § 3 by the Calculation Agent shall (in the absence of wilful default, bad faith, inequitableness or manifest error) be binding on the Issuer, the Fiscal Agent, the Paying Agents and the Holders and, in the absence of the aforesaid, no liability to the Issuer, the Fiscal Agent, the Paying Agents or the Holders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(5) *Default Distributions.* The Notes shall cease to bear distributions from the expiry of the calendar day preceding the due date for redemption (if the Notes are redeemed). If the Issuer fails to redeem the Notes when due, distributions shall continue to accrue on the Current Principal Amount of the Notes from and including the due date for redemption to but excluding the date of actual redemption of the Notes at the default rate of distributions established by law. This does not affect any additional rights that might be available to the Holders.

(6) *Cancellation of Distributions.* The Issuer, at its full discretion, may, at all times cancel, in whole or in part, any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date for an unlimited period and on a non-cumulative basis. The Issuer may use such cancelled payments without restrictions to meet its obligations as they fall due. If the Issuer makes use of such right, it shall give notice to the Holders without undue delay and in any event no later than on the Distribution Payment Date.

Without prejudice to such full discretion of the Issuer, any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date shall be cancelled, in whole or in part, if and to the extent:

- (i) the distribution payment scheduled to be paid together with any further Relevant Distributions would exceed the available Distributable Items, provided that, for such purpose, the available Distributable Items shall be increased by an amount equal to what has been accounted for as expenses for payments of interest, dividends or distributions on Tier 1 Instruments (including payments of distributions on the Notes) in the calculation of the profit (*Gewinn*) on which the available Distributable Items are based;
- (ii) the Competent Authority orders the relevant distribution payment scheduled to be paid

to be cancelled in whole or in part; or

- (iii) on the relevant Distribution Payment Date such distribution payment aggregated with any other distributions of the kind referred to in § 24(2) of the Austrian Banking Act (implementing Article 141(2) of the CRD IV in Austria) would not be in compliance with the restrictions relating to the Maximum Distributable Amount.

Any distribution payment so cancelled will be non-cumulative and will be cancelled definitively and no payments will be made nor will any Holder be entitled to receive any payment or indemnity in respect thereof. Any such cancellation of distributions does not constitute an event of default of the Issuer and imposes no restrictions on the Issuer.

Where:

"Austrian Banking Act" means the Austrian Banking Act (*Bankwesengesetz – BWG*), as amended from time to time.

"Competent Authority" means the competent authority pursuant to Article 4(1)(40) of the CRR which is responsible to supervise the Issuer and/or the Erste Group.

"CRD IV" means the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (*Capital Requirements Directive IV*), as implemented in Austria and as amended from time to time.

"Distributable Items" means in respect of any payment of distributions on the Notes the distributable items as defined in Article 4(1)(128) of the CRR in respect of each financial year of the Issuer, as at the end of the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date for which such Relevant Financial Statements are available, all as determined in accordance with the accounting principles applied by the Issuer and as derived from the most recent Relevant Financial Statements.

"Erste Group" means the Issuer and its consolidated Subsidiaries.

"Maximum Distributable Amount" means any maximum distributable amount (*maximal ausschüttungsfähiger Betrag*) relating to the Issuer and/or the Erste Group, as the case may be, that may be required to be calculated in accordance with § 24(2) of the Austrian Banking Act (implementing Article 141(2) of the CRD IV in Austria).

"Relevant Distributions" means the sum of (i) any payments of distributions on the Notes made or scheduled to be made by the Issuer in the relevant financial year of the Issuer; and (ii) any payments of interest, dividends or distributions made or scheduled to be made by the Issuer on any other Tier 1 Instruments in the relevant financial year of the Issuer, and (iii) the amount of any Write-up (as defined below) in the relevant financial year, if any.

"Relevant Financial Statements" means (i) the audited (*geprüft*) and adopted (*festgestellt*) unconsolidated annual financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer and accounting regulations then in effect, for the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date, or (ii) if such audited and adopted unconsolidated annual financial statements of the Issuer are not available at the relevant Distribution Payment Date, unaudited unconsolidated pro forma financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer in relation to its unconsolidated annual financial statements and accounting regulations then in effect in relation to the Issuer's unconsolidated annual financial statements.

"Subsidiary" means any subsidiary of the Issuer pursuant to Article 4(1)(16) of the CRR.

"Tier 1 Instruments" means (i) the CET 1 Instruments; (ii) the AT 1 Instruments; and (iii) any other instruments or obligations of the Issuer ranking *pari passu* as regards payment of interest, dividends or distributions with CET 1 Instruments or AT 1 Instruments.

§ 4 PAYMENTS

(1) (a) *Payment of Principal.* Payment of principal on the Notes shall be made, subject to paragraph (2) below, to the Clearing System or to its order for credit to the accounts of the

relevant accountholders of the Clearing System.

(b) *Payment of Distributions.* Payment of distributions on the Notes shall be made, subject to § 3 (6) above and paragraph (2) below, to the Clearing System or to its order for credit to the accounts of the relevant accountholders of the Clearing System **[in case of distribution payments on a Temporary Global Note insert:]**, and in case of payment of distributions on Notes represented by a Temporary Global Note, upon due certification as provided for in § 1 (3) (b)].

(2) *Manner of Payment.* Subject to applicable fiscal and other laws and regulations, payments of amounts due in respect of the Notes shall be made in the Specified Currency.

[In case of Notes whose Specified Currency is not Euro, insert: If the Issuer determines that it is impossible to make payments of amounts due on the Notes in freely negotiable and convertible funds on the relevant due date for reasons beyond its control or that the Specified Currency or any successor currency provided for by law (the "**Successor Currency**") is no longer used for the settlement of international financial transactions, the Issuer may fulfil its payment obligations by making such payments in Euro on the relevant due date on the basis of the Applicable Exchange Rate. Holders shall not be entitled to further interest or any additional amounts as a result of such payment. The "**Applicable Exchange Rate**" shall be (i) (if such exchange rate is available) the exchange rate of Euro against the Specified Currency or the Successor Currency (if applicable) determined and published by the European Central Bank for the most recent calendar day falling within a reasonable period of time prior to the relevant due date, or (ii) (if such exchange rate is not available) the exchange rate of Euro against the Specified Currency or the Successor Currency (if applicable) which the Fiscal Agent has calculated as the arithmetic mean of offered rates concerning the Specified Currency or the Successor Currency (if applicable) quoted to the Fiscal Agent by four leading banks operating in the international foreign exchange market for the most recent calendar day falling within a reasonable (as determined by the Fiscal Agent in its reasonable discretion (§ 315 of the German Civil Code)) period of time prior to the relevant due date, or (iii) (if such exchange rate is not available) the exchange rate of Euro against the Specified Currency or the Successor Currency (if applicable) as determined by the Fiscal Agent in its reasonable discretion (§ 315 of the German Civil Code).]

(3) *Discharge.* The Issuer shall be discharged by payment to, or to the order of, the Clearing System.

(4) *Fixed Payment Business Day.* If the due date for any payment in respect of the Notes would otherwise fall on a calendar day which is not a Fixed Payment Business Day (as defined below), the due date for such payment shall be:

[in case Modified Following Business Day Convention applies, insert: postponed to the next calendar day which is a Fixed Payment Business Day unless the due date for such payment would thereby fall into the next calendar month, in which event the due date for such payment shall be the immediately preceding calendar day which is a Fixed Payment Business Day.]

[in case Following Business Day Convention applies, insert: postponed to the next calendar day which is a Fixed Payment Business Day.]

[in case Preceding Business Day Convention applies, insert: moved forward to the immediately preceding calendar day which is a Fixed Payment Business Day.]

"**Fixed Payment Business Day**" means a calendar day (other than a Saturday or a Sunday) (i) on which the Clearing System is open, and (ii) [which is a Business Day (as defined in § 1 (6))] **[on which [insert, as applicable:** commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in **[insert all relevant financial centres]** **[insert, as applicable:** [and] the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("TARGET") is open]].

[If the distribution amount shall be adjusted, insert: If any Fixed Payment Business Day is **[in case Modified Following Business Day Convention or Preceding Business Day**

Convention applies, insert: brought forward] [or] [**in case Modified Following Business Day Convention or Following Business Day Convention applies, insert:** postponed] (as described above), the amount of distribution shall be adjusted accordingly.]

[If the distribution amount shall not be adjusted, insert: If any Fixed Payment Business Day is [**in case Modified Following Business Day Convention or Preceding Business Day Convention applies, insert:** brought forward] [or] [**in case Modified Following Business Day Convention or Following Business Day Convention applies, insert:** postponed] (as described above), the amount of distribution shall not be adjusted accordingly.]

If the due date for the redemption of the principal amount of the Notes is adjusted the Holder shall not be entitled to payments in respect of such adjustment.

(5) *References to Principal and Distributions.* References in these Terms and Conditions to "principal" in respect of the Notes shall be deemed to include, as applicable: the Current Principal Amount; the Call Redemption Amount of the Notes (both as specified in § 5); and any premium and any other amounts (other than distributions) which may be payable under or in respect of the Notes. References in these Terms and Conditions to "distributions" in respect of the Notes shall be deemed to include, as applicable, any Additional Amounts (as defined in § 7 (1)) which may be payable under § 7 (1).

§ 5 REDEMPTION AND WRITE-DOWN

(1) *No Scheduled Maturity.* The Notes are perpetual and have no scheduled maturity date.

(2) *No Redemption at the Option of a Holder.* The Holders do not have a right to demand the redemption of the Notes.

(3) *Redemption at the Option of the Issuer.*

(a) The Issuer may, upon notice given in accordance with subparagraph (b), redeem the Notes in whole, but not in part, on the Call Redemption Date(s) at the applicable Call Redemption Amount together with accrued distributions, if any, and subject to cancellation of distributions pursuant to § 3 (6), to, but excluding, the (relevant) Call Redemption Date. Any such redemption pursuant to this subsection § 5 (3) shall not be possible before five years after the date of issuance and shall only be possible provided that the redemption conditions laid down in § 5 (6) are met.

"**Call Redemption Amount**" equals the Current Principal Amount.

"**Call Redemption Date**" means the First Reset Date and each [anniversary date thereof] [Distribution Payment Date thereafter] [Reset Date thereafter].

(b) Notice of redemption shall be given by the Issuer to the Holders in accordance with § 10. Such notice shall be irrevocable and shall specify:

- (i) the series number of the Notes;
- (ii) the Call Redemption Date which shall be not less than [**insert Minimum Notice Period, which shall not be less than 5 Business Days**] [calendar days] [Business Days] [**in case of a Maximum Notice Period insert:** nor more than [**insert Maximum Notice Period**] [calendar days] [Business Days]] after the calendar day on which notice is given by the Issuer to the Holders; and
- (iii) the Call Redemption Amount at which the Notes are to be redeemed.

(4) *Redemption for Reasons of Taxation.* The Notes may be redeemed at the option of the Issuer in whole, but not in part, [at any time] [on the next Distribution Payment Date] on giving not less than [**insert Minimum Notice Period**] nor more than [**insert Maximum Notice Period**] [calendar days] [Business Days] prior notice of redemption to the Fiscal Agent and, in accordance with § 10, to the Holders (which notice shall be irrevocable), if there is a change in the applicable tax treatment of the Notes, including without limitation, a Tax Deductibility Event or a Gross-up Event, which the Issuer, in accordance with and subject to Article 78(4) of the CRR, demonstrates to the satisfaction of the Competent Authority is material and was not reasonably foreseeable at the time of their issuance, and provided that the redemption

conditions laid down in § 5 (6) are met.

Where:

A "**Gross-up Event**" occurs if there is a change in the applicable tax treatment of the Notes based on a decision of the local tax authority having competence over the Issuer as a result of which the Issuer has paid, or will or would on the next Distribution Payment Date be required to pay, any Additional Amounts, provided however that any such Additional Amounts are only payable if and to the extent they: (i) would not exceed the Distributable Items; and (ii) only relate to withholding tax applicable to distributions by or on behalf of the Issuer.

A "**Tax Deductibility Event**" occurs if there is a change in the applicable tax treatment of the Notes as a result of which the Issuer would not be entitled to claim a deduction in respect of distributions paid on the Notes in computing its taxation liabilities in Austria, or such deductibility is materially reduced.

(5) *Redemption for Regulatory Reasons.* The Notes may be redeemed at the option of the Issuer in whole, but not in part, [at any time] [on the next Distribution Payment Date] on giving not less than [**insert Minimum Notice Period**] nor more than [**insert Maximum Notice Period**] [calendar days] [Business Days] prior notice of redemption to the Fiscal Agent and, in accordance with § 10, to the Holders (which notice shall be irrevocable), if there is a change in the regulatory classification of the Notes that would be likely to result in their full or partial exclusion from own funds or reclassification as a lower quality form of own funds, and provided that the following conditions are met: (i) the Competent Authority considers such a change to be sufficiently certain; (ii) the Issuer demonstrates to the satisfaction of the Competent Authority that the regulatory reclassification of the Notes was not reasonably foreseeable at the time of their issuance; and (iii) the redemption conditions laid down in § 5 (6) are met.

(6) *Redemption Conditions.* Any redemption pursuant to this § 5 requires that the Competent Authority has granted the Issuer the prior permission in accordance with Article 78 of the CRR for the redemption, whereas such permission may, *inter alia*, require that:

- (i) earlier than or at the same time as the redemption, the Issuer replaces the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
- (ii) the Issuer has demonstrated to the satisfaction of the Competent Authority that the own funds of the Issuer would, following the redemption, exceed the requirements laid down in Article 92(1) of the CRR and the combined buffer requirement as defined in point (6) of Article 128 of the CRD IV by a margin that the Competent Authority may consider necessary on the basis of Article 104(3) of the CRD IV.

For the avoidance of doubt, any refusal of the Competent Authority to grant permission in accordance with Article 78 of the CRR shall not constitute a default for any purpose.

(7) *Redemption Amount.* In case of a redemption pursuant to § 5 (4) or § 5 (5), the Notes will be redeemed at their Current Principal Amount together with distributions, if any and subject to cancellation of distributions pursuant to § 3 (6), accrued to, but excluding, the date of redemption.

(8) *Write-down.* If a Trigger Event (as defined below) has occurred, the Issuer will:

- (i) immediately inform the Competent Authority that the Trigger Event has occurred;
- (ii) determine the Write-down Amount (as defined below) as soon as possible, but in any case within a maximum period of one month following the determination by the Issuer that a Trigger Event has occurred; and
- (iii) without undue delay inform the Fiscal Agent and the Holders that a Trigger Event has occurred by publishing a notice (such notice a "**Write-down Notice**") which will specify the Write-down Amount as well as the new/reduced Current Principal Amount of each Note and the Effective Date (as defined below);
- (iv) (without the need for the consent of Holders) reduce the Current Principal Amount of

each Note by the relevant Write-down Amount (such reduction being referred to as a "**Write-down**") without undue delay, but not later than within one month, with effect as from the Effective Date.

For the avoidance of doubt, a Trigger Event may be calculated at any time and may occur on more than one occasion and each Note may be subject to a Write-down on more than one occasion and the Current Principal Amount of a Note may never be reduced to below **[insert Specified Currency] [0.01 or lower amount]**.

The Issuer shall not give a notice of redemption after a Write-Down Notice has been given until the Write-down has been effected in respect of the relevant Trigger Event. In addition, if a Write-Down Notice is given after a notice of redemption but before the date on which such redemption becomes effective, the notice of redemption shall automatically be deemed revoked and shall be null and void and the relevant redemption shall not be made.

Where:

"Applicable Supervisory Regulations" mean the provisions of the Austrian Banking Act, the CRD IV, the CRR, and the CDR including any (existing or future) regulations and decisions issued on the basis of the afore-mentioned laws and regulations binding on the Issuer and/or the Erste Group.

"CDR" means the Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions (*Capital Delegated Regulation*), as amended from time to time.

"Current Principal Amount" means initially the Specified Denomination, which from time to time - on one or more occasions - may be reduced by a Write-down and, subsequent to any such reduction, may be increased by a Write-up (as defined below), if any (up to the Specified Denomination).

"Effective Date" means the date specified as such in the Write-down Notice to the Holders, being no later than one month (or such shorter period as the Competent Authority may require) following the occurrence of the relevant Trigger Event.

"Group CET 1 Capital Ratio" means the Common Equity Tier 1 capital ratio pursuant to Article 92(2)(a) of the CRR of the Erste Group on a consolidated basis, as calculated by the Issuer in accordance with the Applicable Supervisory Regulations, which determination will be binding on the Holders.

"Issuer CET 1 Capital Ratio" means the Common Equity Tier 1 capital ratio pursuant to Article 92(2)(a) of the CRR of the Issuer on an individual basis, as calculated by the Issuer in accordance with the Applicable Supervisory Regulations, which determination will be binding on the Holders.

"Minimum Trigger Level" means in respect of: (i) the Group CET 1 Capital Ratio **[insert consolidated minimum trigger level] per cent.** and/or (ii) the Issuer CET 1 Capital Ratio **[insert individual minimum trigger level] per cent.**

"Required Loss Absorption Amount" means the amount by which, upon the occurrence of a Trigger Event, a write-down of the aggregate Current Principal Amount of the Notes shall be effected *pro rata* with the aggregate (current) principal amount of any other AT 1 Instruments whose trigger events for a write-down or conversion (loss absorption) pursuant to their terms have occurred and whose minimum trigger levels have not been restored, irrespective of the opening of any insolvency proceedings. For such purpose, the total amount of the write-downs to be allocated *pro rata* shall be equal to the amount required to fully restore or maintain the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio to at least the Minimum Trigger Level, as applicable, but shall not exceed the sum of the principal amounts of AT 1 Instruments whose trigger events for a write-down or conversion pursuant to their terms have occurred and whose minimum trigger levels have not been restored and which are outstanding at the time of occurrence of the Trigger Event.

To the extent the write-down (or write-off) or conversion into Common Equity Tier 1

instruments of any other AT 1 Instrument whose trigger events for a write-down or conversion pursuant to their terms have occurred is not, or within one month from the determination that the relevant trigger event has occurred will not be, effective for any reason:

- (i) the ineffectiveness of any such write-down (or write-off) or conversion into Common Equity Tier 1 instruments shall not prejudice the requirement to effect a Write-down of the Notes (loss absorption); and
- (ii) the write-down (or write-off) or conversion into Common Equity Tier 1 instruments of any other AT 1 Instrument whose trigger events for a write-down or conversion pursuant to their terms have occurred which is not, or within one month from the determination that the relevant Trigger Event has occurred will not be, effective shall not be taken into account in determining such Write-down of the Notes.

Where:

A "**Trigger Event**" occurs if it has been determined that: (i) the Group CET 1 Capital Ratio and/or (ii) the Issuer CET 1 Capital Ratio fall to an amount that is lower than the applicable Minimum Trigger Level.

"**Write-down Amount**" per Note means the amount by which the Current Principal Amount per Note is to be Written-down on an Effective Date, being the higher of (i) the *pro rata* share of the Note in the Required Loss Absorption Amount and (ii) if the amount in (i) is insufficient to fully restore or maintain the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio to the Minimum Trigger Level, the amount necessary to reduce the Current Principal Amount to **[insert Specified Currency] [insert 0.01 or lower amount]. [if Specified Currency is not euro, insert:** Any amounts in any currency other than euro will, for purposes of establishing the Write-down Amount be converted into euro at the foreign exchange rate prevailing on the [third] business day prior to the Effective Date; such foreign exchange rate shall be determined by the Issuer in its reasonable discretion (§ 315 of the German Civil Code .]

(9) *Write-up*. The Issuer may, at its sole discretion, effect a reversal of a Write-down by writing up the Current Principal Amount in whole or in part up to a maximum of the Specified Denomination (a "**Write-up**"), provided that a positive Profit has been recorded, and subject to the below limitations. There will be no obligation for the Issuer to operate or accelerate a Write-up under any specific circumstances.

If the Issuer so decides in its sole discretion, the Write-up will occur with effect as of the Write-Up Date (as defined below) (including).

At its discretion (without being obliged to) the Issuer may effect such Write-up provided that:

- (i) at the time of the Write-up, there must not exist any Trigger Event that is continuing; any Write-up is also excluded if such Write-up would give rise to the occurrence of a Trigger Event;
- (ii) such Write-up is applied on a *pro rata* basis to all Notes and among Similar AT 1 Instruments that have been subject to a write-down; and
- (iii) the sum of (a) the aggregate amount attributed to the relevant Write-up of the Notes and (b) the aggregate amount of any distribution scheduled to be paid on the aggregate Current Principal Amount of the Notes as calculated at the moment the Write-up is operated will not exceed the Maximum Write-up Amount.

The amount of any Write-up and payments of distributions on the reduced Current Principal Amount shall be treated as payment resulting in a reduction of Common Equity Tier 1 pursuant to Article 28 of the CRR and shall be subject, together with other distributions on CET 1 Instruments, to the restrictions relating to the Maximum Distributable Amount as referred to in § 24(2) of the Austrian Banking Act (implementing Article 141(2) of the CRD IV in Austria).

For the avoidance of doubt, a Write-up of the Notes may occur on one or more occasions until the Current Principal Amount equals the Specified Denomination. Write-ups do not have priority over dividend payments and other distributions on shares and other CET 1 Instruments

of the Issuer, i.e. such payments and distributions are permitted even if no full Write-up of the Notes has been effected.

If the Issuer elects to effect a Write-up, it will publish a notice about the Write-up (including the amount of the Write-up as a percentage of the Specified Denomination and the effective date of the Write-up (in each case a "**Write-up Date**") no later than 10 calendar days prior to the relevant Write-up Date to the Fiscal Agent and, in accordance with § 10, to the Holders. The Write-up shall be deemed to be effected at the time when the notice to the Holders is given in accordance with § 10 and the Current Principal Amount shall be deemed to be increased by the amount specified in the notice with effect as of the Write-up Date.

Where:

"Maximum Write-up Amount" means the lower of:

- (i) the consolidated Profit multiplied by the sum of the aggregate Specified Denomination and the aggregate initial principal amount of all Similar AT 1 Instruments of the Erste Group which have been subject to a write-down (for the avoidance of doubt, before any write-down), and divided by the total Tier 1 Capital pursuant to Article 25 of the CRR of the Erste Group as at the date the relevant Write-Up is operated; and
- (ii) the Profit on a solo basis multiplied by the sum of the aggregate Specified Denomination and the aggregate initial principal amount of all Similar AT 1 Instruments of the Issuer which have been subject to a write-down (for the avoidance of doubt, before any write-down), and divided by the total Tier 1 Capital pursuant to Article 25 of the CRR of the Issuer as at the date the relevant Write-Up is operated;

unless the Applicable Supervisory Regulations provide otherwise on the date of the relevant Write-up.

"Similar AT 1 Instruments" means any (directly or indirectly issued) Additional Tier 1 instrument pursuant to Article 52 of the CRR (other than the Notes) of the Issuer or, as applicable, any instrument issued by a member of the Erste Group and qualifying as Additional Tier 1 instruments pursuant to Article 52 of the CRR of the Issuer and/or the Erste Group, that includes a similar write-down mechanism (permanent or temporary) and which has an identical trigger level as set out in "Trigger Event".

[If Specified Currency is not Euro, insert: Any amounts in a currency other than Euro will, for purposes of establishing the Maximum Write-up Amount be converted into Euro at the foreign exchange rate prevailing on the [third] business day prior to the Effective Date.]

"Profit" means (i) the net income for the year (*Jahresüberschuss*) of the Issuer on an individual basis recorded in the Relevant Financial Statements; or (ii) the consolidated net income for the year (*Jahresüberschuss*) on a consolidated basis recorded in the consolidated financial statements of the Erste Group, in each case after such Relevant Financial Statements or consolidated financial statements have formally been determined (*festgestellt*) by either the supervisory board (*Aufsichtsrat*) or, if so requested, the shareholders' meeting (*Hauptversammlung*) of the Issuer.

**§ 6
FISCAL AGENT,
PAYING AGENT[S] AND
CALCULATION AGENT**

(1) *Appointment; Specified Offices.* The initial Fiscal Agent, the initial Principal Paying Agent **[in case (a) further paying agent(s) shall be appointed, insert:**, the initial Paying Agent(s)] and the initial Calculation Agent and their respective initial specified offices are:

Fiscal Agent and Principal Paying Agent:

[In case BNP Paribas Securities Services, Luxembourg Branch shall be appointed as initial Fiscal and Principal Paying Agent insert:

BNP Paribas Securities Services, Luxembourg Branch
33, rue de Gasperich

LUX-5826 Hesperange
Grand Duchy of Luxembourg]

[In case another Fiscal and Principal Paying Agent shall be appointed, insert its name and initial specified office.]

[In case an additional or other paying agent shall be appointed, insert its name and initial specified office.]

Where these Terms and Conditions refer to the term "Paying Agent(s)", such term shall include the Principal Paying Agent.

Calculation Agent:

[In case Erste Group Bank AG shall be appointed as Calculation Agent insert:

Erste Group Bank AG
Graben 21
A-1010 Vienna
Austria]

[In case another Calculation Agent shall be appointed, insert its name and initial specified office.]

The Fiscal Agent, the Paying Agent(s) and the Calculation Agent reserve the right at any time to change their respective specified office to some other specified office in the same city.

(2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any Paying Agent or the Calculation Agent and to appoint another Fiscal Agent, additional or other Paying Agents or another Calculation Agent. The Issuer shall at all times maintain (i) a Fiscal Agent [.] [and] (ii) so long as the Notes are listed on a stock exchange, a Paying Agent (which may be the Fiscal Agent) with a specified office in such place as may be required by the rules of such stock exchange or its supervisory [authority] [authorities] **[in case of payments in U.S. Dollars insert: [.] [and]** (iii) if payments at or through the offices of all Paying Agents outside the United States become illegal or are effectively precluded because of the imposition of exchange controls or similar restrictions on the full payment or receipt of such amounts in U.S. Dollars, a Paying Agent with a specified office in New York] **[in case a Calculation Agent is to be appointed insert:** and (iv) a Calculation Agent]. The Issuer will give notice to the Holders of any variation, termination, appointment or any other change as soon as possible upon the effectiveness of such change.

The Issuer undertakes, to the extent this is possible, to maintain a Paying Agent in a member state of the European Union in which it shall not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

(3) *Agents of the Issuer.* The Fiscal Agent, the Paying Agents and the Calculation Agent act solely as agents of the Issuer and do not have any obligations towards or relationship of agency or trust to any Holder.

(4) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Terms and Conditions by the Fiscal Agent shall (in the absence of wilful default, bad faith, inequity or manifest error) be binding on the Issuer, the Paying Agents, the Calculation Agent and the Holders and, in the absence of the aforesaid, no liability to the Issuer, the Paying Agents, the Calculation Agent or the Holders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

[In case of Notes which are initially represented by a Temporary Global Note, which will be exchanged for a Permanent Global Note, or in case of Notes whose Specified Currency is U.S. dollar, insert:

(5) *United States*. For purposes of these Terms and Conditions, "**United States**" or "**U.S.**" means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, U.S. Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands).]

§ 7 TAXATION

(1) *General Taxation*. All payments of principal and distributions by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Austria or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

In that event, the Issuer shall pay such additional amounts (the "**Additional Amounts**") to the Holder as shall result in receipt by that Holder of such amounts as would have been received by it had no such withholding or deduction been required, except that no such Additional Amounts shall be payable with respect to any Note:

(a) to, or to a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Republic of Austria other than the mere holding of the Note; or

(b) presented for payment more than [30] [*insert other period*] calendar days after the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven calendar days after that on which notice is duly given to the Holders in accordance with § 10 that, upon further presentation of the Notes being made, such payment will be made, provided that payment is in fact made upon such presentation, except to the extent that the Holder would have been entitled to such Additional Amounts on presenting the Note for payment on the [thirtieth] [*insert other relevant number of calendar days*] such calendar day; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

(2) *U.S. Foreign Account Tax Compliance Act (FATCA)*. The Issuer is authorised to withhold or deduct from amounts payable under the Notes to a Holder or beneficial owner of Notes sufficient funds for the payment of any tax that it is required by law to withhold or deduct pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental agreement thereto ("**FATCA**") (including under a voluntary agreement entered into with a taxing authority as described in Section 1471(b) of the Code (the "**FATCA Agreement**"). The Issuer will not be required to make any payment of additional amounts for or on account of any withholding tax deducted by the Issuer or an intermediary in compliance with FATCA. For the avoidance of doubt, the withholding or deduction of any amounts which are withheld or deducted pursuant to a FATCA Agreement shall be treated as being required by law.

§ 8 PRESENTATION PERIOD

The presentation period provided in § 801 (1) sentence 1 German Civil Code is reduced to [ten] [*insert other time period*] years for the Notes.

§ 9
**FURTHER ISSUES OF NOTES,
PURCHASES AND
CANCELLATION**

(1) *Further Issues of Notes.* The Issuer may from time to time, without the consent of the Holders, issue further Notes having the same terms as the Notes in all respects (or in all respects except for the issue date, issue price, Distribution Commencement Date and/or first Distribution Payment Date) so as to form a single series with the Notes.

(2) *Purchases.* **[If a purchase of Notes is permissible, insert:** The Issuer and any of its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price. Notes purchased by the Issuer or the Subsidiary may, at the option of the Issuer or such Subsidiary, be held, resold or surrendered to the Fiscal Agent for cancellation. No purchase shall be possible unless all applicable regulatory and other statutory restrictions are observed and provided that the redemption conditions laid down in § 5 (6) are met.] **[If a purchase of Notes is not permissible, insert:** Neither the Issuer nor its Subsidiaries may at any time purchase Notes.]

(3) *Cancellation.* All Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

§ 10
NOTICES

(1) *Notices of the Issuer.* All notices of the Issuer concerning the Notes shall be published in [such media as determined by law] **[insert specific media]** and in electronic form on the website of the Issuer [(www.erstegroup.com)] **[●]**. Any notice so given will be deemed to have been validly given on the fifth calendar day following the date of such publication (or, if published more than once, on the [fifth] **[●]** calendar day following the date of the first such publication) [unless the notice provides for a later effective date].

(2) *Publication of Notices of the Issuer via the Clearing System.* If the publication of notices pursuant to paragraph (1) is no longer required by law, the Issuer may, in lieu of publication in the media set forth in paragraph (1), deliver the relevant notices to the Clearing System, for communication by the Clearing System to the Holders. Any such notice shall be deemed to have been given to the Holders on the [seventh] **[●]** calendar day after the calendar day on which said notice was given to the Clearing System.

(3) *Form of Notice to Be Given by any Holder.* Notices regarding the Notes which are to be given by any Holder to the Issuer shall be validly given if delivered in writing in English language to the Issuer or the Fiscal Agent (for onward delivery to the Issuer) and by hand or mail. The Holder shall provide evidence satisfactory to the Issuer of its holding of the Notes. Such evidence may be (i) in the form of a certification from the Clearing System or the Custodian with which the Holder maintains a securities account in respect of the Notes that such Holder is, at the time such notice is given, the Holder of the relevant Notes, or (ii) in any other appropriate manner. "Custodian" means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Holder maintains a securities account in respect of the Notes and includes the Clearing System.

§ 11
**APPLICABLE LAW,
PLACE OF JURISDICTION
AND ENFORCEMENT**

(1) *Applicable Law.* The Notes, as to form and content, and all rights and obligations of the Holders and the Issuer, shall be governed by, and shall be construed exclusively in accordance with, German law. The status provisions in § 2 shall be governed by, and shall be construed exclusively in accordance with, Austrian law.

(2) *Place of Jurisdiction.* The [District Court (*Landgericht*) in Frankfurt am Main, Federal Republic of Germany] **[insert other German or Austrian court]**, shall have non-exclusive

jurisdiction for any action or other legal proceedings (the "**Proceedings**") arising out of or in connection with the Notes. **[Insert if a German court has jurisdiction:** The Issuer appoints Erste Group Bank AG, Friedrichstraße 10, D-70174 Stuttgart, Federal Republic of Germany, as its authorised agent for accepting service of process in connection with any Proceedings before German courts.]

(3) *Enforcement.* Any Holder of Notes may in any Proceedings against the Issuer, or to which such Holder and the Issuer are parties, protect and enforce in its own name its rights arising under such Notes on the basis of (i) a statement issued by the Custodian with whom such Holder maintains a securities account in respect of the Notes (a) stating the full name and address of the Holder, (b) specifying the aggregate principal amount of the Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b), and (ii) a copy of the Global Note certified as being a true copy by a duly authorised officer of the Clearing System or a depository of the Clearing System, without the need for production in such Proceedings of the actual records or the Global Note representing the Notes. Each Holder may, without prejudice to the foregoing, protect and enforce its rights under the Notes also in any other way which is admitted in the country of the Proceedings.]

**[OPTION II – TERMS AND CONDITIONS FOR NOTES WITH A FIXED TO FLOATING
DISTRIBUTION RATE**

**§ 1
CURRENCY, DENOMINATION, FORM,
CERTAIN DEFINITIONS**

(1) *Currency, Denomination.* This tranche (the "**Tranche**") of subordinated notes (the "**Notes**") is being issued by Erste Group Bank AG (the "**Issuer**") in **[insert specified currency]** (the "**Specified Currency**") in the aggregate principal amount of **[insert specified currency and aggregate principal amount]** (in words: **[insert aggregate principal amount in words]**) in the denomination of **[insert specified currency and specified denomination]** (the "**Specified Denomination**").

(2) *Form.* The Notes are being issued in bearer form.

[In case of Notes which are exclusively represented by a Permanent Global Note insert:

(3) *Permanent Global Note.* The Notes are represented by a permanent global note (the "**Permanent Global Note**" or the "**Global Note**") without coupons; the claim for distribution payments under the Notes is represented by the Permanent Global Note. The Permanent Global Note shall be signed by authorised representatives of the Issuer and shall be authenticated by or on behalf of the Fiscal Agent. Definitive Notes and coupons will not be issued.]

[In case of Notes which are initially represented by a Temporary Global Note, which will be exchangeable for a Permanent Global Note, insert:

(3) *Temporary Global Note – Exchange for Permanent Global Note.*

(a) The Notes are initially represented by a temporary global note (the "**Temporary Global Note**") without coupons. The Temporary Global Note will be exchangeable for Notes in the Specified Denomination represented by a permanent global note (the "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**") without coupons; any claim for distribution payments under the Notes is represented by the relevant Global Note. The Global Notes shall each be signed by authorised representatives of the Issuer and shall each be authenticated by or on behalf of the Fiscal Agent. Definitive Notes and coupons will not be issued.

(b) The Temporary Global Note shall be exchangeable for the Permanent Global Note in the form and subject to the conditions provided in subparagraph (a) above from a date (the "**Exchange Date**") not earlier than 40 calendar days after the issue date of the Temporary Global Note. Such exchange shall only be made to the extent that certifications have been delivered to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note is (are) not (a) U.S. person(s) (other than certain financial institutions or certain persons holding Notes through such financial institutions). Payment of distributions on Notes represented by a Temporary Global Note will be made only after delivery of such certifications. A separate certification shall be required in respect of each such payment of distributions. Any such certification received on or after the 40th calendar day after the issue date of the Temporary Global Note will be treated as a request to exchange such Temporary Global Note pursuant to subparagraph (b) of this § 1 (3). Any securities delivered in exchange for the Temporary Global Note shall be delivered only outside of the United States (as defined in § 6 (5)).]

(4) *Clearing System.* The Global Note(s) will be kept in custody by or on behalf of a Clearing System until all obligations of the Issuer under the Notes have been satisfied. "**Clearing System**" means **[if more than one Clearing System insert: each of]** [OeKB CSD GmbH, Strauchgasse 1-3, A-1010 Vienna, Austria ("**OeKB CSD**") [.] [and] [Clearstream Banking, société anonyme, Luxembourg, 42 Avenue J.F. Kennedy, LUX-1855 Luxembourg, Grand Duchy of Luxembourg ("**CBL**") and Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium ("**Euroclear**" and, together with CBL, the "**ICSDs**") [.] [and] **[specify other Clearing System]** and any successor in such capacity. **[In case of Notes to be kept in custody on behalf of the ICSDs insert:** The Notes shall be kept in custody by a common

depository on behalf of both ICSDs.]

(5) *Holder of Notes*. "**Holder**" means any holder of a proportionate co-ownership or other comparable right in the Global Note which may be transferred to a new Holder in accordance with the provisions of the Clearing System.

(6) *Business Day*. "**Business Day**" means a calendar day (other than a Saturday or a Sunday) on which [*insert, as applicable*: commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in [*insert all relevant financial centres*]] [*insert, as applicable*: [and] the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("**TARGET**") is open].

§ 2 STATUS

(1) *Ranking*. The Notes constitute direct, unsecured and subordinated obligations of the Issuer and constitute AT 1 Instruments.

In the insolvency or liquidation of the Issuer, the obligations of the Issuer under the Notes will rank:

- (i) junior to all present or future (a) unsubordinated instruments or obligations of the Issuer; and (b) (x) obligations under any Tier 2 Instruments; and (y) all other instruments or obligations of the Issuer ranking or expressed to rank subordinated to the unsubordinated obligations of the Issuer (other than instruments or obligations ranking or expressed to rank *pari passu* with or subordinated to the Notes);
- (ii) *pari passu* (a) among themselves; (b) with all present or future obligations under any other AT 1 Instruments; and (c) with all other present or future instruments or obligations ranking or expressed to rank *pari passu* with the Notes, including the Existing Hybrid Instruments (other than Existing Hybrid Instruments ranking or expressed to rank senior to the Notes); and
- (iii) senior to all present or future (a) ordinary shares of the Issuer and any other CET 1 Instruments; and (b) all other subordinated instruments or obligations of the Issuer ranking or expressed to rank (x) subordinated to the obligations of the Issuer under the Notes or (y) *pari passu* with the ordinary shares of the Issuer and any other CET 1 Instruments.

Where:

"**AT 1 Instruments**" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Additional Tier 1 instruments pursuant to Article 52 of the CRR, including any capital instruments that qualify as Additional Tier 1 instruments pursuant to transitional provisions under the CRR.

"**CET 1 Instruments**" means any capital instruments of the Issuer that qualify as Common Equity Tier 1 instruments pursuant to Article 28 of the CRR.

"**CRR**" means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (*Capital Requirements Regulation*), as amended from time to time.

"**Existing Hybrid Instruments**" means the following (directly or indirectly issued) capital instruments of the Issuer, including any guarantees of the Issuer in relation to obligations under such instruments: [(i) the Series H Non-cumulative Non-voting Preference Shares issued by Finance (Jersey) (4) Limited (ISIN: XS0188305741); (ii) the Series J 5.25% Non-cumulative Non-voting Preference Shares issued by Erste Finance (Jersey) (6) Limited (ISIN: XS0215338152); and (iii) the Non-cumulative Fixed/Floating Rate Perpetual Subordinated Notes issued by Erste Capital Finance (Jersey) Tier 1 PC under the €1,000,000,000 Perpetual Subordinated Debt Issuance Programme (ISIN: XS0268694808)] [*insert other*].

"Tier 2 Instruments" means any (directly or indirectly issued) capital instruments of the Issuer that qualify as Tier 2 instruments pursuant to Article 63 of the CRR, including any capital instruments that qualify as Tier 2 instruments pursuant to transitional provisions under the CRR.

For the avoidance of doubt, Holders will not participate in any reserves of the Issuer in case of its liquidation.

The rights of the Holders of the Notes to payment of principal on the Notes are at any time limited to a claim for the prevailing Current Principal Amount (as defined below).

(2) *No Negative Equity and Waiver of Petition.* The Holders will be entitled to payments, if any, under the Notes only once any negative equity (*negatives Eigenkapital* within the meaning of § 225(1) of the Austrian Commercial Code (*Unternehmensgesetzbuch - UGB*)) has been removed (*beseitigt*) or if, in the event of the liquidation of the Issuer, all other creditors (other than creditors whose claims rank or are expressed to rank *pari passu* or junior to the Notes) of the Issuer have been satisfied first.

No insolvency proceedings against the Issuer are required to be opened in relation to the obligations of the Issuer under the Notes. The Notes do not contribute to a determination that the liabilities of the Issuer exceeds its assets; therefore the obligations of the Issuer under the Notes, if any, will not contribute to the determination of over-indebtedness (*Überschuldung*) in accordance with § 67(3) of the Austrian Insolvency Code (*Insolvenzordnung - IO*).

(3) *No Set-off or Security.* Claims of the Issuer are not permitted to be set-off against repayment obligations of the Issuer under these Notes and no contractual collateral may be provided by the Issuer or any third person for the liabilities constituted by the Notes. The Notes are neither secured nor subject to a guarantee that enhances the seniority of the claims under the Notes. The Notes are not subject to any arrangement, contractual or otherwise, that enhances the seniority of the claims under the Notes in insolvency or liquidation. No subsequent agreement may limit the subordination pursuant to this § 2 or amend the perpetuity of the Notes.

§ 3 DISTRIBUTIONS

(1) *Fixed Rate Distributions.*

(a) *Fixed Rate of Distributions and Fixed Distribution Payment Dates.* The Notes shall bear distributions on the Current Principal Amount (as defined below) at the rate of **[insert First Rate of Distributions]** per cent. *per annum* (the "**First Rate of Distributions**") from and including **[insert Distribution Commencement Date]** (the "**Distribution Commencement Date**") to but excluding **[insert Reset Date]** (the "**Reset Date**") (the "**First Period**"). **[In case of a short or long first distribution period insert:** With the exception of the first payment of distributions, distributions] **[in case of Notes which have only regular fixed distribution payments insert:** Distributions] for the First Period shall be scheduled to be paid **[in case of quarterly fixed distribution payments insert:** quarterly] **[in case of semi-annual fixed distribution payments insert:** semi-annually] **[in case of annual fixed distribution payments insert:** annually] in arrear on **[insert Fixed Distribution Payment Dates]** in each year (each such date, a "**Fixed Distribution Payment Date**"), commencing on **[insert first Fixed Distribution Payment Date]**. Distributions will fall due in accordance with the provisions set out in § 4 (4).

(b) *Calculation of Amount of Distributions.* If the amount of distributions scheduled to be paid under the Notes is required to be calculated for any period of time in the First Period such amount of distributions shall be calculated by applying the First Rate of Distributions to the Current Principal Amount (as defined below) multiplying such sum by the applicable Fixed Rate Day Count Fraction (as defined below), and rounding the resultant figure to the nearest sub-unit of the Specified Currency, half of such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention.

(c) *Fixed Rate Day Count Fraction.* "**Fixed Rate Day Count Fraction**" means, in respect of the calculation of an amount of distributions on any Note for any period of time (the

"Calculation Period"):

[In case Actual/Actual (ICMA) applies, insert:

1. if the Calculation Period is equal to or shorter than the Fixed Rate Determination Period during which the Calculation Period ends, the number of calendar days in such Calculation Period divided by the product of (x) the number of calendar days in such Fixed Rate Determination Period and (y) the number of Fixed Rate Determination Dates (as specified below) that would occur in one calendar year; or
2. if the Calculation Period is longer than the Fixed Rate Determination Period during which the Calculation Period ends, the sum of
 - (A) the number of calendar days in such Calculation Period falling in the Fixed Rate Determination Period in which the Calculation Period begins divided by the product of (x) the number of calendar days in such Fixed Rate Determination Period and (y) the number of Fixed Rate Determination Dates that would occur in one calendar year; and
 - (B) the number of calendar days in such Calculation Period falling in the next Fixed Rate Determination Period divided by the product of (x) the number of calendar days in such Fixed Rate Determination Period and (y) the number of Fixed Rate Determination Dates that would occur in one calendar year.

"Fixed Rate Determination Period" means the period from, and including, a Fixed Rate Determination Date to, but excluding, the next Fixed Rate Determination Date (including, where the Distribution Commencement Date is not a Fixed Rate Determination Date, the period commencing on the first Fixed Rate Determination Date prior to the Distribution Commencement Date, and where the final Fixed Distribution Payment Date is not a Fixed Rate Determination Date, the first Fixed Rate Determination Date falling after the final Fixed Distribution Payment Date, as the case may be).

"Fixed Rate Determination Date" means [●] in each year. The number of Fixed Rate Determination Dates per calendar year is **[[insert number of regular fixed distribution payment dates per calendar year].]**

[In case Actual/Actual (ISDA) or Actual/365 applies, insert: the actual number of calendar days in the Calculation Period divided by 365 (or, if any calculation portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of calendar days in that portion of the Calculation Period falling in a leap year divided by 366 and (2) the actual number of calendar days in that portion of the Calculation Period falling in a non-leap year divided by 365).]

[In case Actual/365 (Fixed) applies, insert: the actual number of calendar days in the Calculation Period divided by 365.]

[In case Actual/360 applies, insert: the actual number of calendar days in the Calculation Period divided by 360.]

[In case 30/360, 360/360 or Bond Basis applies, insert: the number of calendar days in the Calculation Period divided by 360, the number of calendar days to be calculated on the basis of a year of 360 calendar days with twelve 30-calendar day months (unless (1) the last calendar day of the Calculation Period is the 31st calendar day of a month but the first calendar day of the Calculation Period is a calendar day other than the 30th or 31st calendar day of a month, in which case the month that includes that last calendar day shall not be considered to be shortened to a 30-calendar day month, or (2) the last calendar day of the Calculation Period is the last calendar day of the month of February in which case the month of February shall not be considered to be lengthened to a 30-calendar day month).]

[In case 30E/360 or Eurobond Basis applies, insert: the number of calendar days in the Calculation Period divided by 360 (the number of calendar days to be calculated on the basis of a year of 360 calendar days with twelve 30-calendar day months, without regard to the date of the first calendar day or last calendar day of the Calculation Period unless, in the case of the final Calculation Period, the date of redemption is the last calendar day of the month of

February, in which case the month of February shall not be considered to be lengthened to a 30-calendar day month).]

(2) *Floating Distributions.*

(a) *Floating Distribution Payment Dates.*

The Notes shall bear distributions on the Current Principal Amount at the Floating Rate of Distributions (as defined below) from and including the Reset Date to but excluding the first Floating Distribution Payment Date and thereafter from and including each Floating Distribution Payment Date to but excluding the next subsequent Floating Distribution Payment Date (each such period a "Floating Distribution Period").

Distributions on the Notes shall be scheduled to be paid in arrear on each Floating Distribution Payment Date. "Floating Distribution Payment Date" means, subject to the Floating Business Day Convention (as defined below), each [*insert specified Floating Distribution Payment Dates*], commencing on [*insert first Floating Distribution Payment Date*].

"Floating Business Day Convention" has the following meaning: If any Floating Distribution Payment Date would otherwise fall on a day which is not a Business Day (as defined below), the Floating Distribution Payment Date shall be

[In case of Modified Following Business Day Convention (adjusted), the following applies:

postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Distribution Payment Date shall be brought forward to the immediately preceding Business Day.]

[In case of FRN Convention (adjusted), the following applies:

postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (i) the Floating Distribution Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Floating Distribution Payment Date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment.]

[In case of Following Business Day Convention (adjusted), the following applies:

postponed to the next day which is a Business Day.]

[In case of Preceding Business Day Convention (adjusted), the following applies:

the immediately preceding Business Day.]

"Business Day" means a day which is

[If the Specified Currency is euro, the following applies:

a day (other than a Saturday or a Sunday) on which both (i) the Clearing System and (ii) all relevant parts of the Trans-European Automated Real-time Gross settlement Express Transfer system 2 (TARGET) are open to effect payments.]

[If the Specified Currency is not euro, the following applies:

a day (other than a Saturday or a Sunday) on which commercial banks and the Clearing System are generally open for business and foreign exchange markets settle payments in [*insert all relevant financial centres*].

Distributions will fall due in accordance with the provisions set out in § 4 (5).

[In case of Notes the Floating Rate of Distributions of which is linked to a Reference Rate, insert:

(b) *Floating Rate of Distributions.* The floating rate of distributions (the "Floating Rate of Distributions") for each Floating Distribution Period shall be the [*insert number, term and name of relevant Reference Rate*] *per annum* (the "Reference Rate") [*in case of a Margin insert: [plus] [minus] the Margin (as defined below)*]. Such Reference Rate shall be the offered rate (expressed as a percentage rate *per annum*) for deposits in the Specified

Currency with a term, which corresponds with the Floating Distribution Period, which appears on the Screen Page (as defined below) as of **[insert relevant time]** (**[insert relevant financial centre]** time) on the relevant Floating Rate Determination Date (as defined below), all as determined by the Calculation Agent (as specified in § 6 (1)).

[In case of Notes which have a margin, insert: "Margin" means [insert credit spread as of the pricing date (which shall not include any step-up or other incentive to redeem the Notes)] per cent. per annum.]

"Floating Rate Determination Date" means the **[first]** **[second]** **[insert other relevant number of Business Days]** Business Day **[(as defined in § 1(6))]** **[prior to the [commencement] [end]]** of the relevant Floating Distribution Period. **[if a definition is required, which differs from the "Business Day" definition applicable in § 1, insert: For the purposes of this § 3 (2) only, "Business Day" means a calendar day (other than a Saturday or a Sunday) on which [in case TARGET shall be open, insert: the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("TARGET") is open] [[and] commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in [insert relevant financial centres]].**

"Screen Page" means **[insert relevant Screen Page]** or the successor page displayed by the same information provider or any other information provider nominated by the Calculation Agent as the replacement information provider for the purposes of displaying the Reference Rate.

If the Screen Page is unavailable or if the Reference Rate does not appear on the Screen Page as at such time on the relevant Floating Rate Determination Date, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its rate (expressed as a percentage rate *per annum*) at which it offers deposits in the Specified Currency with a term, which corresponds with the Floating Distribution Period, at approximately **[insert relevant time]** (**[insert relevant financial centre]** time) on the Floating Rate Determination Date.

If two or more of the Reference Banks provide the Calculation Agent with such rates, the Reference Rate for such Floating Distribution Period shall be deemed to be the arithmetic mean (rounded if necessary to the nearest **[if the Reference Rate is EURIBOR insert: one thousandth of a percentage point, with 0.0005 being rounded upwards]** **[if the Reference Rate is not EURIBOR insert: one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards]**) of such rates, all as determined by the Calculation Agent.

If the Reference Rate cannot be determined in accordance with the foregoing provisions of this paragraph, the Reference Rate for the relevant Floating Distribution Period shall be deemed to be the rate determined by the Calculation Agent in its reasonable discretion (§ 315 of the German Civil Code); the Calculation Agent shall take general market practice into account when determining such rate.

"German Civil Code" means the German Civil Code (*Bürgerliches Gesetzbuch - BGB*), as amended from time to time.

"Reference Banks" means **[insert relevant number]** major banks in the **[if the Reference Rate is not EURIBOR insert: [insert relevant financial centre]]** interbank market **[if the Reference Rate is EURIBOR insert: of the Euro-zone]**.

[if the Reference Rate is EURIBOR insert: "Euro-zone" means the region comprised of those member states of the European Union that have adopted, or will have adopted from time to time, the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992), the Amsterdam Treaty of 2 October 1997 and the Treaty of Lisbon of 13 December 2007, as further amended from time to time.]]

[In case of Notes the Floating Rate of Distributions of which is linked to a Swap Rate, insert:

(b) *Floating Rate of Distributions.* The floating rate of distributions (the **"Floating Rate of**

Distributions") for each Floating Distribution Period (as **defined** below) shall be **[insert number, term and relevant Reference Rate]** *per annum* (the "**Reference Rate**") **[in case of a Margin insert: [plus] [minus] the Margin (as defined below)]**. Such Reference Rate shall be the swap rate (expressed as a percentage rate *per annum*) for swap transactions in the Specified Currency with a term of **[insert relevant term]** which appears on the Screen Page (as defined below) as of **[insert relevant time] ([insert relevant financial centre] time)** on the Floating Rate Determination Date (as defined below), all as determined by the Calculation Agent (as specified in § 6 (1)).

[In case of Notes which have a margin, insert: "Margin" means [insert credit spread as of the pricing date (which shall not include any step-up or other incentive to redeem the Notes)] per cent. per annum.]

"Floating Rate Determination Date" means the **[first] [second] [insert other relevant number of Business Days]** Business Day **[(as defined in § 1 (6))]** **[prior to the [commencement] [end]]** of the relevant Floating Distribution Period. **[if a definition is required, which differs from the "Business Day" definition applicable in § 1, insert: For the purposes of this § 3 (2) only, "Business Day" means a calendar day (other than a Saturday or a Sunday [in case the Reference Rate is the USD-Swap Rate, insert: or a day on which the Securities Industry and Financial Markets Association (or any successor thereto) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities]) [,] [,] [if applicable, insert: on which [in case TARGET shall be open, insert: the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("TARGET") is open] [[and] commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in [insert relevant financial centres]].**

"Screen Page" means **[insert relevant Screen Page]** or the successor page displayed by the same information provider or any other information provider nominated by the Calculation Agent as the replacement information provider for the purposes of displaying the Reference Rate.

If the Screen Page is unavailable or if the Reference Rate does not appear on the Screen Page as at such time on the relevant Floating Rate Determination Date, the Calculation Agent shall request each of the Reference Banks (as **defined** below) to provide the Calculation Agent with its mid-market swap rate (expressed as a percentage rate *per annum*) at approximately **[insert relevant time] ([insert relevant financial centre] time)** on the Floating Rate Determination Date. **"Mid-market swap rate"** means the mean of the bid and offered rates for the fixed leg of a fixed-for-floating rate swap transaction in the Specified Currency where the floating leg is equivalent to **[insert number, term and relevant Reference Rate]** *per annum*, which appears on **[insert relevant screen page]** (or the successor page displayed by the same information provider or any other information provider nominated by the Calculation Agent as the replacement information provider for the purposes of displaying the **[insert number, term and relevant Reference Rate]**).

If three or more of the Reference Banks provide the Calculation Agent with such rates, the Reference Rate for the relevant Floating Distribution Period shall be deemed to be the arithmetic mean (rounded if necessary to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards) of such rates eliminating the highest rate (or, in the event of equality, one of the highest) and the lowest rate (or, in the event of equality, one of the lowest), all as determined by the Calculation Agent.

If the Reference Rate cannot be determined in accordance with the foregoing provisions of this paragraph, the Reference Rate for the relevant Floating Distribution Period shall be deemed to be the rate determined by the Calculation Agent in its reasonable discretion (§ 315 of the German Civil Code); the Calculation Agent shall take general market practice into account when determining such rate.

"Reference Banks" means **[insert relevant number]** major banks in the **[if the Reference Rate is not a Euro swap rate, insert relevant financial centre]** interbank market **[if the Reference Rate is a Euro swap rate, insert: of the Euro-zone or in the London interbank**

market].

[If the Reference Rate is a Euro swap rate, insert: "Euro-zone" means the region comprised of those member states of the European Union that have adopted, or will have adopted from time to time, the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992), the Amsterdam Treaty of 2 October 1997 and the Treaty of Lisbon of 13 December 2007, as further amended from time to time.]]

(c) *Calculation of Floating Amount of Distributions.* The Calculation Agent will calculate the amount of distributions payable under the Notes in respect of the Current Principal Amount for the relevant Floating Distribution Period (the "**Floating Amount of Distributions**"). The Floating Amount of Distributions shall be calculated by applying the Floating Rate of Distributions to the Current Principal Amount, multiplying such sum by the applicable Floating Rate Day Count Fraction (as defined below) and rounding the resulting figure to the nearest sub-unit of the relevant Specified Currency, with half of such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

(d) *Notification of Floating Rate of Distributions and Floating Amount of Distributions.* The Calculation Agent will cause the Floating Distribution Period, the Floating Rate of Distributions, the Floating Amount of Distributions and the Floating Distribution Payment Date for the relevant Floating Distribution Period to be notified to the Issuer, any stock exchange on which the Notes are from time to time listed (if required by the rules of such stock exchange) and to the Holders in accordance with § 10 as soon as possible after their determination. Each Floating Amount of Distributions and Floating Distribution Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Floating Distribution Period. Any such amendment will be promptly notified to any stock exchange on which the Notes are from time to time listed and to the Holders in accordance with § 10.

(e) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this § 3 by the Calculation Agent shall (in the absence of wilful default, bad faith, inequitableness or manifest error) be binding on the Issuer, the Fiscal Agent, the Paying Agents and the Holders and, in the absence of the aforesaid, no liability to the Issuer, the Fiscal Agent, the Paying Agents or the Holders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(f) *Floating Rate Day Count Fraction.* "**Floating Rate Day Count Fraction**" means, in respect of the calculation of an amount of distributions on any Note for any period of time (the "**Floating Calculation Period**"):

[In case Actual/Actual (ICMA) applies, insert:

1. if the Floating Calculation Period is equal to or shorter than the Floating Rate Determination Period during which the Floating Calculation Period ends, the number of calendar days in such Floating Calculation Period divided by the product of (x) the number of calendar days in such Floating Rate Determination Period and (y) the number of Floating Rate Determination Dates (as specified below) that would occur in one calendar year; or
2. if the Floating Calculation Period is longer than the Floating Rate Determination Period during which the Floating Calculation Period ends, the sum of
 - (A) the number of calendar days in such Floating Calculation Period falling in the Floating Rate Determination Period in which the Floating Calculation Period begins divided by the product of (x) the number of calendar days in such Floating Rate Determination Period and (y) the number of Floating Rate Determination Dates that would occur in one calendar year; and
 - (B) the number of calendar days in such Floating Calculation Period falling in the

next Floating Rate Determination Period divided by the product of (x) the number of calendar days in such Floating Rate Determination Period and (y) the number of Floating Rate Determination Dates that would occur in one calendar year.

"Floating Rate Determination Period" means the period from, and including, a Floating Rate Determination Date to, but excluding, the next Floating Rate Determination Date (including, where the first Floating Distribution Payment Date is not a Floating Rate Determination Date, the period commencing on the first Floating Rate Determination Date prior to the Floating Distribution Commencement Date, and where the final Floating Distribution Payment Date is not a Floating Rate Determination Date, the first Floating Rate Determination Date falling after the final Floating Distribution Payment Date, as the case may be). The number of floating rate determination dates per calendar year (each a **"Floating Rate Determination Date"**) is **[insert number of regular floating distribution payment dates per calendar year].**

[In case Actual/Actual (ISDA) or Actual/365 applies, insert: the actual number of calendar days in the Floating Calculation Period divided by 365 (or, if any calculation portion of that Floating Calculation Period falls in a leap year, the sum of (1) the actual number of calendar days in that portion of the Floating Calculation Period falling in a leap year divided by 366 and (2) the actual number of calendar days in that portion of the Floating Calculation Period falling in a non-leap year divided by 365).]

[In case Actual/365 (Fixed) applies, insert: the actual number of calendar days in the Floating Calculation Period divided by 365.]

[In case Actual/360 applies, insert: the actual number of calendar days in the Floating Calculation Period divided by 360.]

[In case 30/360, 360/360 or Bond Basis applies, insert: the number of calendar days in the Floating Calculation Period divided by 360, the number of calendar days to be calculated on the basis of a year of 360 calendar days with twelve 30-calendar day months (unless (1) the last calendar day of the Floating Calculation Period is the 31st calendar day of a month but the first calendar day of the Floating Calculation Period is a calendar day other than the 30th or 31st calendar day of a month, in which case the month that includes that last calendar day shall not be considered to be shortened to a 30-calendar day month, or (2) the last calendar day of the Floating Calculation Period is the last calendar day of the month of February in which case the month of February shall not be considered to be lengthened to a 30-calendar day month).]

(3) *Default Distributions.* The Notes shall cease to bear distributions from the expiry of the calendar day preceding the due date for redemption (if the Notes are redeemed). If the Issuer fails to redeem the Notes when due, distributions shall continue to accrue on the Current Principal Amount of the Notes from and including the due date for redemption to but excluding the date of actual redemption of the Notes at the default rate of distributions established by law. This does not affect any additional rights that might be available to the Holders.

(4) *Cancellation of Distributions.* The Issuer, at its full discretion, may, at all times cancel, in whole or in part, any payment of distributions on the Notes scheduled to be paid on any Fixed Distribution Payment Date or Floating Distribution Payment Date (each such date, a **"Distribution Payment Date"**) for an unlimited period and on a non-cumulative basis. The Issuer may use such cancelled payments without restrictions to meet its obligations as they fall due. If the Issuer makes use of such right, it shall give notice to the Holders without undue delay and in any event no later than on the relevant Distribution Payment Date.

Without prejudice to such full discretion of the Issuer, any payment of distributions on the Notes scheduled to be paid on any Distribution Payment Date shall be cancelled, in whole or in part, if and to the extent:

- (i) the distribution payment scheduled to be paid together with any further Relevant Distributions would exceed the available Distributable Items, provided that, for such purpose, the available Distributable Items shall be increased by an amount equal to what has been accounted for as expenses for payments of interest, dividends or distributions on Tier 1 Instruments (including payments of distributions on the Notes) in

the calculation of the profit (*Gewinn*) on which the available Distributable Items are based;

- (ii) the Competent Authority orders the relevant distribution payment scheduled to be paid to be cancelled in whole or in part; or
- (iii) on the relevant Distribution Payment Date such distribution payment aggregated with any other distributions of the kind referred to in § 24(2) of the Austrian Banking Act (implementing Article 141(2) of the CRD IV in Austria) would not be in compliance with the restrictions relating to the Maximum Distributable Amount.

Any distribution payment so cancelled will be non-cumulative and will be cancelled definitively and no payments will be made nor will any Holder be entitled to receive any payment or indemnity in respect thereof. Any such cancellation of distributions does not constitute an event of default of the Issuer and imposes no restrictions on the Issuer.

Where:

"Austrian Banking Act" means the (*Bankwesengesetz – BWG*), as amended from time to time.

"Competent Authority" means the competent authority pursuant to Article 4(1)(40) of the CRR which is responsible to supervise the Issuer and/or the Erste Group.

"CRD IV" means the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (*Capital Requirements Directive IV*), as implemented in Austria and as amended from time to time.

"Distributable Items" means in respect of any payment of distributions on the Notes the distributable items as defined in Article 4(1)(128) of the CRR in respect of each financial year of the Issuer, as at the end of the latest financial year of the Issuer ended prior to the relevant Distribution Payment Date for which such Relevant Financial Statements are available, all as determined in accordance with the accounting principles applied by the Issuer and as derived from the most recent Relevant Financial Statements.

"Erste Group" means the Issuer and its consolidated Subsidiaries.

"Maximum Distributable Amount" means any maximum distributable amount (*maximal ausschüttungsfähiger Betrag*) relating to the Issuer and/or the Erste Group, as the case may be, that may be required to be calculated in accordance with § 24(2) of the Austrian Banking Act (implementing Article 141(2) of the CRD IV in Austria).

"Relevant Distributions" means the sum of (i) any payments of distributions on the Notes made or scheduled to be made by the Issuer in the relevant financial year of the Issuer; and (ii) any payments of interest, dividends or distributions made or scheduled to be made by the Issuer on any other Tier 1 Instruments in the relevant financial year of the Issuer, and (iii) the amount of any Write-up (as defined below) in the relevant financial year, if any.

"Relevant Financial Statements" means (i) the audited (*geprüft*) and adopted (*festgestellt*) unconsolidated annual financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer and accounting regulations then in effect, for the latest financial year of the Issuer ended prior to the relevant Fixed Distribution Payment Date or Floating Distribution Payment Date, or (ii) if such audited and adopted unconsolidated annual financial statements of the Issuer are not available at the relevant Fixed Distribution Payment Date or Floating Distribution Payment Date, unaudited unconsolidated pro forma financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer in relation to its unconsolidated annual financial statements and accounting regulations then in effect in relation to the Issuer's unconsolidated annual financial statements.

"Subsidiary" means any subsidiary of the Issuer pursuant to Article 4(1)(16) of the CRR.

"Tier 1 Instruments" means (i) the CET 1 Instruments; (ii) the AT 1 Instruments; and (iii) any other instruments or obligations of the Issuer ranking *pari passu* as regards payment of interest, dividends or distributions with CET 1 Instruments or AT 1 Instruments.

§ 4 PAYMENTS

(1) (a) *Payment of Principal.* Payment of principal on the Notes shall be made, subject to paragraph (2) below, to the Clearing System or to its order for credit to the accounts of the relevant accountholders of the Clearing System.

(b) *Payment of Distributions.* Payment of distributions on the Notes shall be made, subject to § 3 (4) above and paragraph (2) below, to the Clearing System or to its order for credit to the accounts of the relevant accountholders of the Clearing System **[in case of distribution payments on a Temporary Global Note insert:**, and in case of payment of distributions on Notes represented by a Temporary Global Note, upon due certification as provided for in § 1 (3) (b)].

(2) *Manner of Payment.* Subject to applicable fiscal and other laws and regulations, payments of amounts due in respect of the Notes shall be made in the Specified Currency.

[In case of Notes whose Specified Currency is not Euro, insert: If the Issuer determines that it is impossible to make payments of amounts due on the Notes in freely negotiable and convertible funds on the relevant due date for reasons beyond its control or that the Specified Currency or any successor currency provided for by law (the "**Successor Currency**") is no longer used for the settlement of international financial transactions, the Issuer may fulfil its payment obligations by making such payments in Euro on the relevant due date on the basis of the Applicable Exchange Rate. Holders shall not be entitled to further interest or any additional amounts as a result of such payment. The "**Applicable Exchange Rate**" shall be (i) (if such exchange rate is available) the exchange rate of Euro against the Specified Currency or the Successor Currency (if applicable) determined and published by the European Central Bank for the most recent calendar day falling within a reasonable period of time prior to the relevant due date, or (ii) (if such exchange rate is not available) the exchange rate of Euro against the Specified Currency or the Successor Currency (if applicable) which the Fiscal Agent has calculated as the arithmetic mean of offered rates concerning the Specified Currency or the Successor Currency (if applicable) quoted to the Fiscal Agent by four leading banks operating in the international foreign exchange market for the most recent calendar day falling within a reasonable (as determined by the Fiscal Agent in its reasonable discretion (§ 315 of the German Civil Code)) period of time prior to the relevant due date, or (iii) (if such exchange rate is not available) the exchange rate of Euro against the Specified Currency or the Successor Currency (if applicable) as determined by the Fiscal Agent in its reasonable discretion (§ 315 of the German Civil Code).]

(3) *Discharge.* The Issuer shall be discharged by payment to, or to the order of, the Clearing System.

(4) *Fixed Payment Business Day.* If the due date for any payment in respect of the Notes which falls prior to or on the Reset Date would otherwise fall on a calendar day which is not a Fixed Payment Business Day (as defined below), the due date for such payment shall be:

[in case Modified Following Business Day Convention applies, insert: postponed to the next calendar day which is a Fixed Payment Business Day unless the due date for such payment would thereby fall into the next calendar month, in which event the due date for such payment shall be the immediately preceding calendar day which is a Fixed Payment Business Day.]

[in case Following Business Day Convention applies, insert: postponed to the next calendar day which is a Fixed Payment Business Day.]

[in case Preceding Business Day Convention applies, insert: moved forward to the immediately preceding calendar day which is a Fixed Payment Business Day.]

"**Fixed Payment Business Day**" means a calendar day (other than a Saturday or a Sunday) (i) on which the Clearing System is open, and (ii) [which is a Business Day (as defined in § 1 (6))] [on which **[insert, as applicable:** commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in **[insert all relevant financial centres]**] **[insert, as**

applicable: [and] the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 or its successor ("TARGET") is open]].

[If the distribution amount shall be adjusted, insert: If any Fixed Payment Business Day is **[in case Modified Following Business Day Convention or Preceding Business Day Convention applies, insert:** brought forward] [or] **[in case Modified Following Business Day Convention or Following Business Day Convention applies, insert:** postponed] (as described above), the amount of distribution shall be adjusted accordingly.]

[If the distribution amount shall not be adjusted, insert: If any Fixed Payment Business Day is **[in case Modified Following Business Day Convention or Preceding Business Day Convention applies, insert:** brought forward] [or] **[in case Modified Following Business Day Convention or Following Business Day Convention applies, insert:** postponed] (as described above), the amount of distribution shall not be adjusted accordingly.]

(5) *Floating Payment Business Day.* If the due date for any payment in respect of the Notes which falls after the Reset Date would otherwise fall on a calendar day which is not a Floating Payment Business Day (as defined below), the due date for such payment shall be:

[in case Modified Following Business Day Convention applies, insert: postponed to the next calendar day which is a Floating Payment Business Day unless the due date for such payment would thereby fall into the next calendar month, in which event the due date for such payment shall be the immediately preceding calendar day which is a Floating Payment Business Day.]

[in case Following Business Day Convention applies, insert: postponed to the next calendar day which is a Floating Payment Business Day.]

[in case Preceding Business Day Convention applies, insert: moved forward to the immediately preceding calendar day which is a Floating Payment Business Day.]

"**Floating Payment Business Day**" means a calendar day (other than a Saturday or a Sunday) (i) on which the Clearing System is open, and (ii) [which is a Business Day (as defined in § 1 (6))] [on which **[insert, as applicable:** commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in **[insert all relevant financial centres]** **[insert, as applicable:** [and] the Trans-European Automated Real-Time Gross Settlement Express Transfer System 2 or its successor ("TARGET") is open]].

[If the distribution amount shall be adjusted, insert: If a Floating Payment Business Day is **[in case Modified Following Business Day Convention or Preceding Business Day Convention applies, insert:** brought forward] [or] **[in case Modified Following Business Day Convention or Following Business Day Convention applies, insert:** postponed] (as described above), the relevant Floating Distribution Period shall be adjusted accordingly.]

[If the distribution amount shall not be adjusted, insert: If a Floating Payment Business Day is **[in case Modified Following Business Day Convention or Preceding Business Day Convention applies, insert:** brought forward] [or] **[in case Modified Following Business Day Convention or Following Business Day Convention applies, insert:** postponed] (as described above), the relevant Floating Distribution Period shall not be adjusted accordingly.]

If the due date for the redemption of the principal amount of the Notes is adjusted the Holder shall not be entitled to payments in respect of such adjustment.

(6) *References to Principal and Distributions.* References in these Terms and Conditions to "principal" in respect of the Notes shall be deemed to include, as applicable: the Current Principal Amount; the Call Redemption Amount of the Notes (both as specified in § 5); and any premium and any other amounts (other than distributions) which may be payable under or in respect of the Notes. References in these Terms and Conditions to "distributions" in respect of the Notes shall be deemed to include, as applicable, any Additional Amounts (as defined in § 7 (1)) which may be payable under § 7 (1).

§ 5
REDEMPTION AND WRITE-DOWN

(1) *No Scheduled Maturity.* The Notes are perpetual and have no scheduled maturity date.

(2) *No Redemption at the Option of a Holder.* The Holders do not have a right to demand the redemption of the Notes.

(3) *Redemption at the Option of the Issuer.*

(a) The Issuer may, upon notice given in accordance with subparagraph (b), redeem the Notes in whole, but not in part, on the Call Redemption Date(s) at the applicable Call Redemption Amount together with accrued distributions, if any, and subject to cancellation of distributions pursuant to § 3 (4), to, but excluding, the (relevant) Call Redemption Date. Any such redemption pursuant to this subsection § 5 (3) shall not be possible before five years after the date of issuance and shall only be possible provided that the redemption conditions laid down in § 5 (6) are met.

"**Call Redemption Amount**" equals the Current Principal Amount.

"**Call Redemption Date**" means (i) each Reset Date occurring not before five years after the date of issuance of the Notes and (ii) thereafter each Floating Distribution Payment Date [falling 12 months after the previous Call Redemption Date].

(b) Notice of redemption shall be given by the Issuer to the Holders in accordance with § 10. Such notice shall be irrevocable and shall specify:

- (i) the series number of the Notes;
- (ii) the Call Redemption Date which shall be not less than [**insert Minimum Notice Period, which shall not be less than 5 Business Days**] [calendar days] [Business Days] [**in case of a Maximum Notice Period insert:** nor more than [**insert Maximum Notice Period**] [calendar days] [Business Days]] after the calendar day on which notice is given by the Issuer to the Holders; and
- (iii) the Call Redemption Amount at which the Notes are to be redeemed.

(4) *Redemption for Reasons of Taxation.* The Notes may be redeemed at the option of the Issuer in whole, but not in part, during the First Period at any time and during a Floating Distribution Period [at any time] [on the next Floating Distribution Payment Date] on giving not less than [**insert Minimum Notice Period**] nor more than [**insert Maximum Notice Period**] [calendar days] [Business Days] prior notice of redemption to the Fiscal Agent and, in accordance with § 10, to the Holders (which notice shall be irrevocable), if there is a change in the applicable tax treatment of the Notes, including without limitation, a Tax Deductibility Event or a Gross-up Event, which the Issuer, in accordance with and subject to Article 78(4) of the CRR, demonstrates to the satisfaction of the Competent Authority is material and was not reasonably foreseeable at the time of their issuance, and provided that the redemption conditions laid down in § 5 (6) are met.

Where:

A "**Gross-up Event**" occurs if there is a change in the applicable tax treatment of the Notes based on a decision of the local tax authority having competence over the Issuer as a result of which the Issuer has paid, or will or would on the next Distribution Payment Date be required to pay, any Additional Amounts, provided however that any such Additional Amounts are only payable if and to the extent they: (i) would not exceed the Distributable Items; and (ii) only relate to withholding tax applicable to distributions by or on behalf of the Issuer.

A "**Tax Deductibility Event**" occurs if there is a change in the applicable tax treatment of the Notes as a result of which the Issuer would not be entitled to claim a deduction in respect of distributions paid on the Notes in computing its taxation liabilities in Austria, or such deductibility is materially reduced.

(5) *Redemption for Regulatory Reasons.* The Notes may be redeemed at the option of the Issuer in whole, but not in part, during the First Period at any time and during a Floating Distribution Period [at any time] [on the next Floating Distribution Payment Date] on giving not

less than **[insert Minimum Notice Period]** nor more than **[insert Maximum Notice Period]** [calendar days] [Business Days] prior notice of redemption to the Fiscal Agent and, in accordance with § 10, to the Holders (which notice shall be irrevocable), if there is a change in the regulatory classification of the Notes that would be likely to result in their full or partial exclusion from own funds or reclassification as a lower quality form of own funds, and provided that the following conditions are met: (i) the Competent Authority considers such a change to be sufficiently certain; (ii) the Issuer demonstrates to the satisfaction of the Competent Authority that the regulatory reclassification of the Notes was not reasonably foreseeable at the time of their issuance; and (iii) the redemption conditions laid down in § 5 (6) are met.

(6) *Redemption Conditions.* Any redemption pursuant to this § 5 requires that the Competent Authority has granted the Issuer the prior permission in accordance with Article 78 of the CRR for the redemption, whereas such permission may, *inter alia*, require that:

- (i) earlier than or at the same time as the redemption, the Issuer replaces the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
- (ii) the Issuer has demonstrated to the satisfaction of the Competent Authority that the own funds of the Issuer would, following the redemption, exceed the requirements laid down in Article 92(1) of the CRR and the combined buffer requirement as defined in point (6) of Article 128 of the CRD IV by a margin that the Competent Authority may consider necessary on the basis of Article 104(3) of the CRD IV.

For the avoidance of doubt, any refusal of the Competent Authority to grant permission in accordance with Article 78 of the CRR shall not constitute a default for any purpose,

(7) *Redemption Amount.* In case of a redemption pursuant to § 5 (4) or § 5 (5), the Notes will be redeemed at their Current Principal Amount together with distributions, if any and subject to cancellation of distributions pursuant to § 3 (4), accrued to, but excluding, the date of redemption.

(8) *Write-down.* If a Trigger Event (as defined below) has occurred, the Issuer will:

- (i) immediately inform the Competent Authority that the Trigger Event has occurred;
- (ii) determine the Write-down Amount (as defined below) as soon as possible, but in any case within a maximum period of one month following the determination by the Issuer that a Trigger Event has occurred; and
- (iii) without undue delay inform the Fiscal Agent and the Holders that a Trigger Event has occurred by publishing a notice (such notice a "Write-down Notice") which will specify the Write-down Amount as well as the new/reduced Current Principal Amount of each Note and the Effective Date (as defined below);
- (iv) (without the need for the consent of Holders) reduce the Current Principal Amount of each Note by the relevant Write-down Amount (such reduction being referred to as a "**Write-down**") without undue delay, but not later than within one month, with effect as from the Effective Date.

For the avoidance of doubt, a Trigger Event may be calculated at any time and may occur on more than one occasion and each Note may be subject to a Write-down on more than one occasion and the Current Principal Amount of a Note may never be reduced to below **[insert Specified Currency] [0.01 or lower amount]**.

The Issuer shall not give a notice of redemption after a Write-Down Notice has been given until the Write-down has been effected in respect of the relevant Trigger Event. In addition, if a Write-Down Notice is given after a notice of redemption but before the date on which such redemption becomes effective, the notice of redemption shall automatically be deemed revoked and shall be null and void and the relevant redemption shall not be made.

Where:

"Applicable Supervisory Regulations" mean the provisions of the Austrian Banking Act, the

CRD IV, the CRR, and the CDR including any (existing or future) regulations and decisions issued on the basis of the afore-mentioned laws and regulations binding on the Issuer and/or the Erste Group.

"**CDR**" means the Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions (*Capital Delegated Regulation*), as amended from time to time.

"**Current Principal Amount**" means initially the Specified Denomination, which from time to time - on one or more occasions - may be reduced by a Write-down and, subsequent to any such reduction, may be increased by a Write-up (as defined below), if any (up to the Specified Denomination).

"**Effective Date**" means the date specified as such in the Write-down Notice to the Holders, being no later than one month (or such shorter period as the Competent Authority may require) following the occurrence of the relevant Trigger Event.

"**Group CET 1 Capital Ratio**" means the Common Equity Tier 1 capital ratio pursuant to Article 92(2)(a) of the CRR of the Erste Group on a consolidated basis, as calculated by the Issuer in accordance with the Applicable Supervisory Regulations, which determination will be binding on the Holders.

"**Issuer CET 1 Capital Ratio**" means the Common Equity Tier 1 capital ratio pursuant to Article 92(2)(a) of the CRR of the Issuer on an individual basis, as calculated by the Issuer in accordance with the Applicable Supervisory Regulations, which determination will be binding on the Holders.

"**Minimum Trigger Level**" means in respect of: (i) the Group CET 1 Capital Ratio [*insert consolidated minimum trigger level*] *per cent.* and/or (ii) the Issuer CET 1 Capital Ratio [*insert individual minimum trigger level*] *per cent.*

"**Required Loss Absorption Amount**" means the amount by which, upon the occurrence of a Trigger Event, a write-down of the aggregate Current Principal Amount of the Notes shall be effected *pro rata* with the aggregate (current) principal amount of any other AT 1 Instruments whose trigger events for a write-down or conversion (loss absorption) pursuant to their terms have occurred and whose minimum trigger levels have not been restored, irrespective of the opening of any insolvency proceedings. For such purpose, the total amount of the write-downs to be allocated *pro rata* shall be equal to the amount required to fully restore or maintain the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio to at least the Minimum Trigger Level, as applicable, but shall not exceed the sum of the principal amounts of AT 1 Instruments whose trigger events for a write-down or conversion pursuant to their terms have occurred and whose minimum trigger levels have not been restored and which are outstanding at the time of occurrence of the Trigger Event.

To the extent the write-down (or write-off) or conversion into Common Equity Tier 1 instruments of any other AT 1 Instrument whose trigger events for a write-down or conversion pursuant to their terms have occurred is not, or within one month from the determination that the relevant trigger event has occurred will not be, effective for any reason:

- (i) the ineffectiveness of any such write-down (or write-off) or conversion into Common Equity Tier 1 instruments shall not prejudice the requirement to effect a Write-down of the Notes (loss absorption); and
- (ii) the write-down (or write-off) or conversion into Common Equity Tier 1 instruments of any other AT 1 Instrument whose trigger events for a write-down or conversion pursuant to their terms have occurred which is not, or within one month from the determination that the relevant Trigger Event has occurred will not be, effective shall not be taken into account in determining such Write-down of the Notes.

Where:

A "**Trigger Event**" occurs if it has been determined that: (i) the Group CET 1 Capital Ratio and/or (ii) the Issuer CET 1 Capital Ratio fall to an amount that is lower than the applicable

Minimum Trigger Level.

"Write-down Amount" per Note means the amount by which the Current Principal Amount per Note is to be Written-down on an Effective Date, being the higher of (i) the *pro rata* share of the Note in the Required Loss Absorption Amount and (ii) if the amount in (i) is insufficient to fully restore or maintain the Issuer CET 1 Capital Ratio and/or the Group CET 1 Capital Ratio to the Minimum Trigger Level, the amount necessary to reduce the Current Principal Amount to **[insert Specified Currency] [insert 0.01 or lower amount]**. **[if Specified Currency is not euro, insert:** Any amounts in any currency other than euro will, for purposes of establishing the Write-down Amount be converted into euro at the foreign exchange rate prevailing on the [third] business day prior to the Effective Date; such foreign exchange rate shall be determined by the Issuer in its reasonable discretion (§ 315 of the German Civil Code.)]

(9) *Write-up*. The Issuer may, at its sole discretion, effect a reversal of a Write-down by writing up the Current Principal Amount in whole or in part up to a maximum of the Specified Denomination (a **"Write-up"**), provided that a positive Profit has been recorded, and subject to the below limitations. There will be no obligation for the Issuer to operate or accelerate a Write-up under any specific circumstances.

If the Issuer so decides in its sole discretion, the Write-up will occur with effect as of the Write-Up Date (as defined below) (including).

At its discretion (without being obliged to) the Issuer may effect such Write-up provided that:

- (i) at the time of the Write-up, there must not exist any Trigger Event that is continuing; any Write-up is also excluded if such Write-up would give rise to the occurrence of a Trigger Event;
- (ii) such Write-up is applied on a *pro rata* basis to all Notes and among Similar AT 1 Instruments that have been subject to a write-down; and
- (iii) the sum of (a) the aggregate amount attributed to the relevant Write-up of the Notes and (b) the aggregate amount of any distribution scheduled to be paid on the aggregate Current Principal Amount of the Notes as calculated at the moment the Write-up is operated will not exceed the Maximum Write-up Amount.

The amount of any Write-up and payments of distributions on the reduced Current Principal Amount shall be treated as payment resulting in a reduction of Common Equity Tier 1 pursuant to Article 28 of the CRR and shall be subject, together with other distributions on CET 1 Instruments, to the restrictions relating to the Maximum Distributable Amount as referred to in § 24(2) of the Austrian Banking Act (implementing Article 141(2) of the CRD IV in Austria).

For the avoidance of doubt, a Write-up of the Notes may occur on one or more occasions until the Current Principal Amount equals the Specified Denomination. Write-ups do not have priority over dividend payments and other distributions on shares and other CET 1 Instruments of the Issuer, i.e. such payments and distributions are permitted even if no full Write-up of the Notes has been effected.

If the Issuer elects to effect a Write-up, it will publish a notice about the Write-up (including the amount of the Write-up as a percentage of the Specified Denomination and the effective date of the Write-up (in each case a **"Write-up Date"**)) no later than 10 calendar days prior to the relevant Write-up Date to the Fiscal Agent and, in accordance with § 10, to the Holders. The Write-up shall be deemed to be effected at the time when the notice to the Holders is given in accordance with § 10 and the Current Principal Amount shall be deemed to be increased by the amount specified in the notice with effect as of the Write-up Date.

Where:

"Maximum Write-up Amount" means the lower of:

- (i) the consolidated Profit multiplied by the sum of the aggregate Specified Denomination and the aggregate initial principal amount of all Similar AT 1 Instruments of the Erste Group which have been subject to a write-down (for the avoidance of doubt, before any

write-down), and divided by the total Tier 1 Capital pursuant to Article 25 of the CRR of the Erste Group as at the date the relevant Write-Up is operated; and

- (ii) the Profit on a solo basis multiplied by the sum of the aggregate Specified Denomination and the aggregate initial principal amount of all Similar AT 1 Instruments of the Issuer which have been subject to a write-down (for the avoidance of doubt, before any write-down), and divided by the total Tier 1 Capital pursuant to Article 25 of the CRR of the Issuer as at the date the relevant Write-Up is operated;

unless the Applicable Supervisory Regulations provide otherwise on the date of the relevant Write-up.

"Similar AT 1 Instruments" means any (directly or indirectly issued) Additional Tier 1 instrument pursuant to Article 52 of the CRR (other than the Notes) of the Issuer or, as applicable, any instrument issued by a member of the Erste Group and qualifying as Additional Tier 1 instruments pursuant to Article 52 of the CRR of the Issuer and/or the Erste Group, that includes a similar write-down mechanism (permanent or temporary) and which has an identical trigger level as set out in "Trigger Event".

[If Specified Currency is not Euro, insert: Any amounts in a currency other than Euro will, for purposes of establishing the Maximum Write-up Amount be converted into Euro at the foreign exchange rate prevailing on the [third] business day prior to the Effective Date.]

"Profit" means (i) the net income for the year (*Jahresüberschuss*) of the Issuer on an individual basis recorded in the Relevant Financial Statements; or (ii) the consolidated net income for the year (*Jahresüberschuss*) on a consolidated basis recorded in the consolidated financial statements of the Erste Group, in each case after such Relevant Financial Statements or consolidated financial statements have formally been determined (*festgestellt*) by either the supervisory board (*Aufsichtsrat*) or, if so requested, the shareholders' meeting (*Hauptversammlung*) of the Issuer.

§ 6 FISCAL AGENT, PAYING AGENT[S] AND CALCULATION AGENT

(1) *Appointment; Specified Offices.* The initial Fiscal Agent, the initial Principal Paying Agent **[in case (a) further paying agent(s) shall be appointed, insert:** the initial Paying Agent(s)] and the initial Calculation Agent and their respective initial specified offices are:

Fiscal Agent and Principal Paying Agent:

[In case BNP Paribas Securities Services, Luxembourg Branch shall be appointed as initial Fiscal and Principal Paying Agent insert:

BNP Paribas Securities Services, Luxembourg Branch
33, rue de Gasperich
LUX-5826 Hesperange
Grand Duchy of Luxembourg]

[In case another Fiscal and Principal Paying Agent shall be appointed, insert its name and initial specified office.]

[In case an additional or other paying agent shall be appointed, insert its name and initial specified office.]

Where these Terms and Conditions refer to the term "Paying Agent(s)", such term shall include the Principal Paying Agent.

Calculation Agent:

[In case Erste Group Bank AG shall be appointed as Calculation Agent insert:

Erste Group Bank AG
Graben 21
A-1010 Vienna

Austria]

[In case another Calculation Agent shall be appointed, insert its name and initial specified office.]

The Fiscal Agent, the Paying Agent(s) and the Calculation Agent reserve the right at any time to change their respective specified office to some other specified office in the same city.

(2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any Paying Agent or the Calculation Agent and to appoint another Fiscal Agent, additional or other Paying Agents or another Calculation Agent. The Issuer shall at all times maintain (i) a Fiscal Agent [.] [and] (ii) so long as the Notes are listed on a stock exchange, a Paying Agent (which may be the Fiscal Agent) with a specified office in such place as may be required by the rules of such stock exchange or its supervisory [authority] [authorities] [**in case of payments in U.S. Dollars insert: [.] [and]**] (iii) if payments at or through the offices of all Paying Agents outside the United States become illegal or are effectively precluded because of the imposition of exchange controls or similar restrictions on the full payment or receipt of such amounts in U.S. Dollars, a Paying Agent with a specified office in New York [**in case a Calculation Agent is to be appointed insert: and ([iv]) a Calculation Agent**]. The Issuer will give notice to the Holders of any variation, termination, appointment or any other change as soon as possible upon the effectiveness of such change.

The Issuer undertakes, to the extent this is possible, to maintain a Paying Agent in a member state of the European Union in which it shall not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

(3) *Agents of the Issuer.* The Fiscal Agent, the Paying Agents and the Calculation Agent act solely as agents of the Issuer and do not have any obligations towards or relationship of agency or trust to any Holder.

(4) *Determinations Binding.* All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Terms and Conditions by the Fiscal Agent shall (in the absence of wilful default, bad faith, inequity or manifest error) be binding on the Issuer, the Paying Agents, the Calculation Agent and the Holders and, in the absence of the aforesaid, no liability to the Issuer, the Paying Agents, the Calculation Agent or the Holders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

[In case of Notes which are initially represented by a Temporary Global Note, which will be exchanged for a Permanent Global Note, or in case of Notes whose Specified Currency is U.S. dollar, insert:

(5) *United States.* For purposes of these Terms and Conditions, "**United States**" or "**U.S.**" means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, U.S. Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands).]

§ 7 TAXATION

(1) *General Taxation.* All payments of principal and distributions by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Austria or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

In that event, the Issuer shall pay such additional amounts (the "**Additional Amounts**") to the Holder as shall result in receipt by that Holder of such amounts as would have been received by it had no such withholding or deduction been required, except that no such Additional

Amounts shall be payable with respect to any Note:

(a) to, or to a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Republic of Austria other than the mere holding of the Note; or

(b) presented for payment more than [30] **[insert other period]** calendar days after the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven calendar days after that on which notice is duly given to the Holders in accordance with § 10 that, upon further presentation of the Notes being made, such payment will be made, provided that payment is in fact made upon such presentation, except to the extent that the Holder would have been entitled to such Additional Amounts on presenting the Note for payment on the [thirtieth] **[insert other relevant number of calendar days]** such calendar day; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union.

(2) *U.S. Foreign Account Tax Compliance Act (FATCA)*. The Issuer is authorised to withhold or deduct from amounts payable under the Notes to a Holder or beneficial owner of Notes sufficient funds for the payment of any tax that it is required by law to withhold or deduct pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental agreement thereto ("**FATCA**") (including under a voluntary agreement entered into with a taxing authority as described in Section 1471(b) of the Code (the "**FATCA Agreement**"). The Issuer will not be required to make any payment of additional amounts for or on account of any withholding tax deducted by the Issuer or an intermediary in compliance with FATCA. For the avoidance of doubt, the withholding or deduction of any amounts which are withheld or deducted pursuant to a FATCA Agreement shall be treated as being required by law.

§ 8 PRESENTATION PERIOD

The presentation period provided in § 801 (1) sentence 1 German Civil Code is reduced to [ten] **[insert other time period]** years for the Notes.

§ 9 FURTHER ISSUES OF NOTES, PURCHASES AND CANCELLATION

(1) *Further Issues of Notes*. The Issuer may from time to time, without the consent of the Holders, issue further Notes having the same terms as the Notes in all respects (or in all respects except for the issue date, issue price, Distribution Commencement Date and/or first Distribution Payment Date) so as to form a single series with the Notes.

(2) *Purchases*. **[If a purchase of Notes is permissible, insert:** The Issuer and any of its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price. Notes purchased by the Issuer or the Subsidiary may, at the option of the Issuer or such Subsidiary, be held, resold or surrendered to the Fiscal Agent for cancellation. No purchase shall be possible unless all applicable regulatory and other statutory restrictions are observed and provided that the redemption conditions laid down in § 5 (6) are met.] **[If a purchase of Notes is not permissible, insert:** Neither the Issuer nor its Subsidiaries may at any time purchase Notes.]

(3) *Cancellation.* All Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

§ 10 NOTICES

(1) *Notices of the Issuer.* All notices of the Issuer concerning the Notes shall be published in [such media as determined by law] **[insert specific media]** and in electronic form on the website of the Issuer [(www.erstegroup.com)] **[●]**. Any notice so given will be deemed to have been validly given on the fifth calendar day following the date of such publication (or, if published more than once, on the [fifth] **[●]** calendar day following the date of the first such publication) [unless the notice provides for a later effective date].

(2) *Publication of Notices of the Issuer via the Clearing System.* If the publication of notices pursuant to paragraph (1) is no longer required by law, the Issuer may, in lieu of publication in the media set forth in paragraph (1), deliver the relevant notices to the Clearing System, for communication by the Clearing System to the Holders. Any such notice shall be deemed to have been given to the Holders on the [seventh] **[●]** calendar day after the calendar day on which said notice was given to the Clearing System.

(3) *Form of Notice to Be Given by any Holder.* Notices regarding the Notes which are to be given by any Holder to the Issuer shall be validly given if delivered in writing in English language to the Issuer or the Fiscal Agent (for onward delivery to the Issuer) and by hand or mail. The Holder shall provide evidence satisfactory to the Issuer of its holding of the Notes. Such evidence may be (i) in the form of a certification from the Clearing System or the Custodian with which the Holder maintains a securities account in respect of the Notes that such Holder is, at the time such notice is given, the Holder of the relevant Notes, or (ii) in any other appropriate manner. "**Custodian**" means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Holder maintains a securities account in respect of the Notes and includes the Clearing System.

§ 11 APPLICABLE LAW, PLACE OF JURISDICTION AND ENFORCEMENT

(1) *Applicable Law.* The Notes, as to form and content, and all rights and obligations of the Holders and the Issuer, shall be governed by, and shall be construed exclusively in accordance with, German law. The status provisions in § 2 shall be governed by, and shall be construed exclusively in accordance with, Austrian law.

(2) *Place of Jurisdiction.* The [District Court (*Landgericht*) in Frankfurt am Main, Federal Republic of Germany] **[insert other German or Austrian court]**, shall have non-exclusive jurisdiction for any action or other legal proceedings (the "**Proceedings**") arising out of or in connection with the Notes. **[Insert if a German court has jurisdiction:** The Issuer appoints Erste Group Bank AG, Friedrichstraße 10, D-70174 Stuttgart, Federal Republic of Germany, as its authorised agent for accepting service of process in connection with any Proceedings before German courts.]

(3) *Enforcement.* Any Holder of Notes may in any Proceedings against the Issuer, or to which such Holder and the Issuer are parties, protect and enforce in its own name its rights arising under such Notes on the basis of (i) a statement issued by the Custodian with whom such Holder maintains a securities account in respect of the Notes (a) stating the full name and address of the Holder, (b) specifying the aggregate principal amount of the Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b), and (ii) a copy of the Global Note certified as being a true copy by a duly authorised officer of the Clearing System or a depository of the Clearing System, without the need for production in such Proceedings of the actual records or the Global Note representing the Notes. Each Holder may, without prejudice to the foregoing, protect and enforce its rights under the Notes also in any other way which is admitted in the country of the Proceedings.]

4. FORM OF FINAL TERMS

FORM OF THE FINAL TERMS

[SET OUT BELOW IS THE FORM OF FINAL TERMS WHICH WILL BE COMPLETED FOR EACH TRANCHE OF NOTES TO BE ISSUED UNDER THE ADDITIONAL TIER 1 NOTES PROGRAMME]

[insert date]

Final Terms

[insert title of relevant Tranche of Notes] (the "Notes")

issued pursuant to the

EUR 2,000,000,000 Additional Tier 1 Notes Programme

of

Erste Group Bank AG

Issue Price: [] per cent. [plus the issue charge mentioned in Part B.]

Issue Date: []¹

Series No.: []

Tranche No.: []

¹ The Issue Date is the date of issue and payment of the Notes. In the case of free delivery, the Issue Date is the delivery date.

IMPORTANT NOTICE

These Final Terms have been prepared for the purpose of Article 5(4) of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as amended by Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 and must be read in conjunction with the relevant prospectus pertaining to the EUR 2,000,000,000 Additional Tier 1 Notes Programme (the "**Programme**") of Erste Group Bank AG (the "**Issuer**"), dated 14 October 2015 (the "**Prospectus**") and all supplements to the Prospectus. The Prospectus and any supplements thereto are available for viewing in electronic form on the website of the Issuer (www.erstegroup.com/de/Capital-Markets/Prospekt/Anleihen). Full information on the Issuer and the Notes is only available on the basis of the combination of the Prospectus, any supplements thereto and these Final Terms.

[Restrictions on Marketing and Sales to Retail Investors

The Notes issued pursuant to the Prospectus are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the U.K. Financial Conduct Authority (the "**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Instrument**").

Under the rules set out in the PI Instrument (as amended or replaced from time to time, the "**PI Rules**"):

- (i) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Notes, must not be sold to retail clients in the EEA; and
- (ii) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

The Manager[s] [is] [are] required to comply with the PI Rules. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in the Notes) from the Issuer and/or the Manager[s] each prospective investor represents, warrants, agrees with and undertakes to the Issuer and [each of] the Manager[s] that:

1. it is not a retail client in the EEA (as defined in the PI Rules);
2. whether or not it is subject to the PI Rules, it will not:
 - (A) sell or offer the Notes (or any beneficial interest therein) to retail clients in the EEA; or
 - (B) communicate (including the distribution of the Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of the PI Rules),

in any such case other than (i) in relation to any sale or offer to sell Notes (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (a) the prospective investor has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Notes (or such beneficial interests therein) and (b) the prospective investor has at all times acted in relation to such sale or offer in compliance with Directive 2004/39/EC (*Markets in Financial Instruments Directive - "MiFID"*) to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

3. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Issuer and/or the Manager [s] the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.]²

² Insert if required by the Issuer and/or the Manager(s).

PART A. – TERMS AND CONDITIONS

The Conditions applicable to the Notes are set out below.

[In the case of Notes with a fixed distribution rate which is superseded by another fixed distribution rate the relevant provisions of Option I (including relevant further options set out therein) shall be replicated and relevant placeholders shall be completed.]

[In the case of Notes which commence with a fixed distribution rate which is superseded by a floating distribution rate the relevant provisions of Option II (including relevant further options set out therein) shall be replicated and relevant placeholders shall be completed.]

PART B. – OTHER INFORMATION

ESSENTIAL INFORMATION

Interests of Natural and Legal Persons Involved in the Issue or the Offering

- Save for [the fees payable to the Manager[s]] [the commercial interests of the Manager[s]] [the [swap] [derivatives] agreement [●] and the Issuer have entered into with regard to the Notes] [if any], so far as the Issuer is aware, no person involved in the issue or offering of the Notes has an interest, including a conflicting one, material to the issue or the offering.

- Other interests, including conflicting ones **[specify details]**

INFORMATION CONCERNING THE SECURITIES TO BE OFFERED OR ADMITTED TO TRADING

Security Codes

- ISIN []
- German Security Code []
- Common Code []
- Any Other Security Code []

Resolutions, authorisations and approvals by virtue of which the Notes will be created and/or issued **[specify details]**

Estimated Total Expenses

Estimate of total expenses related to the admission to trading []

PLACING AND UNDERWRITING

Method of Distribution

- Non-Syndicated
- Syndicated

Details with regard to the Manager[s]

Manager[s] **[specify name(s) and address(es) of Manager(s)]**

- Firm Commitment
- Without Firm Commitment

Stabilising Manager(s) **[specify details]** [Not applicable]

LISTING / ADMISSION TO TRADING

Listing[s]

[Yes] [No]

- Vienna
 - Official Market
 - Second Regulated Market
- Other Stock Exchange []

Date[s] of Admission[s] []

ADDITIONAL INFORMATION

Rating[s]

- The Notes have not been rated.
- The Notes have been rated as follows:³

[Insert details on whether the relevant rating agency is established in the European Community and is registered (pursuant to the current list of registered and certified credit rating agencies published on the website of the European Securities and Markets Authority (www.esma.europa.eu)) pursuant to Regulation (EC) no 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended, or has applied for registration.]

Selling Restrictions

TEFRA

- TEFRA C
- TEFRA D
- Neither TEFRA C nor TEFRA D

Additional Selling Restriction

[Not applicable] [**specify details**]

[Third Party Information

[specify relevant information] has been extracted from **[specify relevant source of information]**. The Issuer confirms that such information has been accurately reproduced and that, as far as it is aware and is able to ascertain from information published by **[specify relevant source of information]**, no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer

By:
Duly authorised

By:
Duly authorised

³ If the Notes have been rated independently of the Programme insert such ratings.

5. USE OF PROCEEDS

The net proceeds from the issue of any Notes will be used by the Issuer for its general funding purposes to strengthen the capital base of the Issuer and to optimise the composition of its own funds.

6. ERSTE GROUP BANK AG

6.1 INTRODUCTION

Erste Group Bank AG ("**Erste Group Bank**") is registered as a joint-stock corporation (*Aktiengesellschaft*) in the Austrian companies register (*Firmenbuch*) at the Vienna commercial court (*Handelsgericht Wien*) and has the registration number FN 33209 m. Its commercial name is "Erste Group". The registered office of Erste Group Bank is Graben 21, A-1010 Vienna, Austria, and its telephone number is +43-50100-0.

The legal predecessor of Erste Group Bank was established in 1819 as an association savings bank (*Vereinssparkasse*) under the name "Verein der Ersten österreichischen Spar-Casse" and, as the name suggests, was the first savings bank in Austria. It was subsequently renamed "DIE ERSTE österreichische Spar-Casse-Bank" and transferred its banking business into a stock corporation with the name "DIE ERSTE österreichische Spar-Casse Bank Aktiengesellschaft" ("**Die Erste**") in 1993. Die Erste changed its name to "Erste Bank der oesterreichischen Sparkassen AG" in October 1997, following the merger of GiroCredit Bank Aktiengesellschaft der Sparkassen ("**GiroCredit**") and Die Erste, which resulted in the creation of the then second largest banking group in Austria. In August 2008, the Austrian retail and SME banking activities of Erste Group Bank were de-merged and continued to operate under the name Erste Bank der oesterreichischen Sparkassen AG ("**Erste Bank Oesterreich**"), while the parent company changed its name to Erste Group Bank AG. Erste Group Bank operates as the parent company and remains the sole company of Erste Group listed on a stock exchange in the EEA.

6.2 BACKGROUND

Erste Group is a leading banking group focused on retail and corporate customers in Austria and Central and Eastern Europe ("**CEE**"). Erste Group offers its customers a broad range of services that, depending on the particular market, includes deposit and current account products, mortgage and consumer finance, investment and working capital finance, private banking, investment banking, asset management, project finance, international trade finance, trading, leasing and factoring. Erste Group is among the leading banking groups in Austria, the Czech Republic, Romania and Slovakia by assets, total loans and total deposits, and has significant operations in Hungary, Croatia and Serbia. It serves approximately 16 million customers across Austria and its core CEE markets through a region-wide network of approximately 2,800 branches. As of 31 December 2014, Erste Group had 46,067 employees (full-time equivalents) worldwide (of which 1,623 (full-time equivalents) were employed by Erste Group Bank). Erste Group Bank is also the central institution (*Zentralinstitut*) of the Austrian Savings Banks Sector. As of 31 December 2014, Erste Group had EUR 196.3 billion in total assets.

"**Erste Group**" consists of Erste Group Bank, together with its subsidiaries and participations, including Erste Bank Oesterreich in Austria, Česká spořitelna in the Czech Republic, BCR in Romania, Slovenská sporiteľňa in Slovakia, Erste Bank Hungary in Hungary, Erste Bank Croatia in Croatia, Erste Bank Serbia in Serbia, and, in Austria Salzburger Sparkasse, Tiroler Sparkasse, s-Bausparkasse, other savings banks of the Haftungsverbund (see "**Haftungsverbund**"), Erste Group Immorent AG, and others.

On 9 February 2015, the Government of Hungary and the European Bank for Reconstruction and Development ("**EBRD**") sealed an agreement (the "**Memorandum of Understanding**") aiming at strengthening Hungary's financial sector, improving its level of efficiency and profitability and boosting the flow of bank credits to Hungary's private corporations and citizens. In this context, Erste Group announced that it has invited the Government of Hungary and the EBRD to invest in Erste Bank Hungary by acquiring a minority stake of up to

15% each. Negotiations are in progress and the completion of the transaction is expected within the next six months, after implementation of a new Hungarian banking tax law, as set out in the Memorandum of Understanding. The purchase price will be negotiated between Erste Group and the two parties based on market valuation methods after conduct of a due diligence. The EBRD's investment is expected to be structured with a pre-agreed exit to Erste Group after an agreed period of time. The transaction is subject to all necessary approvals required from Hungarian or European banking supervisory and competition authorities.

6.3 SHARE CAPITAL OF ERSTE GROUP BANK

As of the date of this Prospectus, the total nominal share capital of Erste Group Bank amounted to EUR 859,600,000, divided into 429,800,000 no-par value voting bearer shares (ordinary shares).

Erste Group Bank's shares are listed and officially traded (*Amtlicher Handel*) on the Vienna Stock Exchange, the Prague Stock Exchange and the Bucharest Stock Exchange.

6.4 BUSINESS OVERVIEW

Strategy

Erste Group aims to be the leading retail and SME bank in the eastern part of the European Union, including Austria. In achieving this goal, Erste Group aims to lend responsibly, provide a safe harbour for deposits and in general support all its customers, be they retail, corporate or public sector clients, in achieving their financial goals. Value is only created through sustainable profitability; hence Erste Group aims to earn a premium on the cost of capital.

Focus on customer banking with emphasis on retail business. Erste Group has been active in the retail business since 1819. "Erste" means "first" in English and Erste Group was the first savings bank in Austria. Erste Group provides the entire spectrum from lending, deposit and investment products to current accounts and credit cards. This is where the largest part of Erste Group's capital is tied up, where Erste Group generates most of its income and funds the overwhelming part of its other core activities by drawing on its customers' deposits. The retail business represents Erste Group's strength and its top priority when developing its product offer. This includes Erste Group's focus on new technological developments and innovations such as mobile and internet banking that enable the bank to meet its customers' expectations more effectively. Offering understandable products and services that meet the individual needs of the bank customers are important to build and maintain strong long-term customer relationships. Today, the bank serves a total of about 16 million retail customers in its core markets. Wealthy private clients are served by the bank's private banking staff. Erste Group'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 through investing parts of the bank's liquidity in infrastructure projects as well as sovereign bonds issued in its region are also part of the core activities. To meet the short-term liquidity management needs of the customer business, Erste Group also operates in the interbank market.

Focus on the eastern part of the European Union, including Austria. 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, this part of Europe that 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 most of these countries. In Serbia, which has been assigned European Union candidate status, the 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. These operations mainly focus on serving private individuals and corporate customers. In its capital markets business, Erste Group maintains presences in Poland, Turkey and Germany. In addition, Erste Group's branches in London, New York and Hong Kong engage in customer-related lending and treasury business.

Focus on sustainable profitability. Earning a sustainable premium on the cost of capital in a socially responsible manner and for the benefit of all stakeholders is key prerequisite for the long-term survival of any company or bank. For only a sustainably profitable bank: can provide products and services to customers that support them in achieving their long-term financial goals; can deliver the foundation for share price appreciation as well as dividend and coupon payments to investors; can create a stable and rewarding work environment for employees; and, can be a reliable contributor of tax revenues to society at large. Sustainable profits can be achieved through a combination of growing revenues, reducing loan loss provisions and cutting costs. It 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 *inter alia* 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.

Relationship with Austrian Savings Banks

The Savings Banks Sector comprises all savings banks in Austria except for UniCredit Bank Austria AG ("**Bank Austria**"), which is legally organised as a savings bank and participates in the savings banks deposit insurance system. The Sparkassen-Prüfungsverband, Vienna, is the statutory auditor of the savings banks.

The BWG requires savings banks to maintain with Erste Group Bank, as the central institution (*Zentralinstitut*) of the savings bank group, a specified amount of their savings deposits and other Euro deposits ("**Liquidity Reserve**"). Despite a legal change that permits the savings banks to keep their Liquidity Reserves with banks other than the relevant central institution, as of 31 December 2014 Erste Group Bank was a net liquidity provider to the savings banks on a consolidated basis.

Erste Group Bank provides a wide range of services and products to the savings banks and their customers. These services and products include syndication services, risk management advice, support in legal matters, retail mortgage, investment fund products, portfolio and asset management services, as well as securities-related services and a common IT platform and a common management reporting system.

Haftungsverbund

In 2002, the Haftungsverbund was formed pursuant to the *Grundsatzvereinbarung* among the majority of the member banks in the Austrian Savings Banks Sector ("**Haftungsverbund 1**"). The Haftungsverbund 1, as an integral part of the joint marketing strategy and co-operation of the Savings Banks Sector, is based on three pillars:

- A uniform business and market policy, including, *inter alia*, joint product development and centralisation of processing functions, a uniform risk policy (including standardised credit risk classification), coordinated liquidity management and common standards of control;
- a joint early-warning system designed to identify financial difficulties at member savings banks at an early stage, which also provides support mechanisms, including intervention in management to prevent such member savings banks from becoming insolvent; and
- a cross-guarantee for certain liabilities of member savings banks.

In 2007 and 2008, Erste Group Bank entered into further agreements, including a (first) supplementary agreement (*Zusatzvereinbarung*), with all members of the Savings Banks Sector (except for Allgemeine Sparkasse Oberösterreich) ("**Haftungsverbund 2**"). These agreements confer on Erste Group Bank, on a contractual basis, the possibility to exercise a controlling influence over these savings banks. They were approved by the Austrian competition authority as mergers (*Zusammenschluss*) within the meaning of the EU Merger Regulation and the Austrian Cartel Act (*Kartellgesetz*). These mergers are designed to further strengthen the group's unity and performance, in particular by taking a joint approach in the development of common management information and control systems and integration of central functions. The Steering Company participates, inter alia, in appointing members of the management board, approves the annual budget and investment plans and approves the general business policy principles of the shareholders.

In 2013, Erste Group Bank entered into a further (second) agreement (*Zweite Zusatzvereinbarung*) with all members of the Savings Banks Sector (including Allgemeine Sparkasse Oberösterreich) ("**Haftungsverbund 3**"). The aim of the amendment, which entered into force on 1 January 2014, is the intensification of the group steering (especially concerning risk management, liquidity management, capital management), the setting up of an institutional protection scheme (Article 113(7) CRR) and a cross-guarantee scheme (Article (4)(1)(127) CRR) in order to fulfil the requirements of Article 84(6) CRR for being exempted from the deduction of any minority interest and thus, being entitled to recognize any minority interest arising within the cross-guarantee scheme in full and in light of IFRS 10 to strengthen Erste Group Bank's power in the provisions of the agreement governing the Haftungsverbund 3.

Pursuant to the agreements for the Haftungsverbund 3 (i.e. the *Grundsatzvereinbarung*, the *Zusatzvereinbarung* and the *Zweite Zusatzvereinbarung*), Haftungsverbund GmbH ("**Steering Company**") is vested with the power to set the common risk policies of its members and to monitor and enforce adherence to these policies. The 48 Austrian savings banks (including Erste Group Bank and Erste Bank Oesterreich but excluding Allgemeine Sparkasse Oberösterreich) hold the entire share capital of the Steering Company. Erste Group Bank effectively controls the Steering Company through its 63.5% interest (held directly or indirectly through its wholly-owned subsidiary Erste Bank Oesterreich and several Austrian savings banks in which Erste Bank Oesterreich holds majority interests) in the share capital and nomination rights for the board of managing directors (*Geschäftsführung*). The Steering Company is responsible for resolving on measures to support member savings banks in financial difficulties, to make, as a trustee of the Haftungsverbund 3, compensation payments to customers, and to enforce certain information and control rights vis-à-vis member savings banks. In addition to the provisions of the agreements for the Haftungsverbund 3, activities of the Haftungsverbund 3 are also governed by several rule books setting forth detailed provisions in the fields of risk management, treasury, internal control and audit.

The Steering Company has five corporate bodies: the board of managing directors (*Geschäftsführung*), the executive committee (*s-Steuerungsvorstand*), the advisory board (*Beirat*), the shareholders' committee (*Gesellschafterausschuss*), and the shareholders' meeting (*Gesellschafterversammlung*). The board of managing directors comprises four managing directors, two of whom are nominated by Erste Bank Oesterreich and two of whom are nominated by the other member savings banks. The chairman of the board of managing directors, who is nominated by Erste Bank Oesterreich, casts the deciding vote in the event of a deadlock. The s-Steuerungsvorstand consists of 14 members, 7 members are nominated by Erste Group and Erste Bank Oesterreich and 7 members are nominated by shareholders in which Erste Group does not hold a direct interest and/or an indirect interest of more than 50%. The chairperson, who is nominated by Erste Group casts the deciding vote in the event of a deadlock. The s-Steuerungsvorstand is primarily responsible for the validity, the amendment and the supplementation of the Rulebooks. The shareholders' committee consists of fifteen members, eight of whom are nominated by Erste Bank Oesterreich and seven of whom are nominated by the member savings banks. The shareholders' committee is primarily responsible for advising and assisting the savings banks with regard to questions concerning the application of the *Zusatzvereinbarung* and the *Zweite Zusatzvereinbarung* and for providing mediation in the event of disputes concerning the *Zusatzvereinbarung* and the

Zweite Zusatzvereinbarung that arise between the Steering Company and the shareholders or among the shareholders. In order to implement joint business and marketing strategies, working committees for various fields have been established, such as internal audits, accounting, infrastructure and risk management. The chairperson of each working committee is an employee of Erste Group Bank or Erste Bank Oesterreich.

The Haftungsverbund 3 is designed to enable a common risk management approach and implementation across the Savings Banks Sector. This includes establishing general principles of business conduct, the determination of risk capacity for each member savings bank and the setting of risk limits. The Steering Company's governance rights include the following: prior approval by the Steering Company of appointments to the management boards of member savings banks; prior approval by the Steering Company of annual budgets and capital expenditure plans; prior approval of significant changes of a member savings bank's business; and, in the event of continuing non-compliance with material provisions of the agreements and policies of the Haftungsverbund 3, imposition of sanctions and ultimately expulsion from the Haftungsverbund 3.

The member savings banks share an IT platform and a common management reporting system. This allows the Steering Company to generate comprehensive reports regarding the operations and financial condition of each member savings bank, data regarding key performance indicators as well as risk profiles on both an individual savings bank and an aggregate basis. Depending on the information being collected, these analyses are performed on a quarterly, monthly and even daily basis.

A key focus of the Haftungsverbund 3 is the early warning system. If the risk monitoring systems indicate that a member savings bank could experience financial difficulties, the Steering Company will alert this member savings bank and discuss remedial measures. To date, the Haftungsverbund 3 has been able to deal with situations of concern through the early warning system.

If a member encounters financial difficulties, the Steering Company has the power to intervene in the management of the affected member savings bank and to require other member savings banks to provide such support and assistance as the Steering Company determines. Support measures shall be taken if, from the Steering Company's point of view, it is reasonable to expect that without such support, a need for early intervention (*Frühinterventionsbedarf*) pursuant to § 71a of the BWG exists requiring the FMA to impose early intervention measures. Such need for early intervention exists if a credit institution (which is subject to the BaSAG) does not meet or is likely to violate ("likely breach") the capital and liquidity requirements under the CRR. Such support measures include, *inter alia*, the implementation of certain restructuring measures, the engagement of outside advisors, injections of liquidity, the granting of subordinated loans, the assumption of guarantees, the contribution of equity, the review of the credit portfolio, and the restructuring of the risk management. In providing any such support measures, the Steering Company may require that the management board of a member savings bank in financial difficulties is supplemented by additional members until the financial difficulties have been resolved or that individual members of the management board of such member savings bank be removed and substituted.

In case of any need for financial contributions in the context of support measures, each of the member savings banks has made a commitment to contribute funds on the basis of the maximum amount pursuant to the regulatory requirements set forth by Article 84(6) CRR based on a contractually defined key. In the event of assistance, any individual member of the Haftungsverbund 3 is only obliged to contribute to the extent that such contribution does not result in a violation of the regulatory requirements applicable to that member of the Haftungsverbund 3. Furthermore, in order to secure the financial support that is to be provided to member savings banks facing economic difficulties at the request of the Steering Company, the member savings banks agreed that a part of the funds has to be *ex-ante* financed in the form of special funds, whereas the Steering Company alone has access to these special funds and is obliged to use all other options available before availing itself of the special funds. In order to build up the special fund, all savings banks contribute on a quarterly basis until it reaches its final size of EUR 250 million after 10 years.

In the event that a member savings bank becomes insolvent, the other members guarantee, through the Steering Company, the payment of all amounts owed to customers by the insolvent member, including:

- all deposits (as defined in § 1 (1)(1) of the BWG);
- all monetary claims based on credit balances resulting from funds left in an account or from temporary positions in the course of banking transactions and repayable according to the applicable legal and contractual provisions; and
- all monetary claims from the issuance of securities,
- unless the relevant amounts are owed to a credit institution. This guarantee is also subject to the cumulative limit on members' obligations.

Each of the member savings bank has made a commitment to contribute funds of 1.5% of the member's risk-weighted assets, determined on a non-consolidated basis and based on the most recently approved financial statements of the member, plus 75% of the member's anticipated pre-tax profits for the current financial year in the event of insolvency of a member savings bank. In the event of assistance, any individual member of the Haftungsverbund 3 is only obliged to contribute to the extent that such contribution does not result in a violation of the regulatory requirements applicable to that member of the Haftungsverbund 3.

Each member savings bank has a right to terminate the *Grundsatzvereinbarung* and the supplementary agreements if it notifies Erste Group Bank within a period of twelve weeks after the occurrence of a change of control at Erste Group Bank. A change of control at Erste Group Bank is defined as any acquisition of more than 25% of the voting rights in outstanding shares of Erste Group Bank by a non-member of the Savings Bank Sector. If a termination of the *Grundsatzvereinbarung*, the *Zusatzvereinbarung* and/or the *Zweite Zusatzvereinbarung* becomes effective, the relevant member savings bank would cease to be a member of the Haftungsverbund 3.

Erste Group's consolidated financial statements as of and for the fiscal year ended 31 December 2013 comprise all members of the Savings Banks Sector. In May 2010, Erste Bank Oesterreich and Allgemeine Sparkasse Oberösterreich entered into a separate cross-guarantee agreement. In 2013, the Allgemeine Sparkasse Oberösterreich entered with all other Savings Banks into the *Zweite Zusatzvereinbarung*.

Erste Group's Business 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.

Structural change

Following a strategic review, the segment structure as well as the methodology for capital allocation was changed. Erste Group therefore introduced a new segment reporting, starting from 1 January 2014. It is based on the matrix organisation (business and geographical information) and provides comprehensive information to assess the performance of the business and geographical segments.

However, the segmentation criteria for corporate business were changed as well with no retrospective adjustments. The former local large corporate business (included in the SME segment in 2013) was reallocated either to the Large Corporates segment or to the SME segment, depending on annual turnover thresholds.

As a result of IFRS 10 application as of 1 January 2014, Erste Group started with consolidation of 18 investment funds. The consolidation has been applied retrospectively, hence all affected 2013 comparative figures have been restated.

Operating income consists of net interest income, net fee and commission income, net trading and fair value result as well as dividend income, net result from equity method investments and rental income from investment properties & other operating leases. The latter three 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 not measured at fair value through P&L. 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. 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 segmentation

The segment reporting comprises nine business segments reflecting Erste Group's management structure and its internal management reporting in 2014.



Retail

The Retail segment comprises the entire business with private individuals, free professionals and micros in the responsibility of account managers in the retail network of the local banks cooperating with their specialized subsidiaries (such as factoring, leasing and asset management companies). Retail products and services including current and savings accounts, mortgage and consumer loans, investment products, credit cards and cross selling products such as leasing, insurance, and building society products are offered via various distribution channels (branch networks and digital banking).

in EUR million	2013*)	2014
Net interest income	2,216.8	2,175.1
Net fee and commission income	1,053.4	1,050.3
Net trading and fair value result	62.2	59.8
Operating income	3,361.0	3,317.4
Operating expenses	-1,839.2	-1,814.3
Operating result	1,521.8	1,503.1
Cost/income ratio	54.7%	54.7%
Net impairment loss on financial assets not measured at fair value through profit or loss	-466.0	-671.7
Other result	-93.0	-393.2
Net result attributable to owners of the parent	739.0	271.7
Return on allocated capital	37.3%	13.6%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

SME

The SME segment comprises the business with micros, small and medium-sized enterprises (SMEs), small public sector companies, and small financial institutions (e.g. third party leasing companies) in the responsibility of local corporate account managers. Local banks cooperate with specialized subsidiaries such as factoring and leasing companies. The turnover threshold

for SMEs varies from country to country within the range of EUR 0.7 million and EUR 75 million.

in EUR million	2013*)	2014
Net interest income	671.0	569.4
Net fee and commission income	231.2	198.4
Net trading and fair value result	29.1	31.9
Operating income	937.9	832.7
Operating expenses	-288.0	-292.8
Operating result	650.0	539.9
Cost/income ratio	30.7%	35.2%
Net impairment loss on financial assets not measured at fair value through profit or loss	-455.0	-461.1
Other result	-34.2	0.6
Net result attributable to owners of the parent	109.9	50.4
Return on allocated capital	6.8%	3.6%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Asset/Liability Management & Local Corporate Center

The Asset/Liability Management & Local Corporate Center (ALM & LCC) segment includes all asset/liability management functions (local and Erste Group Bank AG) 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.

in EUR million	2013*)	2014
Net interest income	220.5	164.7
Net fee and commission income	-102.6	-65.3
Net trading and fair value result	-92.2	24.7
Operating income	86.7	184.6
Operating expenses	-120.6	-112.9
Operating result	-33.9	71.8
Cost/income ratio	>100.0%	61.1%
Net impairment loss on financial assets not measured at fair value through profit or loss	-5.0	1.2
Other result	-85.1	-214.2
Net result attributable to owners of the parent	20.8	-174.8
Return on allocated capital	0.6%	-9.9%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Savings Banks

The Savings Banks segment includes the savings banks which are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector except for Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse, Sparkasse Hainburg.

in EUR million	2013*)	2014
Net interest income	814.7	891.8
Net fee and commission income	396.4	419.3
Net trading and fair value result	22.0	1.1
Operating income	1,304.5	1,379.0
Operating expenses	-926.5	-932.1
Operating result	378.0	446.9
Cost/income ratio	71.0%	67.6%
Net impairment loss on financial assets not measured at fair value through profit or loss	-229.2	-199.4
Other result	-3.7	-15.4
Net result attributable to owners of the parent	22.4	18.4
Return on allocated capital	4.4%	9.0%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Large Corporates

The Large Corporates (LC) segment comprises the business with large corporate customers whose annual turnover exceeds a defined threshold that starts from EUR 25 million and EUR 75 million respectively, depending on the country.

in EUR million	2013*)	2014
Net interest income	185.3	214.1
Net fee and commission income	86.0	99.2
Net trading and fair value result	8.4	9.3
Operating income	279.6	322.5
Operating expenses	-67.7	-85.0
Operating result	211.9	237.5
Cost/income ratio	24.2%	26.4%
Net impairment loss on financial assets not measured at fair value through profit or loss	-229.2	-386.2
Other result	-34.5	14.8
Net result attributable to owners of the parent	-45.1	-113.1
Return on allocated capital	-5.6%	-15.1%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Commercial Real Estate

The Commercial Real Estate (CRE) segment covers the real estate value chain (lending, leasing, real estate investment, project development and construction services as well as infrastructure business) for corporate clients, project developers, real estate investors, municipalities and other public sector agencies.

in EUR million	2013*)	2014
Net interest income	170.0	150.1
Net fee and commission income	14.3	15.8
Net trading and fair value result	5.9	-6.2
Operating income	276.7	205.7
Operating expenses	-134.0	-88.2
Operating result	142.7	117.5
Cost/income ratio	48.4%	42.9%
Net impairment loss on financial assets not measured at fair value through profit or loss	-380.5	-364.3
Other result	-50.3	-45.9
Net result attributable to owners of the parent	-257.0	-279.6
Return on allocated capital	-28.5%	-36.1%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Other Corporate

The Other Corporate segment consists of two operating segments – International Business and Investment Banking – that are below the threshold criteria defined by IFRS 8. International Business comprises all lending and investing activities outside Erste Group's core markets (including the branches in London, Hong Kong and New York) and is responsible for business development with and credit line management for banks and non-banking financial institutions. Investment Banking covers equity-related business focusing mainly on corporate finance, equity capital markets services, equity brokerage (institutional sales) and merchant banking.

in EUR million	2013*)	2014
Net interest income	68.9	75.2
Net fee and commission income	27.7	18.9
Net trading and fair value result	13.1	4.8
Operating income	109.7	99.4
Operating expenses	-50.9	-58.2
Operating result	58.8	41.1
Cost/income ratio	46.4%	58.6%
Net impairment loss on financial assets not measured at fair value through profit or loss	-6.2	-12.9
Other result	8.7	1.5
Net result attributable to owners of the parent	47.9	22.9
Return on allocated capital	14.4%	10.9%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Group Markets

The Group Markets (GM) segment comprises the divisionalised business units Group Treasury and Capital Markets (except Equity Capital Markets) and includes the treasury activities of Erste Group Bank AG, the CEE subsidiaries, foreign branch offices in Hong Kong, New York, Berlin and Stuttgart as well as the business with institutional clients of Erste Asset Management. The focus is on client-oriented business with institutional clients. Group Markets is the internal trading unit for all classic treasury (such as FX, commodities and money market) and capital market products (such as bonds, interest rate derivatives, credit products).

in EUR million	2013*)	2014
Net interest income	217.2	191.2
Net fee and commission income	104.9	102.9
Net trading and fair value result	116.8	116.1
Operating income	439.3	412.6
Operating expenses	-188.1	-179.1
Operating result	251.3	233.4
Cost/income ratio	42.8%	43.4%
Net impairment loss on financial assets not measured at fair value through profit or loss	12.2	-0.1
Other result	-3.2	-0.7
Net result attributable to owners of the parent	206.0	185.3
Return on allocated capital	45.3%	38.3%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

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), internal non-profit service providers (facility management, IT, procurement), amortisation of customer relationships at Banca Comercială Română, Erste Card Club d.d. and Ringturm KAG, goodwill impairments, the banking tax of Erste Group Bank AG, free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments) as well as the result of Erste Bank Ukraine which was sold in 2013.

in EUR million	2013*)	2014
Net interest income	136.1	70.2
Net fee and commission income	137.6	69.1
Net trading and fair value result	20.9	-11.3
Operating income	361.8	183.3
Operating expenses	-669.0	-710.5
Operating result	-307.2	-527.2
Cost/income ratio	>100.0%	>100.0%
Net impairment loss on financial assets not measured at fair value through profit or loss	-15.4	-64.7
Other result	-425.1	-655.7
Net result attributable to owners of the parent	-783.6	-1,423.1
Return on allocated capital	-12.7%	-28.7%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Intragroup Elimination

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.

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 the case of information regarding a partial group, the allocation is based on the location of the respective parent entity.

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 market 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).

in EUR million	2013*)	2014
Net interest income	559.6	613.5
Net fee and commission income	332.2	354.9
Net trading and fair value result	11.3	8.7
Operating income	943.2	1,020.3
Operating expenses	-606.9	-630.7
Operating result	336.3	389.6
Cost/income ratio	64.3%	61.8%
Net impairment loss on financial assets not measured at fair value through profit or loss	-77.5	-104.5
Other result	-34.4	6.2
Net result attributable to owners of the parent	160.5	214.5
Return on allocated capital	14.8%	20.8%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

The geographical segment **Savings banks** is identical to the business segment Savings banks.

The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Large Corporates, Commercial Real Estate, Other Corporate and Group Markets business, Erste Group Immorent AG and Erste Asset Management GmbH.

in EUR million	2013*)	2014
Net interest income	412.4	395.4
Net fee and commission income	180.2	174.0
Net trading and fair value result	34.9	3.1
Operating income	714.9	621.5
Operating expenses	-365.1	-323.3
Operating result	349.8	298.1
Cost/income ratio	51.1%	52.0%
Net impairment loss on financial assets not measured at fair value through profit or loss	-440.1	-269.2
Other result	-27.4	-7.2
Net result attributable to owners of the parent	-121.1	-31.0
Return on allocated capital	-7.3%	-2.1%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

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).

Czech Republic

in EUR million	2013*)	2014
Net interest income	999.4	924.0
Net fee and commission income	434.9	410.6
Net trading and fair value result	79.7	83.1
Operating income	1,547.9	1,449.4
Operating expenses	-721.8	-662.2
Operating result	826.1	787.1
Cost/income ratio	46.6%	45.7%
Net impairment loss on financial assets not measured at fair value through profit or loss	-140.1	-135.4
Other result	9.8	-16.6
Net result attributable to owners of the parent	551.9	506.2
Return on allocated capital	34.9%	35.8%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Slovakia

in EUR million	2013*)	2014
Net interest income	431.2	451.0
Net fee and commission income	117.4	123.4
Net trading and fair value result	11.6	9.6
Operating income	572.3	593.5
Operating expenses	-249.0	-266.2
Operating result	323.3	327.3
Cost/income ratio	43.5%	44.9%
Net impairment loss on financial assets not measured at fair value through profit or loss	-47.2	-51.4
Other result	-45.0	-43.0
Net result attributable to owners of the parent	180.7	178.7
Return on allocated capital	35.7%	34.9%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Romania

in EUR million	2013*)	2014
Net interest income	610.1	484.7
Net fee and commission income	169.1	160.0
Net trading and fair value result	99.9	81.2
Operating income	887.1	732.2
Operating expenses	-369.3	-331.9
Operating result	517.8	400.3
Cost/income ratio	41.6%	45.3%
Net impairment loss on financial assets not measured at fair value through profit or loss	-454.3	-999.1
Other result	-67.1	-117.2
Net result attributable to owners of the parent	114.9	-614.1
Return on allocated capital	8.6%	-60.3%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Hungary

in EUR million	2013*)	2014
Net interest income	298.7	263.4
Net fee and commission income	131.7	139.3
Net trading and fair value result	4.1	38.8
Operating income	435.1	442.3
Operating expenses	-180.1	-175.8
Operating result	255.0	266.5
Cost/income ratio	41.4%	39.7%
Net impairment loss on financial assets not measured at fair value through profit or loss	-201.3	-152.2
Other result	-136.7	-434.9
Net result attributable to owners of the parent	-89.5	-330.6
Return on allocated capital	-17.8%	-67.5%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Croatia

in EUR million	2013*)	2014
Net interest income	240.5	261.2
Net fee and commission income	72.6	79.9
Net trading and fair value result	20.4	24.1
Operating income	334.5	399.3
Operating expenses	-143.7	-183.5
Operating result	190.8	215.9
Cost/income ratio	43.0%	45.9%
Net impairment loss on financial assets not measured at fair value through profit or loss	-159.2	-155.3
Other result	-13.0	-4.4
Net result attributable to owners of the parent	10.1	32.6
Return on allocated capital	3.9%	10.7%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

Serbia

in EUR million	2013*)	2014
Net interest income	32.5	34.4
Net fee and commission income	13.4	13.4
Net trading and fair value result	2.6	2.9
Operating income	48.5	50.5
Operating expenses	-36.5	-38.6
Operating result	12.0	11.9
Cost/income ratio	75.3%	76.4%
Net impairment loss on financial assets not measured at fair value through profit or loss	-9.6	-15.7
Other result	-0.1	-1.3
Net result attributable to owners of the parent	1.4	-5.4
Return on allocated capital	2.8%	-10.2%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

The residual segment **Other** consists mainly of centralized service providers, the Group Asset/Liability Management and the Corporate Center of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intercompany elimination, dividend elimination), goodwill impairments, amortisation of customer relationships and free capital.

in EUR million	2013 ^{*)}	2014
Net interest income	286.0	175.7
Net fee and commission income	-41.5	-4.9
Net trading and fair value result	-67.7	-10.3
Operating income	207.2	189.9
Operating expenses	-297.2	-242.9
Operating result	-90.0	-53.0
Cost/income ratio	>100.0%	>100.0%
Net impairment loss on financial assets not measured at fair value through profit or loss	-15.8	-77.1
Other result	-628.6	-1,100.9
Net result attributable to owners of the parent	-771.1	-1,411.2
Return on allocated capital	-10.7%	-24.4%

Source: Audited Consolidated Financial Statements 2014

*) The figures reflect changed segment structure of Erste Group as of 1 January 2014 and the impact of IFRS 10 application as of 1 January 2014.

6.5 CURRENT REGULATORY TOPICS

Activities in the context of changes in regulatory requirements

EU and national laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions have come under increased scrutiny by legislators, regulators and advisory bodies and are continuously evolving and changing, especially in levels of adequate capitalisation and leverage. Many of these changes, amendments or anticipated developments, including the recently introduced single supervisory mechanism (SSM) and more integrated banking union within the EU, have and continue to permanently affect the regulatory environment of Erste Group's business significantly. Erste Group's business is characterized by (steadily increasing) regulatory requirements to meet certain capital and liquidity ratios, which may require Erste Group to reduce its risk-weighted assets ("**RWA**") and/or to obtain additional capital and/or liquid funds, but also may limit the further growth of Erste Group's business in the future. Further, regulatory developments regularly expose Erste Group to additional costs and liabilities, require it to change how it conducts its business or may otherwise have a negative impact on its business, the products and services it offers and the value of its assets. If Erste Group is unable to increase its regulatory capital (respectively its capital ratios) sufficiently, its ratings may drop and its cost of funding may increase.

Since 2010, Erste Group has been scrutinising the impacts of the changes due to CRD IV/CRR (implementing the international regulatory framework for banks known as "Basel III" within the EU).

The CRD IV/CRR is applicable since 1 January 2014. Erste Group has established group-wide programmes in order to ensure full and timely implementation of all requirements arising from the CRR, the CRD IV, the respective technical standards as well as all related national and international laws and regulations across the entire Erste Group. The programmes include among others work streams for capital requirements, changes in RWA calculations, counterparty credit risk (CCR), the capital charge for credit value adjustments (CVA), disclosure, liquidity, and leverage ratio.

The recast version of the Markets in Financial Instruments Directive (MiFID II) as well as the supplemented Regulation (MiFIR) came into force on 3 July 2014. Market participants will have to apply the new rules from January 2017. The material changes to the content of MiFID II and MiFIR may be divided into two main blocks: one on intermediary and investor protection related topics and one on market and trading related topics. The main topics of investor protection are independent investment advice, payment of fees, commissions and benefits, product governance, product intervention and recording requirement. The main market related topics are greater trading transparency and more comprehensive regulation, regulation of high-frequency trading and market micro-structure, access to central counterparties, trading venues and benchmarks and OTC derivatives trading requirement. Erste Group is now establishing group-wide programs in order to ensure full and timely implementation of all requirements arising from MiFID II and MiFIR.

Furthermore, there is a close alignment with programmes focusing on other internal or external (regulatory) requirements in the areas of risk and accounting, such as the IFRS 9 project of Erste Group.

Basel III Monitoring Exercise

The European Banking Authority (EBA) has been monitoring and assessing the impact of the Basel III rules on a sample of EU banks since June 2011. Erste Group is regularly participating in this (voluntary) Basel III monitoring exercise which is performed on a semi-annual basis with end-December and end-June reporting dates.

The exercise monitors and assesses the following aspects of the Basel III implementation:

- changes to capital ratios under Basel III;
- level of capital shortfalls including, where applicable, capital surcharges for global systemically important banks (G-SIBs);
- impact on capital ratios and shortfall, resulting from changes in the definition of CET 1;
- impact on capital ratios and shortfall, resulting from changes in the RWA-calculation;
- impact from the implementation of the capital conservation buffer;
- the adequacy of leverage ratio; and
- the adequacy of two liquidity standards – the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

Since the application of CRD IV/CRR, the Basel III monitoring exercise is assessing the impact of this implementation.

Banking/Financial transaction taxes

In addition, several countries in which Erste Group operates have introduced special banking taxes.

In Austria, the banking tax was introduced in 2011 and, following a 25% increase in 2012, Erste Group's Austrian banking tax amounted to EUR 130.5 million in 2014 after EUR 166.45 million in 2013, EUR 165.2 million in 2012 and EUR 132.1 million in 2011.

In Slovakia, a banking tax was newly introduced in 2012 and resulted in a charge of EUR 31.53 million in 2014, after EUR 41.23 million in 2013 and EUR 31.5 million in 2012.

In Hungary, the banking tax amounted to EUR 47.94 million in 2014, EUR 48.96 million in 2013 and EUR 47.3 million in 2012, while in 2011 it was offset against losses resulting from legislation allowing the early repayment of foreign currency loans at a fixed exchange rate below then prevailing exchange rates in the market.

Furthermore, pursuant to the proposal by the EU-Commission for a "Council Directive implementing enhanced cooperation in the area of financial transaction tax" eleven EU-Member States, including Austria, Slovakia and Hungary, shall charge a financial transaction tax ("**FTT**"). Joint statements issued by participating EU-Member States indicate an intention to implement the FTT by 1 January 2016. However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain.

The Hungarian FTT amounted to EUR 46.3 million in 2014 after EUR 54.4 million in 2013.

These banking taxes and potential financial transaction taxes directly impact Erste Group's other operating result, and increases in banking taxes or the imposition of new banking and financial transaction taxes on Erste Group's subsidiaries negatively affect its results of operations.

6.6 CREDIT RATINGS

Standard & Poor's, Moody's and Fitch (each as defined below) have assigned the below credit ratings to the Issuer.

Standard & Poor's assigned the following ratings:

Debt Type	Rating	Outlook
Senior Unsecured Long-Term	BBB+	Negative
Senior Unsecured Short-Term	A-2	-

Moody's assigned the following ratings:

Debt Type	Rating	Outlook
Senior Unsecured Long-Term	Baa2	Positive
Senior Unsecured Short-Term	P-2	-

Fitch assigned the following ratings:

Debt Type	Rating	Outlook
Senior Unsecured Long-Term	BBB+	Stable
Senior Unsecured Short-Term	F2	-

More detailed information on the ratings can be retrieved on the Issuer's website (<http://www.erstegroup.com/en/Investors/Ratings>). General information regarding the meaning of the rating and the qualifications which have to be observed in connection therewith can be found on the websites of Standard & Poor's (www.standardandpoors.com), Moody's (www.moody.com) and Fitch Ratings Ltd (www.fitchratings.com).

Standard & Poor's Credit Market Services Europe Ltd. (Niederlassung Deutschland) ("**Standard & Poor's**") has its registered office at Neue Mainzer Straße 52, D-60311 Frankfurt am Main in Germany. Moody's Deutschland GmbH ("**Moody's**") has its registered office at An der Welle 5, D-60322 Frankfurt. Fitch Ratings Ltd ("**Fitch**") with its seat in 30 North Colonnade, London E14 5GN, United Kingdom is registered at Companies House in England.

Standard & Poor's, Moody's and Fitch are registered under Regulation (EC) No 1060/2009 of the European Parliament and of Council of 16 September 2009 on credit rating agencies, as amended (the "**CRA Regulation**"), as registered rating agencies. The European Securities and Markets Authority publishes on its website (www.esma.europa.eu) a list of credit rating agencies registered in accordance with the CRA Regulation. That list shall be updated within five working days following the adoption of a decision under Articles 16, 17 or 20 of the CRA Regulation. The European Commission publishes that updated list in the Official Journal of the European Union within 30 days following the updates.

6.7 RECENT DEVELOPMENTS

Erste Group's outlook as presented in the interim report for the first half year 2015 is as follows:

Operating environment anticipated to be conducive to credit expansion

Real GDP growth is expected to be between 2% and 4% in all major CEE markets, except Croatia, driven by solid domestic demand. For Austria, a real GDP growth below 1% is forecast.

Return on tangible equity (ROTE) expected at 8 to 10% in 2015 (tangible equity at the year-end 2014: EUR 8.4 billion)

Operating result is expected to decline in the mid-single digits on the back of lower but sustainable operating results in Hungary (due to FX conversion related effects of lower average volume) and Romania (lower unwinding impact) as well as the persistent low interest rate environment.

For 2015, loan growth in the low single digits and a decline in risk costs to about EUR 0.9-1.1 billion are anticipated. Banking levies are expected to amount to about EUR 360 million, including parallel contributions to national as well as European bank resolution and deposit insurance funds. Related discussions with the Austrian government are still ongoing.

Risks to guidance

Consumer protection initiatives such as a potential CHF borrower support scheme in Croatia as well as geopolitical risks could have negative economic impacts.

Discontinued minimum exchange rate of CHF against EUR

On 15 January 2015, the Swiss National Bank decided to discontinue the minimum exchange rate of CHF against EUR. This announcement resulted in significant appreciation of CHF against all major currencies including the currencies of CEE countries. The impact on Erste Group arose primarily in relation to borrowers who have taken out CHF-denominated loans in the past and are now adversely affected in terms of repayment ability. Preliminary sensitivity analysis performed indicate a moderate impact in terms of higher risk costs and increase of credit RWAs (10 bps CET 1 loss in the case of EUR/CHF parity prevailing for a longer period of time). The actual impact is contingent on future exchange rate developments.

On 26 January 2015, following a proposal of the Croatian government, the Croatian parliament approved a change in the Consumer Protection Act, by fixing payments of future monthly annuities in 2015 for CHF/HRK exchange rate at 6.39 for customers who have CHF-denominated loans. This change became effective as of 27 January 2015. Erste Group expects that this will have a moderate effect via foreign exchange losses on profit and loss in 2015.

Draft regulation of the FMA on capital buffers

On 25 September 2015, the FMA has published a draft for the Austrian Capital Buffers Regulation (*Kapitalpuffer-Verordnung* – "KP-V") which stipulates the determination and recognition of countercyclical buffer rate pursuant to § 23a (3) of the BWG, the determination of the systemic risk buffer pursuant to § 23d (3) of the BWG and the more precise elaboration of the calculation basis pursuant to § 23a (3)(1) of the BWG and § 24 (2) of the BWG (the latter concerning the calculation of the Maximum Distributable Amount). The KP-V shall enter into force on 1 January 2016. Pursuant to the draft KP-V, for a credit institution with its seat in Austria, the countercyclical buffer rate amounts to 0.00% for significant credit exposures situated in Austria. If the competent authority of another EU-Member State or a third country determines a national countercyclical buffer rate above 2.50%, in case of a credit institution with its seat in Austria, a countercyclical buffer rate amounting to 2.50% is used for significant credit exposures situated in such foreign countries. Furthermore, the draft KP-V implements the amended recommendation of the Austrian Financial Market Stability Board (*Finanzmarktstabilitätsgremium* – "FMSG") from 7 September 2015 for imposing a systemic risk buffer. According to the draft KP-V, the FMA will impose on Erste Group a systemic risk buffer amounting to 0.25% (as of 1 January 2016), 0.50% (as of 1 January 2017), 1.00% (as of 1 January 2018) and 2.00% (as of 1 January 2019).

Purchase of the consumer banking business of Citibank Europe plc. in Hungary

Erste Bank Hungary signed an agreement with Citibank Europe plc. ("**Citibank**") to purchase Citibank's consumer banking business in Hungary (the "**Transaction**"). The acquisition includes Citibank's retail banking and investment business, consumer loans and cards business, the microenterprise accounts and the transfer of consumer banking employees. The Transaction is still subject to regulatory approvals which the Issuer expects to receive by the end of 2015. The transfer of customer accounts is scheduled to occur in 2016.

7. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

7.1 MANAGEMENT BOARD

Members of the Management Board

The current members of the Management Board listed below have extensive experience in the Austrian banking market and the savings banks sector and held the following additional supervisory board mandates or similar functions in various companies as of the date of this Prospectus.

Name	Name of relevant company	Position held
Andreas Treichl		
<i>Chairman</i>	Banca Comercială Română S.A.	SB ¹ deputy chairman
	BeeOne GmbH	AB ² chairman
	Česká spořitelna, a.s.	SB deputy chairman
	DONAU Versicherung AG Vienna Insurance Group	SB deputy chairman
	Erste Bank der oesterreichischen Sparkassen AG	SB chairman
	Leoganger Bergbahnen GmbH	SB member
	MAK – Österreichisches Museum für Angewandte Kunst	SB chairman
	Sparkassen Versicherung AG Vienna Insurance Group	SB chairman
Andreas Gottschling		
<i>Member</i>	Banca Comercială Română S.A.	SB member
	Erste Group Immorent AG	SB deputy chairman
	Erste Reinsurance S.A.	AB chairman

¹ "SB" means Supervisory Board.

² "AB" means Advisory Board.

	Erste & Steiermärkische Bank d.d.	SB chairman
	Oesterreichische Kontrollbank AG	SB member
Gernot Mittendorfer <i>Member</i>	Banca Comercială Română S.A.	SB member
	Erste Bank Hungary Zrt	SB member
	Erste Bank a.d. Novi Sad	SB chairman
	Erste Bank der oesterreichischen Sparkassen AG	SB member
	OM Objektmanagement GmbH	AB chairman
	Procurement Services GmbH	AB deputy chairman
	Slovenská sporiteľňa, a.s.	SB chairman
Peter Bosek <i>Member</i>	Bausparkasse der österreichischen Sparkassen Aktiengesellschaft	SB chairman
	BeeOne GmbH	AB member
	Česká spořitelna, a.s.	SB member
	EBV - Leasing Gesellschaft m.b.H.	AB member
	ERP-Kreditkommission	AB member
	Sparkassen Versicherung AG Vienna Insurance Group	SB member
	Wien 3420 Aspern Development AG	SB member
	Wiener Städtische Versicherung AG Vienna Insurance Group	SB member
Petr Brávek <i>Member</i>	Prvá stavebná sporiteľňa, a.s.	SB member
	Erste Group Card Processor d.o.o.	AB deputy chairman
	Erste Group IT International spol. s.r.o.	AB member
	Erste Group IT SK spol. s.r.o.	AB chairman
	s IT Solutions AT Spardat GmbH	SB member
Jozef Sikela <i>Member</i>	Prvá stavebná sporiteľňa, a.s.	SB member
	Erste Group Immovent AG	SB chairman
	Oesterreichische Kontrollbank AG	SB member

Source: Internal information of Erste Group Bank

The members of the Management Board can be reached at Erste Group Bank's business address Graben 21, A-1010 Vienna, Austria.

7.2 SUPERVISORY BOARD

Members of the Supervisory Board

Currently, the Supervisory Board consists of members elected by the shareholders of Erste Group Bank and employee representatives. The following table sets out the current members of the Supervisory Board together with the mandates in supervisory boards or similar functions in other foreign and domestic companies for each supervisory board member as of the date of this Prospectus:

Name	Name of relevant company	Position held
Friedrich Rödler <i>Chairman</i>	Erste Bank der oesterreichischen Sparkassen AG	SB member
	Erste Bank Hungary Zrt.	SB member
	Sparkassen-Prüfungsverband	Chairman Annual General Assembly
Elisabeth Bleyleben-Koren <i>Member</i>	none	—
Bettina Breiteneder <i>Second Deputy Chairman</i>	Generali Holding Vienna AG	SB member
	ZS Einkaufszentren Errichtungs- und Vermietungs- Aktiengesellschaft	SB member
	Wiener Konzerthausgesellschaft	AB member
Gonzalo Gortázar Rotaeché <i>Member</i>	VidaCaixa, S.A. Seguros y Reaseguros	SB chairman
	Grupo Financiero Inbursa	Member of board of directors
Gunter Griss <i>Member</i>	Steiermärkische Bank und Sparkassen AG	SB chairman

Name	Name of relevant company	Position held
	Bankhaus Krentschker & Co. AG	SB deputy chairman
	AVL List GmbH	SB chairman
	BDI BioEnergy International AG	SB chairman
Maximilian Hardegg <i>Member</i>	DIE ERSTE österreichische Spar-Casse Privatstiftung	SB member
	Česká spořitelna, a.s.	SB member
	Nadace Depositum Bonum Foundation	SB chairman
Jan Homan <i>First Deputy Chairman</i>	Allianz Elementar Versicherungs-Aktiengesellschaft	SB member
	BillerudKorsnäs AB	SB member
	Constantia Flexibles Group GmbH	SB member
	Frapag Beteiligungsholding AG	SB chairman
	Slovenská sporiteľňa, a.s.	SB member
Elisabeth Krainer Senger-Weiss <i>Member</i>	none	—
Antonio Massanell Lavilla <i>Member</i>	Cecabank, S.A.	Chairman board of directors
	Mediterránea Beach & Golf Community, S.A.U.	Vice-chairman of board of directors
	SAREB, S.A.	Member of board of directors
	Telefónica, S.A.	Member of board of directors

Name	Name of relevant company	Position held
Brian Deveraux O'Neill		
<i>Member</i>	Banca Comercială Română S.A.	SB member
	Council of the Americas	Member of board of directors
	Emigrant Bank	Member of board of directors
	Inter-American Dialogue	Member of board of directors
	Seven Seas Water	Member of board of directors
Wilhelm Rasinger		
<i>Member</i>	Friedrichshof Wohnungsgenossenschaft reg. Gen.mBH	SB chairman
	Haberkorn Holding AG	SB member
	Haberkorn GmbH	SB member
	s IMMO AG	SB member
	Wienerberger AG	SB member
	Gebrüder Ulmer Holding GmbH	SB member
John James Stack		
<i>Member</i>	Ally Bank	Member of board of directors
	Ally Financial Inc.	Member of board of directors
	Česká spořitelna, a.s.	SB chairman
	Mutual of America Capital Management	Member of board of directors
	Nadace Depositum Bonum Foundation	SB member
Markus Haag		
<i>Employee representative</i>	none	—
Regina Haberhauer		
<i>Employee representative</i>	ERSTE-SPARINVEST KAG	SB member
	Ringturm KAG	SB member

Name	Name of relevant company	Position held
Andreas Lachs <i>Employee representative</i>	VBV-Pensionskasse AG	SB member
Barbara Pichler <i>Employee representative</i>	DIE ERSTE österreichische Spar-Casse Privatstiftung	SB member
Jozef Pinter <i>Employee representative</i>	none	—
Karin Zeisel <i>Employee representative</i>	none	—

Source: Internal information of Erste Group Bank.

7.3 REPRESENTATIVES OF THE SUPERVISORY AUTHORITIES

Pursuant to the BWG and the Austrian Mortgage Bank Act 1899, the Austrian Minister of Finance is required to appoint representatives, who monitor Erste Group Bank's compliance with certain legal requirements. The current representatives are listed below:

Name	Position
Wolfgang Bartsch	State Commissioner
Michael Kremser	Vice State Commissioner
Silvia Maca	Commissioner for covered bonds
Erhard Moser	Vice Commissioner for covered bonds
Irene Kienzl	Trustee pursuant to the Mortgage Bank Act
Thomas Schimetschek	Deputy Trustee pursuant to the Mortgage Bank Act

Source: Internal information of Erste Group Bank

Pursuant to the BWG and the Articles of Association, the State Commissioner and its deputy shall be invited to the Erste Group Bank's Shareholders' Meetings and all meetings of the Supervisory Board and its committees. Furthermore, the State Commissioner or its deputy shall immediately receive all minutes of the meetings of the Supervisory Board. Resolutions of the Supervisory Board and of its committees which are passed outside a meeting shall be simultaneously communicated to the State Commissioner or its deputy who is entitled to raise written objections pursuant to § 76 (6) of the BWG.

7.4 POTENTIAL CONFLICTS OF INTEREST

Agreements (e.g. advisory contracts or loan agreements) of Erste Group Bank with the Members of its Management Board and its Supervisory Board may generate in certain circumstances conflicts of interest. Should any such conflict of interest arise, Erste Group

Bank has sufficient rules and procedures in place to properly deal with such conflicts of interest in accordance with applicable laws and industry standards.

7.5 AUDIT AND AUDITORS' REPORTS

Sparkassen-Prüfungsverband Prüfungsstelle (statutory auditor, two current directors of which are members of "Kammer der Wirtschaftstreuhänder Österreich") at Grimmelshausengasse 1, A-1030 Vienna, and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (a member of "Kammer der Wirtschaftstreuhänder Österreich") at Wagramer Straße 19, A-1220 Vienna, have audited the German language consolidated financial statements of Erste Group Bank as of 31 December 2014 and 2013 and issued unqualified audit opinions for the Audited Consolidated Financial Statements 2014 (dated 27 February 2015) and 2013 (dated 28 February 2014). The financial year of Erste Group Bank is the calendar year.

7.6 SHAREHOLDERS OF ERSTE GROUP BANK

Erste Group Bank's major shareholder, DIE ERSTE österreichische Spar-Casse Privatstiftung, is a private foundation which was created by the transformation of DIE ERSTE Österreichische Spar-Casse Anteilsverwaltungssparkasse, a special form of savings bank holding company, with effect as of 19 December 2003. Such type of transformation is provided for under the Austrian Savings Bank Act. As of the date of this Prospectus, about 30.0% of the shares in Erste Group Bank were attributable to DIE ERSTE österreichische Spar-Casse Privatstiftung ("**Erste Stiftung**") which held 10.7% directly and 9.4% indirectly (including voting rights of DIE ERSTE österreichische Spar-Casse Privatstiftung, savings banks, savings banks foundations and Wiener Städtische Wechselseitige Versicherungsverein), and 9.9% of the shares in Erste Group Bank were held by CaixaBank, S.A. which are also attributable to Erste Stiftung. The free float amounts to 70.0% (of which 4.1% were held by UNIQA Versicherungsverein Privatstiftung, Vienna, Austria, 4.4% were held by Harbor International Fund, 54.6% by other institutional investors, 6.0% by retail investors and 0.9% by Erste Group's employees) (all numbers are rounded).

In total 1,389,725 shares are held in the savings banks directly and are to be considered own shares thus reducing the number of shares with voting right to 428,410,275 in total. The voting rights of the shareholders are subsequently increasing slightly.

8. LEGAL PROCEEDINGS

Erste Group Bank and some of its subsidiaries are involved and have been involved in the twelve months preceding the date of this Prospectus in legal disputes, including governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), most of which have arisen or have been threatened 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 and/or Erste Group Bank. 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 and/or Erste Group Bank:

Hungarian holocaust litigation

With the United States Court of Appeals for the Seventh Circuit affirming in January 2015 the judgement of the Federal District Court from January 2014 entering judgment in favour of Erste Group Bank by dismissing the claims on *forum non conveniens* grounds, and with the passing of the deadline for the plaintiffs to request *Certiorari* from the US Supreme Court, Erste Group Bank considers this case as terminated. In 2010, a group of plaintiffs had filed a putative class action complaint, in a Federal Court in Chicago, on behalf of alleged victims of the Holocaust or their heirs, alleging that several Hungarian banks improperly benefited from the seizure of assets of Jewish customers during World War II. The assets claimed total USD 2 billion in 1944 dollars. Although Erste Group Bank was not alleged to have participated in the alleged misappropriation of Jewish assets, it was nevertheless named as a defendant in the litigation, as plaintiffs alleged that Erste Group Bank is the legal successor to a number of banks that were active during that time in Greater Hungary. Erste Group Bank has denied all of the material allegations against it, including, but not limited to, allegations of successorship.

Consumer protection claims

Several banking subsidiaries of Erste Group in CEE have been named in their respective jurisdictions as defendants in a number of lawsuits and 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, Banca Comercială Română ("**BCR**") is, besides being a defendant in a substantial number of individual law suits 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 six individual litigation claims filed by the local consumer protection authority, in each case on behalf of several borrowers. In the second quarter of 2015, the court of first instance took a decision in the first of these six cases, and decided in favour of BCR, against which an appeal was filed. Further first instance decisions are expected in some of the other cases over the remainder of the year. 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 agreements of BCR with several other consumers. BCR has also taken legal steps against the law on which such effect might be grounded.

In Hungary, foreign currency loan related invalidity lawsuits by consumers against banks, including Erste Bank Hungary, have been suspended by the regulations of the 2014 consumer loan law until the completion of the settlement and refund process towards the customers concerned. While some plaintiffs may not further pursue their claims, it is expected that Erste Bank Hungary will remain a defendant in a number of these litigations and that consumers will continue and initiate further court cases even upon the completion of the refund process set out in the 2014 consumer loan law, creating a level of legal uncertainty which makes it impossible to quantify the potential financial impact in the case of adverse adjudications.

In Croatia, in a case instituted by a consumer protection organisation against several local banks, among them Erste Bank Croatia, the Croatian Supreme Court, while rejecting some other requests by plaintiffs, in the second quarter of 2015 declared null and void contractual provisions used over a certain period in the past which allowed banks to change unilaterally the variable interest rates in CHF denominated consumer loans approved in the period from 2004 to 2008.

Corporate bond investors' prospectus claims

In 2014 and in the first half of 2015, 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, requesting compensation for their losses as bondholders 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, together with a second Austrian bank, acted as joint-lead manager of the bond issuance in 2011. Erste Group Bank rejects the claims.

Claim by an Austrian sub-sovereign

In Austria, the federal state (*Bundesland*) of Salzburg, a sub-sovereign had engaged in derivatives transactions with international and Austrian banks, among them Erste Bank der oesterreichischen Sparkassen AG ("**EBOe**"), for several years. In 2012, its government made public having suffered losses of about EUR 350 million from such transactions, and the sub-sovereign announced that it would hold the respective counterparties liable for the losses which it had allegedly suffered from such transactions, arguing among others miss-counselling on the part of the banks and a lack of authority on the level of the sub-sovereign to enter into speculative financial transactions. Following a review of its own transactions, EBOe refused to enter into an out-of-court settlement with the sub-sovereign and rejected the request to grant a temporary waiver of statute of limitations. In July 2015, the federal state of Salzburg has filed a legal action against EBOe with a claims amount of EUR 88.6 million. EBOe rejects the claim.

9. MATERIAL CONTRACTS

Erste Group Bank and its subsidiaries have not entered into any material contracts, other than contracts entered into in the ordinary course of business, which could result in any member of Erste Group being under an obligation or entitlement that is material to Erste Group Bank's ability to meet its obligation to Noteholders in respect of the Notes, except for the following agreements which have been in place before:

Cooperation between Erste Group Bank and Vienna Insurance Group

Erste Group Bank 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 case of a change of control of Erste Group Bank, VIG has the right to terminate the general distribution agreement, and in case of a change of control of VIG, Erste Group Bank has a reciprocal right. A change of control is defined, with respect to Erste Group Bank, as the acquisition of Erste Group Bank by any person other than DIE ERSTE österreichische Spar-Casse Privatstiftung or Austrian savings banks of 50% plus one share of Erste Group Bank's voting shares, and with respect to VIG, as the acquisition of VIG by any person 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 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 March 2013 to March 2018.

Erste Group Bank 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 case of a change of control (as defined above), each party has a termination right. If Erste Group Bank 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.

New Haftungsverbund Agreement

On 1 January 2014, Erste Group Bank and its subsidiary Erste Bank Oesterreich entered with the savings banks into the second supplementary agreement (Zweite Zusatzvereinbarung) to the Haftungsverbund ("**Haftungsverbund 3**"). The cooperation between the Erste Group and the savings banks was hereby further intensified. The aim of the agreement is the intensification of the group steering, the setting up of an institutional protection scheme (Article 113(7) CRR) and a cross-guarantee scheme (Article 4(1)(127) CRR) in order to fulfil the requirements of Article 84(6) CRR for being exempted from the deduction of any minority interest and thus, being entitled to recognize any minority interest arising within the cross-guarantee scheme in full as well as in light of IFRS 10 to strengthen Erste Group Bank's power in the provisions of the agreement governing the Haftungsverbund 3.

Syndicate Agreements

In 2013 and 2014, syndicate agreements among Erste Stiftung on the one hand and (i) the Sparkassenstiftungen and Anteilsverwaltungssparkassen, the (ii) Sparkassen which are members of Haftungsverbund 3, (iii) CaixaBank S.A. and (iv) Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung– Vienna Insurance Group on the other hand were concluded. Each of these syndicate agreements constitutes a

subordination-syndicate, which requires the syndicate partners to vote in line with Erste Stiftung in case of appointments of members of the supervisory board. Furthermore, the syndicate agreements foresee the establishment of a monitoring system in order to avoid unintended creeping.

With regard to the Memorandum of Understanding sealed between the Government of Hungary and the EBRD please see section "*6.2 Background*".

10. THE AUSTRIAN BANKING SYSTEM

Overview

Like in other European countries, the banking system in Austria comprises a diverse array of financial institutions. The Austrian banking industry may be divided into five "sectors" according to the (current or former) legal form (ownership respectively) of a bank and its membership to the respective trade association (*Fachverband*): (i) savings banks (*Sparkassen*), (ii) agricultural co-operative banks (*Raiffeisenbanken*), (iii) public co-operative banks (*Volksbanken*), (iv) provincial mortgage banks (*Landes-Hypothekenbanken*), and (v) banks and bankers (*Banken und Bankiers*). Today, in principle, all banks from the different sectors engage in substantially comparable business but may pursue different business policies. Erste Group Bank is a member of the Savings Banks Sector.

The structure of Austria's banking system is characterised by a large number of small banks, a smaller number of medium to large banks and – apart from Erste Group Bank, UniCredit Bank Austria AG ("**Bank Austria**") (a subsidiary of Unicredit S.p.A.) and Raiffeisen Bank International AG – the absence of any banks with international importance. By the end of Q3 of 2014, the Austrian banking system consisted of 775 independent banks with a total of 4,278 branches and estimated total assets of EUR 922,8 billion (source: website of the OeNB reviewed on 10 February 2015).

Savings Banks

The Savings Banks Sector is the third largest of the Austrian banking sectors, accounting for approximately EUR 159 billion of total assets (excluding Bank Austria) as of Q3 of 2014 (source: website of the OeNB reviewed on 10 February 2015). The Savings Banks Sector then comprised of 49 independent savings banks (excluding Bank Austria), with Erste Group Bank AG acting as the central institution (*Zentralinstitut*) of the Savings Banks Sector.

Historically, geographic restrictions on operations contributed to the development of the Savings Banks Sector characterised by a large number of small, local savings banks. Savings banks were established either by an association (*Verein*) or a municipality (*Gemeinde*). The historical role of both the *Verein* and the *Gemeinde* concerning the respective association savings bank (*Vereinssparkasse*) and municipality savings bank (*Gemeindesparkasse*) was to provide the initial capital for the savings banks required by regulatory law. A *Gemeindesparkasse* and its operating *Sparkassenaktiengesellschaft* might be somehow influenced by the respective municipality.

Further, other than in case of a *Vereinssparkasse*, creditors of a *Gemeindesparkasse* and its operating savings bank stock corporation (*Sparkassenaktiengesellschaft*) used to benefit, and to some extent, still benefit from a statutory municipal deficiency guarantee (*Gemeindeausfallhaftung*). These deficiency guarantees are gradually ceasing to exist as follows: (i) liabilities existing on 2 April 2003 will continue to be covered until their maturity; (ii) liabilities entered into after 2 April 2003 until 1 April 2007 will be covered if the concluded maturity date is no later than 30 September 2017; (iii) all liabilities entered into after 1 April 2007 are not covered. As the savings banks traditionally did not expressly use this deficiency guarantee to reduce their costs of financing, no major impact is expected to result from the expiration of this guarantee. Only 10 smaller savings banks are likely to be affected by the expiration of the guarantee.

Since 1986, savings banks may contribute their banking business into a stock corporation (*Aktiengesellschaft*) in order to enable share transfers and to facilitate to raise capital. Such contribution requires establishing a special savings bank management company (*Anteilsverwaltungssparkasse*) as holding company of the shares in the relevant operating *Sparkassenaktiengesellschaft*. Accordingly, in 1993, "DIE ERSTE oesterreichische Spar-Casse – Bank" transferred all its banking operations to "DIE ERSTE oesterreichische Spar-Casse - Bank Aktiengesellschaft", a newly founded subsidiary being the operational bank; "DIE ERSTE oesterreichische Spar-Casse" remained as holding company and was renamed into "DIE ERSTE oesterreichische Spar-Casse Anteilsverwaltungssparkasse ("**AVS**")".

Since 1998, *Anteilsverwaltungssparkassen* may transform their legal form into a private foundation (*Privatstiftung*). For such *Gemeindesparkassen*, the deficiency guarantee is limited to liabilities entered into until the (next) balance sheet date following the registration of the transformation. In 2003, AVS was transformed into such private foundation ("**DIE ERSTE österreichische Spar-Casse Privatstiftung**").

Regulation and supervision

The regulatory framework for the Austrian banking system is determined by a number of (Austrian and European) rules and regulations. For the savings banks, Erste Group Bank and Erste Group, in particular the following Austrian laws (as well as respective regulations, if any) are relevant: the Austrian Financial Market Supervision Act (*Finanzmarktaufsichtsbehördengesetz – FMABG*), the BWG (*Bankwesengesetz – BWG*), the Austrian Savings Bank Act (*Sparkassengesetz*), the Austrian Securities Supervision Act 2007 (*Wertpapieraufsichtsgesetz 2007 – WAG 2007*), the Austrian Payment Services Act (*Zahlungsdienstegesetz – ZaDiG*), the Austrian Recovery and Resolution Act (*Sanierungs- und Abwicklungsgesetz – BaSAG*), the Austrian Mortgage Bank Act (*Hypothekenbankgesetz – HypBG*) and the Austrian Covered Bonds Act (*Gesetz betreffend fundierte Bankschuldverschreibungen – FBSchVG*).

In addition to Austrian laws and regulations, also certain EU-regulations are directly applicable to Austrian credit institutions and banking groups.

According to the Austrian Financial Market Supervision Act, the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde – "FMA"*) is in particular responsible for (i) banking supervision, (ii) insurance and pension companies supervision as well as (iii) securities supervision in Austria. The FMA is also the resolution authority in Austria pursuant to BaSAG.

The management board of the FMA consists of two members, one of them nominated by the Austrian Minister of Finance respectively the OeNB, and appointed by the Austrian Federal President upon proposal by the Austrian Federal Government. The FMA's supervisory board consists of eight members (two of them without voting rights) which is responsible for approving the FMA's budget, financial statements, top employees and other important matters. The expenses of the FMA are primarily borne by the supervised entities, while the Austrian Federal Government bears a minor fixed portion thereof.

The tasks of the FMA's banking supervision department include in particular the performance of licensing, authorisation and notification procedures, the performance of supervisory procedures, the official supervision of intra-bank models, commissioning the Austrian Nationalbank (*Oesterreichische Nationalbank – "OeNB"*) to carry out on-site inspections, officially monitoring action taken by the credit institution to remedy shortcomings, the interpretation of the law with regard to banking supervision, collecting and analysing qualitative information, evaluating analysis results with respect to official measures and the involvement in legislation related to banking supervision, sending departmental representatives to international bodies, supervising branches and representative offices of foreign credit institutions, as well as cross-border supervision within the scope of the consolidating supervision concept.

The FMA is entitled to undertake various supervisory measures and impose sanctions against credit institutions. In order to enable the FMA and the OeNB to fulfill their obligations, credit institutions are *inter alia* subject to regular regulatory reporting, notification and information requirements.

Since 2008, a supervisory reform in Austria has provided a new structure for cooperation between the FMA and the OeNB in banking supervisory activities and tightened the links between micro- and macro prudential supervision, that is, supervision of individual institutions and supervision at the systemic level. As a consequence, the OeNB was assigned additional operational tasks in this field. All on-site inspections relating to banking supervision are conducted by the OeNB, as a result of an inspection order issued by the FMA. The OeNB also may request an inspection order (or expansion of an inspection order). A key element of this cooperation is the sharing of all supervisory-related data held by both institutions in a

single database allowing for greater depth of data analysis and monitoring, both of individual market participants and of the financial market as a whole.

Since November 2014, the European Central Bank ("**ECB**") assumed its new banking supervision responsibilities and took on new banking supervision tasks as part of the Single Supervisory Mechanism ("**SSM**"). The SSM is a new system of banking supervision for Europe. It comprises the ECB and the national supervisory authorities of the participating countries.

Under the SSM, the ECB directly supervises the 123 significant credit institutions of the participating EU-Member States which hold almost 82% of banking assets in the Euro area (such as Erste Group Bank). In addition, the ECB works closely with the national competent authorities (such as the FMA) to supervise all other credit institutions under the overall oversight of the ECB. Credit institutions of the participating EU-Member States that are not considered significant are known as "less significant" institutions. They continue to be supervised by their national competent authorities, in close cooperation with the ECB.

However, the ECB can decide at any time to exercise direct supervision of any one of these credit institutions in order to ensure consistent application of high supervisory standards.

State commissioners, trustees and government commissioners

The BWG requires the Austrian Minister of Finance to appoint a state commissioner (*Staatskommissär*) and a deputy for all savings banks and for credit institutions with a balance sheet total exceeding EUR 1.0 billion. The state commissioners are acting as bodies of the FMA and are exclusively subject to the FMA's instructions in this function. They have to be invited to all meetings of the shareholders, the supervisory board and executive committees of the credit institution.

The state commissioners must immediately raise objections to resolutions of such bodies which they consider to violate legal or other provisions or administrative rulings (*Bescheide*) of the Federal Minister of Finance or the FMA, and report to the FMA accordingly. Such objections postpone the effectiveness of the resolution until an FMA decision is issued by the supervisory authority (within one week upon request by the credit institution), see "**ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES**".

For Erste Group Bank, a trustee (*Treuhänder*) and its deputy as well as a government commissioner (*Regierungskommissär*) were appointed by the Austrian Minister of Finance for monitoring its covered bond business. The trustee respectively the government commissioner are responsible for monitoring Erste Group Bank's compliance with legal requirements for mortgage *Pfandbriefe* (*Hypothekendarlehen*) and public *Pfandbriefe* (*Öffentliche Darlehen*) pursuant the Austrian Mortgage Bank Act, as well as for covered bonds (*fundierte Darlehen*) pursuant to the Austrian Covered Bonds Act.

New recovery and resolution regime for banks

On 1 January 2015, the Austrian Recovery and Resolution Act (*Bundesgesetz über die Sanierung und Abwicklung von Banken – BaSAG*) aiming to introduce a new bank recovery and resolution regime entered into force in order to further stabilize the Austrian financial market and prevent that public funds are needed in order to rescue credit institutions.

For this purpose, the FMA is the national resolution authority.

The law is intended to implement the Bank Recovery and Resolution Directive ("**BRRD**"). For details see also the risk factor "*The Notes may be subject to write down or conversion to equity upon the occurrence of a certain trigger event, which may result in Holders losing some or all of their investment in the Notes (statutory loss absorption)*".

Like the BRRD, the Austrian Recovery and Resolution Act mainly foresees the following measures:

Preparation and prevention: Institutions are obliged to organizationally prepare for crises situations. This in particular requires institutions to prepare recovery plans and to submit them

to the resolution authority. In a group context, the superordinate institution is obliged to do so for itself and the whole group. Recovery plans have to set out measures envisaged by the institutions in order to re-establish the institution's financial stability in case of a significant deterioration of the financial situation by stipulating a framework including trigger events for recovery measures. In addition, the resolution authority has to draw-up resolution plans for each institution (not forming part of a group) and each group of institutions. Within the resolution plans, the resolution authority has to demonstrate how a well-regulated resolution of a failing institution or group shall take place.

Early intervention: The resolution authority is obliged to undertake early intervention measures in order to early prevent crisis situations at institutions where an institution does not comply with capital or liquidity requirements or where a violation of such requirements is imminent at an early stage; those measures shall prevent crisis situations pre-emptively and allow the resolution authority to intervene in time in cases of emergency.

In addition to this, the BRRD also provides the resolution authority with the **power to write down (or convert) capital instruments** as well as **four resolution tools** in order to resolve an institution: (i) the sale of business tool; (ii) the bridge institution tool; (iii) the asset separation tool; and (iv) the bail-in tool.

The "bail-in tool" as well as the write down (or conversion) allows the resolution authorities, *inter alia*, to write-down unsecured (including senior and subordinated) debt of an institution or to convert it into equity. Consequently, not only the owners of credit institutions, but also creditors would bear the costs of a resolution.

OeNB, ESCB and Minimum Reserves

The Euro system which comprises the ECB and the national central banks of the Euro area of the EU-Member States conducts the monetary policy of the Euro with the main objective to maintain price stability, safeguarding the value of the Euro.

As the Austrian central bank, the OeNB is an integral part of the Euro system and of the European System of Central Banks ("**ESCB**") and legally required to support the ECB. The ECB decides on the principal monetary policies of the European and Monetary Union ("**EMU**"), whereas the OeNB executes the directives and regulations of the ECB.

The ECB requires credit institutions established in the Eurozone, such as Austrian credit institutions, to hold minimum reserves on accounts with the ECB and national central banks. In accordance with regulations of the ECB, a credit institution's reserve base should comprise deposits and debt securities issued resulting from the acceptance of funds. In December 2011, the ECB reduced the reserve ratio for certain liability categories from 2% to 1% in order to promote the provision of liquidity to counterparties to Euro system monetary policy operations.

Statutory Protection Scheme

On 15 August 2015, the Austrian Deposit Guarantee and Investor Protection Act (*Einlagensicherungs- und Anlegerentschädigungsgesetz – ESAEG*) implementing the Directive on Deposit Guarantee Schemes ("**DGSD**") entered into force, subject to various transitional provisions. For details see also the risk factor "*The Issuer is obliged to contribute amounts to the Single Resolution Fund and to ex ante financed funds of the deposit guarantee schemes; this could result in additional financial burdens for the Issuer and thus, materially adversely affect the financial position of the Issuer and the results of its business, financial condition and results of operations.*"

In the past, the Austrian mandatory DGS did not require *ex-ante* funding, but merely has obliged the respective DGS-members (*ex post*) to contribute after deposits of any member have become unavailable (protection event). The (recast) DGSD stipulates financing requirements for the Deposit Guarantee Schemes ("**DGS**") for the first time since the introduction of mandatory DGS in 1994. In principle, the target level of *ex ante* financed funds for DGS is 0.8% of covered deposits to be collected from credit institutions until 3 July 2024

(the final date). According to the Austrian Deposit Guarantee and Investor Protection Act, the deposit guarantee fund must therefore be established until 3 July 2024 (final date), whereas in 2015, an amount of a half year's contribution is payable.

In addition to *ex ante* contributions, if necessary, credit institutions will have to pay additional (*ex post*) contributions to a certain extent, which will be limited in order to avoid pro-cyclicality and worsening financial situation of healthy credit institutions.

Haftungsverbund

Since 2002, most of the Austrian savings banks, excluding Bank Austria, formed a uniform business and market policy, an early warning system and an enhanced deposit guarantee system. The deposit guarantee system materially expanded the credit institutions' obligations beyond the legally prescribed amount per depositor. These arrangements establish a so-called "Haftungsverbund", a guarantee system that was formed on the basis of a set of agreements with the majority of the Austrian savings banks. For more details on the *Haftungsverbund*, see "*BUSINESS OVERVIEW - Haftungsverbund*".

Financial statements and audits

Austrian credit institutions are required to prepare (annual and consolidated) financial statements, and to submit them (together with the respective audit reports of the external auditor) to the FMA and the OeNB. The audited financial statements (the contents prescribed by law) must be published in the Austrian official gazette (*Amtsblatt zur Wiener Zeitung*).

Certain Austrian banks prepare consolidated financial statements (either voluntarily or mandatorily) in accordance with IFRS as adopted by the EU. IFRS differs mainly from accounting standards for consolidated financial statements applicable to Austrian banks in respect of a reduced use of fair values and less comprehensive tax deferrals.

In addition, all (annual and consolidated) financial statements of Austrian credit institutions must be audited by bank auditors (*Bankprüfers*) which are either certified external auditors or external auditing companies appointed as external auditors of financial statements or – in case of the Savings Banks sector – the savings bank auditing association (*Sparkassen-Prüfungsverband Prüfungsstelle*) as statutory bank auditor. The bank auditor must review the legal compliance of the annual financial statements. The results of such audit must include a statement on (timely and complete) compliance with all relevant regulatory banking rules and provisions and must be presented in an annex to the audit report (prudential report).

As savings bank stock corporation, the financial statements of Erste Group Bank are regularly audited by the *Sparkassen-Prüfungsverband Prüfungsstelle*. In 2010, 2011, 2012, 2013 and 2014, these audits have been performed jointly with Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (elected as additional auditor by the shareholders' meeting of Erste Group Bank in the year before).

Prudential requirements for banks

In January 2011, the Basel Committee on Banking Supervision ("**BCBS**") published its final standards on the revised capital adequacy framework, known as Basel III, which tightened the definition of capital and requires banks to maintain capital buffers on top of minimum capital requirements. On 27 June 2013, the Capital Requirements Directive IV (Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC) (*Capital Requirements Directive IV – "CRD IV"*) and the Capital Requirements Regulation (Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012) (*Capital Requirements Regulation – "CRR"*) transposing Basel III into EU-law, have been published.

The CRR (an EU-regulation which directly applies in all EU-Member States without any further national implementation steps) as well as the Austrian federal law implementing the CRD IV into Austrian law, which in particular includes amendments to the BWG, are applicable since 1 January 2014.

Thus, since 2014, the prudential requirements, in particular the regulatory capital requirements applicable to Erste Group Bank and Erste Group have been substantially changed. See also *"Risks related to the business of Erste Group – New governmental or regulatory requirements and changes in perceived levels of adequate capitalisation and leverage could subject Erste Group to increased capital requirements or standards and require it to obtain additional capital or liquidity in the future"* and "CURRENT REGULATORY TOPICS".

Under the new rules, the only capital instruments eligible as own funds are: (i) Common Equity Tier 1 instruments ("**CET 1**"); (ii) Additional Tier 1 instruments ("**AT 1**") (CET 1 and AT 1 together constituting "**Tier 1**"); and Tier 2 instruments ("**Tier 2**").

Institutions are required at all times satisfy the following capital ratios for own funds: (i) a CET 1 ratio of 4.5%; (ii) a Tier 1 ratio of 6%; and (iii) a total capital ratio of 8%, all expressed as a percentage of the total risk exposure amount. The total risk exposure amount basically is the sum of risk-weighted exposure amounts for credit risk, as well as the own funds requirements for market risk and operational risk.

Therefore, whilst the total capital an institution needs to hold remains at 8%, the share that has to be of the highest quality (i.e. CET 1) increases from 2% to 4.5% (with respective transitional provisions).

The new rules established new capital buffers: the capital conservation buffer, the countercyclical buffer, the systemic risk buffer, the global systemic institutions buffer and the other systemic institutions buffer. On top of these own funds requirements, the competent authorities may add extra capital requirements to cover for other risks following a supervisory review and institutions may also decide to hold an additional amount of capital on their own.

The criteria for each capital instrument became more stringent; due to harmonized definitions of adjustments made to capital in order to determine the amount of regulatory capital that is prudent to recognise for regulatory purposes, the effective level of required regulatory capital has significantly been increased.

In order to calculate their risk-weighted exposure amounts, institutions shall apply either the standardised approach or (if permitted by the competent authorities) the internal ratings based approach ("**IRB**").

Based on a respective FMA-decision, since 1 January 2007, Erste Group Bank is entitled to use the IRB. In general, Erste Group is entitled to use the so-called foundation IRB ("**FIRB**") for the institution, the corporate, the sovereign and the specialised lending portfolios. This means that Erste Group Bank uses own probability of default ("**PD**") estimates and supervisory loss given default ("**LGD**") estimates. In addition, Erste Group Bank is entitled to use the so-called advanced IRB ("**AIRB**") for the retail portfolio which allows not only to use own PD estimates, but also the performance of LGD estimates. The IRB is used for Erste Group on a consolidated level, for Erste Group Bank on an unconsolidated basis and for many of the subsidiaries and the savings banks on an unconsolidated level. For the calculation the own funds requirement for operational risk, Erste Group Bank and certain of its subsidiaries also use the advanced measurement approach ("**AMA**").

Apart from the prudential requirements on own funds/regulatory capital described above, Austrian credit institutions are subject to numerous other regulatory requirements stipulated by EU-law, including limits on large exposures, liquidity requirements, leverage ratio, as well as reporting and notification obligations.

Credit institutions have to comply with such prudential/regulatory requirements not only on a solo level, but also on a group level (i.e. by the credit institution's group; prudential consolidation).

11. TAXATION

The statements herein regarding certain tax issues in Austria and Luxembourg are based on the laws in force in those jurisdictions as of the date of this Prospectus and are subject to any changes in such laws. The following summaries do not purport to be comprehensive descriptions of all the tax considerations which may be relevant to a decision to purchase, own or dispose of Notes and further disclosure may be included in a supplement to this Prospectus. Prospective holders of Notes should consult their tax advisers as to the relevant tax consequences of the ownership and disposition of Notes.

The Issuer assumes no responsibility with respect to taxes withheld at source.

AUSTRIA

This section on taxation contains a brief summary of the Issuer's understanding with regard to certain important principles which are of significance in connection with the purchase, holding or sale of the Notes in the Republic of Austria. This summary does not purport to exhaustively describe all possible tax aspects (e.g. it does not address potential capital contribution tax aspects of the issuance of the Notes) and does not deal with specific situations which may be of relevance for certain potential investors. The following comments are rather of a general nature and included herein solely for information purposes. They are not intended to be, nor should they be construed to be, legal or tax advice. This summary is based on the currently applicable tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact on the tax consequences described. It is recommended that potential investors in the Notes consult with their legal and tax advisors as to the tax consequences of the purchase, holding or sale of the Notes. Tax risks resulting from the Notes (in particular from a potential qualification as equity for tax purposes instead of debt as discussed below) shall in any case be borne by the investor. For the purposes of the following it is assumed that the Notes are legally and factually offered to an indefinite number of persons.

The Issuer assumes no responsibility with respect to taxes withheld at source.

General remarks

Individuals having a domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Corporations having their place of management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*) in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in case of unlimited and limited (corporate) income tax liability Austria's right to tax may be restricted by double taxation treaties.

Income taxation of the Notes

Austrian statutory law does not contain specific provisions on the qualification of Additional Tier 1 instruments for Austrian (corporate) income tax purposes. However, pursuant to sec 8(3)(1) item 2 of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*), which is typically applied for purposes of qualifying hybrid instruments either as equity or as debt for Austrian (corporate) income tax purposes, *jouissance* rights and other financial

instruments (*Genussrechte und sonstige Finanzierungsinstrumente*) granting a right to participate in both the current profits and the liquidation profits of the issuer are qualified as equity instruments. In contrast thereto, *jouissance* rights and other financial instruments granting a right to participate either in the current profits or in the liquidation profits of the issuer or in neither of the two categories are to be qualified as debt instruments. In addition, reference has to be made to jurisprudence of the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*) pursuant to which the qualification of hybrid instruments, such as *jouissance* rights, has to be based on whether typical equity-like criteria outweigh typical debt-like criteria from a quantitative and qualitative perspective thereby taking into account the instrument's term, the profit dependency of distributions, the participation in the issuer's substance/liquidation gain, the granting of securities, a potential subordination and the lack of typical shareholder control and voting rights.

In April 2014, a professional interest association submitted to its members a statement received from the Austrian Ministry of Finance (*Bundesministerium für Finanzen*) which confirms that due to its structural elements, Additional Tier 1 instruments within the meaning of Article 52 of the CRR can be qualified as debt for Austrian (corporate) income tax purposes based on sec 8(3)(1) item 2 of the Austrian Corporate Income Tax Act. As a result of this qualification, distributions effected by the issuer under Additional Tier 1 instruments are generally deductible at the level of the issuer for corporate income tax purposes (unless general restrictions – which are applicable to any debt instruments – apply). This statement of the Austrian Ministry of Finance does not address any other potential Austrian tax aspects in the context of the issuance of Additional Tier 1 instruments. It has to date not yet been reflected in the Austrian Corporate Income Tax Guidelines (*Körperschaftsteuerrichtlinien*). For purposes of the following, the Issuer assumes that the Notes qualify as debt for Austrian (corporate) income tax purposes. In case of a qualification of the Notes as equity the tax consequences would substantially differ from those described below.

Pursuant to sec 27(1) of the Austrian Income Tax Act (*Einkommensteuergesetz*), the term investment income (*Einkünfte aus Kapitalvermögen*) comprises:

- income from the letting of capital (*Einkünfte aus der Überlassung von Kapital*) pursuant to sec 27(2) of the Austrian Income Tax Act, including dividends and interest;
- income from realised increases in value (*Einkünfte aus realisierten Wertsteigerungen*) pursuant to sec 27(3) of the Austrian Income Tax Act, including gains from the alienation, redemption and other realisation of assets that lead to income from the letting of capital, zero coupon bonds and broken-period interest; and
- income from derivatives (*Einkünfte aus Derivaten*) pursuant to sec 27(4) of the Austrian Income Tax Act, including cash settlements, option premiums received and income from the sale or other realisation of forward contracts like options, futures and swaps and other derivatives such as index certificates.

Also the withdrawal of the Notes from a bank deposit (*Depotentnahme*) and circumstances leading to a loss of Austria's taxation right regarding the Notes *vis-à-vis* other countries, e.g. a relocation from Austria (*Wegzug*), are in general deemed to constitute a sale (*cf.* sec 27(6)(1) of the Austrian Income Tax Act).

Individuals subject to unlimited income tax liability in Austria holding the Notes as non-business assets are subject to income tax on all resulting investment income pursuant to sec 27(1) of the Austrian Income Tax Act. In case of investment income with an Austrian nexus (*inländische Einkünfte aus Kapitalvermögen*), basically meaning income paid by an Austrian paying agent (*auszahlende Stelle*) or an Austrian custodian agent (*depotführende Stelle*), the income is subject to withholding tax (*Kapitalertragsteuer*) at a rate of 25% before 1 January 2016 and at a rate of 27.5% after 31 December 2015; no additional income tax is levied over and above the amount of tax withheld (final taxation pursuant to sec 97(1) of the Austrian Income Tax Act). In case of investment income without an Austrian nexus, the income must be included in the investor's income tax return and is subject to income tax at the flat rates mentioned above. In both cases upon application the option exists to tax all income subject to income tax at the flat rates mentioned above at the lower progressive income tax rate (option to regular taxation pursuant to sec 27a(5) of the Austrian Income Tax

Act). Sec 27(8) of the Austrian Income Tax Act, *inter alia*, provides for the following restrictions on the offsetting of losses: negative income from realised increases in value and from derivatives (*inter alia*, if being in the form of securities) may neither be offset against interest from bank accounts and other non-securitized claims *vis-à-vis* credit institutions (as of 1 January 2016, except for cash settlements and lending fees) nor against income from private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*); income subject to income tax at the flat rates mentioned above may not be offset against income subject to the progressive income tax rate (this equally applies in case of an exercise of the option to regular taxation); negative investment income not already offset against positive investment income may not be offset against other types of income.

Individuals subject to unlimited income tax liability in Austria holding the Notes as business assets are subject to income tax on all resulting investment income pursuant to sec 27(1) of the Austrian Income Tax Act. In case of investment income with an Austrian nexus (as described above) the income is subject to withholding tax at a rate of 25% before 1 January 2016 and at a rate of 27.5% after 31 December 2015. While withholding tax has the effect of final taxation for income from the letting of capital, income from realised increases in value and income from derivatives if being in the form of securities must be included in the investor's income tax return (nevertheless income tax at the flat rates mentioned above). In case of investment income without an Austrian nexus, the income must always be included in the investor's income tax return (generally income tax at the flat rates mentioned above). In both cases upon application the option exists to tax all income subject to income tax at the flat rates mentioned above at the lower progressive income tax rate (option to regular taxation pursuant to sec 27a(5) of the Austrian Income Tax Act). Pursuant to sec 6(2)(c) of the Austrian Income Tax Act, depreciations to the lower fair market value and losses from the alienation, redemption and other realisation of financial assets and derivatives in the sense of sec 27(3) and (4) of the Austrian Income Tax Act, which are subject to income tax at the flat rates mentioned above, are primarily to be offset against income from realised increases in value of such financial assets and derivatives and with appreciations in value of such assets within the same business unit (*Wirtschaftsgüter desselben Betriebes*); only parts of the remaining negative difference (namely 50% before 1 January 2016 and 55% after 31 December 2015) may be offset against other types of income (and carried forward).

Corporations subject to unlimited corporate income tax liability in Austria are subject to corporate income tax on income in the sense of sec. 27(1) of the Austrian Income Tax Act from the Notes at a rate of 25%. In case of income in the sense of sec. 27(1) of the Austrian Income Tax Act with an Austrian nexus (as described above) the income is subject to withholding tax at a rate of 25% before 1 January 2016 and at a rate of 27.5% after 31 December 2015. However, the previous 25% rate may pursuant to sec. 93(1a) of the Austrian Income Tax Act also be applied by the withholding agent after 31 December 2015, if the debtor of the withholding tax is a corporation. Such withholding tax can be credited against the corporate income tax liability. However, under the conditions set forth in sec 94(5) of the Austrian Income Tax Act withholding tax is not levied in the first place. Losses from the alienation of the Notes can be offset against other income (and carried forward).

Private foundations (*Privatstiftungen*) pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz*) fulfilling the prerequisites contained in sec 13(3) and (6) of the Austrian Corporate Income Tax Act and holding the Notes as non-business assets are subject to interim taxation at a rate of 25% on interest income, income from realised increases in value and income from derivatives (*inter alia*, if the latter are in the form of securities). Interim tax does not fall due insofar as distributions subject to withholding tax are made to beneficiaries in the same tax period. In case of investment income with an Austrian nexus (as described above) income is in general subject to withholding tax at a rate of 25% before 1 January 2016 and at a rate of 27.5% after 31 December 2015. However, the previous 25% rate may pursuant to sec. 93(1a) of the Austrian Income Tax Act also be applied by the withholding agent after 31 December 2015, if the debtor of the withholding tax is a corporation. Such withholding tax can be credited against the tax falling due. Under the conditions set forth in sec 94(12) of the Austrian Income Tax Act withholding tax is not levied.

Individuals and corporations subject to limited (corporate) income tax liability in Austria are taxable on investment income from the Notes if they have a permanent establishment (*Betriebsstätte*) in Austria and the Notes as well as the income resulting from the Notes are attributable to such permanent establishment (*cf.* sec 98(1)(3) of the Austrian Income Tax Act, sec 21(1)(1) of the Austrian Corporate Income Tax Act). Under the conditions set forth in sec 94(13) of the Austrian Income Tax Act, an Austrian custodian agent or paying agent may abstain from levying withholding tax on investment income. Individuals subject to limited income tax liability in Austria are also taxable on interest in the sense of the Austrian EU Withholding Tax Act (*EU-Quellensteuergesetz*, see below) from the Notes if withholding tax is levied on such interest (this does not apply, *inter alia*, to individuals falling within the scope of the Austrian EU Withholding Tax Act; *cf.* sec 98(1)(5)(b) of the Austrian Income Tax Act).

Pursuant to sec 93(6) of the Austrian Income Tax Act, the Austrian custodian agent is obliged to automatically offset negative investment income against positive investment income, taking into account all of a taxpayer's bank deposits with the custodian agent. If negative and at the same time or later (within the same calendar year) positive income is earned, then the negative income is to be offset against the positive income. If positive and later negative income is earned, then withholding tax on the positive income is to be credited, with such tax credit being limited to 25% of the negative income before 1 January 2016 and to 27.5% of the negative income after 31 December 2015. In certain cases the offsetting is not permissible. The custodian agent has to issue an annual written confirmation on the offsetting of losses for each bank deposit to the taxpayer.

EU withholding tax

Sec 1 of the Austrian EU Withholding Tax Act – implementing Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments – provides that interest payments paid or credited by an Austrian paying agent (*Zahlstelle*) to a beneficial owner who is an individual resident in another EU-Member State (or in certain dependent or associated territories, which currently include Anguilla, Aruba, the British Virgin Islands, Curaçao, Guernsey, the Isle of Man, Jersey, Montserrat, Sint Maarten and the Turks and Caicos Islands) are subject to EU withholding tax (*EU-Quellensteuer*) of 35%. Sec 10 of the Austrian EU Withholding Tax Act provides for an exemption from EU withholding tax if the beneficial owner presents to the paying agent a certificate drawn up in his/her name by the competent authority of his/her member state of residence for tax purposes, indicating the name, address and tax or other identification number or, failing such, the date and place of birth of the beneficial owner, the name and address of the paying agent, and the account number of the beneficial owner or, where there is none, the identification of the security; such certificate shall be valid for a period not exceeding three years. Pursuant to Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation, interest, dividends and similar types of income as well as account balances and sales proceeds from financial assets shall in general be automatically exchanged as of 1 January 2016 with respect to taxable periods as from that date. Although Austria only will have to apply these provisions from 1 January 2017 with respect to taxable periods as from that date, it announced that it will not make full use of the derogation and will already exchange information on new accounts opened during the period 1 October 2016 to 30 December 2016 by 30 September 2017. While it was expected that changes to the EU Withholding Tax Act – implementing Council Directive 2014/48/EU of 24 March 2014 amending Directive 2003/48/EC on taxation of savings income in the form of interest payments – would enter into effect by 1 January 2017, on 18 March 2015 the European Commission published a proposal for a "Council Directive repealing Council Directive 2003/48/EC". Pursuant thereto, the EU Savings Directive shall in general be repealed with effect from 1 January 2016. However, pursuant to detailed grandfathering provisions, Austria shall in general continue to apply it until 31 December 2016.

Tax treaties Austria/Switzerland and Austria/Liechtenstein

The Treaty between the Republic of Austria and the Swiss Confederation on Cooperation in the Areas of Taxation and Capital Markets and the Treaty between the Republic of Austria

and the Principality of Liechtenstein on Cooperation in the Area of Taxation provide that a Swiss, respectively Liechtenstein, paying agent has to withhold a tax amounting to 25% (it is to be expected that this rate will be changed to the rates of 25% and 27.5%, as the case may be, under an adjustment mechanism as of 1 January 2016) on, *inter alia*, interest income, dividends and capital gains from assets booked with an account or deposit of such Swiss, respectively Liechtenstein, paying agent if the relevant holder of such assets (*i.e.* in general individuals on their own behalf and as beneficial owners of assets held by a domiciliary company (*Sitzgesellschaft*) is tax resident in Austria. The same applies to such income from assets managed by a Liechtenstein (but not by a Swiss) paying agent if the relevant holder of the assets (*i.e.* in general individuals as beneficial owners of a transparent structure) is tax resident in Austria. For Austrian income tax purposes this withholding tax has the effect of final taxation regarding the underlying income if the Austrian Income Tax Act provides for the effect of final taxation for such income. The treaties, however, do not apply to interest covered by the agreements between the European Community and the Swiss Confederation, respectively the Principality of Liechtenstein, regarding Council Directive 2003/48/EC on taxation of savings income in the form of interest payments. The taxpayer can opt for voluntary disclosure instead of the withholding tax by expressly authorising the Swiss, respectively Liechtenstein, paying agent to disclose to the competent Austrian authority the income, which subsequently has to be included in the income tax return.

Austrian inheritance and gift tax

Austria does not levy inheritance or gift tax.

Certain gratuitous transfers of assets to private law foundations and comparable legal estates are subject to foundation transfer tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Transfer Tax Act (*Stiftungseingangssteuergesetz*). Such tax is triggered if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat or their place of management in Austria. Certain exemptions apply in cases of transfers *mortis causa* of financial assets within the meaning of sec 27(3) and (4) of the Austrian Income Tax Act (except for participations in corporations) if income from such financial assets is subject to income tax at the flat rates mentioned above. The tax basis is the fair market value of the assets transferred minus any debts, calculated at the time of transfer. The tax rate is in general 2.5%, with a higher rate of 25% applying in special cases. Special provisions apply to transfers of assets to non-transparent foundations and similar vehicles (*Vermögensstrukturen*) falling within the scope of the tax treaty between Austria and Liechtenstein.

In addition, there is a special notification obligation for gifts of money, receivables, shares in corporations, participations in partnerships, businesses, movable tangible assets and intangibles if the donor and/or the donee have a domicile, their habitual abode, their legal seat or their place of management in Austria. Not all gifts are covered by the notification obligation: In case of gifts to certain related parties, a threshold of EUR 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of EUR 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations falling under the Austrian Foundation Transfer Tax Act described above are also exempt from the notification obligation. Intentional violation of the notification obligation may trigger fines of up to 10% of the fair market value of the assets transferred.

Further, gratuitous transfers of the Notes may trigger income tax at the level of the transferor pursuant to sec 27(6)(1) of the Austrian Income Tax Act (see above).

LUXEMBOURG

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (the "**Relibi Law**"), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg or to a residual entity (within the meaning of the laws of 21 June 2005 implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the "**Territories**"), as amended) established in an EU Member State (other than Luxembourg) or one of the Territories and securing such payments for the benefit of such individual beneficial owner will be subject to a withholding tax of 10%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Relibi Law will be subject to a withholding tax at a rate of 10%.

EU SAVINGS DIRECTIVE

Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments, as amended ("**EU Savings Directive**"), obliges each EU Member State to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a paying agent established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State. Originally, Austria, Belgium and Luxembourg had instead imposed a withholding system for a transitional period (the ending of such transitional period being dependent upon the conclusion of agreements relating to information exchange with certain other countries) unless during that period they elect otherwise. Belgium abandoned the transitional withholding system and has been providing information in accordance with the EU Savings Directive since 1 January 2010. Also Luxembourg switched from the withholding system to the exchange of information system as of 1 January 2015. A number of other non-EU countries and territories, including Switzerland, have agreed to adopt measures similar to those contained in the EU Savings Directive (a withholding system in the case of Switzerland) with effect from the adoption of the EU Savings Directive.

Council Directive 2014/48/EU of 24 March 2014 amending Directive 2003/48/EC on taxation of savings income in the form of interest payments broadens the definition of interest income (thereby including, *inter alia*, income from instruments equivalent to debt claims and certain life insurance products) and extends the scope to interest income derived by individuals via certain entities and legal arrangements.

On 18 March 2015 the European Commission published a proposal for a Council Directive repealing Council Directive 2003/48/EC. Pursuant thereto, the EU Savings Directive shall in general be repealed with effect from 1 January 2016. However, pursuant to detailed grandfathering provisions, Austria shall in general continue to apply it until 31 December 2016 (see the taxation section on Austria for more details).

12. SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement dated 14 October 2015 (the "**Programme Agreement**") agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated in the sections entitled "*Form of Final Terms*" and "*Terms and Conditions of the Notes*".

GENERAL

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will (to the best of its knowledge and belief) comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus or any offering material in relation to this Prospectus or the Notes and will obtain any consent, approval or permission required from it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries of Notes and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder or assumes any responsibility for facilitating such sale.

With regard to each Tranche of Notes, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be specified in the relevant Final Terms.

UNITED STATES

The Notes have not been and will not be registered under the Securities Act. Except in certain transactions exempt from the registration requirements of the Securities Act, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")).

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or deliver an Instrument of any Series (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering or the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the later of the date of the commencement of the Offering and the Closing Date, except in either case in accordance with the Regulation S under the Securities Act. Terms used above have the meanings given to them in Regulation S."

Terms used in this paragraph have the meaning given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes of the Tranche of which such Notes are a part, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements

of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Bearer Notes which are subject to U.S. tax law requirements may not be offered, sold or delivered in the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

EUROPEAN ECONOMIC AREA

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation hereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive or pursuant to any applicable national law of any Relevant Member State,

provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in that Relevant Member State.

UNITED KINGDOM

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer.

HONG KONG

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that (i) it has not offered or sold, and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in this Prospectus being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of the Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

THE PRC

Other than to the qualified People's Republic of China ("**PRC**") individuals or entities which have been approved by the relevant PRC government authorities (including, but not limited to, the China Securities Regulatory Commission and/or the State Administration of Foreign Exchange) to subscribe for and purchase the Notes, neither this Prospectus nor any advertisement or other offering material or information in connection with the Notes has been and will be circulated, published or distributed in the PRC, and the Notes may not be offered or sold, and will not be offered or sold to any investor for re-offering or resale, directly or indirectly, to any resident of the PRC, except in accordance with applicable laws and regulations of the PRC.

Investors are responsible for obtaining all relevant government regulatory approvals/licences, verification and/or registrations themselves, including, but not limited to, any which may be required from the relevant PRC authorities (including, but not limited to, the China Securities Regulatory Commission and/or the State Administration of Foreign Exchange), and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or foreign investment regulations.

JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948 as amended, the "**FIEA**") and each Dealer has represented and agreed, and each further Dealer to be appointed under the Programme will be required to represent and agree that it has not offered or sold and will not offer or sell any

Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws and regulations of Japan.

SINGAPORE

Each Dealer has acknowledged, and each further Dealer to be appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore and that the Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, each Dealer has represented and agreed and each further Dealer to be appointed under the Programme will be required to represent and agree that it has not offered or sold any Notes or caused any Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause any Notes to be made the subject of an invitation for subscription or purchase, and that it has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the SFA; (ii) to a relevant person pursuant to Section 275(1) of the SFA, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; or
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law; or
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

RESPONSIBILITY STATEMENT OF ERSTE GROUP BANK AG

Erste Group Bank AG, with its registered office at Graben 21, A-1010 Vienna, Austria, is responsible for the information given in this Prospectus.

The Issuer hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the knowledge of the Issuer, in accordance with the facts and contains no omission likely to affect its import.

Vienna, 14 October 2015

Erste Group Bank AG
as Issuer

Stefan Dörfler
Head of Group Markets

Manfred Neuwirth
Head of Group Markets Financial Institutions

GLOSSARY AND LIST OF ABBREVIATIONS

For ease of reference, the glossary below sets out certain abbreviations and meanings of certain terms used in the Prospectus. Readers of this Prospectus should always have regard to the full description of a term contained in this Prospectus.

AT 1	own funds pursuant to Article 51 CRR (<i>Additional Tier 1</i>)
Audited Consolidated Financial Statements 2013	English translation of the audited consolidated annual financial statements of Erste Group Bank AG for the financial year ended 31 December 2013
Audited Consolidated Financial Statements 2014	English translation of the audited consolidated annual financial statements of Erste Group Bank AG for the financial year ended 31 December 2014
Austrian Savings Banks Sector	the Austrian Savings Banks Sector which comprises all savings banks in Austria, excluding Bank Austria
Bank Austria	UniCredit Bank Austria AG
BaSAG	Austrian Recovery and Resolution Act (<i>Sanierungs- und Abwicklungsgesetz – BaSAG</i>)
Basel III	(final) international regulatory framework for credit institutions published in June 2011 and January 2013 by the BCBS
BCBS	Basel Committee on Banking Supervision
BCR	Banca Comercială Română S.A.
BRRD	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (<i>Bank Recovery and Resolution Directive - BRRD</i>)
BWG	Austrian Banking Act (<i>Bankwesengesetz - BWG</i>)
CDR	Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions
CEE	Central Eastern Europe
Česká spořitelna	Česká spořitelna, a.s.

CET 1	own funds pursuant to Article 26 CRR (<i>Common Equity Tier 1</i>)
CET 1-ratio	Common Equity Tier 1 ratio
CHF	Swiss Francs
Citibank	Citibank Europe plc.
Competent Authority	competent authority pursuant to Article 4(1)(40) of the CRR which is responsible to supervise the Issuer and/or the Erste Group
CRA Regulation	Regulation (EC) No 1060/2009 of the European Parliament and of Council of 16 September 2009 on credit rating agencies (<i>Credit Rating Agency Regulation</i>)
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (<i>Capital Requirements Directive IV – CRD IV</i>)
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (<i>Capital Requirements Regulation - CRR</i>)
DGS	Deposit Guarantee Schemes which were introduced in the EU in 1994
DGSD	Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (recast)
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EEA	European Economic Area
EFSF	European Financial Stability Facility
EIB	European Investment Bank
EMU	European Monetary Union
Erste Bank Croatia	Erste & Steiermärkische Bank, d.d.
Erste Bank Hungary	Erste Bank Hungary Zrt.
Erste Bank Oesterreich	Erste Bank der oesterreichischen Sparkassen AG
Erste Bank Serbia	Erste Bank a.d., Novi Sad

Erste Bank Ukraine	JSC Erste Bank
Erste Group	Erste Group Bank, together with its subsidiaries and participations, including Erste Bank Oesterreich in Austria, Česká spořitelna in the Czech Republic, BCR in Romania, Slovenská sporiteľňa in the Slovak Republic, Erste Bank Hungary in Hungary, Erste Bank Croatia in Croatia, Erste Bank Serbia in Serbia and, in Austria, Salzburger Sparkasse, Tiroler Sparkasse, s-Bausparkasse, other savings banks of the Haftungsverbund, Erste Group Immorent AG, and others
Erste Group Bank	Erste Group Bank AG
Erste Stiftung	DIE ERSTE österreichische Spar-Casse Privatstiftung
ESAEG	Austrian Deposit Guarantee and Investor Protection Act (<i>Einlagensicherungs- und Anlegerentschädigungsgesetz</i>)
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
EU	European Union
EU-Commission	European Commission
EUR	Euro
EURIBOR	Euro Inter-bank Offered Rate
FATCA	Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986
Final Terms	Final Terms setting forth the applicable terms and conditions for Notes issued under this Prospectus, a form of which is included in this Prospectus
Fitch	Fitch Ratings Ltd
Fixed to Fixed Distribution Rate Notes	Notes which initially bear a fixed rate income followed by another fixed rate income which shall be determined on the basis of a reference rate once prior to the date on which the distribution rate changes
Fixed to Floating Distribution Rate Notes	Notes which initially bear a fixed rate income followed by a floating rate income which shall be determined for each floating distribution period on the basis of a reference rate
FMA	Austrian Financial Market Authority (<i>Finanzmarktaufsichtsbehörde - FMA</i>)
FMSG	Austrian Financial Market Stability Board (<i>Finanzmarktstabilitätsgremium</i>)
FTT	financial transaction tax, the introduction of which has been proposed by the European Commission in September 2011

GDP	gross domestic product
GiroCredit	GiroCredit Bank Aktiengesellschaft der Sparkassen
G-SII buffer	capital buffer applicable to global systemically important institutions (G-SIIs)
Haftungsverbund	guarantee system that was formed on the basis of a set of agreements (<i>Grundsatzvereinbarung</i>) with the majority of the Austrian savings banks
ICMA	International Capital Markets Association
IMF	International Monetary Fund
ISDA	International Swaps and Derivatives Association, Inc.
Issuer	Erste Group Bank AG
KMG	Austrian Capital Market Act (<i>Kapitalmarktgesetz - KMG</i>)
Liquidity Reserve	a specified amount of savings deposits and other Euro deposits that Austrian Savings Banks are required to hold with Erste Group Bank, as the central institution (<i>Zentralinstitut</i>) of the savings bank group pursuant to the Austrian Banking Act
Management Board	the management board (<i>Vorstand</i>) of the Issuer
Managers	the institutions that are specified as Managers in the final terms of each Series of Notes as underwriting or placing the Notes
Markets	Official Market (<i>Amtlicher Handel</i>) and the Second Regulated Market (<i>Geregelter Freiverkehr</i>) of the Vienna Stock Exchange (<i>Wiener Börse</i>)
MiFID	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (<i>Markets in Financial Instruments Directive - MiFID</i>)
Moody's	Moody's Deutschland GmbH
Notes	Notes issued under the Programme
NPL	non-performing loans
OeKB CSD	OeKB CSD GmbH, Strauchgasse 1-3, A-1010 Vienna, Austria
OeNB	Austrian National Bank (<i>Oesterreichische Nationalbank</i>)
O-SII buffer	capital buffer relating to other (i.e. other than G-SIIs) systemically important institutions (O-SIIs)
Participating	the Member States participation in the enhanced cooperation in

Member States	the area of financial transaction tax pursuant to the proposal for a "Council Directive implementing enhanced cooperation in the area of financial transaction tax", dated 14 February 2013
pro forma financial statements	unaudited unconsolidated pro forma financial statements of the Issuer, prepared in accordance with accounting provisions applied by the Issuer in relation to its unconsolidated annual financial statements and accounting regulations then in effect in relation to the Issuer's unconsolidated annual financial statements
Programme	the Programme of Erste Group Bank AG for the issuance of Additional Tier 1 Notes which is established by this Prospectus
Prospectus	this Prospectus
Prospectus Directive	Directive 2003/71/EC of the European Parliament and the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC
Prospectus Regulation	Commission Regulation (EC) No 809/2004 of 29 April 2004, as lastly amended by Commission Regulation (EU) No 759/2013 dated 30 April 2013 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements
RWA	risk weighted assets
Salzburger Sparkasse	Salzburger Sparkasse Bank AG
SB	supervisory board (<i>Aufsichtsrat</i>)
s-Bausparkasse	Bausparkasse der österreichischen Sparkassen AG
Savings Banks Sector	the Savings Banks Sector comprises all savings banks in Austria except for Unicredit Bank Austria AG which is legally organised as a savings bank and participates in the savings banks deposit insurance system
Securities Act	United States Securities Act of 1933
Series	Series of the Notes as specified in the Final Terms
Slovenská sporiteľňa	Slovenská sporiteľňa, a.s.
SME	small and medium enterprises
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism

Standard & Poor's	Standard & Poor's Credit Market Services Europe Ltd. (Niederlassung Deutschland)
Steering Company	Haftungsverbund GmbH
Supervisory Board	the supervisory board (<i>Aufsichtsrat</i>) of the Issuer
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer System 2
Terms and Conditions	the terms and conditions of the Notes which are set out on pages 53 <i>et seqq.</i> of this Prospectus
Tier 2	own funds pursuant to Article 62 CRR (<i>Tier 2</i>)
Tiroler Sparkasse	Tiroler Sparkasse Bankaktiengesellschaft Innsbruck
Tranche	a tranche of a Series of Notes
Unaudited Interim Condensed Consolidated Financial Statements 30 June 2015	English translation of the unaudited interim condensed consolidated financial statements of Erste Group for the first half year ended 30 June 2015
USD	the currency of the United States of America
Vienna Stock Exchange	Wiener Börse
VIG	Vienna Insurance Group

REGISTERED OFFICE OF THE ISSUER

Graben 21
A-1010 Vienna
Austria

ARRANGER

Erste Group Bank AG

Graben 21
A-1010 Vienna
Austria

DEALERS

Erste Bank der oesterreichischen Sparkassen AG

Graben 21
A-1010 Vienna
Austria

Erste Group Bank AG

Graben 21
A-1010 Vienna
Austria

FISCAL AGENT AND PAYING AGENT

**BNP Paribas Securities Services,
Luxembourg Branch**

33, rue de Gasperich, Howald-Hesperange
L-5826 Luxembourg
Luxembourg

AUDITORS

Sparkassen-Prüfungsverband Prüfungsstelle

Grimmelshausengasse 1
A-1030 Vienna
Austria

**Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.**

Wagramer Straße 19
A-1220 Vienna
Austria

LEGAL ADVISERS

To Erste Group Bank as to Austrian law

WOLF THEISS Rechtsanwälte GmbH & Co KG

Schubertring 6
A-1010 Vienna
Austria

*To the Arranger
as to Austrian law*

Schönherr Rechtsanwälte GmbH

Schottenring 19
A-1010 Vienna
Austria

*To the Arranger
as to German law*

Allen & Overy LLP

Haus am OpernTurm
Bockenheimer Landstraße 2
D-60306 Frankfurt am Main
Germany